Bangladesh's entry into impact investment

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GROWING up as a daughter of a high ranking civil servant in Bangladesh, I have distinct memories of my father's trip to Paris every year in the 1980s. To me it was exciting -- Papa was seeing Paris -- the most romantic city in the world. To him it was a dreaded trip because it was Donor Consortium that brought him to France to beg for donor money for Bangladesh.

I remember my father sadly referring to himself as the 'official beggar of the country'. His begging would put in place the much needed public sector goods and services such as food, health care, medicine and education for millions. No matter how good the ultimate goal of the 'begging' was, the process was demeaning and unsustainable. It went on the same way year after year.

Fast forward 30 years later, some of the good that did come out of the donor money is the creation of multiple infrastructures by the government and non-government bodies in Bangladesh that gave rise to parallel economies along with the traditional private/export sector such as microcredit, village health programme, education and healthcare for the poor.

Bangladesh's enabling regulatory environment has resulted in a vibrant development landscape with development giants like BRAC, Grameen Bank, ASA as well as over 26,000 smaller NGOs and 600 microfinance institutions. The unprecedented efforts of these institutions to galvanise the country's development agenda have put Bangladesh on track to achieve five of the eight Millennium Development Goals.

According to the 2013 report by the Social Progress Imperative (SPI), Bangladesh produced another 'development surprise' in the Saarc region, ranking 99 among 132 countries -- a relatively strong performance when compared with Nepal (101), India (102) and Pakistan (124).

The efforts, launched by the NGOs and microfinance institutions, may have had their birth with the assistance of donor funding but there is an increasing awareness that there is, without doubt, more to be achieved in terms of responsible, equitable growth and sustainable impact for Bangladesh by Bangladeshis.

Disturbingly, Bangladesh's economic progress has been uncorrelated with equitable social progress so far. The World Bank measured Bangladesh's GINI Coefficient at 32 percent (higher than less industrialised countries such as Albania, Niger, and Serbia) and the country was ranked 111 out of 148 countries on the Gender Inequality Index in 2012. This is exemplified by Bangladesh's readymade garment sector, which employed over 4.4 million workers in 2013, of which an estimated 85 percent were women. Although this 'feminisation' of the industry was interpreted as an indicator of female emancipation, it occurred under an extremely exploitative context. Weak labour laws resulted in most RMG factories falling short on social compliance, demonstrating the failure to provide the female workforce with basic human rights.

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Incidents like the collapse of Rana Plaza magnify the need to have holistic approach to growth where financial gains accompany creation of social good and where social and development goals can be achieved in a financially sustainable manner (i.e. not relying on grant funding). This means we can no longer ignore the fact that there has to be more of a connection between the private sector and the development sector, and growth has to be achieved by both sectors working together.

If Bangladesh is to achieve its goal to become a middle income country by its 50th anniversary of Independence, is it possible for us to say the country will be a leader in sustainable development where lasting economic growth is accompanied by sustainable social and environmental returns?

By embracing the world of impact investing, Bangladesh can access to substantial private capital to address the issue of inequitable growth and drive forward the development agenda.

Impact investing refers to investments that are intended to create positive social impact beyond financial return, advocating that the two are not necessarily mutually-exclusive. The practice of grant making and donor funding has traditionally been considered separate from investing in both objective and approach, but the emerging field of impact investing creates the opportunity for a productive collaboration between these two disciplines.

The goal of impact investing is not to substitute these mechanisms, instead to tap into a much larger pool of commercial capital, endowments and fiduciary investments that can augment the impact of traditional sources of mission-oriented capital. Estimated by the World Economic Forum to reach $1 trillion by 2020, impact investing has the potential to introduce a whole new spectrum of private sector investors into Bangladesh and massively redirect private capital towards magnifying development efforts across the country.

However, providing a supply of impact-oriented capital solves only one side of the problem. Aligning the capital with demand would involve identifying and supporting, among others, social enterprises (defined as mission-driven for profit companies or market-driven not-for-profit companies), which use business methods to achieve a social or environmental mission.

Nobel Peace Prize winner Muhammad Yunus has set the stage by launching Yunus Social Business, which uses an incubate and finance methodology to bridge the gap between social enterprises and philanthropic lenders and donors. However, social business has its limitations as it dictates how much the private sector can make in financial returns. If we want effective private sector involvement we can not dictate how much businesses should or should not make in profit and what should be done with the proceeds. The focus has to be on achieving and measuring the social and environmental outcomes and allowing financial returns to go hand in hand with it. This approach works, and this is an effective way in making everyone from investors and entrepreneurs to beneficiaries a part of the process. We are seeing incredible results of impact investing across Asia, and now we need to allow the impact investing to take off in Bangladesh.

Innovative models such as Hathay Bunano, which focuses on rural livelihood creation, Waste Concern which promotes waste recycling and sustainable development and the social enterprise arm of Kazi & Kazi Tea are redefining the dominant narrative of pure business and pure philanthropy, recognising the increasingly blurring lines between the two.

However, sustainable social entrepreneurship remains a nascent concept in Bangladesh as there are few investment-ready social enterprises that have the capacity to effectively infuse capital and achieve tangible impact, and existing high-impact organisations rarely self-identifying as social enterprises. This indicates a need not only to nurture the space, but also to educate these organisations on the benefits of attracting private capital to expand their operations and deepen their impact.

The role of field-builders in the space is to catalyse both sides of the equation to ensure Bangladesh is truly ready to embrace impact investing. The supply side involves designing inclusive 'on-ramps' for investors with varying risk-return appetites and designing innovative financial products that re-endogenize social considerations into investment decisions. Nurturing the demand side of the equation entails the development of a pipeline of high-impact business models that are investment-ready and can effectively deploy this capital. This will enable impact investors to scale innovative new models that can drive, support and accelerate positive change in a sustainable way, taking Bangladesh to the next level in its development story.

Catalysing the impact investing space could help Bangladesh not only harness the potential of private capital to advance the development agenda, but also serve as a voice for progress in the region and beyond. While the donor funding is still essential in catering to many basic needs of the country, the time is right for some of these funds, coupled with constructive public policy, to be diverted to create the infrastructure for impact investing and creating the path for equitable and sustainable growth where the private sector and the development sector can effectively and efficiently come together.

British Council is bringing together a policy gathering around the social enterprise space this week. I hope this will be the beginning of many discussions on how we make Bangladesh be known as the country of 26,000 NGOs as well as 100,000 social enterprises. Let's begin the work.

The writer is founder of Impact Investment Exchange Asia and Shujog -- two Singapore-based organisations leading the impact investing work and movement in Asia.