



# Innovation in a crisis – Private sector strategies for development: access, competition and engagement in a downturn Meeting Summary

Tuesday 20<sup>th</sup> January 2009, 17.30 to 19.00 followed by reception, **The Commonwealth Club**, London WC2N 5AP

## Speakers:

- **Mike Foster MP**, Parliamentary Under-Secretary of State, UK Department for International Development
- **Ann Grant**, Vice Chair Standard Chartered Bank
- **Dame Barbara Stocking**, Chief Executive of Oxfam
- **His Excellency Claver Gatete**, Rwandan Ambassador to the UK

## Chair:

- **Simon Maxwell** – Director, ODI

## Opening remarks by **Simon Maxwell**

- Last year, Prime Minister Gordon Brown stated that “trade, wealth creation and job creation are the only routes to long term prosperity,” and that Business has a key role to play, in partnership with others, in meeting the MDGs.
- In the current Economic climate, however, there is a risk that businesses turn away from development concerns as they grapple with their own business matters. In fact, at the World Economic Forum Meeting in Davos next week, it will be more difficult to get development issues on the agenda.
- This is why this meeting series which seeks to explore how we can harnessing the Power of Business for Development Impact, is so important.

## Address by **Mike Foster**

- DFID is committed to Private Sector Development in the developing world. Growth drives development and job creation. Jobs are the best way out of poverty, and nine out of ten jobs in the developing world are in the private sector.
- The importance of the private sector in development is not just related to MDG 1 (related to halving the number of people in the world living on less than a dollar a day), but also in terms of the tax revenues that business contribute to Developing Country Governments which can be used to finance public expenditure. It is also through the market mechanism that technology is transferred and growth is sustained.
- It is important to move on from the CSR approach to development that has been the dominant paradigm of the last decade. Supporting development should be the core part of what businesses do in terms of the job, goods and services they provide.
- I am proud to launch DFID’s Private Sector Development Strategy today, which focuses on three themes.

1. Working to improve Access to economic opportunities by the poor – as consumers, suppliers and entrepreneurs.
  2. Working to develop fair, Competitive markets – that reward hard work, new investment and the entrepreneurial spirit.
  3. Engaging with private sector companies – from multinationals to stall holders to help achieve the MDGs
- An example of DFID's involvement in improving access to information and inputs is the Katalyst programme in Bangladesh. The programme has helped farmers to generate additional income and has generated 150,000 new jobs.
  - DFID views issues of competition to be important as inefficient businesses can be constrained by barriers to competition and regulations. DFID has developed a Competition Assessment Framework (CAF) to help policy makers easily assess the state of competition in important sectors, and to identify and address areas of weak competition. DFID has also contributed £17m towards its Investment Climate Facility.
  - DFID takes the view that engagement with businesses, governments and civil society is required. This is in line with Business Call to Action launched by the Prime Minister in May last year, which outlined how DFID will work with companies to develop new business models based on their core business in ways to increase their development impact.
  - The Economic realities of 2009 are a major challenge. Estimates are that 90 million people will be pulled into poverty by the global slowdown. Our responsibility as Government, NGOs and Businesses it to work collaboratively to get us out of the crisis. DFID's Private Sector Development Strategy is clear about this, and I am happy to launch it today.

Address by **Ann Grant**

- Standard Chartered Bank works primarily in Africa, Asia and the Middle East. Precisely because the bank works in so-called 'risky markets' it has managed risk very carefully, so it thus less vulnerable in the financial crisis.
- We need to acknowledge the 'seismic nature' of the range and depth of the crisis, which has now spread from the OECD to emerging markets. And we must also acknowledge that we are working at the limits of our knowledge.
- The Financial Crisis is asking us to question the role of the state and the role of the market. We need more shared leadership to combine funds and skills to tackle poverty, which will require NGOs, Businesses and International Financial Institutions to work together. Now the idea that companies can be a force for good does not raise eyebrows as it once did.
- Since joining Standard Chartered, I worked hard to get involved with projects which will contribute towards attainment of the MDGs.
- In Pakistan, we are trialling initiatives aimed at helping the "missing middle" to get access to finance. At one end we have the poor, who can get concessional microfinance. At the other, there are those individuals and firms who can get finance on commercial terms from banks. The groups in the middle, however, are left out. Since 2006, we have been trying to use our networks to assemble funders together in order to provide avenues for the missing middle, and to increase the skills and fundability of small enterprises. Also as part of the initiative, we have conducted financial literacy programmes and contributed 3 million dollars to support women's business clubs.
- Standard Chartered has one of the best workplace programmes on Living with HIV, and share our approach in this area for free with other corporates. We have also done a lot in terms of malaria and preventable blindness. These initiatives are done for good business reasons. Our employees are our work engine and having a healthy workforce that is well educated on HIV/AIDs matters is important for business stability. The malaria and blindness initiatives have an enormous impact on involvement of our staff.

- Standard Chartered had a good year in Africa in 2008. It is well capitalised in Africa, and our involvement in Africa has been one of our strengths in the downturn. Even the IMF's calculations show that Africa's growth prospects are double that of the global economy.
- Overall Standard Chartered supports the role of the private sector in development and look forward to engaging more in this area.

Address by **Dame Barbara Stocking**

- During this global downturn, it is those parts of emerging markets that produce for OECD markets, or that are involved in supply chains connected to global markets that have not been doing so well.
- The ILO estimates that 20 million people will lose their jobs in 2009.
- It is estimated that remittances to the developing world will decrease by a quarter of a trillion this year, and there will be a significant decline in FDI. Both of which will affect developing countries.
- People ask why should the Private Sector be interested in developing countries? It is because the people in them are the future markets.
- However, business need to be based in developing countries for the long term and embed themselves in order to be successful.
- Oxfam were involved in doing a poverty footprint for Unilever in Indonesia. The long-term commitment of Unilever was key to its impact - it was there before, during and after the Asian Financial Crisis. It was a win-win situation. Unilever and the local economy benefited from the on-going commitment. On the production side, this was clearly positive. On the consumer side, we had more trouble with the small packets of products sold: although they were more affordable to cash-strapped consumers, they were also more expensive in terms of price for weight.
- Our work also suggests that Smallholder Agriculture is a challenging area for poor farmers to access global markets. The private sector wants to buy products which are of a guaranteed quality and produced on a timely basis, which often makes smallholders a less reliable source to buy from.
- Smallholders need access to finance, land rights, capacity to improve production and quality, and often ability to organise themselves to they can sell in volume.
- We have found a need for an intermediary, and Oxfam has played this role by helping communities come together to form cooperatives, and by facilitating cooperation between Communities, NGOs and Business.
- An example is the St. Lucia Association of Farmer Cooperatives which supplies local hotels. Another is a Cotton Cooperative in Mali which provides cotton to Marks and Spencers.
- Governments have a key role. They need to provide infrastructure (ports, roads etc) and a consistent policy framework and regulatory environment which are conducive for business planning and stability.

Address by His Excellency **Claver Gatete**

- Aid is not enough to get African nations out of poverty, and a competitive private sector is essential.
- In the current downturn, Africa has not been hit so hard yet, but we are nervous about the future. Africa could be affected due to:
  - Decrease in exports to the OECD
  - Decline of FDI in Africa because of more stringent lending conditions, making it harder for potential investors to source finance.
  - With a decline in FDI and trade, there could also be a decline in the rate of technology transfer.
  - Decline in tourists from the OECD, and the associated decrease in foreign exchange coming into African nations.
  - Decline in portfolio investment into the African bond markets, as investors search for more secure investments such as US Treasury bonds.
  - Decline in remittances.
  - Decline in aid flows, as OECD governments divert resources to domestic issues.

- Currency depreciation in OECD nations meaning that even if OECD and multilateral donors do not decrease the nominal values of ODA, the real value of the flows will decline.
- There are several lessons for Africa in terms of dealing with the downturn:
  - Crucial to have strong macroeconomic management.
  - Prudent management of foreign reserves is required.
  - Prudent bank regulation is required.
  - Corporate governance is important, particularly the role of the Boards.
  - Diversification of exports is crucial to prevent over-reliance on the export of a handful of commodities.
  - The areas where Africa may need support include:
    - Trade facilitation support. A successful conclusion to the Doha round of WTO negotiations would also be very helpful.
    - Access to finance for small businesses. Government and donors should work together to support microfinance.
    - Donor support in terms of establishing the best investment climate.
    - Support to help sustain remittance flows, perhaps by innovative ways of decreasing the cost of transfers.
    - Donor support in terms of how African nations can deal with climate change concerns.
    - Donors must continue to give 0.7% of GNP as ODA, even during the downturn.

## Questions and Discussion

### DFID's approach on the ground in countries and with multilaterals

The Minister was asked about some practicalities of how DFID will respond to issues in country, within the framework set by the new Private Sector Development (PSD) strategy. Mike Foster answered that DFID's in-country teams develop three-year plans based on stakeholder consultations. This is still the approach that country teams will take and factor in private sector development programmes through this mechanism.

A speaker told of a carpet factory in Afghanistan which was set up with DFID help, and which was supplying John Lewis and other Department stores. But with the onset of the crisis these stores are no longer buying the products. Mike Foster emphasised that issues are different in different countries and offered further conversation to discuss the specific issues at DFID.

Another speaker pointed out that DFID's PSD strategy talks about engagement with other stakeholders including multilateral institutions in order to implement PSD programmes. The problem with this is that it delays action, and escalates decision making to another level.

### Finance and risk

A speaker highlighted the importance of financial inclusion? Businesses in Africa need access to microfinance at rates less than 40% (which is the average rate in Africa). The question of who will take risk was raised, and whether donors will share risk and accept that inevitably there will be losses and business failures if they do.

Another speaker had been taking a community-led but market-driven approach to business development in the developing world. They worked with Guatemalan farmers to regain the land they lost in conflict, and then start to grow pineapples, which have been sold to Walmart. Walmart have been demanding the same quality of pineapples from these farmers as they would from any other supplier. Corporates and Governments need to think about how to support venture capital initiatives. Business always carries risk and how should risky ventures be initiated in the developing world?

### Fair Trade

A speaker highlighted that a model exists already to enable the combination of development and business. This is Fair Trade. The Chair asked about the stories we hear that in the downturn people are not buying premium brands of which “Fair trade” is one. The response was that we are not seeing a price premium on Fair Trade goods. Price is important but so is quality.

### Innovation

A speaker raised concern that the discussion so far has focussed too much on core business being the avenue for development. But innovation tends to happen on the fringes of business activity. As an example, he has worked to see if Coca-Cola’s supply chains can be used to distribute social products (condoms, medicines etc) out to where they are needed. Coca-Cola would not research into this as part of their core business.

## **Concluding Statements**

Caroline Ashley, ODI and co-organiser of the series

- The business case for a company to be ‘embedded’ and maintain good working relationships during a crisis has been witnessed in the past. In The Gambia and Tunisia, hotels and policy-makers remember which international operators stayed with them during recent crises.
- There seems to be a disconnect between the terrible business and financial news of the downturn, and current discussion highlighting business commitments to development. We need to understand better how exactly the downturn is affecting commitment.
- The current focus is on shifting from philanthropic CSR to harnessing core business and this has been an ODI theme for some time. But once we look at practicalities, the distinction may blur a little. It takes risks and innovation for businesses to be able to adapt their models of operation. CSR time and budgets may help fund research into innovation, do the time-consuming work of developing partnerships and new suppliers that then become part of the core business, or help operational staff to plan change.

Ann Grant

- Innovation is on the fringe of most businesses. We do not have a cadre of people who are looking into forming new alliances for example. We need to move the discussions about development impact out of the Corporate Affairs Departments and into the mainstream business function.
- We also need to realise that statistically speaking, most start-up businesses fail. So if donors are going to support businesses in their initial phases, they must be prepared to see a number of them fail but continue to support entrepreneurialism.

Dame Barbara Stocking

- I agree that the risk issue is important and too few organisations are willing to take it. Oxfam had been supporting a Coffee Cooperative in Honduras which could not get the necessary credit for the business to get off the ground. In the end, Oxfam had to guarantee the loan. It is not the role of the charity sector to be guarantee loans. This is a case in point. Donors and other stakeholders must think about who will bear the risk in private sector development in poor countries?
- It is also important to try and build a business case for corporates to maximise their development impact which is not only focussed on the long term. The short and medium returns also need to be considered.

His Excellency Claver Gatete

- It is important that there be a multi-stakeholder effort in the area of PSD. In Rwanda, a multi-donor approach by stakeholders is what has helped to develop exports. Donors, Civil Society and the Private Sector will all be required to collaborate in order to deal with the financial crisis.

Concluding Comment by Simon Maxwell

- We need to keep building a business case for corporates to engage in development issues and learn from experience. This will require data and stories, which hopefully this meeting series will be able to draw out.