



Inclusive Business Potential at the ADB

A Preliminary Private Sector Operations Portfolio Assessment

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A Preliminary Portfolio Assessment

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Abbreviations

ADB	-	Asian Development Bank
BoP	-	base of the pyramid
CPS	-	country partnership strategy
DFI	-	development finance institution
DFID	-	Department for International Development - UK
DMC	-	developing member country
IB	-	inclusive business
IDB	-	Inter-American Development Bank
IED	-	Independent Evaluation Department
IFC	-	International Finance Corporation
IPSA	-	Initial Poverty and Social Analysis
MDB	-	multi-lateral development bank
MFI	-	micro-finance institution
MFF	-	multi-tranche financing facility
MSME	-	micro, small, and medium enterprise
NGO	-	non-governmental organization
OMJ	-	Opportunity for the Majority
PRC	-	People's Republic of China
PSOD	-	Private Sector Operations Department
RRP	-	Report and Recommendations of the President
RSDD	-	Regional Sustainable Development Department
SIDA	-	Swedish International Development Agency
SME	-	small and medium size enterprise
SNV	-	Netherlands Development Organization
SPRSS	-	summaries of poverty reduction and social strategies
UNDP	-	United Nations Development Programme
USAID	-	United States Agency for International Development
WBCSD	-	World Business Council for Sustainable Development

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Executive Summary

What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable.

Adam Smith, *The Wealth of Nations*, 1776.

This report presents the key findings from a preliminary assessment conducted on the inclusive business potential of the ADB's Private Sector Operation's Department (PSOD) investment portfolio since the year 2000. Over the last 13 years, the ADB's PSOD has deployed almost \$11 billion dollars, invested in more than 30 investment funds, and supported over 140 transactions. They respond to the unique developing member country priorities across developing Asia while acting as a catalyst for investments that the private sector might otherwise not be willing to make on its own. Moreover, in light of its 2020 Strategy priority of "inclusive growth" (the increasing emphasis on focusing on both the pace and pattern of growth), the ADB has taken deliberate steps to strengthen the inclusiveness and development impact of its portfolio. Yet, in its pursuit of market-based solutions that promote inclusion, have the ADB targeted business models deliberately served and/or empowered the low-income segment? Could some of these models be considered therefore inclusive businesses? And if so, can inclusive business models be a way for the ADB to strengthen the development impact of its investments and deepen its contribution to make growth in Asia more sustainable and inclusive?

This report highlights the potential for inclusive business of the ADB's private sector investment portfolio. It explains the contribution that market-based solutions that integrate the low-income segment can make on company growth and poverty reduction. And while the report, based on its findings, confirms that there need not be a trade-off between economic returns and development impact, it provides preliminary recommendations as to how the ADB might consider expanding its development of inclusive business models as part of its on-going private sector development strategy, while finding comfort and leveraging its existing portfolio -- should it wish to do so.

The main findings of the assessment reveal that while the private sector department's investment strategy was not focused deliberately on developing inclusive business, a small minority of investments (ca 5%) have inclusive business potential (to a greater or lesser degree) and provide proof of concept as to their performance and relevance to the ADB's commitment to inclusive growth. The key findings were:

- * **Strategy 2020 did not provide sufficient strategic clarity on how to operationalize inclusive growth.** Quite to the contrary, Strategy 2020 emphasized sectors and sub-sectors that, while critical for economic growth, did not necessarily have causal links to poverty reduction and inclusion of the low-income segment (for example, sectors that could directly and meaningfully target the low-income population through service provision and/or job creation, such as agribusiness, health, low-cost housing, SME development, etc). Moreover, without providing specific and measurable targets, there was no clear incentive for PSOD to seek out opportunities within the Strategy 2020 priorities such as infrastructure, environment, regional integration, access to finance and education to include the underserved in meaningful ways.

- * **While inclusive business was not a significant feature of the PSOD's investment portfolio, there were numerous opportunities for additional inclusion.** Of the 177 approved investments reviewed from January 2000 through July 2013, 13 transactions (7%) were deemed having inclusive business potential according the criteria developed in this report, totaling almost \$536 million dollars (roughly 5% of the total investment portfolio from 2000 to 2013). Comparatively speaking, this represents an active portfolio less than twice that of the IDB's Opportunity for the Majority (OMJ) in dollar terms and 11% of the IFC's global inclusive business portfolio in dollar terms. Moreover, there were a number of transactions beyond this portfolio that with proper targeting of the low-income segment (and without sacrificing profitability) could have easily been made an inclusive business (i.e. if SME financing targeted smaller (rural) enterprises that served the poor, if housing finance included strategies to move down-market, if municipal services were more BoP specific, etc). That being said, since the development of the ADB's inclusive business initiative and efforts to increase awareness, there has been an increase in inclusive business-type investment opportunities in the ADB PSOD investment pipeline.

- * **There is a significant opportunity for the ADB to leverage inclusive business as one of the cornerstones of a “revamped” private sector strategy to support inclusive growth.** The external body of work including documented case studies, business model systematization, measures frameworks, investment analyses, and the role that DFIs have played in catalyzing inclusive business and inclusive business investments, suggests that the ADB is well positioned to build on its current (“accidental”) portfolio of inclusive business investments. Considering that inclusive business is already part of PSOD’s current and past portfolio and has increased in relevance (given recent investments) over the past eighteen months, and particularly over the last six months, PSOD may be well placed to replicate the successful models within its current IB portfolio into other relevant DMC contexts. Furthermore, many aspects of PSOD’s current investment portfolio have the potential to be inclusive were this aspect to be emphasized during project design and concept review.
- * **Many of the sectoral priorities and business models that comprise PSOD’s portfolio are also relevant to the BoP.** From risk sharing and credit enhancements for banks to moving down-market (as in the case of expanding SME lending) to providing debt (and in some cases equity) to develop “smart” infrastructure to improve competitiveness and productivity (as in the case of providing debt and equity in water, energy and telecommunications infrastructure) in target DMCs, both the financial instruments and transactions are highly transferable to BoP contexts, provided the BoP needs are embedded in the project design phase from the start. Developing collateral free lending models or pay-as-you-go community infrastructure, debt instruments to allow companies to expand their distribution and/or supply channels into the low-income segment, are elements that would not require drastic changes in PSOD’s financing models, but rather a change in mindset as to how these opportunities can be identified, developed and financed.
- * **The vast majority of inclusive business transactions in the ADB’s portfolio were concentrated in access to financial services (through micro-finance), access to water, access to telecommunications, and affordable housing finance.** While these priorities emerged from and were aligned with the CSPs, a cursory analysis of the needs of the BoP across Asia would suggest that significant investment opportunities also exist in areas such as health services, agribusiness, food systems and related supply chain financing and logistics, mobile money, micro-insurance, education and training, renewable energy, and affordable housing to name a few.¹ While ADB’s public sector is active across many of these sectors, and given the need to assure that the private sector comprises 50% of ADB’s operations, there may be many more under- or unexploited oppor-

¹ Between 2011 and 2012, the ADB’s Inclusive Business Initiative conducted market scoping studies across ten developing member countries. These studies provided robust analyses of the sectors and potential investment opportunities that could contribute to inclusive growth.

tunities critical to improving the livelihoods of the poor while contributing to inclusive growth, especially in terms of public private partnerships (PPPs).

- * **Compared to IFC and IDB, ADB inclusive business-like transactions are often serendipitous and are more limited in scope, ambition, innovation and impact.** Notwithstanding the deliberate aim of both the IFC and IDB to focus on inclusive business models and make innovation, impact and scope core to their approach, ADB's efforts could have been more deliberate in their pro-poor design — in many cases this was accidental, coincidental, or premised on peripheral or trickle down strategies. Both IFC and IDB relied heavily on making deals (relying on the mantra that “inclusive business deals are made not found”) rather than waiting for deals to come to them, especially from markets where inclusive business was still in early stages of development or was poorly understood. Should ADB want to develop a broader, and more innovative portfolio of inclusive businesses, it not only has to change its mindset but must also shift from being reactive to proactive in its investment strategy.
- * **The inclusive businesses identified were designed to address systemic challenges facing the low-income segment, provided opportunities for scale and replicability, and in most instances, provided competitive market returns.** For those transactions that included completion reports, financial performance was above average and in part dispelled the perceived myth that there must be a trade-off between social impact and economic performance. While the sample size was too small to draw meaningful conclusions, it nonetheless illustrates the potential of carefully selected inclusive business transactions even when these were not vetted through any special concessionary framework or risk parameters. The investments met all ADB internal criteria and standards, exceeded financial expectations, and delivered significant development impact on the low-income segment.
- * **The lack of a robust impact-oriented development measures framework complexifies the ability to ascertain if and how ADB investments contribute both directly and indirectly to development impact.** In most cases, the relationship between the investment to be made and development impact is indirect and causality is often inferred, particularly when it comes to determining if the the project contributed to improving the livelihoods of the low-income segment. However, IB models are defined to directly address systemic problems of the low-income segment in meaningful and scalable ways. As per the old maxim, “what gets measured gets done. What gets measured and fed back gets done well...and, what gets rewarded gets repeated,” the ability to quantify and qualify the outcomes and impacts on low-income livelihoods would contribute to increased commitment to the potential for inclusiveness.

- * **Despite the predominance of the region's poor in rural areas, more than 90% of private sector investments were concentrated in infrastructure and financial services.** According to a 2012 report from the World Bank, approximately 70% of the poor in Asia are rural, but agricultural production represents only 11% of the region's GDP.² While there is a plausible correlation between infrastructure, financial services and economic growth, the inclusion of only two specific, agriculture-related transactions over the past thirteen years in the bank's portfolio may limit the potential of the ADB to contribute more meaningfully to inclusive growth through its private sector efforts. Given the bank's development of public sector loans and multi-tranche financing facilities (MFFs) through initiatives in agricultural productivity, connectivity and resilience, there may be an opportunity for PSOD to strengthen its contribution to development impact by further aligning its portfolio development strategies with these ongoing efforts.

- * **There is a difference between inclusiveness, inclusive business, and inclusive growth.** Inclusive business is predicated on profit making initiatives being able to improve the well-being of low-income and vulnerable populations through a market based approach. It assures sustainability and scale through private sector strategies. Inclusiveness, on the other hand, while it too can be promoted through market-based efforts, can also rely on philanthropy, public sector incentives and/or programs, and related non-market based approaches. For example, a company can set aside resources to contribute to social initiatives that promote inclusion, but these are often peripheral to their core business (and can be small in scale and limited in impact), not profit making, and often temporal in nature (and as such, not sustainable). Inclusive growth refers to affecting both the pace and pattern of growth through both public and private sector initiatives. While inclusive growth and inclusive business are mutually reinforcing, inclusive business more specifically seeks to assure that the company's growth is driven in part by their ability to be inclusive of low-income and vulnerable populations -- contributing in turn to a virtuous cycle of shared value creation.

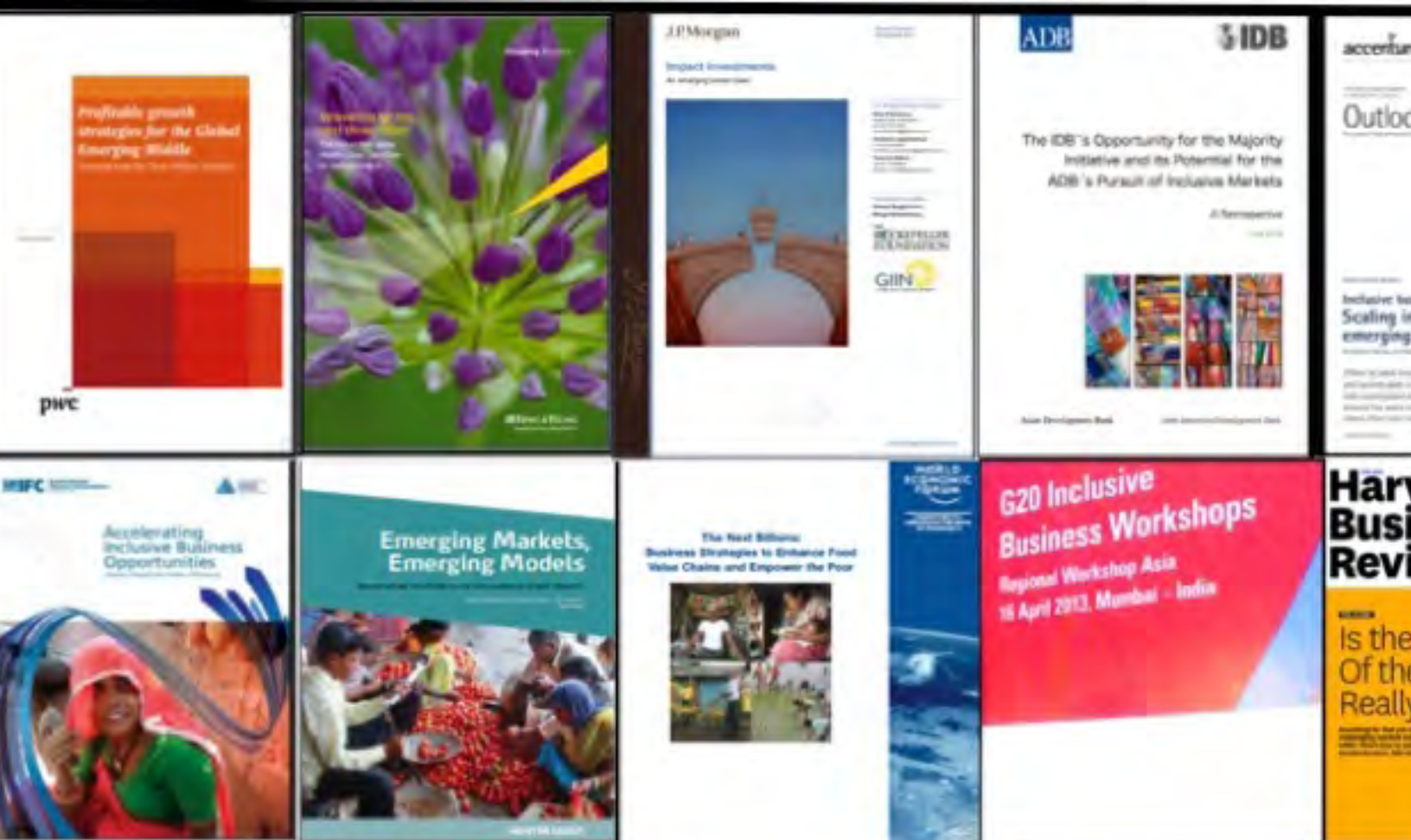
Going forward, as PSOD considers if and how to deepen the pattern (not just the pace) of its development impact, some of the key strategic challenges this assessment raises include:

- what meaningful steps could PSOD take to effectively manage and broaden the development impact of its future investments;
- how can PSOD's sectoral priorities (assuming these cannot be changed) be recalibrated to strengthen its direct contribution to livelihoods, particularly of those in the low-income segment;
- how can current investment strategies and models be made more inclusive (i.e. more explicit targeting of low-income consumers, whole pyramid business strategies that adequately include down-market segments, etc);

² The World Bank. World Development Indicators, 2013.

- how can current conceptual design, measures and monitoring frameworks be improved to more adequately capture the potential and real impact of the project to discern its contribution to inclusive growth, and;
- to what extent should or might inclusive business become a complementary approach to PSOD's strategic framework.

Fundamentally, if PSOD investments could benefit from better targeting (of the BoP), BoP-centered business model design, improved metrics and performance targets, and clearer conceptual models as to how the investment can/would plausibly contribute to poverty reduction (while addressing a systemic poverty issue), the ADB's inclusive business portfolio would be greatly improved, and ADB's contribution to inclusive growth would measurably greater.



I. Background, Purpose and Approach

Over the years, Asia's economy has grown rapidly and the number of poor people has dropped significantly. Gross domestic product per capita more than doubled from \$2,490 in 2000 to \$5,489 in 2009, and the number of poor people—based on the \$1.25 per day poverty line—is estimated to have declined from 903.4 million in 2005 to 754.0 million in 2008. The backbone of this economic progress is infrastructure development, which has become synonymous with economic and overall development. Infrastructure plays a critical role in society and the economy by providing services to households and industries. The availability of transport, electricity, safe water and sanitation, and other key facilities such as schools and hospitals, has a tremendous impact on improving the quality of life of households, especially poor ones. For businesses, infrastructure services facilitate production, transport, and transactions that spur growth, which in turn helps raise incomes and reduce poverty. Infrastructure development also helps countries to better address climate change and reduce vulnerability to shocks and disasters....Conversely, a lack of infrastructure development signals barriers to growth and overall development....About 1.8 billion people in the region are not connected to basic sanitation services, 0.8 billion lack electricity, and 0.6 billion do not have access to safe water. The key challenge is therefore to provide high quality and efficient infrastructure systems that can support more inclusive and higher economic growth.

ADB, *Infrastructure for Supporting Inclusive Growth and Poverty Reduction in Asia*, 2012.

While there is a growing recognition within the private sector that emerging markets represent a significant opportunity for growth and profitability, most investments are focused on the consumption and services needs of middle- and high-income consumers who represent only a fraction of the total market. Increasingly, the broader opportunity is seen to lie in the 3.7 billion people

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worldwide³ who remain largely excluded from the formal marketplace and who earn less than US\$8 per day, but represent US\$2.3 trillion in annual income and have been growing at an average rate of 8% per year.⁴ They represent an increasingly dynamic consumer market, diverse supplier network, source of untapped entrepreneurship, and new channels for distribution, innovation and productivity. Yet, to a large extent, the perception remains that business cannot operate effectively and efficiently in these markets for the poor, less so in commercially viable ways. As such, people living at or near the base of the pyramid (1.1 billion people earn between \$2 and \$8 per day) are relegated to consuming substandard goods and services or are denied access altogether.

In developing Asia, poverty and growing inequality are considered the central challenges facing the region today. While rapid economic growth has contributed to improving livelihoods and reducing poverty, demographic changes and the rising demand for resources, basic services and capital, has placed significant pressure on the natural resource base, effective governance systems, basic infrastructure, and financial resources required to assure inclusive and sustainable growth and competitiveness. If left unabated, these challenges run the risk of stifling economic growth, exacerbating inequality, curtailing innovation, and limiting the potential for regional integration.

Recognizing the inherent risks in inequitable and unsustainable growth, the Asian Development Bank reoriented its overall development objectives through Strategy 2020 and recalibrated in 2008 its private sector development strategy to expand economic growth while assuring broader access to lower income groups. Specifically in the context of developing member countries (DMCs), the ADB committed itself to achieving inclusive growth through “investments in infrastructure to achieve high sustainable economic progress, connect the poor to markets, and increase their access to basic productive assets” ... “including education and essential public services, such as water and sanitation.”⁵ Considering that the Bank was to also scale up private sector development and private sector operations in all operational areas, reaching 50% of annual (combined sovereign and non-sovereign) operations by 2012, there was an assumption that the private sector portfolio would represent a gradual but deliberate shift to activities more closely aligned to the objectives of Strategy 2020 and the principles of inclusive growth. Notwithstanding, while Strategy 2020 provided an economic development framework predicated on increasing growth through infrastructure, job growth, increasing access to finance, and promoting entrepreneurship, it did not offer substantial guidance as to how to include the 64% poor and low-income groups below \$3/day in Asia into the economic opportunities happening around them.⁶

³ According to the World Bank, approximately 1.1 billion people earn between US\$2 and 8 per day and are beginning to generate significant discretionary income, 1.25 billion earn between \$1 and 2 per day, spending largely on essentials, and another 0.8 billion live in extreme poverty, earn less than US\$ 1.25 per day and struggle to meet basic human needs.

⁴ The \$8/day threshold is a global benchmark that represents about 2/3 of the world's population. For Asia, this threshold would be around \$3/day.

⁵ Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020. Asian Development Bank, 2008.

⁶ World Bank PovCalNet 2012, ADB Key Indicators 2012.

The Purpose of this Assessment

This assessment of the ADB's private sector investment portfolio was commissioned to determine the inclusive business potential of current and past investments and provide recommendations as to if and how the ADB may increase the inclusive business orientation of its future portfolio. Given the ADB's Strategy 2020 and its ongoing mandate to deepen and scale its development impact through private sector development (in order to improve both the pace and pattern of economic growth), inclusive business is perceived to be one of several strategies through which the Bank could leverage market-based solutions to the benefit of the low-income segment directly. Due to the limited scope, resources and availability of relevant information to conduct an in-depth analysis of investment impact, this assessment relied largely on publicly available desktop and project-related research that included, when available, the Report and Recommendations of the President to the Board of Directors (RRPs), sector overviews, summaries of poverty reduction and social strategies (SPRSSs), financial analyses, contributions to the ADB's results framework, and completion reports. Site visits and project focused interviews with PSOD staff and direct company engagements were beyond the scope other than brief interviews with select investment specialists within PSOD and related departments.⁷ As such, this assessment is intended to provide a preliminary perspective as to the types of investments in PSOD's current and past portfolio aligned most closely to the inclusive business criteria defined in this review. It ascertains how and why these investments are inclusive, and provides initial feedback as to how the ADB might consider building and/or strengthening the development impact of its investment portfolio through inclusive business. Future transactions, or those currently in the pipeline, have been excluded by request from the PSOD (though there has been an increase in inclusive business-like transactions in the PSOD's current investment pipeline).

PSOD investments were neither designed nor developed with an inclusive business framework or mandate, nor were they required to do so beyond an overall commitment to economic growth. Therefore, this review has focused on identifying the investments with clear inclusive business-like attributes, rather than making a definitive determination as to what percentage of PSOD's investment portfolio is inclusive business (however, an indicative assessment of 5% is provided). While other institutions like the IFC and IDB have been able to make this determination retroactively, even when no clear mandate to be inclusive had been originally given, the ADB's development effectiveness and monitoring frameworks are insufficient to allow for such a clear determination to be made (due in part to a stronger output orientation rather than outcome and impact-based indicators and targets). As such, the case studies included in this report are representative of the most compelling inclusive business-like efforts undertaken by PSOD across a diverse investment portfolio. While the initial scope of this project was to review a predetermined list of thirty projects that were perceived to be inclusive business-oriented by PSOD and RSDD staff, a complete reading of all

⁷ For a deeper assessment of the inclusiveness of the PSOD's portfolio, please review the PSOD evaluation that was completed by the Internal Evaluation Department. The findings further support the findings of this report.

177 PSOD approved investments from January 2000 thru July 2013 (representing almost US\$ 11 billion) was undertaken in order to provide a more holistic analysis.

What is Inclusive Business⁸

In contrast to traditional social enterprise, **inclusive businesses are profitable, core business initiatives that create value in such a way that goes beyond economic returns, they generate social impact by deliberately and directly targeting the low-income segment as part of their value proposition (i.e the bottom 60% of the people below the \$3/day poverty line in Asia).** Inclusive businesses create or expand access to goods, services, and livelihood opportunities for the poor and vulnerable in commercially viable, scalable ways. Within this model, the low-income segment fills one or more of three important roles:

- consumers: new markets for affordable goods and services;
- distributors: new distribution networks; and
- suppliers: new sources of supply/inputs;

Inclusive businesses are like any other business, but they are designed to deliberately expand quality access to goods, services, and income opportunities for the low-income segment in commercially viable ways. They can be larger, well-established businesses that are seeking growth through the pursuit of new market segments or businesses looking to increase profitability through the management of risks in their supply and distribution systems. They can be also successful social enterprises with a proven business model that are seeking to grow and diversify their operations. All of these types of businesses are bound by a common DNA in that they are designed not only to generate economic value, but also to create social value by identifying opportunities to improve the livelihoods of the underserved.

Over the course of the last decade, inclusive business has evolved from a development concept to a core business strategy, contributing increasingly to corporate innovation, competitiveness and growth in new markets while integrating the poor into a company's value proposition. A majority of companies pursue inclusive business as an economic opportunity or out of economic necessity. They specifically identify a market opportunity and develop a business model through which the unmet needs of the poor can be combined with their willingness and ability to pay. These models often rely on understanding the real costs and trade-offs to which the poor are exposed to receive what is often a sub-standard good or service and creating a more cost effective alternative. Beyond seeking out the poor as consumers as part of a wide "whole pyramid" marketing strategy, supplier-centered IB models are focused on expanding a company's supply chain to keep pace with market demand and/or diversify into new products when traditional supply channels have been exhausted.

⁸ Examples of inclusive business models and archetypes and the ADB and others define inclusive business can be found in Appendix I and II.

Types of Inclusive Business Models in the Market

While inclusive businesses can include the low-income segment as consumers, suppliers, and distributors, the business models developed for each type can traditionally be categorized in the following manner (derived and adapted from the IFC's *Accelerating Inclusive Business Opportunities: Business Models that Make a Difference* reports and Deloitte Monitor's *Promise and Progress: Market Based Solutions to Poverty in Africa*). This list (Table 1) is not exhaustive -- it includes the most common models:

Table 1: Examples of Inclusive Business Models

IB Model	Description
PAY-PER-USE	An approach in which consumers pay lower costs for a single use product of a community level facility, or individual product, or service, sometimes on a rental basis. This delivers better value than buying a household asset like a lantern or filtration device, and matches cash flows.
NO FRILLS	A pared-down service that meets the basic needs of the poor at ultra-low prices and still generates positive cash flow and profits through high volume, high asset utilization, and service specialization.
PARA-SKILLING	Combines no-frills services with a reengineering of complex services and processes into a set of disaggregated simple standardized tasks that can be undertaken by workers without specialized qualification.
SHARED CHANNELS	Distribution networks that reach into remote markets via shared channels, piggybacking products and services through existing customer sales and distribution platforms, thus enabling poor people to afford and gain access to socially beneficial goods.
CONTRACT FARMING	A system of contract production that directly sources from large numbers of small-scale farmers or producers in (often rural) supply chains. The contractor organizes the supply chain from the top, provides critical inputs, specifications, training, and credit to its suppliers, and the supplier provides assured quantities of specialty produce at fair and guaranteed prices.
DEEP PROCUREMENT	A variety of direct procurement setups that bypass traditional middlemen and reach into the base of the economic pyramid, enabling direct purchases from large networks of low-income producers and farmers in rural markets and often providing training for quality and other specifications.
DEMAND-LED TRAINING	Demand-led training that applies a formal-sector "temp agency" model to down market opportunities, with enterprises paying a third-party to identify, train, and place employees for job openings at the edges of the formal and informal sectors.
MOBILE MONEY	Models that enable the poor to access and transfer cash outside of traditional financial services channels, often via mobile devices or alternatives to bank branch infrastructure.

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IB Model	Description
MICROCREDIT AND EXPERIENCE BASED CONSUMER CREDIT	Extension of small amounts of credit, often via group lending, to the poor who are typically unable to access larger loans from formal banks due to a lack of collateral and formal credit histories. Experience based customer credit generates additional revenue in the form of interest income through lending to customers a company knows are credit-worthy through experience doing business with them in the past -- rather than formal credit histories. This model is generally employed by companies outside the financial sector, though some may have credit arms or subsidiaries.
MICRO-SAVINGS	Small deposit account offered to low income individuals with low or no minimum balance requirements and service fees, and the ability to save small amounts of money.
MICRO-INSURANCE	Small size insurance products offered along the lines of microcredit, designed to meet the needs and cash flows of those excluded from formal insurance networks. Typically sold via bundles or other non-agent based models.
AGRICULTURE: Smallholder Farmer Aggregators	Aggregators collecting cash crops and staples from smallholder farmers to supply large, top-of-the supply chain buyers. To help guarantee stable supply, many aggregators provide the farmers with services such as credit, storage, and transport, as well as low-cost seeds, fertilizer and training to improve their yield (especially with these include value added production such as organic or other speciality crops).
RETAIL: Distribution and Sales through Improved Informal Shops	Efforts by enterprises to develop a route to market that leverages (and upgrades) existing informal distribution and sales channels to sell socially beneficial products through multiple fragmented or unorganized shops.
EDUCATION: Private Vocational Training	Vocational colleges that offer a highly standardized and limited set of typically service-industry qualifications to low-income school leavers or job seekers, leveraging para-skilled teachers. The offer is sometimes complemented by job placements services.
INFRASTRUCTURE: “Last-mile” rural micro-grid electricity generation and urban water kiosks	Community-level “last-mile” infrastructure directly addresses the infrastructure provision shortfall by providing end-users with access to a fixed utility asset. In the case of energy, low-income households in rural areas directly connect to a standalone mini-grid powered by an independently generated power source. In the case of water, kiosks established in slum and peri-urban “off-grid” areas provide poor customers with water from the mains at lower cost than alternatives such as sachets or tanker supplies. Also can include assets like pay toilets.
ICT: Mobile-enabled non-financial services	Mobile-enabled business models are those that aim to leverage low-income ownership or use of mobile devices to provide essential information or transactions to low-income customers in a range of sectors including agriculture, health, or even livelihoods.
DISTRIBUTION CAPILLARITY: Distribution through dedicated sales force	Dedicated direct sales force models recruit and train local agents to reach deep into communities to sell and distribute (socially beneficial) goods, bypassing shops and other channels, to make it easy for the (often rural) poor to have access they may not otherwise get.
HOUSING: Value for money housing	Makes home ownership possible for lower-income buyers through a combination of high value for money and facilitated access to mortgage financing. A home is the biggest investment most people ever make and they have to be convinced it is worth the commitment, which can feel risky. Value for money housing balances aspiration (with a focus on quality, special features, and the community environment) and affordability (with home sizes and layouts in different price ranges, and features that reduce the ongoing cost of ownership). Because the model hinges upon access to financing, it often involves helping homebuyers -- often the first in their families -- navigate the application process.

These models take into consideration the known characteristics of the BoP (contrary to traditional stereotypes and mindsets that constrain the ability to see opportunities instead of limitations). This

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requires companies and investors alike to reframe these limitations found in BoP markets and convert them into market opportunities. Traditionally, this requires a different mindset than applied when developing traditional business models. They focus on the following aspects:

- *Understanding how to leverage and monetize hidden assets:* An LPG gas company in Colombia discovered that it had accumulated the credit history of hundreds of thousands of unbanked, low-income families who were offered financing to reduce the burden of up front costs required for a new gas connection. Over time, the company realized it could use leverage that credit history (hidden asset) to develop a bespoke financial product that would enable more than 600,000 families to access \$146 million worth of credit and become part of the formal banking system while assuring the company more than \$22 million in net revenue;
- *Developing models that deliver affordable and collective access rather than individual ownership:* For example, the poor spend \$37 billion on poor quality energy solutions to meet their lighting and cooking needs. Community-owned “mini utilities” can offer energy solutions for both household and productive use at a lower cost (through “radical affordability”) than what households traditionally spend on energy.
- *Going the last mile through private enterprise when public goods do not go far enough:* Private enterprise can use cross-subsidized and other models to provide hard and soft infrastructure that for a number of reasons cannot be provided through public means -- from water and sanitation to affordable healthcare and housing.
- *Designing from the BoP up rather than from rightsizing from the top down:* Understanding the localized needs of the BoP consumer segment (as one would for any other customer segment) allows for the development of sales, distribution, and product development strategies unique to this mass-market opportunity. This contemplates not only critical elements like quality and affordability but also how purchasing decisions are made and by whom and how the models developed can be replicated.
- *Looking for scale through localization rather than centralization:* Developing localized production and distribution systems that leverage local entrepreneurship, innovation and BoP community structures. This allows for effective cost controls while developing opportunities for new skills development, formal and informal employment opportunities and peripheral cottage industries that can provide alternative income streams for the BoP, and products and services developed through local assets.

Overview of the Assessment Methodology and Selection Criteria

This portfolio assessment was based on a three pronged approach: 1) development of inclusive business selection/eligibility criteria; 2) desktop review of the PSOD investment portfolio (177 in-

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vestments) from the year 2000 through July 2013 based solely on publicly available information complemented with select PSOD staff interviews; and 3) analysis and synthesis of the key findings including case study write-ups. Overall, the assessment was focused on answering five fundamental questions:

- * What is the dimension and scope of inclusive business within the PSOD's investment portfolio since the year 2000? (see Section II, page 32)
- * If there are inclusive business initiatives within the investment portfolio, what are their specific attributes and characteristics? (see Section II, page 35)
- * How can inclusive businesses be identified and prioritized moving forward? (see Section I, Selection Criteria, page 15 and Appendix III, page 71)
- * Should the ADB want to develop an inclusive business development strategy and investment portfolio, what are some of the preliminary steps it can take to facilitate this effort? (see Recommendations, page 55)
- * Considering the wider inclusive business marketplace, how do other leading players define, identify and prioritize inclusive business investments and what aspects might the ADB learn from them? (see Appendix II, page 73)

It is important to note that the assessment was limited by the quality and depth of the publicly available information received and reviewed. For the most part, qualitative information as to the development impact of most PSOD transactions was incomplete for the purposes of this effort- given that baselines and measures of direct impact on the BoP were often based on circumstantial evidence or not on a context specific general hypothesis. As such, while a number of cases might have been considered inclusive under the general review, they were subsequently disqualified due to lack of information, absence of direct impacts, or incomplete or poor defined causal pathways between the investment and development impact. Therefore, the subset of investments classified as having the greatest inclusive business potential are those with a clear causal relationship between the investment, its purpose, and the target market segment (low-income and vulnerable communities), and a relatively and comparatively well-defined conceptual model that ascertains how the development impact will be achieved.

The selection/eligibility criteria used for the exercise were drawn in part from the IFC (whose eligibility criteria are included in this report) and from the IDB (eligibility scorecard also included in this report). In general terms these tools assess eligibility if the client's:

- * business model integrates the BoP;
- * target segment qualify as BoP;
- * inclusive business is core business;
- * business model is replicable and scalable;
- * value proposition is addressing a systemic and/or root cause of poverty in the specific geographic area in question;
- * model is innovative.

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All investments in the PSOD portfolio were reviewed against these general criteria as part of a preliminary review. The projects that did not meet one or more of the criteria (especially any of the first three) did not qualify for further consideration. The remaining projects were analyzed more in depth to ascertain their degree and depth of inclusiveness and if they would be included as part of the final listing of inclusive businesses.

Inclusive businesses, like impact investments, are often not comparable across distinct geographies and sectors. As such, a draft (illustrative) impact rating tool was also developed as part of this assessment to demonstrate that individual investments can have degrees of inclusion based on the context and opportunity within which the inclusive business was identified. The weightings and criteria used require review and validation from an ADB focus-group should the tool be deemed useful for future application. Beyond this tool, the following framework was used to assess the inclusive business potential of PSOD transactions. In some cases, subjective determinations were made based on the limited information provided. Furthermore, some cases were included because they exhibit some but not all of the core aspects of what constitutes an inclusive business, but were useful in demonstrating the potential for inclusion that exists within the PSOD investment portfolio were some slight changes in focus and strategy to be made.

The *draft* Inclusive Business Eligibility Framework

A. INTEGRATION OF THE LOW INCOME SEGMENT (15%)				SCORE
1. Does the business <u>deliberately</u> integrate the low-income segment (\$3/day or less) as consumers, suppliers, distributors and/or as employees as part of its value proposition? (10%)				
Yes ()	Yes, but not deliberately ()	Somewhat, the business model was designed for other market segments, but also benefits the BoP. ()	No, the business does not deliberately integrate the low-income segment. Their inclusion is entirely accidental and coincidental. ()	
2. What percentage of the business model's customers/beneficiaries are from the low-income segment (\$3/day or less)? (5%)				
More than 60% ()	Between 40% and 60% ()	Between 25% and 40% ()	Less than 25% ()	
B. RELEVANCE/DEPTH (20%)				
3. Does the business strategy address a systemic poverty issue (e.g. access to energy, water and sanitation, health services, etc) or a root cause of poverty (e.g. access to quality education, financial services etc) in a geographic region where the issue is most pressing? (10%)				
Yes ()	Yes, but not in a region where the issue is most pressing ()	Somewhat, the business strategy partially/indirectly addresses these issues ()	No, the business strategy does not specifically address a systemic poverty issue ()	

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3a. Does the proposed/achieved impact make a meaningful contribution to the poor's livelihood (i.e. is the degree of increased income sufficient, is the access to health or water affordable and sustainable, etc)? (10%)				
Yes, the degree of impact makes a meaningful contribution to livelihoods of the poor ()	Yes, the degree of impact is meaningful but only makes a modest contribution to the poor's livelihood ()	Somewhat, the degree of impact is broad, but requires additional inputs to assure sustainability and affordability ()	No, the impact while real is not sufficiently meaningful to improve livelihoods over a period of time ()	
C. CORE BUSINESS (30%)				
4. Is the business activity targeting the low-income segment part of the company's core business and an important component of their strategy for growth? (10%)				
Yes, the business model is part of core business ()	Somewhat, the business model is part of the company's growth strategy but not yet part of core business ()	Somewhat, but the business model is not part of core business/part of the company's growth strategy ()	No, it is not part of the company's core business nor is it critical to their strategy for growth ()	
5. Do the results of this business contribute meaningfully to the company's bottom line? (10%)				
Yes, this business activity represents more than 50% of our revenue projections Y-o-Y ()	Yes, this business activity represents between 25 and 50% of our revenue projections Y-o-Y ()	Somewhat, this business activity does not contribute revenue, but reduces costs or mitigates other risks ()	No, this business initiative is meaningful to the low-income segment but does not contribute meaningfully to the company's bottom line ()	
6. Is or will the business be commercially viable and profitable? (10%)				
Yes, the business is or will be profitable ()	Yes, the business will be profitable in the near term (within three years) ()	Somewhat, the business requires financial incentives and/or subsidies (including cross-subsidies) to be profitable ()	No, the business is completely dependent on subsidies and other forms of patient capital ()	
D. SCALE AND REPLICABILITY (10%)				
7. Is the business model scalable <i>and</i> replicable? Does the current strategy include a plan to grow and expand the business model to other geographic contexts and/or other business units in order to expand its potential reach, impact and value created? (10%)				
Yes, the business design includes a proven strategy for scale within the company and to new geographies ()	Yes, but the business model is specific to a particular region and its scale is finite ()	Somewhat, the business model can be scalable provided adaptations are made in each context (but not in business plan) ()	No, the business model is not scalable and its impact will likely be limited ()	

E. FINANCIAL AND SOCIAL RETURNS (15%)				
8. What is the anticipated rate of return of the business venture (debt and/or equity)? (7.5%)				
The rate of return (gross) is to be market based for debt and if equity, anticipated to be above 15%. ()	The rate of return (gross) is to be market based for debt and if equity, anticipated to be between 10 and 15% ()	The rate of return (gross) will be less than market returns for debt, and anticipated to be between 5 and 10% for equity. ()	The business is heavily subsidized, yet highly impactful and creates new efficiencies for the company that improve its market position and performance. ()	
9. Are the social returns (number of <u>direct consumers/beneficiaries</u> commensurate with the degree of investment, sector, and type of business model)? (7.5%)				
Yes, the social returns are considered high given the investment size, sector, and business model (>50,000) ()	Yes, the social returns are considered moderate given the investment size, sector, and business model (>20,000 but < 50,000) ()	Somewhat, the social returns are considered low given the investment size, sector, and business model (> 10,000 but < 20,000) ()	The financial returns far exceed the social returns of this project (< 10,000) ()	
F. INNOVATION (10%)				
10. Is the business model innovative? (10%)				
Yes, the business model exemplifies disruptive or potentially disruptive innovation (can change paradigm in applicable market) ()	Somewhat, the business model shows incremental innovation. ()	Somewhat, the business model is innovative for this particular market (new product/service in specific market). ()	No, its limited. The business model has been done before with easily anticipated results. Not disruptive. ()	

The methodology used here begins by defining the core components of inclusive business project eligibility criteria and their respective weighting given the understood priorities of the ADB. The weighting and criteria may evolve based on further discussions between RSDD and PSOD. In the eligibility criteria, questions are scored and weighted in the following manner:

- Integration of the BoP (15%)
- Relevance to the BoP/Depth of Potential Impact (20%)
- Part of a company's core business and commercial viability (30%)
- The business model's scale and replicability (10%)
- Financial and social returns (15%)
- Degree of business model innovation (10%)

The questions are scored based on a guided answer key with the most affirmative answer (furthest to the left) receiving 5 points, second most affirmative 3 points, the next 1 point, and the least affirmative/negative answer (0 points). The maximum score obtainable is 5 points. Projects must

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score at least 3.25 in aggregate to be considered an inclusive business. Projects can also be viewed based on their degree of inclusiveness as follows:

- Scores between 4.50 and 5.00 = greatly exceed minimum standards for inclusive business
- Scores between 4.00 and 4.50 = exceeds minimum standards for inclusive business
- Scores between 3.25 and 4.00 = meets minimum standards for inclusive business (likely with some business model adaptations/improvements required)
- Scores under 3.25 may exhibit some inclusive business potential but do not meet minimum standards for inclusive business

Some projects integrated in this report were included in the case study description even though they fell beneath the threshold. Because this report acknowledges that PSOD portfolio investments were not designed as inclusive business, the assessment focused on their IB potential. Under this review, some projects had IB potential, but as designed and executed, would fail to meet the proposed IB eligibility requirements. Other projects did meet most of the standards and these were included as the “inclusive business” initiatives in the PSOD portfolio that comprise the 5%.

The Portfolio Review

The scope of this assignment required a review of 20 - 30 projects provided by RSDD following consultations between RSDD and PSOD. While this list did include some of the projects listed in this report, a full portfolio review was carried out to ascertain if this preliminary list was an adequate representation of the inclusive business portfolio since the year 2000. This review did not include a scoring of every project, but rather a two pronged process: 1) preliminary review that screened out projects that were certainly not inclusive based on sector, project description, target beneficiaries, etc and b) a secondary review of the pre-selected projects that were deemed potentially inclusive and set aside for subsequent scoring using the aforementioned eligibility criteria. The scoring results are not included in this report for every project; instead, eight scoring outcomes are included below to demonstrate how the scoring works for select projects.

As noted previously in this report, the scoring is based solely on the information contained within publicly available documentation from the ADB website. Additional information that may be available from other sources was excluded from consideration when weighing scoring decisions. Where limited or no information was available from the aforementioned sources, a subjective approximation was made based on previous knowledge of the project or business model.

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Simpa Networks	Score
1. BoP Integration	5
2. % of Business Model	5
3. Systemic Poverty	5
3a. Depth of Impact	5
4. Core Business	5
5. Business Contribution	5
6. Commercial Viability	3
7. Scalability and Replicability	5
8. Financial Returns	1
9. Social Returns	5
10. Disruptive Innovation	5
AGGREGATE WEIGHTED SCORE	4.50

Grameen Phone	Score
1. BoP Integration	5
2. % of Business Model	5
3. Systemic Poverty	3
3a. Depth of Impact	5
4. Core Business	5
5. Business Contribution	5
6. Commercial Viability	3
7. Scalability and Replicability	5
8. Financial Returns	3
9. Social Returns	5
10. Disruptive Innovation	5
AGGREGATE WEIGHTED SCORE	4.45



5 4 3 2 1

Degree of Inclusiveness

Extremely Very Modestly Somewhat Minimal

Roshan	Score
1. BoP Integration	0
2. % of Business Model	0
3. Systemic Poverty	1
3a. Depth of Impact	3
4. Core Business	1
5. Business Contribution	1
6. Commercial Viability	5
7. Scalability and Replicability	3
8. Financial Returns	5
9. Social Returns	1
10. Disruptive Innovation	1
AGGREGATE WEIGHTED SCORE	1.95

West Jakarta Water	Score
1. BoP Integration	1
2. % of Business Model	1
3. Systemic Poverty	5
3a. Depth of Impact	5
4. Core Business	3
5. Business Contribution	3
6. Commercial Viability	5
7. Scalability and Replicability	5
8. Financial Returns	3
9. Social Returns	3
10. Disruptive Innovation	3
AGGREGATE WEIGHTED SCORE	3.50

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PRAN	Score
1. BoP Integration	3
2. % of Business Model	1
3. Systemic Poverty	5
3a. Depth of Impact	3
4. Core Business	5
5. Business Contribution	5
6. Commercial Viability	5
7. Scalability and Replicability	3
8. Financial Returns	5
9. Social Returns	1
10. Disruptive Innovation	1
AGGREGATE WEIGHTED SCORE	3.50

Dewan Housing	Score
1. BoP Integration	3
2. % of Business Model	5
3. Systemic Poverty	5
3a. Depth of Impact	3
4. Core Business	5
5. Business Contribution	5
6. Commercial Viability	5
7. Scalability and Replicability	5
8. Financial Returns	5
9. Social Returns	3
10. Disruptive Innovation	5
AGGREGATE WEIGHTED SCORE	4.45

PUNE Slum Rehabilitation	Score
1. BoP Integration	5
2. % of Business Model	1
3. Systemic Poverty	5
3a. Depth of Impact	5
4. Core Business	5
5. Business Contribution	1
6. Commercial Viability	1
7. Scalability and Replicability	3
8. Financial Returns	3
9. Social Returns	1
10. Disruptive Innovation	3
AGGREGATE WEIGHTED SCORE	3.30

ShoreCap II	Score
1. BoP Integration	5
2. % of Business Model	5
3. Systemic Poverty	3
3a. Depth of Impact	3
4. Core Business	5
5. Business Contribution	5
6. Commercial Viability	5
7. Scalability and Replicability	5
8. Financial Returns	5
9. Social Returns	5
10. Disruptive Innovation	3
AGGREGATE WEIGHTED SCORE	4.40



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The “Inclusive Business” model attempts to leverage this potential by integrating the entire population into the business value chain—not only as consumers, but also as suppliers, distributors or employees—in unique and innovative ways...The inclusive business model allows the private sector to contribute even more to poverty reduction.

ADB President Takehiko Nakao, Welcome Address at the Seminar on Innovation for Inclusion, May 2013.

As mentioned earlier in this report, the ADB's Private Sector Operations Department has not been required to focus on nor invest in inclusive business opportunities nor development-specific, pro-poor and inclusive impact. It rather executes a broader strategy focused on the three pillars of Strategy 2020 -- namely, inclusive growth, ensuring that growth is environmentally sustainable, and encouraging regional integration. Of course, this strategy also recognizes the pivotal role of the private sector in creating jobs, catalyzing innovation and entrepreneurship, and providing access to finance and basic infrastructure and related services. Therefore, this assessment is designed to

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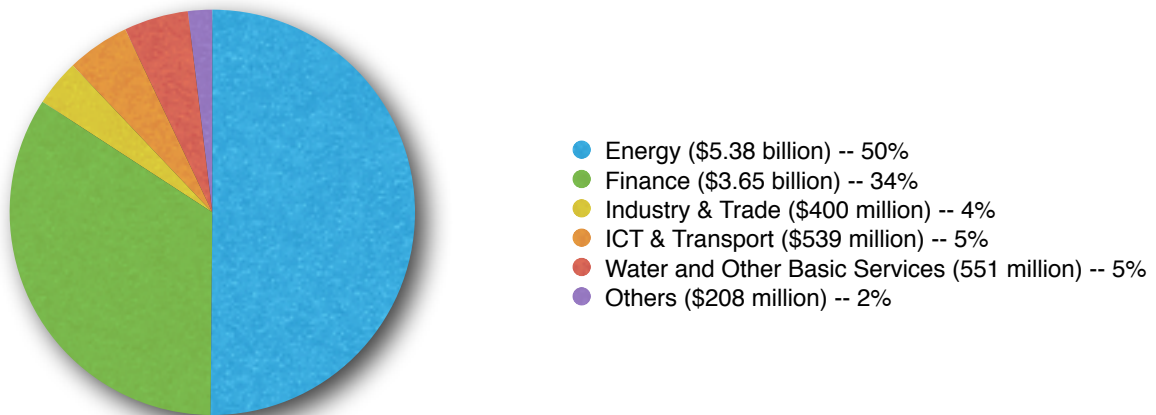
retrofit the PSODs historical investment portfolio between 2000 and 2013 into inclusive business-oriented selection criteria in order to ascertain its potential for inclusive business and provide recommendations as to how to further expand the inclusive business profile within the PSOD's portfolio, should the ADB decide to recalibrate its private sector development strategy. Accordingly, a robust analysis of the portfolio's development outcomes and impact however, falls outside the scope of this review.

The ADB's Private Sector Portfolio: A Brief Overview

The ADB's Private Sector Strategy in Brief

As explained in the ADB's Development Effectiveness report 2012, "the ADB's regional departments work with governments to create an enabling environment for private sector development while its private sector operations (PSO) directly finance, share, and mitigate risks for private sector transactions. In middle-income countries, which are promising in terms of growth and also

Graph 1: ADB Private Sector Investment Distribution from 2000 - 2012



home to most of the region's poor, ADB's Private Sector Operations Department (PSOD) engages in projects that promote broad-based and inclusive growth and maximize development impact through innovative and replicable projects (for instance in clean energy). In low-income countries, the range of needs for development is greater. Here PSOD works to promote trade, attract investment, and strengthen the domestic bank and nonbank finance sectors. A common challenge facing low-income countries is a weak business climate, and PSOD through its investments and advisory services complements the regional departments' efforts in creating an enabling environment for the development of the private sector. In countries in fragile situations, PSOD makes highly selective use of ordinary capital resources (OCR), to make strategic and critical investments that yield

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returns to investors and boost business confidence. Partners in these efforts include project sponsors, commercial lenders, host governments, and other international financial institutions (IFIs)."

PSOD focuses its investments on infrastructure (largely on power, transportation, telecommunications, water and urban infrastructure as defined by the ADB's strategic agenda at country level which in turn reflect in-country demand) and capital market development. It also aims to assume "greater -- but thoroughly assessed and managed -- sovereign and political risks, and act as a catalyst for investments that the private sector might not otherwise be willing to make." As such, PSOD recognizes increasingly that investments with high development impacts can, at times, come with commensurate levels of operational risks and uncertainties. PSOD is well positioned to act in these cases, strengthening investor confidence and crowding-in additional capital from other investors.

It defines its role in supporting inclusive growth as "involving the use of productive employment as an important means of increasing the incomes of groups excluded from the benefits of economic growth mainly because of lack of access to finance or infrastructure services. PSOD contributes to inclusive growth by creating, directly or indirectly, productive work opportunities for the poor and middle class alike."⁹

Overview of the Private Sector Operations Investment Portfolio

Between 2000 and July 2013, the ADB's Private Sector Operations Department made 177 investments for a total of almost \$11 billion. Of this portfolio, more than 80% was concentrated in energy (infrastructure) and access to finance (\$9 billion) -- two essential prerequisites for sustainable growth in many Asian markets (see Graph 1 below). About one third of the portfolio was concentrated in China and India (which also contain a disproportionate share of the region's poor and vulnerable (over 1.5 billion people). Explicit targeting of the low-income segment was largely concentrated in financial services (especially microfinance), water and other basic services, and other sectoral investments (i.e. low-income housing). This is not to suggest that ADB investments in other sector did not have an impact on the low-income segment per se. However, it also suggests that these investments did not make that impact explicit or direct.

Key IB-related Findings from the Portfolio Assessment

While the portfolio assessment was carried out primarily to ascertain which investments within PSOD's portfolio were mostly closely aligned to the inclusive business criteria developed for this exercise, the review of the entire portfolio and the IB portfolio specifically also yielded some important findings. These are included below and are grouped by general findings re-

⁹ However, PSOD does not report on its direct impact on employment generation per \$ invested nor does it answer the question of job creation for whom. Furthermore, this understanding falls short of being able to assess other dimensions of inclusiveness beyond job creation.

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lated to the overall PSOD portfolio, the dimension and scope, and the characteristics and attributes specific to the PSOD's IB portfolio.

General Findings of PSOD's Inclusive Business Portfolio

The primary constraint to demonstrating a greater correlation between ADB investments and development is the absence of demographic targeting. Notwithstanding the sector focus of the PSODs investment strategy, a modest proportion of the SME, finance, energy and infrastructure investments likely benefitting low-income and vulnerable population, but they were not the target nor the primary focus of the business model. As such, most of these initiatives were excluded from further review and analysis because they did not explicitly target these groups. At best, they could be considered “whole-pyramid” business strategies with a modest percentage benefitting the poor, but by no means were at least 60%¹⁰ of the customers/beneficiaries of these investments from the low-income segment. If this category of investments had been designed with and executed the explicit targeting of low-income groups (60% or more), they would have met at least one of the essential criteria for inclusive business consideration. Lastly, a significant proportion of ADB project documentation does not provide specific information as to what groups are to benefit from the investments, and what might the investment mean for their livelihood (i.e. cumulative impacts);

Many business models across the PSOD portfolio are also relevant to low-income and vulnerable populations. While it is clear that sector focus and investment criteria are demand led (informed by country partnership strategies), many business models included in the investment portfolio are also relevant to the low-income segment. While the products and services would need to be tailored to the needs of a different customer segment taking into consideration key aspects such as pricing, application, utility, etc., the integrity of the business model would likely remain unaltered.

Growth was the most critical driver of a company's decision to focus on the low-income segment. Even though many of the investments included in this report were whole-pyramid business models with limited aspect focused on the BoP, the primary purpose of including the low-income segment was to accelerate growth and profitability. That being said, there were a few cases where companies also saw the engagement of the BoP as a means to acquire a social license to operate (such as Pune Slums) -- the ability to mitigate eventual stakeholder risks were these communities not be meaningfully engaged in the business model development. But overall, regardless of the model, the companies were able to identify a market need and willingness to pay amongst low-income consumers.

¹⁰ The ADB considers private sector investments that target or benefit 60% or more of the benefits of an investment go to low-income and vulnerable consumers (beneficiaries) living below \$3 per day. This is one of the five key criteria for inclusive business — the others being that an inclusive business should be part of a company's core business model, that it contributes to addressing systemic poverty, that it allows for replicability and scalability, that it demonstrates an innovative aspect, and delivers market financial returns.

Sectors and investment strategies critical to the development of low-income consumers have not been prioritized for investment. Following the private sector mapping of inclusive business opportunities across 10 markets across Asia conducted by RSDD in 2011 and 2012 (*Promoting Inclusive Growth through Business Development at the Base of the Pyramid*) and the investment priorities that emerged, there is a significant disconnect between what firms and investors on the ground feel they need, and the focus on PSOD's historical investment portfolio. With regard to market demand, these studies revealed that:

- * access to finance, especially for SMEs, is a persistent challenge that hampers the ability of larger domestic companies and multinationals to draw them into their supply chains. To the extent that targeted lending to financial institutions focused on this segment and complemented by concrete policy initiatives can be developed, the effectiveness of inclusive business initiatives would be considerably enhanced;
- * investment into financial institutions to catalyze their development of pro-poor products is critical to enabling SMEs and small entrepreneurs to participate more effectively in the economy. Products such as agricultural finance, micro-insurance, micro-health insurance, working capital facilities and, more generally, the development of cash-flow based lending expertise would be effective in liberating SMEs from the collateral trap that so often denies them finance;
- * private sector investment could be harnessed in the target countries to incorporate the poor into supply chains in more sustainable ways which would enable them to accumulate wealth and reduce insecurity and vulnerability, and to draw them into value chains as producers and distributors;
- * demand for basic services (for example in healthcare through affordable innovations like telemedicine, access to renewable energy through pay-per-use systems and other alternatives that improve access and lower costs,¹¹ and clean water), agricultural development and related products (such as crop insurance, mobile phone-based market information services, micro-drip irrigation systems remote controlled by mobile phone, etc), and innovative (collateral free) finance schemes in low-cost housing was significant, growing and still relatively underserved.;

There may be opportunities to leverage participation in country partnership strategy formulation and programming. While it is understood that private sector opportunities are largely demand driven by potential investees but informed by country partnership strategies, this has the potential to lead to ad hoc investments, that either individually or collectively, may not provide the systemic solutions critical for inclusive development in poorer regions nor the effective means through which to build upon public sector investments. Even if financing facilities and private equity funds can fulfill a more proactive approach, there may still be a need to better target the scarce investment resources more deliberately. Can investment decisions be focused increasingly on platforms

¹¹ For example, while Cambodia is one of the poorest countries in the world, its electricity tariffs are among the highest in the world, reaching as high as US\$1.25/kWh in rural areas compared to approximately US\$0.19/kWh in Phnom Penh, or even US\$0.06-0.10/kWh in Thailand or US\$0.03-0.10/kWh in Lao PDR and Vietnam.

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(looking for investments that when vertically or horizontally integrated can create more value, scale, and reach for the poor and low-income groups either within or across sector within a specific region)?¹² Are there opportunities to better leverage private sector investments with public sector incentives financed through the public sector?

Strategy 2020 did not provide sufficient clarity as to how to operationalize inclusive growth.

Given the refocusing of ADB's strategy toward inclusive growth, implicit or explicit expectations may have been generated through which increased targeting of the BoP would occur, especially through private sector operations (given the organizations deliberate prioritization of PSOD activities). However, Strategy 2020 and ensuing revisions of the ADB's private sector strategy did not necessarily refocus efforts on poor and vulnerable populations. Sector choices in general, and investment decisions in particular (even with regard to geographic targeting) while shaped by country-level planning, had more to do with enabling the conditions for long-term and sustainable growth and relatively conservation investment strategies, rather than maximizing the means through which investment could have a more resounding impact on the BoP. Many energy (infrastructure) investments, for example, may have targeted poorer regions, but the end-users who were to benefit from these investments were more than likely not consumers from the low-income segment (except when, in a few cases, the investee set-up a social investment fund to try and bridge the last-mile solutions). Furthermore, the business models were not specifically developed with pro-poor design factors.

Dimension and Scope of PSOD's Inclusive Business Portfolio

13 transactions (% of portfolio) totaling \$536 million (5% of total investment) can be considered inclusive business. Of the 177 approved investments reviewed (from Jan 2000 to July 2013), 13 transactions (5%) were deemed inclusive business (to a greater or lesser degree) according the criteria developed in this report, totaling almost \$536 million dollars (roughly 5% of the total investment portfolio from 2000 to July 2013). Comparatively speaking, this represents an active portfolio less than twice that of the IDB's Opportunity for the Majority (OMJ) in dollar terms and 11% of the IFC's global inclusive business portfolio in dollar terms. The list of "inclusive business" investments is summarized on the following page:

¹² For example, financing a combination of a cold chain facility, transportation and logistics capacity and an ag focused SME lending facility in a particular region.

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Table 1: The ADB's "Inclusive Business" Portfolio January 2000 - July 2013

Investment Number	Country	Investee	Amount (\$ millions)	Potential Impact	IB Score
AGRICULTURE (total PSOD agriculture portfolio = \$43.5m)					
7358*	Bangladesh	Sylvan Agriculture Ltd	25.1	High	3.50
	India	Champion Agro Limited	18.4	Low	3.40
ENERGY - Energy Efficiency and Conservation (total PSOD energy portfolio = \$204m)					
7381*	India	Simpa Networks	2	High	4.50
FINANCE - Housing Finance (total PSOD housing portfolio = \$447m)					
7189	India	Dewan House Finance Corporation	20	High	4.45
FINANCE - Investment Funds (total PSOD investment fund portfolio = \$714.1m)					
7198*	Regional	Shorecap International Fund	25	Medium	3.40
7323*	Regional	Shorecap II	10	High	4.40
FINANCE - Microfinance (total PSOD microfinance portfolio = \$290.9m)					
7264*	Regional	Bank Eshkata, Inecobank, Ineximbank	20	Low	3.25
7325*	Regional	Microfinance Risk Participation Program	250	High	4.25
7355*	PRC	Microfinance Wholesale Lending Facility	20.9	High	4.05
TELECOMMUNICATIONS (total PSOD telecommunications portfolio = \$244m)					
7194*	Bangladesh	Grameenphone Telecommunications Expansion	20	High	4.45
WATER AND BASIC SERVICES - Slum Upgrading and Low Cost Housing (total PSOD slum upgrading= \$35.0m)					
7373*	India	Kul Urban Development Private Limited	35	High	3.30
WATER AND BASIC SERVICES - Water Supply and Sanitation (total PSOD water supply portfolio \$259.9m)					
7262*	Indonesia	PT PAM Lyonnaise Jaya (PALYJA)	50	Low	3.50
	Indonesia	PT Aetra Air Jakarta	39.3	Low	3.25
TOTAL IB PSOD PORTFOLIO 2000 - 2013			\$535.70		
TOTAL PSOD PORTFOLIO 2000 - 2013			\$10,775.77		

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The average inclusive business transaction size is \$24 million, but almost 50% of investments are concentrated in one project. The Regional Microfinance Risk Participation Program represents a \$250 million of the total portfolio; the remaining 12 transactions average \$23.8 million. Unless there is a focus on inclusive business investments solely through private equity funds and/or regional, national or sectoral financing facilities, these transactions are likely to be smaller in size than traditional PSOD investments. Given the transaction costs per deal within the ADB, a cost/benefit analysis would be able to ascertain if smaller deals are worth the effort or if a lighter, streamlined process may be needed for small transactions (with a specific demonstration effect), including for those that might be inclusive business. Alternatively, the bank may prefer using facilities or equity funds that would a) allow for better proactive sourcing and b) mitigate the need to reinvent costly internal procedures.

Facilities and funds demonstrate substantial leverage potential. The ADB's development and use of thematic facilities, if properly targeted at the BoP, could serve as a powerful tool to allow intermediary financial institutions and private equity managers to support inclusive business financing were this to be prioritized in future ADB investment strategies. These facilities provide comfort in that they allow risk sharing and insulate, in part, the ADB from significant reputational risk. The niche micro-finance facilities developed specifically to promote the financial inclusion of the unbanked are excellent examples of the additionality of the ADB, explicit targeting of the BoP, mitigated risks, and assuring that the development impact had the commensurate reach, depth, and contributions to mitigating a systemic poverty issue at national or regional level.

Considering the importance of rural development and food security in many parts of Asia, the absence of agricultural investments is surprising. While there are no generic blueprints for rural development and poverty reduction, IFAD suggests that "the ultimate aim must be the development of smallholder farming systems that are productive, integrated into dynamic markets (for environmental services as well as food and agricultural products), and environmentally sustainable and resilient to risks and shocks. All three elements are essential features of a viable smallholder agriculture, particularly as a livelihood strategy for tomorrow's generation." As such, it was surprising that only two investments into agriculture were made since the year 2000 -- and both of them were made in 2013 sponsored by the same investment specialist. Most agricultural investments made by the bank overall in the last seven years are generally TAs or focused in water/irrigation infrastructure development, that may indirectly contribute to poverty reduction through job creation and income generation for the smallholders -- but not necessarily through private sector operations.

In some instances, corporate responsibility was an important factor in the inclusive business model. For example, PUNE slums which was conceived as more of an upscale residential project in Mumbai develop a slum rehabilitation effort for 9,000 slum dwellers given the policy mandate for new developments to offer low to no-cost housing alternatives to displaced slum dwellers. In this case, while the project would not qualify as an inclusive business because the as-

II. Potential for IB in the ADB's Private Sector Portfolio

set is being provided to the slum dwellers at no cost (the profitability of the investment is obtained through the sale and development of upscale housing and commercial space), but it was included here given the potential for these kinds of urban housing projects could have if the economics and business model were adapted to be inclusive of the low-income segment. What kind of financing could be developed for first-time, low-income home buyers? What kind of business model could assure affordability and what type of construction approach is best suited to the BoP? Are there examples that can be drawn from CEMEX in Mexico (*Patrimonio Hoy*¹³ and *Mejora tu Calle*¹⁴) and Holcim (*Solusi Rumah*¹⁵) that demonstrate the commercial viability of low-cost housing developments?

The most common development outcomes of these IB cases were the expanded access to bespoke goods and services that were previously unavailable or unaffordable. In most cases, the inclusive business identified a systemic poverty challenge (i.e. lack of access to mobile phone technology in rural areas, lack of access to safe drinking water in urban and peri-urban areas, lack of access to finance or lack of access to energy) and sought ways to develop a commercially viable model within the risk parameters of the ADB (this often represented developing a financing facility or private equity rather than making direct investments). The development impact, while represented solely as an outcome, does not take into account the cumulative impact that this previously unavailable good or service represents. Using counterfactuals would allow for a more robust determination of the true difference these kinds of investments make in poor's daily livelihood (i.e the time saved from collecting water or firewood, the time lost due to no access to healthcare, the time lost traveling to a public health clinic and commensurate waiting times, etc).

Attributes and Characteristics of PSOD's Inclusive Business Portfolio

While the inclusive business portfolio is limited in number, there are a few important characteristics and attributes of the portfolio investments worth noting due in part to their potential replication or adaptation into other contexts across the region. As noted in Section I, inclusive businesses generally fall into certain archetypes, and the ADB portfolio is no exception. The attributes and characteristics are as follows:

These PSOD inclusive business investments addressed systemic challenges faced by the poor and vulnerable and provided opportunities for scale and replicability. For the most part, the investments with the greatest inclusive business potential also addressed systemic poverty issues and as such were designed to achieve reach and scale through replicability. Unfortunately, the most inclusive business models in the portfolio were hardly replicated in other countries or

¹³ For more information, see <http://businesstoday.intoday.in/story/innovation-cemex/1/20184.html>

¹⁴ For more information, see <http://businesstoday.intoday.in/story/innovation-cemex/1/20184.html>

¹⁵ For more information, see <http://www.holcim.co.id/products-and-services/solusi-rumah.html>

II. Potential for IB in the ADB's Private Sector Portfolio

contexts. Given the growing mandate for promoting inclusion, building incentives within PSOD for replication and scaling beyond the project's initial scope might be relevant in future portfolio development considerations.

This portfolio also featured some of the following inclusive business models and/or models with inclusive business potential:

Pay per use and progressive purchase through SIMPA: Simpa has introduced a product and business model that will make sustainable energy choices “radically affordable” to the 1.6 billion Base of the Pyramid (BoP) consumers who currently lack access to electricity.¹⁶ Simpa sells distributed energy solutions on a “progressive purchase” basis to underserved consumers in emerging markets. Their customers make a small initial down payment for a high-quality solar PV system and then pre-pay for the energy service, topping up their systems in small user-defined increments using a mobile phone. Each payment for energy also adds towards the final purchase price. Once fully paid, the system unlocks permanently and produces energy, free and clear. The innovative pricing model is called progressive purchase. Simpa has initially introduced its “pay-as-you-go” pricing to household energy systems. Users pre-pay based on actual usage and each payment adds up towards the total purchase price of the solar home system. Consumers can send payments using a mobile phone (mobile phones are widely used in India). Once fully paid, the solar home system unlocks and delivers free electricity for the expected 10-year life of the product. As such, Simpa transforms an energy expenditure into an asset purchase and offer consumers the opportunity for ownership of their energy resource and break their dependence on expensive, unhealthy, and inefficient sources of light and electricity.

Mobile money and bundled mobile platform-related services through Roshan: While the Roshan project overall was not considered an inclusive business, it did have inclusive business potential based on its development of two peripheral business efforts that targeted the low-income segment — M-Paisa and a Telemedicine initiative. M-Paisa builds on Roshan's position as an innovator in the market, bringing unique products and services that serve the needs of the Afghan population. Introduced in Afghanistan in 2008, M-Paisa is part of the Vodafone Money Transfer Group, which has over 22 million M-Paisa/M-Pesa customers worldwide. M-Paisa supports the development of the Afghan economy, extending economic opportunity and financial inclusion to all Afghans, providing an essential service to 97% of the unbanked population in the country whilst eliminating common financial barriers, especially in the remote and rural areas of the country. In addition to the mobile payment service for the previously unbanked, Roshan also launched the TradeNet pilot project with Mercy Corps, a price information system to provide farmers, input suppliers, traders and wholesalers with access to pricing information through an SMS delivery system. Furthermore, Roshan established a telemedicine project through which several hospitals (like the Aga Khan University Hospital (AKUH) in Karachi, Pakistan and French Medical Institute for Children

¹⁶ The target customer base of 1.6 billion BoP consumers has been taken verbatim from Simpa's website at www.simpanetworks.com

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(FMIC) were connected with each to share their expertise. To date, approximately 10,000 patients have benefited from these telemedicine connections and nearly 3,000 Afghan medical personnel have taken part in training programs made possible by the telemedicine technology. Notwithstanding these peripheral elements, the Roshan projects were deemed not inclusive due to the fact that the project design was not deliberately focused on the low-income segment, but rather an overarching infrastructure need to get the country connected.

Whole pyramid, cross-subsidized strategies in last mile infrastructure through West Jakarta

Water: Some of the most scalable and profitable examples included in this list use a more traditional “whole pyramid” approach in which the poor represent a unique segment within a wider overall market. This is especially true in large infrastructure initiatives (like water, mobile phones, housing, etc) where the company can charge higher-income, higher-usage customers higher tariffs--allowing it to cross-subsidize those with low requirements and abilities to pay (government subsidies may also play a role where needed), using cross subsidized model to build out access to water to low-income customers (who previously had little or no access to water). For example, West Jakarta water introduced a cross-subsidized pricing model (that charged higher-income clients more) to allow low-income consumers affordable access to clean drinking water.

Access to finance through micro-finance facilities and SME financing platforms. These facilities offer the ADB an intelligent way to proactively seek potentially inclusive business opportunities without the burden of internal transaction costs developed for much larger, but traditional transactions. These facilities provide comfort, share first loss risk, and serve as a financing catalyst for other investors and private sector actors to enter a new market segment where they were potentially unwilling to enter otherwise (due to their perception or risk). Notwithstanding the relevance and utility of the model, their SME focused lending facilities did tend to have a bias toward larger, well established firms that were not BoP focused. There are opportunities to reframe that strategic decision in order to focus increasingly on the low-income market segment in commercially viable ways in order to characterize these models as more inclusive.

There need not be a trade-off between economic and social returns -- for the most part, inclusive business investments performed competitively or above expectations. All inclusive business transactions included in this report have been vetted through traditional ADB due diligence processes. They were subject to risk and legal review, social and environmental safeguards, and approval by management and the Board. The economic underpinning for each project met bank criteria and expectations and for the most part these transactions have generated market or above market returns (for those that have been completed and where such information has been made available to the consultant). Despite initial perceptions to the contrary, inclusive business deals therefore do not have to sacrifice profitability and economic returns, in order to achieve scalable and sustainable social impact. What is worth noting however are the transaction costs required for smaller investments are the same for larger investments -- as such, in percentage terms,

II. Potential for IB in the ADB's Private Sector Portfolio

the smaller the investment size, the more significant percentage of resources needs to be borne by the investee to conduct due diligence.

Compared to IFC and IDB, ADB inclusive business-like transactions are more limited in scope, ambition, innovation and impact. Notwithstanding the deliberate aim of both the IFC and IDB to focus on inclusive business models and make innovation, impact and scope core to their approach, ADB's efforts could have been more deliberate in their pro-poor design — in many cases this was accidental, coincidental, or premised on peripheral or trickle down strategies. Both IFC and IDB relied heavily in making deals (relying on the mantra that “inclusive business deals are made not found”) rather than waiting for deals to come to them, especially from markets where inclusive business was still in early stages of development or was poorly understood. Should ADB want to develop a broader, and more innovative portfolio of inclusive businesses, it not only has to change its mindset but must also shift from being reactive to proactive in its investment strategy.

Challenges in Assessing ADB's Investment Portfolio

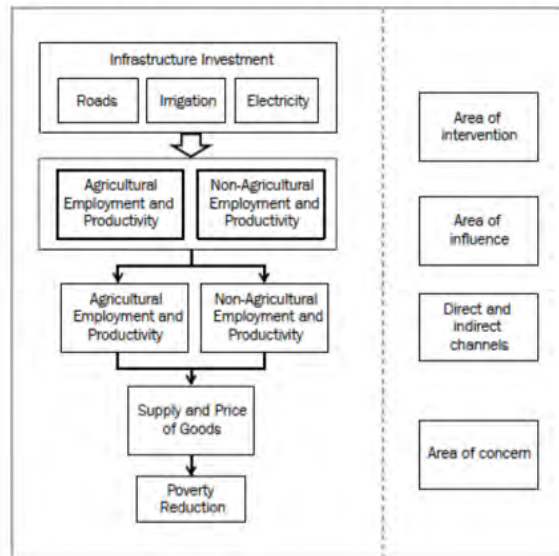
This preliminary assessment was commissioned under a scope of work of short duration and with restricted access to information. As such, the core findings relied solely on publicly available information on the ADB website and select interviews with a few PSOD investment specialists. Access to and interviews with investees were beyond the scope of this assessment. Notwithstanding, the assessment was able to identify a few areas that, were they to be improved, could provide greater transparency and accountability with regard to the development impact and inclusiveness (or potential for inclusion) of PSOD investments. It is important to note that the ADB has recognized some of the limitations in its performance and impact measurement systems and standards and has been in the process of revamping these. This is still a work in progress. The challenges observed are as follows:

Causal links between the investment and development impact (specifically in the context of poverty reduction) are for the most part not explicit. As such, the conceptual model used to ascertain how the investment will contribute to development impact is often predicated on achieving indirect rather than direct benefits and makes at times implausible assumptions as to if and how the poor may actually benefit. This is particularly relevant in the context of infrastructure, particularly in energy, transportation, SME development, and in some cases ICT. A number of SME-focused transactions, for example, targeted specific sectors relying on a highly-skilled and “educated” workforce (generally not the labour pool associated with the low-income segment, and concentrated their efforts in urban areas with products and services (and price points) geared for the middle class (as this had the lowest risk and best upside potential in terms of profitability and returns). As noted in the figure on page 39, while in theory, this kind of logic (drawn from ADB's assessment methodology) might implicitly suggest that that poverty reduction could occur, were this model to focus exclusively on larger, industrial (and mechanized) farms in peri-urban areas

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(which may require little or no manual and informal labor), the only beneficiaries would be well-established farmers and a skilled workforce.

Figure: Trickle Down Approach to Poverty Reduction



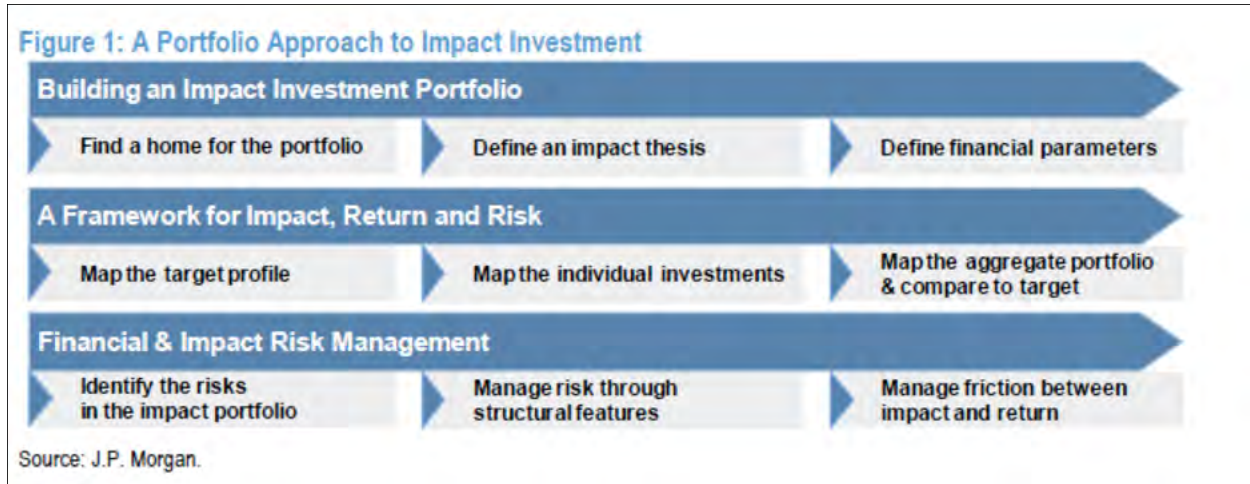
There is an overemphasis on outputs and outcomes, rather than on impacts on people. As Albert Einstein once said, “not everything that be counted counts, not everything that counts can be counted.” While outputs and outcomes are important measures as to the development of in-country assets, they are not a sufficient measure as to how these assets are contributing to poverty reduction. Other development organizations like the IDB and IFC go to great lengths to determine the development impact of their investments, both qualitatively and quantitatively because they see it as essential to greater transparency and accountability of their investment decisions, especially given their strategic objectives;

Socio and economic assessments are often anecdotal and incomplete and Design and Monitoring Frameworks lack attribution and counterfactuals. While investments are required to complete socio and economic assessment during the preparatory phase (Initial Poverty and Social Assessments), these often contain unspecific information, are incomplete and seem not to provide the quality of information for which it was intended (to ascertain who the potential beneficiaries are of the investment and how they will be impacted). While the design and monitoring frameworks content does include target setting, the targets are more often output and little outcome focused; development impacts rely on national or sub-national statistics, but contributions to impact is requested and not attributed directly, hence the need for clear impact/causal chain descriptions. RPPs were also unclear as to target beneficiaries and development impacts;

The lack of a portfolio approach to these kinds of investments makes potential systemic impacts more difficult to ascertain. Specifically, it is hard to gauge the possibilities for impact should certain

II. Potential for IB in the ADB's Private Sector Portfolio

adjustments been made to target low-income consumers and develop inclusive-business centered strategies. J.P. Morgan developed the portfolio approach before as an approach that may be relevant to the ADB. It suggest that one of the first elements in this kind of portfolio is to define an impact theses, clarify financial parameters (especially given that the bank is a finance first impact investor), and map the target profile. These sequential steps would be helpful to the bank's inclusive business development and design should the bank decide that is wants to give this particular approach more emphasis across its investment portfolio.





III. ADB Inclusive Business Case Studies

Inclusive business models are helping companies turn underserved populations into dynamic consumer markets and diverse new sources of supply. In the process, companies are developing product, service and business model innovations with the potential to tip the scales of competitive advantage in more established markets as well. And they are providing clean water, electrical power, modern communications, health care, education, financial services, and income-generating opportunities to millions of people at levels of quality and affordability they have never experienced -- if they ever had access - before.

Accelerating Inclusive Business Opportunities: Business Models that Make a Difference, IFC, 2012.

Case Study Overview

The following selection of PSOD investments represents a limited number of initiatives with the most explicit targeting of low-income customers and are representative of the potential that could exist within PSOD investment portfolio were it to focus more explicitly on inclusive business initiatives. The initiatives range from investments in telecommunications that provided both indirect and direct benefits to Bangladesh's low-income population (Grameenphone) to innovative, community level, pay-per-use access to renewable energy in rural India (Simpa Networks). It also includes examples from low-cost housing, microfinance, water and sanitation, and agribusiness -- one of the few agriculture-oriented investments in the entire PSOD portfolio. None of these projects received any special consideration or treatment due to their targeting of low-income customers and were all vetted through the ADB's normal due diligence process. Moreover, these investments were selected based on their inclusive business potential -- where relevant, suggestions were made as to how to make the project more inclusive (or how more information could be provided to ascertain its degree of inclusiveness more adequately).

India - Pune Slum

The Company in Brief

Kumar Urban Development Ltd (KUDL) is the largest real estate, construction and urban planning company in Pune. The well-established company has a long history of developing residential, office, commercial and retail space mostly in Pune but also in Mumbai and Bangalore. KUDL is ISO certified in health, environmental, labor and other international standards and has a corporate social responsibility program focus on education. The ADB-sponsored slum rehabilitation project is the largest urban redevelopment project in Pune.

The Project

The focus of this project is to develop mixed use residential, office and retail space on 76 acres (to be sold at market prices) while assuring the in-situ rehabilitation of slum dwellings currently located at the site. The project sponsor will construct multiple buildings to re-house slum dwellers and create commercial spaces for small businesses that will primarily cater to their needs, upmarket residential, office and retail space, and numerous amenities and infrastructure for the use of the re-housed slum dwellers. This type of initiative is made possible through an SRS regulated by the Slum Rehabilitation Authority in the state of Maharashtra which incentivizes developers to construct new, free residential building for slum dwellers on a slum site, in exchange for the rights to develop part of the slum land for commercial purposes. The program enables developers to allocate 2.5 to 3 ft² for commercial development for every square foot allocated to new housing for slum residents. Under this arrangement, new housing units are 269 ft² with a kitchen, bedroom and bathroom equipped with electricity and clean running water. Vendor units are of similar size located at the lower levels of building to attract business.

The Inclusive Business Model

Access to Housing and Basic Services – The slum population has historically been marginalized and has not been considered as part of the city's citizenry. Mainstream development plans have often disregarded the needs of slum dwellers resulting in congested living in unsafe housing and under unhygienic conditions. The Pune slum rehabilitation project draws upon successful redevelopment efforts in Mumbai and is aimed at providing safe no-cost housing for an estimated 9,000 impoverished slum dwellers, that will be serviced with electricity and clean water. Residents will also be able to create an asset base as legal titles will be given to both male and female owners. An endowment will ensure the maintenance of the infrastructure and assistance in establishing an association to oversee building management will be provided.

Access to Employment and Economic Activities – The slums of India often have their own micro-economy with products and services being bought and sold intrinsically. Slum dwellers have also been found to be productive workers engaging mostly in construction and the service sector. The Pune slum rehabilitation project is expected to employ 1,000 semi- and unskilled workers at its peak construction period in 2014-2015, the majority of whom will come from low-income communities. In addition, at least 30% of jobs for interior work will be carried out by female workers. The project will also build on the existing slum economy by formalizing businesses in rent-free commercial space where existing vendors can continue to sell their products and services.

Drivers for the Company's Inclusive Business Model

Burgeoning Slum Population – The Maharashtra Social Housing and Action League (MASHAL) reported that 32.5% to 40% of Pune's 5.5 million population lives in slums. The slum atlas developed by MASHAL shows that as of 2008, 1,150,000 representing 211,423 families reside in the city slums making it one of the largest slum populations in India. Maharashtra is also the region with the greatest shortage of housing, estimates at 3.72 million units. Amidst the expansion of industry sectors in Pune, addressing the needs of one-third the city's population is critical to sustaining the momentum for economic development.

Spatial needs of Economic Growth – Pune is a fast-growing city that some experts believe will be India's next technology hub. Its proximity to Mumbai and built infrastructure lends the city well to large scale economic development. As part of this development, Pune requires physical space to house business and commercial bases and residential areas to house a growing number of people seeking opportunities. In a more equitable effort to reclaim areas where slums have been built, redevelopment projects are designed to provide housing and basic services to slum dwellers but also create the space needed by businesses.

Results of the Company's Inclusive Business Model

KUDL aims to help reduce the number of slums in Pune from 564 (2012) to 555 by 2020 through the increasing engagement of the private sector in rehabilitation projects. An estimated 9,000 slum dwellers will be housed in new, rent-free dwellings that is legally their titled property by 2018. These same residents will also have access to proper sanitation, clean water and electricity as well as avail of parks, playgrounds and schools also being constructed as part of redevelopment.

What would strengthen the inclusive business case of this project

Strengthen commercial viability – While the policy premise for this project is inclusive (the public policy that incentivizes private sector development in slum areas), the commercial model is could be characterized as a handout and would potentially not be sustainable in the long-term (depending on the cross-subsidized business model). A stronger commercial underpinning for the low-income segment business model through affordable mortgages or strategies that would assure the poor pay something for the asset and the related services may be more beneficial in the medium and long term.

Explore temporal and long-term opportunities for employment – While the business model includes temporal hiring of low-income workers during construction and the creation of retail jobs focused on providing services to the former slum-dweller, that may be opportunities to develop business models that integrate vocational training with long-term employment possibilities and use the income stream as part of the revenue model for a low-cost housing mortgage financing initiative.

Characterize the cumulative benefits – In addition to obtaining a free asset and related basic services, it is not entirely clear what are the cumulative impacts to the slum-dwellers in terms of access to basic services, employment opportunities, the ability to leverage their asset (a home) to potentially start a business, etc, etc. Characterizing these aspects would improve the ability to assess the benefits of an inclusive business model.

Bangladesh - PRAN, Sylvan Agriculture Limited (SAL)

THE COMPANY IN BRIEF

The PRAN-RFL Group based in Dhaka, Bangladesh is a family-owned company established in 1981 that has become the country's largest food processor. PRAN currently generates over 200 food and beverage products that garner an annual turnover of \$450 million. Food and beverage exports originally began at a small scale, catering to overseas Bangladeshi workers. However, certified halal PRAN products have now established themselves in mainstream markets in 82 countries within Asia, Africa, Europe, North America and the Middle East. With 30,000 employees and growing, PRAN is a significant employer in the food processing industry and prides itself on drawing heavily on the country's home grown resources. An estimated 90% of raw materials used for PRAN products are sourced from its network of approximately 42,000 contract growers including low-income farmers. Through its extensive network of distributors that include BoP consumers, PRAN products dominate the food and beverage market in Bangladesh. As a core value, PRAN believes that "Poverty and Hunger are Curses" and central to its purpose is to generate employment, dignity and respect through profitable enterprises. PRAN stands for "Programme for Rural Advancement Nationally".

The Inclusive Business Model

The PRAN Group subsidiary, Sylvan Agriculture Limited (SAL), received a \$25 million ADB loan to establish and operate a liquid glucose production facility, a flour mill and a frozen food processing plant. The agribusiness project aims to reduce rural poverty through three main modalities:

Access to Markets – Through contract farming, PRAN will create a market for agricultural crops produced by low-income farmers. This arrangement not only guarantees a stable supply of quality raw materials for PRAN, it also provides security for farmers and enable them to assume risks associated with applying new technologies and crop diversification. In addition, PRAN aims to strengthen this value chain by paying fair market prices to farmers who would otherwise receive lower prices if they sold crops on their own.

Employment – The processing aspect of the PRAN project will generate a cadre of a skilled workers to be employed at the liquid glucose facility, flour mill and frozen food plant. As large commercial-scale manufacturing operations, the project will require a significant labor force (ca 50,000 through direct and indirect employment), part of which will come from the low-income population. In addition to direct employment, the project is also expected to generate significant indirect employment through product distribution, sales, transport and other avenues that support the food and beverage manufacturing value chain.

Food Security – Flour fortification and frozen food products will provide low-income populations with high nutritional value food options at a more affordable price. By sourcing raw materials locally, PRAN is able to pass on savings from import costs on to consumers of their products.

Drivers for the Company's Inclusive Business Model

Marriage of Two Major Economic Sectors – The PRAN project takes advantage of the two largest economic sectors of Bangladesh that together present a unique and potentially impactful opportunity for the economic inclusion of the poor. The agriculture and industry sectors cumulatively contribute nearly half of Bangladesh's GDP at 18.4% and 28.6% respectively (February 2012) and continues to grow. In addition, these sectors provide significant employment opportunities as they collectively absorb a large proportion of the country's labor force. Building upon the intrinsic agrarian culture and practice in the country, PRAN adds value to the sector through high quality processing which draws upon its own decades-long experience in food and beverage production. PRAN's extensive in-country distribution network and growing export market also creates a largely controlled value chain that provides market stability and security for growers and employees. Moreover, the local production of liquid glucose, wheat flour and frozen foods is in direct response to growth in demand for these products in local markets. A rapidly growing population, increased urbanization and a growing middle class with more resources to pay for convenience goods provides a ready market for these products.

III. ADB Inclusive Business Case Studies

Addressing Critical Import-Export Imbalance – PRAN's project exemplifies an import substitution strategy to address the country's import-export imbalance. In the agriculture sector alone, imports in 2010 amounted to \$6 billion (19% of total imports) while agricultural exports totaled \$1 billion (5% of total exports). Liquid glucose from domestic sources fulfills less than 10% of local demand for the product, which is expected to grow at a rate of up to 15% annually until 2019. PRAN aims to claim a greater marketshare of liquid glucose by producing a local product that is equal in quality and is price competitive with its imported counterparts. Similarly, the majority of wheat in the country is imported although it is a staple of the typical Bangladeshi diet and accounts for 90% of flour available on the market. PRAN's project will generate locally grown and milled wheat flour that will be made available to a growing population at a more cost effective price.

Addressing Rural Poverty – Rural poverty accounts for 35% of total poverty in Bangladesh with 21% of those in extreme poverty residing in rural areas. These impoverished communities are largely agrarian with little to no resources to scale their production and meet needs beyond subsistence level consumption. Persistent poverty is fueled mainly by a general lack of economic opportunities, scarcity of land, lack of access to major markets and a lack of financing. PRAN is making investments in local farmers through guaranteed growing contracts, introducing new growing techniques and the diversification into high-value crops for the manufacturing industry. PRAN's growers will provide wheat that historically has been imported due the low quality of local grains and insufficient volumes. In addition, locally grown corn and cassava will provide the starch foundation from which liquid glucose will be derived.

Results of the Company's Inclusive Business Model

The main results expected from this project are for the liquid glucose, flour mill and frozen food production to garner the PRAN's subsidiary company, Sylvan Agriculture Limited, annual sales exceeding \$50 million by 2016. By this timeframe, it is expected that SAL will be sourcing raw materials from local farmers valued at \$30 million or more. The total operations of SAL are expected to directly benefit 1,000 direct employees of which 30% (300) are women. Benefits to another 50,000 individuals, mostly from the farming community, are also expected through indirect employment. Assuming continued growth in Bangladesh's economy, the share of agricultural and processed food products in total exports is aimed to double from 5% in 2010 to 10% in 2020. In addition, building upon its work with the Global Alliance for Improved Nutrition (GAIN) on fortification, PRAN expects to increase the percentage of locally produced fortified wheat flour from nothing to 10% of what is available on the market.

What would strengthen the inclusive business case of this project

Some dimensions to consider for the project to underscore its inclusive business aspects are as follows:

- *Better describe the contract farming community* – how many of the farmers are low-income growers? What incremental increase in income does growing crops for SAL represent compared to farming prior to their contract? Does the increase place them above the designated poverty line for Bangladesh? Is their standard of living improving post-project? (using standardized criteria)
- *Better describe the employee population* – how many of the employees are considered from low-income populations? What jobs do they occupy? Did they receive skills building training to appropriately implement their jobs? Are there opportunities for advancement? What other benefits are provided (labor practices) that maintain or improve their employability and overall standard of living? What incremental increase in income does employment with SAL represent? Does the increase place them above the designated poverty line for Bangladesh? Is their standard of living improving post-project? (using standardized criteria)
- *Better describe the low-income consumer segment* – Is there a low-income consumer segment being targeted in the production of frozen foods? What specific need among low-income populations does the product meet? How is the product adapted to suit low-income consumers (i.e. portioned for cost, portioned for nutrition, distribution etc.)

Indonesia - West Jakarta Water

The Company in Brief

PT PAM Lyonnaise Jaya (PALYJA) is a subsidiary company of one of the largest water services providers in Indonesia, SUEZ Environment of France. Through a cooperative agreement with the Government of Indonesia, PALYJA obtained a 25-year concession for water supply services provision to Western Jakarta commencing in 1998. Since 2006, ownership of PALYJA has been shared among SUEZ Environment (51%), Indonesian business group PT As-tratel Nusantara (30%) and Citigroup Financial Products Incorporated (19%). To date PALYJA has 1,393 employees, and has improved 1,500 kilometers of pipelines and developed 414,470 connections to provide services to 3 million people in Western Jakarta. With funding from the ADB, the company aims to further expand its connection of waterways to provide potable water to meet the health and sanitation needs of a growing population including low income households that are currently off the water grid.

The Project

Currently, 18% of the total population in Indonesia are connected to a piped water supply (40 million people) —40% of urban and 15% of rural households are connected. The remaining urban population depends on individual wells, small-scale providers, or water vendors; often at a high cost. PALYJA received a Rp455 billion in 2008 to improve its service delivery to a growing population (including the low-income segment) in Western Jakarta by upgrading its water production facility, repairing and extending its existing water distribution network, reducing water waste and leakage, restoring current connections and generating new ones. Over the last 15 years of its concession PALYJA has invested over \$100 million in Western Jakarta's water supply infrastructure and services delivery that has expanded its customer base by 1.25 million people, 20% of whom are from low-income communities. Through infrastructural improvements to the city's water supply system that has allowed greater access to clean water, the low-income customer segment for PALYJA has increased by 425%.

The Inclusive Business Model

The inclusive business model integrates a cross-subsidized pricing model to increase the affordable access to water and sanitation (Last mile connectivity) for the low-income dwellers in Western Jakarta.

Access to Clean Water – While PALYJA provides water services to the general population of Western Jakarta, it aims specifically to increase the access of low-income communities that previously relied on rain, rivers, illegal connections and surface water for their sources. Through infrastructural improvements and policy changes (in particular allowing the private sector participation in the water sector), access to water was also made affordable to low income households through a cross-subsidized pricing model and through additional water delivery channels. Stricter controls on unaccounted for water, government-approved tariffs and a cross-subsidy system allows low-income households to pay Rp1,050/m³ (\$0.10/m³) of water use while higher-income households pay Rp12,500/m³ (\$1.21/m³). PALYJA also aims to increase sanitation services to customers.

Drivers for the Company's Inclusive Business Model

Inadequate Water Supply – Only 46% of Indonesia's urban population in Jakarta receives piped water while the majority rely on wells, small-scale providers or vendors for their drinking, washing and sanitation needs. In some cases, people rely on naturally available water from rain or surface waters such as rivers or streams. In other cases, low-income women spend as much as \$11/month on kerosene to boil water. This in conjunction with the lack of proper sanitation creates a perpetual cycle of infection and illness from water-borne diseases. With an annual growth rate of 4%, the urban population, inclusive of Western Jakarta, is expected to comprise as much as 60% of the country's total population by 2015, many of them low-income

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earners who remain vulnerable to waterborne illnesses. PALYJA can address the critical issues of Jakarta's antiquated water supply system that the government has neither the resources nor the capacity to deal with.

Lack of Sustainable Financing – Indonesia's public water utilities, Perusahaan Daerah Air Minum (PDAMs), are heavily indebted and generally lack the financial and human resources to generate services commensurate to country's exponentially growing needs. Furthermore, low-income populations are often marginalized and resort to illegal water connections that are unaccounted and unpaid for, further compounding the PDAM's financial and resource issues. The continuing overhaul and renovation of Jakarta's water supply system combined with tariff modifications has provided low-income users with a safe and legal means of obtaining potable water while structuring a payment system appropriate to their ability to pay and a cross-subsidy system that enables the financial viability of water utilities.

Results of the Company's Inclusive Business Model

Despite the cost-constrained environment and limited tariff increases, PALYJA has continuously strengthened its linkages to lower-income households in its concession area. During 2008–2012, customers from social welfare facilities and low-income households made up 25% of new PALYJA customers. About 79% of PALYJA customers, consuming 47% of the water sold, pay less than the cost of the service. According to the ADB evaluation of the project, "it is a strong example of ADB private sector operations strategy support for corporate entities that promote sound business practices while reaching beyond their traditional customer base and improving the quality of life for lower-income households. The project has remained commercially and technically sound, benefiting from the first ADB local currency loan in Indonesia. It continues to demonstrate the potential for innovation and increased room for efficiency improvement in the water sector despite ongoing regulatory reform and associated constraints."¹⁷

What would strengthen the inclusive business case of this project

To strengthen the inclusive business aspect of this project, the following parameters should be considered:

- *Better describe the context of the low-income population served* – What percentage of the Western Jakarta population is considered low-income (under \$3/day)? How were they getting their water and what were the risks and consequences of the status quo? How has this project changed their circumstances? (i.e. reducing/eliminating the costs of boiling water, paying a premium for water through intermediaries, etc)
- *Provide further insights into the pro-poor design features* – Other than a cross-subsidized pricing model, what were critical pro-poor design parameters integrated into the project to assure sustainable and quality access of water to low-income consumers?
- *Division of services provision* – What percentage or kilometer distance has been renovated and developed to increase water distribution into low-income communities specifically (versus the percentage spent on higher-income areas)? What actual improvements to their standard of living have resulted? Are they able to utilize their payments to establish a credit history that they can then use to avail of a micro-loan or other forms of financial support?

¹⁷ Extended Annual Review Report for the Loan to West Jakarta Water Supply Development Project Indonesia, September, 2013.

India - Simpa Networks

The Company in Brief

Simpa Networks is a venture-backed technology company with a bold mission: to make modern energy simple, affordable, and accessible for everyone. Simpa has introduced a product and business model that will make sustainable energy choices “radically affordable” to the 1.6 billion Base of the Pyramid (BoP) consumers who currently lack access to electricity. Simpa sells distributed energy solutions on a “Progressive Purchase” basis to underserved consumers in emerging markets.

The Project

Simpa offers a secure, prepaid payment platform to make simple, affordable, and investible clean energy solutions for underserved consumers in India. Through its partnerships with various suppliers, Simpa Networks aims to provide solar home systems (SHS) to the more than 200 million low-income households that are off the electrical grid and have to rely on mostly kerosene fuel for their lighting needs. Solar photovoltaic technology offers a clean alternative to address off-grid access to electricity when made part of effective decentralized solar home systems and/or community-scale micro grids.

The Inclusive Business Model

Simpa introduced “its “pay-as-you-go” pricing to household energy systems. Users pre-pay based on actual usage and each payment adds up towards the total purchase price of the solar home system. Consumers can send payments using a mobile phone. Once fully paid, the solar home system unlocks and delivers free electricity for the expected 10-year life of the product. Simpa transforms an energy expenditure into an asset purchase. They offer consumers the opportunity for ownership of their energy resource and break their dependence on expensive, unhealthy, and inefficient sources of light and electricity. To do this, Simpa has invented, built and field-tested the core technology that regulates usage of an electronic device based upon the receipt of payments. Specifically, they are introducing Progressive Purchase technology – a combination of product-embedded hardware plus cloud-based software that enables a consumer to purchase a solar home system at minimal upfront cost and then to make a series of small payments over time – using a mobile phone – to complete the purchase of their system. This assures “radical affordability” – defined as affordability across three axes: the initial purchase price; the total cost of ownership; and the flexibility of expenditures over time.”

Progressive purchase is a new pricing model that shares some characteristics of the familiar “prepaid,” “pay-as-you-go,” and “installment plan” pricing models. Under progressive purchase, the consumer makes a series of payment, each of which unlocks the solar home system for a paid amount of energy consumption (Kwh). Once the prepaid consumption is exhausted, the solar home system is disabled until another payment is made.

The inclusive business model address two systemic issues facing low income families in India — the access to reliable and affordable energy at the household level and the poverty penalty paid for energy currently by low-income consumers.

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Access to Electricity – India’s 1.21 billion population is the fourth largest consumer of energy after Russia, China and the United States. Despite this, an estimated 400 million people are without electricity and about 700 million more have only limited access. For this segment of India’s population, lighting is mostly provided by kerosene and other natural fuel sources such as wood or animal waste, which have the unfortunate side-effect of causing a host of respiratory and other health problems. Additionally, while these traditional sources can provide light, they cannot address other needs for electricity such as refrigeration or recharging necessities such as batteries or cell phones.

The Poverty Penalty – India’s poor are already paying as much as one-third of their earnings for fuels such as kerosene. Assuming they are willing to pay for an alternative source of energy that is more affordable, safer and provides them with more than just lighting, the low-income segment represents a significant market for solar home systems.

Drivers for the Company’s Inclusive Business Model

Improving an Existing Market – The demand for affordable and safe alternatives to traditional energy fuels among off-grid communities is well established. Within the solar home system market, the niche that Simpa Networks has created for itself is the Progressive Purchasing or “pay-as-you-go” model that allows consumers to set their own limits on use based on their ability to pay. This innovative approach is proving effective because the costs of the SHS are incorporated incrementally into charges that are within and often below what low-income consumers are already paying for in kerosene, diesel or other means. In addition, once the solar system is fully paid for (estimated by year 3 to 5 after installation), electricity is permanently provided and the SHS converts into a household asset.

Hazards of Traditional Fuels – Traditional fuel sources that are more readily available to remotely located low-income communities also pose a significant health risk. An estimated 300,000 to 400,000 deaths occur each year related to the use of traditional fuel sources. Solar home systems not only provide a better lighting service to communities, they are also a safe and more reliable alternative.

Results of the Company’s Inclusive Business Model

Simpa Networks aims to sell and install 29,000 solar home systems and 34,125 metering units providing access to clean, safe, and affordable energy to an estimated 63,125 low-income households across seven states in Northern and Eastern India by 2014. The impacts expected include improved living conditions that reduce health risks associated with traditional fuel sources and overall increased productivity due to extended working hours afforded by electricity. In the longer-term, Simpa Networks aims to leverage \$20 million in venture capital and private equity funds for investing in energy sector companies by 2017 as part of a broader effort to increase the access to electricity for rural households in India from 55% (2011) to 70% by 2022.

What would strengthen the inclusive business case of this project

Assessment of Cumulative Impacts — While mentioned in the RRP, providing impact baselines and measures about the commutative benefits of affordable energy (i.e. alternative uses of savings from no longer purchasing kerosene, availability of lighting to prolong nighttime reading and related educational opportunities for children, reduction in respiratory ailments and the benefits of increased productivity, etc.

Bangladesh - Grameen Phone

The Company in Brief

Grameenphone is the largest cellular network provider in Bangladesh with over 40 million subscribers. The company is a joint venture between Norway's largest telecommunications company, Telenor (55.8%), Grameen Telecom (34.2%) and the rest is publicly held (10%). Grameenphone was the first company to introduce GSM (digital technology) into Bangladesh that drastically changed telecommunications for the country. As its main focus, Grameenphone pioneered the Village Pay Telephone (VPT) program that aimed to provide the rural poor with a means of communications for personal use but also for business transactions. Grameenphone has been able to provide services to an approximated 95% of rural cities in the country.

The Project

The Grameenphone project was The project entailed the construction and operation of a nationwide cellular telephone system that would provide common cellular services in the main cities, and village pay telephone (VPT) services in rural areas of Bangladesh. Given Bangladesh's historical low penetration rate for telephones (ca 1/300 persons), the project was designed to be transformative in providing first time access to a telephone line and associated services to millions of users, particularly the low-income segment in rural areas and unlock and enable a plethora of entrepreneurial and income generating opportunities for the poor. The ADB provided Grameeephone with a \$17 million loan and a \$1.6 million equity loan toward a total project cost of \$163 million.

The Inclusive Business Model

The inclusive business model was premised on providing last mile connectivity to mobile phone technology but leveraging low-income distribution channels and entrepreneurship of the poor to help the model and its impact develop and scale. It provided the following benefits:

Access to Communications – At the beginning of the project, Bangladesh's telephone penetration rate was one for every 300 persons. Between 2000 and 2011, telephony grew from 0.2 subscriptions per 100 persons to 56.6 per 100 persons, respectively.

Entrepreneurship Development — Similar to the principle behind Grameen Bank, Grameenphone was designed to give communications access to the poor with the idea of fomenting corollary access to markets and critical health services that are key factors to development and productivity. Backed by the idea that "connectivity is productivity", Grameenphone provides local VPT (Village Pay Telephone) operators, many of whom are poor themselves (672,955 operators), with service phones that clients use for phone calls. In many cases, VPT operators were provided micro-loans to begin services. This shared access communications model takes into consideration the resource limitations of the poor through its pay-per-use system instead of locking them into phone ownership.

Drivers for the Company's Inclusive Business Model

The Market Opportunity – Telecommunications in Bangladesh was monopolized by the Bangladesh Telegraph and Telephone Board until the 1990s. With the onslaught of cellular technology, the telecommunications industry has exploded with foreign and local investment in the billions and has seen exponential growth

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in the last five years. In 2011 there were 977,700 fixed lines in use while cellular subscribers were reported at 84.369 million for the same year.

Productivity Penalty – Prior to the expansion of telephony in Bangladesh, business transactions took place face to face for the lack of alternative communications and the poor often traveled significant distances (and lost time) to market their products, get access to medical and/or market information, etc. By introducing a mobile phone with associated information services, much of the lost time and inefficiency was significantly reduced and/or eliminated, leading to greater rural family productivity, better decisions, improved healthcare, and better informed business decisions. For many rural inhabitants, telecommunication also provides access to markets beyond their immediate vicinity.

Results of the Company's Inclusive Business Model

By the end of 2011 and according to the ADB's Independent Evaluation Department, Grameenphone's mobile services covered 100% of Bangladesh's districts, 90% of the land area, and 99% of the population. The VPT program has also provided telephone access to about 95% of the villages in rural Bangladesh. The project purposely promoted social development and inclusive growth. The VPT program has provided earning opportunities for thousands of people who serve as VPT operators and has afforded telephone access to previously unserved areas. There are nearly 700,000 active VPT operators in 83,000 of the 87,000 villages in Bangladesh. Independent studies suggest that: "the VPT operators made decent profits that ranged from \$40 to \$300 and averaged \$70 per month. This represented a substantial 20%– 50% of the VPT operators' household incomes." Specifically, VPT users were able to (i) get better prices for their produce, (ii) save trips to the town center or the city, (iii) get in touch with family and friends, (iv) get remittance details from family members working abroad, and (v) inquire about health-related issues.

Grameenphone has also established community information centers that offer low-rate but high-speed voice, data, and other communication services to previously unconnected people. There are 502 such centers in nearly 450 (or about 97%) of the *upazilas* (subdistricts) in the country. Increased livelihoods and economic opportunities have been reported as a direct result of connectivity primarily because rural producers have better access to information that allows them to make better informed decisions, they are able to find better prices for their products/services and are more efficient overall. In addition, the VPT program allows them to better coordinate the flow of critical remittance resources that are invested locally. Women are also reported to have benefitted directly from the VPT program in terms of business development, empowerment, strengthening social networks as well as increased access to healthcare.

A majority of the respondents agreed or strongly agreed with statements that being a VPT operator (i) enhanced their status in the household (94%), (ii) elevated their status in the village (95%), (iii) boosted their self-confidence (96%), (iv) increased their knowledge about market prices of products and supplies (88%), and (v) increased their knowledge about health issues (75%). Similarly, a majority of the respondents agreed or strongly agreed with the statements that the VPT program (i) greatly improved the livelihood of and earning opportunities for the villagers (87%), (ii) greatly improved the health and well-being of the villagers (69%), (iii) greatly improved the safety and security of the villagers (95%), (iv) contributed immensely to poverty reduction in the village (82%), (v) contributed immensely to social development in the village (88%), and (vi) contributed immensely to empowering women in the village (75%).

India - Champion Agro Limited

The Company in Brief

Established in 1990, Champion Agro Ltd is a leading agricultural retail company that has introduced the concept of “agro retail malls” in Gujarat. Company has set up 34 agricultural clinics in short span of three years. This chain of agricultural centers served as one stop shop for farmers by providing agricultural inputs, farm machinery, cattle feed and other agriculture related products. Under the umbrella of services, company provides agricultural and extension services including soil testing, crop inspection, weather forecasts and advisory services on farm credit, crop loan, life insurance and medical insurance among others.

The Project

Champion Agro received an ADB loan of up to \$18.4 million to provide quality fresh produce to the market through its subsidiary Champion Agro Fresh and has diversified its supply chain through contract farming of baby corn, banana, pomegranate and other horticulture products as well as wheat and oilseeds. Champion Agro directly employs about 200 people. In addition, about low-income 8,500 farmers work under contract and lease farming with the company. The company plans to scale up the existing 34 centers to 400 centers all across India within coming 3 years along with 20 district level malls, agricultural excellence centers and integrated storage facilities which will become hub as well as connecting point for nearby centers.

The Inclusive Business Model

This project employs a contract farming and supply chain innovation model to create opportunities for low-income farmers in rural India. Because the majority of India’s 280 million rural poor rely on agriculture for their livelihood, this project aims to explore the potential for adding value to non-traditional horticultural crops through post-harvest processing and exportation to an international market. By controlling the horticultural value chain from growing to distribution, it ensures a secure market for fruits and vegetables grown by low-income farmers. The elimination of intermediaries, likewise, assures that farmers capture a larger portion of those savings in the prices guaranteed to them.

Drivers for the Company’s Inclusive Business Model

Emerging Market Opportunities – Horticulture production is the fastest growing segment of agriculture in India having a growth rate 1.9% greater than the production of staple crops between 2007 and 2012. The sector now comprises 28% of agricultural contribution to GDP and represents 37% of all agriculture exports. As fruit and vegetable processing technology and infrastructure continues to develop based on global demand, the market for India’s horticultural products is no longer restricted to localized markets. Changing consumer preferences that are increasingly favoring fresh foods, the market for processed fruits, vegetables and dairy support further growth in horticulture in value-added processing. As the second largest producer of fruits and vegetables in the world, India is well poised to take advantage of this rapidly emerging market.

Results of the Company’s Inclusive Business Model

The results expected from the project include a measurable contribution to the direct reduction of poverty in the province of Gujarat by 6.7% between 2010 and 2017. Contractual agreements between Champion Agro and low-income farmers will formalize their integration into the mainstream horticultural value chain resulting

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to increased income levels. An estimated 35%- 50% of incremental income is expected to accrue to farmers through their participation in this company controlled value chain. The number of farmers working with company under contract and lease farming is expected to increase from 8,500 in 2012 to 15,000 in 2016.

What would strengthen the inclusive business case of this project

To strengthen the inclusive business aspect of this project, the following parameters should be considered:

- *Better describe the low-income population served* – what is their current economic status compared with what is expected through the project? What do these contractual agreements entail? What price benefits are they actually realizing? How many low-income farmers are anticipated to directly benefit from the project? How many low-income people are expected to realize benefits?
- *Better monitoring of poverty impacts* – success measures can include basic poverty-reduction parameters such as income, employment, capacity level, educations, basic services, standards of living, localized poverty-reduction measures as it contributes to overall poverty level in Gujarat.







IV. Recommendations

At the end of the day, this comes down to leadership. Because it's always easier, isn't it, to go into the more mature markets, the ones where your business model has been established, where the uncertainties are well managed and well known. To take the risk to go into markets and to supply chains and distribution chains which favor low-income groups and to see that as a business opportunity (not just) an act of doing good, that represents a real act of leadership and courage.

Graham Baxter, Senior Advisor, International Business Leaders' Forum (IBLF)

In basic terms, this preliminary assessment concludes that the ADB is currently (albeit not formally or deliberately) developing and financing a limited number of inclusive business opportunities. The extent to which the ADB would like to formalize and expand this approach as a formal part of its private sector development strategy remains an open question. While there is potential, should the ADB wish to integrate inclusive business as one of many strategies to supplement its focus on inclusive growth, it may consider the following (rooted in a few basic principles -- develop a strategy, set targets, execute (with relevant tools and processes), measure performance, and systematize best practice and lessons learned:

- * **Reorient the Bank's private sector strategy and set targets to make more explicit how it can contribute more directly and deliberately to inclusive growth through market-based solutions like inclusive business.** In recent months, the World Bank,

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IFC and IDB have made more explicit how they plan target the low-income segment through market-based on related solutions -- in many ways, mainstreaming their previous efforts and experiences with inclusive business. The ADB has an opportunity to build on the experiences of these institutions to inform how to best reorient its private sector development strategy so that it can more meaningfully target and improve the livelihoods of the region's poor and vulnerable populations -- especially in countries beyond India and China where access to finance can be a significant barrier to entry. Ideally, a small, time-bound inter-departmental task force (leveraging internal expertise from risk, legal, private and public sector operations and RSDD) could be established to determine how to best develop an inclusive business approach that is impactful, complementary, and can strengthen the bank's additionality vis-a-vis its current and potential market.

- * **Develop measurable targets to incentivize inclusive business development and performance.** In the past, inclusive business development within PSOD's portfolio has been ad hoc and accidental rather than strategic. Recent investments however (such as Champion Agro or Simpa Networks) suggest that there is increasing interest in identifying and supporting inclusive business opportunities. However, these efforts remain marginal and require more deliberate management support and accountability mechanisms. By developing internal, sector-agnostic targets (i.e. 10% of the investment portfolio should explicitly target business opportunities that benefit poor and vulnerable communities based on established criteria — either in number of transactions or volume of transactions or both) and integrating them with internal performance management and accountability processes, investment specialists may have greater incentive to pursue these kinds of transactions. Furthermore, progress toward the targets could be used department-wide to demonstrate more visibly, PSOD's contribution toward social inclusion (alongside its financial and output/outcome indicators of performance).

- * **Develop tools and processes to facilitate the selection, evaluation and implementation of inclusive business models.** Because inclusive business often requires a change in mindset as the business models are designed from the bottom up, eligibility criteria (bespoke to target sectors), an impact assessment tool, refined due diligence and risk assessment criteria and protocols will need to be developed to assure a standard approach. Specifically, the following adjustments to existing tools (and or the introduction of new tools would be required):
 - *Refine concept clearance:* Integrate more robust conceptual modeling and causal linkages between the scope and purpose of the investment and the target (low-income and vulnerable) customers;
 - *Deepen due diligence:* Assure due diligence includes the application of IB selection criteria and validation that the business models contribute meaning-

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fully to the livelihoods of the poor and have the potential for scale and replicability;

- *Adjust term sheet:* Assure the integration of inclusive business performance measures (and compliance with the same) in cooperation with the borrower to validate that both financial and social performance are critical to the success of the investment;
- *Revise SPRSSs and IPSAs:* Refine the SPRSS and IPSAs to assure the explicit determination of direct low-income and vulnerable beneficiaries (rather than relying primarily on indirect impacts) and the quantitative and qualitative improvements that would be made to their livelihoods through an inclusive business.
- *Develop impact assessment tool:* Develop and/or adapt ADB impact assessment tools to more explicitly measure development impacts (rather than solely outputs and outcomes) and provide an effective performance management tool to be shared between the ADB and investee.
- *Streamline risk and legal requirements:* Because some inclusive business investments may be smaller than traditional PSOD investments, the cost of due diligence including legal review may be incompatible with the overall deal size (i.e. cost prohibitive) and as such, more streamlined processes may need to be developed in order to lower transaction costs without sacrificing the integrity of the Bank's due diligence process. This may also include the development of new modalities to mitigate risks of some inclusive business models (i.e. first-loss risk, etc):
- *Deepen ADB evaluation criteria:* Adjust the framework for ADB evaluations to strengthen the focus on development impact beyond outcomes and refine the performance criteria to place greater importance on development impact and effectiveness in determining the overall rating. Evaluation criteria should include primary and secondary/cumulative impacts and determine ADB additionally in a social impact context more clearly — answering the questions, what kind of social impact would have occurred were ADB not to get involved in this investment? How much catalytic impact did the ADB investment achieve, especially with regard to counterfactuals? And, what was the importance/meaning of that impact to the target beneficiary (depth)?

- * **Actively seek to complement “hard infrastructure” with smarter “soft infrastructure” investments that are directly correlated to poverty reduction.** Lessons from many studies suggest, even those from the ADB, that infrastructure has greatest impact on poverty when other, supportive actions are integrated. This is known to be particularly true where infrastructure systems are designed specifically to encourage growth in areas where the poor and vulnerable are concentrated. Making complementary investments in areas such as vocational education, research and development, business advisory ser-

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vices and entrepreneurial development (targeting both poor and vulnerable men and women), access to capital, finance and insurance (especially for the poor and vulnerable), health services, etc.

- * **Diversify the investment portfolio to include sectors and countries currently underserved by financial institutions, especially with regard to inclusive business opportunities.** Given the enormous needs of the low-income segment in access to energy, financial services (including insurance), healthcare, housing, education (including vocational education) across Asia and a significant need in agriculture, a stronger and bolder strategy would be required to assure more adequate consideration and representation of these sectors in CSPs. This may represent increased opportunities for a wider selection of inclusive business opportunities to emerge; however, and though traditionally the ADB does not seek out investments, it may have to consider how to increase its proactivity vis-a-vis deal generation and how to better align its portfolio selection with public sector priorities (to assure they can be mutually reinforcing). Unlike other more traditional transactions, inclusive business deals are often made not found.
- * **Refine SME financing strategies to more deliberate focus on the low-income segment.** Because most of the SME financing and development schemes in the PSOD portfolio targeted medium to large firms (primarily in high-growth and urban industries), most of these investments had peripheral benefit to the low income segment. Moving forward, more deliberate targeting of SME financing facilities that focus on small and medium enterprises with a direct footprint on the low-income segment would strengthen the role these enterprises play vis-a-vis poor and vulnerable populations, particularly in rural areas. These more “inclusive” SME lending facilities could complement the current investment portfolio in higher skill, higher-end small and medium sized companies serving the interests of the middle to high income market segments.
- * **Strengthen the ADB’s role as an investment and development catalyst.** Part of the ADB’s mandate is to act as a catalyst for investment in markets the private sector would be otherwise unwilling to consider. Inclusive business in Asia requires such a catalyst -- especially considering the increasing market recognition that the ADB has already established itself as a thought leader and convener on the subject. Moreover, the ADB’s ability to crowd-in other investors would allow for risk sharing,
- * **There are opportunities to link ADB Regional Department Efforts to Investments done by PSOD.** For example, the ADB’ RSDD and the respective Regional Department are working together with the government of the Philippines through the Board of Investments of the Department of Trade and Industry to propel the growth of inclusive business in the country. This effort will develop policy incentives and investment criteria to test and

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scale inclusive business opportunities in a number of target sectors. Similar efforts could be conceived between other regional and national efforts and the ADB's IB initiative.

Over the past few years, the ADB has made important strides in understanding the inclusive business landscape and the potential opportunities it might represent -- for investment and for development impact. Notwithstanding the evolving discussion on if and how the ADB should pursue inclusive business as an integral component of its private sector development strategy, this assessment suggests that the ADB has and is actively investing in inclusive business models and is incrementally diversifying its portfolio into previously underserved sectors such as agriculture and lower income urban and rural markets. While these incremental shifts may be temporal and remain ad-hoc, the ADB is well positioned to have them become a more concerted strategic effort to leverage commercially viable and profitable business models to benefit the low-income segment in support of inclusive growth.



Appendices

Appendix I: What is Inclusive Business

Inclusive businesses are like any other business, but they are designed to deliberately expand quality access to goods, services, and income opportunities for the low-income segment in commercially viable ways. They can be larger, well-established businesses that are seeking growth through the pursuit of new market segments or businesses looking to increase profitability through the management of risks in their supply and distribution systems. They can be also successful social enterprises with a proven business model that are seeking to grow and diversify their operations. All of these types of businesses are bound by a common DNA in that they are deliberately designed (no assumption of trickle down benefits) not only to generate economic and financial returns, but also to create social value by identifying opportunities to improve the livelihoods of the underserved.

Over the course of the last decade, inclusive business has evolved from a development concept to a core business strategy, contributing increasingly to corporate innovation, competitiveness and growth in new markets while integrating the poor into a company's value proposition. A majority of

companies pursue inclusive business as an economic opportunity or out of economic necessity. They specifically identify a market opportunity and develop a business model through which the unmet needs of the poor can be combined with their willingness and ability to pay. These models often rely on understanding the real costs and trade-offs to which the poor are exposed to receive what is often a sub-standard good or service and creating a more cost effective alternative. Beyond seeking out the poor as consumers as part of a wide “whole pyramid” marketing strategy, supplier-centered IB models are focused on expanding a company’s supply chain to keep pace with market demand and/or diversify into new products when traditional supply channels have been exhausted.

How Others Define Inclusive Business

Coined initially by the World Business Council for Sustainable Development in 2005 and subsequently mainstreamed and scaled by the SNV - WBCSD Alliance for Inclusive Business in 2007 (initially in Latin America and subsequently in Africa and Asia), inclusive business has grown from a nascent concept designed to deepen the private sector’s development impact in commercially viable ways to a mainstream business strategy promoted and supported by development finance institutions, foundations, multi-lateral and bilateral donors, impact investors, NGOs, and leading development and strategy consulting firms around the world. This growth is not accidental. The inclusive business appeal relies on several key elements:

- it provides greater opportunity, access and choice for the low-income segment to bespoke products, services and income generating activities previously unavailable to them;
- it allows corporates to invest in and develop innovative products and services for an underserved market segment that provides new revenue, distribution and/or supply chain management solutions critical to company growth and competitiveness (some of these products and services often have subsequent wider appeal beyond the BoP);
- it allows funders and civil society to leverage corporate assets (including infrastructure, technology, expertise, distribution, marketing, and procurement platforms, and balance sheets) in ways that decrease reliance on long-term funding and increase opportunities for scale and sustainability;
- it allows investors, especially impact investors, to develop a portfolio of investment opportunities that appeal to financial and social returns without necessarily accepting a trade-off between them;
- it allows the public sector to explore how private-sector led market-based solutions can provide more effective and efficient delivery of basic services that would otherwise be the responsibility of government;

- it allows academia to review the ways in which the private sector can also contribute to inclusive growth.

Inclusive business is defined in the following ways by other leading organizations (see Table below).

Table: How Select Leading Organizations Define Inclusive Business

Organization	Inclusive Business Definition	Role
IFC	Models expand access to goods, services, and livelihood opportunities for those at the base of the global economic pyramid (BoP) in commercially viable, scalable ways.	commercial investment -- debt and equity, technical assistance, advocacy and outreach
IDB	Inclusive businesses are business models that develop and deliver quality products and services, create employment, and enable low-income producers and consumers to join the formal economy.	commercial investment -- debt, technical assistance, advocacy and outreach
DFID	Profitable core business activity that has high development impacts; creating jobs, integrating local farmers and entrepreneurs in international supply chains and providing quality and affordable services to low-income consumers.	technical assistance, commercial investment (outsourced), advocacy and outreach
SIDA	Business models include people in poverty as clients and customers, and as employees, producers, distributors and business owners at various points in the value chain.	commercial investment and technical assistance (outsourced)
USAID	Initiatives that offer socially beneficial goods or services to poor consumers or provide improved incomes to small producers, agents, or distributors, at scale, and in a way that is commercially viable.	technical assistance, finance (commercial and non-commercial), advocacy and outreach
WBCSD	Sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways. Inclusive business leads to the creation of employment opportunities for low-income communities – either directly or through companies’ value chains as suppliers, distributors, retailers and service providers. Alternatively, companies can develop ways to supply affordable products and services to meet basic needs for food, water, sanitation, housing and health care. Or they can develop innovative business models to enhance access to key development enablers such as energy, communications, financing and insurance.	technical assistance to members, advocacy and outreach
IBLF	Business models that are designed to deliver mutual benefits for business (generating sales and profit growth) and for low-income communities (creating jobs and increasing incomes).	technical assistance, advocacy and outreach
UNDP	Business models that include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.”	technical assistance, advocacy and outreach
Corporate Citizenship	Profitable core business activity that expands opportunities for the marginalized and disadvantaged. These business models engage the marginalized as employees, suppliers, distributors or consumers. As such, Inclusive Business is not philanthropy, rather it profitably expands economic and social opportunities in a variety of ways.	technical assistance, advocacy and outreach

Organization	Inclusive Business Definition	Role
G20	<p>Inclusive business is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the pyramid by making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. Inclusive businesses expand access to goods, services, and livelihood opportunities for low-income people in commercially viable, scalable ways. These businesses provide opportunities for people living at the base of the pyramid (BOP) to step into new roles: as suppliers, as distributors, as retailers, or as customers. An inclusive business customizes its business model to take advantage of opportunities to work with people who live at the BOP on less than \$8 per day in purchasing power parity or without access to the basic goods, services, and income generation opportunities that they need. Not only do low-income people benefit when these businesses provide greater access to basic goods, services, and livelihoods—the businesses benefit as well.</p>	<p>Advocacy and outreach.</p>
GIZ	<p>In developing and emerging countries, poor segments of the population are often unable to afford essential goods such as water, food or electricity, or if so then merely in meagre amounts. These people constitute potential markets which, once tapped by businesses, can contribute to reducing poverty. Inclusive businesses are business enterprises that develop innovative business models which benefit the some four billion people at the bottom of the global income ladder (termed the base of the pyramid, or BoP) while at the same time offering profitable business opportunities.</p>	<p>finance, advocacy, outreach</p>
JICA	<p>We define that the inclusive business is mainly intended for the sustainable business in which people at “BOP” (Base of the economic Pyramid) in developing countries are involved as consumers, producers, distributors, or any combination thereof. The inclusive business is also expected to resolve the various problems for developing countries which include water supply, commodities, (supply of) service, poverty reduction, etc. As a result, the inclusive business is the new type of business models.</p>	<p>finance, advocacy and outreach</p>
Endeva	<p>Inclusive business integrates people living in poverty into the value chain as consumers or producers, thus making a positive contribution to the development of companies, the local population and the environment.</p>	<p>technical assistance, advocacy and outreach</p>
ADB	<p>Inclusive business is an increasingly popular market-based approach that pursues profits while generating shared value with the poorer segments of society. An inclusive business is a commercially sustainable enterprise whose core business model is designed to provide shared benefits at scale while addressing the systemic poverty of low-income groups⁴ (such as those living on \$3 a day—about three-fifths of the population in developing Asia and the Pacific).⁵ Inclusive business approaches seek to maximize both profit and social impact. They integrate poor people into the mainstream economy as (i) consumers, by providing essential goods and services that meaningfully improve people’s lives by addressing issues of access, affordability, quality, and choice; (ii) suppliers or distributors, by creating income-earning opportunities through incorporation of the base of the pyramid (lower income bracket) into their value chains; and (iii) employees, by creating decent jobs that benefit unemployed, underemployed, and low-income workers.</p>	<p>technical assistance financing, advocacy and outreach, ecosystem support services, financing under consideration</p>

Fundamentally, to all parties included above, inclusive business is about providing access to quality goods, services and markets to an underserved customer segment in commercially viable ways. Its premise is rooted in the creation of shared or mutual value. The degree to which the model is impactful (in terms of scale, depth and target groups) and/or commercially successful will be case dependent -- taking into consideration context, the risk appetite of the client and the investor, and the desired financial and social returns. It is also clear that the target population (customers) need not be defined by strict and quantitative extreme poverty parameters, but rather are painted with a wider brush of vulnerability -- the qualitative measures through which the “poor” are excluded or are not provided quality and sustainable access to goods and services critical to their livelihood.

From the respective definitions, it is also clear what inclusive business is not. It is not considered corporate social responsibility in that it is not a peripheral and/or philanthropic activity outside a company’s core business delineated by a temporal mandate and finite resources. While IB is considered part of impact investing, impact investments cover a broader range of business models that includes more specifically environmental investments, entrepreneurship (especially social entrepreneurship), gender and other excluded groups (not necessarily poverty-related), and SMEs. Finally, inclusive business is also not considered BoP business, social enterprise or social business -- BoP business refers to business models that are designed primarily to sell goods to the low-income segment through high-volume, low margin businesses irrespective of their systemic contribution. Social business refers to a non-loss, non-dividend company focused on maximizing social impact and reinvesting profit in the same. And finally, while some social enterprises may be inclusive businesses, they too can include not only environmental enterprises, but also non-profit organizations (and often focus on maximizing social/environmental returns at the expense of financial returns or their business model is dependent on intermittent flows of patient capital).

Appendix II: Inclusive Business and the ADB

About the ADB's Inclusive Business Initiative

Since 2007, the ADB has taken proactive steps to further explore and develop the inclusive business concept as an important element of its private sector development strategy – leveraging lessons learned in particular from the IFC and the Inter-American Development Bank (IDB). Building in part on the experience of these institutions, the ADB developed a regional technical assistance project “*Promoting Inclusive Growth through Business Development at the Base of the Pyramid*” that was focused on market feasibility analyses, knowledge development and advocacy, donor and investor prospecting, and building internal bank consensus and capacity. The market feasibility studies were aimed at assessing the feasibility of developing regional and/or country-based financing facilities for inclusive business ventures in ten Asian countries (Bangladesh, India/Sri Lanka, Indonesia, Pakistan, the Philippines, and Vietnam/(Mekong which includes Laos, Cambodia, Thailand, and potentially Myanmar) from both an investor and investee perspective while increasing awareness about the market opportunity for the same. Some of the key investment-related conclusions from these market scoping studies suggests that:

- * there is a significant and under-capitalized market opportunity across the region for inclusive business. Over 80% of the 500+ companies interviewed saw inclusive business opportunities as a means to increase company growth and profitability;
- * there is a critical role for private sector investment to play, accompanied by strategically-deployed technical assistance, in addressing issues of access to, and affordability, choice availability, quality and price of goods and services in the low-income segment;
- * access to finance, especially for SMEs, is a persistent challenge and represents a significant bottleneck which hampers the ability of larger domestic companies and multinationals to draw them into their supply chains. To the extent that access to finance issues can be addressed through targeted lending to financial institutions focused on this segment and complemented by concrete policy initiatives, the effectiveness of inclusive business initiatives would be considerably enhanced;
- * investment into financial institutions to catalyze their development of pro-poor products is critical to enabling SMEs and small entrepreneurs to participate more effectively in the economy. Products such as agricultural finance, micro-insurance, micro-health insurance, working capital facilities and, more generally, the development of cash-flow based lending expertise would be effective in liberating SMEs from the collateral trap that so often denies them finance;
- * private sector investment could be harnessed in the target countries to incorporate the poor into supply chains in more sustainable ways which would enable them to accumulate wealth and reduce insecurity and vulnerability, and to draw them into value chains as producers and distributors;

Appendix II: Inclusive Business and the ADB

- * sub-regional facilities are preferable: Given that fund manager investment strategies will need to effectively hedge risk, especially in the more volatile markets within the scope of these assessments, and considering that deal size, deal flow, and portfolio management may require sourcing and management across multiple geographies, there is a strong recommendation to bundle funds into sub-regional financing facilities through which a broader investor pool can be leveraged, fund size and deal volume become attractive and manageable, risk can be effectively managed, and competitive returns can be achieved.

In the context of advocacy and knowledge development, the ADB IB initiative convened five inclusive business fora (Vietnam, Sri Lanka, India, Indonesia, the Philippines), one regional forum, and a corporate leaders training for Japanese executives and policymakers in Tokyo, Japan (in partnership with the Inter-American Development Bank and Fujitsu Research Institute). It has also established a partnership with the IDB to systematize its experience from their Opportunities for the Majority initiative (President Moreno's initiative to focus the bank on inclusive business) and apply the most relevant lessons for ADB's consideration, assess public policy incentives to support inclusive business in the Philippines with the PBSP, and developed an ex-ante impact assessment tool critical to ascertaining the potential for development impact on the low-income segment prior to making an investment.

Over the course of the last two years, a number of private and bi-lateral funding sources have solicited the ADB as a natural convener and market-leader in inclusive business as a result of the initiative's efforts and advocacy. Ultimately, the goal of the ADB initiative is to better understand if and how a new class of financing facilities (and/or a dedicated pool of capital) that can invest in innovative, replicable and scalable inclusive businesses could contribute to promoting inclusive growth in the region.

What does Inclusive Business mean to the ADB

Inclusive businesses are profitable business that create value in such a way that beyond economic returns, it generates social impact by deliberately and directly targeting the low-income segment as part of its value proposition. Specifically, they create or expand access to goods, services, and livelihood opportunities for the poor and vulnerable in commercially viable, scalable ways. Within this model, the low-income segment fills one or more of four important roles:

- * as consumers: new markets for affordable goods and services;
- * as distributors: new distribution networks; and
- * as suppliers: new sources of supply/inputs;
- * as employees: new sources of quality employment at a fair wage (though employment of the BoP alone does not constitute an inclusive business).

Appendix II: Inclusive Business and the ADB

To the ADB, an inclusive business model should be like any business model. The only differentiator is that it is a mass-market or supply chain strengthening solution that deliberately expands access to goods, services, and income and employment opportunities for people living at the base of the pyramid. They can often be larger, well-established, viable businesses that are a) seeking to accelerate growth by pursuing new market segments and/or distribution channels and/or b) focused on mitigating supply chain, labour and reputational risks or they can be successful social enterprises with a proven business model that are seeking scale. Inclusive businesses maximize these opportunities and address these risks by integrating the low-income segment into their value chain in such a way that they contribute meaningfully to a company's bottom line by increasing profits and reducing costs on the one hand, and on the other, they provide income and employment opportunities for the low-income segment and/or access to goods and services that improve their livelihoods in a sustainable manner. In other words, inclusive business to the ADB is about a) addressing root causes of poverty through market-based solutions (systemic); b) assuring a clear pathway toward scale so that the impact is meaningful across a broad enough spectrum (scalability); and c) having a direct and indirect impact beyond the "near poor" (reach).

To the ADB, inclusive businesses tend to have the following characteristics that integrate both definitional and strategic/tactical considerations. They:

- * Are strictly for-profit;
- * Are strictly core business;
- * Must include the low-income segment within their business model through one or more of the following ways: as suppliers, as consumers, as employees (though not exclusively, given the definition above), and as distributors;
- * Must generate competitive financial returns. The level of returns depends on either investment criteria set by an impact investor, company ambition, strategy and business model or a combination of both. Ideally, an inclusive business should generate market returns commensurate with their business model and risk profile;
- * Must generate social returns. The scale and scope of the anticipated social returns will also depend on the investment criteria set by an impact investor, company ambition, strategy and business model, or a combination of both.
- * Are designed from the start with scale in mind to a) maximize and optimize their route to impact and b) maximize the creation of company value;
- * Do not seek trade-offs between financial and social returns. Rather, they continuously seek solutions through which both can be optimized simultaneously;
- * Often require blended capital priced for their their level of risk and relevant stage of development. Therefore, different forms of capital (patient, debt, equity, and others) are often deployed at different stages of an IBs life cycle;
- * Actively assess and measure both social and economic performance in a standardized manner;

Appendix II: Inclusive Business and the ADB

- * Normally evolve from social enterprises seeking to scale their proven (social purpose) business model or mid- to large-sized established companies seeking to create shared value through supply chain, labor-related and/or product innovation.

Beyond these standard attributes, the ADB in particular would require IB-related investments to:

- * Achieve at least a 15% gross financial return (though this is largely context dependent) and meets all the Bank's standard compliance and performance criteria and expectations (i.e. must not adversely affect the Bank's credit rating);
- * Assure that at least 60% of the target "customers" are from the low-income segment (includes poor, vulnerable and near poor) -- 40% of the target beneficiaries/customers could be from other market segments (to be determined in the context of the specific market) through a "whole pyramid" solution;
- * Optimize their businesses' value proposition in such a way that it also addresses a systemic and relevant poverty-related issue in a specific geographic context;
- * Demonstrate a clear route to impact;
- * Identify and manage pre- and post-investment risks.

In summary, the ADB's thinking reflects a preference for specific kinds of inclusive businesses -- it is by no means a generic approach to inclusive business development, but rather a qualified perspective meant to assure that market returns are commensurate with overall bank performance targets, and that social impact is meaningful and measurable.

Proposed ADB IB Definition

Inclusive business is an increasingly popular market-based approach that pursues profits while generating shared value with the poorer segments of society. An inclusive business is a commercially sustainable enterprise whose core business model is designed to provide shared benefits at scale while addressing the systemic poverty of low-income groups⁴ (such as those living on \$3 a day—about three-fifths of the population in developing Asia and the Pacific).⁵ Inclusive business approaches seek to maximize both profit and social impact. They integrate poor people into the mainstream economy as (i) consumers, by providing essential goods and services that meaningfully improve people's lives by addressing issues of access, affordability, quality, and choice; (ii) suppliers or distributors, by creating income-earning opportunities through incorporation of the base of the pyramid (lower income bracket) into their value chains; and (iii) employees, by creating decent jobs that benefit unemployed, underemployed, and low-income workers.

Why should the ADB engage in Inclusive Business

As the self proclaimed institution "at the forefront of development thinking and practice" committed to "creating a world in which everyone can share in the benefits of sustained and inclusive growth",

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the ADB is uniquely positioned to be a catalyst and convener of inclusive business across Asia, particularly as part of its mandate is to develop new markets in places and spaces where the private sector would be otherwise unwilling to venture. As such, were the ADB to make a decision to formally integrate IB as a feature of its private sector development strategy, the rationale could be as follows:

- * **it is an essential component of its 2020 strategy** -- the ADB is well positioned to broaden its private sector strategy to more deliberately leverage market-based solutions to the direct benefit of low-income and vulnerable populations;
- * **the opportunity for development impact is significant** -- the 1.7 billion people who are poor and unable to access essential goods, services, assets and opportunities across Asia are entitled to quality and sustainable access to the means that can help them improve their livelihoods and wider income generating opportunities;
- * **the private sector customer is increasingly interested in IB** -- because it can help companies increase profitability and growth through market expansion into new customer segments, reduce supply costs, improve brand equity, and assure greater sustainability of the business activity. Because the private sector is critical to job creation and growth, development and adoption of new technologies, and the upgrading and expansion of the coverage of essential goods and services, they can be a willing partner in promoting inclusive growth provided the financial and regulatory incentives are in place;
- * **potential clients experience limited access to finance and new financial products** -- inclusive businesses are unable to find suitable financial products bespoke to their business models. The ADB can introduce and/or underwrite new products that can provide liquidity and opportunity in this underserved market while at the same time leveraging additional private sector capital (often incentivized due to ADB participation);
- * **the ability to mitigate and manage risks** -- inclusive business clients and intermediary financial institutions require access to financial risk management products in order to hedge currency, commodity price and interest rate exposure, among others, and improve their performance and creditworthiness -- products that fall within the proverbial “sweet spot” for IFIs;
- * **the ability to create a demonstration effect** -- given that inclusive business is still a nascent business concept in Asia, demonstration projects can have an important effect in terms of inspiring business leadership to engage, replicate and innovate business models that target lower income customers. These kinds of demonstration initiatives often do not occur without strategic ADB support and therefore the eventual developmental impacts they may represent may not otherwise be achieved;

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- * **the need for scale** -- many projects with the potential to accelerate job creation, catalyze economic growth and provide sustainable solutions require moderate to large investments, whether in new markets and/or with new technologies. Considering the inherent uncertainties with developing and launching a new business model, often with a previously untested customer segment (the BoP), and the scale of the endeavor, these inclusive business opportunities do not only require finance, but also access to strategic partnerships, networks, and technical assistance - the very things that the ADB is in a unique position to provide or broker;
- * **increasing SME viability** -- providing opportunities to integrate SMEs within the value chains of larger national, regional and global value chains can improve SME growth and viability while further increasing regional collaboration and integration. Assuring inclusive business SME integration models can contribute to SME and company competitiveness while promoting innovation and development impact;
- * **increasing strategic leverage of public sector efforts** -- catalyzing public private partnerships and regional integration opportunities to enhance opportunities for systemic and holistic solutions at scale.

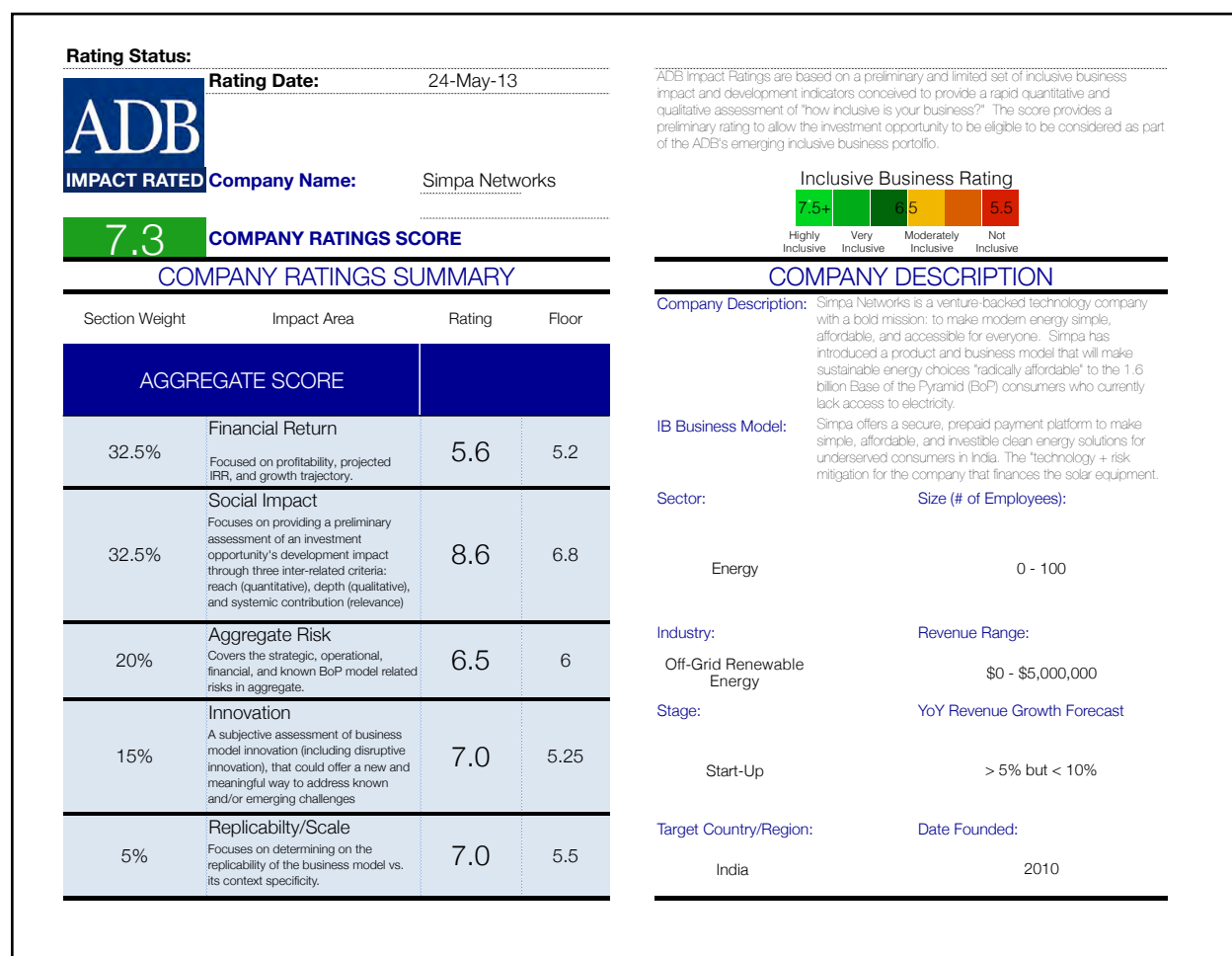
In short, developing an inclusive business portfolio would allow the ADB to deepen its strategic approach to private sector development by enhancing its inclusiveness, strengthen its position with SMEs and financial institutions, leverage and broaden its knowledge base and expertise, and crowd-in new investors into a widely underserved market segment that contributes directly to development impact.

Appendix III: Eligibility Criteria for Inclusive Business

Proposed Draft ADB Eligibility Scorecard for Inclusive Business

The premise of this draft and illustrative eligibility scorecard is to consciously recognize the importance of social impact as part and parcel of the investment strategy. During concept clearance and due diligence, this tool or a revised and improved version could be used to categorize and prioritize investment opportunities in order to determine if and how they might be considered inclusive businesses and how certain parameters like risk, innovation, replicability and scale, can be considered as part of the investment decision. It is a more refined and integrated version of the methodology developed and used for this report.

Draft and Illustrative ADB Inclusive Business Eligibility Scorecard*



* The information contained in the tool is for illustrative purposes only and is not meant to be an assessment of the SIMPA networks investment.

Appendix III: Eligibility Criteria for Inclusive Business

Financial Section

	SCORE	WEIGHT
1. Please Describe the Profitability of the Client	5	25%
10 = Consistently Profitable 7 = Profitable, with irregular returns 5 = At or slightly above break even 3 = Revenue - generating, but below break even 1 = Pre-revenue		
2. Please provide the proposed investment size	1	15%
1 = Under 3 million 3 = Between 3 million and 5 million 5 = Between 5 million and 10 million 7 = Between 10 million and 20 million 10 = Above 20 million		
3. Equity Capital	7	15%
10 = Above 10 million 7 = Between 5 and 10 million 5 = Between 3 and 5 million 3 = Between 1 and 3 million 1 = Under 1 million		
4. Anticipated IRR	7	30%
10 = Above 25% 7 = Between 15% and 25% 5 = Between 10 and 15% 3 = Between 5% and 10% 1 = Under 5%		
5. Anticipated YoY Revenue Growth	7	15%
10 = Above 25% 7 = Between 15% and 25% 5 = Between 10 and 15% 3 = Between 5% and 10% 1 = Under 5%		
TOTAL SCORE	5.8	100%
MINIMUM STANDARD	5.2	

Development Impact Section

	SCORE	WEIGHT
1. Please determine the projected number of direct beneficiaries	10	30%
10 = More than 50,000 7 = Between 25,000 and 50,000 5 = Between 10,000 and 25,000 3 = Between 5,000 and 10,000 1 = Less than 5,000		
2. Please determine the degree of change in livelihood to beneficiaries	10	25%
10 = Extremely High (first time access, income/employment moves them out of lowest quintile) 7 = High (more than 100% increase in income, consistent and affordable access) 5 = Moderate (Moderate increase in income 50%, moderately affordable access) 3 = Low (Modest between 25% and 50% increase in income, modest but temporary access) 1 = Extremely Low (less than 25% in income, no access)		
3. Employment Generation	3	10%
10 = Creates more than 2,500 new, competitively priced, sustainable jobs 7 = Between 1,000 and 2,500 new jobs 5 = Between 500 and 1,000 new jobs 3 = Between 250 and 500 1 = Less than 250 jobs		
4. Cost per Beneficiary	10	10%
10 = Low Cost (less than \$100/beneficiary) 7 = Between \$100 and \$1,000 5 = Between \$1,000 and \$5,000 3 = Between \$5,000 and \$10,000 1 = More than \$10,000		
5. Systemic Contribution	7	25%
10 = Extremely Relevant Systemic Contribution to Root Cause of Poverty 7 = Very Relevant 5 = Moderately Relevant 3 = Somewhat Relevant 1 = Low Relevance		
	8.6	100%
	6	

Risk Section

	SCORE	WEIGHT
1. Rate the Strategic Risks (i.e. competitive) to the Business Model as Proposed	7	25%
10 = Low Risk and Any Risks Mitigated 7 = Low to Medium Risk and Most Risks Mitigated 5 = Medium Risk 3 = Medium to High Risk 1 = High Risk with some significant risks unmitigated		
2. Rate the Operational Risks to the Company	7	15%
10 = Low Risk and Any Risks Mitigated 7 = Low to Medium Risk and Most Risks Mitigated 5 = Medium Risk 3 = Medium to High Risk 1 = High Risk with some significant risks unmitigated		
3. Rate the Financial Risks to the Company (Equity/Debt)	7	35%
10 = Low Risk and Any Risks Mitigated 7 = Low to Medium Risk and Most Risks Mitigated 5 = Medium Risk 3 = Medium to High Risk 1 = High Risk with some significant risks unmitigated		
4. Rate the BoP Business Models Risks	5	15%
10 = Low Risk and Any Risks Mitigated 7 = Low to Medium Risk and Most Risks Mitigated 5 = Medium Risk 3 = Medium to High Risk 1 = High Risk with some significant risks unmitigated		
5. Rate the Country Risks	5	10%
10 = Low Risk and Any Risks Mitigated 7 = Low to Medium Risk and Most Risks Mitigated 5 = Medium Risk 3 = Medium to High Risk 1 = High Risk with some significant risks unmitigated		
	6.5	100%
	6	

Innovation Section

	SCORE	WEIGHT
1. Describe the Innovation Factor	7	40%
10 = Disruptive/Potentially Disruptive (can change paradigm in target market) 7 = Quasi Disruptive 5 = Incremental 3 = New Markets 1 = Limited (been there/done that)		
2. Role of the BoP	6	35%
10 = Owners 7 = Suppliers 5 = Consumers, Employees 3 = Distributors 1 = No Role * 1 is model has more than one role for the BoP*		
3. Qualify Innovation	7	15%
10 = Transform Industry Approach with BoP Strategy 7 = Introduce Access to Critical Service when none existed 5 = Introduce Income Opps where not existed 3 = Increase income, access of employment 1 = None		
4. Prospects for Continuous Innovation	10	10%
10 = Company is extremely committed to continuous BoP Innovation 7 = Company is very committed to continuous BoP Innovation 5 = Company is somewhat committed to continuous BoP Innovation 3 = Company is marginally committed to continuous BoP Innovation 1 = Company is not committed to continuous BoP innovation		
	0	0%
	6.95	100%
	5.25	

Appendix III: Eligibility Criteria for Inclusive Business

This tool contemplates that portfolio investments should be assessed based on six criteria:

- 1) reach (number of customers to be targeted from poor and vulnerable groups);
- 2) depth (the quality of the development impact to be achieved);
- 3) systemic contribution (the strategic relevance of the proposed investment to the actual context and need in the marketplace);
- 4) scale (the possibility that the investment has contemplated and can reach a certain degree of scale during the investment period);
- 5) focus (the extent to which the investment opportunity is deliberately focused on the poor and vulnerable);
- 6) innovation (the degree to which the IB business model promotes disruptive innovation)

OMJ Scorecard (Revised June 2012)	Project:																																																																																																																										
<p>1. SECTOR - 10%</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Health and Education</td><td style="text-align: right;">5</td></tr> <tr><td>ICT</td><td style="text-align: right;">4</td></tr> <tr><td>Diversified Funds / Community Infrastructure</td><td style="text-align: right;">3</td></tr> <tr><td>Financial Access through new channels</td><td style="text-align: right;">3</td></tr> <tr><td>Housing, Industrial</td><td style="text-align: right;">2</td></tr> <tr><td>Microfinance, Smallholder Farming</td><td style="text-align: right;">1</td></tr> </table> <p>Select <input type="text"/></p> <p>Current Portfolio Concentration (US\$ Approvals OK?) Projected Portfolio Concentration (US\$ Approvals + Pipeline OK?)</p> <p>2. COUNTRY - 15%</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>C&D Countries no yet in OMJ Portfolio</td><td style="text-align: right;">5</td></tr> <tr><td>C&D Countries already in OMJ Portfolio</td><td style="text-align: right;">4</td></tr> <tr><td>Regional Project or Fund - Primarily C&D Countries</td><td style="text-align: right;">4</td></tr> <tr><td>Regional Project or Fund - mixed AB and CD countries</td><td style="text-align: right;">3</td></tr> <tr><td>AB Country or Regional Project / Fund primarily in AB Countries</td><td style="text-align: right;">2</td></tr> </table> <p>Select <input type="text"/></p> <p><input type="checkbox"/> If this project is in a depressed region of an AB Country + 1</p> <p>3. SPONSOR - 10%</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Sponsor scaling established business</td><td style="text-align: right;">4</td></tr> <tr><td>Sponsor scaling pilot or early stage operation</td><td style="text-align: right;">3</td></tr> <tr><td>New Business, sponsor experience in related field</td><td style="text-align: right;">2</td></tr> <tr><td>New Business, sponsor little or no related experience</td><td style="text-align: right;">1</td></tr> </table> <p>Select <input type="text"/></p> <p><input type="checkbox"/> If Corporate Sponsor +1 <input type="checkbox"/> If Government Entity -2</p> <p>4. FINANCIAL - 15%</p> <p>4.1 Deal Size (50%)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>US\$ 10 million or above</td><td style="text-align: right;">5</td></tr> <tr><td>US\$ 8 - US\$ 10 million</td><td style="text-align: right;">4</td></tr> <tr><td>US\$ 5 - US\$ 8 million</td><td style="text-align: right;">3</td></tr> <tr><td>US\$ 3 - US\$ 5 million</td><td style="text-align: right;">1</td></tr> <tr><td>Less than US\$ 3 million</td><td style="text-align: right;">0</td></tr> </table> <p>Select <input type="text"/></p> <p>4.2 Equity Capital (25%)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>US\$ 10 million or above</td><td style="text-align: right;">5</td></tr> <tr><td>US\$ 5 - US\$ 10 million</td><td style="text-align: right;">3</td></tr> <tr><td>US\$ 2 - US\$ 5 million</td><td style="text-align: right;">1</td></tr> <tr><td>Less than US\$ 2 million</td><td style="text-align: right;">0</td></tr> </table> <p>Select <input type="text"/></p> <p>4.3 Profitability (25%)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Consistently Profitable</td><td style="text-align: right;">5</td></tr> <tr><td>Profitable, with irregular returns</td><td style="text-align: right;">4</td></tr> <tr><td>At or slightly above break even</td><td style="text-align: right;">3</td></tr> <tr><td>Revenue - generating, but below break even</td><td style="text-align: right;">2</td></tr> <tr><td>Pre-revenue</td><td style="text-align: right;">1</td></tr> </table> <p>Select <input type="text"/></p> <p>Does it meet NSG Financial Guidelines?</p>	Health and Education	5	ICT	4	Diversified Funds / Community Infrastructure	3	Financial Access through new channels	3	Housing, Industrial	2	Microfinance, Smallholder Farming	1	C&D Countries no yet in OMJ Portfolio	5	C&D Countries already in OMJ Portfolio	4	Regional Project or Fund - Primarily C&D Countries	4	Regional Project or Fund - mixed AB and CD countries	3	AB Country or Regional Project / Fund primarily in AB Countries	2	Sponsor scaling established business	4	Sponsor scaling pilot or early stage operation	3	New Business, sponsor experience in related field	2	New Business, sponsor little or no related experience	1	US\$ 10 million or above	5	US\$ 8 - US\$ 10 million	4	US\$ 5 - US\$ 8 million	3	US\$ 3 - US\$ 5 million	1	Less than US\$ 3 million	0	US\$ 10 million or above	5	US\$ 5 - US\$ 10 million	3	US\$ 2 - US\$ 5 million	1	Less than US\$ 2 million	0	Consistently Profitable	5	Profitable, with irregular returns	4	At or slightly above break even	3	Revenue - generating, but below break even	2	Pre-revenue	1	<p>5. 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Appendix III: Eligibility Criteria for Inclusive Business

The methodology begins by defining the broad categories that always need to be addressed in determining project eligibility. These categories reflect important strategic parameters such as country, sector and impact, but also address technical parameters that are relevant for the approval process, such as Sponsor type and financial condition. Each category is weighted based on its relative importance for IDB-OMJ:

1. Sector 10%
2. Country 15%
3. Sponsor 10%
4. Financial 15%
5. Impact 50%

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Within each category, one or more screening questions are designed to capture the critical variables and information within each category. The questions generally require selection from a drop-down menu of choices. Once OMJ Staff selects a response, the appropriate score is automatically inserted into the scorecard. A minority of questions require OMJ staff to type in an answer, for example, project name and country.

Requiring OMJ Staff to provide responses to eligibility questions, but automating the corresponding scoring function, ensures consistency of scoring. All corporate sponsors receive the same score, meaning that OMJ Staff does not have to decide how strong a particular corporate sponsor is but merely whether the sponsor should be considered “corporate” or “SME”. The user scoring guidelines below attempt to facilitate this decision-making process.

IDB Eligibility Filters – Weights and Scoring Values

Sector Filters – 10% Weight	Score
Current FY priority sector** (ie for 2012: health, education and ICT). YES value	3
Target sector**, but not FY 2012 priority	2
Current portfolio concentration OK (US\$ Approvals). Not OK = 0	1
Projected portfolio concentration OK (US\$ Approvals + Pipeline). Not OK = 0	1

Sectors**	Current	LIMIT
Housing	25.0%	33%
Education	4.0%	20%
ICT & Communications	0.0%	20%
Financial Access, primarily experience-based customer credit	8.0%	20%
Health Care & Nutrition	4.0%	20%
Infrastructure & Basic Services	13.0%	25%
Smallholder Agriculture	17.0%	25%
Diversified Funds	16.1%	20%
Other: includes microdistribution & retail	12.9%	20%

Priority sectors are shown in bold.

Country Category – 15% weight	Score
Small & vulnerable (SNV) or CD country not yet in OMJ portfolio	5
CD or SNV but already in OMJ portfolio	4
Regional Project or Fund – primarily CD/SNV countries	4
Regional or Fund – mixed AB and CD/SNV countries	3
AB Country or Regional Project/Fund primarily in AB countries	1
<i>If this project is in a depressed region of an AB country, add</i>	1

Appendix III: Eligibility Criteria for Inclusive Business

Sponsor Type - 10% weight	Score
Corporate	5
SME	4
Multi-line or International Bank	3
NBFI or Specialty FI	3
Fund	3
Foundation, NGO, Non-Profit	2
PPP or Parastatal or Quasi-Sovereign	1

Financial Filters – 15% Weight	Score
1. Deal Size (50%)	
OMJ Deal > \$10mm	5
\$7mm < OMJ < \$10mm	4
\$5mm < OMJ < \$7mm	3
\$3mm < OMJ < \$5mm	2
OMJ Deal < US\$ 3mm	0
2. Equity Capital (25%): This applies to the borrowing entity. If there is a full guarantee from a corporate sponsor, select the response that reflects the guarantor's profitability.	
Greater than US\$10mm	5
Between US\$5mm - \$10mm	3
Between US\$2mm - \$5mm	1
Less than US\$ 2mm	0
3. Profitability (25%): This applies to the borrowing entity. If there is a full guarantee from a corporate sponsor, select the response that reflects the guarantor's profitability.	
Pre-Revenue	1
Revenue-generating, but below break-even	2
At or slightly above break-even	3
Profitable, with irregular returns	4
Consistently profitable	5
4. NSG/OMJ Financing Guidelines (New/Expansion)/Debt Financing Limits)	
YES	OK
NO	RED FLAG

Impact Filters - 50% Weighting	Score
5. Number of Direct Beneficiaries (10%)	
Hi > 50,000	5
20,000 < Hi Middle < 50,000	4
10,000 < Middle < 20,000	3
1,000 < Low Middle < 10,000	2

Appendix III: Eligibility Criteria for Inclusive Business

Low < 1,000	1
Is the# of direct beneficiaries at or above average for this sector? Add bonus of	1
6. Cost per Beneficiary (10%)	
Low Cost < \$100	5
Low Moderate Cost >\$100 and < \$1,000	4
High Moderate Cost >\$1,000 and < \$10,000	3
Hi Cost >\$ 10,000	1
7. Role of the BOP (15%)	
Owners	4
Producers	3
Distributors	3
Suppliers	3
Employees	2
Consumers	1
The BOP plays more than one of the above roles in this project, add bonus of	1
8. Innovation Factor (40%)	
Disruptive	5
Incremental	3
New Markets	3
Limited or Sector Reach (ie, providing quasi-market financing to this sector is an innovation itself)	0
9. Scalability - (10%)	
YES (commitment)	5
QUALIFIED YES (potential)	3
UNLIKELY Value (0
10. Replicability - (15%)	
YES (proven business model, product or service)	5
QUALIFIED YES (new business model/product/service)	3
UNLIKELY (project is unique to the context in which it occurs)	0

The IFC Approach to Selecting Inclusive Businesses

Since 2005, the IFC has invested over \$7 billion in inclusive business to more than 300 clients in over 80 countries with 6.7% IRR on debt and 19.1% respectively on equity.¹⁸ The IFC's eligibility criteria used for the review of their historical portfolio is included below. It is important to recognize the prior to the IB portfolio, IFC had a robust SME linkages initiative that contained many initiatives that met their IB eligibility criteria. As such, their transition or reorientation of their past performance toward inclusive business was not a significant stretch of their strategy.

Step 1: Does my client make the BOP part of its value chain?

Clients with inclusive business models make the BOP a part of their value chain. The following questions seek to identify if and to what extent the client integrates the BOP. (The first question must have a positive response, however more than one positive response may be necessary for a client to be considered inclusive business. Not all of the other questions will apply.)

Does the client integrate the BOP as a: Supplier? Distributor? Retailer? Customer? (YES)

(A positive response is required to at least one aspect of this question. Direct BOP employment alone does not qualify a client to be categorized as an inclusive business.)

1. Does the client provide or facilitate training or financing to its BOP suppliers, distributors, retailers, or customers? (YES)
2. Does the client provide or facilitate access to inputs for the BOP? (YES)
3. Does the client aggregate its suppliers, either through cooperatives or collection centers? (YES)
4. Does the client tailor its pricing to accommodate low-income individuals? (YES)
5. Does the client tailor its communications/marketing strategy to reach low-income individuals? (YES)
6. Does the client offer goods/services in small package sizes on frequent timeframes? (YES)
7. Does the client offer services either at a distance or through shared access? (YES)
8. Does the client offer a standardized product with low-cost materials and/or design? (YES)
9. Does the client use a 'whole pyramid' approach, targeting customers of all income levels? (YES)
10. Does the client use some other approach to reach the BOP not yet mentioned? (YES)

Step #2: How do I know my client's suppliers/distributors/retailers/customers really qualify as BOP?

IFC's definition of Base of the Pyramid is twofold: The market segment comprised of all people i) with income below \$8 per day in purchasing power parity or ii) who lack access to basic goods and services. The following questions seek to reveal if the suppliers / distributors / retailers / customers identified in Step #1 meet these criteria. (Not all questions will apply. More than one positive response is often required for a client to be considered inclusive business.)

¹⁸ Jenkins, B; Ishikawa, E; Geaneotes, A; Baptista, P; and Masuoka, T (2011). *Accelerating Inclusive Business Opportunities: Business Models that Make a Difference*. Washington, DC: IFC.

Appendix III: Eligibility Criteria for Inclusive Business

All Sectors: Does the client integrate suppliers/distributors/retailers/customers who earn less than \$8 PPP? (YES)

- Does the client integrate suppliers/distributors/retailers/customers who lack access to basic goods and services? (YES)

Agribusiness: Do the client's suppliers have limited resources? (Access to capital, land, inputs) (YES)

- Do suppliers rely heavily on family members for labor? (YES)
- Do suppliers produce subsistence, as well as commercial, commodities? (YES)
- Are smallholder farmers the norm given the country context? (YES)
- Do suppliers have less than 5 hectares? (YES)
- Does the client aggregate its suppliers? (YES)

Construction and Real Estate: Are the home buyers first-time home buyers? (YES)

- Did the home buyer previously live in an urban slum? (YES)
- Does the client/home buyer receive a subsidy from the government? (YES)
- Do the home buyers have limited credit history? (YES)

Education: Is the client the only viable education option for its students? (YES)

- Do most students require financing in order to pay tuition fees? (YES)
- Are many students the first generation in their family to receive an education at this level? (YES)
- Are the client's programs vocation-oriented? (YES)

Health: Is the client the only viable option for healthcare for the BOP? (YES)

- Is the hospital/service provider located in low-income or rural areas? (YES)
- Does the government subsidize the hospital for selected treatments for the BOP? (YES)
- Do many patients have government-sponsored health insurance? (YES)

ICT/Infrastructure: Are the client's customers located in low-income areas? (YES)

- Is the client providing a new service or is it an alternative to an existing service? (NEW)
- Does the client service individuals who are not connected to a grid? (YES)
- Does the client utilize existing retail networks to reach its customers? (YES)

Manufacturing / Retail: Do the suppliers/distributors/retailers/customers live in low-income and/or rural areas? (YES)

- Are the types of goods/services sourced by the client typical of what could be supplied by a micro entrepreneur? (YES)
- Is the client offering its customers a previously unavailable product/service? (YES)

Financial Sector: Is the client an established micro-finance institution? (YES)

Appendix III: Eligibility Criteria for Inclusive Business

- Does the client prioritize micro enterprises over SMEs? (YES)
- Are the client's shareholders development-related institutions? (YES)
- Is the client active in rural areas? (YES)
- Does the client target disadvantaged borrowers (women, those not formally employed)? (YES)
- Do the client's borrowers have limited credit history? (YES)
- For funds – is the fund designed to invest in companies serving the BOP? (YES)
- For funds – does the fund invest in inclusive business companies? (YES)

Step #3: Is Inclusive Business a core part of my client's business model?

Inclusive business clients integrate the BOP into their value chain as part of their core business. The questions below seek to separate out inclusive business clients from those clients that reach the BOP only through corporate social responsibility programs.

Supplier:

- Do BOP suppliers constitute a significant portion of the client's purchasing? (YES)
- Does the client expect to expand its purchases from BOP suppliers? (YES)

Distributor:

- Does the client articulate a strategy to reach micro-entrepreneurs or other BOP distributors? (YES)
- Does the client project an expansion of its BOP distribution network? (YES)
- Do the client's BOP distributors enable the client to reach a new market? (YES)

Retailer:

- Do the client's retailers serve BOP customers? (YES)
- Does the client articulate a strategy to reach micro-entrepreneurs or other BOP retailers? (YES)
- Does the client project an expansion of its retail network into BOP-dominated regions? (YES)
- Do BOP retailers or retailers serving the BOP contribute to a significant portion of the client's over-all sales? (YES)

Customer:

- Are the client's services/goods for the BOP intended to be profitable? (YES)
- Does the client receive payment for the goods/services provided to the BOP, either from the BOP or the government? (YES)
- Does the client use the 'whole pyramid' approach? (YES)
- Are BOP customers included in the client's mission statement? (YES)
- Does the BOP comprise a large portion of the client's overall customers? (YES)

Appendix IV: Inclusive Business in PSOD's Investment Portfolio

The table below lists all PSOD investments between the year 2000 and 2013 categorized by sector and includes country information, investee and investment amount. The investments that are considered inclusive business are highlighted in bold and red.

Investment Number	Country	Investee	Amount (\$ millions)
AGRICULTURE (Total Ag Portfolio of \$43.5.m)			
7358*	Bangladesh	Sylvan Agriculture Ltd	25.1
	India	Champion Agro Limited	18.4
EDUCATION (Total Education Portfolio of \$7.5m)			
7169	Vietnam	RMIT International University of Vietnam	7.5
ENERGY - Conventional (Total Portfolio of \$2.17b)			
7165	Bangladesh	AES Meghnaghat Power	120
7167	Sri Lanka	AES Kalentissa Power	78
7176	Vietnam	Mekong Energy Company	75
7178	Vietnam	Phu My 3 Power	75
7185	Thailand	BLCP Power	40
7192	India	Petronet LNG	9.7
7224	Indonesia	Tangguh Liquefied Natural Gas	350
7245	India	Petronet LNG for the Danej Natural Gas	150
7265	Pakistan	Foundation Power Company Daharki	46.7
7273	Philippines	Masinloc Power Partners	200
7276	India	Coastal Gujarat Power	450
7303	Philippines	Kepeco SPC Power Corporation	120
7326	Pakistan	Uch II Power	100
7335	Thailand	Gulf JP NS Company	170
7370	Thailand	Gulf JP NS Company	185
ENERGY - Electricity Transmission and Distribution (Total Portfolio of \$220m)			
7183	India	Tala-Delhi Transmission	62
7254	Pakistan	Karachi Electric Supply Corporation	150
7256	Cambodia	Cambodia Power Transmission Lines	8

Appendix IV: Inclusive Business in PSOD's Investment Portfolio

Investment Number	Country	Investee	Amount (\$ millions)
ENERGY - Energy Efficiency and Conservation (\$204m)			
7271	PRC	Energy Efficiency Multi-Project Financing Program	107
7313	Azerbaijan	Garadagh Cement Open JSC	27
7349	Bangladesh	Industrial and Infrastructure Development Finance Company	6
7371	Regional	Cofely Southeast Asia Pte.	40
7378	Bangladesh	Industrial and Infrastructure Development Finance Company	24
ENERGY - Energy Sector Development (Total Portfolio of \$680m)			
7275	Regional	Asia Clean Energy Fund, China Clean Energy Capital, China Environment Fun II, GEF South Asian Clean Energy Fund, MAP Clean Energy Project	80
7337	Uzbekistan	Lukoil Overseas Uzbekistan	300
7279	PRC	Dalkia Asia	200
7316	PRC	Zhongran Investments Limited	100
ENERGY - Large Hydropower (Total Portfolio of \$584.3m)			
7210	Lao PDR	Nam Theun 2 Power Company	100
7222	Pakistan	Laraib Energy Limited	37.3
7339	Pakistan	Star Hydro Power Limited	97
7341	Lao PDR	Nam Ngum 3 Power Company	350
ENERGY - Pipelines (Total Portfolio of \$77.6m)			
7227	India	Central Uttar Pradesh Gas Limited	2.6
7244	PRC	China Gas Holdings, Central Asia Natural Gas Shenzhen Company Limited, Zhongran Investment Limited	75
ENERGY - Renewable Energy (Total Portfolio of \$1.45b)			
7253	India	The Tata Company	79.3
7277	India	Gujarat Paguthan Energy Corporation	45
7277	India	CLP Wind Farms	60
7285	PRC	Datang Sino-Japan Renewable Power	24.1
7291	PRC	Sanchuan Clean Energy Development	83.6
7300	India	Public-Private Partnership for Renewable Energy Development	40

Appendix IV: Inclusive Business in PSOD's Investment Portfolio

Investment Number	Country	Investee	Amount (\$ millions)
7304	Regional	Mekong Brahmaputra Clean Development Fund	15
7311	Thailand	Natural Energy Development Company	70
7314	Thailand	Bangchak Petroleum Public Company	134.3
7317	PRC	Tianjin Xiehe Wind Power Investment Company	120
7319	Pakistan	Zorlu Enerji Power	36.8
7320	Regional	Clean Resources Asia Growth	20
7321	Regional	Renewable Energy Asia Fund	20
7331	India	Solar Power Generation	150
7340	India	Dahanu Solar Power	48
7348	Pakistan	Foundation Wind Energy I Limited	33.4
7348	Pakistan	Foundation Wind Energy II Limited	33.2
7353	India	Industrial Credit and Investment Corporation of India	100
7354	India	Rajasthan Sun Technique Energy	103
7356	Thailand	Bangchak Solar Energy Company	25.2
7361	India	Chattel Constructions	19.1
7362	India	Ganges Green Energy	20.7
7363	India	Hiraco Renewable Energy	16.3
7364	India	Responsive Sutip Limited	19.1
7365	India	Sand Land Real Estate Ltd.	13.7
7366	India	Ujwala Power Private	11.2
7368	PRC	China Everbright Biomass Energy Investment	60
7369	PRC	China Everbright Environmental Energy Ltd	40
7376	Thailand	Theppana Wind Farm Company	4.5
7381*	India	Simpa Networks	2
FINANCE - Banking Systems (Total Portfolio of \$896m)			
7197	Mongolia	Trade and Development Bank of Mongolia	6.1
7199	Afghanistan	Afghanistan International Bank	2.6
7211	India	Infrastructure Development Finance Company	50
7216	PRC	Business Development Bank	20.7

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Investment Number	Country	Investee	Amount (\$ millions)
7219	PRC	Bank of China	75
7235	Kazakhstan	JSC Alliance Bank	50
7236	Kazakhstan	Bank TuranAlem JSC	75
7240	PRC	Hangzhou City Commercial Bank	30
7246	Kazakhstan	Alliance Bank	100
7249	Kazakhstan	JSC Kazkommertsbank	100
7255	Kazakhstan	JSC Bank Center Credit	50
7258	Azerbaijan	Bank of Baku	6
7259	Mongolia	Khan Bank	10
7260	Georgia	Bank of Georgia	25
7267	Azerbaijan	Bank Respublika, Open JSC	10
7305	Georgia	Bank Republic, JSC of Georgia	20
7315	Georgia	JSC Bank of Georgia	50
7350	Kyrgyzstan	Kyrgyz Investment and Credit Bank	10
7372	Uzbekistan	Joint Stock Commercial Bank Ipak Yuli	6
7374	Regional	Supply Chain Finance Program	200
FINANCE - Finance Sector Development (Total Portfolio of \$32m)			
7193	Philippines	LGU Guarantee Corporation	2
7201	Afghanistan	Afghanistan Investment Guarantee Facility	10
7357	Philippines	Philippine Investment Alliance for Infrastructure Fund	25
FINANCE - Housing Finance (Total Portfolio of \$447m)			
7168	Sri Lanka	NDB Housing Bank Limited	0.4
7189	India	Dewan House Finance Corporation	20
7206	Philippines	National Home Mortgage Finance Corporation NPL	34
7268	Malaysia	Eucalypt Mortgages	10
7274	Maldives	Housing Development Finance Corporation of the Maldives	12
7283	India	India Mortgage Guarantee Company	18.6
7322	Indonesia	Housing Finance Program	300
7359	Sri Lanka	DFCC Vardhana Bank	15

Appendix IV: Inclusive Business in PSOD's Investment Portfolio

Investment Number	Country	Investee	Amount (\$ millions)
FINANCE - Investment Funds (Total Portfolio of \$714.1m)			
7156	Thailand	Thailand SME Investment and Restructuring Fund	25
7157	Thailand	Thailand SME Fund Management Co.	0.2
7159	PRC	Liberty New World China Enterprises	25
7160	Regional	Asian Banking Fund	25
7164	Samoa	Venture Capital Fund	0.4
7170	Regional	Mekong Enterprise Fund	5
7171	Thailand	Lombard Thai Fund	25
7179	PRC	China Environment Fund 2002	10
7181	India	Henderson Infrastructure Fund	15
7184	Regional	ASEAN-PRC SME Investment Fund	15
7187	Regional	FEGACE Asian Sub-Fund	20
7195	Regional	ADM Malculus Fund	25
7196	PRC	Yangtze Special Situations Fund	20
7198*	Regional	Shorecap International Fund	25
7204	PRC	Actis China Fund II	45
7205	India	Baring India Private Equity Fund	20
7208	Regional	Lombard Asia III LP	30
7209	Regional	Aureos South-East Asia Fund	20
7215	Afghanistan	Afghanistan Renewal Fund Limited	5.5
7223	India	BTS India Private Equity Fund	15
7226	Regional	ADM Malculus II Investments	25.2
7228	India	Infrastructure Development Finance Company	45
7230	Regional	AIF Capital Asia III	30
7231	Regional	Mekong Enterprise Fund II	10
7233	Regional	Aureos South Asia Fund	17.5
7234	India	Blue River Capital I	20
7237	Regional	Kula Fund II	5
7247	Regional	Darby Asia Mezzanine Fund II	20
7257	Pakistan	JS Private Equity Fund I	20

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Investment Number	Country	Investee	Amount (\$ millions)
7299	Regional	Islamic Infrastructure Fund	100
7312	Regional	ASEAN China Investment Fund II	25
7323*	Regional	Shorecap II	10
7347	Regional	Aureos Capital	15
FINANCE - Microfinance (Total Portfolio of \$290.9m)			
7264*	Regional	Bank Eskhata, Inecobank, Ineximbank	20
7325*	Regional	Microfinance Risk Participation Program	250
7355*	PRC	Microfinance Wholesale Lending Facility	20.9
FINANCE - Money and Capital Markets (Total Portfolio of \$98.5m)			
7177	Bangladesh	Central Depository Bangladesh Limited	0.5
7200	PRC	Shenzhen Orientwise Guarantee and Investment Company	10
7200	PRC	Credit Orientwise Group Limited	3
7212	Philippines	Cameron Grandville Asset Management	5
7213	Regional	Flagship Capital Corporation	30
7239	Indonesia	Deutsche Bank AG Motor Loan Securitization	10
7298	Indonesia	Indonesia Infrastructure Financing Facility	40
FINANCE - SME Finance and Leasing (Total Portfolio of \$205.4m)			
7190	Pakistan	SME PCG Facility	65
7218	Philippines	Credit Information Bureau	18.4
7229	Azerbaijan	Private Banks and Leasing Companies in Azerbaijan	10
7250	Maldives	Maldives Finance Leasing Company	4.5
7251	Sri Lanka	Lanka ORIX Leasing Company	10
7269	Sri Lanka	Commercial Leasing Company	7.5
7289	Vietnam	Saigon Thuong Tin Bank (Sacombank)	25
7343	Armenia	ACBA Credit Agricole Bank	20
7344	Armenia	Ameriabank	20
7345	Armenia	Ardshininvestbank	15
7346	Armenia	Inecobank	10
FINANCE - Trade Finance (Total Portfolio of \$1.002b)			
7166	Pakistan	Pakistan Export Finance Guarantee	2

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Investment Number	Country	Investee	Amount (\$ millions)
7186	Regional	Trade Finance Facilitation Program	150
7186	Regional	Trade Finance Facilitation Program	850
LARGE AND MEDIUM INDUSTRIES (Total Portfolio of \$400m)			
7351	Uzbekistan	Uz-Kor Gas Chemical	400
HEALTH AND SOCIAL PROTECTION (Total Portfolio of \$10m)			
7173	Vietnam	Far East Medical Vietnam	6.5
7174	Vietnam	Far East Medical Vietnam	3.5
MULTI-SECTOR (Total Portfolio of \$165m)			
7332	Regional	Aloe Environment Fund III	20
7334	India	VenturEast Life Fund III	20
7336	PRC	Sino-Green Climate Investment Fund	25
7352	Regional	Customized Fund Investment Group	100
TELECOMMUNICATIONS (Total Portfolio of \$244m)			
7194*	Bangladesh	Grameenphone Telecommunications Expansion	20
7202*	Afghanistan	Roshan Phase I - Telecom Development Company Afghanistan	35
7238*	Afghanistan	Roshan Phase II Expansion - Telecom Development Company Afghanistan	55
7281*	Afghanistan	Roshan Phase III - Telecom Development Company Afghanistan	60
7302	Papua New Guinea	Digicel (PNG) Limited	25
7328	Regional	Bemobile Limited	49
TRANSPORTATION - Air and Road Transport (Total Portfolio of \$295m)			
7270	PRC	Central and Western Airports Development Project	210
7308	Armenia	Armenia International Airports	40
7162	Philippines	Manila North Tollways Corporation	45
WATER AND BASIC SERVICES - Slum Upgrading and Low Cost Housing (Total Portfolio of \$35.0m)			
7373*	India	Kul Urban Development Private Limited	35
WATER AND BASIC SERVICES - Waste Management (Total Portfolio of \$295m)			
7296	PRC	China Everbright Environmental Energy Ltd	100
7375	PRC	Longjiang Environmental Protection Group	95

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Investment Number	Country	Investee	Amount (\$ millions)
7377	PRC	Dynagreen Environmental Protection Group	100
WATER AND BASIC SERVICES - Water Supply and Sanitation (Total Portfolio of \$259.9m)			
7262*	Indonesia	PT PAM Lyonnaise Jaya (PALJAYA)	50
7272	PRC	Asia Training and Research Initiative on Urban Management Project Development Facility	4
	Indonesia	PT Aetra Air Jakarta	39.3
7310	PRC	Tongfang Water Engineering Co.	46.6
7318	Regional	Asia Water Fund	20
7330	PRC	China Water Affairs Group and China Water Affairs Investment Limited	100
TOTAL			\$10,775.77