



# STRENGTHENING ECONOMIC GROWTH THROUGH SOCIAL INCLUSION

SOCIAL DEVELOPMENT DIRECT  
FACTSHEET SERIES

IN COLLABORATION WITH USAID



Investments in social inclusion are crucial to support sustainable and inclusive economic growth. Investments in social inclusion increase the economic stake and participation of marginalized groups, such as women and girls, youth, people with disabilities, indigenous peoples and lesbian, gay, bisexual, transgender and intersex (LGBTI) people. This strengthens economies by tapping into new skills and talent, improves diversity and creativity in the work force, enhances labor market efficiencies, productivity and entrepreneurship<sup>1</sup> and reduces inequalities to strengthen economic growth.<sup>2</sup> The economic costs of exclusion are large and well documented.<sup>3</sup>

## ECONOMIC INCLUSION OF MARGINALIZED GROUPS SUPPORTS GROWTH AND IS GOOD FOR BUSINESS

- Closing the gap in employment between women and men would significantly boost gross domestic product (GDP). The International Labor Organization (ILO) estimates that closing the gap would increase world GDP by 3.9 percent in 2025, or \$5.8 trillion. The greatest benefits would occur in regions with the largest gender gaps, including Northern Africa, the Arab States and Southern Asia.<sup>4</sup> A study by McKinsey is more optimistic, estimating a rise of up to \$28 trillion by 2025.<sup>5</sup>
- Low rates of employment and economic participation by people with disabilities cost the global economy an estimated \$2 trillion.<sup>6</sup> It is estimated that these costs for low- and middle-income countries amount to approximately \$286.5 billion of annual GDP.<sup>7</sup>
- In 2011, an ILO report outlined the business case for the employment of people with disabilities, citing evidence that people with disabilities make good employees; they represent an under-tapped source of skills and a neglected market segment; and that hiring people with disabilities can contribute to the overall diversity, creativity and morale of the workplace and enhance a company's image.<sup>8</sup>
- A landmark 2014 study of 39 developing and emerging economies indicates that countries with more articulated LGBTI legal rights—as measured by the Global Index on Legal Recognition of Homosexual Orientation (GILRHO) and the Transgender Rights Index—have higher GDP per capita as well as higher levels of well-being as measured in the Human Development Index (HDI).<sup>9</sup>
- Where LGBTI economic inclusion is encouraged, LGBTI businesses boost the economy. The 2016 America's LGBT Economy Report (published by the National Gay & Lesbian Chamber of Commerce) found that LGBTI businesses in the United States add \$1.7 trillion to the U.S. economy and create tens of thousands of jobs nationwide.<sup>10</sup>
- The global population of 15 to 24-year-old adults reached 1.2 billion in 2015. Present estimates show that one out of every 8 people aged 15 to 24 years are unemployed, with youth three times more likely to be unemployed than adults.<sup>11</sup> According to the ILO, an increase in youth employment has multiplier effects throughout the economy, boosting consumer demand and adding tax revenue. This is matched by lower spending to counter risk behaviors, violence and crime.<sup>12</sup>
- Evidence from the Asian Tiger economies (Hong Kong, South Korea, Singapore and Taiwan) shows that capitalizing on the energy and dynamism of their young population

was responsible for one-third of their economic growth from the 1960s to the 1990s.<sup>13</sup>

- Ignoring the contributions of indigenous people has social and economic costs. In Canada, there is significant estimated economic loss resulting from the gaps in economic outcomes between indigenous Canadians and the non-indigenous populations. Analysis in 2016 showed that closing these gaps would result in an estimated increase in Canadian GDP by about \$27.7 billion annually—a 1.5 percent boost in Canada’s GDP.<sup>14</sup>

## **SOCIAL INCLUSION SUPPORTS HUMAN CAPITAL DEVELOPMENT THROUGH IMPROVED EDUCATION AND HEALTH OUTCOMES**

- Gender equality in education can contribute to economic growth.<sup>15</sup> Evidence shows that female education has positive impacts on overall labor productivity.<sup>16</sup> Women’s access to education and economic opportunities is more likely to lead to greater investments in the human capital of their children<sup>17</sup> as well as reduced infant and child mortality, improvement in family and child health and increase in life expectancy.<sup>18</sup>
- People with disabilities are often excluded from education and training, resulting in negative impacts on individuals and their families, as well as for growth and sustainable development.<sup>19</sup> People with disabilities who are educated receive between 19.3-25.6 percent higher wages than those who are not.<sup>20</sup>
- There is a correlation between limited access to education and legal and policy discrimination based on sexuality.<sup>21</sup> In many countries, LGBTI people are confronted with negative norms and attitudes, as well as active discrimination in the education system. This reduces their ability to achieve educational qualifications, develop human capital and secure employment after studies.
- Improved health for LGBTI people would have a positive impact on labor market outcomes such as wages, labor force participation, hours worked, retirement and job turnover.<sup>22</sup>

## **INVESTING IN SOCIAL INCLUSION CAN ENHANCE LABOR MARKET EFFICIENCY AND INCREASE PRODUCTIVITY**

- Excluding people with disabilities from the labor force results in GDP losses ranging from three percent to seven percent.<sup>23</sup> Conversely, changes in the workplace environment can narrow the gap between the actual and potential productivity of a person with a disability.<sup>24</sup> Studies in high-income countries indicate that with effective job matching, employees with disabilities have productivity levels equal to employees without disabilities.<sup>25</sup>
- Gender equality in labor market participation has a positive impact on labor productivity and economies.<sup>26</sup> In Latin America, GDP increased from two percent to nine percent by removing gender segregation in occupation.<sup>27</sup>
- Cash transfer programs have been found to promote women’s economic activity by easing resource constraints. In Brazil, the guarantee of a regular monthly stipend eased women’s access to credit and allowed many to resume education.<sup>28</sup>

## INVESTMENTS IN INFRASTRUCTURE CAN IMPROVE INCLUSION OF MARGINALIZED GROUPS AND BOOST GROWTH

- Unreliable and poor-quality transportation infrastructure acts as a barrier to women and marginalized groups from accessing economic opportunities and markets. Conversely, good infrastructure and proximity to urban areas promoted access to more and higher productivity waged work.<sup>29</sup> Infrastructure deficits more severely impact women's earning because of the constraints on women's physical mobility due to their household and caring responsibilities, safety concerns and social norms around movement.<sup>30</sup>
- Infrastructure investment in priority sectors—energy, water and sanitation, transport, affordable serviced land and housing, and information and communication technologies—can reduce the time women spend on unpaid work and care. This frees up women's time to engage in paid work<sup>31</sup> or educational opportunities and participate in community life and decision-making. In Bangladesh, access to affordable electricity reduced time spent by women on household tasks by 70 percent, increasing available time to undertake paid work in and outside the household.<sup>32</sup>
- In many countries, poorly designed buildings and facilities prevent access for people with disabilities. Inaccessible transportation and pedestrian sidewalks prevent people with disabilities from traveling to and from workplaces, markets and educational and other facilities.<sup>33</sup> Lack of suitable housing near workplaces provides further challenges, and the lack of access to assistive devices, technology and support inhibits people with disabilities from accessing employment and enhancing productive capacity.<sup>34</sup>
- Research suggests that supporting access to labor markets for people with disabilities increases GDP. Studies from Ethiopia find that the provision of wheelchairs led to significant time reallocations away from begging and towards income-generating activities, resulting in an average income increase of 77.5 percent for these individuals.<sup>35</sup>

## A LACK OF GOOD DATA ON THE ECONOMIC PARTICIPATION OF MARGINALIZED GROUPS INHIBITS INCLUSIVE GROWTH

- A lack of high quality, disaggregated data on the participation of marginalized groups in the economy limits governments' ability to develop socially inclusive and evidence-based policies for inclusive growth.<sup>36</sup> In the case of LGBTI people, data gaps are due mainly due to criminalization of same-sex relations and the refusal of governments to acknowledge sexual and gender minorities. Where data are collected, LGBTI people are often reluctant to disclose personal details and information for fear of abuse, victimization or other negative consequences.
- Major gaps in disaggregated data about marginalized groups are common in many low- and middle-income countries. Improving data collection to gather information disaggregated by sex, race and ethnicity, disability, age, sexual orientation and gender identity and other features associated with exclusion is critical for better program design and better targeting and evaluation.<sup>37</sup>

## LAWS AND NORMS THAT DISCRIMINATE AGAINST MARGINALIZED GROUPS CONSTRAIN ECONOMIC GROWTH

- Data from 141 countries found widespread legal differences between men and women, affecting incentives and capacity to engage in work or to set up businesses.<sup>38</sup> Restrictions included women needing the permission of a male relative to start a business or open a bank account, as well as having less access to, and control over, land and property. The regulatory environment can constrain or enable women's economic agency. In the Democratic Republic of Congo, where women need their husband's consent to start a business, women run only 18 percent of small businesses. In Rwanda, where no such regulations exist, women run more than 41 percent of small businesses.<sup>39</sup>
- Attitudes and behavior, which systematically disadvantage certain groups of people, such as women, people with disabilities and LGBTI people, can curtail people's capacity to take advantage of economic opportunities.<sup>40</sup> In Ghana, women entrepreneurs were denied business by male customers and purchasing agents, based on their sex.<sup>41</sup>
- Systemic discrimination against LGBTI people contributes to high levels of poverty among LGBTI people in developing countries. Among more skilled and educated LGBTI people, the result is often a "brain drain"—the emigration of talented and skilled individuals.<sup>42</sup>
- Data from 160 countries indicates that higher levels of tolerance towards LGBTI people are correlated with higher levels of economic development. The same research showed that positive attitudes towards LGBTI people are associated with indicators of economic and social progress, entrepreneurship, well-being and life satisfaction, human development and urbanization.<sup>43</sup>
- Multiple forms of marginalization, known as intersectionality, can exacerbate the challenges of marginalized groups accessing economic opportunities. For example, a survey found that 54.5 percent of women with disabilities were unemployed compared to 42 percent of women without disabilities<sup>44</sup> and that women with disabilities tend to earn less than men with disabilities.<sup>45</sup>

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