



Forum on

## Inclusive Growth and Poverty Reduction in the New Asia and Pacific

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Session 5A: Inclusive Pattern of Growth

### **INCLUDING THE PRIVATE SECTOR TO ADDRESS “BOTTOM OF THE PYRAMID” POVERTY**

**By: Maritta Koch-Weser, Chief Executive Officer, The Global Exchange for Social Investment (GEXSI), UK/Germany**

1. The Private Sector increasingly recognizes the social and political desirability of investing among the poorest. There have been small advances. In relation to grassroots needs, actual engagements remain at boutique, rather than wholesale scale.
2. Private Sector proponents begin to recognize the magnitude of business growth missed in not achieving grassroots engagements at more significant scale.

#### **ADVANCES TO DATE**

3. What are some of the advances to date, and what combination of measures might bring more significant progress?
4. We distinguish progress in two fields – corporate Social Responsibility (CSR) and engagement of the Financial Markets. *In our opinion, the biggest untapped private sector potential lies with making financial markets more engaged among the poor.*

#### **1 CORPORATE SOCIAL RESPONSIBILITY BENEFITS THE LOCAL WORKFORCE AND COMMUNITIES AROUND SPECIFIC ENTERPRISES AND FACTORIES**

5. *Progress:* Here, the basic standards have been moved up several notches by many (albeit not all) firms. This represents good progress – sometimes the size of a fig leaf, sometimes truly and amazingly substantial, and systemic. Many corporations now report annually on their CSR programs.
6. *Needed now:* More progress in this field could primarily come from Companies setting voluntary medium term targets, publicly and transparently. Rather than reporting only on incidental achievements, Companies could and should provide the public with a better sense of progress still to be achieved. They should set out and live up to expectations for the future.

## **2 ENGAGEMENT OF THE FINANCIAL MARKETS**

### **2.1 Micro Credit**

7. The Financial Markets have in some first measure discovered markets among the poor. This trend is overwhelmingly reflected in the mainstreaming of (some first) micro credit operations. Not only local and/or specialized institutions like Grameen, Accion, or Oikocredit, but global Banks such as ICICI, Deutsche Bank, or Morgan Stanley – to name a few – have found ways to get credit to the poor (and to poor women in particular). Against their original expectations, they find ways to do so efficiently and at acceptable cost. Over the past decade, the large Banks have found excellent microfinance intermediary - MFI – partners, internationally (e.g. Blue Orchard) and regionally, and assistance with coaching and performance evaluation (e.g. MicroRate). Microfinance networks have sprung up around the Globe – even within higher income countries, e.g. Germany. Thus, Micro-credit, along with micro-insurance and small pension schemes, indeed represents a big step forward.

8. But Micro-credit is no panacea:

- Micro credit will not suffice to build larger, more robust enterprises
- Too much credit too fast is too much of a challenge for many local MFIs. Quality may be lost as a result
- Credit can create a grass-roots debt trap – care must be taken not to push too much money too fast into the poorest households
- Micro-credit is not universally available. In many sub-regional poverty pockets, it has yet to arrive
- Credit alone has limited value in the absence of education, business coaching, communication & energy infrastructure, and marketing opportunities. Its assumed social impact is at times exaggerated.

### **2.2 To make poverty history, there is a need to build business with more ambition**

9. A next stage of private sector, and especially financial market engagements, should be less palliative and more ambitious. In many cases communities can “leap frog” in one generation, rather than progress slowly. The technologies for delivery of finance along with distance education and access to markets are all there.

### **2.3 The “S” Factor**

10. Many civil voluntary organizations (CVOs) could be assisted in building self-financing structures, moving from Aid-to-Market. For this to happen, we need financiers who take upon themselves the effort to operate – without shunning the initially higher overhead costs – at the S-level of “SMEs”, and who will commit to seeing through the growth path of businesses over longer gestation periods.

11. Here development banks – such as the ADB – must consider stepping up incentives and ways to become more explicitly supportive of grass roots private sector engagements. Rather than funding or investing directly, bilateral and multilateral institutions should increasingly switch to financing risk mitigation in its various forms (structured funds, guarantees, or insurance), as the most plausible avenues for drawing private sector investment to the grass roots.

12. In addition, there is a need for greater cooperation and integration of various private sector market segments – from banks to businesses, chambers of commerce, and government back-up regulatory systems. Among the varied elements needed are:

- Micro-Equity type investments
- “Packaged Funding”: Business Coaching and Mentoring
- Services to the “poor” in business planning and administrative matters
- Support in marketing & outreach, to achieve fair prices

#### **2.4 New Instruments**

13. In combination, a number of new instruments which are being launched and/or functioning at pilot stage around the world, hold particular promise:

- Micro-Equity Funds
- Bottom-of-the-Pyramid rotating grant funds, financing early stage business development
- Development Investment Funds
- Tandem Funds
- Risk Limitation/Insurance
- Social Stock Exchange(s)