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Building Bridges

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Ending poverty is beyond the reach of any single sector or actor

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MAHATMA GANDHI ONCE SAID, "Poverty is the worst form of violence." Growing up in Calcutta in the Indian state of West Bengal, I witnessed firsthand the many layers of truth behind Gandhi's words. For beyond the obvious physical consequences of living in want, there lurks a constant and pervasive threat to human dignity, social bonds, and basic aspirations.

In the India of my youth, this violence was by design. Here was a nation with unlimited potential in both human capital and natural resources continuing to lag behind because of the bureaucratically stifling nature of its command-and-control economy. Opposition political parties in the 1970s and 1980s were mired in ideological dogmas of one kind or another and offered few realistic alternatives.

My father, Chitta Ranjan Ghosh, was committed to bringing social justice to the poor. Fueled by leftist ideology, he opposed the entry of foreign multinationals—he feared that the countless Indians using traditional methods of work would lose their livelihoods. His vocal opposition to Indian Prime Minister Indira Gandhi's policies landed him in jail in 1975. As a young boy I admired his positions and yearned to follow in his footsteps. I became involved in politics and various charities, with the intention of alleviating poverty in India by helping reinvent the public sector as an agent of progress.

At the height of the Reagan Revolution, I moved to the United States to pursue my MBA. Here, for the first time, I experienced the tangible benefits of capitalism. In 1991, I watched with excitement as India moved into the global economy. By opening the door to multinational firms, India strengthened and diversified its economy. I became a strong believer in the proposition that, although the private sector cannot solve poverty, poverty cannot be solved without the private sector.

After college, my career path took me through the private sector, diplomacy, and defense contracting. When I eventually returned to the development field, I had a new perspective. I was convinced the lessons I had learned in other sectors could be applicable to development.

DEVELOPMENT AT THE CROSSROADS

The timing appeared favorable. During recent years, development has come to grips with some hard realities. Big international targets were not met, pledges were not backed up, and global consensus yielded to domestic agendas. After decades of intervention, more than half of humanity was still living on less than $2 per day.

Faced with legitimate fears about diminishing returns, major donor countries began to make a sincere effort to improve the coordination of development work. Today, they are looking for ways to trim inefficiencies and facilitate partnerships with other countries, international organizations, foundations, and private businesses.

Although it sounds cutting-edge, this approach is as old as development itself. In 1949, President Harry Truman envisioned development as "a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies ... with the cooperation of business." On Jan. 6, 2010, Secretary of State Hillary Clinton echoed these sentiments at the Center for Global Development. She called for the "elevation" of the development mission within U.S. foreign policy, and for a new "mindset" to "replace dogmatic attitudes with clear reasoning and common sense." Since then, references to her three D's (diplomacy, defense, development) and her "holistic approach" have become pervasive in foreign policy, development, and national security circles.

NEIL GHOSH is director of the U.S. branch of SNV, an international development organization with a 40-year history in Africa, Asia, Latin America, and the Balkans. SNV's 1,300 staff in 35 countries serve 2,200 client organizations in the public, private, and nonprofit sectors to improve access to basic services and employment generation.

Such proclamations should be good news for development. Yet in the aftermath of the global financial crisis, with cash-strapped electorates demanding demonstrable outcomes for every development dollar, old rivalries have re-emerged. On one side are those who champion market-based solutions to poverty alleviation. These organizations tend to work mainly with economic actors, such as microfinance institutions, small and growing businesses, and so-called philanthrocapitalists. On the other side, we find entities advocating institutional reform and social policies to create an environment favorable for economic growth. It's a flashback to the classic—and heavily politicized—chicken-or-egg debates of past decades.

Regardless of who wins the argument, the poor will lose, unless the solutions are as multifaceted as the problems. Already, the current disharmony is affecting efforts to tackle development challenges.

INCLUSIVE BUSINESS

Inclusive business and impact investing are two models demonstrating promise in bridging sectoral divides. Increasingly, they are embraced by many—not just as ways to achieve the United Nations Millennium Development Goals but also as sustainable and scalable strategies for integrating low-income citizens into the formal economy.

Inclusive business promotes strategies for national and multinational companies to bring local producers and providers into their production and marketing value chains. The companies gain local expertise and new markets for their goods; the producers gain access to more economic opportunities. Inclusive business also seeks to improve governance to provide the legal frameworks that lend stability, fairness, and transparency to enterprise.

In 2006, SNV Netherlands Development Organisation, my current employer, launched several inclusive business initiatives in Latin America in collaboration with the World Business Council for Sustainable Development (WBCSD) to advance market-based practices that expand social and economic opportunity for low-income people. Similar initiatives are now being undertaken in Africa and Asia.

Within only four years, SNV's inclusive business practice has generated 70 deals, benefiting approximately 500,000 low-income families. Clients seeing positive outcome include Ethiopian honey and beeswax processors exporting to the European market and furniture companies in Bolivia and Ecuador that are supplied with certified timber from forest tracts held by indigenous communities. In 2007, the SNV-WBCSD Alliance advised the government of Ecuador in the creation of its National Policy on Economic Inclusion, effectively anchoring the concept, language, and methods of inclusive business in Ecuador's official national social development agenda.

Organizations like the World Bank's International Finance Corporation, the Inter-American Development Bank, and the United Nations Development Programme have embraced the inclusive business model. And multinational companies such as SC Johnson, Vodafone, and Unilever are working with academic economists on initiatives to benefit—and benefit from—the so-called base of the pyramid, the vast reservoir of creativity and purchasing power among the 4 billion people not integrated into the formal economy.

IMPACT INVESTING

Impact investing is an emerging industry that aims to solve social and environmental challenges while generating financial profit for funding entities. It brings together a diverse group of stakeholders: investors, philanthropists, venture capitalists, NGOs, governments, small and growing businesses, banks, multilateral corporations—the list is almost endless. So is the potential. According to a 2009 Monitor Institute study, impact investing could become a $500 billion industry within the next decade.

The Rockefeller Foundation took the lead in bringing players from the financial industry, government, and philanthropic circles together to form the Global Impact Investing Network in 2009. This clearinghouse is dedicated to building investment infrastructure and intermediation capacity and catalyzing leadership. Another actor, the Aspen Network of Development Entrepreneurs, brings together social entrepreneurs, NGOs, financial experts, and foundations. Several other organizations, like the U.S. Agency for International Development, the Center for Global Development, and the Clinton Global Initiative, are playing an active role in supporting this industry.

Although the metrics for scaling up have yet to be solidified, early initiatives are encouraging. Impact investors seek to engage the poor by identifying them as future partners, whereas traditional donors see the poor as recipients of continual aid. And although institutional lenders may be prevented by the absence of conventional ratings structures from supporting a new enterprise, impact investors can realize significant returns by structuring deals to meet the requirements of the situation, while simultaneously meeting social goals.

Opportunities for NGOs to facilitate impact investing are everywhere. SNV has pioneered a global initiative called Impact Investment Advisory Services to provide deal sourcing, pre- and post-investment technical assistance, and monitoring and evaluation to help small and growing enterprises to improve efficiency, develop internal capacity, and access financing through its Value Chain Catalyst Fund.

In the postrecession world, governments, philanthropists, and business do not have the resources individually to reduce poverty by traditional means. But together, they can accomplish a lot.

Make no mistake: Multi-sectoral approaches to development are not always easy to realize. Significant philosophical differences divide various sectors; their interests may not coincide in all regions or at all scales; duplication of effort abounds; large corporations have yet to adjust their mentalities to make inclusive business an integral part of their core growth strategies; base of the pyramid strategies do not adequately incorporate public policy; impact investing requires time to develop metrics, standards, and a workable language—to name just a few of the most daunting hurdles. But for me, these hurdles reflect a creative tension. They should be seen not as a war of words, but as fodder for a productive discussion, with the aim of finding a mutually beneficial outcome.

I am positive about the future of development. The challenges are immense, yet I believe we are moving from an age of ideological constraint into a time when economic pragmatism guided by a humanitarian ethos will build bridges between previously disconnected sectors, populations, and creeds. ■