

Summary of the 2nd IB Asia Forum

To all attendees at the Second Inclusive Business in Asia Forum:

1. Thank you very much for joining us in Manila last week, and for participating in diverse and stimulating discussions about the progress of inclusive business in Asia. It was great that you could make it to Manila. We hope you enjoyed the discussions and insights, and could establish new or deepen old networking for future successful cooperation. While we will share the detailed conference report with you through our website, we would like to give you a brief summary report of the key take-aways. Please also note that we have further updated our website with new information:

- New presentations are being uploaded with the revised and additional papers some of you want to send us. You can find them here: www.inclusivebusinesshub.org/ib-asia-forum/agenda,
- Blogs prepared for or about the Forum are here: bit.ly/AsiaIB
- The event was also well covered in the press which we have also summarized at the website.
- We have also uploaded the conference kit which many of you found very informative.
- Furthermore, we have upgraded the agenda, participants list, and speaker bios to reflect the latest changes reported to us.
- Finally, as you know the 2nd Asia IB Forum also launched the new Asia Inclusive Business website (<http://www.inclusivebusinesshub.org/ib-in-asia>), with lots of information on IB in Asia. With the help of IBAN, the Practitioners' Hub and our development partners, we are intending to expand that website to include more information from you also on other geographical regions such as Latin America, Africa, and OECD countries.

2. **The Forum:** 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, with side events on 16 Feb. More than 400 persons attended the event, 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.

3. **Key messages:** In 8 plenary sessions, 18 break-out sessions and 6 side events, the event shared business models, investment challenges, sector trends and thematic issues about businesses that generate commercially viable private sector solutions for the relevant problems of the poor and low income people. Participants were overwhelmingly positive about what inclusive business can achieve, and see the urgency of scaling up to make the growth in Asia more inclusive. Even the largest businesses are increasingly interested not only penetrating the BoP market but creating new business lines that provide systemic solutions to the problems of the bottom 40%-60%. While the discussion was very rich a few key messages are summarized below. Further details will be in the extensive summary note which we will share with you through our website.

- ***IB has under-exploited potential in Asia:*** The number of IB models, activities and initiatives¹ is rapidly expanding in Asia. South Asia is leading in innovative IB models, 'while IB activity in SE Asia is more centred around social enterprise and CSR activities'. In both region however, the knowledge about IB, and the interest in investing in IB models and in promoting IB is rapidly increasing. The Forum discussed the difference between IB models and support policies the two regions and what should be done differently in Southeast Asia to promote IB.
- ***IB can create high financial returns through generating social impact in scale:*** IB is interesting for society and business, because the very purpose of the private sector investments are making money by servicing the needs of the poor and low income people. There are now mature examples that show that there need not be a trade-off between social impact and financial return. Studies have shown that the financial returns of IB investments can be the same or even higher than in traditional investments. However IB models need to be innovative to address higher anticipated or actual risks of such investments. IB activities and IB initiatives, however, often generate lower than market returns, either for some time or permanently.
- ***Innovative IB models, activities and initiatives can be found in all sectors.*** Many IB models are in agribusiness to create large numbers of decent jobs which pay better than the going market rates. Asia has also many IB models in the financial sector, followed by social sectors (health and education), urban utilities and housing, as well as energy. 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. In each sector, we heard from companies that are implementing inclusive business models ranging from smaller social enterprises whose core business involves low-income people to large conglomerates who have adapted their business model to be more inclusive. A key message across the sectors was the importance of understanding the low-income people that companies were engaging in and of collaborating with enabling organizations.
- ***Need for clarity in the definition:*** While models for IB are still pioneering, there are already many good examples which allow for adapted replication and for learning to apply new approaches. Hence the urgent need to publicize more about them, and for government, investors, and business associations to establish a typology system on what works and can be called IB and what is not IB. Otherwise, the IB space will remain messy and nascent. Especially, the Forum discussed the need to clarify the traditional approach of involving the poor (as customers, suppliers, workers or distributors) and perhaps replace that by a definition which focuses on innovative and systemic solutions for the relevant problems of the poor and low income people. IB models would then be commercially viable and scaled up core business creating such solutions, while some other IB activities and initiatives promoted by social enterprises or CSR may be smaller in impact and often commercially not viable or not core business work. Various discussion touched on the IB definition and the differences to shared value, CSR, social enterprises, impact investments, SME promotion, financial inclusion, and

¹ 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 (smaller non-core actions of companies to promote social and/or environmental purposes, and often sponsored through corporate social responsibility, CSR), and IB initiatives (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).

value chain development. While the conference kit and the website tried to bring clarity in those different approaches, this clarity needs to be further mainstreamed.

- ***A unique feature of the Forum was the emphasis on what governments can do to promote IB:*** While IB are private sector solutions to the relevant problems of the poor and low income people, governments and business associations can play a major enabling role. The importance of government and policy was heard in many sessions and examples. The discussion has moved far beyond complaints about regulatory constraints and better doing business indicators, to encompass a range of incentives for IB such as accreditation, policy alignment, priority purchase agreements, bureaucratic smoothing, etc. There was broad agreement in the discussions that tax incentives or company subsidies were seen as not very helpful. In the feedback forms, government was the actor that Forum attendees felt most needed to act to promote IB (selected by 50% of respondents). Asia is unique in selected governments actively embracing the IB agenda and setting up accreditation systems and reforming their industry policies to promote IB.
- ***IB policy framework is becoming a global and regional agenda:*** The IB agenda is also included in regional discussion fora such as G20 and APEC, with Asia playing an active role in promoting this. Especially the G20 framework on Inclusive Business, distinguishing between IB models (commercially viable and bankable scaled-up systemic solutions to the relevant problems of the poor and low income people), activities (often done through CSR work of larger companies), and initiatives (often supported by social enterprises) finds attraction to be mainstreamed globally by businesses, investors, and governments. The Forum had a session of representatives from G20 governments (plus some other countries) to exchange on relevant IB policy initiatives in Asia. The People's Republic of China is promoting the IB agenda under the G20 2016 framework, and Germany will push this forward in 2017. In the APEC context, the government of the Philippines was championing IB under its 2015 chair, and Peru is continuing in 2016. For next year, we would like to reach out to the government of Viet Nam on its interest to follow up the IB discussion as part of the APEC agenda. IFC and UNDP will support the G20 discussions on IB, and ADB and IADB the APEC countries.
- ***Business associations can help with advocacy and knowledge promotion.*** 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 in actively promoting the IB approach. 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.
- ***Investments in IB are expected to increase rapidly in the next years.*** However IB will remain – by volume - a niche asset class, where good money can be made and lots of social impact created. While the number of IB investments will increase and new investors come in, IB cannot become the main business line of large banks or development banks, given the relatively small size (\$3-\$50 million) of deals.
- ***Development banks are strong actors in promoting the IB agenda:*** Development finance institutions like ADB, IFC, IADB and bilateral development banks are increasingly interested in IB as an investment case for their private sector and for their sovereign operations. Governments and development partners, however, ask development banks to provide more

than just financing and also engage more actively in the enabling environment for IB. Development banks can do this only if they are equipped with additional grant funding

- **Commercial banks can do more but need to know better:** Apart from impact investors, commercial banks are also getting increasingly interested in the IB space. 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 somehow disfavour smaller deals in the range of \$3-\$50 mn which are typical for IB models. The meeting included a training workshop for bankers and impact investors in the region on risk perception and structuring finance of IB investments. It was agreed that ADB and Credit Suisse will offer a second training in 2016.
- **More information about appropriate risk assessment and innovative structuring of financing was highlighted as a key necessity.** These were hotly discussed in 3 Forum sessions (perspectives of impact investors, investment risks, IB finance through commercial banks) and the bankers training.. It was suggested to establish a system of closer exchange of information between those actors and the development banks, especially given the small number of investable deals, the different financial needs of IB companies, and the different market sizes impact investors, banks, and development banks are targeting.
- **Philanthropist are increasingly interested to use their grants, patient venture capital, and corporate social responsibility (CSR) funding more strategically to develop IB models.** Philanthropist are also increasingly seeing the role of governments and industry association to create a better enabling environment for companies that provide value for society, and would like to support this, if concrete programs to support IB and SE are being developed. The Forum featured an interesting session on the strategic role of CSR.
- **The Forum also discussed cross-cutting development outcomes on gender and the environment which can be promoted through IB.** For example, the discussion on gender impact showed that IB models can contribute better to women empowerment than traditional private sector investments, but entrepreneurs can only harness higher returns when they more consciously design their investments with gender considerations in mind. Similarly the discussion on IB models to address environmental and climate change needs showed that IB models need to be consciously designed accordingly which would also require investments in proper ex-ante impact assessment and monitoring.
- **A common platform for ex-ante impact assessment is needed:** The impact assessment session then argued for a common platform among all investors government and business association to do ex-ante impact assessment. Key criteria would need to go beyond “reach” and scale, and assess the depth of impact, its systemic contribution, the grade of innovation in the business model, financial sustainability of the approach, the inclusion of special groups and gender considerations in the targeting approach, and perhaps also other factors such as reducing inequalities in the sector.
- **The Forum included – on 16 February – also side events** on smaller IB models in agribusiness (organized by CSR Asia), getting solutions for smaller IB firms (organized by IBAN), and a SANKALP social enterprise Southeast Asia event (organized by Intellectap). We would like to thank our partners who sponsored those very successful events

- Furthermore the Forum gave a **platform for special meetings** for IB in G20, the IBAN advisory board, the development finance institutions IB working group, and the advisory board on ADB's IB initiative.

4. We hope you have taken a wealth of new ideas, contacts and enthusiasm from your participation at the Forum. Please get in touch if you have follow-up questions or requests. Please post on the [IB in Asia site](http://www.bit.ly/IBAsiaHub) (<http://www.bit.ly/IBAsiaHub>) if you would like to share your thoughts with others. And we will be back in touch with the conference report in due course.