

## **PUBLIC-PRIVATE DIALOGUE ON INVESTMENTS**

*“Fostering SME Growth through Inclusive Business”*

APEC Investment Experts’ Group  
27 August 2015, Cebu City, Philippines

### **Summary of Discussions, Insights and Recommendation**

APEC has embarked on various initiatives to stimulate growth and development of SMEs in the region. Participation in the global supply chains and the proliferation of preferential trade agreements provided opportunities for SMEs to help increase trade in the region and strengthen economic integration. These are all supported by capacity building programs to assist both SMEs and policy/decision makers in taking appropriate steps towards regional growth and access to markets. However, despite these efforts, inclusiveness of growth remains to be the biggest challenge across the region and within APEC economies.

This IEG Public-Private Dialogue (PPD) featuring Inclusive Business is aimed at raising awareness and sharing experiences of selected APEC economies that are currently practicing or supporting Inclusive Business (IB). IB models in agribusiness, manufacturing, housing and tourism were presented by the concerned private and public sector. Development institutions also provided information on their respective initiatives and technical support on IB. The keynote speaker provided a clear message on the roles of both public and private sectors in promoting IB. Investment in IB is very viable and profitable and need not be large. For IB investments to happen, the government has to put in the necessary infrastructure and a favorable business environment to reduce costs, while the private sector has to do what it does best and share its discipline, creativity and entrepreneurial spirit.

The theme, “Fostering SME Growth through Inclusive Business” is very much in line with APEC 2015 thrust of “Building Inclusive Economies, Building a Better World.”

#### **Session 1 – “The Case for Inclusive Business in APEC”**

This session provided an introduction and overview of IB in the APEC region and the role of various stakeholders in realizing the shared goal of sustainable and inclusive growth and prosperity.

IB started in Latin America and has spread to other APEC economies that included:

- Chile, Mexico and Peru - Active IB promotion policies since 2008 supported by the “Opportunity for the Majority” Program of Inter-American Development Bank;
- Japan established an Inclusive Business Support Center under METI;
- Indonesia, Myanmar and Vietnam are interested in accreditation and policy support;
- Singapore recently established active IB promotion platforms;
- USA, Canada and Australia have programs in support IB.

The session provided suggestions by which to measure IB investment, such as:

- An Inclusive Index that will measure the country’s efforts in establishing an enabling environment towards inclusive economies and how companies are evolving inclusive business models in response to such environment.
- An accreditation system that will identify and recognize innovative business models for both commercial success and development impact.

Due to this rising inequality in spite of macro-economic gains, there has been an increasing trend towards inclusive growth goals and policies globally. Various multilaterals and development organizations have concerted efforts towards economic growth alongside social inclusion:

- The **Sustainable Development Goals** of the United Nations promote new technologies, business models, legislation and regulation policies towards sustainable development;
- The **Business Call to Action** (BCtA) public-private partnership of the United Nations Development Programme (UNDP) undertakes inclusive pro-poor transformations to develop business models with both commercial success and development impact;
- The World Economic Forum (WEF) lists *Economic Growth and Social Inclusion* as one of the key global challenges to be addressed and initiated. The **Grow Asia** public-private cooperation is working towards inclusion of 10M smallholders across value chains in Asia by 2020; and
- **Technical and financial assistance** from development banks such as the Asian Development Bank (ADB), Inter-American Development Bank (IADB), and the World Bank’s International Finance Corporation (IFC) have helped several economies in Asia and Latin America shift towards inclusive growth strategies.

### Key Insights:

- Inclusive growth goals and initiatives are gaining momentum worldwide.
- One innovative way of achieving inclusive economic growth is through IB.
- IB is profitable core business model that benefits the poor in an innovative and systemic way.

- IB solutions can come from small and large companies, though in order to reduce mass poverty, investments with large social impact are required.
- It is characterized by financial viability, social impact, and innovation.
- IB opportunities for the base of the pyramid<sup>1</sup> (BOP) will be driven primarily by the private sector, although government plays an equally important role in creating an enabling environment for IB.
- The government has a critical role in identifying regulatory enablers and barriers and providing the necessary physical infrastructure for inclusive business opportunities.
- The key challenge is not access to financing, but risk perception of investors, lack of good business ideas and bureaucratic issues.

There is an apparent and growing recognition of the need for new solutions to create quality jobs and investments, as well as affordable goods and services, which would move people from the informal to the formal sector. One innovative and viable way of achieving inclusive growth goals is through **Inclusive Business**.

## **Session 2 – “Private Sector Panel Discussion: IB Investment Examples”**

This session provided IB investments success stories and challenges in three major sectors - agribusiness, manufacturing and housing. For some companies, IB became part of their business while they addressed some issues and challenges in filling gaps in their supply and value chain. Others already recognized the importance of inclusive business and successfully developed IB models. There were also companies that just started learning about inclusive business.

From the agribusiness sector, Kennebec Foods International (KFI) under its Cacao Growership Program, contracts coconut farmers to inter-crop cacao by providing them with quality planting material and inputs, knowledge and skills training, a guaranteed market for ten (10) years, and smallholder financing in partnership with a government bank. The income of coconut farmers increased from Php20,000-30,000 per year to Php170,000 per year, and KFI met its growing market demand.

In the manufacturing sector, Dow Chemicals Corporation presented inclusive business' center role at the wake of super typhoon Yolanda (international name, Haiyan), when over 30,000 fishing boats were destroyed depriving small fishermen of livelihood and sustenance. Government agencies and non-government organizations in the Philippines under the “Project Ahon” replaced the traditional wooden boats with fiber-reinforced plastic (FRP) boats that required less time to produce and did not require power or equipment. Fishermen

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<sup>1</sup>The ADB defines BOP for Asia and Latin America as the bottom 60% of the population, while for developed countries it is the bottom 20%. The BOP in Asia live below \$3-4 a day, in Latin America below \$8 a day, and in developed countries below \$15-20 a day.

were trained in building the FRP boats, and mold making by various stakeholders including resin and fiberglass suppliers in several regions in the Visayas.

From the housing sector, CEMEX, a multinational building materials company headquartered in Mexico, presented its *Patrimonio Hoy Program* implemented in Latin America. The program was listed in Fortune's "Change the World List" of 50 companies that has made a sizable impact on major global social or environmental problems as part of their competitive strategy. Since 1998, *Patrimonio Hoy* assists low-income urban families in the construction of their homes by providing technical support, micro-credit, and easily accessible building materials that allow families to save on storage and transport costs. To date, 470,000 families have benefited, affecting approximately 2 million people, with a 99.9% repayment rate for the company.

The Indonesian Business Council also shared that Indonesia is beginning to understand ways in which poverty reduction may be a part of a company's core business model. However, there needs to be support from the government in terms of policy in order for small players to understand inclusive business.

#### **Key Insights:**

- While the BOP market has its risks, such risks will always be a part of business.
- There are viable IB Models that exist in the APEC, which have had significant social impact and market returns. It is the government's role to look at its policies to create favorable business environment.
- IB support policies should start in key sectors and should employ a special task force to initiate discussions and bring various efforts together.
- If APEC will pursue IB, it can help create momentum and encourage stakeholders to take action.

#### **Session 3 – “Synthesis and the Way Forward for APEC”**

This session highlighted the need for innovative ways to address the widening gap between the rich and the poor and realize the region's shared goal of sustainable economic growth and prosperity. The host country, Philippines, emphasized that inclusive growth calls for well-paying income opportunities, and affordable goods and services for the BOP. This inclusiveness would require innovative business models that go beyond simply engaging the poor to create, in scale, systemic solutions that incorporate the poor in a company's core business. Inclusive Business is one innovative way of achieving inclusive growth.

#### ***The Need for Inclusiveness of Growth***

Despite the drop in the number of people in the region living below \$1.25/day from 1.7B in 1990 to 722M in 2014 (UNESCAP 2014 Statistical Yearbook for Asia and the Pacific), still 933M live between \$1.25-\$2/day, making them economically insecure or vulnerable to poverty. Moreover, the gap between the rich and the

poor has widened – between 1990 and 2014, the population-weighted mean Gini coefficient for the entire region rose from 33.5% to 37.5%. Therefore, there is a need for economies to adopt policies that will foster inclusive growth.

In reality, very few private sector companies target the BOP in a way that creates development and inclusiveness. SMEs account for more than 95% of the region's businesses; contribute 70% of total employment; and 50% of GDP in majority of the economies. Inclusiveness requires a specific type of companies, companies that not only engage the poor (BOP) but create quality jobs, and provide affordable goods and services to the poor. IB is more than CSR. Private sector solution and innovative business models provide in-scale sustainable systemic solutions.

Growth is inclusive if it creates new and well-paying jobs in scale for the low income people, and development is inclusive if it provides affordable and relevant services to the poor and low income people. However, very few private sector companies actually target the BOP in a way that it creates development and inclusiveness.

The Philippines has already incorporated IB in the general policies of the current Investment Priorities Plan to encourage the private sector to adopt IB strategy within the company's supply or value chain that can directly contribute to the improvement of living standards and poverty reduction.

### ***IB in Peru – Public Sector Experience***

In parallel to its policies to drive economic growth through Foreign Direct Investments, Peru seeks specific programs to improve the quality of life for low-income native communities in the ambient zones and jungles of Peru. The Government of Peru encourages the option of IB through their One Town One Product inclusive tourism project launched by the Minister of Foreign Trade and Tourism in 2012.

The One Town One Product program seeks to improve craft supply development of specific native communities by providing training on product design, business management, market orientation, marketing channels, and participation in national and international fairs. Every year, there is a bid among different communities applying for capacity building and technical assistance. The government also provides economic incentives to influence businesses to adopt IB models as these communities involved in tourism activities attract businesses looking for opportunities and deals in the ambient zone and jungles of Peru.

Peru strongly supports continuing IB discussions in APEC.

## ***A Common Understanding on Inclusive Business***

Inclusive Business is described as a profitable core business model that incorporates the poor as suppliers, consumers, distributors, or employees, in an innovative and systemic way. It is a private sector solution, which keeps a for-profit nature, while providing opportunities for people living at the base of the pyramid.

IB solutions can come from small, medium and large companies. However, to substantially reduce widespread poverty, larger investments are needed to effect social impact at scale. Scale can be achieved through company growth and expansion -- developing from a small to a medium or large company, or through replication of IB models and practices by other companies, thereby achieving systemic change.

## ***The Role of the Private and Public Sector***

The Private Sector is the main driver for IB solutions as companies offer the innovative and direct business opportunities for the BOP. At the same time, government promotion and facilitation is crucial in fostering a favorable environment for IB, and creating necessary linkages between companies and stakeholders.

Through IB discussions with the private and public sector, barriers and challenges may be identified and addressed accordingly.

### **Key Insights:**

#### **– Role for APEC:**

- APEC is an important platform for different economies to share information, knowledge and experiences including the promotion of IB in the region.
- It is a venue to strengthen a region-wide culture of partnership and collaboration between governments and businesses
- APEC, as enabler of MSMEs as envisioned in Boracay Action Agenda, can make development equitable and more inclusive by having the MSMEs fully and effectively integrate into the value chain or participate in the regional integration.
- Focus may be given to agribusiness, manufacturing, housing and tourism.

#### **– Challenges:**

- IB is a relatively new concept and needs venues for dialogues and understanding
- Private sector acceptance on the new concept
- Government support in terms of IB policies
- Applicability of an IB model in different economies.

### **Recommendations on the Way forward for APEC:**

1. Endorse IB as part of the APEC agenda, and share the commitment towards promoting IB for building inclusive economies.
2. Propose and pursue future APEC dialogues on IB to understand constraints and collaboratively formulate solutions and capacity building programs.
3. Establish a system to identify private sector solutions to address problems of the BOP.
4. Integrate IB in industrial promotion policies and programs of economies such as technical assistance, facilities, and incentives for companies to pursue IB models.
5. Develop and adopt an inclusiveness index to measure the level of inclusiveness of an economy in coordination with multi-lateral development organizations such as ADB, IADB, WB, IFC, WEF, and UNDP.
6. Endorse to the governments of Peru and Vietnam, as APEC host for 2016 and 2017, respectively, to continue IB work and discussions in APEC.

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