



**Asia-Pacific
Economic Cooperation**

2015/SOM3/IEG/DIA/002

Session: 1

Inclusive Business for the APEC Region

Submitted by: Asian Development Bank

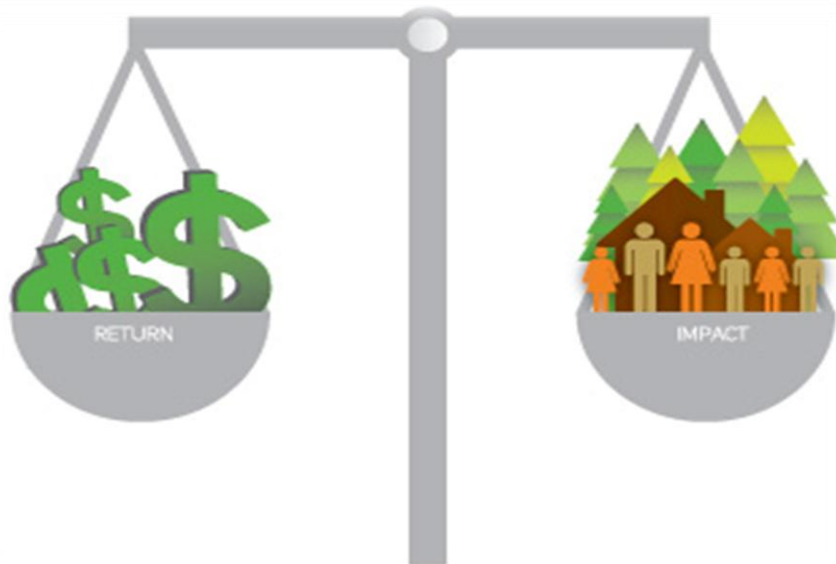


APEC
PHILIPPINES
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**Public Private Dialogue on Inclusive Business
Cebu, Philippines
27 August 2015**



Inclusive Business for the APEC Region



**Public Private Dialogue meeting of the
APEC Investment Expert Group
27 August 2015, Cebu, Philippines**

For further questions, please contact:

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8 key messages

(in 2x8 minutes)

1. **Inclusive Business is a new asset class (not CSR, not SME) which helps both business as well as society (the poor and low income)**
2. **IB is established in Latin America and there is growing interest in Asia**
3. **Nevertheless investments in IB are still nascent, especially in Asia**
4. **The key challenges are not the availability of financing, but risk perception of investors, lack of good business ideas, and bureaucratic challenges**
5. **Governments can provide incentives and a better enabling environment;**
6. **Accreditation, policy alignment and prioritizing IB in existing support programs is an easy starting point**
7. **We propose harmonization and exchange on such support policies as topic for the APEC**
8. **ADB can help promoting this**

The BoP in the APEC countries?

The BoP in APEC	
	percent of population
Emerging Asia (\$4 poverty line)	53%
Emerging Latin America (\$8 poverty line)	57%
Developed APEC countries (\$15 poverty line)	19%
Total	43%

The Base of the (Income) Pyramid in APEC

Emerging Asia
(PRC, INO, MAL, PHI, PNG, THA, VIE)

Emerging Latin America
(CHI, MEX, PER)

Developed APEC countries
(AUS, BRU, CAN, HGK, JAP, KOR, NZL, RUS, SIN, TAP)

The BoP is for Asia and Latin America the bottom 60%; for developed countries the bottom 20%. This requires using in Asia the \$4 poverty line, in Latin America the \$8 vulnerability line; and in developed countries the \$15 income line.

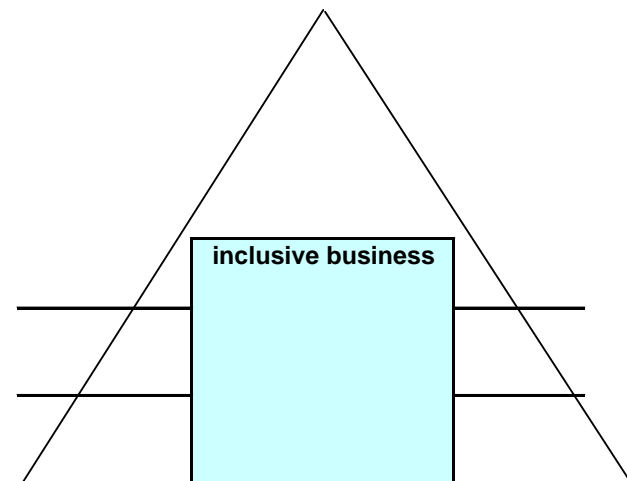
% of population below the respective poverty lines (2012, PPP)

52.8%	56.7%	19.4%
\$4.00	\$8	\$16
22.6%	25.0%	9.8%
\$2	\$4	\$8
8.9%	0.0%	0.6%
\$1.25	\$2	\$4
1,647.9	170.3	731.7

the rich
the lower and upper middle class
the vulnerable
the poor
the very poor

The BoP

Total population (million people)



The Base of the Pyramid in APEC

	poverty incidence (international poverty line, PPP 2012)							population (million, 2013)	GNI per capita (Atlas method, USD, 2013, PPP)
	\$1.25	\$2	\$3	\$4	\$8	\$15	\$20		
Emerging Asia	8.9%	22.6%	39.4%	52.8%	82.2%	95.4%	97.7%	1,647.9	3,602
INO	18.0%	46.3%	71.2%	83.7%	97.4%	99.7%	99.8%	248.8	3,580
MAL	0.0%	2.3%	10.2%	17.9%	44.8%	72.8%	82.7%	29.6	5,600
PHI	19.0%	41.7%	62.5%	75.1%	92.9%	98.2%	99.2%	97.4	3,170
PNG	35.8%	57.4%	74.0%	82.5%	95.0%	98.4%	99.1%	3.7	2,010
PRC	9.1%	23.2%	40.0%	53.3%	82.6%	95.8%	97.9%	1,360.7	3,630
THA	0.3%	3.5%	15.2%	30.5%	70.3%	91.1%	95.5%	66.8	5,370
VIE	2.4%	12.4%	31.1%	48.5%	86.3%	97.2%	98.7%	89.7	1,730
Emerging Latin America	2.9%	7.0%	15.1%	25.0%	56.7%	82.2%	88.6%	170.3	9,832
CHI	0.8%	1.9%	4.7%	9.9%	37.4%	69.5%	79.1%	17.6	15,230
MEX	3.3%	7.5%	16.5%	27.6%	60.6%	84.4%	89.8%	122.3	9,940
PER	2.9%	8.0%	15.4%	23.3%	52.1%	81.0%	89.3%	30.4	6,270
Developed countries	0.0%	0.9%	1.8%	3.0%	9.9%	19.4%	25.2%	731.7	41,804
AUS	0.6%	1.4%	1.7%	1.7%	3.0%	12.3%	27.0%	23.1	50,390
BRU (2)	0.0%	0.0%	2.0%	4.0%	7.0%	15.0%	20.0%	0.4	39,778
CAN	0.0%	0.1%	0.3%	0.7%	1.0%	5.3%	11.7%	35.2	52,210
HGK (2)	0.0%	0.5%	4.0%	6.0%	8.0%	12.0%	15.0%	5.7	38,420
JAP	0.0%	0.4%	0.7%	0.7%	2.0%	8.3%	16.0%	127.3	46,330
KOR (2)	0.0%	0.3%	3.0%	5.0%	8.0%	12.0%	15.0%	50.2	33,360
NZL (2)	0.0%	0.5%	1.0%	1.8%	3.0%	12.0%	20.0%	4.4	35,760
RUS	0.0%	0.3%	1.7%	5.2%	31.9%	69.0%	80.8%	143.5	13,850
SIN (2)	0.0%	0.0%	3.0%	5.0%	8.0%	12.0%	15.0%	5.4	54,040
TAP (2)	0.0%	0.5%	4.0%	6.0%	9.0%	15.0%	20.0%	20.4	21,591
USA	0.0%	1.7%	2.0%	2.7%	5.0%	5.2%	7.5%	316.1	53,470

Notes: (1) The bottom 60% is equivalent to a \$3 poverty line in Asia, a \$8 in Latin America, and a \$20 in Developed countries; (2) for BRU, HGK, KOR, NZL and TAP, the World Bank does not have poverty data; their poverty incidences are simply assumed, in order to create a plausible regional statistical average

Sources: ADB (2014) Key Indicators, World Bank (2014) World Development Report, World Bank (Aug 2015) PovCalNet

What is IB ?

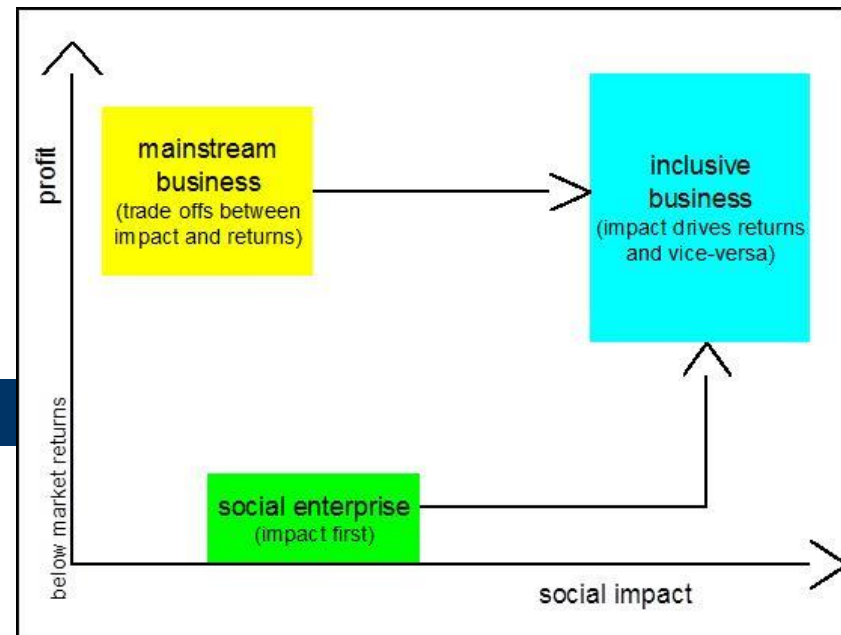
Engaging the poor as consumer, supplier, laborer, distributor **is not enough**

IB are

- **commercially viable** and **for-profit** companies
- whose **core business model** is
- to provide – **in scale** –
- **innovative and systemic** solutions
- to the **relevant** problems of the
- **poor and low income people** (those below the **\$3 international poverty line**, i.e. lowest 60% of population in Asia)

IB:

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



IB deals are made and not found

IB engage the poor as

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

What is it not?



- SME (informal sector work) → involves the poor, but does not provide systemic solutions
- microfinance (“creation/production”) → focus on production not financial inclusion,
- contract farming → often exploitative
- Livelihood programs → the poor are not business people

- social enterprise → Start ups often lack scale in impact and confidence in business success;
- Impact investment → needs to focus on low income people, not on environment or other impact
- Triple bottom line → not all investments have to focus on environment and climate change
- Shared value → share profit/share value; sharing is not yet a systemic solution to problems of the poor

- CSR → lack of scale in impact; lack of sustainability from a business perspective, not core business

IB markets in APEC



- BoP: bottom 60% in emerging Asia and Latin America, and bottom 20% in developed countries
- Emerging Asia
 - see ADB market scoping studies for VIE, INO, PHI; joint ADB/CS study on SEA
 - Strong CSR laws and promoting policies for SE: THA, INO, (PHI)
 - joint ADB/IFC study on PRC;
 - Increasing government interest: INO, PHI, VIE,
 - PRC agreed to continue (in 2016) discussion on IB in G20
- Emerging Latin America
 - Lots of IB examples (deals) and IB related funds
 - Strong support from IADB
 - Good public sector discussion
- Developed countries
 - More the Social Enterprise approach → link to innovation
 - Support policies for SE: AUS, CAN, KOR, JAP, SIN, USA,
 - IB is a topic for development assistance in: AUS, CAN, JAP (JIBSC), USA,

Beyond private sector

IB needs enabling environment



IBs are not easy to find; deals have to be made

- An issue for smaller and larger companies → Requires technical assistance for deal sourcing, business development, and due diligence,

● Financing

- Impact investments → Asia needs more
- Banks: lack of proper understanding of risks → Training for bankers (together with Credit Suisse in Feb 2016 and May 2016)
- (Second loss risk) guarantee for banks
- Equity more important than loans

● Business associations → Awareness raising

● IBs also need the government

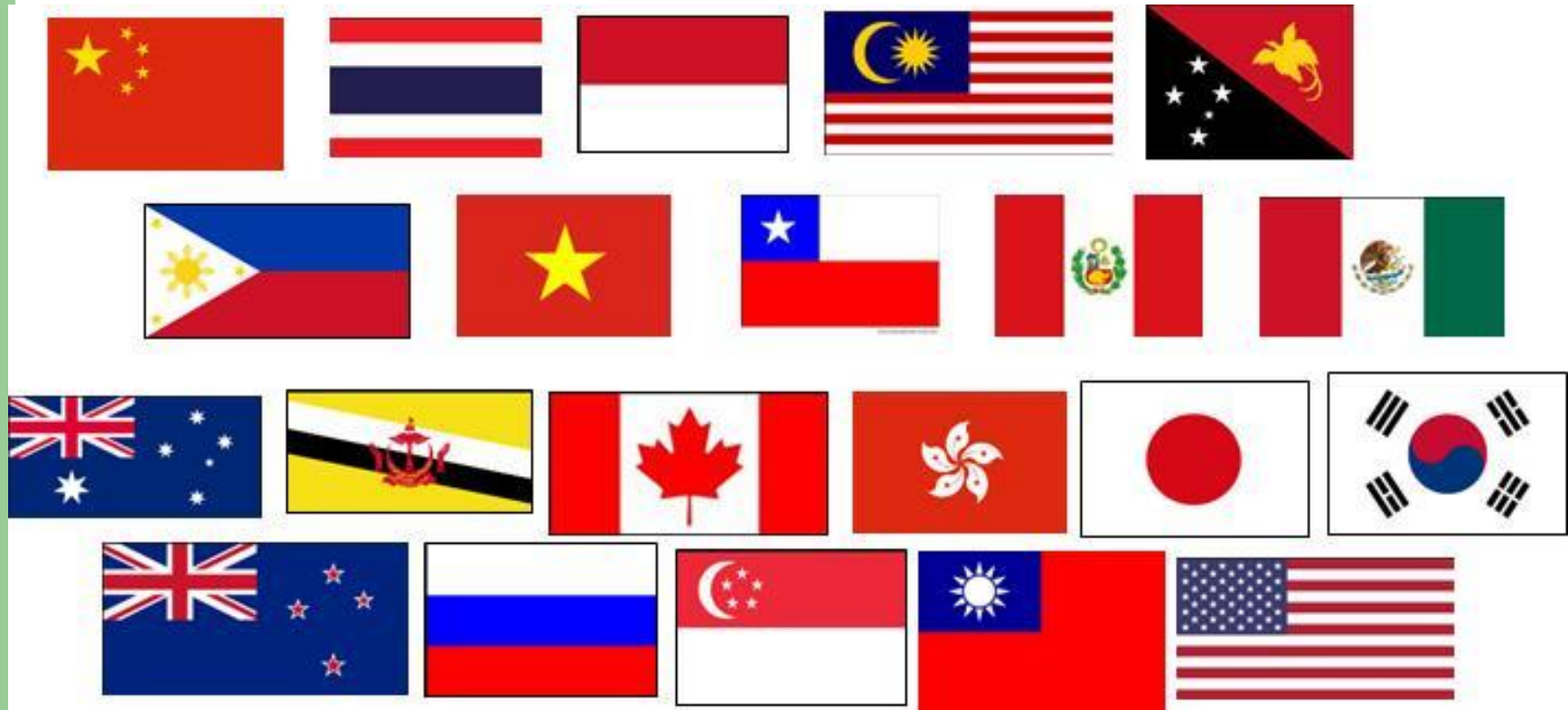
- Without accreditation no targeting
- Often no need for new money, better to do policy alignment and then prioritize government support to IB companies
- Risk guarantee fund
- Examples of sovereign IB projects (2016): PHI (rural job creation), PAK (Islamic finance for jobs), INO (as part of policy loan), TAJ (as part of policy loan); Interest also from MYN, and VIE

How would IB accreditation work?

Initial IB Accreditation						
Project description						
sponsor:						
Relevance and business model:						
financial viability:						
social impact:						
Accreditation assessment	target in the business model	weight	rate			score
			Low	Medium	High	
		%	0-2	2-3	4-5	
Business						
investment size		35%				0.0
Financial viability and sponsor's performance		20%				0.0
Social impact						
Scale and Replicability (Reach)	e.g. minium of 300 (rather 1,000) new jobs in the value chain	50%	25%			0.0
Contribution to income or service delivery (Depth)	e.g. minium of 20% more income than market rate (within 5 years)		15%			0.0
Systemic solution (relevance, change, sector, geographic distribution)			10%			0.0
Innovative solutions						
business innovation		15%	6%			0.0
social innovation			6%			0.0
innovations on sustainability			3%			0.0
Total score	describe key findings of the analysis and key recommendations					0.0
Branding as	Projects with scoring between 3.5-5 are IB and as such eligibe for IB policy support programs; projects scoring between 2.5 and 3.4 would be eligible for business plan development (potential IB); projects below a score of 2.5 would not be accredited as IB (no IB)					
Need for incentives	describe					

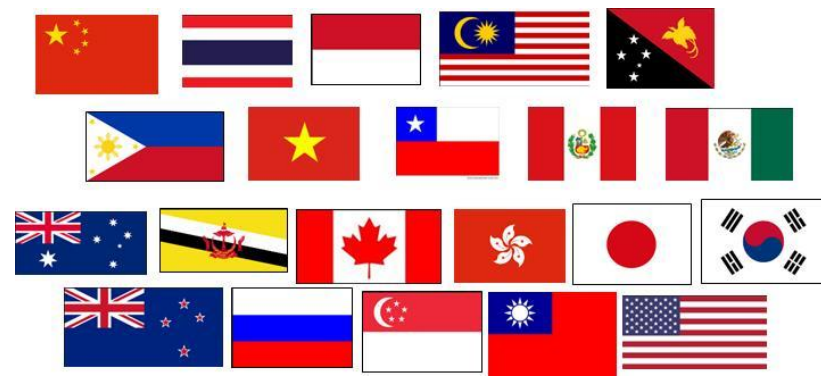
See: Company self reporting: http://www.adb.org/sites/default/files/phi-ib-impact-assessment_0.pdf:

IB in APEC



IB for APEC

Suggestions for the Way Forward



- Make it a topic of regular APEC Meetings
- Establish separate working group (similar to G20)
- APEC countries could commit to
 - Harmonize IB definition
 - Discuss IB as a new form of PPP
 - Do accreditation along similar indicators and criteria
 - Regular reporting on policy alignments
 - Report on IB investments
- Who will be the champion (and who “the carrier”)
 - Philippines (2015)
 - Peru (2016), Viet Nam (2017) ?
 - What is the role of the APEC secretariat ?
- The example of the G20
 - Turkey (2015) → PRChina (2016)
 - Supported by IFC (and UNDP)

How can ADB Help?

- Increase private sector investments in IB in Asia
 - 2000-2012: 1 project per year
 - 2013+2014: 5+6 projects (\$340 million)
 - 2015-2016: already 7 projects in preparation (\$420 million)
- Promote enabling environment for IB
 - IB accreditation and policy alignment in Philippines
 - Other policy work in INO, VIE,
 - Proposed IB public investment programs in Philippines , Indonesia
- Knowledge work and partnership
 - Studies: market scoping, sector, investment sourcing
 - Capacity building for institutions, governments
 - Awareness raising through business associations
 - 2nd IB Asia Forum (Feb 2016)
 - Training for bankers (with Credit Suisse) (Feb 2016, May 2016)
- Partnerships:
 - IADB, IFC, Credit Suisse, others



More information

IB in ADB

- ADB's Inclusive Business website:
<http://www.inclusivebusinesshub.org/page/inclusive-business-in-the-asian-development-bank-adb>
- IB Knowledge Products
<http://www.inclusivebusinesshub.org/page/adb-inclusive-business-resources>
- IB market studies:
<https://drive.google.com/file/d/0BwXPtWGsnEshNVY4M2pBbUVaMVU/view?pli=1>

IB in the IFC:

http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business

IB in the IADB (Opportunities for the Majority, OMJ)

<http://www.iadb.org/en/topics/opportunities-for-the-majority/idb-opportunities-for-the-majority-serving-the-base-of-the-pyramid-in-latin-america,1377.html>

World Business Council for Sustainable Development and IB

<http://www.inclusive-business.org/>

PHI

PBSP's Inclusive Business Imperative: www.inclusivebusinessimperative.org/

BoI IB website: _____

ADDITIONAL INFORMATION

Inclusive Business vs. Social Enterprise



Characteristics of inclusive business and social enterprises

	Philanthropy / NGO	CSR	social enterprise	inclusive business	mainstream business (informal sector, SME, large enterprises)
they all can include the poor as consumer, supplier, distributor, laborer					
business criteria					
financial viability	not viable	not viable	commercially viable	fully commercially viable (profitable)	profitable or highly profitable
return on capital investment					
debt	0	0	0-5	6	6
equity	0	0	0-10	10-15	8-12
turnover in business (million \$per year)	< 0.5	< 0.25	< 1.0	0.5 - 30	> 10
net profit per year (million USD; before tax)	0	< 0.05	0.05 - 0.1	0.1 - 20+	1 - 500+
investment (million USD)	< 0.25	< 0.1	0.1 - 3	3 - 50+	> 3
growth potential (average percent per year over 5 years)	< 5%	< 2%	5% - 10%	10% - 25%	> 15%
social impact criteria					
main purpose of the business is social impact	social and environmental	social and environmental	social (and environmental)	mixed (business + social)	business only
reach					
benefitting households (total over 5 years, number of households)	< 500	< 250	50-1,000	300 - 50,000+	anything
of which very poor (\$1.25, %)	90%	20%	15%	10%	10%
of which poor \$2 poverty line, %)	80%	20%	20%	30%	10%
of which vulnerable (\$3 poverty line; %)	10%	50%	70%	50%	15%
depth					
systemic change / social impact area	community / local	community / local	local	sector / country / systemic	
Innovation and sustainability					
Innovation	low	low	can be high	should be medium or high	business innovation only
Sustainability (bottom line)	triple	single or double or triple	triple	double (sometimes also triple)	single
Other exclusion criteria (for discussion)				microfinance ? BoP business for private consumption goods	

Financing from ADB

Instruments of Blended Financing: New and old financing tools of development banks

loans, gap financing, challenge funds
 blended financing (loans+grants)
 gap financing, challenge funds
 equity
 first loss risks, credit guarantees
 results based lending
 social impact bonds
 public-private partnerships (PPP)

Note: PPPs and impact funds often expect high rate of returns (20-25%)

ADB Financing for Growth, Development, and Poverty Reduction in Asia (million USD, 2014)

	own	Cofinancing	percent
public	11,758	4,232	86%
loans	11,205	4,090	95%
investment grants	405		3%
technical assistance grants	148	142	1%
private	1,930	5,006	14%
loans	1,714		89%
equity	185		10%
guarantees	20		1%
technical assistance	11	2	1%
official co-financing		194	4%
commercial co-financing		4,809	96%
Total	13,688	9,238	100%
	22,926		

Source: ADB (May 2015) Annual Report 2014

Purpose of ADB Financing (14% for poverty reduction)

