

**MAKING POVERTY-LED REDUCTION OUR BUSINESS:
THE ROLES OF THE PUBLIC, PRIVATE AND NON-
GOVERNMENTAL SECTORS**

**A paper contributed by
T. C. Venkat Subramanian
Chairman & Managing Director, Export-Import Bank of India (Exim Bank)
India**

Background

Exim Bank of India is an apex financial institution fully owned by Government of India, set up for the purpose of financing, promoting and facilitating India's international trade. The Bank is engaged in financing export of projects, products and services from India through number of financing and promotional programmes. The Bank is also involved in creating export capability in small and medium enterprises (SMEs), grassroot rural business enterprises and agro industries. The Bank, over the years, has facilitated number of SMEs to become active players in the global market in sectors like information technology, auto components, pharmaceuticals, textiles and clothing, agro chemicals, etc. Bank, through its overseas investment programme, has supported Indian corporates including SMEs, to set up ventures overseas, acquire business and brands abroad to strengthen their global presence. Thus, Exim Bank over the last 25 years of its existence has gained substantial experience and expertise to guide and support Indian firms to access global market.

Exim Bank's Rural Initiatives

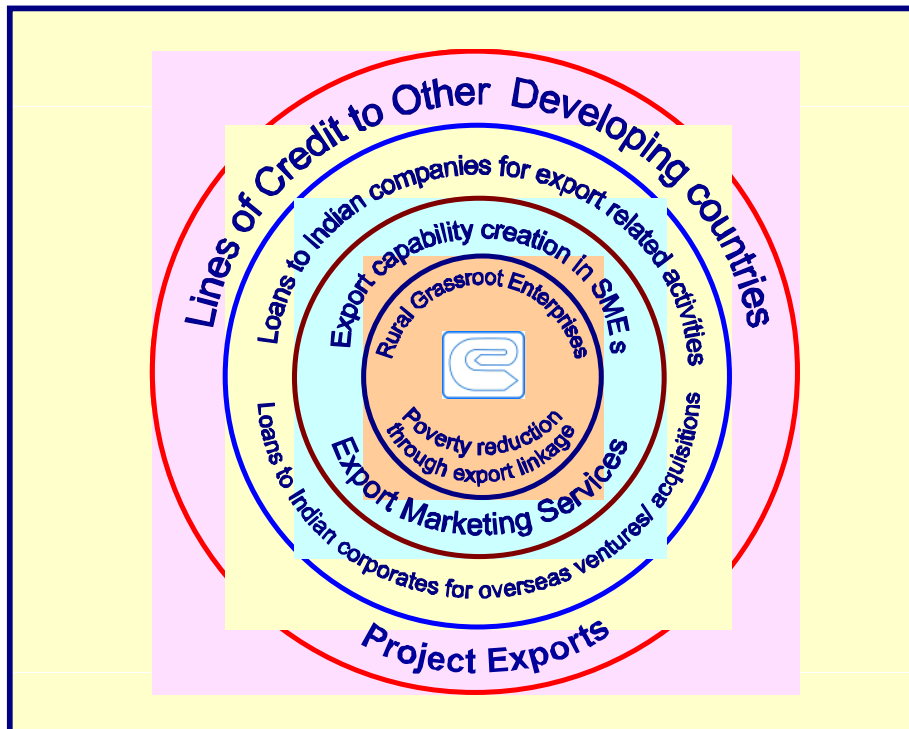
With the advent of globalisation, the barriers to trade are getting dismantled and the dividing line between national and global markets is slowly disappearing. While this phenomenon has resulted in expansion of market opportunities for products and services, it has also made certain sections in developing countries more vulnerable to market vagaries. Thus, the objectives of Exim Bank's rural initiatives are two fold:

- i. Poverty reduction through export linkages
- ii. Benefit of Globalisation to grassroot rural enterprises.

Why these objectives:

India has 70% of its population living in rural areas and only 30% is urban. This is in contrast with global average where 70% of global population is urban and only 30% is rural. Former World Bank economist, Mr. Kenneth Rogoff estimates that only 1 out of 3 persons are real participants in global economy in China and only 1 out of 4 persons are real participants in global economy in India. This means that nearly 66% of the population in China and 75% of the population in India is not being benefited or impacted positively by the ongoing globalisation process. This analysis seen along with rural/urban population percentage would indicate that globalisation in India is mainly urban centric and the rural population is practically out of it, as far as the benefits are concerned. This development has inadvertently resulted in creation of islands of prosperity amidst sea of poverty with potential to disrupt the social fabric of the nation.

Agriculture remains primary occupation for people in China and India despite tremendous progress made in manufacturing and services sector in these countries. In China, agriculture contributes only 15% to the GDP of the country although nearly 50% of its population is dependent on it. In India, agriculture contributes only 22% to the national GDP while 60% of its population is dependent on agriculture. This means that there is large disguised unemployment in agriculture. There is, therefore, need for alternative occupation, which will be small grassroot enterprises that can create economic activity and job opportunities. This can alone result in sustainable development. The three pillars of sustainable development are Economic Development, Social Equity and Environmental Protection. Grassroot rural enterprises satisfy the above principles of sustainable development. With the above objectives in mind, Exim Bank has now made its rural initiatives programme as the core to its operations as depicted in the diagram below:



While the other financing programmes will give Exim Bank the volume and the return (topline and bottomline), the rural initiatives will enable the Bank to break new ground in the operations of export credit agencies and leverage its expertise in international market to the benefit of rural poor through creation of export capability in rural enterprises. It is also recognised that these initiatives would require disproportionate amount of resources in terms of time and manpower. But, if these initiatives prove successful and give desired results, it has the potential to enhance the purchasing power of the 'bottom of the pyramid' and will have beneficial spin off effects in all sectors of the economy.

Problems Of Grassroot Enterprises

The major problems encountered by rural grassroot enterprises in accessing global market are quality standards and market access. Finance is not found to be a major issue as number of state owned banks and microfinance institutions are willing to provide loans. Rural enterprises are required to resolve problems relating to image, design, quality, delivery capacity and packaging, among others. A rural product sold in rural areas fetches only a rural price which barely covers the cost production. If the same product is sold in the national market at urban centres, it fetches better price which can give marginal profit to the rural enterprise. If the same product is sold in international market, it fetches far better price mainly due to exchange rate parity. A real life example is a wooden face-massaging roller produced in rural India and sold in Body Shop (reputed international retail chain) for US\$ 25 (Rs. 1100) whereas its production cost is barely US\$ 1.50 (Rs. 70). The product's perceived value is enhanced many times by the reputation of the retail outlet where the product is sold. It is not an uncommon sight in India, where rural artisans display their products on the roadside on national highways where travelers in limousines stop and shop these items after a hard bargain. The shoppers perceive that these products must be bought only at very cheap price.

Exim Bank's Export Marketing Service

In order to assist SMEs and rural enterprises, Exim Bank has put in place an Export Marketing Service (EMS) programme. Under EMS, Exim Bank will undertake export marketing of good quality products through its own overseas offices, its network partners abroad on 'success fee' basis. The

Bank will not charge any upfront fees, but will collect 2-3% of the sales value as service fee only if it is successful in securing orders for the products. The Bank has been successful in securing lucrative orders for rural enterprises from USA, UK, Singapore, Budapest and Johannesburg, where the Bank has its own offices. The products supported include embroidered clothing, bamboo pens, incense sticks, pomegranate fruit juice concentrate, sandstone blocks, matches, etc. During the course of its interactions with overseas buyers, the Bank could collect lot of information on quality, packaging, design requirements and guide the Indian suppliers accordingly and thereby enhance the market acceptance of the products.

Exim Bank has been organizing specialised export marketing training programmes to SMEs and rural enterprises with faculty drawn from industry and management institutions at the Bank's training centres located in various cities in India. Faculty support is also accessed from international trade promotion agencies like CBI (Netherlands), JETRO (Japan) for specialised inputs on market entry strategies. Bank has entered into a formal cooperation arrangement with CBI (Netherlands) to organize regular training programmes in India. Recently, two Dutch experts in handicrafts imparted training to number of Indian artisans including tribals at various centres in Indian on product quality, marketing strategy, etc. for entering European markets.

Exim Bank's Tie-Ups With International Agencies

Exim Bank has entered into formal cooperation arrangements with International Trade Centre (Geneva) for implementing a unique Enterprise Management Development Services (EMDS) programme which is a IT based solution provider to enable small enterprises to prepare business plans with international market in focus, improvement in management practices and a decision support tool for the lenders. This one-year duration project is jointly being launched with financial support from European Union under Asia Trust Fund. If proved successful and beneficial, this programme will be replicated in other developing countries by ITC. Exim Bank has allocated a corpus of Rs. 500 million for supporting 50-75 small projects for capacity building under EMDS programme.

Exim Bank has also tied up with International Finance Corporation (World Bank) under its Grassroot Business Initiative programme. IFC has set up a display cum sales centre called 'Pangea' at its Washington headquarters where rural products produced by Non Government Organisations (NGOs) and Self Help Groups (SHGs) from various developing countries are being displayed. Exim Bank will be organizing an 'India Day' at Pangea Centre in October 2006 at which products produced by number of NGOs/SHGs in India will be displayed by Exim Bank for the attention of Washington residents, tourists and business agencies. Indian rural enterprises are expected to benefit from these expositions.

Exim Bank has also opened up dialogue with a US based non-profit agency called Aid-to-Artisans (ATA) to leverage its strength and reach to access US market for Indian handicraft and other rural products.

Exim Bank's Formal Tie-Up With Ngos

Exim Bank has entered into a formal cooperation arrangement with Confederation of NGOs of Rural India (CNRI), which is a non-profit organization with membership of 5000 NGOs/SHGs spread across all provinces of India. Under this arrangement, Exim Bank will help CNRI members with capacity building, training and access to national and global market. In order to instill a systematic approach, a shortlist of 500 NGOs/SHGs who are engaged in some form of economic activities was prepared. Two national level symposiums were held by Exim Bank, one in Chennai (Southern India) and one in Delhi (Northern India) at which about 100 NGOs/SHGs from nearby provinces participated and displayed their hand crafted products. Out of these products, about 75 items were shortlisted for display at India Day function at IFC in Washington D.C. in October 2006. In the brainstorming sessions at the symposium, number of representatives from NGOs/SHGs participated along with social economists and social scientists. Based on the deliberations, the following suggestions were shortlisted for implementation by CNRI and Exim Bank:

- i. Preparation of a Roster of experts and specialists from retired senior government officials, professors, scientists, etc. who can volunteer their service to betterment of NGOS/SHGs. The Roster will also include serving corporate executives from the fields of production, finance, quality control, design who can spare few man-hours every month for a social cause.
- ii. CNRI will set up an Audit Wing to audit the accounts of NGOs to ensure that the activities are conducted in acceptable and transparent manner.
- iii. CNRI will set up a Rating Agency to rate the NGOs/SHGs in terms of their preparedness to enter national or global market. This will help CNRI and Exim Bank to conduct gap analysis and initiate corrective steps to strengthen the NGOs.
- iv. CNRI will develop a broad-based structure and basic governance system for guiding their members.
- v. CNRI will also take on the role of a policy development body to represent the micro and macro issues concerning NGOs/SHGs to other stakeholders like government, banks, insurance corporations, etc.
- vi. Exim Bank and CNRI will work together towards incorporating a 'Marketing Company' to take up international marketing of rural products. The NGOs/SHGs can become shareholders of the company which can also invite equity participation from international development agencies like IFC, FMO, DEG, etc.
- vii. CNRI and Exim Bank will initiate steps to obtain 'Fair Trade Certification' to more Indian products and Indian suppliers so that the rural associations are able to gain from premium prices paid by Fair Trade Certified buyers abroad.

Exim Bank, in addition to CNRI, has entered into formal cooperation arrangements with certain specific, broad-based NGOs in order to directly reach out to the artisans. These arrangements include SEWA (Gujarat), Dhan Foundation (Tamil Nadu), Oorvu (Tribal Association in Kerala), BASIX (Andhra Pradesh). Exim Bank has been working with these NGOS at field level and has been helping in capacity building, quality improvement, market access, training, etc.

Exim Bank is also working towards the possibility of exporting traditional Indian know-how and technology to other developing countries. Two such possibilities are mentioned below:

- i. Handmade Floor Tiles: Technology to manufacture durable, attractive, non-vitrified handmade floor tiles is available with a group of artisans (an NGO) in Southern India. Some of the ancient palaces were built with these tiles which are still in good shape. Since no major investment in plant and machinery is required for producing these tiles, the technology is ideal for other developing countries looking for setting up rural industries in their countries.
- ii. Similarly, in the Himalayan regions in the North, watermills are used to generate small power of 2-3 KW, enough to light up a house or operate a small workshop. The NGO called HESCO is ready to export this cost effective and simple technology to other developing countries.

The advantage of the above approach is a win-win situation for both the exporter and importer. While the exporting rural NGO will get sizeable technical know fee, the importer will get appropriate, cost-effective, simple to operate and maintain technology.

Fair Trade Certification

Fair trade supports the following principles and practices in trading relationship:

- ⇒ Creating opportunities for economically disadvantaged producers.
- ⇒ Transparency and accountability
- ⇒ Capacity building
- ⇒ Payment of a fair price
- ⇒ Gender equity
- ⇒ Working conditions
- ⇒ Environment

Global Fair trade sales have boomed over the past decade. In 2005, according to Fairtrade Labeling Organisations International (FLO), Fair Trade sales amounted to approx. € 1.1 billion worldwide, a 37% year-to-year increase. As on December 2005, 508 certified producer organizations in 58 developing countries were Fairtrade certified. More than 1500 products carry Fairtrade certificate in UK alone. Surprisingly, only 3 products (tea, cotton, rice) from India have been Fairtrade certified. Though India is one of the largest producers of cotton, primarily through rural cooperatives, only one cooperative (from Kutch, Gujarat) carries the Fairtrade certificate. Large number of cotton farmers from Maharashtra and Andhra Pradesh had committed suicide due to unremunerative prices for their cotton. If only more rural cotton cooperatives can get Fairtrade certification, then the premium income will go towards the welfare of cotton farmers. Similarly, number of other rural products like honey, herbs, flowers, fruits and fruit juice concentrate, etc. can be certified for India and Indian rural producers can gain from such certification. Exim Bank is working towards achieving these objectives.

Social Responsibility

i. Corporate Social Responsibility

Exim Bank has number of large corporate clients. By leveraging its business relationship, the Bank has been able to persuade its clients to source gift articles and other utility items from rural NGOs/SHGs as part of their corporate social responsibility. In certain cases, companies have even sub-contracted part of their normal production activities (like furniture making, fabric dyeing, etc.) to some NGOs on mutually beneficial terms. Exim Bank has also persuaded some corporates to spare their marketing and finance executives to take classes (free of cost) to NGOs/SHGs on product pricing, marketing and packaging. Exim Bank, during the short span (less than 2 years) of operation of its rural initiative programme, has been able to forge links between large corporates and rural NGOs and also between NGOs themselves to complement each other's strengths. In the coming years, these links will be made stronger and more organised.

ii. Students' Social Responsibility

Another area where Exim Bank is striving to forge a link is with student community. India has nearly 1000 accredited business management schools with an average strength of about 100. These business schools are located in various cities, towns and mofusil centres spread across various provinces of India. As part of the curriculum, the students are required to carry out number of project assignments. Usually, the students prefer to do the project assignment in large corporates or multinational companies. If each student is motivated to spare at least 10 days in a year to do a project with a rural NGO/SHG, it will form an enormous pool of fresh management talent resources. As there are 100,000 management students in India, the total mandays available will be about 1 million mandays. If 5000 NGOs/SHGs are selected for such projects, each NGO/SHG will get about 200 mandays of free expertise. This can be utilized for resolving specific issues like supply chain management, financial accounting, MIS, information technology, product pricing, market research, etc. As India is a multilingual country and as these business schools are located in different provinces, it will be possible to have human resources who can speak in local languages to the members of the NGOs/SHGs, which is an important requirement. Even if we are able to motivate 25% of the available student resources, it will still be sizeable in terms of available mandays. Due to Exim Bank's persuasive approach at various students' conference and fora, number of business schools students have already conveyed to Exim Bank their interest to work on short assignments with NGOs/SHGs. Exim Bank, in association with CNRI, is in the process of identifying suitable project assignments for these students. Students do realize that India's greatest strength is its human resources, which is of first world quality. If such human resources are not available for use in India and for Indian enterprises including rural enterprises, India will remain a third world country despite having human resources of first world quality. Exim Bank is working towards the objective of bringing

high quality student resources for the benefit of rural enterprises in a cost effective manner under the auspices of students' social responsibility.

In Sum

Exim Bank believes that there is a strong linkage between export development and poverty reduction. For a country like India, with a large (70%) rural population, creation of export capability in rural grassroot enterprise is a must. Globalisation will be successful and acceptable only if benefits reach the rural population. Rural enterprises suffer from various handicaps including image, quality, capacity, packaging, delivery, etc. NGOs and SHGs are the front for rural enterprises. Through proper guidance and support, rural grassroot enterprises can access the global market and realize better prices for their products thereby contributing to poverty reduction. Fairtrade certification facility must be more effectively used by NGOs/SHGs to obtain better price for the primary commodities. Exim Bank's experience in working with NGOs/SHGs and rural enterprises is encouraging. Lateral thinking and innovative approach are required for resolving problems. Strategic alliances with corporates in India and with international trade development agencies and associations are essential to achieve quicker results. Capacity building through appropriate training is essential for achieving sustainable development. Large pool of qualified and experienced manpower available in the form of retired and/or semi-retired executives and experts from government/ private sector and educational/technical institutions in India should be properly and effectively used for the benefit of rural sector. Business school students should be motivated to take up short project assignments with NGOs/SHGs for bringing in new and innovative ideas and for streamlining organisational systems and procedures. Corporates should be encouraged to partner with NGOs/SHGs and lend a helping hand in terms of capacity building as well as procurement of gift items, stationery (handmade paper) and other utility items on long term basis. Exim Bank, leveraging its presence in both India as well as overseas, is facilitating linkage between rural grassroot enterprises and corporates and with overseas buyers and agencies with the objective of bringing the benefits of globalisation to the rural population. The task ahead is enormous, but with innovative approach and strategy, the journey can be made smoother. Exim Bank believes that instead of cursing the darkness, it is better to light a candle.