The Global South Growing out of Poverty, Inequality, and Exclusiveness—What the G7 Needs to Do

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The authors are listed in alphabetical order by their first name. Each contributed to challenges, proposals, and support from the G7 sections relevant to their area indicated in the following symbols: tailor-made development programs (TDP), innovative access to finance (IAF), and improved access to jobs (IAJ).

Abstract

Although important, financial aid will not achieve the sustainable eradication of poverty and inequality or sustainable inclusive growth. For this to happen, the Global South needs to “grow out” of poverty, which requires context-specific and tailor-made development programs, better access to finance, and access to jobs. This policy brief describes how to implement programs with evidence of success and specification of the needed support from the Group of Seven.

Challenges

The United Nations (UN) Sustainable Development Goals (SDGs) set the target of eradicating extreme poverty by 2030. However, according to the World Bank, the share of people living in extreme poverty worldwide has increased to 9.3% in 2020, up from 8.4% in 2019, primarily due to the impact of the novel coronavirus disease (COVID-19) pandemic. The pandemic has also led to rising food and energy prices, exacerbating recovery efforts. If the current trend continues, the global extreme poverty rate in 2030 is projected to be as high as 7%, affecting around 574 million people, with the majority concentrated in Sub-Saharan Africa, conflict-affected areas, and rural regions.

Existing programs aimed at eradicating poverty may be insufficient, given the existence of poverty traps and high levels of heterogeneity caused by factors such as ethnicity, education, or region of residence. Women and youth are particularly vulnerable to poverty, with limited access to and control over land, productive resources, and services (SIDA 2015). Women in particular face additional constraints, as they provide most unpaid care work. In 2018, an estimated 606 million women and 41 million men could not join the formal labor force due to childcare responsibilities, and the COVID-19 pandemic has worsened this situation, with women spending three times as many hours providing additional unpaid childcare and losing an estimated $800 billion in income (FAO, IFAD, UN Women, and WFP 2022; UN Women 2012).
The gender and youth digital divides also contribute to poverty, as digitalization threatens to leave those without digital skills behind. Women in low- and middle-income countries are 26% less likely to use mobile internet than men. Constrained access to financial services is a significant factor responsible for the disproportionate access to and control over productive resources and services. The Global Findex Database 2021 reported that 1.4 billion people remain unbanked.

These facts show that financial aid and traditional development programs are insufficient. Also, financial aid, although important, will not achieve sustainable eradication of poverty and inequality or sustainable inclusive growth. For this to happen, the Global South needs to “grow out” of poverty. Growing out of poverty requires context-specific and tailor-made development programs, better access to finance, and jobs. This policy brief is about how to go about implementation with evidence of success and specification of needed support from the Group of Seven (G7).

Proposals

We propose specific innovative suggestions in each of the three areas of focus for growing out of poverty: tailor-made development programs, better access to finance, and better access to jobs.

Proposal 1: Tailor-Made Development Programs

Given the heterogeneity in programming needs, governments have to be able to identify subpopulations and their needs, design cost-effective interventions, and deliver programs in a timely manner.

Precision Targeting

Precisely targeting the poor requires advanced quantitative techniques that combine highly disaggregated data with community-based targeting.

First, construct a dataset from a large number of sources and then integrate it into a geographic information system. The dataset may include, among others, census and household surveys, community-level data, and spatial data on agroclimatic conditions. An econometric model that estimates the impact of household, community, and spatial-level variables on household consumption would identify the key variables that are correlated with poverty status. This model is then applied to predict poverty indicators for households.

Second, use the community’s tacit knowledge to complement quantitative targeting. Close-knit communities have information that could significantly complement and validate the information possessed by outsiders, such as governments or development agencies. Therefore, community involvement can improve targeting criteria by incorporating local notions of deprivation and increasing local political support for development. Consequently, combining precision quantitative targeting with community-based targeting can result in higher satisfaction among the population. However, community targeting is better suited to communities where societal tensions and extreme disparity do not exist and where there is no tendency toward exclusion based on criteria not linked to poverty status.
To ensure inclusion, the excluded poor should be allowed to register themselves as program beneficiaries. Once they register, their eligibility should be assessed against the quantitative targeting criteria and, if necessary, consult with the communities (Alatas et al. 2016).

**Tailor-made Programs Based on the Needs of the Target Population**

The principle covers the type of programs and their objectives, such as in-kind versus cash-based programs, income generation versus consumption support objective, with conditionality versus without conditionality, and long-term versus short-term benefits.

Programs must consider the specific local context in the target population such as ethnicity, norms, geography, market access, politics, and local capability. Specific characteristics of a subpopulation often determine the effectiveness of interventions. Notably, migration can be the most appropriate anti-poverty strategy if the main friction is geographic.

In some contexts, and for some programs, letting communities design their programs while holding them accountable for outcomes may be the most effective. The notion of community-driven development (CDD) is founded on the belief that the community knows most of what is needed to increase the income of its poor members. However, the government should ensure that the elite groups do not dominate the process. It is also important to note that while CDD may be effective in some aspects that support economic development such as infrastructure, more research is needed on how CDD could improve other aspects of development.

**Proposal 2: Innovative Access to Finance**

**Peer to Peer**

Financial technology (fintech) services like crowdfunding, peer-to-peer lending, and mobile money have enabled low-income households, disadvantaged groups, and small businesses to access financial services at lower costs, thus increasing financial accessibility and efficiency (Hua and Huang 2021). However, the rate of fintech adoption varies across countries due to factors including less developed financial markets, lack of infrastructure, lower financial and digital literacy rates, and macroeconomic factors such as larger informal economies (Oh and Rosenkranz 2020; Oh and Zhang 2022). To harness the benefits of fintech services to improve financial inclusion, the key drivers on the demand-side and supply-side of fintech lie in innovative methods for enhancing financial and digital literacy and building trust in fintech (Chuang et al. 2016; Stewart and Jürjens 2018), increasing mobile money penetration rates, broadband access for all, and encouraging an ecosystem for fintech innovators (Restoy 2021). Collaboration between fintech firms and traditional financial institutions can be mutually beneficial in developing fintech-specific regulatory frameworks (Oh and Rosenkranz 2020; Ehrentraud et al. 2020).

Higher financial literacy and fintech brand and service trust are positively associated with higher fintech adoption (Yoshino et al. 2020).

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1 Alatas et al. (2016) find that a targeting scheme in Indonesia requiring beneficiaries to apply were able to include substantially poorer beneficiaries than means-tested targeting.
**Smaller Banks**

Microfinance institutions (MFIs) have demonstrated positive impacts in countries where they have been established, providing evidence of the benefits of financial infusion. The success of MFIs and small finance banks (SFBs) in India provides evidence of the potential benefits of financial infusion, which can positively impact economies and communities.

The introduction of nonbanking finance companies (NBFC-MFIs) led to more structured and well-designed loan products at market-driven rates, which were successful with near 100% repayment rates. The Reserve Bank of India and the government then introduced SFBs in 2014–15 to cater to niche segments. SFBs solved the fund sourcing problem faced by NBFC-MFIs as they could source public deposits. As of March 2022, India had an impressive portfolio size of ₹2854.41 billion as microfinance extended to over 55 million households.

**Collective Action for Women**

Women’s organizations and groups have been identified as an effective approach to improve women’s access to financial services. Through group membership, women can establish strong bonds and peer pressure, which create creditworthiness that financial institutions can rely on to extend financial services to them. Groups can also access loans either individually or as a group without requiring collateral.

Block allocation arrangements have been used to ensure that women’s groups get funding, with the arrangement instrumental in enhancing access to finance by smallholder farmers and disadvantaged groups, especially women and youths. The microlending model of Grameen Bank is another modality that can enhance access to financing through women’s groups. The bank provides loans to members in self-formed groups, relying on the group’s social capital as a form of collateral.

Women’s groups can leverage social networks to share beneficial information about farming, entrepreneurship, and other areas. To formalize and legally register women’s groups and build their capacity to operate and manage the groups is critical for empowering them to transact business, lobby for financing, and become attractive to lenders (du Bois 2020; ARUWE-Uganda 2023; Bank of Uganda 2022).

**Social Enterprises**

Partnerships can be crucial in social enterprise models that aim to achieve financial sustainability and social good (Porter and Kramer 2011). Such models can be particularly beneficial in economically deprived areas with limited resources. The public and private sectors, including religious and faith-based organizations, can play a critical role in social enterprises (Salzman 2008). The proposal highlights various types of social enterprise models that can empower rural communities, including community-based social enterprises (Boon and Plastow 2004; Olmedo, van Twuijver, and O’Shaughnessy 2019), social economic enterprises (Battilana et al. 2015), and diversified rural economies (Poncibò 2017; Farmer et al. 2021; Papasolomou and Kitchen 2011). Several examples of successful social enterprise partnerships in different regions exist, such as the Participatory Guarantee Scheme in Bolivia (Añaños Bedriñana, Hernández Umaña, and Rodríguez Martín 2020; Rosse 2018), the Banco Pérola partnership with Artemisia in Brazil, and...
the Association for the Support of Rural Agriculture (ASAT) model in public service. Enterprises could implement an insurance scheme for their members, and make varying contributions to social security (Kwasi Bannor et al. 2022), pension schemes, healthcare, and children’s education based on the amount of supplies or service provided to the enterprise.

To ensure sustainable development, socially responsible community enterprises must prioritize social security policies such as social protection (Miti et al. 2021) for rural households. Such policies are crucial for stabilizing rural household incomes and promoting financial inclusion.

**Proposal 3: Improved Access to Jobs**

To improve access to jobs, lower-income countries need new models to improve productivity and access to jobs. While solutions such as improving business environments and training workers can help them become competitive, supporting interventions that improve productivity, promote access to high-quality jobs and business growth opportunities, harness innovation, and broaden the labor market, promoting gender equality (paid and unpaid work), and creating an enabling environment that stimulates investment in high-growth sectors will be critical.

Two specific suggestions are presented below to achieve these objectives.

**Boosting Productivity Through Skills Development**

Several organizations have launched initiatives to improve labor productivity through skill development programs such as BRAC’s skills development program in Bangladesh, YouthBuild International, The SAB Foundation in South Africa, India’s National Skills Development Corporation, and the African Union Commission. YWCA Ghana provides opportunities for women and girls to become self-sufficient and protect their rights. Other similar initiatives include HerFutureAfrica by the Africa Technology Business Network (ATBN) and African Women in Technology (AWIT) by UN Women.

**Boosting Productivity Through Addressing Unpaid Care Work**

Women in low- and middle-income countries shoulder the majority of unpaid care work, preventing them from joining the formal labor force. COVID-19 has worsened the situation, with women performing three times more unpaid childcare and losing an estimated $800 billion in income. Addressing this issue can free up women’s time for employment or entrepreneurship, but reducing and redistributing care has never been a core priority for international financial institutions and donor agencies.

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2 The program has trained over 100,000 people and disbursed $4.5 billion in loans in 2020.
3 YouthBuild International supports 56 programs in 17 countries, including Kenya.
4 The SAB Foundation has helped over 555 entrepreneurs in South Africa.
5 The National Skills Development Corporation has trained over 2 million people.
6 In 2018, the African Girls Can Code Initiative trained at least 2,000 young girls across Africa in computer programming. The first phase trained 600 participants in coding and tech skills. In April 2022, a second phase was launched with support from the UN Economic Commission for Africa, UNESCO, and UNICEF.
From 2000 to 2021, only $2.08 billion went to dedicated childcare projects across eight multilateral development banks. In contrast, the World Bank alone committed $2.2 billion to oil and gas projects in 2021 (O’Donnell, Ross, and Bourgault 2021). Investing in care can have a significant impact on the labor market, allowing previously unemployed or underemployed unpaid caregivers to enter or advance within the labor market and create jobs for paid caregivers.

Providing high-quality childcare to all women could reduce the global gender pay gap by 8.6% or $527 billion. For every $1 invested in childcare, returns range from $3 to $8 in increased income for unpaid caregivers (Eurasia Group 2022).

How the G7 Can Help

The G7 can help by:

- Striving to meet the decades-old commitment to allocate 0.7% of gross national income to development cooperation and humanitarian aid to support the most vulnerable countries (current fulfillment only 0.32%). The first step for G7 countries to achieve this target is to develop a timeframe for increasing official development assistance and reaching its target.
- Supporting all serious attempts to help the poor grow out of poverty. Aid must move away from safety nets and social protection and increase expenditure on development programs to increase a country’s as well as individuals’ economic potential. Studies have shown that aid targeted at pro-poor public expenditures effectively reduces poverty.

Specific suggestions for policy actions to be adopted by the G7 follow.

Tailor-made Development Programs

1. Increase support for developing countries’ statistical capacity to implement precision targeting. Many developing countries cannot implement the sophisticated quantitative techniques and tools required for precision targeting, including data collection activities.
2. Institutional strengthening on data and evidence-driven policy and creating a roadmap for socially inclusive business as alternative enterprises around locally available resources, primarily focusing on rural marginalized people and their local needs.
3. Invest in policy environments that support partnership models and redefine public-private partnership to involve marginalized groups at the bottom of the pyramid, NGOs, and religious and faith-based groups.
4. Technical support for policymakers, practitioners, civil society, and religious representatives involved in global trade negotiations to ensure social values are sufficiently integrated into trade agreements.
5. Technical support to incorporate heterogeneity in programming. Institutional (government and nongovernment) capacity building to implement flexible and adaptive poverty eradication programs in developing countries; institutional mindset to involve the local community.
Innovative Access to Finance

1. Form a fintech taskforce to enhance the adoption of fintech services in developing countries. The taskforce needs to consider both supply factors (i.e., existing digital infrastructure and regulatory environment) and demand factors (i.e., users’ payment habits and financial knowledge) driving fintech adoption (FSB 2022) when planning and implementing.

2. Support partnerships between fintech firms in developed and developing countries. The G7 can form a globally recognized hub of fintech among their partners, such as top fintech firms, established financial institutions, and government agencies, so that they can offer developing countries a wealth of unique knowledge and expertise.

3. Invest in information and communication technology infrastructure and fintech start-ups should be tailored to development needs, e.g., the data consumption level and quality of services in developing countries (Oughton, Amaglobeli, and Moszoro 2023).

4. Prioritize regulatory cooperation and improvements in fintech-specific regulations to promote a safe and inclusive financial system in developing countries. Regular reviews of regulatory, supervisory, and oversight frameworks are essential to ensure they are up-to-date and effective. The G7 should also support flexible Know-Your-Customer (KYC) regulations for digital identification to enhance digital security and resilience.

5. Fund financial and digital education targeting rural women and youth. This can be done by investing in well-educated and motivated teachers to enhance the quality of education, investing in digital learning programs, and investing in life-long financial education, including personal financial management, saving, and investing.

6. Build the resilience of women and youth through increasing access to financial services using the following avenues:
   - Establish a “block funding” that is dedicated to supporting women’s capacity building and revolving fund programs. The G7 could target the block funding schemes that already exist in some countries and introduce a subblock fund program targeting women’s groups. The subblock program would ensure that women can access financing even without chattel mortgages and cash flow records.
   - The G7 supports MFIs in developing countries to replicate the Grameen Bank model. Specifically, the G7 needs to fund the MFIs to expand their coverage to the vulnerable communities and subsequently fund the overhead costs involved in group formation, training, and awareness. The overhead costs are one of the major problems faced by countries that have adopted the Grameen bank model, like Nepal.

7. Create rural social enterprises (facilities) to catalyze the growth of other actors in catchment areas utilizing grassroots resources in which the marginalized group plays a role as producers, suppliers, and beneficiaries.

8. Invest in social protection for marginalized and vulnerable groups. Support policy alignment and implementation strategies centered on women and youth inclusion, vocational education, knowledge, and technology transfer.

9. Encourage central banks of developing countries, where microfinance is continuing as an NGO effort or as an NBFI effort, to the next logical step of small finance banks. The logical

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7 Oughton et al. (2023) confirms that approximately $418 billion needs to be invested to achieve universal broadband connectivity globally.
path of financial inclusion through small finance banks suggests that the G7 can encourage stakeholders to identify country-specific vulnerabilities that affect poor households and assist them in designing appropriate insurance and reinsurance product. Additionally, the G7 can motivate countries with small finance banks and those interested in transition to include green finance products so that just transition and financial inclusion may work in tandem to assist poor households. The G7 can also encourage building a toolkit for training prospective beneficiaries, government staff, central banks, bankers, and NBFIs.

**Better Access to Jobs**

We offer a package of proposals aimed at improving labor productivity in lower-income countries. Aimed at enabling structural changes for the job market ecosystem, particularly through encouraging women’s participation in the labor force through their skills development, digital integration, and childcare support, we propose the following actions:

1. Promote investment in technology by providing incentives for companies to develop and deploy technologies that improve productivity in lower-income countries.
2. Support research on labor market trends in lower-income countries to identify skill gaps and opportunities for improving labor productivity.
3. Launch a global skills development initiative, building on the G20’s #eskills4girls initiative and other similar initiatives, the G7 leaders can launch a global skills development initiative that provides funding and resources for education, training, and job placement programs in lower-income countries.
4. Help foster intellectual property rights by helping lower-income countries build and foster intellectual property rights and enforcement mechanisms. Effective laws would help promote innovation and attract multinational entities to enrich the economies of lower-income countries if complemented with a productive labor force and a business-conducive environment.
5. Contribute to existing financing mechanisms such as the World Bank’s Invest in Childcare Initiative and call on other international financial institutions to increase their emphasis on care.
6. Develop a methodology for tracking and publishing investments across donors in care.
7. The World Bank’s Invest in Childcare Initiative and the International Development Association’s IDA20 replenishment’s childcare investment target are efforts to prioritize childcare, and the United States, Canada, and Germany have made it a development priority. The call is for the remaining G7 countries to also prioritize childcare.
8. Support civil society and promote global mobility, by supporting civil society practitioners and advocates based in low- and middle-income countries working to promote job access and productivity and look beyond aid to open pathways for increased global mobility for workers, including care workers.


About Think7

Think7 (T7) is the official think tank engagement group of the Group of 7 (G7). It provides research-based policy recommendations for G7 countries and partners. The Asian Development Bank Institute (ADBI) is the lead chair of T7 under Japan’s 2023 G7 presidency.