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Inclusive Business

Opportunities for private sector and government to promote jobs and services for the poor

Presentation at the 4th ASEAN+3 Village Leader Exchange program (19-23 Sept 2016, Shanghai)



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1. **Why IB ?** Private sector delivers jobs and services for low income people; but we need a special private sector
2. **What is Inclusive Business (IB) ?** Inclusive Business provide solutions for the relevant problems of BoP
3. **What can governments do?** Accreditation, business plan development / incubation; start-up support; patient capital financing, impact measuring and reporting
4. **What is happening in Asia / ASEAN+3 ?** Increasingly a lot
5. **What is ADB doing ?** How we can help you
6. **Further reading** Interesting new topic

1. Why IB?

Why involving the private sector in poverty reduction?

1. Low income people depend more on the **private sector** than the better off
 1. They need jobs and **income opportunities**,
 2. Most of the affordable **services** and goods they consume/need come from the private sector, because government social systems often don't work
 - How to find them?
 - How to encourage them?
 - How to grow them?
2. **CSR** is not enough and the **traditional SMEs or large companies** (and even state owned utilities) may involve the poor but often do not provide solutions to the relevant problems of the poor
3. Only a **small number** of the private sector is really business AND development oriented → Inclusive Business
 - Issue is to find those IB, distinguish them from other companies, and
 - encourage them better (government programs at the moment ignore them)

Triple Wins

what is in it for business, government, the poor?

IB is good for

- **Poor and low income:**
 - Gives them well paid jobs and income opportunities
 - Affordable relevant services (and goods)
- **Business** → new products / new markets, new sale, better inputs, more effective value chain
- **Government**
 - → private sector can solve problems traditionally in responsibility of government (job creation, services delivery); can be a new PPP approach for poverty reduction; should be officially part of Inclusive Growth strategy (NEDA)
 - Stimulates innovation
- **Investors:**
 - Brings new investment opportunities
 - IB investments are generating same or even higher returns; risk need to be understood
- **Sometimes also benefits for Environment/climate** (triple bottom lines); e.g. renewable energy, cleaning (scavengers, Delta Minerals), climate protection

→ but the investment must be **financially viable** and **bankable**

2. What is IB?

What is IB ?

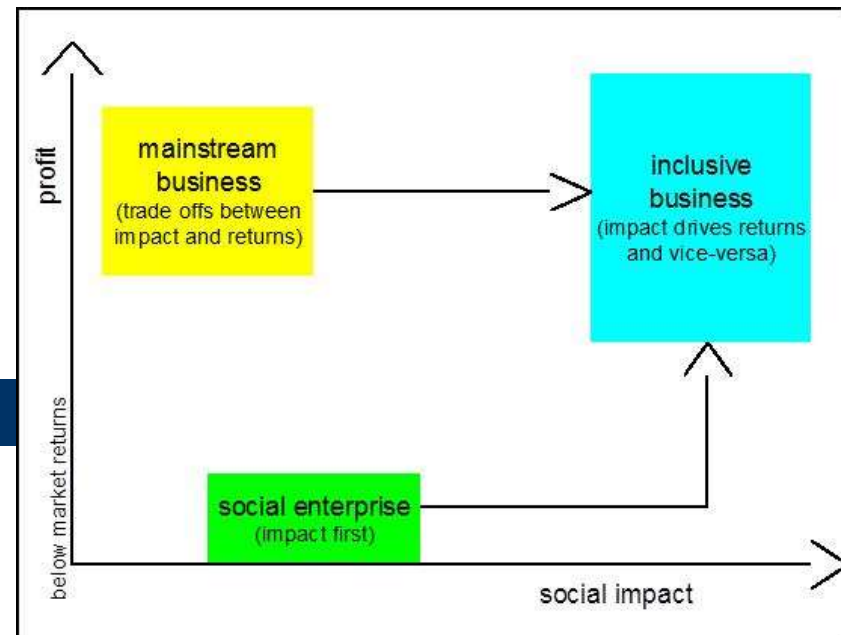
Engaging the poor as consumer, supplier, laborer, distributor **is not enough**

IB are

- **commercially viable** and **bankable** companies
- whose **core business model** is
- to provide – **in scale** –
- **innovative and systemic** solutions
- to the **relevant** problems of the
- **poor and low income people** (BoP = i.e. bottom 60% income groups)

IB:

- **Create decent jobs and income opportunities**
- **Provide essential services and goods**

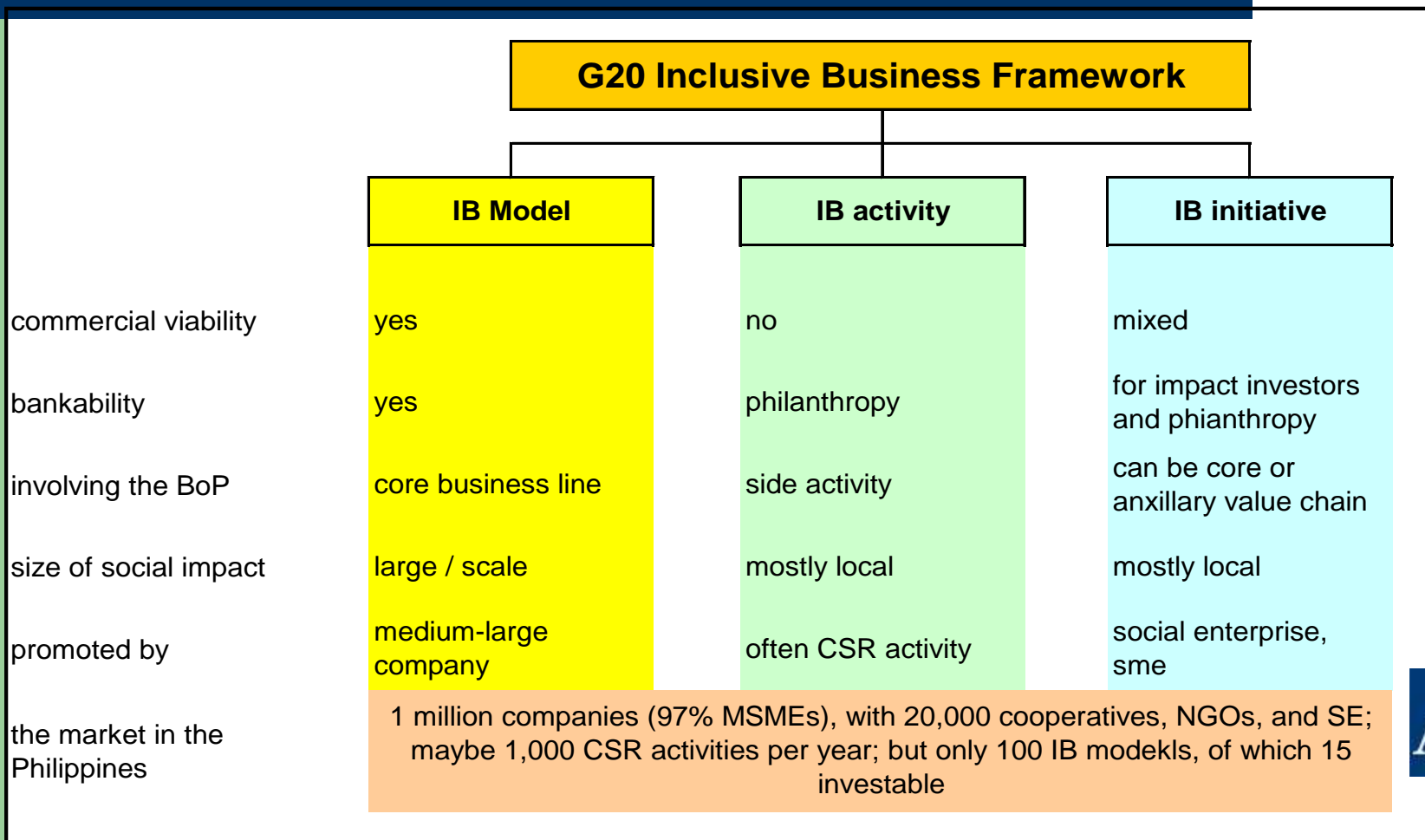


IB deals are made and not found

IB engage the poor as

- **Supplier, laborer, distributor**
- **consumer**

3 types of IB



What is it not?



- **SME** (informal sector work) → involves the poor, but does not provide systemic solutions; most IB are medium sized investments
- **CSR** → lack of scale in impact; lack of sustainability from a business perspective, not core business
- **social enterprise** → Start ups often lack scale in impact and confidence in business success;
- **contract farming** → often exploitative
- **microfinance** (“creation/production”) → focus on production not financial inclusion,
- **Livelihood or farmers development programs** → the poor are not business people

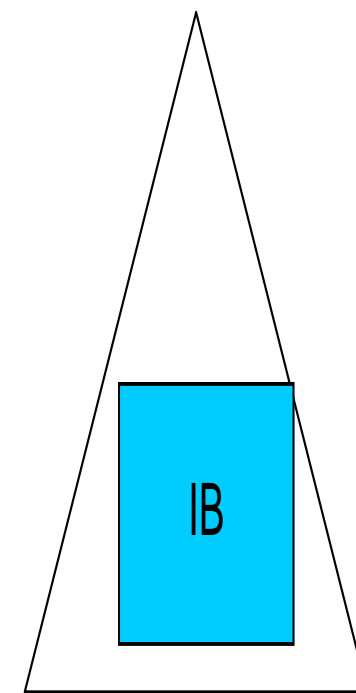
- Impact investment → needs to focus on low income people, not on environment or other impact
- Triple bottom line → not all IB investments have to focus on environment and climate change; in fact, many do not
- Shared value → share profit/share value; sharing is not yet a systemic solution to problems of the poor; what is in the center of the business model – the interest of the company or solution of the poor?

For whom? What is the BoP ?

The Base of the Pyramid in PR China, and in Southeast and East Asia and the Pacific

2005 PPP	2012 PPP	RMB		East and Southeast Asia, Pacific	PRChina (rural)	Shanxi (rural)
\$10	\$15.1		middle class	88.7%	96.6%	
\$8	\$12.2		lower middle class	82.5%	94.4%	
\$4	\$6.1		low income	53.2%	75.6%	
\$3	\$4.6	6,357	vulnerable	39.5%	60.4%	57.0%
\$2	\$3.1	4,500	poor	22.3%	36.5%	39.0%
\$1.25	\$1.9	2,855	very poor	7.2%	13.0%	9.4%
total population (million)				2.041.6		24.5

inclusive
business



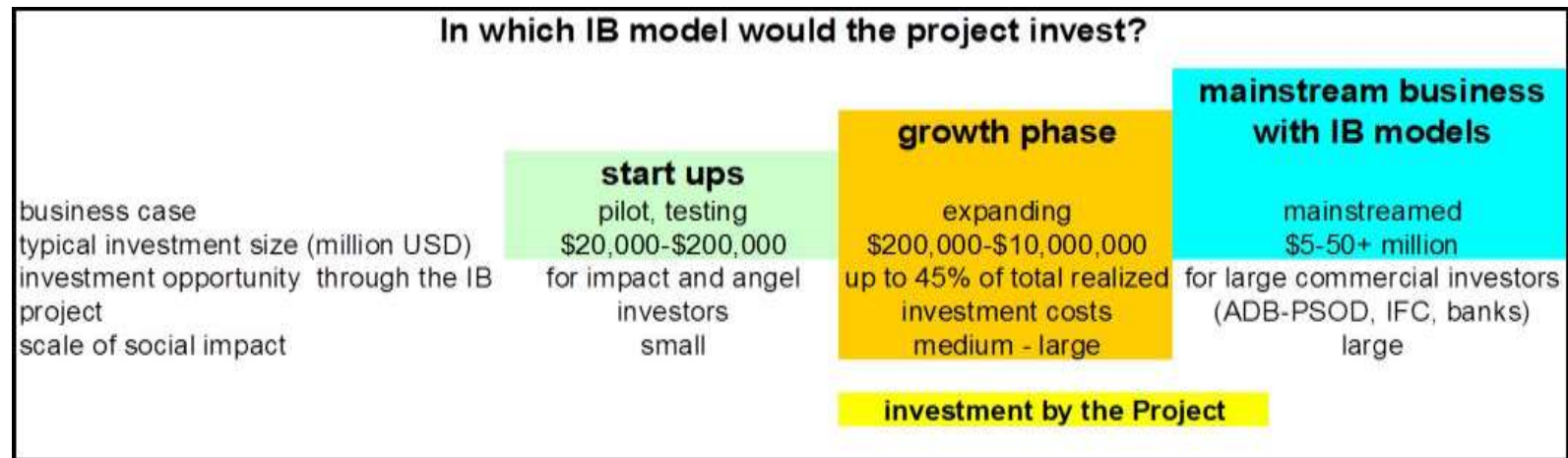
Source: World Bank, PovCalNet (5 May 2016 update, with date from 2011/2012, PPP 2012); Shanxi Poverty Office, Shanxi Statistical Yearbook

Financial Viability



The difference between Viability and Bankability

The importance of Patient capital / The typical money gap



Why banks are reluctant to provide money to IBs, even if they are profitable and bankable

- Perceived risk
- Banks are for the large companies or for the SMEs

Impact of IB

What is in it - for People ?

IB need to be made and cannot be found

(It requires TA, knowledge of the BoP, innovation, risk appetite, commitment/dedication, change)

Create well paid jobs → reduce income poverty

- **Reach** is not enough: it is about new jobs; and many new jobs (minimum 500 and better more)
- **Depth**: the job needs to pay more than the market rate
 - It is not about involving the poor in the value chain, but creating income for them
 - it is not simply contract farming (often exploitative)
 - IB requires highly productive businesses (business innovation)
- **Systemic** change → requires innovation: business processes, social, environmental

Services delivery and relevant goods

- Criteria: **Affordable**, Relevant, High **quality** (the poor cannot afford crappy products)
- Examples: Housing, health, water, education, energy, access to finance

→ **needs innovation**

IB needs innovation

- some examples -



Agribusiness

- Jain irrigation (IND) → become provider of everything
- Rocky Mountain Coffee (PHI) → environment
- Kennemer Foods (PHI) → add insurance
- CG (KOR –VIE, chili) → strategic CSR,
- Engro (PAK, biorice) → bankable CSR
- Urmatt (THA) → bioeggs
- East West Seeds (THA, PHI, INO)
- Akay (IND, CAM) → spices

Health: Araid Eye Hospital (IND) and Salauno (MEX)

Education: Hypocampus (IND), Lego (BRA), Technical training: PHI, IND (rural IT training)

Utilities: Manila Water , Condenza (COL), Simpa Solarlight (IND)

Finance: Mibanco (BRA)

IT: Apps for the Indian Fishermen; (COL) selling of village products through internet, INO – RUMA; is Alibaba an IB ?

What can government and others do?



3. How to promote IB?

A new form of PPP

- (1) Accreditation + and ex-ante impact assessment
- (2) Policy alignment, business ombudsman
- (3) Investment
- (4) Business plan support
 - Improving business
 - Enhancing social impact
- (5) Knowledge, advocacy

(1) Finding / Making IB → IB Accreditation

Why ?

- Without knowing who is IB and who is not one cannot justify government support programs
- Branding helps the company
- Accreditation can then be used for prioritizing existing (and rationalizing) industry support programs → saves money in the budget through better targeting

How?

- Composite rating tool, government and private sector set criteria,
- third party validation avoids political influencing,
- ex-ante assessment tool; verified after 1 year;
- simple, not costly neither for government nor for companies; not consultant oriented

Benefits

- Triggers access to finance (local, international, impact investors)
- Facilitates bureaucratic processes (licencing) and protects against corrupt practice
- Reporting (2-4 pager) and seal improves branding
- Reward for social impact makes CEOs and employees “more happy”

**PHI and THA
took the lead**

Composite rating tool
 Business (35%), social impact (50%), innovation (15%)
 Social: reach, depth, systemic change
 Ex-ante, preliminary, third party validation

How would IB accreditation work?

Company performance - Overview

		weight	rate			score	Note
		(%)	Minimum Threshold	Low 1 - 2	Medium 3 - 4	High 5 - 6	
Financial		35%					0.00
Past (last 3 years)		24%					0.00
Liquidity	current liquidity ratio	6%	< 1.0				0.00
Debt management (old)	debt equity ratio	5%	> 1.5				0.00
	debt service ratio	8%	> 1.2				0.00
Profitability	net profit margin	5%	> 0				0.00
Future (with the new investment)		11%					0.00
new investment over revenue difference		5%					0.00
Debt management (new)	debt service ratio	6%	> 1.2				0.00
Social		50%					0.00
Reach		20%	> 300				0.00
Depth		20%	> 20%				0.00
Systemic Change		10%					0.00
Innovation		15%					0.00
Business		5%					0.00
Social		2%					0.00
Environmental		8%					0.00

Notes: company scoring > 4.5 is an IB and are eligible for financing. Those scoring between 3.5 and 4.5 could be included in the infrastructure support. Those below 3.5 are excluded.

(2) Policy alignment



- Which **existing** industry support programs can prioritize IB?
- What **new** incentives can the government bring
 - Set targets but do not get involved, let the private sector do wherever possible → out
 - Financing: credit lines + risk guarantee + equity investment (without government control)
 - (tax incentives)
 - Support in licencing, removing bureaucratic hinderances
 - Priority procurement for IB
 - Technical assistance grant

(3) IB finance



- **What money IB need? → Patient capital**
 - Not necessarily grant but **patient capital**
 - The problem of being in the middle: capital for SE is often available, capital for IB not
 - Combination of equity and debt
 - Ticket sizes: \$0.2-\$5 million; thereafter go to ADB or IFC or commercial bank
 - Tenure: 5-7 years
- **Equity**
- **Risk guarantees for banks**
- **Loans**
 - **Banks**
 - **Government (example of PRC Shanxi)**

(4) IB business development



Why?

- **Piloting** is often done by companies, but they **often do not scale up**, even when they are large companies
- Sometimes we need to **develop new innovative practices**; a vision from the CEO is not enough to make things happen
- **Especially larger companies** need it, when they scale up their pilots
- Often more important than the financing itself

How

- Matching grant for pre-and post investment support:
- Not for start ups and piloting
- Different sizes: \$20,000 - \$200,000
- Targeted to the needs of the companies
- Cooperate with other development partners

(5) Advocacy and knowledge

Knowledge work

- sector studies
- Workshops
- Bankers training
- Market scoping studies
- Helping companies with making CSR more strategic
- Studies for public utility companies to do IB (actually they would have the “natural” mandate)

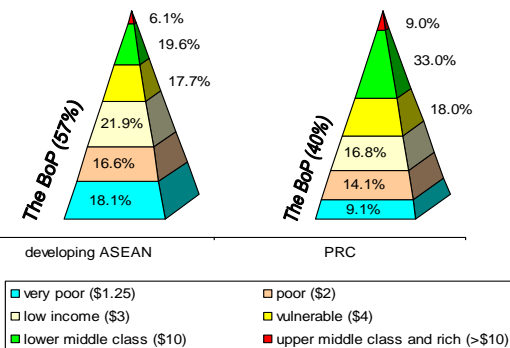
IB Advocacy

- Making IB business models known
- IB challenge and awards
- publishing studies on social impact of companies
- Strong role for business associations

4. What is going on in Asia / ASEAN ?

Poverty in the ASEAN+ region

Chart 4: The Base of the Pyramid in emerging Southeast and East Asia
(with poverty data from 2012; percent of population)



Basic Economic Data on Southeast and East Asia (million \$, 2012)

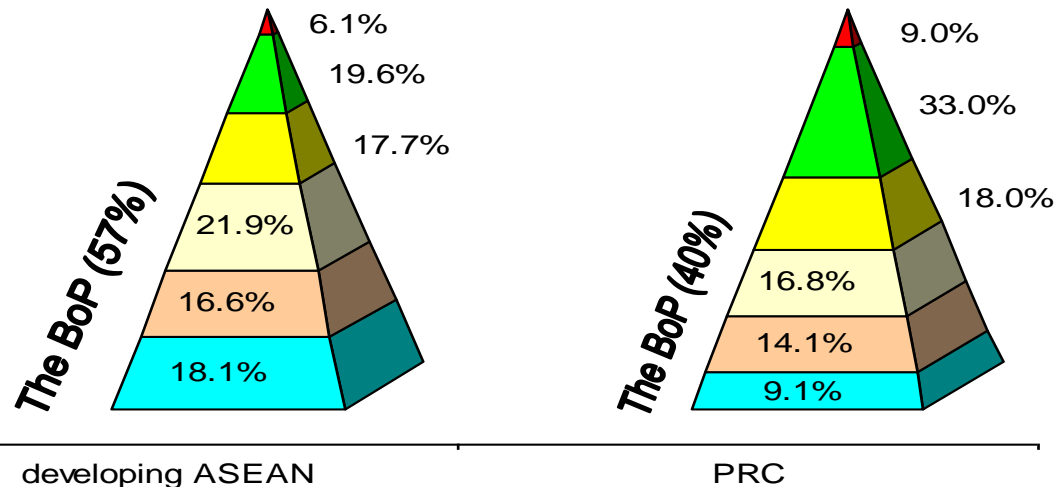
	poverty incidence (% of population; international poverty line, 2012 PPP)					income distribution			available income of the BoP (bottom 50%) in million USD at PPP prices	population		GDP per capita at PPP prices	GNI per capita (Atlas method)
	\$1.25	\$2.00	\$3.00	\$4.00	\$10.00	bottom 30%	bottom 50%	Gini coefficient		total (million)	urban (%)		
Cambodia	10.0%	41.2%	71.7%	86.4%	98.3%	13.2%	26.4%	0.360	12,144.0	15.0	21.4%	3,069	950
Indonesia	18.0%	46.3%	71.2%	83.4%	98.4%	12.8%	26.1%	0.356	624,283.6	248.8	50.1%	9,599	3,580
Lao PDR	30.3%	62.0%	83.3%	92.5%	99.1%	12.9%	26.1%	0.367	8,087.2	6.7	35.3%	4,630	1,460
Malaysia	0.0%	2.3%	10.2%	17.9%	55.1%	8.3%	19.3%	0.462	132,136.9	29.6	73.0%	23,118	5,600
Myanmar (estimate)	36.0%	53.0%	68.0%	90.0%	98.0%	12.0%	25.0%		54,238.8	61.6	30.8%	3,522	730
Philippines	19.0%	41.7%	62.5%	75.2%	95.5%	10.2%	21.7%	0.430	139,367.7	97.4	49.1%	6,600	3,170
Thailand	30.0%	4.1%	15.2%	33.1%	81.2%	11.6%	24.0%	0.394	248,282.3	66.8	45.1%	15,519	5,370
Viet Nam	2.4%	12.4%	43.4%	83.1%	98.2%	12.7%	26.3%	0.356	124,630.3	89.7	32.2%	5,293	1,730
Total developing ASEAN	18.1%	34.7%	56.6%	74.3%	93.9%		24.3%		1,343,170.9	615.6	45.1%	8,968	3,165
People's Republic of China	9.1%	23.2%	40.0%	58.0%	91.0%	8.9%	21.2%	0.421	3,432,025.6	1,360.7	53.9%	11,875	6,560

Source: own calculations, based on ADB (2014, 2013); Key Indicators; World Bank PovCalNet (July 2015)

In Southeast Asia and China, the BoP – those living with up to \$3 a day - have a collective annual spending power of \$220 billion and \$384 billion, respectively.

The BoP market in ASEAN+

Chart 4: The Base of the Pyramid in emerging Southeast and East Asia
(with poverty data from 2012; percent of population)



IB in ASEAN+ only a few investments so far – but rapidly growing

Table 3: Investments in commercially viable IBs and SEs in emerging Southeast and East Asia

	number of deals (accumulated)			IB investment size					estimated number of SEs (2015)	number of commercially viable (accumulated)			SE investment size				
	2015	2020	2025	in number of deals			total (million USD)			2015	2020	2025	in number of deals			total (million USD)	
				small (\$3-\$15 million; average \$8 million)	medium (\$15- \$50 million; average \$20 million)	large (> \$50 million; average \$80 million)	2015	2025					small (\$0.2- \$0.5 million; average \$0.2 million)	medium (\$0.5-\$1 million; average \$0.5 million)	large (\$1-\$3 million; average \$1.5 million)	2015	2025
	2015	2020	2025														
Cambodia	2	5	10	100%			16	80	500	10	20	30	100%			5	15
Indonesia	10	30	60	60%	30%	10%	188	1,128	8,000	50	100	200	70%	20%	10%	27	108
Lao PDR	1	3	8	100%			8	64	100	5	15	25	100%			3	13
Malaysia	5	10	18	60%	30%	10%	94	338	400	20	30	50	70%	20%	10%	11	27
Myanmar	3	8	20	70%	30%		35	232	500	20	40	60	90%	10%		9	28
Philippines	5	25	50	60%	30%	10%	94	940	6,000	40	80	150	80%	15%	5%	20	76
Thailand	15	30	40	60%	30%	10%	282	752	10,000	50	100	200	75%	15%	10%	28	111
Viet Nam	6	15	25	70%	20%	10%	106	440	1,500	30	60	150	80%	15%	5%	15	76
PRC	20	50	80	50%	30%	20%	520	2,080	2,000	50	150	300	60%	25%	15%	29	173
Total	67	176	311				1,342	6,054	29,000	275	595	1,165				147	626

Notes: (1) IB investments are commercially viable companies with investment between \$3 and \$50 (or more) million; For profit SE have investments between \$0.2 and \$3 million. (2) The number of firms or NGOs that call themselves social enterprise" is much higher than the number of commercially viable SE with profit margins of minimum 5%.

Source: There is no registration of IB or SE investments in any Asian country. The above mentioned figures are pure estimates from ADB staff based on earlier market studies and literature review.

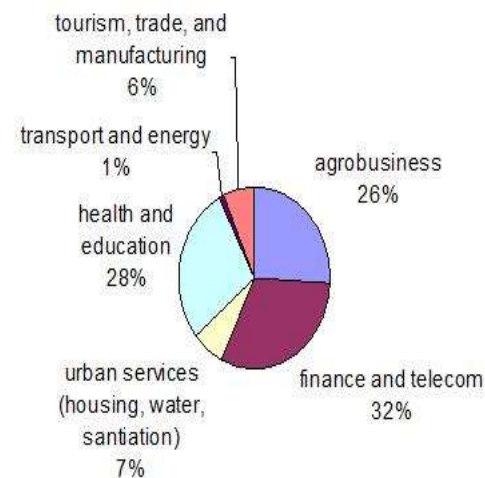
Opportunities for IB in ASEAN+

Table 4: Investment opportunities in IB in Southeast and East Asia

	number of deals		investments (in million \$)	
	2015	2025	2015	2025
agrobusiness	25	106	375	1,586
finance and telecom	19	62	683	1,866
urban services (housing, water, sanitation)	5	37	52	420
health and education	6	50	131	1,711
transport and energy	3	19	15	84
tourism, trade, and manufacturing	8	47	51	389
total	67	320	1,306	6,055

Source: Calculated from ADB staff estimates

Chart 6: IB Investment Opportunities (through 2025) by Sector



Some Interesting business cases in ASEAN+

- Manila Water (PHI)
- BPI student loans for skills training (PHI)
- Indofoods (INO), Gladsome Modern Agriculture (Shanghai)
- Microbenefits (IT training for blue color workers (PRC),

- Shared value: Nestle coffee, Unilever, Friesland milk, etc
- Strategic CSR: CG (KOR+VIE), etc
- Social enterprises: many; example of Grameen (BAN), Narada Foundation *(PRC)

many other innovative and profitable models and examples with large scale social impact especially in IND

On the investors side

- Assets managed by impact investors globally increased from \$10 billion in 2010 to \$36 billion in 2012 and \$60 billion in 2014. While this is still small compared to the total portfolio of \$270 trillion in assets, what matters is the rapid growth of the industry and the fact that such investments are increasingly perceived by many investors as valuable . The impact investment industry today comprises over 300 investors worldwide. See Global Impact Investment Network (GIIN). www.thegiin.org
- Between 2006 and 2014, IFC has invested \$1.6 billion in inclusive businesses in Southeast and East Asia. 61% of its investments are in the financial sector and 18% in agribusiness.
- ADB did 16 deals between 2012 and 2015, worth \$520 million in Asia; most of them however were in South Asia, not in ASEAN countries, none so far in PRC

2015 GIIN/JP Morgan survey: banks and other financial institutions fund about 9% of total impact investment assets at the global level. Assuming this ratio holds true for Southeast Asia as well, about \$320 million of impact investments in the region are funded by banks or diversified financial institutions – either domestic or international. This is a very small amount considering the size of bank financing in the region and its banks' high levels of liquidity. As a point of reference, bank financing for SME stood at about \$4.18 trillion in the four largest countries of this study – specifically, at \$4 trillion in China; \$50 billion in Indonesia; \$4.5 billion in the Philippines; and \$130 billion in Thailand by mid-2013

Commercial bank investments

Commercial banks in Southeast and East Asia							
	number of commercial banks				financial institutions	assets (billion USD)	estimated number of banks doing IB investments
	total	government owned	private local	private international			
Southeast Asia	24,131	5	4,082	11	20,033	1,035.2	14
Cambodia	35		35				1
Indonesia	70	2	27	8	33	191.2	3
Lao PDR	24	1	20	3			1
Malaysia	0					293.3	1
Myanmar	0						0
Philippines	24,002	2	4,000		20,000		3
Singapore	0					403.3	
Thailand	0					147.4	3
Viet Nam	0						2
East Asia	10	2	8	0	0	0.0	3
People's Republic of China	0						3
Japan	0						
Republic of Korea	10	2	8				
Total	24,141	7	4,090	11	20,033	1,035.2	17
developing Southeast and East Asia	24,131	5	4,082	11	20,033	631.9	17

Source: Asian Banker Research; ADB staff estimates

Asia-Pacific is the world's region with the highest number of HNWI (investable assets > \$1 million), having overtaken North America in 2014. In Indonesia, Thailand, and China there are close to 900,000 persons with a collective wealth of close to \$5 trillion
www.worldwealthreport.com

High network Individuals

Impact Investments of High Net-Wealth Individuals (HNWI) in Southeast and East Asia		
	USD (million)	percent
Wealth of 900,000 HNWI (with wealth of more than \$1 million) in Southeast and East Asia	5,000,000	
Estimated investments from HNWI in Southeast and East Asia in impact projects	252	0.0050%
investments from individuals	36	
foundations	216	
Total impact investments in East and Southeast Asia	36,000	
HNWI investments as % of total impact investments in the region		0.7%
Sources: GIIN, World Wealth Report, ADB estimates		

IB support policies from the governments

- Accreditation: PHI. THA
- Policy alignments and tax incentives: PHI, IND, THA, SIN, HGK, AUS,
- CSR focus: KOR, INO, IND, HGK, SIN, JPN, AUS
- Supporting companies going abroad: JPN
- Linking IB to poverty alleviation programs: PRC (“guangcai” and IPRCC/LGOP) – the 10,000 / 10,000 program
- PRC championed G20 IB discussion in 2016
- APEC study on IB

- The very interesting PRC-JPN-KOR initiative for THA, CAM, LAO, MYN, VIE

- See: bit.ly/IBAsiaHub; <http://www.inclusivebusinesshub.org/micro-site/ib-in-asia/countries/#1472619867497-85d96ef7-39de>

5. What is ADB doing

Inclusive Business

→What is ADB doing ?

- Market scoping studies in 2012-2014:
VIE, IND, BAN, INO, SRI, PAK, PHI, TJK, PRChina
- ADB's IB Initiative (since 2014)
 - IB is in ADB's Strategic Framework, IB Action Plan (2016)
 - More ADB financed private sector deals are IB
 - from 1 project on average in 2000-2012 to
 - 16 deals (\$560 million) in 2012-2015
 - ex-ante impact assessment
 - Working with the public sector on better enabling environment for IB: IB accreditation, IB policy alignment, public sector loans for IB,
→ PHI, PAK, MYN, VIE, INO, TAJ PRC/Shanxi
 - IB in G20 + APEC
 - Knowledge work and partnership building: sector studies, 2nd Asia IB Forum (Feb 2016), market scoping studies, thematic studies (role of SE, gender, role of development banks, study on labor impact, IB finance study, etc.)
- How can ADB help IB in PRC/Shangxi ?

Inclusive Business

→What is ADB doing in PRC ?



- IB in Shaxi project
- IB in Heilongjiang project
- Other provinces (Inner Mongolia)
- IB and “guangcai”
- Market scoping study: 2 workshops in mid November for Southern and for Northern PRC

6. More Information

Inclusive Business

→ where to get more information



- ADB
 - ADB IB site: bit.ly/ADB-IB
 - IB in Asia Hub: <http://bit.ly/IBAsiaHub>.
- IFC: www.ifc.org/inclusivebusiness
- IADB: <http://www.iadb.org/en/topics/opportunities-for-the-majority/idb-opportunities-for-the-majority-serving-the-base-of-the-pyramid-in-latin-america,1377.html>
- World Business Council for Sustainable Development: <http://www.wbcsd.org/social-impact.aspx>
- Business Call to Action (UNDP): <http://www.businesscalltoaction.org/>



Thank you