

## **Public-Civil Society Organization Partnership in Developing Capital Markets for SMEs and Social Enterprises in Asia & the Pacific**

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My heartfelt thanks to the Ministry of Finance of Indonesia and UN ESCAP for inviting me to this important meeting.

Section V of the background paper prepared by UNESCAP tells us that equity and bonds markets in developing countries, particularly the local currency bonds, have experienced impressive growth in recent years. It also reports that the top institutional investors in the capital markets of Asia Pacific are insurance companies, mutual funds, pension funds, and sovereign wealth funds.

We must also mention that the target companies of these institutional investors are large companies, while the bulk of enterprises in developing countries are micro, small & medium enterprises and they have no access to capital markets in terms of mobilizing funds for their own capital requirements. In the Philippines, some 42% of self-employed operators of enterprises are women.

SMEs are strategically important for Asia and the Pacific. They play a crucial role not only as agents for innovation and technology development, but also in giving breadth and depth to public voice which is key for development of rights-based democratic processes in developing countries.

Against this backdrop, we the CSO representatives propose for consideration of your excellencies and distinguished delegates that UN-ESCAP undertake an action research on the development of equity and bonds markets for SMEs and social enterprises<sup>1</sup>. This is our first recommendation.

Our second recommendation is connected to the first. We the CSO representatives propose that the action research on capital markets development for SMEs and social enterprises be adopted by UNESCAP as a concrete agenda for partnership between government, particularly the local government units, and the civil society organizations, especially women CSOs. CSOs have the motivation, expertise and experience in developing and strengthening social capital in communities and among micro, small & medium enterprises. Women CSOs in particular have the nurturing and caring spirit that is essential in building trust and confidence and solidarity ties among ordinary people. In the field of microfinance, women have been widely acclaimed to be good managers of finances.

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<sup>1</sup> The situation of capital markets for SMEs & social enterprises today is similar to that of microfinance 30 years ago insofar as the response of formal financial institutions to the capital expansion needs of SMEs and social enterprises are concerned. In the absence of sustainable financial innovation in microfinance, formal financial institutions were not motivated to lend to the poor for oft-repeated reasons such as they are un-organized, loans to them are highly risky and costly. Microfinance was not their cup of tea. UNDP undertook an action research to pilot test what was then called the Grameen Bank Approach (GBA). It was implemented by the Asia Pacific Development Centre (APDC), an inter-governmental organization established by UNDP and later on placed under the supervision of UN-ESCAP, where the author worked as Program Coordinator for Poverty Alleviation from 1996 to 2003. Today, microfinance institutions are mushrooming all over the world. One of the recipients of UNDP support and a participant of the GBA replication program is the pioneer of microfinance in China, Dr. Du Xiaoshan, who is also attending the Asian Pacific Outreach Meeting on Sustainable Development Financing.

Our third recommendation is again connected to the first two. We the CSO representatives propose that in pursuing the action research on the development of capital markets for SMEs and social enterprises, UN-ESCAP adopts the strategy of linking SMEs and social enterprises to socially responsible investors (SRIs). SRIs prefer to invest in social enterprises. They are largely concentrated in the US and Europe. In 2006, the volume of socially responsible investments amounted to some \$3.5 trillion (Holger Liesendahl, 2007), 63% of which were in the US, 34% in Europe, and 1% in Asia. The SRI in Europe grew at a top rate of 36% per annum between 2003 & 2006 (Eurocif, 2006). In designing the proposed action research, UN-ESCAP may wish to tap the assistance of UN bodies and other international agencies affiliated with the UN Task Force on Social Solidarity Economy (UNTFSE), in which our organization RIPESS (Reseau Intercontinental de Promotion de l'Economie Sociale Solidaire) has an observer status.

In Europe, socially responsible investors have organized their own associations to promote information exchange and advance their cause in the European Union and in other continents. One of the more dynamic SRI associations is the International Investors in Social Economy (INAISE). INAISE is planning a social investment forum in Asia in 2016. This could provide a good opportunity avenue for information exchange and experience sharing between governments and financial institutions in Asia Pacific and the member financial institutions of INAISE.

Finally, the question arises: what is the role of formal financial institutions in the proposed action research? Formal financial institutions can serve as the public trust for the special investment vehicle that will be set up jointly by local government unit and civil society organizations in localities. Funds mobilized through the special investment vehicle can be invested in specified community projects such as community hospital, community health clinics, farm to market roads, local water systems, local power supply, or commodity supply chains.

Some social enterprises are experimenting with negotiable investment grade certificates of indebtedness or certificates of equity shares to mobilize local capital. An example is a social entrepreneur in Nueva Ecija in Central Luzon, Philippines. He needed a large sum of money to set up a dairy milk processing plant and research center which sources fresh milk from dairy farmers who are organized into cooperatives. He could not avail of bank financing because of stringent collateral requirements. He also had difficulties raising funds through investment grade certificates in the Philippines, so he went to Hong Kong and mobilized the needed capital there with the help of a securities firm. Some of the investors were Overseas Filipino workers (OFWs) working in Hong Kong.

Your Excellencies, ladies and gentlemen, we the CSO representatives hope that UN-ESCAP will consider our proposal.

Thank you.