

# If it worked in the West, it can work in the developing world as well

## Our correspondent looks at the next innovation in investment that could help the poorest people

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There was a time when it was thought you could not lend money to the poor in developing countries. It was money, however well-meaning, poured down the drain. Yet microfinance proved that you can.

It has long been thought, also, that venture capitalists will not invest readily in enterprises in developing countries. The large sums of cash involved, the long distances and unfamiliar economies do not add up to the kind of numbers that attract regular investors. Yet could “growth finance” be about to prove that wrong, too?

Indeed, it is hoped that growth finance could achieve success on a scale far beyond the ambitions of its micro-managing cousin. “Whereas microfinance can raise families out of poverty, we are trying to find something that can lift countries out of poverty,” Randall Kempner, executive director of the Aspen Network of Development Entrepreneurs (ANDE), said. It is a grand ambition.

Whereas microfinance provides loans from as little as £20 to would-be entrepreneurs, growth finance looks to provide credit of between £50,000 and £1 million to small and medium-sized enterprises in developing countries. The theory goes that a significant proportion of economic growth and job creation in industrialised countries comes from firms with between ten and 250 employees. Developing countries have far fewer companies of such size.

Last month a conference was held to launch ANDE. The network aims to bring together experts in the field, such as charities and nongovernmental organisations, with investors. The former will provide research and technical assistance to encourage the latter to invest funds and support businesses in emerging markets. The entrepreneurs are there, it is said, but they need skills, cash and a route to the marketplace.

To complicate matters, there are local obstacles to overcome, in addition to and very different from the problems of those trying to start a business in Slough or Sheffield – devastating health epidemics and environmental damage, to name but two. Chris West, director of the Shell Foundation, agrees that “one cannot eradicate or prevent those”, but he argues that you can offset some of the broader risks if you have a clear strategy and support structure.

There is, inevitably, scepticism from the traditional development sector about the scope of such a project. Hugo Sintes, enterprise development adviser for Oxfam, was at the launch conference. He said that there were multiple problems facing people in the rural sector: “To make real inroads into rural poverty, finance needs to reach the poorest women and men farmers, often in the most remote and difficult regions. This requires philanthropists, commercial investors, NGOs and donor institutions to work in partnership and develop new business models that can deliver not just credit, but savings, insurance and payment services.”

ANDE – which boasts among its founders some of the largest philanthropic foundations in the world, including the Bill and Melinda Gates Foundation, the Rockefeller Foundation and the Shell Foundation, which hosted the event – aims to help to invest \$750 million (£510 million) to assist small and medium-sized enterprises in the developing world.

Acumen Fund, another co-founder, invests in the types of projects that ANDE wants to support. It has invested \$1.9 million into LifeSprings hospitals, which provides reproductive and paediatric healthcare to people on low incomes. According to Varun Sah-ni, its India director, despite the low incomes profitability comes from the potential scale of the market. LifeSpring will open 30 hospitals and franchise another 140 in the next three years. “We like to see a financial return, but we’re not profit-maximising – that’s the differentiator. We believe that you don’t have to maximise profits to be profitable. In every one of our projects, we want to see a million people impacted over a five to seven-year time frame.”

Getting venture capitalists to invest into enterprises that are not profit-maximising might be problematic, but ANDE’s purpose is to provide the incentives for these investors. “The trick is: how do we get growth finance to a scale that microfinance has achieved but in less than 20 years?” Mr West said. It will be a neat trick if they can manage it.