What is Inclusive Business?

- Business models that involves BoP (Base of Pyramid): A business model that creates shared value by integrates the low income segment in the company’s core business activity as part of the value chain.

- Addresses a systemic issue:
  - energy requirement
  - access to clean water
  - nutrional needs
**Inclusive businesses maximize profits while delivering strong social impact:**
- Helping Business to be more inclusive
- Helping Social enterprises to scale up and achieve market returns

Classification of business models

- **Business**
- **Inclusive business**
- **Social enterprise**

Companies and enterprises that directly engage - in innovative ways - BoP populations in their value chain as consumers, suppliers, distributors or employees and create systemic impact in scale on poverty reduction and inclusiveness.

- Improvement in human development indicators
- Source: Dalberg analysis
### Definition of SMEs in Indonesia

<table>
<thead>
<tr>
<th>Size of Enterprise</th>
<th>Employees</th>
<th>Assets</th>
<th>Annual Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1 - 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>5 - 19</td>
<td>Up to Rp.200 million (+/- US$ 22,222)</td>
<td>Up to Rp.1 billion (+/- US$ 111,111)</td>
</tr>
<tr>
<td>Large</td>
<td>&gt; 100</td>
<td>More than Rp.10 billion</td>
<td>More than Rp.250 billion</td>
</tr>
</tbody>
</table>

Indonesia’s robust economic growth and sound macro policy management have contributed to a reduction in the national poverty rate from 23.4% in 1999 to 12.5% in 2011. However, declining poverty partially masks a worrying degree of vulnerability: much of Indonesia’s population is clustered just above the 2011 poverty line of IDR 233,000 per month (about US$ 27 at 2011 nominal exchange rates). Around 24% of Indonesians live below the official “near-poor” line (1.2 times poverty line expenditure), while 38% of the population lives below 1.5 times the poverty line and are highly exposed to poverty-inducing events. Even relatively small shocks to these vulnerable households can be enough to push them into poverty: in recent years, half of all poor households were not poor the year before while more than a quarter of all Indonesians have been in poverty at least once between 2008 to 2010. (World Bank Quarterly Report, April 2012)
## Sectors with Strong Inclusive Business Models

<table>
<thead>
<tr>
<th>Sector</th>
<th>Potential IB Involvement (rank 1 [low] – 4 [high])</th>
<th>Systemic problem solving</th>
<th>High Population Center</th>
<th>Potential for social impact</th>
<th>Commodity located base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td>4.0</td>
<td>High</td>
<td></td>
<td>All country</td>
</tr>
<tr>
<td>Manufacturing/light manufacturing</td>
<td></td>
<td>4.0</td>
<td>High</td>
<td></td>
<td>Java</td>
</tr>
<tr>
<td>Consumer Product/Retail</td>
<td></td>
<td>3.0</td>
<td>High</td>
<td></td>
<td>Java, Sumatra</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td></td>
<td>3.0</td>
<td>High</td>
<td></td>
<td>All country</td>
</tr>
<tr>
<td>Tourism</td>
<td>2.0</td>
<td>Medium</td>
<td></td>
<td></td>
<td>All country</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>1.5</td>
<td>Low</td>
<td></td>
<td></td>
<td>Western</td>
</tr>
<tr>
<td>Forestry</td>
<td>1.5</td>
<td>Low</td>
<td></td>
<td></td>
<td>All country</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.5</td>
<td>High</td>
<td></td>
<td></td>
<td>Java, Sumatra</td>
</tr>
<tr>
<td>Finance</td>
<td>1.5</td>
<td>High</td>
<td></td>
<td></td>
<td>All country</td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Findings: IB Opportunities: Agriculture, consumer products, and retail.

• High IB involvement
  - Agriculture/Agribusiness
  - Handicraft/Traditional products
  - Retail market
  - Tourism services

• Geographical target
  - Direct correlation to infrastructure availability
  - High population centers
Findings: IB Opportunities: Renewable energy, IT, and tourism.

• IB that address systemic problems
  – Renewable energy
  – Nutrition and food products

• Geographical targets
  - Rural/ isolated regions
  - Rich natural resources

• Type of model
  - commodity/ location-based
  - development of scalable methods and systems
  - strong multiplier effect
Model 1: BoP as part of the supply-chain

- Large scale producers relying on small farmers/ producers to supply to their plant/ factory
- Established system in-place: “Inti-plasma”
- Easy to scale and repeat
- Involves most number families
Model 2: Business addresses systemic problem for BoP

- Infrastructure/ Health or Education related
- Innovative
- Small-scale
- Integrated
- Strong multiplier implication
Examples of IB 1: Refurbishing marketplaces: transformation of traditional buying centers

• Work with local government and municipalities
• Refurbishment of “wet market” facilities
• Develop monitoring system vegetables and fruit price index
• Develop on-line access to market information
Examples of IB 2: Seaweed: scalability – keeping it simple

- 10,000ha marine concession for seaweed
- “Long-line” method for farming
  - easy to replicate
  - scalable by farming groups
  - unique design of farming apparatus
    - easy to build and;
    - mobile – easy to move
- Strong market demand
- High value-added downstream products
Examples of IB 3: Using palm fruit waste as feedstock for Biomass Plant

- Turns waste into fuel for energy
- Ready supply of feedstock
- Addresses energy shortage in rural areas (Feed-in or supply into Grid)
- Expansion from existing business
Capital Market Environment

- Indonesia’s increasing VC/PE attractiveness benefits from strong economic activity underpinned by growing domestic demand, improving financial market liquidity and a decreasing trend in default loans.
- Target industry sectors have included: coal mining, infrastructure, telecommunications, plantations and banking.
- H1 2012 FDI US$ 1B in both mining and chemical/pharma industries; US$ 600M in utilities; US$ 500M in F&B, and US$ 500M in metal, machinery and electronics.
- VC/PE markets will likely continue to develop as regional competition increases for funds from interested foreign and global investors.
- Concern for regulated PE market loopholes and transition period to effective Financial Services Authority oversight (Bapepam-LK to OJK).
- Legal constraints to recognize limited partnerships and collective investment frameworks add to in-country PE development challenges.
- Growing track record of successful exits other than IPOs and recognition that minority positions and smaller company deals are manageable.
PE Market Environment

Note: excludes deals <$10M; does not include Bridge Loans, Franchise Funding Seed/R&D, Concept & Distressed deals; excludes Infrastructure, Real Estate, REITs, Hotels, Lodging & Property deals

Source: AVCJ; BCG, E&Y, Bain Analysis 2012
Indonesia PE Deals (2010+2011) and Fund Raising (2012)

Note: Balanced, Buyout, Co-investment, Co-Investment Multi-Manager, Direct Secondaries Distressed Debt, Early Stage, Early Stage: Seed, Early Stage: Start-up, Expansion /Late Stage, Fund of Funds, Growth, Infrastructure, Infrastructure Fund of Funds; 10% applied to Pan-Asian funds for SE Asia component
Fund Manager Preferences

- Investment justification (i.e. climate, governance, management, biz model, invest strategy, IB contribution, etc.)
- Main industry sectors (i.e. agriculture/agribusiness, light manufacturing, consumer goods/retail, renewable energy, low cost housing, financial services, transport/logistics, telecommunications/IT, etc.)
- Quality data/analysis, align investee/investor deal size & cost to source, execute, monitor
- Type and use of investee financial instruments (equity, debt, guarantee) & exit (IPO, secondary/strategic sale, MBO, etc.)
- the demand for social investment will be focused on a set of higher-risk financial products, such as unsecured lending or quasi-equity, where returns are linked to the financial success of the organization
- Finding attractive companies, Seller price expectations, Competition
- GPs need tailored theses linking sourcing, management teams, and revenue generation/value creation plans
Key Questions

• How does an inclusive business fund crowd in investment and not crowd out?

• How patient does capital need to be?

• How should investors plan to exit?

• Our we overemphasizing equity?

• What is the right package of equity, debt and TA that growth stage need?