

Inclusive Business in Asia

A cross-sector gathering of pioneers



Report of the 2nd IB in Asia Forum
Held in Manila, Philippines, February 16th to 19th 2016

2nd Inclusive Business Asia Forum (16-19 February 2016, ADB Headquarters, Manila, Philippines)



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Preface

On 17-19 February 2016, ADB and its development partners (IFC, IADB, UNDP-BCTA, WBCSD, IBAN, CSR-Asia, Government of Sweden, Credit Suisse) organized the 2nd Asia Inclusive Business (IB) Forum, in Manila. More than 400 people attended, of which 38% came from companies and business associations, 19% were investors, 5% government representatives, 8% development partners, 7% were ADB colleagues, and 20% were other experts.

Their topic – how to progress Inclusive Business in Asia – is important and timely. Inclusive business has huge potential but needs action by many to succeed. So ADB was delighted to host this convening and share the results with you in this report.

ADB colleagues always say “IB cannot be found; they have to be made”. This points to hard work of innovation, experimenting, taking risks, doing things differently. These themes recurred at the Forum. IB means going against the “normal”, the mainstream. We bankers are not necessarily the best in innovating and taking risk. Doing IB is hard work, but IB gives us a new opportunity to be more relevant for society. So it is important that we all continue this hard work to deliver commercially viable business solutions that tackle the problems of the poor at scale.

At ADB we are grateful to the participants who shared their wisdom and enthusiasm at the IB in Asia Forum, and call on them and on others to continue to collaborate to scale inclusive business in the region.

Acknowledgements

The forum was possible due to collaboration amongst many players. ADB thanks its Forum Partners; International Finance Corporation, Inter-American Development Bank, United Nations Development Program - Business Call to Action, World Business Council for Sustainable Development, Inclusive Business Action Network, CSR-Asia, Government of Sweden, and Credit Suisse. This report covers the main sessions conducted at the Forum as well as side sessions organized by Credit Suisse, Sankalp, IBAN and CSR Asia. We'd also like to acknowledge the [Practitioner Hub for Inclusive Business](#) that set up an [online presence for the Forum](#) and is the online home for the [ADB's inclusive business work](#).

Inside ADB, huge credit goes to the organizing team led by Armin Bauer and his colleagues Kristine Marie Presbitero and Jeffrey M. Gerobin, and supported by Zheng Ying Chong, Bowen Gu and Mareike Grytz from CSR Asia and IBAN, and by Bart W. Édes. This report was written by Caroline Ashley and Lara Sinha from Ashley Insight working with ADB. Thanks to one participant who suggested the title, ‘Gathering of the Pioneers’ in their feedback form.

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Abbreviations

| | |
|-------|---|
| ADB | Asian Development Bank |
| AFD | Agence Française de Développement (development bank of France) |
| BoP | Base of the Pyramid |
| CSR | Corporate Social Responsibility |
| DFI | Development Finance Institution |
| FMO | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (The Netherlands' development bank) |
| IADB | Inter-American Development Bank |
| IB | Inclusive Business |
| IFC | International Finance Corporation |
| KfW | KfW Entwicklungsbank (development bank of Germany) |
| SE | Social Enterprise |
| WBCSD | World Business Council for Sustainable Development |

Note: In this report, "\$" refers to US dollars.

Executive Summary

This report contains the highlights of the Inclusive Business in Asia Forum, convened by the Asian Development Bank with its partners, in February 2016 in Manila. The event marked a coming together of pioneers in inclusive business, unusual in its mixed composition: commercial bankers and impact investors, development finance institutions, corporates and conglomerates, family businesses, social enterprise, business association, UN and donor organizations. Over four hundred participants discussed their insight, experiences and ambitions in inclusive business.

Key themes of the discussion included:

- The potential of inclusive business is huge, but so far is under-exploited in the region. Inclusive business can address problems of the poor at scale, in a sustainable commercially viable way. But this approach is not yet mainstreamed – and needs to be.
- Inclusive business is less developed in South East Asia than the rest of Asia for multiple reasons. The policy framework is improving in all countries, but governments and industry associations can do more to catalyze new business models and create a conducive environment. IB certification was discussed as a way forward.
- Scaling inclusive business will require all actors to ‘up their game’. Aside from businesses and governments, the discussions drilled into the key roles that development banks, commercial banks, investors, advocacy facilitators (like business associations) can play.
- The profitability of inclusive business is now being demonstrated in some portfolios. Impact at scale is emerging. However, perceived riskiness of inclusive business deals remains a huge issue. It is perceived as more risky than conventional investment, but in fact the risk is different – not necessarily higher – and there are a host of risk mitigating strategies already being deployed. There is a need for more information and training for traditional investors.
- Inclusive business is emerging across sectors in Asia. So far it is most common in agribusiness. It is growing fast in finance. IB innovations are not confined to any sector, and indeed they often involve business partnerships that straddle sectors.
- Participants combined enthusiasm with realism. Inclusive business is hard because it is pioneering. There is no blueprint and iteration is demanded. Leaders in the field started slowly and evolved time and again. There is much further to go but the potential is rewarding.

For a more detailed summary of the key takeaways from the Forum, visit <http://bit.ly/2ndIBAsiaForum2016Summary>

1 Key conference themes: time to move the needle

1.1 Inclusive business: pioneering and huge potential

At the IB in Asia Forum, participants from diverse sectors, countries and organizations were overwhelmingly positive about what inclusive business can achieve. By combining profitability with business models that tackle systemic problems of the poor, inclusive businesses offer a sustainable and scalable way forward. As per ADB's definition (see Figure 1 overleaf), inclusive business aims at a solution, not just a contribution, and should be different to business as usual.

Participants recognized the urgency of scaling up so as to 'move the needle' on social problems in the region. So far, inclusive business is not mainstream, and has not reached the scale that is needed and should be possible. In a large market there are relatively few companies, fewer investors, and a lack of supportive government policy. This means IB potential is high but is under-exploited across Asia, particularly in South East Asia.

Inclusive business is pioneering: we heard from some successful inclusive businesses operating at scale. However, there is a need to continuously innovate to improve the models, find the right partnerships, and mainstream the concept. Conversations served as both inspiration and a reality check. There are no blueprints. As one participant put it in their feedback form: *'while there are pockets of excellence, there is no coordinated or coherent way of doing IB. The space remains messy and nascent.'* This was a convening of the pioneers.

1.2 More action, more players, more partnerships needed

The IB Asia Forum was distinctive in the combination of stakeholders that were gathered: bankers, investors, social entrepreneurs, family businesses, large corporates, business associations, accelerators, government officials, donor and UN staff, NGOs and experts. It was organized through a unique partnership involving development banks, private banks, UN and non-profit actors, with an extended network of knowledge and online partners across continents.¹

The overwhelming message was that everyone needs to do more, 'up their game' and collaborate more intensely. This will develop the ecosystem and as the ecosystem matures, so the businesses themselves can scale. The discussions generated a host of ideas for how each player can contribute to the effectiveness, scaling and mainstreaming of IB, detailed further in Section 3.

- **Businesses** were put squarely at the heart of inclusive business progress. There was consensus that many more business need to get involved. This requires technical assistance for business plan development, innovative financing and risk structuring, government encouragement and advocacy.
- The importance of **government and policy** was heard in many sessions and examples. The discussion has moved far beyond complaints about regulatory constraints, to encompass a range of incentives for IB such as accreditation and incentivization.

¹ See Acknowledgement section above for the full list of Forum partners

- With attention shifting beyond individual firms to the wider business case for IB, there was a strong call for **business associations** to take a prominent role in mainstreaming the approach.
- The scope for action by **Development Banks** was seen to be huge and way beyond just investing in inclusive business deals. Technical support to companies, development of policy and the ecosystem, and sharing knowledge were all recommended, along with internal process adjustments to design and manage inclusive deals.
- Discussion of Development Banks might well be expected at an event hosted by ADB, but this Forum was noticeable for the engagement of **commercial bankers** as well as impact investors. Their important roles in scaling businesses of different sizes, and adapting their processes – particularly risk assessment - to IB was highlighted in discussions and in banker training.

1.3 The parameters of Inclusive Business

There was considerable discussion of the heart of IB – what it is and isn't, how it is different from other business approaches such as CSR. Two somewhat counter-balancing themes emerged. One is the need for greater clarity and a typology to enable clearer dialogue about inclusive business. The other, is the need to recognize diversity in the market. Different players have different parameters for risk, return, impact, and their rationale for pursuing IB. Emerging examples of impact and financial return were shared, and a host of strategies for managing risk in IB deals were discussed.

Figure 1: The ADB definition of Inclusive Business

Inclusive Businesses (IB) is defined by ADB as commercially viable and bankable core-business models of private sector companies that provide – at scale - innovative and systemic solutions to the relevant problems of the poor and low income people..²

2 IB trends in South Asia and South East Asia

Four trends emerged:

- Inclusive business is growing rapidly but is not yet mainstream
- It is pioneering and takes hard work
- It is stronger in South Asia than the rest of Asia
- A tipping point is approaching, where IB wins acceptance and could accelerate

The number of IB models and initiatives³ is rapidly expanding in Asia. While South Asia is leading in innovative and profitable IB models, IB activity in Southeast(SE) Asia is more centred around social enterprise and CSR activities⁴. In both regions however, knowledge and investment are growing across the sectors. The Forum discussed innovative IB models in agribusiness, digital finance, education, health, urban services, and in new areas such as resource based industries, utilities, insurance, and tourism.

² See more on [IB definitions](http://bit.ly/IBAsiaHub) on the Inclusive Business Asia Hub (<http://bit.ly/IBAsiaHub>)

³ View an expanding list of inclusive businesses in Asia on the [Inclusive Business Asia Hub](http://www.inclusivebusinesshub.org)

⁴ For a country by country review of the status of IB, see <http://www.inclusivebusinesshub.org/ib-in-asia/countries>

Within this broad spread, the largest concentration of businesses was in agribusiness, working with smallholders. Some of the most established inclusive businesses are already working with over a million low-income clients (e.g. Manila Water, Jain Irrigation) but other initiatives are on a much smaller scale. Some companies, such as Jollibee in the Philippines, have transitioned initiatives from CSR to core business. Some of the fastest growing business examples were tapping into pent up consumer demand within the BoP: Coins.Ph reported signing up 1,000 new customers a day, enabling Filipinos to send and receive remittances at a fraction of the normal transfer cost⁵. BIMA, providing digital insurance, is signing up 700,000 subscribers per month. Others tap into high demand for products supplied by the BoP. An ADB dairy investment in Pakistan is rooted in the fact that urban demand for milk is growing at 15-20% per year, while smallholder supply has been growing at only 5%.

Investors and governments are building the eco-system. But overall, deal size is still small in most cases, awareness in mainstream business is low, and the eco-system is fragmented. The majority of deals are in businesses with annual revenues below \$5 million. Even the largest businesses, reaching tens or hundreds of thousands of people at the base of the pyramid, are mostly penetrating only a fraction of the market.

Forum participants were candid about the challenges they face in building inclusive business models – they tend to be messy, complex, iterative as well as inspiring. Large companies talked about the need to invest in pilots for a year, in order to get the model right. Small companies struggled with balancing delivery, growth and fund-raising. Bankers needed to see projects on the ground, to understand how best to structure risk and finance.

Figure 2: Inclusive business is messy and takes iteration

The Executive Vice President and Director of Global Creating Shared Value of Korean conglomerate CJ Foods explained how they spent over \$1million trialling seeds and conducting trial runs when CJ started working with poor farmers in Vietnam. The chillies were too hot and it took time, patience and partnerships to find the right chillies that the farmers could grow and would feed into the business' supply chain.

Inclusive business is rarely a 'one shot' business. Jollibee, a large Filipino food business, had to develop three offerings for its farmer entrepreneurship sourcing program: agro-enterprise support, farmer training, access to MFI finance, and linkage to markets for produce sales.

Several reasons for the difference between South Asia and Southeast Asia were discussed. The 'typical' problems of IB apply in both: high cost of large mile distribution, unfamiliarity with the purchasing and living behaviors of the poor, the large informality of the market, high perceived investment risks, and barriers to affordability and distribution. However, in Southeast Asia IB investments other factors include high risk aversion, a culture where imitating innovation is more wide-spread than leading innovation, and an environment in which caring for the poor is done actively by private sector through philanthropy and CSR, and is expected to be delivered by the government. ADB Vice President Susantono emphasized the importance of ADB investing in the enabling environment – not just in private sector deals - in Southeast Asia.

Differences with Latin America were also noted. Inclusive business is better established in the region, with more innovations, more businesses, and active engagement of the Inter American Development Bank and the International Finance Corporation. With higher living standards in

⁵ Founder and CEO of Coins.ph Ron Hose gave [this presentation](#) of the IB model at the IB Asia Forum

the region, inclusive business is defined as reaching those living on less than \$10 per person per day. IADB's 2015 report - emphasizing that BoP consumers are increasingly urban, connected, educated and able to make discretionary expenditure - provided detailed information on the BoP consumer market, described as 'Rising US\$750 billion market.'⁶

Figure 3 Lower Inclusive Business activity in Southeast Asia compared to South Asia

A recent ADB study on the Philippines found only about 100 commercially viable IB models, out of the one million companies (most of them in the informal sector) and 20,000 social enterprises, NGOs, cooperatives, and community organizations. Of this 100 only perhaps 15 were investable (meaning having sufficient scale for growth and a big enough rate of return - more than 10% perhaps - to counter the opportunity costs arguments of Chief Financial Officers and bankers).

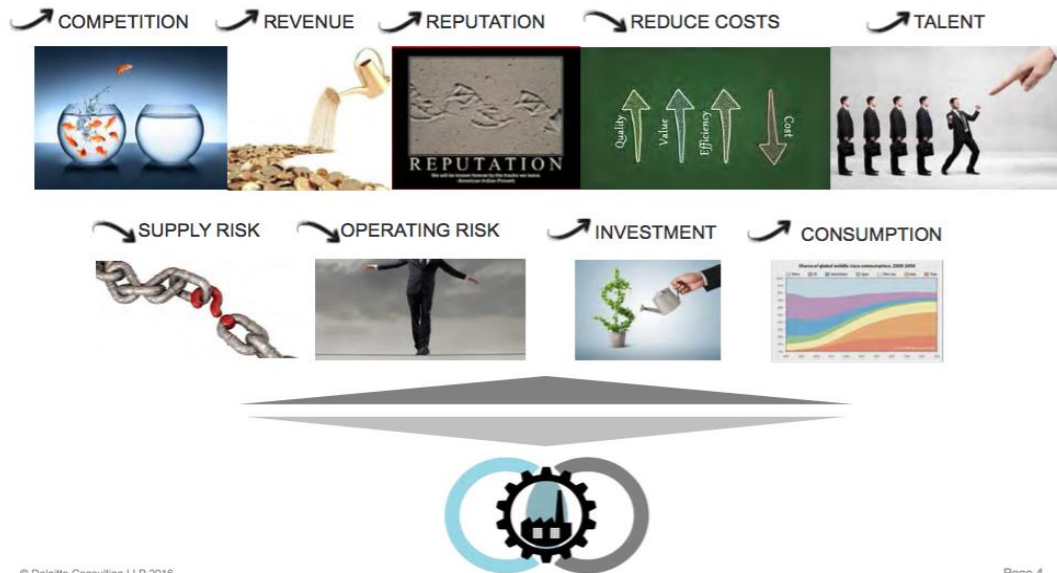
Another ADB study, jointly with Credit Suisse estimated that by 2015 about \$3.6 billion has been placed in Southeast Asia by impact investors. In contrast, Dalberg and the Global Impact Investment Network (GIIN) did a similar study for South Asia finding about \$6 billion investments cumulative.

Although IB is likely to remain a fraction of the overall business landscape in the foreseeable future, current trends, highlighted in a presentation by Deloitte, suggest IB could be about to become a much more significant fraction.

Figure 4 Deloitte slide on trends that are catalyzing IB growth

The Inclusive Business Case

No longer viewed as altruism, inclusive business can offer companies new pathways for growth, competitive advantage and a license to operate



⁶ <http://www.iadb.org/en/news/news-releases/2015-07-28/study-on-business-at-base-of-the-pyramid,11215.html>

Figure 5: Examples of how technology supports IB models

Mynt is a fintech company operating GCash and Globe. Globe provides first time loans to borrowers based on a credit score derived from mobile transactions. The loan 'never touched a human hand' as assessment is totally based on algorithms. Loan assessment is thus done much more quickly.

Entrepreneur Finance Lab is another company using technology for credit scoring, in this case using an online and offline questionnaire that is fast, visual, gamified and text light, drawing on psychometric testing. It enables loan officers to identify the least risky clients.

Mountain Hazelnuts uses a smartphone app for full traceability of the hazelnut supply chain. 150 field monitors visit the field every 30-40 days. The app allows them to send the field data to the head office in real time to get advice for the farmers to improve productivity immediately.

"Inclusive business breeds enthusiasm: if the board of directors of a development bank approves a \$3 million IB deal and a \$100 million infrastructure deal, it's the IB deal they talk about a year later."- ADB participant

3 Expectations and opportunities for each player to do more

3.1 Collaboration underpins progress

Innumerable examples demonstrated how critical collaboration is to the success of IB. While Government-business partnerships were most commonly described, the strong messages were that multiple players were often involved. Growth of IB requires not only more from companies, but more investors willing to provide finance, more technical support for entrepreneurs, more awareness raising among the business community, and a better enabling environment set by Government and specifically targeted to IB.

Figure 6: Example of multi-layered multi-stakeholder partnerships: Kennermer Foods

Kennermer Foods works with smallholders to boost their productivity and sales of cocoa in Philippines. The initiative has multiple components, from input supply to guaranteed buy-back. It works thanks to multiple partnerships, which include:

- Mars, as a customer and for providing agronomic expertise
- Philippines Business for Social Progress (PBSB) and the German aid agency, GIZ for training support
- IDH, the sustainable trade initiative, for support of management information systems
- Multiple partnerships with government including the government-owned Land Bank, the Department of Agrarian Reform for smallholder finance at municipal level, and Local Government units on planting preparation.

3.2 Government

Asia is unique in already having some governments that are actively embracing the IB agenda, setting up accreditation systems and reforming their industry policies to promote IB. There is a wide array of tools that Government can consider to support IB. Incentives can include accreditation, policy alignment, priority purchase agreements, bureaucratic smoothing, etc. There was broad discussion that tax incentives or company subsidies were not necessarily helpful or feasible, although the value of subsidy was highlighted through the case of Jain Irrigation. Government subsidy to encourage water efficiency has enabled farmers to access highly productive technology, with five million farmers benefiting to date. Fintech companies are finding the policy environment broadly supportive, though needing to evolve quickly in this sector. Supportive action by Government was prioritised strongly by Forum participants. In the feedback forms, government was the actor that Forum attendees felt most needed to act to promote IB.

Regional initiatives play a role in supporting and connecting governments. The G20 and the APEC both have decided to include IB in their work program. A side event organised by the G20 (see section 6.10) provided a space for governments to share ideas and challenges on their promotion of the IB agenda and the new G20 platform has a focus on understanding policy contexts that work for IB. In addition, ADB supports the government of the Philippines in preparing – in 2016 - a report on IB promotion in APEC countries. The report will be in cooperation with IADB which will cover countries in Latin America.

Figure 7: Government can play positive and negative roles in IB

Government interest in Pakistan: The Secretary for Planning in the Government of Punjab (Pakistan) explained how IB could fit into the government's ambitious growth strategy. Pakistan faces multiple challenges of the demographic bulge, and needs job creation and educational capacity. IB is at a very early stage, but there is potential to promote IB in key growth sectors under the industrial sector plan, to accredit IB, and to bring in abundant Islamic finance to drive it.

Challenges in the policy content: Rocky Mountain Coffee identified five challenges it faces in its smallholder sourcing in Philippines. Three of these relate to government:

- Corruption of local government
- Unwillingness of local government units to accept transparent legal framework
- Absence of protection mechanism for private sector investment in the countryside.

3.3 Development Banks

Perhaps not surprisingly for a Forum hosted within a development bank, there was considerable discussion of what development banks are already doing, and how to leverage their immense power more. Development finance institutions like ADB, IFC, IADB and bilateral development banks (AFC, FMO) are increasingly interested in IB as an investment case for their private sector and for their sovereign operations. The unique role of DFIs in the IB space is based on their legitimacy, their cost of capital, and having a long-term view.

While their capital is hugely important to finance IB, participants highlighted even more strongly the potential of DFIs to act as a broker to build the eco-system. Indeed, nine ways that Development Banks can support IB were discussed:⁷

1. Invest in inclusive business deals.
2. Advisory services: technical assistance to companies to support them to become more inclusive and to social enterprises to become more scalable.
3. Improve the enabling environment and ecosystem.
4. Realign industrial and SME promotion to support investment in IB.
5. Knowledge management and exchange on IB.
6. Give recognition and thus legitimacy to IB, work with other players such as G20.
7. Develop social impact bonds.
8. Develop measurement of IB.
9. Encourage and work with social enterprises to grow into IB.

Variations in DFI approaches emerged. From IFC, Toshiyo Masuoka emphasized that the financial return of IB deals was the same as other investments. From AFC, Aude Flogny explained the Social Business Initiative approved by the Board in 2015 is a window to allow lower return and higher risk. AFD shifted from a 5% loss toleration to a 10% loss toleration.

“The issue is not whether we should engage but how: funding deals in the private sector; funding deals in the public sector; and deepening the knowledge base on IB.”- Stephen Groff, ADB Vice President for Operations

“There is quite some way to go before DFIs can actually build the eco-system. We shifted from 5% loss to 10% loss toleration... It is often the perception of risk”- Jorim Schraven, FMO (Development bank of the Netherlands)

Dalberg also presented key insights from an ongoing study that they are conducting for the ADB on the role of development banks in supporting IB. Figure 8 shows one of the slides from Rajen Makhijani’s presentation at the Forum.⁸

Development Banks have unique strengths but also constraints. The Forum heard candid reflection on some of the obstacles that were flagged in a Dalberg study and raised by development bank staff. Changes in processes and structure that were suggested include

- Build internal awareness of IB across staff and management
- Change investment processes and norms to create incentives that support IB deals
- Develop new organisational structures that facilitate IB deals
- Do more to work with other DFIs and players on building the ecosystem for IB
- Look at large deals and see if an IB component can be developed, instead of just creating pure-IB deals
- Secure grant funding to be able to invest in the ecosystem and TA.

“Development banks are risk averse – it is easier to get them to finance the building of a highway for \$300 million than put \$15 million into an inclusive business.”- Ex ADB Banker

⁷ Drawing on speeches by Toshi Masuoka, Director, Development Impact, IFC, and Wencai Zhange, VP for Operations, ADB, and Rajen Makhijani, Dalberg

⁸ The full presentation can be [accessed here](#).

Figure 8: Dalberg's summary of findings from a study conducted for the ADB on DFIs and IB

Key Messages from the study

- **DFIs need to do this** - Given the evolution of the role of DFIs from stimulating GDP growth, to explicit goals on poverty reduction and promoting inclusivity, investment into the Inclusive Business has acquired significance.
- **DFIs can bring unique value** – they have a unique comparative advantage in helping IBs due to strengths such as cost of capital, long-term view, knowledge, networks, legitimacy with governments and ability to create leverage through demonstration effect.
- **DFIs current models pose constraints** - due to preference for volumes/ticket size, relatively high transaction costs, a 'different' risk appetite, and non-conducive internal processes and incentives.
- **DFIs have been doing a lot** – they are potentially the largest investors in the space, ahead of impact investors, commercial banks and bilaterals (tbc); they also have a number of ecosystem building initiatives. Most target private sector but some like ADB are also trying to work through governments to reach IBs.
- **How much should DFIs be doing is unclear**, but some experts feel 10-15% of the overall portfolio being invested in IB is significant enough.
- **How to do enough and maintain it**, consists of answering three key questions for every DFI:
 - What role do we need to play? What do we need to do?
 - Who do we need to collaborate with, on what?
 - What changes do we need to make internally?

Source: Dalberg Initial Findings on Study commissioned by ADB, Feb 2016

Focus of this session

Dalberg 2

Figure 9: Organisational structures for Inclusive Business within a Development Finance Institution

Four alternative organisational structures for inclusive business within a DFI were discussed:

1. **Opportunities for the Majority (IADB):** a dedicated team has been running IB deals (until recently)
2. **IFC:** each investment officer includes an IB component in their portfolio, with a separate team monitoring IB deals.
3. **FMO:** dedicated investment officers for IB sitting within core business departments, with strong support from policy department.
4. **ADB:** focal point located in the knowledge management department, working with public and private sector operational departments

3.4 Investors and commercial bankers

The roles of development banks, commercial banks, and other investors, such as private equity investors, were compared and contrasted in discussions. Investments in IB are expected to increase rapidly in the next years, with more flowing both from impact-oriented equity investors and from commercial banks. Several reasons could be driving this, including investor needs to

diversify, pressure to show more development value, or emerging evidence on financial returns that can be achieved from IB investment.

Growing interest from commercial banks was notable, with 45 bankers attending a full day training, the day before the full Forum. Their important roles in scaling businesses of different sizes, and adapting their processes to IB was highlighted. However, the sum of their investments is still small, given the small number of bankable deals, risk perceptions in the sector, and investment procedures that discourage small size deals.

Despite new deals and new investors coming in, IB is expected to remain - by volume - a niche asset class given the small size of typical deals (\$3-\$50 million) relative to mainstream banking and investment. Unitus, for example, reported that their deals are typically around \$0.5 - \$2 million. LGT illustrated the small scale of impact investment, and the variety within it.

The role of different types of instruments was discussed. Some, like LGT Invest, can deploy a mix of debt and equity according to investee need. Others such as Aavishkaar, have different vehicles for different instruments. All the investors noted that their investees have often also drawn on grants, such as from governments or challenge funds and these are an important part of the ecosystem. DFIs are also critical investors in impact investment funds: Aavishkaar noted that 75% of their funding to date comes from DFIs and non-DFI finance needs to increase. Consensus was that while instruments will be driven by investor mandates, it is useful for the market to contain a diversity of instruments and mandates within the broad spectrum of impact investment. In addition, as impact investment is still evolving, further iteration of instruments and models is likely.

“We’re blazing the trail here”- Vesi Kertikova, LGT Invest

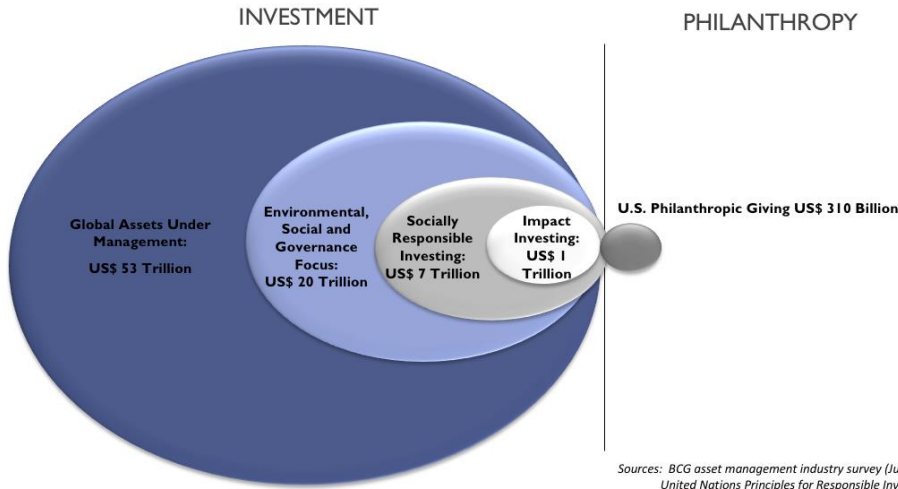
For all types of investors and bankers, more information and more exchange about appropriate risk assessment and innovative structuring of financing were highlighted as essential. It was agreed that ADB and Credit Suisse will offer a second training for bankers in the final quarter of 2016.

Figure 10 Slides from LGT Venture Philanthropy on the size and differentiation of impact investment

LGT Venture Philanthropy



Where is the capital?

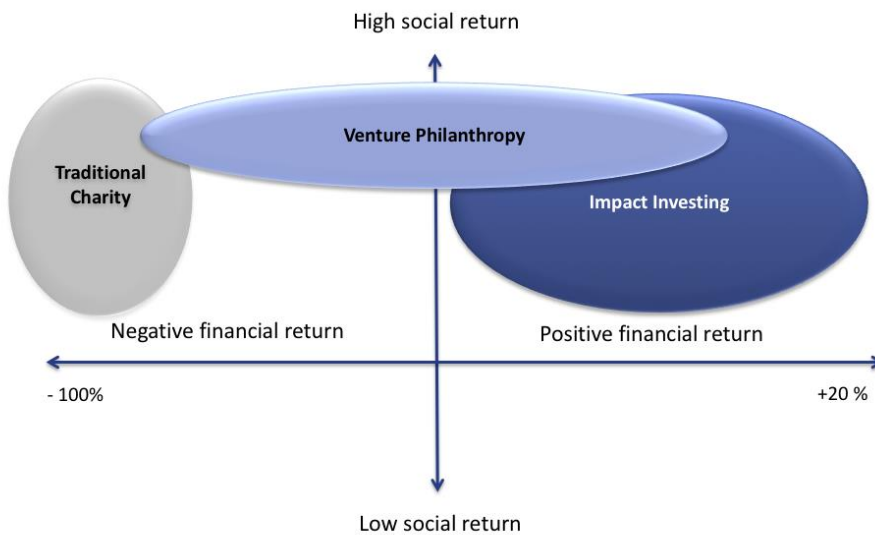


Sources: BCG asset management industry survey (July 2010)
 United Nations Principles for Responsible Investment
 J.P. Morgan: Impact Investments: An Emerging Asset Class (November 2010)
 Monitor Institute: Investing for Social and Environmental Impact (2009)
 Financial Times "Global managed assets rebound" (2011)

LGT Venture Philanthropy



Differentiating between Traditional Charity, Venture Philanthropy and Impact Investing?



3.5 Large and established business

Discussion about the role of established business highlighted three recurring themes:

- The importance of family firms and conglomerates to inclusive business in Asia
- Going 'beyond CSR' as initiatives become part of core business and the challenges of fitting internal structures with scaling IB
- The need to seize the opportunities and engage more firms.

Figure 11: Slide by Urmatt Foods that encourages businesses to do well by doing good



**You can make a lot of money by doing the right thing,
You don't have to take everything off the table.**

Corporates can be reluctant to engage in IB for a host of reasons. Risks are high when alternative models, markets and finance are involved. Often large firms find it easier to invest CSR or Foundation resources rather than put their own commercial capital into IB. Corporates may want a model that is ready to scale, rather than invest in incubation. But participants shared examples of companies that have successfully grown their IB, and discussed how corporates can innovate internally or collaborate with others.

CJ Group provided a strong example of an established business pushing innovation in IB. CJ Group began in sugar and is now South Korea's largest food company, operating at \$28 billion in 23 countries across sectors from broadcasting to animal feed. The company has a philosophy of contributing to society through business. The CEO recognized that 'the BoP market is very important, but we know very little about them'. With DFI investment, and with partnership from the Korean and Vietnamese Governments, CJ is investing in IB with farmers in Vietnam. The process involved much testing, but is now scaling up. Ms. Jo Heekyung, Executive Vice President and Director of Global Creating Shared Value of CJ Group, advised: start small and scale up.

Another example is Jain Irrigation, in India. Starting with provision of drip irrigation, the company realised that farmers needed market access as well as improved production. So Jain is now the largest fruit and vegetable processing company in India while impacting 5 million farmers. The advice from Dr Kulkarni, was that IB is dynamic, so expect the business model to change.

Figure 12: Inclusive business often involves collaboration between companies

Business for Millennium Development described how resource-extractive companies that want to work with their neighboring smallholders often partner with agricultural companies.

Another example comes from digital insurance, where interests of credit provider, insurance companies and telecoms companies overlap: the customers that take credit need insurance; the Mobile Network Operators need to boost customer loyalty and average revenue per user; and the insurance companies want to expand into BoP markets at low costs. Hence the collaboration in which BIMA provides digital insurance to borrowers which is paid for by micro-payments of air time.

3.6 Social enterprises

Social enterprises in the region are so far mainly small and seeking to get to a level of financial sustainability. Social enterprises have mixed objective, both commercial and social, with some aiming to be profit-making and others not. They face challenges running the business while investing in the foundations of growth and securing capital.

Social enterprises at the Forum cover a diverse array of businesses: soil sensors, bio-char fertilizer, ceramic water filters, renewable energy, and livelihood opportunities from water hyacinths, honey and agriculture. However they shared a common challenge: shifting from incremental growth to rapid scale. Their incremental growth is based on the demonstrated value of a decent product and as much extension of supply chains and marketing as over-stretched teams can manage. Rapid scale is what would enable them to reach perhaps 1% of the vast target market that lacks clean water, energy, agricultural support and sufficient livelihood opportunity. However, rapid scale requires capital and a robust plan for viability and expansion.

Figure 13 ADB categorization of IB, social enterprise and CSR

| | IB | SE | CSR | |
|------------------------|----------|----------------------|------------|----------------|
| Profitability | PROFIT | NON-PROFIT | | |
| Viability | BANKABLE | VIABLE | COMMERCIAL | NON COMMERCIAL |
| Scale of impact | LARGE | MIXED (MOSTLY SMALL) | | SMALL |

Some social enterprises had raised finance - but it had taken many months. Small over-stretched teams can't afford to prioritize fund-raising while ignoring marketing and production. It was clear that demand from social enterprises for innovation support, impact investment and

business to business peer learning is high, and the suppliers of these are still only reaching a fragment of this market.

Figure 14: Steady progress but limited scale so far for social enterprises

eKutir, a social enterprise in India that has developed an ICT solution to provide much needed information and training to smallholders, has reached more than 60,000 farmers in India through its 100+ micro-franchises. The company reports that it is economically sustainable both at the farmer level and the franchisee levels with each service provided paying for itself within a few months. In order to scale further, however, it needs additional capital to build operational capacity and develop more services.

3.7 Business Associations

Business associations are seen as critical for mainstreaming IB in the business sector and building a more supportive ecosystem. With attention shifting beyond individual firms to the wider business case for IB, there was a strong call for business association to take a prominent role. While impact investors focus on the firm level, and government focuses on the wider policy context, business associations can focus on the middle of the value chain, where improvements are needed to improve value chains and public goods for IB. Discussion focused on three particular gaps:

- Business cannot act alone. The future of IB lies in multi-stakeholder initiatives. So business networks and associations have a leading role to play in supporting and catalysing these.
- Discussions about the role of business in society are wider than just IB – human rights and sustainability are key themes too. Business association can help place IB within these wider agendas.
- Business associations can also help with advocacy and knowledge promotion to support mainstreaming of IB more widely in the business community.

Figure 15: Philippine Business for Social Progress

Philippine Business for Social Progress (PBSP) is an example of a business association that is working with its members to encourage the uptake of IB models. Established in the 1970s, PBSP is a corporate membership organization in the Philippines whose stated objective is to promote business sector commitment to social development. All PBSP members commit one percent of pre-tax net income to social development projects through the organization. In recent years, PBSP has been working to make its members aware of the benefits of inclusive business. PBSP Executive director Rapa Lopa stated at the Forum that has been an uphill task explaining the need for IB to its members and that increasing awareness of the business benefits is necessary.

While great interest of business associations was noted (for example in the Philippines), the actual activities are still small. It was suggested that development institutions and development banks partner more with industry associations on IB.

3.8 Regional policy

The IB policy framework is becoming a regional and global agenda item. IB is now discussed at fora such as G20 and APEC, with Asia playing an active role in promoting this. The Forum had a session of representatives from G20 governments (plus some other countries) to exchange on relevant IB policy initiatives in Asia. In the APEC context, the government of the Philippines was championing IB under its 2015 chair, and Peru is continuing in 2016, with potential for this to be continued by Papua New Guinea and Vietnam in 2017 and 2018. A study on the IB models in APEC countries will be prepared in 2016, with support from ADB and IADB.

3.9 Internal change and external outreach

Across all the organisations expected to play a role in driving IB forward in Asia, it was recognized that IB can be counter-cultural and requires internal change. Development bankers talked about changes in internal processes. CREDO Bank emphasized how constant innovation enables them to continue to improve services and thus reach at the BoP. The Forum heard how biotech company Novozymes recognized the need to create safe spaces for radical innovation and partnerships so created two mechanisms: internal structures for new ideas and through supporting incubation of innovation outside the company.

But there was no appetite for navel gazing. The consensus was equally strong that all players should do more to reach out to the mainstream and involve them more in IB. Avoiding hype, every player needs to increase awareness amongst others of the potential of IB.

3.10 An ecosystem perspective

In summary, the Forum was not focused on one single player but discussed different ways to build a more supportive and coherent ecosystem for IB. Building on a presentation of Monitor's analysis of the IB ecosystem, there was consensus that more is needed at every level, from the firm to the value chain and the policy context. Instead of a host of fragmented activities, the Forum saw the need for more alignment, more exchange, to exploit the synergy of what each player is doing. Only this will turn the putative 'tipping point' into actual rapid scale of IB to reach market penetration that solves problems of the poor, profitably, at scale.

4 The parameters of Inclusive Business: scope, return, impact and risk

4.1 Defining terms

The question of 'what counts as IB' recurred in several Forum sessions. While participants were reluctant to go down the 'rabbit hole' of definitional discussions, there was recognition that clarity on what is IB is needed for at least three reasons:

- There is an urgent need to publicise and mainstream IB beyond the current good examples. Advocacy requires clarity.
- Governments are interested in incentivising inclusive business, as are DFIs and other institutions. If incentives are to be applied, eligibility requires clarity
- The IB space is highly diverse and indeed messy, with social enterprise start-ups operating with grant funding and MILLIONC investments in supply chains both being

referred to as 'inclusive business'. For everyone to better understand the space and develop effective roles, collaborations and transitions, more clarity of terminology is needed.

Various discussions also touched on the relationship between IB and shared value, CSR, social enterprises, impact investments, SME promotion, financial inclusion, and value chain development.

ADB's definition of IB goes beyond a business that simply involves the poor, as customers, suppliers, workers or distributors. It focuses on innovative and systemic solutions with high relevance to the poor and clear potential to scale commercially.

The G20 and IFC have developed distinctions that seek to categorize types of entrepreneurial IB. The G20 framework distinguishes between:

- **IB models** as commercially viable and scaled up core business models often promoted by medium sized family owned national companies or as a dedicated business line of larger companies;
- **IB activities** as smaller non-core actions of companies to promote social and/or environmental purposes, and often sponsored through CSR; and
- **IB initiatives** as for profit or not for profit work with the poor and low income people, often locally focused without scale and bankability, often promoted by social enterprises.

In Forum discussions on models to date in South and South East Asia, there did appear to be a relatively sharp distinction (sharper than in Africa) between smaller social enterprises that are not profitable and corporate approaches that are core business, however there was less sharp distinction between CSR activities and core business activities, given the evolution of some CSR towards IB. For example, in Jollibee, use of CSR funds led to more strategic decision-making on IB models.

The discussion on strategic use of CSR recognized a core dilemma. CSR is different to IB – it is not commercially scalable and bankable – but can be very relevant. Investment of CSR funds plus time and space to test new ideas can be a useful way to lay foundations and build partnerships for IB models. So there is potential to shift CSR from isolated philanthropic causes to social causes that complement the value chain and complement IB. While there was a strong call to make CSR more strategic in this way, there is also lack of understanding of the space and lack of transparency about where business benefits lie. So critics will accuse businesses of "making money off the backs of poor people" if CSR is made more relevant to the value chain. Conversations are not matured enough to have this discussion in public.

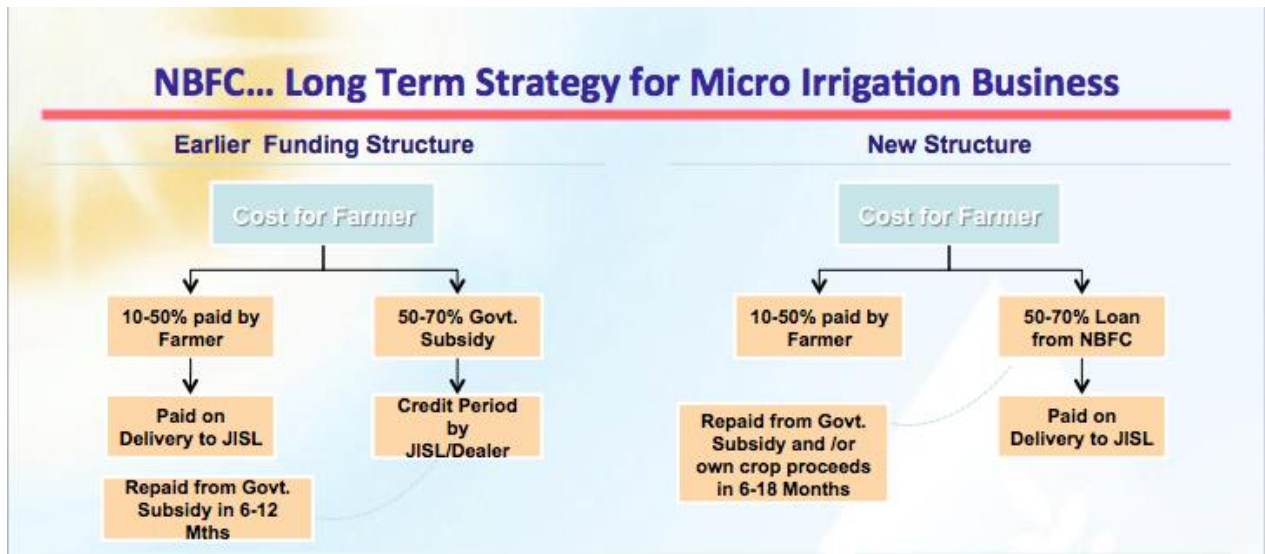
4.2 Commercial viability, profitability and bankability

IB is about core business and is expected to scale commercially. From the perspective of ADB and IFC, inclusive business is both bankable and commercially viable, with no trade-off between social and financial impact. Inclusive business deals must pass the same financial hurdle as any other deal. With the oldest and largest IB portfolio to date, IFC were able to inform the Forum how well their IB deals have performed. Eriko Ishikawa (IFC) referred to a recent IFC study that suggested the return on IB deals is the same as other deals for debt, and slightly better for equity. A study conducted by the IADB showed similar results. Investments such as in Jain Irrigation and Manila Water helped to demonstrate the case for IB investment.

However, DFIs vary in their return expectations and financing structures The French AFC has created a social business window which is expected to take more risk and achieve lower

financial return through low-interest loans supported by TA. Dutch FMO shifted from a 5% loss toleration to 10% for IB deals, and in equity accepted lower return.

Figure 16: Jain Irrigation explanation of the role of subsidy and financing⁹



Impact investors also noted different return expectations and experience so far. Unitus Fund expects 20%+ IRR across the portfolio with returns in the top quartile for venture capital. As home runs cannot be expected, this means each deal is held to a slightly higher bar (north of 20%). No trade-off is expected between financial and social return amongst their choice of investee. However the impact investment session also discussed that 'hype' about dual returns can be seen as a risk, and that philanthropic capital and blended finance are still playing a huge role in this space. For example, alternative types of finance are needed for:

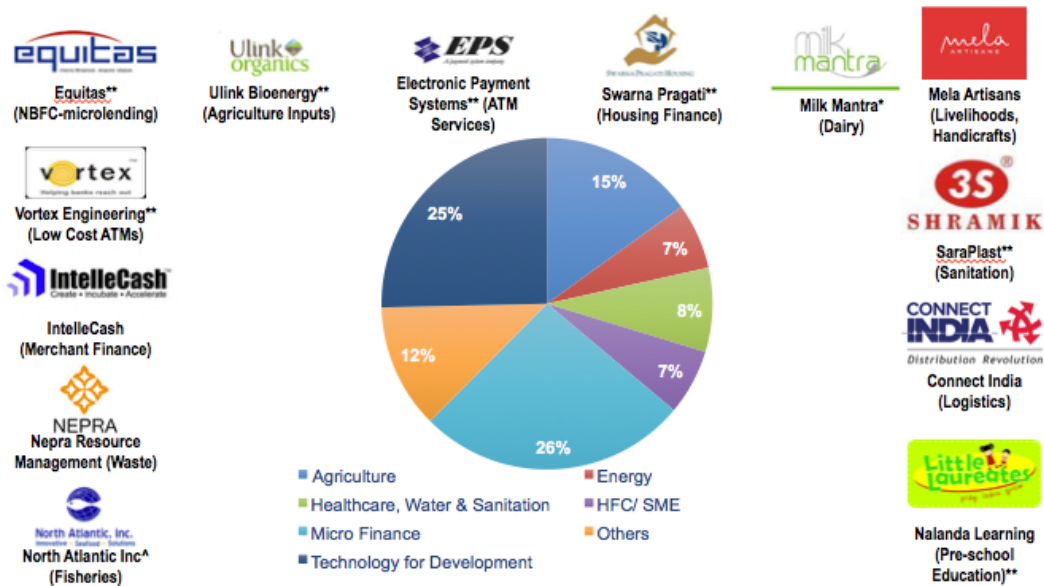
- Earlier stages, pre-revenue and pre-profit businesses, which need more patient finance;
- Smaller social enterprises, some of which aim to generate a return, but not a market return, as they simultaneously deliver clean water, clean energy, women's empowerment, and productive livelihoods.
- Impactful goods, services and infrastructure that could not be afforded entirely by the consumer, but fall also to the state to provide for (such as sanitation and irrigation, as per the example below from Jain, where subsidy contributes to the model).

Evidence of exits is only just emerging. Aavishkaar Fund, that began investing in 2012, has had 15 exits in India with positive returns and 6 write-offs so far. Most exits come from subsequent rounds of investment by growth funds and other equity investors.

⁹ Extracted from this presentation by JAIN President for sustainable agriculture, Dr. Kulkarni

Figure 17: Aavishkaar information on investees with exits or follow-on finance¹⁰

Aavishkaar: Portfolio spread from Finance, Technology, Agriculture , Energy



Aavishkaar has invested in 46 companies across 5 funds. ~50% of the companies have seen follow-on investments from VC/PE investors

*Companies that have delivered full/partial exits

** Companies that have/are in the process of follow on investments from other VC/PE investors

^ First investment in Indonesia for Aavishkaar

4

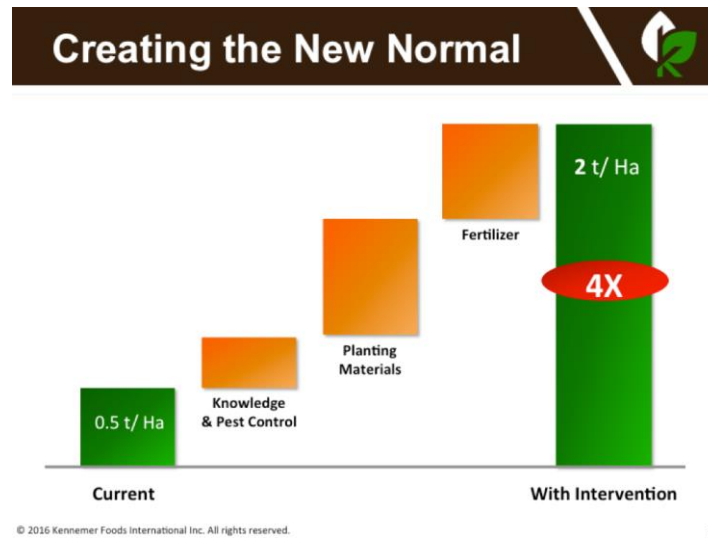
4.3 Social impact

Enthusiasm for the social impacts that IB delivers united Forum participants, as did the need to scale it up. Two areas of more nuanced discussion were around:

- The extent to which engagement of low-income people should be 'better than existing practice' or better than 'just engagement as producers or consumers'. While some players might argue they were doing IB all along because they buy from farmers, the ADB definition emphasizes that prices or wages should give farmers a premium over 'business as usual'. IB should represent a net gain. For example, Rocky Mountain Coffee showed calculations of how farmers net income per ha would multiply compared to conventional coffee farming.
- Criteria for assessing the social impact of IB. Social impact is much harder to define or calculate than financial return. To attract capital or government support, it needs to be clearly demonstrated and assessed. Discussions went beyond recounting the number of people reached, to also highlight other aspects of social impact, including relevance to problems of the poor, depth of impact, and who is reached.

¹⁰ Extracted from this presentation by Aavishkaar Fund CEO E.N Venkat

Figure 18: Kennemer Foods' slide illustrating net farmer gain from its IB project



Companies gave the following examples to assess their “reach”

- Manila Water, for example, has added 3.3 million customers to the water network, 1.8 million of them via Tubing Para Sa Barangay, targeting BoP households.
- eKutir reaches 60,000 Indian farmers with support to their farming enterprise. Through its sanitation initiative ‘Svadhā’, eKutir has reached more than 8,000 households through 100+ micro entrepreneurs.
- Mynt Globe has 1.5 million customers, transacting 1 billion PhP per week (US\$2.1 million), and 10,000 customers have loans so far.
- Entrepreneur Finance Lab, providing an online tool for credit scoring of low-income people with no credit history, has clients in 27 countries, and these financial institutions have reached 41,000 customers so far.
- Yes Bank in India has provided small loans to 2.3 million women borrowers in three years.

How much impact is enough? While eKutir explained their impact on 60,000 farmers that gain access to input, training and information, a former ADB banker argued that it’s not enough in the context of hundreds of millions of poor people in India – and not enough to convince DFIs to invest. While 60,000 is high for any single company, the question comes back to the heart of ADB’s definition of IB: business models that can scale and create systemic change.

Figure 19: Slide by Manila Water demonstrating its growing reach



Figure 20: Types of impact: income, costs saved, time saved, living standards

Impact comes in many forms: earnings, money saved, time saved, improved living standards, or respect.

Money saved: Migrant workers sending remittances home usually lose 7% in transaction costs – equivalent to losing an entire month's wages each year. Coins.ph explained how blockchain technology slashes that to just 1-3%, leaving more in the pockets of their families.

Time saved: Coins.ph which enables Filipinos to make money transfers by phone. The majority of customers would otherwise have to travel significant distances to a bank using up much of a day, to make a transfer. The majority of Coins.Ph users are women aged between 25-34, for whom such time savings have huge value.

Living standards: Agribusinesses including eKutir in India and CJ Group sourcing in Vietnam, found they had to go beyond agricultural improvements, to tackle other issues which affect productivity, such as sanitation or health.

Respect: Waste Ventures working with waste pickers in India, found that trust and respect, more than money, are important to secure the services of waste pickers.

4.4 Environmental impact

The discussion on SDGs reinforced the point that future challenge is about new ways of doing business that are not only inclusive but also sustainable. Some of the IBs at the forum are already combining environmental and social impact. Averting or sequestering CO₂ where highlighted by businesses both in agriculture (e.g. Bhutan Mountain Hazelnut and Rocky

¹¹ Extracted from the presentation of Manila Water at the Forum

Mountain Coffee, below) and in waste (Waste Ventures, below), alongside other environmental benefits which run alongside social impact.

Figure 21: Integrating environmental and social impact

Bhutan Mountain Hazelnut is a triple bottom line business in Bhutan that is having a social impact while benefitting the environment through its hazelnut production business. The company is working with local smallholders to plant 10 million fast growing hazelnut trees on degraded Himalayan slopes.

- Environmental benefit: 10 million new hazelnut trees will sequester 1.5 million tons of carbon dioxide and add 25,000 acres of forest cover.
- Social impact: By providing the trees, training and a buyback mechanism for farmers, the company is increasing household income of farmers by two-three times.

Rocky Mountain Coffee has a business model which delivers benefits in four directions:¹²

- Farmer benefits include a competitive price per kg, quality produce, their own plantations, modernized farming and social benefits
- Community benefits include access to better education, health care, roads, emergency disaster assistance, and capacity building for TribeCo (farmers' organization)
- Environmental benefits include reforestation, carbon absorption, use of shade, benefits of natural fertilizers.
- Company benefits are a competitive cost per kg for the coffee and quality green beans that meet SCAA standards.

Figure 22: Waste Ventures slide showing the environmental impact of its IB model



¹² See the presentation by the Rocky Mountain CEO here to learn more about this model

4.5 Risk

Candid views were expressed on the riskiness – or perceived risk – of IB infused several sessions. Inclusive business investments are often seen as more risky by investors and financiers. Jorim Schraven from FMO, admitted that formerly as Chair of the FMO Investment Committee, he ‘looked unfavorably’ at IB deals. Risk, particularly operational risk, tends to cascade through the IB deal. Uncertainty about BoP consumer behavior underpins operational risk. But the complex structures that create layers of risk in IB deals also help to share and thus mitigate risk. In this way, risk in IB deals is different rather than worse than other investments.

In the opening session, Lito Camacho from Credit Suisse explained that IB investments can generate as good a return as other deals and it is an advantage that IB deals have risks that are unrelated to other risks that Credit Suisse takes as an institution.

“It is often the perception of high risk, not the actual net risk, that is a constraint.”- Discussion session on the role of Development Banks

Figure 23: Inclusive Business: More or less risky?

| Why IB may be more risky | Why IB may be less risky |
|--|--|
| <ul style="list-style-type: none"> • Business model is unproven. Scalability is unproven. • BoP market is unfamiliar and information is lacking. • Multiple players add to complexity • IB models such as Lifespring Hospitals are asset light, and lack collateral. | <ul style="list-style-type: none"> • It involves multiple stakeholders and disperses risk • Understanding of the poor reduces risk • It takes a long-term view • It doesn't just look at quarterly profits. • Risks are weakly correlated to other investment risks (so may be counter cyclical). |

“Don't ignore the ‘credit positive’ attributes of IB deals that may not be so obvious when sitting at your desk.”- ADB participant

A wide range of suggestions for how to clarify and mitigate risk emerged, falling into 3 broad categories:

- Sharing financial risk:
 - ✓ Financing arrangements that include first loss guarantees and other forms of risk-sharing amongst investors;
 - ✓ Deal structures: milestone-based investments, convertible notes, put options, syndications; inclusion of performance payments in the model as incentives;
 - ✓ Integrating output based payments and subsidies; tapping into government programs and grants;
- Tightening the business model to reduce operational risk
 - ✓ invest where there is strong demand growth at the BoP,
 - ✓ understand the consumer and affordability, and invest in consumer capacity or community development
 - ✓ pay huge attention to cost structures, use technology for scale at low cost,
 - ✓ coordinate value chain players to blend skills and build buy-in.
- Good risk management processes include:

- ✓ Due diligence: deploy usual high standards of social, environmental and ESG risk screening to IB deals.
- ✓ Reality check: visit on site to understand things on the ground and credibility of the partners.

Figure 24: IFC's approach combining risk mitigation tools

Since 2005, IFC has invested \$12.5 billion in more than 450 companies in 90 countries, reaching more than 250 million beneficiaries to date.¹³ A variety of risk mitigation tools are used, including first loss guarantees and incorporation of subsidies, attention to cost structures in the business model, and investing in the BoP consumer base.

For example, in the Manila Water investment, output based aid was integrated, along with subsidized connection fees for poorer households, reducing the risk for investors. Investment in community development ensured that communities would decide on cost-sharing and police against non-metered water use. Beneficiaries of the water meters grew successfully from 300,000 to 1.8 million from 2002-2014.

“Risks: avoid them, take them, reduce them, transfer them to others.”- Discussion on ‘mitigating risk in IB’ session

First loss guarantees were seen as better than subsidy because they reduce the price of capital but market principles still apply to the business. The costs of structuring deals are high, particularly the first time, due to the discovery process.

Figure 25: Mitigating risk through financing structures and engagement with BoP clients

In an ADB investment in Pakistani dairy supply, it was more important to focus negotiations on how to mitigate risk than on rates of return. DFID agreed to provide first loss cover of up to 20%. The dairy company agreed to take 10% second loss, ADB and the local bank agreed to cover 70% as third loss. Due to this structure, it was possible to offer credit to farmers at lower rates (15-20% below MFI rates for a 5-year loan) thus enhancing the social impact and scalability of the business. Arrangements with the dairy farmers further reduce default risk: as they get paid by the dairy weekly, so repayments were arranged weekly. Good repayment performance leads to eligibility for further loans, acting as further incentive. Finally, support from a veterinary team further reduces non-payment risk.

Another example of careful engagement with consumers to reduce risks came from 8890. In the Philippines, 8890 sells low-cost housing (\$9,000 – 20,000). A proactive collection platform focuses on educating consumers, providing financial literacy training and modifying their behavior. This has led to 96% collection efficiency and exponential growth.



“Consider the risk culture of your organization. How are loan officers incentivized? Being able to structure a transaction properly is important. But willingness to be able to close on a highly structured innovative or unprecedented transaction is determined by the risk culture in your organization.”- Malik Rashid, Risk Management Specialist, ADB

¹³ More information about the IFC Inclusive Business investments is available at http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Inclusive+Business

5 Sector perspectives: session summaries

Nine business sectors were covered in dedicated sessions, where companies, investors and experts discussed the latest models and strategies. The chapters below summarize the main discussions. Where available, presentations from each session can be accessed by clicking on the pdf icon in the overview tables. All presentations are included on the Forum website at <http://www.inclusivebusinesshub.org/ib-asia-forum/agenda>.

5.1 IB in Agribusiness




| |
|--|
| Session: Achieving Profitable Business Returns and Meaningful Social Impact in Scale - Challenges for IB in Agribusiness (day 1) |
| Examples of businesses/initiatives shared |
| Mountain Hazelnut (Bhutan): company producing hazelnuts, working with local smallholders. Teresa Law, Chief Financial Officer |
| Rocky Mountain Café (Philippines): company producing coffee, working with local smallholders. Pierre Ive Cote, CEO  |
| Urmatt (Thailand): organic food company engaging with farmers in the supply chain. Arvind Narula, CEO  |
| Thematic presentations |
| Mark Ingram, Business 4 Development (Australia): Not only more food but also better and more jobs - Can DFIs and Growth Asia deliver? |
| Moderator: Martin Lemoine, Principal Investment Specialist, Office of the Director General, Private Sector Department, ADB |

The sessions illustrated progress amongst a diversity of agri-business models ranging from those sourcing directly from farmers to those providing information for farmers as clients.

Three factors are common across all the models discussed:

- (1) Partnerships – collaborating with local organizations, NGOs, government agencies and donors.
- (2) Participation – understanding the needs of the smallholders and including them in decision making.
 - ✓ Capacity building: Mountain Hazelnut from Bhutan emphasized the importance of building the capacity of its staff and local farmers.
 - ✓ Providing other support – helping improve access to other basic services for smallholders and their families including sanitation, education and healthcare
- (3) Pricing – Farmers are often unaware of the market price and companies have found that being transparent helps build trust.




5.2 Insurance

| |
|--|
| Session: IB Models in Insurance (day 1) |
| Examples of businesses/initiatives shared |
| Sompo Japan Nipponkoa Insurance (Japan): Large insurance company providing weather insurance to the rural poor in Thailand and Myanmar. Masao Seki, Senior CSR Advisor  |
| ICICI Lombard General Insurance (India): Large insurance company providing ICT enabled micro-insurance products. Alok Agarwal, Executive Director  |
| SwissRe (Switzerland): Large insurance company providing micro-insurance products Thomas Kessler, Head South East & East Asia Global Partnerships  |
| Moderator: Arup Chatterjee, Principal Economist, ADB |

With aging populations, increasing health costs, and accelerating environmental; and climate change risks, social insurance for the poor and low income people is an expanding area. But the literature cites only very few Inclusive Business models in the insurance sector. This session discussed the right enabling environment to develop innovative IB models in the insurance sector.

Key challenges identified by panelists included the lack of availability of reliable weather data, low awareness about insurance and the need for local distribution partners. A multi stakeholder approach is required to overcome these challenges.




5.3 Education

| |
|--|
| Session: IB Models in Education (day 1) |
| Examples of businesses/initiatives shared |
| Hippocampus (India): Enterprise that has set up pre-school learning centers in rural India. Umesh Malhotra, Founder  |
| YCAB Foundation (Indonesia): Foundation that runs peer to peer programs that impart lifestyle and life skills training to youth in schools. Veronica Colondam, Founder and CEO  |
| Thematic presentations |
| Ron Perkinson, Consultant: Innovative Financing for Private Sector IB Opportunities in Education – An Overview |
| Ashish Karamchandani, FSG: Enabling environments for IB opportunities in vocational training, K-12 schools, and education quality in India  |
| Moderator: Anirudha Patil, Principal Investment Specialist, Infrastructure and Finance Division, ADB |

Private education is not only common among the better off in Asia, but also among the poor. Vocational training and kindergarten education, in particular, offers good business opportunities for IB companies. The session looked at some leading examples in India and Indonesia.

In India, many Early Childhood Education (ECE) programs are of poor quality with a focus on rote learning and excessive testing. These programs are cheap to deliver and are providing services that parents look for. Market based solutions need to strengthen their business models and need ecosystem support in order to scale. An FSG-led affordable ECE program has identified the need for empowering parents to assess and demand better ECE as well as the need for a supporting ecosystem measuring quality, supporting providers, influencing policy.

5.4 Utilities and infrastructure


| |
|---|
| Session: Learning from IB Models in Latin America & Asia: Utilities & Infrastructure (day 2) |
| Thematic Presentations |
| Miguel Mendez, SNV Country Director, Viet Nam: Inclusive Business models in Latin America – results of an IADB study  |
| Carlued LEON, Manaus Consult: Innovations of Utility Companies in Latin America to Address the BoP Needs  |
| Robert de Jongh, Monitor Deloitte: What ADB and Asia could learn from IADB and Latin America. Results from a joint ADB-IADB Study  |
| Moderator: Armin Bauer, Coordinator of ADB's IB Initiative, ADB |

This session discussed innovative IB examples from Latin America and the possibilities for replication in Asia particularly focusing on utilities and infrastructure solutions provided by IB models.

Key lessons learnt from the Inter American Development Bank's support of inclusive business through the Opportunities for the Majority program:

- Multi-lateral development banks can add value: increased income of more than 300,000 households, created more than 40,000 new jobs by supporting 45+ IB projects.
- Internal adjustments were necessary to accommodate IB within IDB processes
- IB doesn't mean higher risk and lower returns
- An experienced, diverse team is necessary to identify right opportunities
- Good evaluation is key to validation and learning

5.5 Tourism

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| Session: IB Opportunities in Tourism (day 2) |
| Examples of businesses/initiatives shared |
| Bohol Bee Farm (Philippines): Enterprise that runs a sustainable bee farm, hotel and restaurant. Vicky Sandidge, Founder and CEO |
| EI Nido / Ten Knots Resort (Philippines): Sustainable resort chain. Mariglo Laririt, Director of Environment and Sustainability |
| Jetwing Group (Sri Lanka): Sustainable hotel chain. Angie Samuel, Marketing Communications Manager |
| Local Alike (Thailand): Enterprise that runs tailored, sustainable travel experiences. Noon Pakavaleetom, Co-Founder and GM |
| Thematic presentations |
| Ministry of Tourism, Indonesia: Enabling Inclusive Tourism Sector Development – Putting in Place Incentives and Support Structures. Dr. Frans Teguh, Director of Tourism Infrastructure Development  |
| Moderator: Sarah Schwepke, Head of Responsible and Inclusive Business Hub Jakarta, GIZ |

The potential for inclusive tourism in South East Asia is huge but the existence of IB models in this sector are few and far between.

Panelists agreed that to be truly sustainable and make a profit, inclusive tourism models have to involve local communities in the supply chain particularly for sourcing supplies and employment. In 2006, 72% of EI Nido's staff came from the local municipality. By 2013, it was at 90%, which contributed to EI Nido resorts' WTTC award for best sustainable practices. Measuring impact has been critical to the success of Bohol Bee Farms – from the amount of training its staff gets to the benefit it brings to the community in terms of education, to the environmental cost of bringing tourists to a remote island.

All the initiatives agreed that the government needs to do a lot more in this sector. While they all pay high taxes, the local government provides little by way of support with poor infrastructure hindering their business growth.

“We love to be inclusive, we love to help, but we can only do so much if other stakeholders, the government, don't fulfil their role” – Bohol Bee Farm

5.6 Resource based industries




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| Session: IB Opportunities for Resource Based Industries(day 3) |
| Examples of businesses/initiatives shared |
| MMG: International Mining company. Melanie Stutsel, GM, Social Development and Public Policy |
| Delta Minerals (Sweden): Mining company conducting river dredging projects in the Philippines. Thomas Lundgren, CEO |
| Thematic presentations |
| Marina Kusumawardhani, Adviser on Inclusive Business, Indonesia: Making CSR of Resource Based Industries more Strategic – IB and SE Suggestions from Indonesia |
| Moderator: Mark Ingram, CEO, Business for Millennium Development, Australia |

Resource based industries are those which primarily extract natural resources such as minerals, oils, natural gas etc. IB initiatives in this sector are often borne from CSR programs and are in contrast to the more typical CSR (building schools, providing scholarships etc). IB initiatives can take a lot of time to implement and get off the ground where there is conflict between the company working in a particular area and the community living in that area. It is critical to build trust and develop local partnerships. Cross industry collaboration is very important - a lot of the partnerships are between agri-businesses and the resource company as the resource companies are keen to work with the local communities (usually rural subsistence farmers).

With the falling prices in oil and metals, most resource companies are struggling financially and are finding it hard to keep social and environmental performance initiatives going in a challenging economic climate. This is where IB is all the more important as it yields financial returns and is not seen as a burden to the company.

“Don't try and solve the problem (referring to social problems in the community) by throwing money at the situation, solve it with careful thinking.”- Melanie Stutsel, MMG

5.7 Digital finance


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| Session: Innovations in Assessing Credit Risk of Entrepreneurs and Consumers (day 1) |
| Session: Digital Finance(day 3) |
| Examples of businesses/initiatives shared |
| Mynt/Globe (Philippines): digital financial service company providing services to the unbanked. John Rubio, President and CEO  |
| Entrepreneur Finance Lab (EFL): company that has developed customizable ICT enabled credit scoring systems to improve access to credit. Alan Martinez, Director of Advisory Services |
| Coins.Ph (Philippines): a mobile payments service provider. Ron Hose, Founder and CEO  |
| BIMA: provider of mobile-delivered insurance. Brandon Ho, Philippines Country Manager  |
| Other presentations |
| Moderator (Digital finance): Mike Driver, Investment Specialist, Private Sector Financial Institutions Division, ADB |

The unbanked population in Asia is huge and digital finance is providing them with a range of solutions for cash management, routine payments, access to credit, insurance, and remittance flows. Technology is key to serving the 80% of people across the world who don't get credit through traditional models. Digital transactions allow the unbanked to save time and money on sending and receiving money. It also allows them to build up a credit record and will over time unlock credit. Other digital activities can also be used for credit assessments.

Digital finance models can bring about huge time savings for those that would otherwise spend much of a day to make or receive a payment. They also provide huge monetary savings on commissions for transactions. Many models in this sector engage more women. Digital finance depends on a range of complex partnerships and is affected by the regulatory environment which is broadly positive.



“In the future, customers will want banking services, but not the banks.”- FinTech company

5.8 Health

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| Session: IB Opportunities in Health(day 3) |
| Examples of businesses/initiatives shared |
| Sanitas Internacional (Mexico / Philippines): large health care provider in Latin America providing affordable healthcare to the BoP in Mexico and the Philippines. Jaime Daniel Escallon Gaviria |
| Modern Family Doctors (India): enterprise that provides primary health care services in small towns. Naresh Malhotra, CEO  |
| Glovax (Philippines): vaccine company that improves access to affordable vaccines for the BoP. Giovanni Alingog, CEO |
| Thematic presentations |
| Eric Berkowitz, Chief Investment Officer for Asia, Bamboo Finance: Why commercial private equity investors increasingly fund IB models in health |
| Moderator: Susann Roth Senior Social Development Specialist (Social Protection), ADB |

The health sector is one of the fastest growing sectors in Asia because of increasing healthcare demand and a more affluent population. People in all income groups accept that they have to pay out of pocket for healthcare of certain standard. The private sector offers innovative business models for healthcare solutions; however, those for the BoP are still nascent. This panel discussed what is needed to provide a conducive environment for IB in health.

5.9 Urban and housing

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| Session: Urban and Housing (day 3) |
| Examples of businesses/initiatives shared |
| Svadha Sanitation (India): enterprise that provides ICT enabled sanitation solutions to the BoP. Krishna Mishra, Chairman of the Managing Board  |
| 8990 Development Housing Corporation (Philippines): housing corporation that provides affordable housing solutions. Jesus Atencio, CEO  |
| Waste Ventures (India): enterprise that engages with waste pickers to collect and recycle waste. Roshan Miranda, CEO |
| Moderator: Jim Ayala, CEO, Hybrid Solutions |



Three diverse models were presented at the session but the one key success factor for all three models has been understanding and building awareness of the customer/beneficiary. For Svadha, a lot of work goes into educating local communities about why using toilets are better than open defecation and making them aware of the value of hygiene products. 8990 also focuses on education when providing low-cost housing finance. All its customers undergo financial literacy training leading to 96% collection efficiency and exponential growth. Building trust amongst waste pickers has been crucial to the success of Waste Ventures. The company

found that treating the pickers with respect and dignity went much further than promising monetary returns.

“Installing toilets is easy...the hard part is adoption”– Svadha

6 Cross-cutting themes: session summaries

6.1 IB in South East Asia


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| Session: IB in South East Asia (day 1) |
| Thematic Presentations |
| Gayatri Lobo, Senior Project Manager, Dalberg: The IB and SE market in Southeast Asia – Preliminary results of two ADB studies  |
| Markus Dietrich, Executive Director, Asia Social Enterprise Incubator: IB in the Philippines |
| Than Phat Nguyen, Manager, Viet Nam Inclusive Business Accelerator, SNV: IB in Vietnam  |
| Moderator: Scott Roberts, Investment Specialist, Infrastructure Finance Division, ADB |

There are many more innovative and successful inclusive business models in South Asia than in Southeast Asia. However, the purchasing power of the BoP in Southeast Asia is much higher so there is definitely a market. The main issue is the low level of IB entrepreneurship in the region. This session assessed the IB opportunities and challenges in the region.

Dalberg identified five major obstacles in the path to scale for IBs in the region:

- Securing finance: a nascent funding ecosystem.
- Talent management: access to professional talent and ability to train/ upskill employees is limited.
- Managing regulations: bureaucratic legal procedures and a lack of unique legal structures for IB.
- Distribution of product/service
- Measurement and communication

6.2 Innovative financing


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| Session: Mitigating Risks through Innovative Finance Structuring (day 2) |
| Thematic Presentations |
| Malik Rashid / Enrico Pinali, Risk Management Specialists, Credit Risk Assessment Division, ADB |
| Anirudha Patil / Martin Lemoine, Principal Investment Specialists, Private Sector Department, ADB |
| Rainer Hartel, Director, Public Management, Financial Sector, & Trade Division, ADB |
| Donna Gonzales, Senior Investment Officer, IFC  |
| Anand Chandani, Director - Asia Pacific, responsAbility India Business Advisors Private Ltd  |
| Moderator: Noah Beckwith, IB and IB Fund Structuring Finance expert |

Inclusive business models are often perceived by investors, especially banks, as risky. This session looked at examples of such risk mitigation finance strategies from the portfolios of ADB,

IFC and responsAbility. It was clear that IB deals throw up many new kinds of risk, but at the same time present new opportunities for risk mitigation.

The strategies used to mitigate risk were diverse. Investment officers have become very innovative in structuring financial aspects of the deal to reduce risk. But many other approaches to reduce risk were also discussed, particularly tackling operational risk through stakeholder management and fine-tuning the business model.

6.3 IB Incubation

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| Session: IB Incubation for large companies: exploring an incubator approach (day 1) |
| Examples of businesses/initiatives shared |
| Medtronic: International medical device company that has developed an inclusive model to prevent hearing loss and empower women in India. Jeannie Kwok, Global Engagement and Portfolio Lead |
| Jain Irrigations Systems Limited (India): Large irrigation equipment maker that works with smallholders to improve their agri-practices. Dr. Dilip Kulkarni, President, Sustainable Agriculture  |
| Thematic Presentations |
| Robert de Jongh, Monitor Deloitte |
| Naina Suberwal Batra, CEO, Asia Venture Philanthropy Network (AVPN) |
| Anand Chandani, Head of Asia Operations, responsAbility |
| Moderator: Stefan Maard, Co-Founder, DIVA Ventures L3C |



Key themes discussed were:

- Corporates can get involved with IB incubation in two key ways:
- Buy side– identify social enterprises/IBs that are delivering services/products aligned with their core business/interests and find ways to support and invest in them
- Build side– set up a separate business stream through exploring areas around the value chain. Companies can set up internal solutions and incubators.

A culture within the corporate is important allowing intrapreneurship¹⁴ and innovation to thrive. An internal incubator helps with this and offers a ‘free space’ for intrapreneurs. Partnering with external experts also helps promote innovation and research & development. All participants agreed that partnerships are key for corporates looking to be successful in IB due to the complexities of the market and the business model that are different to traditional business.

¹⁴ Intrapreneurship is the act of behaving like an entrepreneur within a large organization. Intrapreneurs have an entrepreneurial flair and develop projects or ideas within an organization in an entrepreneurial manner. They are often encouraged and given the resources to develop these projects by the organization they work for.

6.4 Ex ante Impact Assessment

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| Session: Assessing IB Impact, how can ex-ante assessment influence implementation? (day 1) |
| Examples of businesses/initiatives shared |
| Waste Ventures (India): Inclusive enterprises that works with waste pickers. Roshan Miranda, CEO |
| Thematic Presentations |
| Armin Bauer, coordinator of ADB's Inclusive Business Initiative: Going Beyond "Reach" - Ex-ante Impact Assessment for IB projects – ADB's Approach for projects and IB Accreditation  |
| Erinch Sahan, Global Adviser on Business and Markets, Oxfam UK: How Oxfam seeks to influence company and investor practice through 'Behind the Brands' campaign  |
| Moderator: Caroline Ashley, CEO of Ashley Insight, Results Director of Connect to Grow & Founding Editor of the Practitioner Hub for Inclusive Business |





Participants agreed that ex ante assessment of IB is useful and needs to be more ambitious, to influence decision making and project design. It needs to be simple enough to bring the entrepreneur along, and should integrate with commercial metrics too. Complete harmonization on indicators is not possible because each player has their priorities and wants to differentiate their position. But a common platform, sharing of approaches and some common headings would be a place to start. A common framework would cover numbers reached, who is reached, significance (or depth) of benefits, relevance of the problem, scalability of the solution and contribution to systemic change - although each user of such a framework would interpret and prioritise these differently. There was a difference of opinion on whether power balance and shares of returns to BOP in the value chain are essential or too ambitious and distant from the business.

6.5 IB support from High income Asia and other OECD countries

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| Session: IB support from High income Asia and other OECD countries |
| Thematic Presentations |
| Kim Jeong Tae, CEO and President of the Merry Year Social Company: Promoting Social Enterprises and Inclusive Business in the Republic of Korea |
| Takashi Baba, Director, Private Sector Partnership Division, Japan International Cooperation Agency: Japan's policy to stimulate inclusive business investments abroad |
| John Cox, Private Sector Development Advisor, Private Sector Department, DFID: SE work in UK, and IB support through DFID |
| Silvia Heer, Private sector and sustainable economic growth division, German Ministry for Development Cooperation: Technical and financial support for IB through Germany |
| Moderator: Marcos Neto, Head, Private Sector and Foundations and Business Call to Action , UNDP |

The opportunity for businesses in high income countries to develop IB models in currently unserved or underserved markets is big. Some governments (particularly UK, Germany and Japan) are now actively encouraging the private sector to invest in the BoP market in Asia's poorer economies and are designing programs to help businesses move into these markets. Businesses shouldn't be expected to move into challenging markets on their own. Sometimes they need to collaborate with the public sector and civil society. In some countries, there is an increasingly sophisticated ecosystem of support for growing inclusive businesses/social enterprise, which governments have helped to develop. Other countries, both high and low income, could look at how this infrastructure can be replicated in other geographies.


6.6 Gender

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| Session: Better Addressing Women Empowerment through IB (day 1) |
| Examples of businesses/initiatives shared |
| Lifespring Hospital (India): Hospital chain providing maternity and other healthcare to poor women. Vijay Srinivas, Head, Process Control Development  |
| Engro Foods Limited (Pakistan): FMCG company working with smallholder dairy farmers. Saud Ahmad Pasha, Director Agribusiness  |
| Thematic Presentations |
| Mara Chiorean, Executive Director, CSR-Asia Hong Kong: Women Empowerment in the Asian Corporate Industry |
| Isabel von Blomberg, Consultant, Endeava: How Inclusive is Inclusive Business for Women? Key Findings of an ADB Report  |
| Moderator: Sonomi Tanaka, Technical Advisor (Gender Equity), Social Development, Gender and Governance Division, ADB  |

Most companies including inclusive businesses are well behind in employing and serving women. A study by ADB/Endeva analysing 100 inclusive businesses in the ADB, IFC and IADB portfolios showed that only 13 of them target women explicitly. This is despite the clear business case for working with women particularly in agriculture.

Accessing women is a huge challenge for businesses. Lifespring has overcome this by building hospitals directly in slums and near markets. Low-income women then do not have to travel far to get good quality healthcare. Partnerships with the public sector & NGOs are key but these can be challenging and time consuming. Another key challenge is addressing the trade-off between employment and household factors such as childcare.

6.7 Strategic use of CSR




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| Session: Strategic use of CSR (day 2) |
| Examples of businesses/initiatives shared |
| 5by20 Initiative, Coca-Cola (Philippines): From CSR via Shared Value to IB. Patricia Maquilan, Director |
| Fujitsu Research Center, Fujitsu (Japan): CSR and IB in Japanese companies. Takafumi Ikuta, Senior Fellow  |
| VISA: Digital finance solutions to social problems. Penny Burt, Vice President for Government Affairs and Public Policy, Asia-Pacific Region |
| YES Bank (India): Using CSR funds for developing strategic IB projects. Namita Vikas, Group President and Country Head-for Responsible Banking |
| Moderator: Richard Welford, Chairman of CSR Asia |

Many large companies have CSR initiatives that help the poor in local communities. A number of these are interested in investing their CSR budgets more strategically to make the Base of the Pyramid (BoP) a part of their core business. This is particularly so for large companies which have large mandated spend on CSR initiatives.

Companies can't just throw money at a problem, the needs of the community they are trying to serve have to be understood. When VISA, for example, developed a pre-paid card that could be used by people to buy essential goods in disaster affected areas, they spent time in the community to understand the products that people most needed.

There is a risk of using CSR more strategically for investments that sit alongside the value chain, as some will accuse companies of “making money off the backs of poor people”.





6.8 Climate and environment

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| Session: Triple Bottom Line models – Making Profit by benefiting the Poor and the Environment (day 2) |
| Examples of businesses/initiatives shared |
| Delta Minerals (Philippines): Large Swedish minerals company with an inclusive river dredging project in Philippines. Thomas Lundgren, CEO  |
| Mountain Hazelnut (Bhutan): Company supporting sustainable hazelnut production. Daniel Spitzer, CEO  |
| Greenlight Planet: Enterprise providing solar products to low-income consumers. Sanallah Fathi, Director of Global Partnerships |
| Thematic Presentations |
| Bonar Laureto, Executive Director, Philippine Business for the Environment: do companies really change their business model to benefit people, climate, and the environment?  |
| Moderator: Markus Dietrich, Executive Director, Asia Social Enterprise Incubator |

The word ‘impact’ has a different connotation in the environmental and social sectors. Some IBs have been able to overcome this and reduce environmental impact while increasing social impact. These are the triple bottom line models. Greenlight Planet, having distributed 4 million solar lights to the BoP since 2009, identified its main success factors as: (i) a focus on a quality, long-lasting product; (ii) Its distribution network through village level entrepreneurs and piggybacking on FMCG channels.

Measurement was identified as being particularly critical for businesses in this space though some businesses are too resource strapped to have proper systems in place. Mountain Hazelnut spends a lot of resources on measurement including remote monitoring of orchards through a customised app. Greenlight Planet on the other hand tracks numbers reached but is yet to find a cost-effective way of going any deeper. Bonar Laureto suggested that investors in this space are often not interested in going further than businesses just ‘ticking boxes’ which is why current tools that are used are not vigorous enough.

6.9 IB and the SDGs

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| Session: IB and the Sustainable Development Goals (day 2) |
| Examples of businesses/initiatives shared |
| Kennemer Foods International (Philippines): Large agribusiness company that works with smallholders. May Lynn Lee, COO  |
| Novozymes: Large bio-tech company that has co-founded an IB incubator. Stefan Maard, Head of Sustainable Business Development  |
| Other Presentations |
| Filippo Veglio, Director (Social Impact), WBCSD: What can Business Associations do to promote reporting of private Sector Companies against the SDG Targets  |
| Robert de Jongh, Specialist Leader on Social Impact, Monitor Deloitte: Overview on private sector activities to support the SDGs  |
| Moderator: Sahba Sobhani, Head of the Business Call to Action Program (UNDP-BCtA) |

How do SDGSs fit into the changing context of IB? Some companies will deliver against the SDGs simply because it makes sense to them. For example, Kennemer is working to boost cacao productivity and volumes in the Philippines. Others will take the SDGs into the heart of decision making about future options. Novozymes is one of the pioneers using the SDGs as one screen when assessing an array of ambitious new innovations.

The SDGs offer potential for IBs to work with national governments, demonstrate their contribution to national priorities and become part of delivering progress against ambitious targets.

“If all it takes to address the huge problems the globe is facing is 17 objectives, 169 targets and 202 indicators, then we are on the right track.”- Marcos Neto, UNDP

6.10 IB in G20



In this closed session, G20 members and non-members representing foreign affairs ministries, investment bureaus, and bilateral development finance institutions (DFIs), and aid agencies’ country, regional, or headquarter-level offices exchanged experience of relevant IB policy initiatives in Asia.

Policymakers discussed the challenges they face of explaining inclusive business to their colleagues and welcomed the categorization in the G20 IB framework. They also expressed their desire to help their colleagues promote IB and tangibly move the topic forward through their programming. Financial sustainability was an important topic with participants agreeing that government funding of IB should be seed funding and that recipients should find a way to be sustainable once funding concludes. Closing the information gap and engaging directly with business and business associations were also identified as key areas to focus on.

The People’s Republic of China is promoting the IB agenda under the G20 2016 framework, and Germany will push this forward in 2017. Looking ahead, IFC and UNDP will support the G20 discussions on IB, and ADB and IADB will support further work on IB amongst the APEC countries.

7 Actor perspectives: session summaries

7.1 Company Perspectives

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| Session: Challenges and Opportunities for Doing More IB in Asia – Companies’ Perspectives (day 1) |
| Examples of businesses/initiatives shared |
| Manila Water (Philippines): Water utility company improving access to water at the BoP. Ferdinand de la Cruz, COO  |
| CJ Group (South Korea): Large Korean conglomerate engaging with smallholders for its food business. Jo Heekyung, Executive Vice President |
| Jain Irrigations Systems Limited (India): Large irrigation equipment maker that works with smallholders to improve their agri-practices. Dr. Dilip Kulkarni, President, Sustainable Agribusiness  |
| Thematic Presentations |

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| Lito Camacho, Vice Chairman for Asia-Pacific, Credit Suisse: Why Inclusive Business is a new investment area for commercial banks |
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| Moderator: Eriko Ishikawa, Global Head for IB in the IFC / World Bank group |
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Participants were three large companies that have been successful at implementing their respective IB models. The companies suggested that IB is a dynamic process and identified the importance of constant iteration of the business model.

Strong returns are possible: for IFC (moderating) and Credit Suisse, returns from IB have been as good as other investments. For the companies, the farmers and BoP customers are creating value. Policy support is crucial and subsidies and/or grants play a key role in getting the IB going.





7.2 Perspectives of Impact Investors

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| Session: Impact Investors' Perspectives on the Asian Market (day 1) |
| Thematic Presentations |
| Vesi Kertikova, Head [Philippine operations], LGT Ventures Philanthropy: The challenge to find sufficient deals in the \$0.2 - \$2 million investment space  |
| E.N. Venkat, Partner, Aavishkaar Frontier Fund: Financing commercially viable social enterprises – Challenges and opportunities to expand beyond India  |
| Shuyin Tang, Unitus Impact: How to scale smaller IB investments? |
| Moderator: Rainer Hartel, Director, Public Management, Financial Sector, & Trade Division, ADB |

Impact investing market is relatively small in South East Asia compared to other regions. All investors on the panel agreed that they are the pioneers in the space despite making relatively small investments. Currently only 2% of all Assets Under Management go into impact investing.

South East Asia has a high concentration of low to middle income people with growing purchasing power and therefore presents a major opportunity. Most deals are in the agricultural sector and harness innovative use of technology to deliver impact efficiently. Different instruments on offer are useful to businesses at different times – at the innovation stage, grants are crucial while a mixture of debt and equity is needed over time.

7.3 IB Finance– Role of commercial and development banks

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| Session: The Next Push for IB – What Role can Development Banks Play (day 2) |
| Rajen Makhijani, Dalberg Consult: The Role of Development Banks to promote Inclusive Business – Preliminary Results of an ADB Study  |
| Toshiyo Masuoka, Director, Development Impact, IFC |
| Aude Flogny, Deputy Director in charge of Operations, AFD |
| Jorim Schraven, Director of the Strategy Department, FMO  |
| Moderator: Betty Wilkinson, former Director for Finance Sector, Central and West Asia, ADB |
| Session: IB Finance – New Opportunities for Banks (day 3) |
| Sumit Gupta, Group President and Country Head, Food and Agri Research Management, Yes Bank: IB Opportunities in India |
| Zaal Pirtskhelava, CREDO Bank, Georgia: Finding Bankable Inclusive Business Investments  |
| Pamela Bracey, Principal Investment Specialist, Private Sector Financial Institutions Division, ADB: What can ADB do more to invest in IB?  |
| Joost Bilkes, Vice President for Impact Investment and Microfinance, Credit Suisse: Challenges of Establishing IB Funds – Are there really enough deals and exit opportunities |

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| Imraan Mohammed, Investment Manager, Bamboo Finance: Development banks and Impact Investors – Are they competing? |
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| Moderator: Mike Barrow, Deputy Director General, Private Sector Department, ADB |
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Role of development banks: A Dalberg study has found that DFIs have the capacity, capital, technical knowledge to support the IB ecosystem but have to address certain internal constraints before doing so effectively. In addition to direct investment, there are important role for DFIs to play in strengthening the ecosystem and sharing knowledge. Challenges for DFIs include:

- Perception that risk is higher even though this may not be correct
- Multiple stakeholders create structural complexity – but also mitigate risk
- IB often needs credit enhancements: first loss guarantees, grants, reward/incentive system
- Scalability is hard

Some commercial banks are now showing interest in serving the BoP. There is a need for constant innovation. CREDO (Georgia) uses multiple processes for developing innovations based on input from staff and customers. YES Bank has reached two to three million customers through group lending structures. 40% of its branches are in rural and semi-rural locations

7.4 Role of business associations

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| Session: How Business Associations and Networks can Promote IB (day 3) |
| Thematic Presentations |
| Ashish Karamchandani, Monitor FSG: Improving the ecosystem for IB investments in India  |
| Rapa Lopa, Executive Director, Philippine Business for Social Progress: How Natural Disaster Open the Willingness of Companies to make CSR an IB Imperative |
| Richard Welford, CSR Asia: Linking IB Networks to Business Associations – New Touches  |
| Moderator: Filippo Veglio, Director, Social Impact, World Business Council for Sustainable Development |

Businesses can't act alone. Business associations can work as networks of cooperation, bringing the key players together. They also bring IB into the wider business dialogue.

Many in this space focus on the firm but it is important to look across whole spectrum from the firm to the value chain to public goods and government. Business associations can play a role in strengthening the entire ecosystem.

Key challenges for networks include:

- Changing the mind-set of companies – get them to look at business through a different lens.
- Measuring the value/impact of IB - important to create measures and standards
- Getting stakeholders to work collectively.

7.5 Enabling Environment: Governments and policy framework

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| Session: Promoting an Enabling Environment for IB – What Governments can Do (day 1) |
| Thematic Presentations |
| Rafaelita Aldaba, Assistant Secretary, Department of Trade and Industry: Accreditation and Policy Alignment – The experience of the Philippines |

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| Dr. Heru Kasidi, Deputy Minister for Gender Equity, Government of Indonesia: Exploring IB Support in Indonesia |
| Nabeel Javed, Secretary, Planning, Commerce and Investment Department, Government of Punjab, Pakistan: IB and Islamic Finance – How the Government can help |
| Moderator: Stephen Groff, Vice President (Operations 2), ADB |

Philippines is pioneering the IB accreditation system to incentivize IBs amongst other key policies to promote IB. Indonesia, Pakistan, Tajikistan and many other Asian countries are further behind on actual policy but are working to include inclusive business as part of their growth strategies. Challenges identified include:

- Lack of capacity in government to execute IB plans. ADB and others can provide technical assistance to help
- Data is essential for making decisions and for fighting corruption, building transparency
- Tax incentives are not the only tool for support, small businesses need more support such as access to raw materials, training etc.
- Cohesion across government departments can be a constraint.

8 Side events: session summaries

8.1 Risk Assessment and Structuring IB Deals – Training Course for Bankers and Impact Investors in Asia (ADB and Credit Suisse)

The objective of the training workshop was to familiarize bankers and impact investors with tools required for structuring financing for Inclusive Business. The final objective is to help bankers to more actively originate new transactions that make profit and at the same time serve social goals. The training helped bankers in the Asia region to understand the opportunity of investing in the IB market. And provided them with practical tools on how to assess risks.

The training course clarified the concept of inclusive business and the market opportunities in Asia; presented common principles of risk assessment and credit rating, showing that IB deals are not riskier than traditional investments; showcased examples of IB deals and their special finance structures; provided an overview of the impact investment industry in Asia, and gave a forum for banks and impact investors to discuss and get guidance on their planned investment cases.

Actual investment cases from ADB, IFC, and participating banks and impact investors were discussed. Resource speakers were risk management and investment officers from ADB, IFC, and Credit Suisse, as well as experts from banks, impact investors, and IB specialized consultants.

8.2 Southeast Asia social entrepreneurship (SANKALP)

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| Speakers included |
| Jeannie Javelosa, Co-Founder of ECHOstore |
| Aart van den Bos, Program Director, BoP Innovation Center |
| Marie Lisa Dacanay, President of Institute for Social Entrepreneurship |
| Moderators: Priyank Tiwari, Associate Director, Sankalp Forum; Vipul Singhal, Associate Vice President, Intellectap; EN Venkat, Partner, Aavishkar Frontier Fund |

This full day event highlighted the support ecosystem in Philippines for entrepreneurs to set up and scale their enterprise, the role of the corporate sector in creating shared value by partnering with enterprises across their value chain, as well as discussing innovative funding models available for the enterprises to access capital. A masterclass was also held for enterprises on raising capital.

The event focused on exploring the role of government in promoting entrepreneurship and IB in the Philippines, by discussing similar models from other countries in Southeast Asia. It highlighted the nascent, but rapidly growing social entrepreneurship landscape in the Philippines, discussing successful enterprise models including the GREAT Women program based in Philippines, which is working towards leveraging the power of a unified brand to create a bigger market for women entrepreneurs across the ASEAN region and across sectors.

In the long run, Sankalp Forum plans to take the social entrepreneurship discourse to the apex ASEAN institute level through continuous efforts in Southeast Asia and help develop an India-Africa-Southeast Asia knowledge and collaboration corridor.

8.3 Agribusiness and seafood industry workshop (CSR Asia)

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| Examples of businesses/initiatives shared |
| Jollibee (Philippines): fast food chain engaging farmers in the supply chain. Joanna LA'O, Program Manager |
| CJ Corporation (South Korea): conglomerate engaging farmers in the supply chain, including tribal farmers in Vietnam. Jo Heekyung, Executive Vice-President |
| eKutir (India): enterprise providing ICT-enabled solutions for smallholders to access information. Krishna Mishra, Founder |
| Moderators: Mara Chiorean, Executive Director, CSR Asia and Richard Welford, Chairman, CSR Asia |

This half day workshop conducted by CSR Asia explored how large and small companies involve the poor in their value chains to create impact at scale.

For both the large conglomerates, CJ Corporation and Jollibee, that presented their IB models in the workshop, their smallholder initiatives began as CSR programmes. Once they recognized the strategic value of these support programmes, they were developed as inclusive business initiatives that contributed to the core business. An important lesson shared by these companies was that it is important to understand the needs of the smallholders and provide support accordingly. Both companies provide technical assistance based on need to the farmers they source produce from.

The 'farmer first' approach is critical to the success of Indian ICT enterprise e-Kutir as well. The company has developed a participatory model that involves farmers in all decision making processes. It also creates custom packages based on the individual requirements of each smallholder.

*"Working with farmers is not a regular business relationship – extra effort has to go into it"-
Jollibee*

8.4 IB constraints of small companies (IBAN)

In this half day session, there were no 'speakers' as such. Asian social enterprises rotated around 'clinics' focused on challenges including innovation, model design and access to

finance. Diverse enterprises shared common challenges: shifting from incremental growth to rapid scale. They are growing based on word of mouth and a strong product with social value but need finance to grow further.

Some participants had raised finance - but it had taken many months. Most wanted finance, either grant finance for investing in innovation (while keeping the core business running), or commercial finance for growth. But the fundamental challenge remained - small over-stretched teams that can't afford to prioritize fund-raising while ignoring marketing, or to prioritize marketing while ignoring production quality.

Innumerable tips were shared, both by the 'experts' on hand, and between entrepreneurs. Examples from Africa cropped up surprisingly often and key themes of innovation, customer service, customer feedback, and partnership with others recurred.¹⁵

9 Next Steps

The ADB in collaboration with its partners aims to continue the momentum built around knowledge sharing and information gathering at the 2nd IB Asia Forum. Specific upcoming knowledge products include:

- A study on opportunities to include IB components in large infrastructure projects
- Studies on IB markets in China and Myanmar
- Sector studies, such as on IB finance
- Thematic studies, such as IB and gender, IB and labor markets, strategic use of CSR, role of development banks in promoting IB, how to help social enterprises.

The ADB will continue its policy work with APEC and explore further policy work in Indonesia, Vietnam, Pakistan and Myanmar. It will look to work closely with business associations.

All this and much more will be shared on the IB in Asia Hub and the ADB IB website on the Practitioner Hub for Inclusive Business. All the relevant links are below.

10 Further information

Further information about the ADB Forum can be found at bit.ly/IBAsiaForum

The agenda of the ADB Forum and some presentations from the Forum are available [here](http://www.inclusivebusinesshub.org/ib-asia-forum/agenda) (<http://www.inclusivebusinesshub.org/ib-asia-forum/agenda>)

The Forum was hosted by the Asian Development Bank, and further information about ADB's work in inclusive business can be found at bit.ly/ADB-IB.

To coincide with the launch of the Forum, ADB launched the [Inclusive Business Asia Hub \(bit.ly/IBAsiaHub\)](http://bit.ly/IBAsiaHub), a site on Inclusive Business in Asia, with the Practitioner Hub for Inclusive Business. The site includes more detail on the status of inclusive business in each country of the region, policy frameworks, investments and actors.

¹⁵ <http://www.inclusivebusinesshub.org/profiles/blogs/day-0-at-the-ib-asia-forum>