Bringing the Poor into the Export Process: Linkages and Strategic Implications

Breakout Series A:
A Virtuous Circle – Export Development, Poverty Reduction and Empowerment

Financial Empowerment – Financing a Sustainable Linkage

**The Issue:** The inability of small-to-medium sized enterprises to gain access to trade-related finance at a reasonable cost has traditionally been trumpeted as the single greatest barrier to developing and transition economies achieving broad-based growth in exports.

In many countries, the government and the banking sector have responded with programmes designed to address the needs of the export-oriented manager or entrepreneur. This has, at least, partially reduced the magnitude of the constraint.

Not so in the case of the poor. Schemes that facilitate, let alone encourage, entry of the poor into the world of international business are few and far between.

**The Proposition:** The initial reaction is, of course, that the export-related financing needs of the poor must be met and that any pro-poor export strategy should address the current shortcoming directly. But should it?

What are, in fact, the export-related financing needs of the poor? Can the export strategy-maker realistically expect that the poor can be directly engaged in export? And even if they can, are not existing lending schemes sufficiently responsive?

Experience suggests that when it comes to export, financial empowerment of the poor is not a major factor constraining either (i) national export performance or (ii) their involvement, on an individual or on a community basis, in the export process.

In fact, the poor seldom engage directly in export and, as such, there is an insignificant need (or demand) for financing schemes that are intended specifically to bring them into the export process.

The bottom line is that provided the SME sector has access to finance at competitive rates, there is no need for a pro-poor export strategy to give special attention to the issue of financial empowerment.

**Focus of the Debate:** The debate will address the following questions:

1. Is the proposition valid? Should the availability of low-cost finance to the poor represent only a minor element of a pro-poor export development strategy (given that the poor are unlikely to ever become directly involved, to any significant extent, in export)? What are the counter arguments to the proposition’s conclusion?

2. Are there any examples of a pro-poor national export strategy that highlight financial empowerment of poor communities and groups? What has been the actual impact of their ‘financial empowerment’ programmes on the export development – poverty reduction linkage? What are the key features of these programmes? Are they replicable internationally?

3. Is it not more relevant for national export strategy to ensure that export-related finance is channelled towards projects and initiatives that will indirectly benefit the poor, through the provision of employment opportunities, than to promote direct lending programmes that target the poor? What are the new innovative approaches to financing export-related projects that have a demonstrated impact on poverty reduction? What are the secrets to their replicability in other countries?