Session 3: Innovation Policies for Inclusive Development
Summary Record

The 2014 edition of the Global Forum for Development aimed at assessing the contribution of innovation in tackling structural development challenges such as lagging productivity and as a means to more sustained and inclusive growth. It gathered about 400 representatives of governments from OECD and non-OECD member countries, the private sector, academia, foundations and OECD experts.

Session 3 of the 2014 OECD Global Forum on Development was on the topic of innovation policies for inclusive development, which is at the heart of the OECD project “Innovation for Inclusive Growth” (http://oe.cd/inclusive). In his welcoming remarks the Secretary General of the OECD, Angel Gurría emphasised the importance of focusing on inclusive innovations as not all types of innovation are equally suitable to reach marginalised social groups. He also emphasised that so far, the role that innovation can play for inclusiveness has been largely neglected. A shift in our outlook on innovation policy was needed, which should no longer focus only on leading sectors but also on producing opportunities for other players and lagging regions and benefits for the excluded. Indeed, inclusive innovation initiatives have large potential when it comes to making basic products and services available for low-income individuals as the huge success of Kenya’s M-Pesa, a mobile-banking service addressing the poor, shows.

Scaling up inclusive innovations, encouraging investment to guarantee financial viability and promoting cooperation between the public and the private sector are key issues that policy-makers need to address to foster inclusive innovations for growth.

Dirk Pilat, Deputy Director for Science, Technology and Industry, OECD

Innovation has long been identified as a source of growth, as it fosters competitiveness, productivity, and job creation. So far the effect of innovation and its policies on inclusiveness and the question of how innovation can support more inclusive development have not been comprehensively addressed. Three different dimensions arise: first, what is the influence of innovation on different groups of society and can policies be identified that are more pro-poor than others (social inclusiveness)? Second, what is the impact on different parts of the economy (industrial inclusiveness)? And third, how are equalities between urban and rural areas or neighbourhoods in the same city affected (regional inclusiveness)?

Ramesh Mashelkar, Chairman of the National Innovation Foundation of India, President of the Global Research Alliance, India

One major question that has to be addressed is how innovation policies can support developing countries in achieving competitiveness without compromising the three dimensions of inclusiveness. However, it is necessary to recognize that global competitiveness (excellence) and equity (affordability) are not mutually
exclusive: inclusive innovations have an important role to play in reconciling these two aspects. Focus should be put on producing quality products for less rather than on the mistaken idea of seeking to supply low-income markets with second-rate goods and services. Public-private partnerships in the form of grant challenges might be one tool to achieve this objective of **affordable excellence**. Universities and research institutions can also provide substantial support to inclusive innovation initiatives. Given the large potential of the market for the poor, the private sector itself can likely become a driver of inclusive innovation. Although there has been substantial progress in India, there is still a lot of untapped potential for more inclusive innovation initiatives. One main challenge is how to scale up inclusive innovations. This is closely linked to the issues of affordability, sustainability and quality. The process of spreading inclusive innovations has already started with growing interest from the business sector and the EU but has to be pushed further. This is not only relevant in the developing country context, but also for OECD countries. Finally, there is the issue of financing inclusive innovation. Finding a solution to these challenges will require **innovation in innovation itself**.

**Subathirai Sivakumaran**, Team Lead for Impact Measurement, Knowledge and Capacity Building, Business Call to Action, UNDP

Business Call for Action is an alliance between five governments (Australia, Netherlands, Sweden, UK and US), the UN and the Clinton Foundation, which aims at promoting inclusive business models that are competitive and have an impact on poverty alleviation. These inclusive innovation initiatives are distinct from “traditional” concepts of corporate social responsibility (CSR) in that for those businesses, the focus on inclusion is part of the **core business**. They observe that innovations take all kinds of shapes and forms when private sector firms work in the market for the poor resulting in unexpected product innovations. Creating products for excluded groups, however, is not sufficient as the bigger challenge of distribution of these products needs to be addressed. Moreover, inclusive innovation also means including the very poor in supply chains etc. In order to avoid obstacles when **scaling-up** initiatives, three points need to be taken into account. First, the **iteration of business models** is essential for success, but this is expensive and requires a high level of investment. This is problematic as usually high margins are not possible for these firms and profitability is not immediate. Second, the markets of the poor are different from traditional markets and distribution might require novel approaches (such as word-of-mouth distribution). Finally, governments and development agencies need to help building trust in these inclusive businesses by providing appropriate information, e.g. safety information. Additionally, attention must be paid to the **measurement of results and impact evaluation** as well as **building capacity** on the field level.

**Yu Shi**, Senior Economist and Deputy Coordinator, Ministry of Science and Technology, China

Supporting developing countries’ quest for competitiveness might, in some cases, also promote inclusiveness. China’s successful economic growth contributed substantially to inclusiveness lifting more than 10 million people out of poverty. However, the relation between competitiveness and inclusiveness is not simple. In some countries, especially those with an unstable political environment, inclusiveness might be critical. In order to achieve inclusive developments, the Chinese government has identified **five ways to enhance the contributions of innovation to inclusiveness**: this includes policies to support public wellbeing, support for the agricultural and rural economy, policies aimed at addressing regional development, industrial development policies as well as support policies
for small and micro enterprises. On the grassroots level, S&T organisations such as innovation incubators provide funds and technical consultation. A major challenge for policymakers at regional/local levels is often to select between short-term and long-term policy tools as this choice introduces a trade-off between visible, easily measured economic development in the short run and less tangible, longer term social benefits.

Carl Dahlman, Head of Global Development Research, Development Centre, OECD

Understanding the dynamics of inclusive innovation is important for four distinct reasons: first, market failures impede excluded groups from accessing certain basic goods and services. Second, some governments are already explicitly supporting inclusive innovation through the public and private sector. Third, domestic and transnational companies (TNCs) have recently begun to explore low income markets. A common pitfall is that there is too much focus on supporting R&D for inclusive innovation and creating the initial prototypes. In order to have an economic impact, innovations need to be carried forward into production and mass dissemination. Hence, the issue of scaling-up and diffusion is of utmost importance. To this end, access to finance for producers as well as consumers and networks of suppliers and distributors has to be provided for. Moreover, developing information technology platforms to reduce transaction costs is crucial to facilitate massive scale-up and should be supported. Different agents in the innovation cycle have different strengths and weaknesses that need to enter policy design. Government can take on different roles in promoting inclusive innovation (direct actor, facilitator and/or coordinator), however, the private sector needs to be the main agent of inclusive innovation.

Discussion

In order to promote inclusive innovation, new strategies of regional and global cooperation are critical. There is high potential for South-South cooperation as developing and emerging countries can learn from the success stories of South Korea, China and India. Finally, intergovernmental cooperation and public-private partnerships can only be successful if emphasis is set on aiming for full product development rather than only initial product development.