

Stimulating Investment and Business Expansion - The contexts and possibilities

Achieving Millennium Development Goals (MDGs):

Reducing extreme poverty by half: It is pertinent to mention at the outset the MDGs – since this is an eye opener to conceive the depth of problems that are plaguing the world and the priorities which have been jointly identified by the world leaders to be addressed in specific time line. In an unprecedented move by the world leaders in September 2000 the Millennium Development Goals (MDGs) have been set, signed by 147 heads of states and adopted by 189 nations. The number one of the eight goals is the Eradication of Extreme Poverty and Hunger and halve by 2015. I shall talk only of this goal to put the focus clearly on it. It proposes to reduce by half the number of people living on less than 1 dollar a day and reduce by half, the proportion of people living under extreme hunger and see how achievement of this goal can change the face of investment and business and the global landscape in general. The main threat to global peace and security is poverty and hunger and no business or for that matter any other effort can be successful keeping more than two billion people suffering cold nights and going hungry day after day.

10 percent people own 85% of the assets of the world: The goal is definitely ambitious but not impossible. The strategies to achieve the MDGs have been outlined to effectively integrate these in the action plans of the governments, business houses, corporate bodies, donors, NGOs and all the players and stakeholders who have been shaping the global landscape of politics, economies and societies. According to a study by the World Institute for Development Economics Research at United Nations University in 2000, the richest 1% owned 40% of the world's assets and the richest 10% owned 85%. By contrast bottom half of world population owned barely 1% of the planet's assets. Similar is the gross inequality when we look at the income. Five countries – United States, Japan, Germany, France and United Kingdom contain 13% of the world population and enjoy 45% of the world income. By contrast three giant countries in the developing world - India, China and Indonesia have 42% of the world population but receive only 9% of its income is a pointer to the current realities all around. Any discussion for investment or business or for that matter discussing the future and potential of technology has to have these grim realities in mind. Poverty in its extreme form leads to hunger, inequality, and lack of access to basic amenities to life, illiteracy economic stagnation instability and rise to conflicts inside and among the nations. This situation is neither conducive to any investment nor to any business. The partnership, good practices, goal by goal monitoring, setting up and sharing the knowledge network and launching the millennium projects have broadly set in motion the synergy to streamline, re-examine the existing local, national and global approaches to address the eight defined millennium targets.

Billion people living on less than one dollar a day: Of 1.25 billion people living on less than 1 dollar a day at the end of 2000 has been reduced to 980 million of which 641 million is in Asia Pacific. At the current rate 780 million people will remain on less than 1 dollar a day at the end of 2015 falling short of the target of 625 million. Focussing on India and China only, the two rapidly growing economies, the home of about 40% of the world population, has about 1.5 billion people living under 2 dollar a day and 609 million living under 1 dollar a day. The percentage of people living under 2 dollar a day is 62% (Ref: B4MD, 2008). These examples are only to get an idea of the remaining countries of the Asia Pacific and other developing countries where the performance of the economies are trailing behind China and India.. This is not to say that the dream unleashed shall be wrapped up – the need is to work out a faster strategy that would eradicate this menace from the planet.

ICT4D - the instrument for change and opportunities

ICT – a powerful tool: In the above backdrop, the context of Information and Communication Technology as a generic tool to address development is of primary value and an integral instrument to investment and business expansion. Information Technology has already fuelled tremendous growth of business by increasing efficiency in communication, instant information access, accumulation, dissemination and its use. This tool has in effect, divided the society on more unequal terms, meaning the people who doesn't have access to ICT are falling farther behind the race.

Growth of India and China: Let's have a look at the scenarios in India and China where the growth of telecommunication and its application is unprecedented compared to their peers in the region. Due to rapid growth after liberalising the sector in the nineties India's total subscriber base reached 218 million at the end of May 2007 with a teledensity of 18.17% as on that date and is expected to reach 40% by the end of 2010. There is a very visible connection between the growth of teleconnection and economic growth as may also be evidenced from the growth of telecommunication in China where the growth of teledensity was spectacular from 22.5 million in 2000 (1.7% teledensity) to 162 million (12.3%) by the end of 2007, a yearly average growth of 1.47% of yearly penetration (Internet Usage Stats and Telecommunication Market Report). In both the countries the economy grew at an average rate of 9% plus. It may be interesting to see the growth against the backdrop of the population (1.5 billion) tottering under 2 dollar a day as indicated above.

Danger of skewed distribution of ICT: The skewed distribution of this powerful tool, if not corrected, won't be an effective platform for sustainable business growth. ICT ushered in an unprecedented revolution in creating the foundation of a knowledge economy where speed and access to information are the two important elements in edging over the competitors. Bill Gates' book with the name "Business at the Speed of Thought: Succeeding in the Digital Economy (May 2000) has rightly given the image of this reality in the digital world. Thus, this ICT instead of becoming a boon may turn out to be a bane if not designed and made accessible to the bottom billions.

The 'poor-indifferent' designs: Focus on IT has been exclusively on business and no equipment and tools that are used in business were made with the focus on the poor and businesses were never sympathetic to the poor. These tools were the handmaidens of the rich masters to harness more wealth and mint monies. The communication gadgets, tools and accessories that we find in the market can safely be branded 'poor-indifferent' in their designs and intentions like many other institutions like banks, financial institutions and opportunities for learning and schooling etc. where poor have little or no access. With the change of business dynamics and nature of competitions, the markets that were once considered to be unsafe and non-profitable, are increasingly being found to be profitable. Moreover, a business to be sustainable on a continuing basis has to have a market that is large enough to buy goods in bulk to provide the use of economy of scale in an increasingly competitive market. The redesigning of the gadgets and the equipment that are poor friendly in contrast to user friendly are being made now – this is the result of the emerging reality under the changed global business landscape. Attempts are now being made to handheld simple inexpensive IT devices, wireless devices, create contents and connectivity to bring health services, education, business opportunities by using voice command, touch screen, speech technology to make it easy for the illiterate ones without making them to wait for understanding and using these devices. IT can complement the MDGs by simply tuning the gadgets to be pro-poor – this does not preclude the focus on their richer clients. A simple redesigning of equipment and a little tuning of it, shall make a huge difference in two ways i.e. expanding the customer base and accessing them to the "opportunity tool" to benefit from it and ride on the expanding cycle of " income, more income, investment, more income, expanding benefits , more income, more benefits" etc. If the market expands, the business expands and the entire cycles of benefits and income breaks the cycle of poverty into a cycle of expanding opportunities.

Making a business out of a village phone: The under provision of telecom services for potential users in countries with low telecom penetration is linked with two misconceptions. First, the demand for telecom services among marginal or poor customers is too low to generate commercially viable business. Service providers tend to believe that marginal customers can not afford the services, if they need them at all. Second the transactions costs of providing services to marginal customers include significant payment collection component, which is perceived as being too high to justify rolling out the network. These two beliefs have been found to be wrong or ill –judged in a study on Bangladesh's Grameen Telecom by Malathy Knight – John. In Bangladesh, the Village Phone program has demonstrated that there is an enormous untapped demand for telecom services amongst the rural poor and that alone makes excellent business sense for both the customer and the operator.

Properly packaged IT is a weapon to fight poverty: The design of the village phone operation of Grameen Bank's peer company has the advantage of piggy backing on Grameen Bank's extensive microfinance borrower network spread over the entire Bangladesh in 68000 villages. Grameen Telecom bought airtime in bulk at a discount from Grameenphone Limited, the operating company and sold at a margin to the micro-borrowers who resell it at predetermined prices to the villagers. The arrangement apparently seems to have been based on a patron client relationship when this benefit transfer to the borrowers of Grameen Bank is considered viewing the discount given to them as a favour. This argument of endowment can easily be countered when this arrangement is considered to be a modified version of Virtual Network Operator (VNO) approach exemplified by the British Mobile Operator, Virgin Mobile which is an operator without building a network; instead piggy backing on the network of an existing operator and resells its services under its own brand name and distribution facilities. In the VNO approach the risk of providing service to the marginal or the poor customer is transferred from the network operator to the reseller i.e. the VNO. Therefore, the network operator incurs lower operation and variable costs and can afford to sell airtime to the reseller at a discounted or bulk rate. A study by TDG (TeleComons Development Group /2000) have reported significant significant socials and economic benefits on the lives of the poor clients of Grameen Bank. Later studies also corroborated the benefits (Alauddin R (2005), Keogh D and Wood T (2005), Knight - John, M Zainudeen, A and Khan, AS (2005):

- The income from the village phones have been reported to be 24% of the household incomes on an average and in some cases, it was as high as 40% - the village phone operators were socially and economically strengthened due to this program.
- Social calls to family and friend often involved transfer of information about market prices, market trends and currency exchange rates making the village phone an important instrument for enabling household enterprises to take advantage of market information to increase profits.
- Telephones in the Grameen Telecom Village Phone program brought about 3 times average revenue compared to the urban phones of Grameenphone Ltd i.e. an average of USD 100 versus USD 30 per month.
- One competing telecom operator reports having revenue from 12000 urban cellular lines equal its revenue from 15000 rural PCO lines.
- Having a family member working overseas was the most important independent variable in determining phone use.
- It acted as a powerful risk reduction instrument in remittance transfers and to assist villagers in obtaining accurate information about foreign currency rates.
- Increase in substantial household income enhanced the phone lady's status within the family with more access to family decision making.

The expansion of mobile phones into rural Bangladesh by other licensed serviced providers reduced the profit margins of the phone ladies of Grameen Bank but it nevertheless proved that the marginalized poor communities are excellent viable customers and investment in remote rural, inaccessible areas achieve the triple goals of investment, business and poverty reduction.,

Community Telecenters – an effective bridging of the divide: The community telecenters are being viewed as important hub in helping bridge the digital divide and fostering e-commerce in rural, poor and migrant communities. It provides linkage to global markets and strengthens the links between creation and delivery of services. The shared access to computers and internets are cost effective means to inclusive strategy into the mainstream digital society. 'I-Mall' is Fair Trade Channel which uses Telecenters for community based e-commerce and is a GKP Global Partnership Program (GPP) initiative. I-Malls were piloted and are on-going in El Salvador and in 2008 will be replicated in Ecuador, Chile and Columbia. The Ecuadorian initiative is a partnership between Chasquienet, a member of GKP based in Ecuador, Telecentor of American Partnership (TAP) and I-Malls .Other project partners include UPS (logistic and finance), Microsoft (strategic IT partner), OPIC (loan fund) and Circuit City and Hudson Bay (vendors).

The main components of I-Malls are:

- Logistics services to enable merchants to purchase and sell on the internet,
- Payment services by using telecenters as international and national payment centres,
- Communication services which connect, through the telecenter, at low cost, trans-national communities,
- Assistance services for Small and Medium Enterprises and especially young people who want to become entrepreneurs, to help local merchants prepare for E-commerce,
- Micro-credit services that will enable the telecentres to cooperate with local Credit Unions and banks to facilitate internet purchases.

Corporate Social Responsibility and Profit Maximization: Corporate business is driven by the motive to maximize the return on its equity. In a free market economy business is guided by this overriding principle and no one questions it as long as it treads the boundary set by the regulatory authorities. But in an expanding inequality among the world population across the communities, across the countries and among the regions, business and investment will be increasingly risky and unviable.

Without addressing the MDGs within a given time-frame and at measured steps, profit maximization and the classical ‘trickle down’ and ‘top – down’ approaches to development won’t do much to alleviate sufferings and bridging the divide. The digital revolution has changed the entire business strategy, the basic approach and strategy to reach out to the market. Smart businessmen and companies have minted billions of dollars by taking advantage of this new found magic wand.

Focussing only on the IT companies in this Forum, it may be relevant to remind them that if the CSR is designed to integrate the bottom 50% of the population as the central focus to enable them develop as viable customers through investing in projects and activities in which they can participate and economically benefit, the IT companies and operators can expand their customer base into territories which they otherwise would not consider commercially sensible.

Instead of investing in one-shot or charity based projects, the IT companies can design new gadgets and equipment with a specific focus on the communities, at prices that can be afforded and used by them on a win win situation on a business platform. The village phone model that was started in Bangladesh and now being replicated in Malwi, Uganda and Sub Saharan countries adapting to their local situations and requirements based on the concrete empirical findings that communication technology is not simply a tool for urban business elites but a necessary and enabling tool for the rural poor and inhabitants who are viable and credible customers in their own rights. The model is poised to be replicated in Kenya, the Philippines, Zambia, Ethiopia, Indonesia, Nigeria, Ghana and Burkina Faso. Grameen Technology Center of Grameen Foundation USA has carried the concept from Grameen Telecom in Bangladesh. It may be pertinent to mention here that in Grameenphone Ltd (Bangladesh), the largest cell phone operator in the country with a customer base of above 16 million (about 62% of the market share in the country) earns about 19% of its revenue from the village phone operators of Grameen Telecom who comprise less than 3% of its subscribers base.

With a broadening of customer base the market broadens and the investment opportunities increase. In countries where, the infrastructures like that of Grameen network doesn’t exist, the pre-paid reseller approach, a Ugandan variation of Grameen model provides a lower transaction cost alternative. Instead of giving out doles and charities, the telecom operators and the vendors can set up telecom infrastructures by apportioning an amount of their profits as part of their annual investment plan in remote areas with the purpose to connect the disparate communities spread out in hostile and poorly connected locations. The establishment of Village Telecenters or Information Kiosks like the ones being run by Grameen Communication in Bangladesh which is a composite unit of PCO, computer learning centre, internet and skype communication at a very low cost, market information, long distance calls at very nominal charges are inciting the interest of the villagers and the localities connecting them to the world outside and exposing them to the fast changes taking place across the globe. The concept of global village and the positive impact of a global society can take its root faster if this approach is taken as a part of the investment and business expansion strategies of the IT companies and the vendors.

The intense competition in the urban centres , the price war , the fast approaching saturation of the existing markets with short-lived gadgets may have some redeeming recourse if investments are spread to cover the vast poor localities on a business model in a win win situation on a long term returns on a sustainable basis. Investment in such facilities may be taken as a policy prerogative by the national governments and regulatory authorities while granting licenses to the telecom operators and in extreme case, the money apportioned to CSR may well be utilized in the development of these infrastructure to be run on a concept of no-profit or no-loss basis or involving community as stakeholders of such initiatives so that those don't turn out to be dole outs with short bubble blasts. Once the infrastructure is in place, the economic activity shall get new lease of life and the rural poor shall be transformed into a group of a buoyant customers to contribute to the company's growth. The evidences in Bangladesh, Uganda, and Malawi do point to this possibility. The corporate social responsibility and the profit maximization shall go hand in hand.

Information Technology and Microfinance: These two words readily may not look complementary at the outset when conjuring up a goal and a common vision. But they do. Microfinance and IT both have a common capacity – the capacity to empower. They reinforce each other when comes to address the issue of poverty. The microfinance industry has blossomed worldwide adapting to a myriad of social, political, regulatory and technological realities. With the changing nature of business and financial dynamics, microfinance is moving beyond its classical outfit of simple credit delivery in a close knit village or a community periphery.

Recent ICT developments have allowed MFIs to increase the outreach and operational coverage, lower overhead cost, and provide more affordable and flexible financial products and services to more poor clients. Microfinance institutions, whether manually or computerized, deal with large amounts of important business data and information, such as client information, financial transactions, portfolio statistics and so forth, which must be maintained, manipulated and managed for making sound management decisions. Management information system (MIS) is a critical factor for the success of MFI. Through a good MIS, MFI will be able to access and analyze information more efficiently and to streamline and shorten the flow of information and in time decision-making process.

The introduction of smart card with embedded microchip allows MFIs shorten transaction times and to track consumer information as well as to overcome the limitation of online network. The implementation of automatic teller machines (ATM) for financial transactions allows MFI to reduce transaction costs and provide better services to customers. Through ATM, clients are able to withdraw funds, transfer funds between accounts, making payments, with very convenient way and locations at any time. The application of Personal Digital Assistant (PDA) allows loan officers to access the MIS from the field and also cut transaction times. The development of Internet, mobile phones and wireless communication technology have also transformed MFI in terms of how to provide the services, and communicate with clients, among themselves and to the world. The Foundation for Development Cooperation has initiated the programs and projects through its peer organisations Banking with the Poor Network (BWTP) and the Microfinance Pacifika Network, specific capacity building programs, creating partnership and linkages to transfer new technologies, knowledge and skills that are directly relevant to poverty elimination. The expanding microfinance infrastructure as a part of financial inclusion and one of the key vehicles to catalyse the efforts to achieve the MDGs shall have to piggy back on IT. It is up to the IT sector, the operators, the designers and the manufacturers, to avail this huge opportunity on a win win situation.

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