

eme

emerging market economics

The Role of Business in Pro-Poor Development

HM Treasury
International Economics Seminar

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Background

- **eme** paper August 2002:
Pro Poor investment: maximising the contribution of investment and business to poverty reduction
- Recognised lead role of business in growth and poverty reduction – MDG Income Goal
- Noted weaknesses in CSR reporting on economic and social pillars and lack of methodology for measuring poverty impacts
- Identified appetite for improving reporting of poverty impacts amongst businesses, SRI and civil society

The three dimensions of measurement

1. Contribution to growth – because growth is a necessary condition
2. Contribution to making growth pro-poor – because growth is not a sufficient condition
3. Direct contribution to poverty reduction

Growth results from investment and operations

- Investment – key weakness of LDCs, current impacts, future impacts (productivity)
- Value added by operations – (revenue less brought in inputs) is contribution to growth
- Also – 2nd round impact of bought in goods & services, 3rd round of wages (and ...?)
- Contribution to Balance of Payments – FDI, exports

Society & business interests are aligned

Pro-poor impacts link growth to livelihoods

- Starts with distribution of value added – labour, capital, taxation, retained in business
- Effects on markets that matter for the poor – labour, capital, products they produce, products they consume, provision of infrastructure, social services
- Impacts resulting from business policy and engagement with civil society, government – **CSR motivation comes into play**

Businesses address poverty through their own operations

- Employment – lifting the poor out of poverty
- Effects on poor as consumers – cheaper products, better access to markets
- Effects on poor as suppliers – SMEs, farmers
- Location –contributing to development of poor areas
- Social expenditure – community development, charitable donations

Sectoral Impacts

Sector	Growth Impacts	Pro-Poor Growth Impacts	Direct Poverty Impacts
FINANCIAL SECTOR	<ul style="list-style-type: none"> • Major impact • Large scale & high % VA • Facilitates growth through financial intermediation 	<ul style="list-style-type: none"> • Medium impact • Lending policies may be more/less pro-poor • Integrating poor into formal financial sector 	<ul style="list-style-type: none"> • Smaller impacts • Providing micro finance, services to the poor • Community support programmes with employees involved
INFRA STRUCTURE	<ul style="list-style-type: none"> • Small impact, except when building new facilities • Was major FDI sector but falling • High % value added but small sector, regulatory barriers 	<ul style="list-style-type: none"> • Medium impact • Policies/strategies for improving access • Demonstrating efficiency improvements 	<ul style="list-style-type: none"> • Major impact • Improved access • Lower cost • Reduced collection times • Health benefits though difficult to measure

Sectoral Impacts

Sector	Growth Impacts	Pro-Poor Growth Impacts	Direct Poverty Impacts
EXTRACTIVE INDUSTRIES	<ul style="list-style-type: none"> • Major impact • Investment • large scale & high % VA • major generator of forex 	<ul style="list-style-type: none"> • Medium impact • Taxation • Tri-sector partnerships to make economic impacts pro-poor 	<ul style="list-style-type: none"> • Smaller impacts • Expenditure in local community through labour, suppliers, local taxation • Community/regional development
LABOUR INTENSIVE INDUSTRY (TCF)	<ul style="list-style-type: none"> • Small impact, • Low to medium % value added • VA and capex by suppliers • Export contribution can be major 	<ul style="list-style-type: none"> • Major impact • Employment bids up wages, • Tri-sector partnerships to improve working conditions 	<ul style="list-style-type: none"> • Medium impacts • Wages lifting suppliers' employees out of poverty • Improvement in working conditions

Sectoral Impacts

Sector	Growth Impacts	Pro-Poor Growth Impacts	Direct Poverty Impacts
AGRI BUSINESS	<ul style="list-style-type: none">• Medium impacts• Large scale but low % VA• Major generator of forex• Major multinationals are major sources of FDI	<ul style="list-style-type: none">• Major impact• Agricultural productivity – results in economy being pro-poor• Purchasing policies affect the livelihoods of large numbers of the poor• Poor as consumers	<ul style="list-style-type: none">• Medium impacts• Employment• Suppliers• Consumers• Community support programmes

Measurement & Reporting

- Broad indicators at global level, impacts best studied at national or sub-national
- Quantitative indicators combined with qualitative commentary, particularly on contribution to making growth pro-poor
- Qualitative reporting should focus on providing context for policies, identify intended beneficiaries, track progress of activities, report on outcomes