# *ATTAINING INCLUSIVE GROWTH: INVESTING IN ECONOMIC DEVELOPMENT OF THE POOR*

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## Disclaimer

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## Rationale

*This paper attempts to examine how developing the economic potentials of the poor can be a more sustainable pathway out of poverty. It explores the option of how making market mechanism work for the poor can have greater impact on poverty reduction. Unfortunately, since this is a new territory, there is currently very scant literature on the subject.*

*The purpose of this paper is to open up a space for dialogue on policy issues in economic empowerment of the poor and to encourage microfinance and microenterprise development practitioners to invest more in this area of work. It builds upon discussions in PinoyME's Mainstreaming Micro paper and conference of April 2010 which focuses largely on policy issues in scaling up microfinance in the Philippines and making it more relevant to poverty reduction.*

The paper conducts a cursory study of available literature in the broad area of economic development as a means for poverty reduction and offers some analytical thinking about recent experience in economic development. It relates these to recent experiences in microenterprise development, rural development, value chains development for the poor, and local economic development. It relates these to recent experience of PinoyME in working with the Department of Social Welfare and Development (with the support of the World Bank and the Japan International Cooperation Agency) in studying how their social protection programs (i.e. KALAHI-CIDSS, Pantawid Pamilyang Pilipino Program [4Ps], and Self-Employment Assistance-Kaunlaran [SEA-K]) can be used as a platform for the poor to overcome their vulnerability and move to a higher income level in a sustainable manner.

The discussion here focus mainly on the rural poor because 70% of the poor live in rural areas and the natural endowments of rural areas provide the poor with raw materials to engage in economic production.

## Prescriptions for Inclusive Growth

The vision of the Philippine Development Plan (PDP) for 2011-2016 is **inclusive growth.** It qualifies this into growth rates of 7% - 8% for at least 6 years, growth that generates mass employment, and growth that reduces poverty (including the achievement of the Millennium Development Goals). It plans to achieve inclusive growth through massive investment in infrastructure, transparent and responsive governance, human development and improved social services, competitiveness to generate employment, and access to financing. It also recognizes that the key factors for the failure of inclusive growth in the country are: low growth, weak employment and persistently high inequality (NEDA 2011).

The World Bank defines inclusive growth as "growth that allows people to contribute to and benefit from economic growth". It differentiates this from pro-poor growth which is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labor force. It focuses on productive employment rather than redistribution of income. It targets a large part of the country's labor force, where inclusiveness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals (Ianchovichina et al., 2009).

Two studies on how the country can come up with inclusive growth have been conducted in recent years. [1] The World Bank study focuses its recommendations on eliminating growth constraints, improving productivity in agriculture and strengthening the manufacturing sector, improving health and education services and increasing social protection for the poor. The ADB study comes up with similar recommendations but emphasizes governance reform as an imperative.

In particular, Habito (in the ADB study) highlights the importance of massive, broad-based enterprise development, particularly through the promotion of micro, small and medium enterprises (MSMEs). He makes a point of differentiating SMEs from microenterprises (MEs) by saying that the support needed by both is very distinct from each other. He also touches on the need to foster greater synergy between large companies and SMEs as a means to attaining a more inclusive mode of economic growth.

[1] See Habito, C.F. – An Agenda for High and Inclusive Growth in the Philippines. Asian Development Bank. 2010. and World Bank. Philippines. Fostering More Inclusive Growth.

Complementing the inclusive growth paradigm is an approach that uses and takes advantage of the market system in alleviating poverty – Making Markets Work for the Poor (M4P)[2]. These approaches see targeted economic engagement with the poor as the means of achieving poverty reduction and longer term development. It concerns itself with interventions at both the micro/production level and the macro/policy level to ensure that market mechanisms work in integrating the poor into the formal market systems in ways that are beneficial to them. It promotes a working relationship with small-scale producers and large institutional buyers in solving market systems failures to arrive at a more lasting business relationship that is beneficial to both.

Karamdanchani et al. (2009) document a growing number of private sector-led initiatives (mostly in India) that use market-based solutions to improve the lives of people at the base of the economic pyramid.[3] These initiatives provide the poor with socially beneficial products and services that directly improve the quality of their lives or where they are directly involved as producers. These enterprises are usually complementary but act as alternatives to government, aid and philanthropic programs. Their distinct characteristic is that they have a business model which attracts private investments and have a strong market demand such that the business can be sustainable even without public funding support. Examples of these enterprises are clean drinking water that cost a quarter of the cheapest alternative, private schools in slum areas that outperform the best government schools at a cost of $3 a month, safe birthing clinics, and several enterprises that result up to 125% increase in income of farmers.

A number of other initiatives engage the poor as producers. These are enterprises that either involve small-scale farmers or producers as contractors in the supply chain of large economies, deep procurement systems that bypass traders and purchase goods directly from large network of low-income producers, or labor contracting systems that employs a large number of the poor through a third-party agent. The best thing about these models is their ability to reach a large number of traditionally marginalized households and usher them into the formal sector with government subsidies.

This phenomenon of market-based solutions in fighting poverty was spurred in part by C.K. Prahalad's "Fortune at the Bottom of the Pyramid" (2006) which showed how private business can participate in reducing poverty by using commercial approaches. This new thinking has influenced many companies that are now looking at the base of the pyramid as a market and the poor as business partners. There has since been a mushrooming of commercial products that cater to the needs of the poor, both for basic consumption (i.e. sachet packs of shampoo, clean drinking water) and those that improve quality of life (i.e. affordable cellphone, solar lanterns, fuel-efficient cooking stoves). This phenomenon has also given rise to **social enterprises** which are new business entities that are driven by a strong social purpose. Social enterprises, both globally and

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[2] M4P was originated by donor agencies who are convinced that the neo-classical approach to poverty reduction using supply-side economics and state regulations have not worked and instead increased the number of poor people worldwide.

[3] See Karamdanchani, A. et al. Emerging Markets, Emerging Models, Market-based Solutions to the Challenges of Global Poverty. Monitor Group. 2009.

locally are the ones exploring this economic space that enable the poor to integrate in the mainstream economy.

The bases of the pyramid (BOP) concept has led to a dynamic slew of corporate initiatives in “doing business with the poor” as part of core business. It is evolving into a new era of corporate social responsibility where business success is measured not just by its profitability but also in its social impact. The World Business Council for Sustainable Development (WBSCD) and UNDP refer to theses corporate business models as “inclusive business” (WBCSD 2006, UNDP 2008). This new consciousness in the corporate sector is starting to look at the poor not as mendicants and beneficiaries of philanthropy but consumers and business partners – a more sustainable approach for business involvement in reducing poverty. Direct patronage of the products of small farmers by large companies enable micro producers to increase their income as they capture some of the margins normally made by traders. The constant demand from corporate buyers will enable small producers to plan their investments in the long-term and, in the process, become more viable enterprises and more economically progressive. On the side of business, doing business with the poor can improve their bottom lines because small producers are known to be competitive, if not offer better prices, than big traders who merely consolidate agricultural produce.[4] Thus, such business interaction creates “value for all” and is showing the way for a new era of economic relationship between business and poor communities. (Songco, 2010)

[4] Private testimony of two companies participating in the Civil Society – Public-Private Partnership project being initiated by PinoyME.

Evidence suggests a strong connection between agricultural and rural development and poverty reduction[5] in the Philippines. The same is true with investments in basic health and education in rural areas. Similar studies also emphasize that the non-agricultural/non-farm income has risen in rural areas but driven by different circumstances, depending on their location (e.g. proximity to Metro Manila or local town centers), other socioeconomic characteristics and the ecosystems defining agricultural production. Drivers include industrialization in labor intensive export areas and international labor migration (OFWs).[6] These are local manifestations of the 2008 World Development Report (WDR) findings that on-farm incomes are dropping in underdeveloped and developing countries while off-farm and migration have been the rising alternative source of income for the rural poor.

Balisacan (2006) also points out that infrastructure, human capital, economic climate, trade regime, and agricultural relations are among the key drivers of provincial income growth. He includes improvements in access to roads, electricity, and improved access to productive assets and technology by way of CARP among the factors that have positive effects on provincial income growth rates.

**Learning and insights from more than two decades of experiences in microfinance** (PinoyME, 2010)

Microfinance has been once of the most effective economic interventions for the poor. The unique character of microfinance is that it is not dependent on direct subsidy. It also facilitates the participation of the private sector in efforts to reduce poverty. This allows government to direct and prioritize use of precious resources towards programs and projects that do not have a cost recovery character, e.g. basic health and education services.

The impact of microfinance on poverty reduction, has, however, been mixed. In the main, microfinance has been known to help dampen poverty by raising incomes and human capital stock, mostly in the urban areas. It also reduces the vulnerability of the poor to internal and external shocks. Livelihoods financed through microfinance boost income, which in turn, is spent to increase food consumption, attain better education, maintain good health, improve housing conditions, and acquire durable goods and assets. The biggest impact of microfinance has been in helping the poor smooth their consumption

Because of great majority of the poor in the Philippines are in rural areas, the challenge to microfinance is how to reach the rural, agriculture-based poor population. The evolution of value-chain financing is becoming an attractive model of spreading the risks in rural finance among different stakeholders in the value chain as possible fund providers.

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[5] See for instance World Bank. “Technical Working Paper on Land Reform, Rural Development, and Poverty in the Philippines: Revisiting the Agenda, On the Role of Agriculture in Poverty Reduction in the Philippines and Potential Pathways out of Rural Poverty” 2009 and Mapa, D.S. et al. “What Really Matters for Income Growth in the Philippines Empirical Evidence from Provincial Data”. 2009

[6] Balisacan, A. “Pathways of Poverty Reduction, Rural Development and Transmission Mechanisms in the Philippines.” 2001.

Locating agriculture microfinance within a stream of funding strategies presents excellent opportunities for plugging gaps in rural finance. However, there needs to be a proactive initiative to organize the different players in this market to catalyze ways of collaboration in mitigating risks and leveraging each other's resources and competencies (PinoyME, 2011).

Thus, the key challenges for microfinance is to significantly contribute in achieving a sustainable path to poverty reduction in the Philippines are: (a) increase outreach to more poor people, particularly those in the rural, agricultural communities, while those in the urban areas expand their reach to poorer and yet unreached segments of the urban poor population; (b) promote the integration of microentrepreneurs to the mainstream market, particularly through the value chain approach in higher value-adding enterprises; (c) ensure that MFIs are profitable and at the same time create impact in reducing poverty among their clients; and (d) increase access of microentrepreneurs to the formal financial system.

Recognizing the limits of traditional mode of microfinance, many MFIs have diversified their services to include microinsurance, payments, remittances, micro-housing, and business development services (BDS). The trend reflects growing sensitivity to the client needs as MFIs experiences success in repayment rates. MFIs are also moving into the delivery of business development services "microfinance plus', to promote sustainability of clients' businesses. Thus,, microfinance is evolving to include the provision of non-financial services in helping the enterprising poor to integrate more fully into the formal economy. A number of Microfinance Institutions (MFIs) are providing services that enhance the earning capacity and capabilities of microenterprises.

**Social protection programs as safeguards to vulnerability**

The massive investments in social protection by the PNoy administration demonstrate its determination to pursue its vision of attaining inclusive growth. The large budget allocations for education, health and the conditional cash transfer (CCT) program are a healthy sign of its sincerity in aggressively reversing the trend of poverty in the country. The Department of Social Welfare and Development (DSWD) convergence strategy of its social protection program holds much promise in addressing vulnerability of the poor. The combination of 4Ps (household subsidy), KALAHI-CIDSS (community infrastructure) and SEA-K (livelihood support) in providing the poor a safety net from falling into the poverty trap addresses the multi-faceted dimension of household poverty (see subsequent section for more discussion on this). CCT is programmed to reach 2 million beneficiaries in 2011 and 5 million by the end of the term of Pres. Aquino in 2016.

The big challenge is the sustainability of this undertaking given the tremendous amount of resources that they require. The economy needs to continue to grow at exponential rate in order for these programs to be continued until their desired impact is reached. In short, there needs to be accompanying programs that will serve to lift the program beneficiaries out of poverty sooner. Recognizing this challenge, as well as the possibility for cash transfer beneficiaries to slide back to abject poverty after the program, the DSWD is developing a sustainable livelihood program for 4Ps beneficiaries.

The idea of the sustainable livelihood program is to establish a "graduation" mechanism for 4Ps beneficiaries as they begin to exit the program. However, there is notion among program implementers that those receiving cash subsidies should not be eligible for SEA-K assistance and vice versa. The impression is that combining the two is redundant. In reality, providing cash subsidies to families engaged in microentrepreneurship enables them to concentrate on their livelihood activities and focus their loans towards economic activities. Without the subsidies, enterprise funding would easily be diverted to consumption and would diminish the changes of profitability. This is also the findings of the Income Generation for Vulnerable Group Development (IGVGD) program of BRAC in Bangladesh which experimented with coupling food aid and health assistance to families that they also supported with skills training and savings generation (Murdoch 2010).

*The UN ECOSOC points out that since labor is the most common asset of the poor, productive employment opportunities is essential for achieving poverty reduction and sustainable economic and social development. Yet the massive employment program of the PNoy administration is going to be a tough call since unemployment has been a challenge to every administration in the country. Thus, the drive for employment must be accompanied by other programs in achieving a more inclusive growth.*

**Making markets work for microenterprises**

Aside from MFIs, civil society organizations have also been largely involved in the generic arena of enterprise development. MFIs and business development service providers have gone beyond the realm of microfinance to promote the growth of microenterprises (MEs) through business skills development, technology development, market facilitation, value chain development, etc. These organizations have been sharing experiences and discussion ways of collaboration to reach more MEs and make their interventions more effective, particularly along the value chains. PinoyME has been nurturing an informal network of close to 100 such organizations since 2008.

In line with the approach of Making Markets work for the Poor (M4P), a number of large companies have recently gone beyond their traditional suppliers and are reaching out directly to farmers and small producers in their supply chain. San Miguel Corp. has been buying cassava and sorghum grains and sweet potato directly from farmers and other small producers while Nescafe has been procuring coffee directly from coffee farmers. Jollibee Food Corp. has embarked on a social project called "Bridging Farmers to the Jollibee Supply chain" which trained onion farmers in San Jose, Nueva Ecija to produce the quality and quantity that they need. The three year project has resulted in a total of close to 600 tons of onions supplied by the KALASAG producers' cooperative to Jollibee since 2008.[7] The increase in income of KALASAG members is such that many of them have purchased their own vehicle, renovated their homes and bought additional landholdings. Bounty Fresh is working with social enterprise called Manok Mabuhay which holds the social franchise for backyard poultry to farmers and rural households. Rural households are now supplying chicken directly to Bounty Fresh through this scheme.

The challenge in harnessing these opportunities is in enabling small producers to meet the high quality and volume requirements of big companies. Small producers can only produce small quantities of certain products and usually quality standards that are only good for local markets. The unpredictability of their delivery capacity and the high price that they usually command makes them very uncompetitive and only good for local traders who take advantage of their weaknesses.

Recent development are very promising since the big companies say that small producers (those that have made the grade) are competitive with their traditional suppliers in terms of quality and price. Thus, all of them are looking to increasing their purchase of raw materials from this supply base. JFC, in particular, invested some of its own funds in training the farmers to meet their quality and quantity requirements. They are now poised to expand their purchase of other agricultural ingredients of their products from other farmers in other parts of the country. San Miguel imports a huge bulk of cassava so they are prepared to buy from any producer that can meet their quality and price specification. AS part of their corporate social responsibility they are also prepared to provide technical assistance and loan facility to non-government organizations of farmers' organizations that will commit to produce large quantities of the products that they require[8].

This development opens up a new pathway out of poverty for poor rural communities. The good thing about it is that they private sector is highly interested, not only because of the potential social impact of their business on the poor, but also because it makes good business sense. Apart from private companies, there is also a growing number of NGOs (MFIs and social enterprises) that are already engaged in this undertaking because it provides them with a lot of opportunity to build business models in the pursuit of their respective social mission. A number of financial institutions have also expressed to invest in this line of business. Recently, the Peace and Equity Foundation (in cooperation with the Philippines Business for Social Progress, Management Association of the Philippines, League of Corporate Foundations and PinoyME Foundation) organized a conference that was attended by more than 150 organizations to derive lessons from recent experience on this new business model. The organizers agreed on collaborating with each other to upscale capacities in propagating this model.

[7] See Sibayan, D. "Bridging Farmers to the Jollibee Supply Chain Pilot Project Documentation (May 2008-April 2009)". Catholic Relief Services. Manila, Philippines. 2010.
[8] From the "Building the Capacities of Growth-Oriented Microentrepreneurs" conference. May 21-22, Tagaytay City.

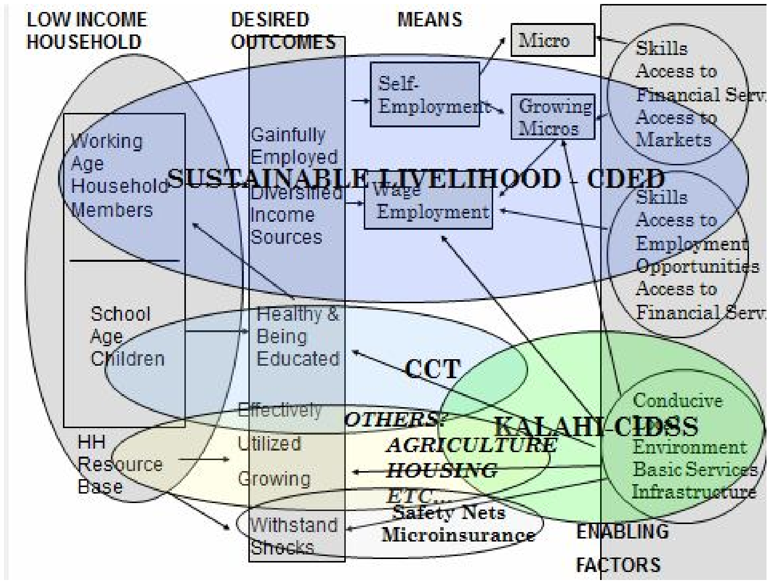
## Complementary initiatives from the government

The Department of Agrarian Reform is embarking on a program called Agrarian Reform Community Connectivity and Economic Social Support Services (ARCCESS) which consolidates all the current support services of the department towards creating economically viable organizations in agrarian reform communities (ARCs) and among agrarian reform beneficiaries (ARBs). The program is designed to leverage the resources of the agency with the competencies of private sector business development service providers as well as private companies in creating more viable business entities among ARBs.

The three rural development agencies (DA, DAR, DENR) are deep into their National Convergence Initiative (NCI) which aims to consolidate the resources of the three agencies in promoting sustainable rural development. The program leverages the competencies and resources of the three agencies to attain food security and increase incomes for the farm sector, enhance access to land and other natural resources while improving the quality of the environment, and increase resilience of rural communities. These will be achieved in partnership with local governments, private sector and civil society organizations in selected convergence sites all over the country.

The DSWD, in partnership with PinoyME Foundation (with support from JICA and the World Bank) is developing a sustainable livelihood program as a graduation mechanism for CCT beneficiaries. The program, dubbed Community-Driven Enterprise Development (CDED), aims to establish entrepreneurship skills in CCT communities and other DSWD convergence areas coupled with development of value-chain/s of local products that can be produced by a larger number of poor households. An institutional market shall be tapped to purchase the product directly from the small producers in the community who will also be trained in consolidating their production. The local government and other local stakeholders shall be mobilized to organize themselves into multi-stakeholder body that will provide the support systems needed to make the economic venture sustainable.

Figure 1. Analytical framework




Chua (2011)[9] defines the three dimensions of typical poor households as (left most column in Fig. 1): the working age household members, the school-age children and the household resource base. The desired outcome of every household (second column in Fig. 1) is for the working age household members to be gainfully employed and to have diversified income. For school-age children, the desire is for them to be healthy and be well-educated so that when they become of working age, they can also be gainfully employed. For the resource base, the aspiration is for it to be effectively utilized in generating income and for it to increasing in value so that they can be useful in meeting consumption needs and in withstanding internal and external shocks.

Employment may take the form of wage employment where the family member has a permanent job which provides regular salary. It may also come in the way of self-employment either using personal skills as labor for a microenterprise or for a growing enterprise which, in turn, can also employ other members of the family. The Enabling Factors in the environment (last column in Fig. 1) should provide skills, access to financial services and access to markets to microenterprises as well as to wage earners so that they can maximize their earning capacity. There should be conducive policies, basic services and infrastructure that support all of the above to ensure that the poor are fully engaged in the economy.

The critical point underlying the above discussion is the soundness of enabling poor households to make use of all support systems within their reach to address and overcome the different aspects of their poverty and vulnerabilities. It will serve well for beneficiaries of Pantawid Pamilya to also be beneficiaries of SEA-K and KALAHI CIDSS at the same time. This kind of integration of services at the household level will

[9] In PinoyME's MIDTERM REPORT: Consultancy services for Development of Community-Driven Enterprise Development Framework for Social Protection Reform

support poor families in journeying the different pathways out of poverty. In other words, segmented intervention will not be effective given the multiple vulnerabilities that poor families experience. The key is connecting different programs (both social welfare as well as the rural development) that target the poor in ways that will increase their human capital, enable them to actively participate in the economy and provide the proper environment for these to continue over the long-term.

Evidently, the current government is looking at maximizing its resources in achieving its goals by working with private entities. The convergence of intentions from the public and private spheres in harnessing the potentials of agriculture focused on poor, small land holders an rural families augurs well for a public-private partnership in pursuing rural development as a critical element of inclusive growth.

The methods of transforming the market to make them favor the poor ease the pressures on supply-led poverty reduction programs. The problem with state-sponsored programs is that they are prone to leakage, mistargeting, elite capture and limitation of resources.[10] There is a need to complement them with market mechanisms that favor the poor in order to make efforts more sustainable. Thus, combining household subsidies and basic services that provide safety nets with income enhancing measures, particularly those that take the poor into commercial transactions, and improving market conditions to accommodate poor households will go a long way in dramatically, immediately and sustainably reducing poverty.

[10] See Habito, C.F. "The Global Economic Downturn and Poverty in the Philippines." PowerPoint presentation. June 2009.

**Role of subsidies**

Poverty reduction goals will inevitably entail huge amounts of subsidies from the state. Given limited resources in high poverty incidence countries, recent thinking proposes the use of "smart subsidies" which are more objectives and outcomes-focused, clearly targeted, time-bound and leveraged against non-government funds. In the new era where the role of the private sector in development is becoming more defined, government needs to closely examine how supply-side anti-poverty programs can be leveraged with private resources. The 4Ps program is a very good illustration of smart subsidies. They are very clearly linked to increased outcomes in education and health and targeted towards very well-defined beneficiaries. The recent initiative of DSWD in creating a graduation mechanism for 4Ps beneficiaries through sustainable livelihoods is also a clever manifestation of how the destitute poor can be prevented from falling deeper into poverty while preparing them to become economically self-sufficient along the way. Tapping the private sector in linking the enterprising poor to markets that will increase the value of their produce as well as enhance their business capabilities is a step in the right direction. The next challenge for DSWD is applying this program to a large base of targeted beneficiaries in order to create a larger and lasting impact on poverty.

The same challenge faces the large input subsidies of the DA and the DAR in their effort to provide needed services and equipment to make poor rural households and communities more economically productive. The main problem with subsidies is pulling them out while having beneficiaries survive without them. The addictive and dependency effect of subsidies often become disincentives for productivity. Thus, the farm input/equipment subsidies need to be designed such that they create business models that will allow recipients to develop entrepreneurial capacities to manage them productively over the long term. These grants need to come with capacity building efforts and business models that will result in more efficient and economically viable production processes. This includes linking program beneficiaries to markets for their produce to ensure sustainable earning capacities. In most cases, these services are best delivered by non-government entities that have the competencies in such programs and can be more efficient in their delivery. In this regard, the ARCCESS program of DAR makes a lot of sense.

**New modes of enterprise development**

Recent experience in corporate business partnerships with rural households could serve as strategic goals of rural development. Institutional markets (particularly those of big companies) set a high benchmark for quality and price of rural products. These, in turn, push rural households to become more competitive and disciplined in their production processes. These are now potent areas of intervention for non-profit organizations that have been performing an intermediation role between poor rural communities and the market. They provide very important benchmarks and guidelines in how to develop capacities and mindsets among the rural poor if they aspire to penetrate the mainstream economy as a pathway out of poverty. But this will also entail a change of mindset among intermediaries in the way they engage the poor. They will have to understand the market better and learn how to play the rules while trying to modify them to benefit the poor and marginalized. They themselves will have to be weaned away from grant dependence and have to learn to become more entrepreneurial if they want to become more effective and relevant change agents.

**New modes of financial services**

This new space in agro-enterprise development has opened a lot of opportunities for new type of financial services. Increasing incomes (wherein the forms of cash grant subsidies from 4Ps or revenues from increased entrepreneurial activities) are creating demand for savings facilities. DSWD has partnered with a few Mutual Benefit Associations (MBAs) to enter 4Ps areas to provide risk protection to the 4Ps beneficiaries by using apportion of their cash grant subsidies to buy microinsurance. They have also partnered with a few MFIs to help beneficiaries set aside some of their cash grants as savings in order to beef up their asset base. This, in turn, has enticed some rural banks to establish ATM facilities in 4Ps municipalities to capture some of the cash surplus.[11] Financial service providers need to continue to explore this new arena and continuously develop products that are more suitable to this large, untapped market.

Considering the potential role of the private sector (e.g. private large companies) in engaging the poor as producers and/or contractors in the supply chain, new financial products catering to this kind of arrangements need to be developed. Financial products and services catering to the financial needs of the poor as contractors/producers along the value/supply chain should be developed (e.g. receivables and inventory financing). Mechanisms to address the risks faced by financial service providers catering to this kind of arrangements should likewise be considered.

**Policy coordination**

This renewed approach of investing in traditional areas of rural development will entail significant efforts in coordination among government agencies that are in the forefront of these programs as well as those that can play a vital supporting role. The NCI is an excellent initiative to consolidate rural development efforts of government but is still largely in the conceptual stage. The challenges of implementation on the ground, particularly the involvement of local government, are yet to be experienced. Providing ARBs with cash subsidies of 4Ps can go a long way in reducing their vulnerabilities so that they can focus more on economic productivity. Unfortunately, ARBs are not qualified as 4Ps beneficiaries because they own land assets. Support services for marketing product development, technology application for the rural sector from the Departments of Trade and Industry and Science and Technology need to be targeted to support the rural development efforts of DA-DAR-DENR in the NCI and DSWD's CDED. The conceptual framework of inclusive growth, particularly in the rural sector, has to come down to operational terms.

[11] From discussion with DSWD officials.

## Public-private partnerships (PPP)

As the flagship program of the Aquino administration, the concept of PPP has to be expanded beyond big infrastructure. As previous discussions have shown, there is increasing interest from the business sector to invest in rural development. This interest can only be turned into long-term investments if government quickly provides the correct environment. Public goods will need to be placed strategically in areas where there are strong private business partnerships with rural communities. Public resources in infrastructure and common service facilities will have to be protected from the elite capture that will tend to place them in areas of private interest and directed instead to those where they are badly needed to support concrete business opportunities for poor communities. The private sector part of the PPP will also have to be redefined to include non-government organizations, cooperatives and social enterprises as actors apart from business establishments. PPP needs to be both a way of approaching social and economic problems at the national, but more particularly at the local level. Thus, local level PPPs need to be encouraged.

## Private sector coordination and complementation

Coordination is also a must among private entities. This will entail partnership and collaboration among business establishments as well as between business and social development agencies that are inclined towards economic development. While competition can be expected and must be encouraged, coordination in terms of product development, market linkages, value chain development, financing as well as capacity building competencies and resources must be leveraged with each other. The objective must be to cover a larger market instead of fighting for limited markets. Cooperation and collaboration will enable competitors to cover more ground and reach more customers. The entrepreneurial competencies of business must be leveraged with the expertise of social development organizations in dealing with the poor. Synergies must be created particularly in new and difficult territories in order to open up new market opportunities. In most cases, government subsidies may be needed to encourage private entities to enter these new and hard to reach areas.

# Areas for Further Research

**Financing framework**

Government needs to review its financing programs in order to make them more efficient and effective. Clear distinctions must be made between pure subsidy programs and those with potential returns on investment. Whatever remaining subsidized credit programs (such as SEA-K) should be phased out or leveraged with private credit financing schemes. Given the high private sector interest in microfinance, current government wholesale programs (such as those of the People's Credit and Finance Corp. and the National Livelihood Development Corp.) need to be evaluated and structured in a way that they do not crowd out private financing institutions and designed in a way that they create new loan products to support innovative enterprises of the poor that would normally not be attractive to private funding.

To encourage the private sector to engage the poor as producers/contractors within the value chain, appropriate financing products and support infrastructure should be developed. Support mechanisms to lower the risks faced by financial service providers in dealing with a group of producers belonging to the low-income sector should likewise be in place. For instance, low-income sector as producers within the value chain will need financing for their receivables and inventories. The risks associated with receivables and inventory financing should be sufficiently addressed through improvements in the registry for movable collaterals.

In general, it might do well for government to establish a financing framework that would define its policy towards economic development of the poor.

**Documentation of successful business models**

Several models of agro-enterprise development, value chain development and big business engagement with small farmers should be documented and studied in order to draw lessons on how these can be replicated and scaled up.

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