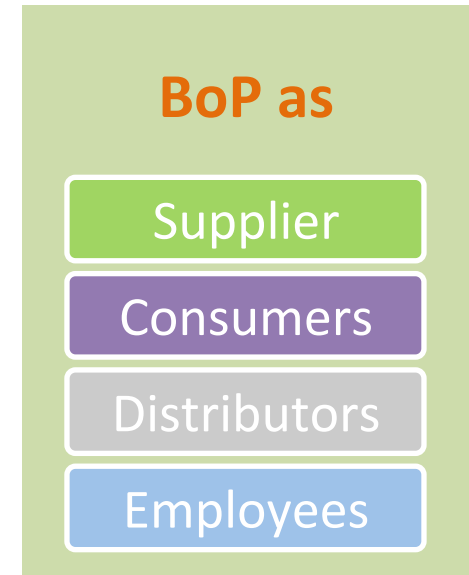
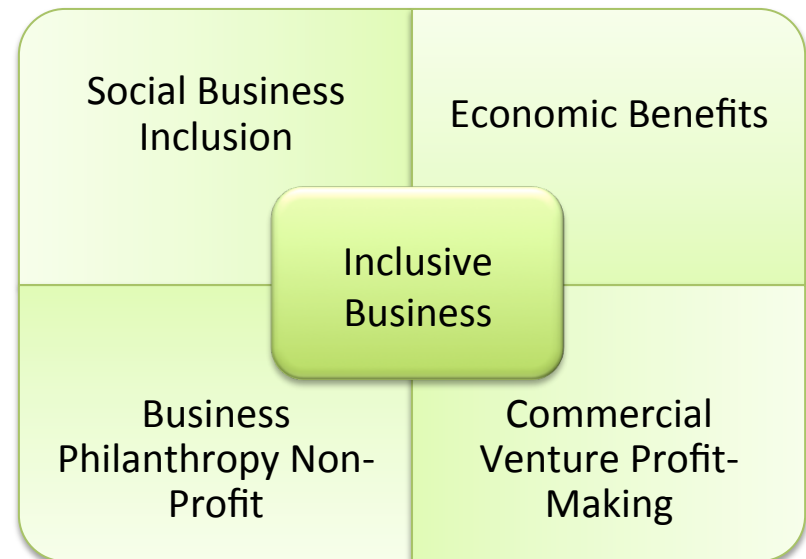


# What is Inclusive Business?

- 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**



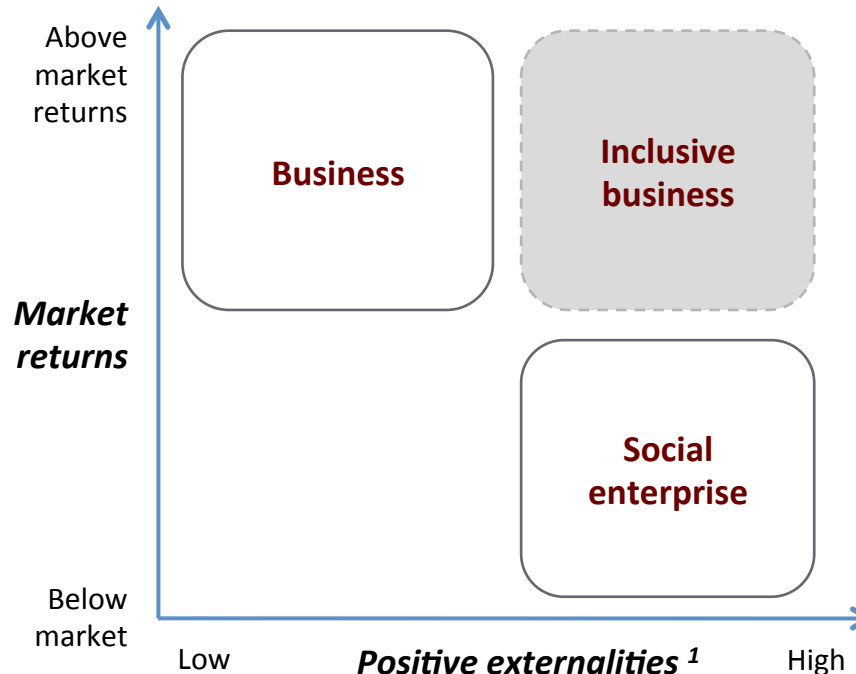
- Addresses a systemic issue:
  - energy requirement
  - access to clean water
  - nutritional needs



## 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



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.

- <sup>1</sup> Improvement in human development indicators
- Source; Dalberg analysis

# Definition of SMEs in Indonesia

Size of Enterprise	Employees	Assets	Annual Turnover
Micro	1 - 4	-----	-----
Small	5 - 19	Up to Rp.200 million (+/- US\$ 22,222)	Up to Rp.1 billion (+/- US\$ 111,111)
Medium	20 - 99	Rp.200 million to Rp.10 billion (+/- US\$ 1.1 million)	Rp.1 billion to Rp.250 billion (+/- US\$ 2,75 million)
Large	> 100	More than Rp.10 billion	More than Rp.250 billion

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

[illegible]

# **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

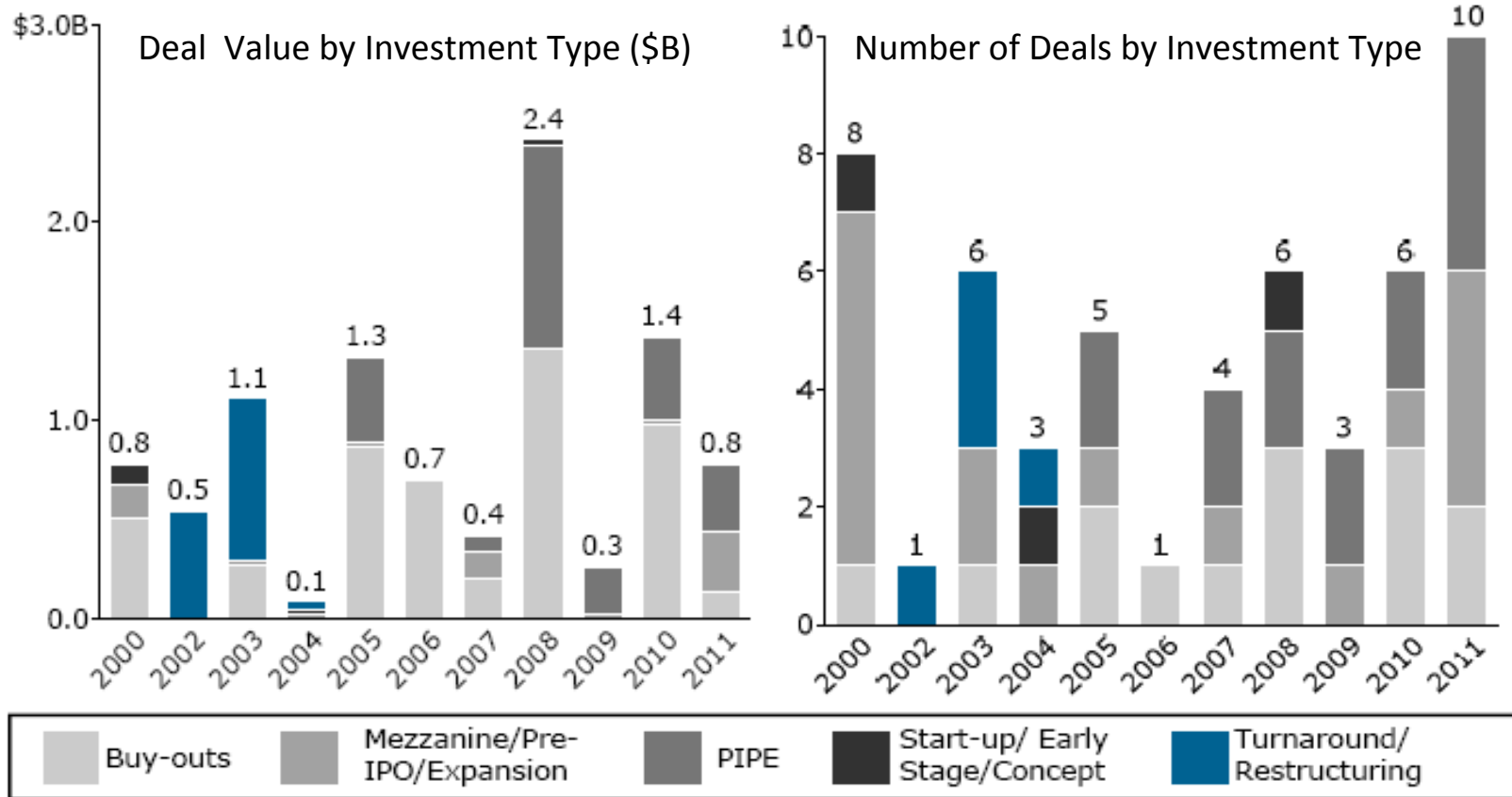
## **Examples of IB 3: Using palm fruit waste as feedstock for Biomass Plant**

- 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

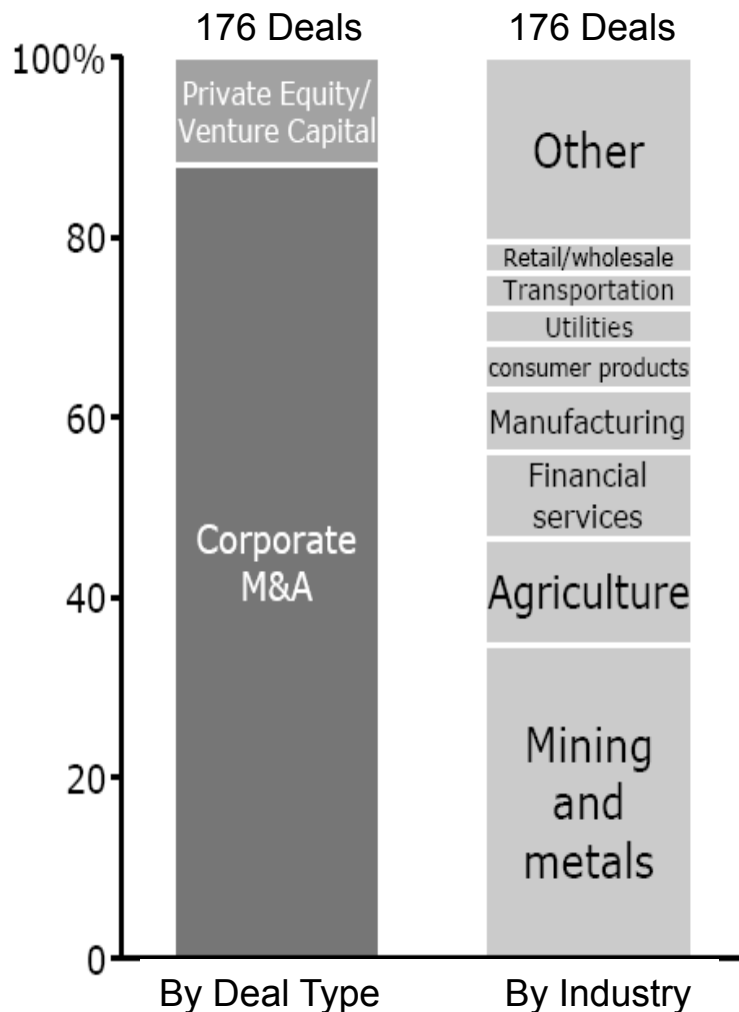


PIPE - private Investment in public equity

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

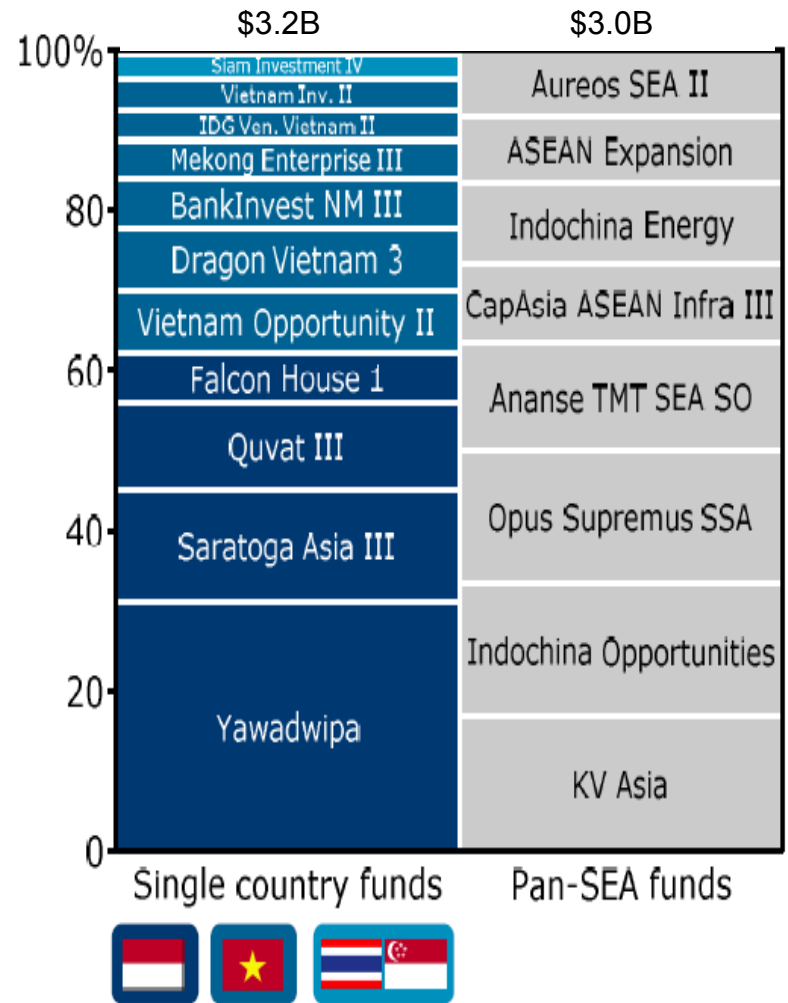
# Indonesia PE Deals (2010+2011) and Fund Raising (2012)



SE ASIA  
MULTI-  
COUNTRY  
FUNDS

VIETNAM  
COUNTRY  
FUNDS ON  
THE ROAD  
TARGETING  
+/- \$1B

INDONESIA  
COUNTRY  
FUNDS ON  
THE ROAD  
TARGETING  
+/- \$2B



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

Source: Preqin; Literature Search, Asian Venture Capital Journal, BCG, E&Y, Bain & Co. 2012

# 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?