

**FINANCING A SUSTAINABLE LINKAGE:
THE ADFIAP EXPERIENCE**

**A paper contributed by
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What is ADFIAP?

ADFIAP (<http://www.adfiap.org>) is the focal point of all development banks and financial institutions engaged in the financing of development in the Asia-Pacific region. Founded in 1976, ADFIAP now has 70 member-institutions in 35 countries. The Asian Development Bank (ADB) is a Special Member of the Association. ADFIAP is also a founding member of the World Federation of Development Financing Institutions that comprises similar associations in Africa, Latin America and the Middle East. ADFIAP is a non-governmental organization in consultative status with the United Nation's Economic and Social Council. The Association's Secretariat is headquartered in Manila, Philippines.

In order for you to understand a little bit more about development banks and their role in national economic development, please allow me to provide you with a quick uptake on this subject.

A Brief Background on DFIs

Before I continue with the main topic, please allow me to say a few words on the evolution of development banks, particularly in the Asia-Pacific.

Development finance institutions (DFIs), or interchangeably, development banks, came into prominence after the second world war when many developed and newly independent developing countries adopted national policies and plans for rapid industrial and agricultural development. A basic underlying principle was that long-term resource allocation should be undertaken through business-oriented financial institutions rather than by direct allocation by the government (it should be noted that commercial banks were not up to the task at that time because of the short-term nature of their lending activities). Thus, there was a proliferation of DFIs all over the world in the late forties, fifties and sixties.

In the late seventies, eighties and nineties, with an international movement towards globalization of trade, open economies, liberalization of the financial sector and other changes in the economic landscape of Asian countries, development banks have also adapted to these changes and have evolved into different organizations, but still with a single most crucial and clear mandate of financing national development efforts.

The nineteen nineties also saw the emergence of new economies, especially in Central Asia, and the need to establish development banks in their respective financial environment. Such is the case in Kazakhstan and Uzbekistan, among other countries in the region. Just recently, the government of Vietnam has transformed its national development assistance fund into the Development Bank of Vietnam.

Another trend today is the emergence of the so-called "SME banks" due to the entrepreneurship development programs of governments in the region, noting that SMEs provide job opportunities and local economic development in the country, thereby helping reduce the poverty rate. Thailand, Brunei, Vietnam and Malaysia have put emphasis in SME financing. Thailand, Malaysia and Sri Lanka have recently established a separate SME bank in their country. India, Pakistan, the Philippines have since set up SME banks in their countries and have been doing well. For microenterprise development, ADFIAP member-banks in Indonesia and Cambodia, among other countries, have a booming microfinance industry in their midst.

The Poverty Pyramid

In order for us to understand better the gamut of concerns on which "poor" can be potentially targeted into the export process, I think, one has to view poverty in different levels and to take a look at the so-called, "poverty pyramid". Please note though that all levels in the "poverty pyramid" are below the so-called "poverty line".

Starting at the bottom of the pyramid are the poorest of the poor: the *ultra* poor. They are much vulnerable because the contribution they make to the household income is not even sufficient for their own survival. These people have few, if any, assets; have very limited chances to earn money; and often survive by scavenging and begging.

Above the ultra poor are the *laboring* poor whose main source of income is by selling their services, either in the marketplace or to themselves through some form of subsistence production. These include farm laborers, domestics, and underemployed workers who often live on the brink of destitution.

The next in the strata are the *self-employed* poor. These are poor people who meet their basic needs by running micro businesses and small cottage industries, often on a part-time basis, but have not given up waged labor or subsistence activity entirely. These poor need working capital to sustain their productive activity.

At the apex of the poverty pyramid are the people living slightly below the poverty line who can often create additional jobs. These *entrepreneurial* poor or “*e-poor*” are distinguished by the fact that they employ others, possibly family members on a part-time basis, to assist them in the conduct of their business. Here too, working capital is often a critical need.

If one has to look carefully at the “pyramid”, it can be surmised by process of elimination that the “*e-poor*” would have the biggest opportunity to be brought up into the export process while the *ultra* poor would be hard-pressed, if not totally, be out of it.

Looking closer, the “*e-poor*” could enter into the productive enterprise sector perhaps more as an indirect supplier of goods into the export market, selling their wares to more-established wholesale buyers who are already in the exporting business.

The skilled *self-employed* poor could find themselves into the export process by joining the overseas labor market if there is a skills match or by improving their craft further and with some form of financing, may be able to graduate themselves into the next higher level.

Finally, the *laboring* poor could have a chance also in the overseas labor market as domestic helpers or care givers as well as farm hands in big plantations abroad.

The Export Process and the Need for an Intermediary

In the interest of time, I will not explain fully each of the stages in the export process as many of you are already familiar with these, but would just like to enumerate them, as follows: evaluation, market research, marketing plan, restrictions and regulations, quoting for product export, export finance, insurance and payment.

In bringing the targeted poor into the export process, there is definitely a gap between these targeted poor and the export process. It is obvious that these targeted poor do not have direct access nor the resources to go to the export market by themselves. Intermediary institutions such as the so-called “grassroot” organizations like NGOs, cooperatives, etc., local government units, private sector and microfinance institutions, are needed if these targeted poor would have to be brought into the export process.

Against this backdrop, the question of how to possibly bring the targeted poor to the export process, in my opinion, will consist of the following steps:

1. *Organize* – it would be practical, using economies of scale, to group the targeted poor around cooperatives and NGOs in order to have a larger voice in the policy-setting process, a bigger resource base, and a clustering of common activities.

2. *Lobby for enabling environment* – since most of these targeted poor are in the countryside, it would be best to bring the issue, through their cooperative, to their local government for a more coordinated action.
3. *Get advice* – the experienced private sector business counselors could be the ideal partners to learn more about the intricacies of the export process.
4. *Secure financing* – because any business will require financial transactions, one way or the other, it may augur well if the group can work with a microfinance institution in their area.

As I mentioned in the beginning of this presentation, I will attempt, at this point, to make a proposition, coming from a development banking mindset, that perhaps the development bank could take the cudgels of being a focal intermediary in this process.

This proposition stems from the fact that a development bank: (a) has access to “grassroot” organizations like cooperatives and NGOs because they are already partnering with these groups in most developing countries (b) has working relationship with local governments since the bank is owned by the State (c) has contacts with the private sector, most of which are its borrower-clients and (d) has either wholesale funds for microfinance institutions or may have a microfinance institution as its subsidiary.

I will now present at least five case studies on what our member-banks are doing with respect to assisting their poor constituencies, but will stop short of providing verifiable results as far as the how their programs mentioned have impacted on bringing the poor into the export process.

Case Studies in Selected Countries

The first case study is that of the private-public partnership initiative called “*Sustainable Partnership for Energizing Entrepreneurship Development*” (*SPEED*) Programme of the Development Bank of the Philippines (DBP) whose main aim is to empower and increase the competitiveness of the “*e-poor*” through the creation, among others, of Business Assistance Centers (BACs) in the countryside. The BAC is a one-stop shop for micro businesses, offering support services such as e-services, business counseling, project development, and financial advisory. BAC’s are either universities, NGOs, local government units (LGUs) or a combination of these organizations.

The second case study is the “*Rural Industries Programme*” of the Small Industries Development Bank of India (SIDBI) which is a comprehensive enterprise support service program for promoting viable rural enterprises, i.e., the “*e-poor*”, leading to employment generation in rural areas. Key to its success lies in the involvement of highly-qualified “implementing agencies” which are being trained, evaluated and monitored by SIDBI and the network of technology institutions, banks, corporations, and NGOs which provide professional services necessary for the setting up of tiny enterprises.

The third case study is the “*Dehkan*” Enterprises Program of the National Bank of Uzbekistan whose aim is to finance small-scale household businesses using personal labor resources (targeting the “*laboring poor*”) of family members themselves. The bank has set aside a special fund for preferential lending that provides microloans to family businesses.

The fourth case study is that of the SME Bank of Sri Lanka’s “*Special Lending Programme for Ayurveda Services and Products*”, an enterprise support program for promoting traditional herbal treatment for foreigners and locals. This major employment generation sector for the “*laboring poor*”, was introduced to modernize the Ayurvedic sector, establish clinics, and improve Ayurvedic production activities.

The last case study is the “*Thai Cuisine to the World*” Scheme of the SME Development Bank of Thailand that provides financing to the so-called ‘food cluster’, e.g., food processors, OTOP producers, exporters, importers, wholesalers, retailers as well as Thai restaurants located in foreign countries, which ultimately benefits the “*laboring poor*”. This initiative is being done in cooperation with the country’s Department of Export Promotion, Ministry of Commerce, the Ministry of Foreign Affairs, the Office of Small and Medium Enterprises Promotion, the National Food Institute and universities.

Concluding Remarks

Development banks were set up by their governments as specialized financial institutions to provide long-term financing and technical assistance to sectors that promote the country’s economic development and growth, which are not normally looked after by commercial banks in their formative years. Development banks, thus, have an important role to play in a country’s development and are an integral part of its financial system. In some countries, development banks are deemed ‘trailblazers’ in the sense that they finance start-up projects where other financial institutions do not necessarily go into because of inherent risks and long-term gestation.

In this context, development banks can play another trailblazing role in bringing the poor into the export process. But empowering the poor through enterprise financing and, eventually into the export process, should be a targeted and coordinated approach to be effective and sustainable and, development banks are definitely positioned to be a focal intermediary institution in this process.