



Developing the Business Case for Investing in Inclusive Business in **Indonesia**

A Market Scoping Study

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For more information on the ADB's inclusive business initiative, please visit:
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For more information on SNV's inclusive business approach, please visit:
<http://www.snvworld.org/en/inclusive-business>

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List of abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AFTA	ASEAN Free Trade Area
ANDE	Aspen Network of Development Entrepreneurs
APINDO	Indonesian Employers Association
ASEAN	Association of Southeast Asian Nations
BAPEPAM-LK	Capital Market and Financial Institutions Supervisory Agency
BAPPEDA	National Development Planning Agency
BCA	Bank Central Asia
BCG	Boston Consulting Group
BDS	Business Development Services
BFSI	Banking Financial Services and Insurance
BI	Bank Indonesia
BKPM	Indonesia Investment Monitoring Coordinating Board
BNI	Bank Negara Indonesia
BOP	Base of Pyramid
BPS	Central Statistics Agency (Badan Pusat Statistik)
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CalPERS	California Public Employees' Retirement System
CalSTRS	California State Teachers' Retirement System
CAR	Capital Adequacy Ratio
CEP	Credit Enhancement Products
CGI	Competitive Growth Index
CIV	Collective Investment Vehicles
CPI	Consumer Price Index
CSIC	Center for Strategic and International Studies
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DFI	Development Financial Institution

ESG	Environmenta, Scoial and Governance
EVA	Economic Value Added
F&B	Food and Beverage
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
GEPI	Global Entrepreneur Program Indonesia
GIIRS	Global Impact Investing Rating System
GP	General Partner (Fund Manager)
IB	Inclusive Business
IDR	Indonesian Rupiah
IDX/BEI	Indonesia Stock Exchange / Bursa Efek Indonesia
IFC	International Finance Corporation
II	Impact Investment
IIX	Impact Investment Exchange (Singapore)
IRB	Internal Ratings Based Approach
IRIS	Impact Reporting and Investment Standards
JCI	Jakarta Composite Index
LP	Limited Partner (Sponsor / Co-Investor)
MBI/MBO	Management Buy-In / Management Buy-Out
MDGs	Millennium Development Goals
MNCs	Multinational Corporations
MP3EI	Master Plan for Acceleration and Expansion of Economic Development
MSME	Micro, Small and Medium-sized Enterprises
MTN	Medium Term Note
NAV	Net Asset Value
NBFI	Non-Bank Financial Institutions
NPL	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
OJK	Financial Services Authority
OPIC	Overseas Private Investment Corporation
PE	Private Equity

PEGCC	Private Equity Growth Capital Council
PGGM	PGGM Vermogensbeheer B.V.
PIPP	Private Investment in Public Equity
PPI	Progress out of Poverty Index
PPM	Private Placement Memorandum
PPP	Private-public partnership programs
Q1-Q4	First Quarter to Fourth Quarter (fiscal / calendar year)
RDPT	Limited Mutual Fund Investment
RFP	Request for Proposal
ROE	Return on Equity
ROI	Return on Investment
SBY	President Susilo Bambang Yudhoyono
SCAI	Social Entrepreneurship Association of Indonesia
SE	Social Enterprise
SEI	Social Enterprise Indonesia
SEIIF	Small Enterprise Impact Investing Fund
SME	Small and Medium-size Enterprise
SNV	SNV Netherlands Development Organisation
SOE	State-owned Enterprise
SPV	Special Purpose Vehicle
SROI	Social Return on Investment
TA	Technical Assistance
TMT	Telecommunications, Media and (Information) Technology
UNDP	United Nations Development Program
USAID	US Agency for International Development
USD	United States Dollars
WEF	World Economic Forum
WEF	World Economic Forum
WHO	World Health Organization
YDBP	Yayasan Dharma Bhakti Parasahabat

Executive Summary

Indonesia is the 16th largest economy in the world and one of the fastest growing economies. Indonesia has a relatively stable government, vast natural resources and the world's fourth largest population of around 250 million people, which includes an emerging middle class driving consumption and domestic production.

Despite these positive macro-economic indicators the operating environment for investment in private business in Indonesia is challenging and not without risk. Challenges include performance of the legal system, land acquisition laws, bureaucracy and insufficient infrastructure.

Although there has been significant economic progress, a large proportion of Indonesians are extremely vulnerable to poverty with 119 million Indonesians (49 percent of the population) living at below \$2 per day and a further 29% of the population regarded as 'nearly poor' on \$3 per day per capita international poverty line on purchasing power parity 2008.

The Asian Development Bank (ADB) and SNV Netherlands Development Organization commissioned this market scoping study to assess the opportunity for "inclusive business" development and investment in Indonesia. The study was also supported by the Ford Foundation.

The study aims to answer four fundamental questions:

1. What are the important aspects of Indonesia's socio-economic and political context that impact on inclusive business development and financing?
2. Is there private sector interest and are there viable opportunities to support inclusive business development in Indonesia;
3. What are the most urgent needs of the private sector in terms of financing, capacity, technical assistance, and business environment?
4. Which investment strategy has the most potential to catalyze the inclusive business potential in Indonesia?

Indonesia's socio-economic and political context:

- Indonesia is the 16th largest economy in the world and one of the fastest growing economies among its G20 and BRIC peers, with a 6.5% GDP in 2011, which is projected to reach an average 6.6% growth rate between 2012 and 2016.
- According to recent Standard Chartered commentary, nominal per-capita GDP is expected to quadruple by 2020 and the economy is projected to grow 5-fold by 2025. Indonesia could potentially become the world's seventh largest economy by 2030 after China, the USA, India, Japan, Brazil and Russia.
- The expansion of the Indonesian economy has been underpinned by its large population, extensive natural resources and improving business environment due to increased transparency brought about by a more open and democratic government.
- Foreign direct investment hit a record US \$19.3 billion in 2011, an 18.4% increase over 2010.

- Java is the most dominant economic region in Indonesia. It alone accounted for 62% of total GDP in 2009. Together with Sumatra, the two regions, commonly referred to as West Indonesia, accounted for 83% of Indonesia's GDP. Eastern Indonesia, comprising Kalimantan, Sulawesi, Maluku and Papua accounted for less than 17% of total GDP
- The BoP (those below the \$3 international poverty line) represented 78% of the population with 49% of the Indonesian population (119 million people) on less than \$2 and a further 29% considered vulnerable to poverty. The official national poverty incidence is about 12%.
- Informal employment is high among the BOP where non-registered, non-taxable and usually part-time occupations are common and many farmers in rural areas have multiple occupations. Papua has the highest levels of informal labor accounting for 80% of all jobs in 2012.

Private Sector Interest (based on the 62 companies interviewed):

- Lack of access to capital, high input costs and poor business climate and regulatory environment were considered the biggest barriers to growth.
- Of the companies surveyed agriculture had the strongest engagement with the BOP across all four categories, as consumers, distributors, employees and suppliers. Manufacturing, consumer goods, housing and renewable energy also engaged with the BOP across all categories.
- For some sectors, such as health with consumers, was focused on a specific BoP model

Eastern Indonesia

- National statistics indicate that 14.7% of people in Eastern Indonesia are below the poverty line compared to 12.0% nationally.
- Eastern Indonesia scores lowest on the Human Development Index (HDI) with a score of 70.1 compared to the national score of 72.039% of the companies interviewed have business coverage that includes the eastern part of Indonesia.
- Lack of access to capital was considered the number one challenge by a significant proportion of companies. The challenges facing many Indonesian companies may be more pronounced in Eastern Indonesia due to the perception of higher risks and lower levels of awareness by lenders.

Capital Markets

- There is a lack of adequate, competitive bank funding to meet growing SME demand - improved *access to finance is key to inclusive business success in Indonesia*. Barriers include:
 - Incomplete or sub-standard accounting systems by companies
 - High repayment rates & inflexible terms
 - Insufficient collateral
 - Reticence toward cash flow-based lending
- Both fund managers and co- investors clearly recognise the importance of attaching a technical assistance facility to any fund.
- The financial system in Indonesia to support early and growth stage inclusive business enterprises is primarily collateral-dependent for debt with limited cash flow financial products.
- Over 80% of fund managers and investors recognize the need and value in a technical assistance facility for investee training, advisory support, and risk management.

- There is an increasing interest by donors and development partners in inclusive business and private sector development. This provides an opportunity to actively approach donors to invest in the fund or support the technical assistance facility.

Inclusive business in Indonesia:

- The country has a strong social corporate responsibility culture, and there are a lot of good examples on social enterprises working successfully in Indonesia.
- However, only few companies can be classified as currently being inclusive business with high viability and profitability and strong social systemic impact at the same time. Nevertheless there are sufficient IB companies whose investments would kick off with some catalytic support.
- Also the ecosystem for inclusive business is still relatively weak, with banks being reluctant to lend to IB firms due to risk aversion and other reasons, although many of those IB companies are actually profitable.
- The government is also interested to promote innovative IBs for sustainable job creation and the delivery of essential services (and goods) to the poor and low income groups.
- In sum, the IB sector provides a good potential for investments and for achieving systemic impact on poverty reduction and inclusive growth.

Overall recommendations

- This report strongly concludes there is an opportunity for the Asian Development Bank (ADB) to sponsor the establishment of a debt or equity facility which could significantly improve people's lives at the base of the pyramid by addressing production, supply, consumption and employment and at the same time help to build a foundation of well-managed, profitable business with lasting economic and social impact.
- The detailed analysis conducted during this study confirmed that there is a strong pipeline of inclusive business companies in need of financing.
- Key sectors include agriculture, particularly, as well as sectors including renewable energy, education and health that can drive systemic change.
- Social venture capital entities, early stage social enterprises, and growing SMEs have limited resources and access to finance for early to mid-term growth. There is a gap or 'missing middle' between US\$ 2-10m where early and mid-stage growth firms lack funding, collateral and technical assistance to scale.
- Since working and expansion capital are the main barriers to early and growth stage inclusive business opportunities, credit guarantees (i.e. long-term purchase agreements, performance bonds) specifically designed to address IB SME conditions may contribute to access finance and mitigate risk.
- While there are risks to manage, the ADB could deploy up to USD 30-50 million with deals ranging from deals ranging from USD 2 million to USD 10 million. This could be a blended fund covering debt and equity at the same time.
- While funding 5-10 IB's in Indonesia is possible in the next few years, the deployment of such funds could come from a wider Mekong Plus fund as discussed currently by ADB and other investors such as the French development bank AFD. In these investments should be closely coordinated – especially with regards to accompanying capacity building - with investments envisaged by the German development bank KfW for the social enterprise sectors.

- Having the ADB as seed investor is crucial to the integrity of the facility and will attract like-minded fund managers and co-investors.
- However IB investments would require technical assistance support for the firms covering pre and post investment support as well as impact assessment and other challenges.

I. Introduction

This report was prepared by a team of consultants on request of the Asian Development Bank and the Netherlands development organization SNV. The research team was lead by Bernardino M. Vega Jr. and comprised Tiur Rumondang and David Finneren. Valuable comments came from Robert de Jong (consultant to ADB), Phil Harman (SNV) and Armin Bauer (ADB). The initial findings of the report were presented during the Inclusive Business forum held in October 2012 in Jakarta (see <http://www.adb.org/news/events/inclusive-business-forum-indonesia>). The report is one of the 10 country studies prepared by ADB to scope the market for inclusive business in Asia. For more information on ADB's inclusive business initiative please see: <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>

ADB's Inclusive Business Initiative

In Asia, more than 50% of the population lives on less than \$2.50 a day. This base of the pyramid (BoP) offers significant potential as a substantial new market for goods and services provided by the private sector. Despite the private sector's fundamental role in the growth of Indonesia's economy, its potential to engage and integrate the BoP through business models that create shared value both in terms of company growth and poverty reduction is yet to be realised.

ADB's Inclusive Business Initiative

Poverty reduction is the Asian Development Bank's (ADB), overarching development goal. As one of the key multi-lateral financial institutions operating in the Asia region, ADB, through its long-term 'Strategy 2020' has defined inclusive growth as one of its three main strategic pillars to combat poverty by broadening economic and social opportunities for lower-income and excluded groups. The Strategy predicts that 50% of ADB investments by 2020 will come from either non-sovereign activities or supporting private sector development objectives. As such, inclusive business may represent a key inclusive growth strategy. As a catalyst to private sector development it could accelerate economic growth by integrating the low-income segment into their value chains. Companies improve their bottom line and the low-income segment benefits from new income and employment opportunities and access to goods and services that can contribute to their livelihoods.

The ADB actively supports both social enterprise and inclusive business development as important market-based and entrepreneurial solutions to create long-term and sustainable social impact across Asia. ADB's regional technical assistance project, *Promoting Inclusive Growth through Business Development at the Base of the Pyramid*, has promoted IB market scoping studies in 10 Asian countries (Indonesia, Bangladesh, India, Sri Lanka, Pakistan, the Philippines, Vietnam, Laos, Cambodia, Myanmar and Thailand), the development of an IB impact assessment tool, and further knowledge exchange – among others with the Inter American Development Bank to increase the awareness about the market

opportunity that inclusive business presents. The final purpose of the TA however was to assess the feasibility of establishing regional and / or country-based impact investment facilities / private equity funds for BoP ventures in Asia.

SNV and Inclusive Business

SNV (the Netherlands Development Agency) is an international development organisation of Dutch origin committed to eliminating poverty and inequity in emerging markets worldwide. More than 1,300 staff located in more than 100 offices in 35 countries across Asia, Africa, the Balkans and Latin America; provide a unique blend of integrated services and solutions tailor-made to the specific needs of our public and private sector clients critical to their sustainable growth and performance. In Asia, SNV has country offices in Laos, Vietnam, Bhutan, Cambodia and Nepal, Bangladesh and Indonesia.

For decades SNV has developed and leveraged market-based solutions and innovations to accelerate economic development opportunities for the low-income population. SNV has up-scaled one of these innovations, Inclusive Business, in partnership with the World Business Council for Sustainable Development (WBCSD). SNV has aggressively positioned and leveraged Inclusive Business in Latin America with a range of strategic partners. These include the WBCSD, Inter-American Development Bank, (IDB) Andean Development Corporation (CAF), more than 100 national and multi-national companies and government sectors. SNV is now advancing a similar approach in the Asia region.

As part of a partnership between ADB and SNV, signed in April 2010, SNV is working with the ADB to conduct feasibility studies for an inclusive business fund covering six countries, including Indonesia, the focus of this report.

Ford Foundation

The Ford Foundation is supporting this study as it aligns with its goal to create economic opportunity and offer increased access and participation in local governance for poor and socially marginalized communities. In particular it aligns with Ford Foundation's work in promoting innovation in livelihoods that enable poor rural households to increase incomes and build assets. The support of Ford has helped expand the study to include additional companies that are based or active in Eastern Indonesia. The findings of this component of the study are incorporated into the overall report.

Defining Inclusive Business

For the purpose of this study, inclusive business is defined by the ADB as profit making companies that bring systemic impact at scale to poor and vulnerable people under the \$3 international poverty line. These Inclusive Businesses are focused on making a reasonable profit with an IRR between 10-20%, while contributing to systemic impact on the lives of the poor by including them as:

- **Consumers** – new markets for affordable goods
- **Distributers** – new distribution networks
- **Suppliers** – new sources of supply/inputs; and

- **Employees** – previously untapped source of skilled and unskilled labor dependent on improved employment conditions; training, financial and non-financial incentives, and proactive labor retention strategies.

Inclusive Businesses differ from social enterprises and corporate social responsibility activities in their realized profit making motive / ability to offer market returns, as well as the scale of positive externalities generated. Many Inclusive Businesses, particularly those that have attained scale in operations, deliver market returns or above market returns on par with commercial businesses enabling them to access a large spectrum of commercially-oriented funding sources including stock markets.

Characteristics of Inclusive Businesses

Inclusive Businesses tend to have the following characteristics that integrate both definitional and strategic / tactical considerations:

1. Strictly for-profit;
2. Core business is strictly Inclusive Business;
3. Must include the low-income segment within their business model through one or more of the following ways: as suppliers, as consumers, workers / employees and as distributors;
4. Must generate financial returns (amount depends on either investment criteria set by an impact investor, company ambition, strategy and business model or a combination of both).
5. Must generate social returns (scale and scope depends on the investment criteria set by an impact investor, company ambition, strategy and business model, or a combination of both).
6. Designed from the start with scale in mind to maximize and optimize their route to impact and to maximize the creation of company value.
7. Do not seek trade-offs between financial and social returns. Rather, they continuously seek solutions through which both can be optimized simultaneously.
8. Often require blended capital priced for their level of risk and relevant stage of development.
9. Actively assess and measure both social and economic performance in a standardized manner.
10. 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, for the purpose of a potential fund ADB is seeking to identify Inclusive Businesses that:

11. Achieve a gross financial return in line with the market

12. Measurably and meaningfully impact on a good number of poor and vulnerable people.¹
13. 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.
14. Demonstrate a clear route to impact.
15. Identify and manage pre- and post-investment risks.

The above criteria has important implications in terms of selecting companies – particularly in terms of the maturity of the investment opportunity and investee, the potential depth and breadth of the social impact, the financial return, and risk.

The project - purpose & methodology

The Indonesian component of the regional technical assistance project, Base of the Pyramid (BoP) aims to promote inclusive growth through scoping and mapping surveys, enterprise feasibility studies, and information sharing. The purpose of the study was to contribute to a business case for investing in inclusive business in Indonesia. The expected impact is to create a new class of private equity funds focused on BoP enterprises that can play a stronger role in promoting inclusive growth in Indonesia.

The study scoped the nature, size and composition of the Inclusive Business (BoP) market in Indonesia and its potential for growth. Scoping was designed to address:

- **Enabling environment:** to assess the current economic, market and political conditions, critical success factors and constraints for inclusive business development
- **Market opportunity:** gather information on the characteristics and context of the BoP in Indonesia, relevant trends and propensity to develop viable and competitive pipelines of inclusive business opportunities
- **Private Sector Interest:** to identify and map companies with the potential to develop or currently implementing inclusive businesses in Indonesia
- **Private equity and capital market viability:** to assess Indonesia's private equity market and current and potential opportunities for their focus on inclusive business investments.

The mapping targeted businesses active in sectors with the greatest potential to include the low-income segment into their value chain as employees, suppliers, consumers or distributors. SNV/ADB provided guidance on the sectors based on company size; key national and international market opportunities; market share; and company interest in and or commitment to the low-income segment based on track record. Steps included: a rapid assessment of the country's economic performance by sector/geographic

¹ Total impact is case dependent. The number of beneficiaries may vary based on the local context, business model and opportunity. In addition to the number of poor people reached, ADB measures the impact of IB investments also based on the depth of impact and its systemic contribution to poverty reduction and inclusive growth. For more information on ADB's IB impact assessment tool, see <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid/impact-assessment>.

perspective; preparing a target list of relevant firms; in-depth face-to-face interviews with managers / owners from over 60 firms, including 20 with Eastern Indonesia coverage and creation of a detailed data base.

The capital market component of the feasibility study explored the possibilities for ADB with other non-sovereign partners to set up a country BoP investment fund. Key steps included:

- Identification of special interests of the financial sector stakeholders
- Exploration of guarantee and risk mitigation instruments and options
- A capital market stakeholder survey: interview 10-15 Investment funds and 5-10 potential investors, and collect data related to these funds/investors
- A capital market overview including relevant legal framework and market competition
- Recommendations on:
 - Fund structure: nature, size, term, and investment strategy
 - Strategic investment framework: investment process, type of investment, geographical focus, sector focus, investment criteria, and exit policy.
 - Financial feasibility: ideal capital needed for starting the investment fund, potential sources of capital for building the fund, and returns on investment.

II. The macro-economic environment

Introduction

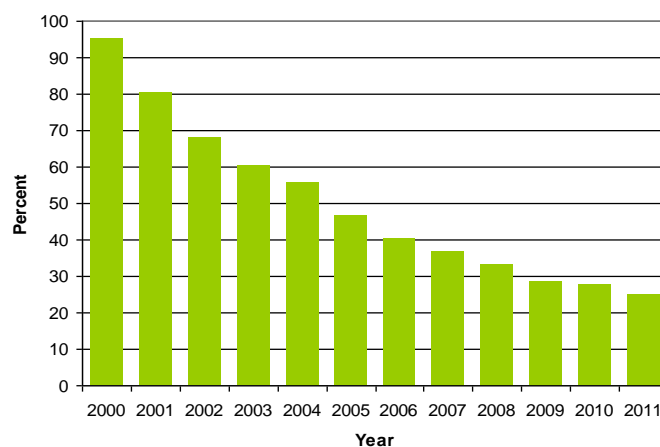
Indonesia has made significant progress in recent years with a more stable business environment and relatively sound macro-fundamentals. Indonesia is the 16th largest economy in the world and one of the fastest growing economies among its G20 and BRIC peers, with a 6.5% GDP in 2011, which is projected to reach an average 6.6% growth rate between 2012 and 2016.

The elevation of Indonesia's sovereign credit rating in 2012 by two of the three biggest international rating agencies was a significant milestone, putting it back on the radar of many risk-averse investors. Currency depreciation however remains a concern and is important in the context of potential establishment of a fund.

There are three distinguishing factors that differentiate Indonesia from other economies:

1. **Population size.** Indonesia's large population results in significant domestic consumer demand which has driven economic growth. Indonesia is not immune to the effects of negative international financial and trade developments but because of the scale of the domestic economy, has come through recent world economic troubles largely unscathed.
2. **Immense natural resources.** Indonesia's natural resources collectively serve as key drivers of the nation's economy. However, extraction industries could further improve efficiency, raise production and boost value-added input for domestic and international markets.
3. **Democracy and increased transparency.** Indonesia's relatively young democracy is in itself a key economic driver. The trend toward more transparent, accountable governance creates a more stable business environment and encourages investor confidence.

Total Debt to GDP Ratio



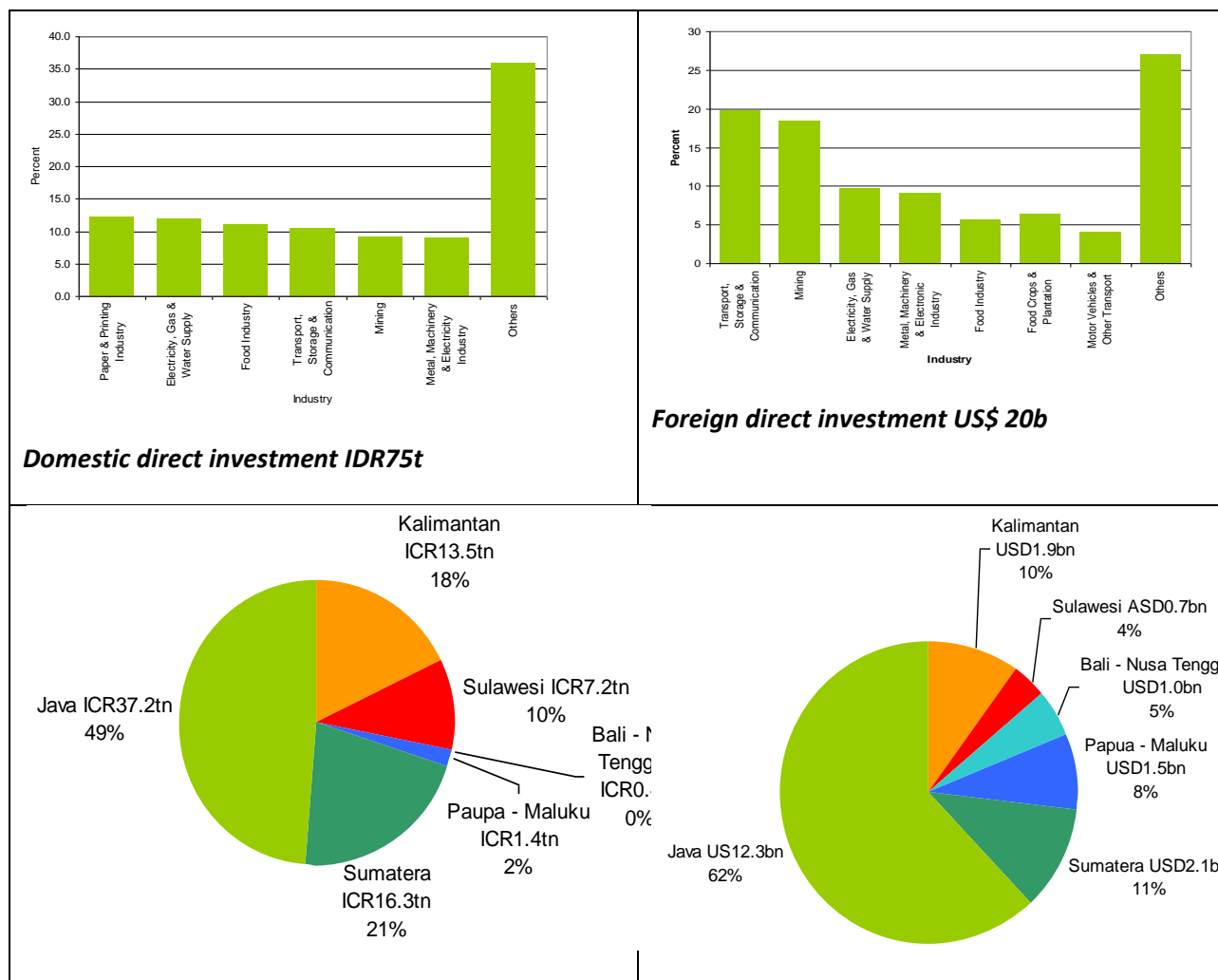
Source: IMF

Unlike the US, Japan and some European countries, Indonesia's debt-to-GDP ratio has been in steady decline from 95% in 2000 to 25% by the end of 2011. This has been largely due to the strong and consistent focus on sovereign debt reduction and improving economic fundamentals.

Indonesia - a frontier market for investment

With its relatively stable government, vast natural resources and the world's fourth largest population of around 250 million people, Indonesia is attracting more longer-term investment in companies, factories and infrastructure. The robust economy is vital to the employment future of a young, growing population and to cater to the burgeoning middle class of around 130 million people who spend US\$ 2-20 per day according to World Bank estimates. This emerging middle class with its aspirational demands is driving consumption and the development of domestic production.

Foreign and domestic direct investment (2011)



Source: BKPM, Bank Mandiri Update (2012)

In 2011, \$20 billion came into the country through foreign direct investment (FDI) particularly in the automotive, telecommunications, and mining sectors. Singapore led the list of foreign investors in Indonesia with US\$5.1 billion in 2011, followed by Japan and the United States with around US\$1.5 billion each. The Netherlands and South Korea invested US\$1.4 billion and US\$1.2 billion respectively. Indonesia attracted around the same amount of foreign direct investment as India, which was still less than one-fifth of FDI that went to China.

Transport, storage and communications accounted for almost 20% of the total followed by mining at 19%. Domestic direct investment totaled IDR 75 trillion in 2011 with paper and printing, electricity gas and water and the food industry the key sectors. The relevance of these sectors to inclusive business are discussed later in the report. FDI can have a positive social impact on the lives of the BOP acting as a catalyst to create jobs and alleviate poverty. Java attracted 62% of foreign direct investment and 49% of domestic direct investment. It is going to remain a challenge to attract investment outside of the extractive industries to Eastern Indonesia which has the higher proportion of poor. Increasing FDI is a strategic sustainable development goal however for Indonesia to continue attracting FDI and achieve ambitious expectations of above 6% annual GDP growth in the coming years, stable macroeconomic environment and improved investment climate is important. This includes improved infrastructure, a more competitive education system and increased productivity.

Indonesia's risk assessment in comparison to its neighbors

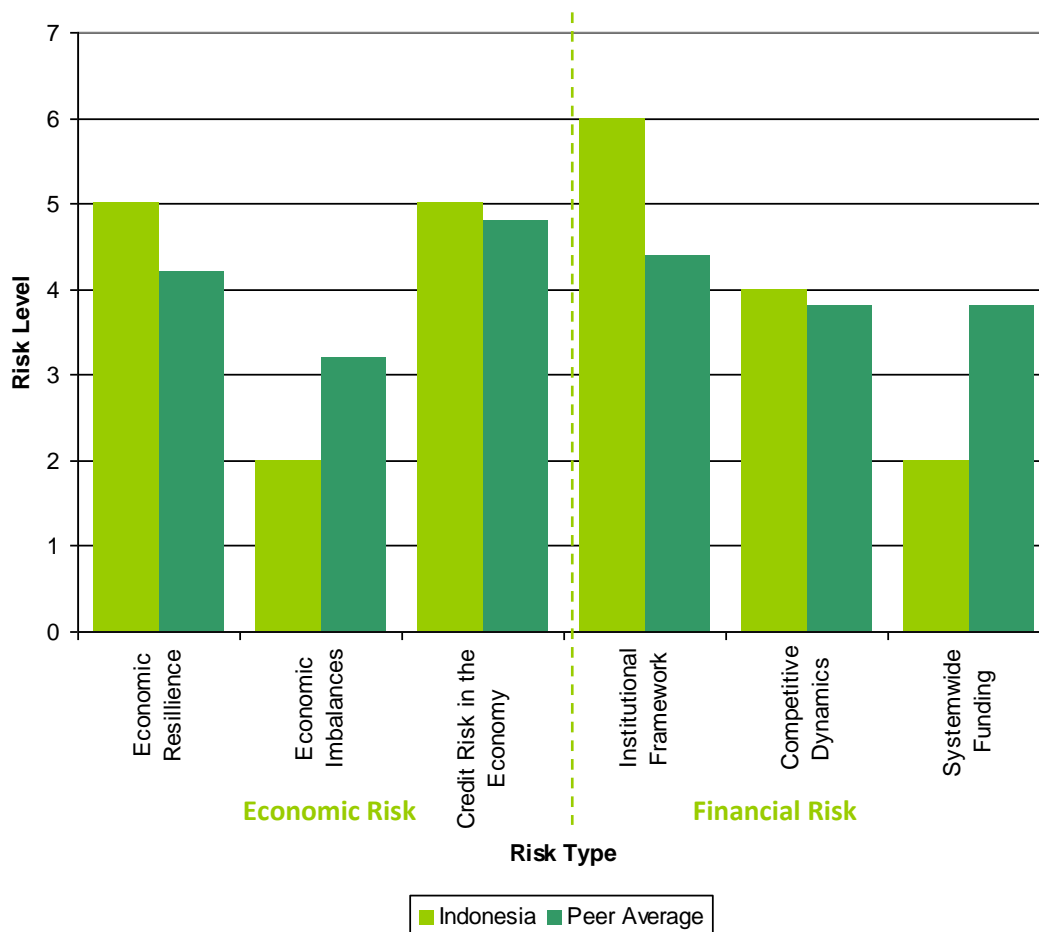
Despite the downturn in commodities exports, the Indonesian economy outperformed nearly all of its Asian neighbors in 2012. After traumatic political and economic shocks in the late 1990s, Indonesia has become one of Asia's leading economies in terms of GDP growth. The nation presently ranks very well compared to nations at similar stages of development.

Indonesia's economic resilience risks however are higher than the collective resilience of the ten other peer nations shown in the Banking Industry Country Risk Assessment chart below indicating despite Indonesia's positive economic growth indicators economic stability is not guaranteed. However, the risk of economic imbalances in Indonesia is significantly less than in peer nations surveyed.

Indonesia's economy is in growth phase with increasing private sector credit expansion. Although credit risk remains relatively high and supervision remains problematic, improvements have strengthened the domestic banking industry since the Asian financial crisis. The inconsistent legal enforcement of payments can potentially handicap creditors' rights, especially in recovery of non-performing loans extended to large corporate borrowers.

Indonesia's institutional framework risk is very high due to its weak regulatory track record, questionable government transparency and inconsistent commitment to international investment contracts.

Banking industry country risk assessment: BICRA comparison – Indonesia versus peers*



* BICRA = Banking Industry Country Risk Assessment; Peers = China, India, Cambodia, Philippines, Russia, Hungary, Bulgaria, Costa Rica, Lithuania, and Uruguay

Source: Standard & Poor's Financial Institutions Ratings

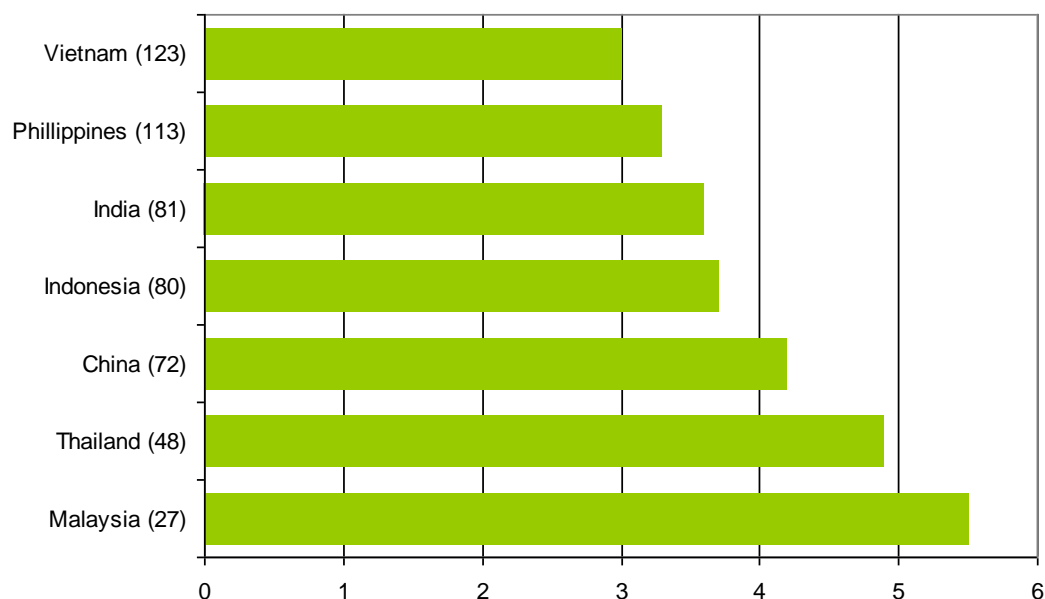
Challenges to investing in Indonesia

The success of any potential fund depends on investor confidence in both the strength of the market but just as importantly whether the environment will enable them to conduct their business in an efficient, just and profitable way. The performance of the legal system is often viewed as a barometer of market stability by existing and potential investors. A fair and regulated environment is important to economic growth and investor confidence. In its corruption perception survey, Transparency International ranked Indonesia 111 out of 180 countries surveyed, far behind China, India, Malaysia and Thailand. It can be even more of an issue in remote communities such as Eastern Indonesia where there is strong potential for inclusive businesses to address systemic issues as local authorities and rules may not always be consistent with central policy.

Another legal barrier to inclusive business development is land acquisition, particularly in the agricultural, manufacturing and energy sectors. Private businesses are disappointed with the recent Presidential Regulation No.71/2012 which requires intricate consultations with governors, mayors, regents and local and national legislators for planning and acquisition procedures. The Indonesian Chamber of Commerce (Kadin) and the Indonesian Employers Association (Apindo) are also disappointed with the bill, claiming its process is counter-productive to broader development objectives.

For the small holder farmer or SME, structural corruption and inconsistent laws are also barriers to successful enterprises. The BOP need education and training so they understand their entitlement to government services and basic rights and are not unduly influenced by powerful public and private sector figures; complacency toward corruption and unreliable law enforcement. Inadequate and inconsistent laws and enforcement can constrain job creation and poverty reduction. To create and implement policies to assist business development, including inclusive business, partnerships between government, businesses and other stakeholder groups are critical.

Quality Infrastructure Index 2010 – 2011



Source: World Economic Forum Global Competitiveness Report 2010-2011

Bureaucracy also impedes competitive business practice especially at the inclusive business level where time can be critical and cash flow is made more vulnerable by lengthy delays. There are numerous indicators including The World Economic Forum; the Political and Economic Risk Consultancy (PERC); and the World Bank that report Indonesia's bureaucratic performance is well below its neighbours. The Indonesian government reform agenda aims to provide new processes, procedures, structures, and facilities to improve its services. Insufficient infrastructure development is holding back Indonesia's potential to grow and reduce poverty. Poor infrastructure hinders the exchange of goods and services, and information. More than a decade of low infrastructure investment has increased congestion in

urban areas, created high inter-island cargo transport costs, electricity blackouts, and poor access to improved sanitation, power and technology. Insufficient infrastructure, such as roads, railways, ports and airports is especially felt in regional and remote areas. It is particularly relevant to inclusive businesses servicing the BOP where access to basic goods and services, productivity losses and distribution challenges are even more pronounced. Improving infrastructure is a key focus of the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development 2011-2025.

Indonesia's economic corridors – developing strategic areas

Java is the most dominant economic region in Indonesia. It alone accounted for 62.1% of total GDP in 2009. Together with Sumatra, the two regions, commonly referred to as West Indonesia, accounted for 83% of Indonesia's GDP. During the same year, Eastern Indonesia, comprising Kalimantan, Sulawesi, Maluku and Papua accounted for less than 17% of total GDP.

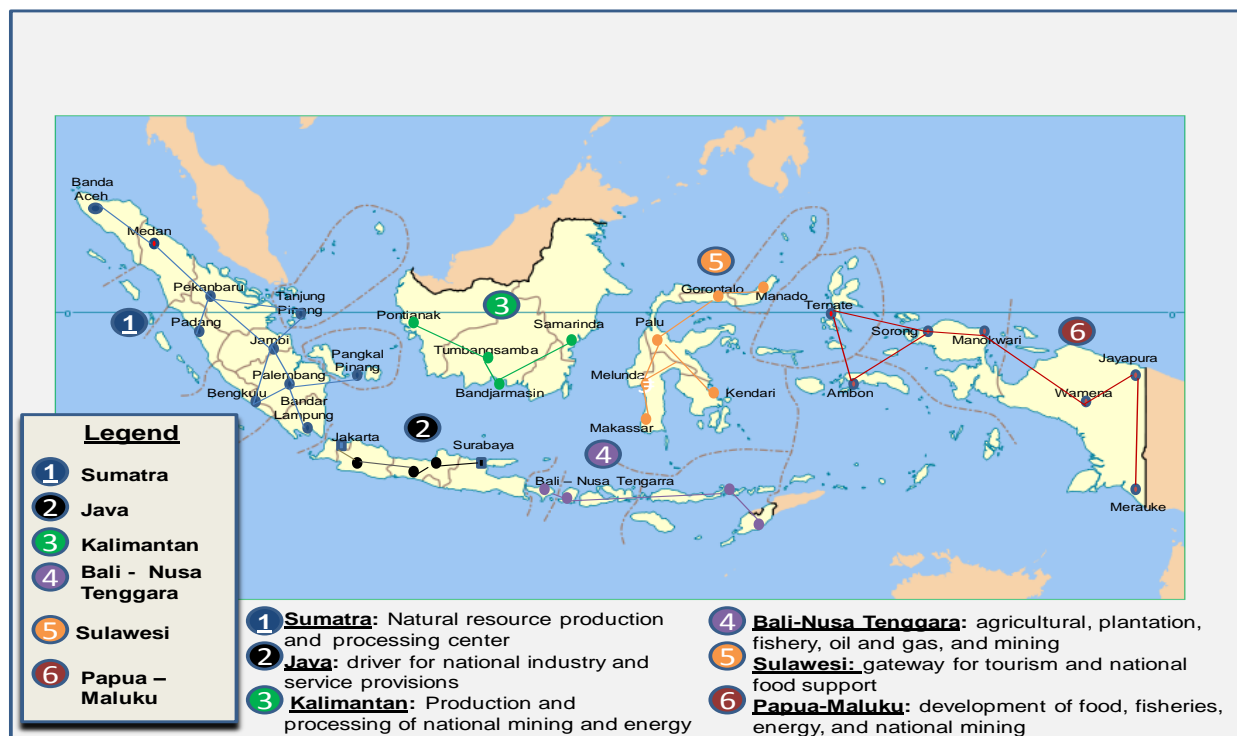
Regional Economic Growth and Proportion to GDP

Region	Growth		Proportion of National GDP		Poverty *
	2004	2009	2004	2009	
Sumatra	2.9	3.4	22.2	21.3	14.4%
Java-Bali	5.4	4.8	61.0	62.1	12.5%
Kalimantan	3.0	3.4	9.3	8.7	9.0%
Sulawesi	5.7	6.9	4.3	4.7	17.6%
Eastern Indonesia	-5.3	11.0	3.2	3.2	20.5-36.1%**

Source: BPS, 2010 *2008 data **Maluku 205%, NTT 24.8% and Papua 36.1%

Following the Global financial crisis of 2008/2009 the Government of Indonesia launched the Masterplan for Acceleration and Expansion of Indonesia Economic Development 2011-2025 (hereinafter referred to as MP3EI- Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia). The MP3EI Master Plan is a key government program that is designed to spread the economic benefits more widely throughout six strategic areas across Indonesia: Sumatra, Java, Kalimantan, Bali – Nusa Tenggara, Sulawesi, and Papua-Maluku. It focusses on eight main programs covering agriculture, mining, energy, industrial, marine, tourism, and telecommunications in the six economic zones. Large-scale investment is encouraged in 22 primary activities: shipping, textiles, food and beverages, steel, defense equipment, palm oil, rubber, cocoa, animal husbandry, timber, oil and gas, coal, nickel, copper, bauxite, fisheries, tourism, food and agriculture, the Jabodetabek area, the Sunda Straits strategic area, transportation equipment, and information and communication technology.

Indonesia's Six Economic Corridors



Sector: Indonesia Investment Co-ordinating Board BPKM

The Indonesian labour market and employment sectors

The Indonesian labor market is changing. Employment in Indonesia has been shifting from agriculture to services. The sub-sector composition of Indonesian manufacturing has been shifting in favor of higher value-added productivity. Since the Asian financial crisis, labor-intensive sectors, that are very relevant to the BOP in terms of job opportunities, such as textiles and footwear, have declined while other capital intensive sectors such as transportation, equipment and machinery have grown.

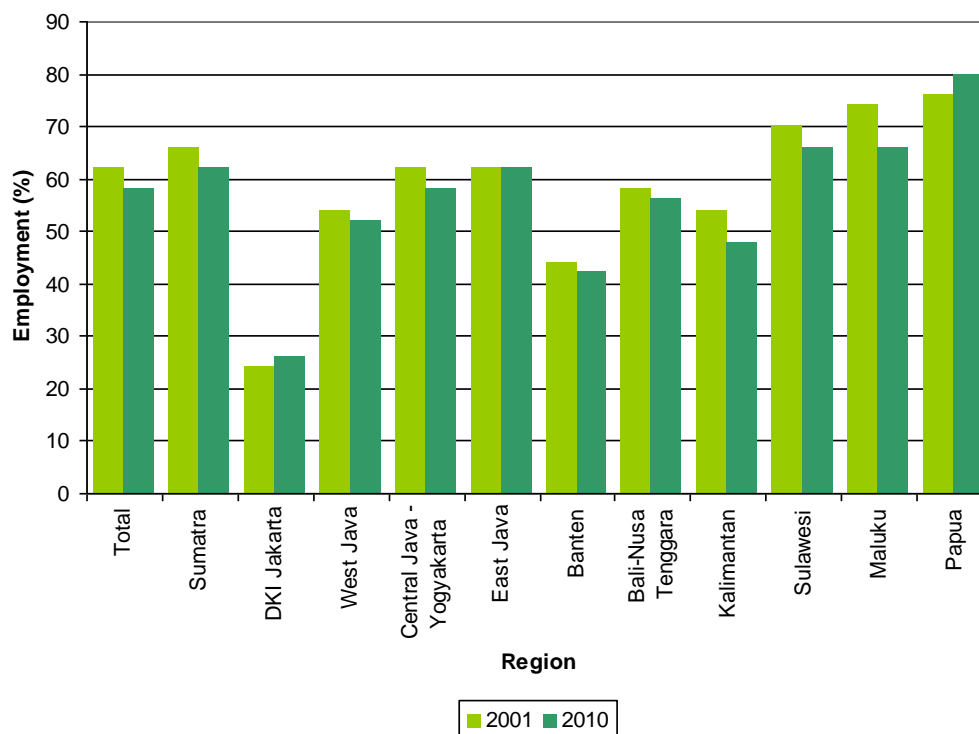
Sector share in employment (%)

No	Sector	2000	2005	2010	Total Employees 2010
1	Agriculture, Livestock, Forestry and Fishery	45.3	44.0	38.1	44,943,447
2	Mining and Quarrying	0.5	1.0	1.2	1,415,541
3	Manufacturing	13.0	12.7	12.8	15,099,110
4	Electricity, Gas and Water	0.1	0.2	0.2	235,923
5	Construction	3.9	4.9	5.2	6,134,014
6	Trade, Hotel and Restaurant	20.6	19.1	20.8	24,536,055
7	Transportation and Communications	5.1	6.0	5.2	6,134,014
8	Finance, Real Estate and Business Services	1.0	1.2	1.6	1,887,389
9	Public Administration, Social and Personal services	10.7	11.0	14.7	17,340,385
	TOTAL	100.0%	100.0%	100.0%	117,725,878

Source: World Bank Report, 2012Source: International Labor Organization 2010

Informal employment is high among the BOP where non-registered, non-taxable and usually part-time occupations are common and many farmers in rural areas have multiple occupations. Jakarta has the lowest level of informal labor being the centre of both business and government. Papua has the highest levels accounting for 80% of all jobs in 2012. Most small businesses still engage employees on an informal basis. Although encouraging in terms of employment opportunities, informal businesses tend to leave poor people vulnerable with often insecure employment, no secondary benefits such as health insurance and health schemes and sometimes unsafe working conditions.

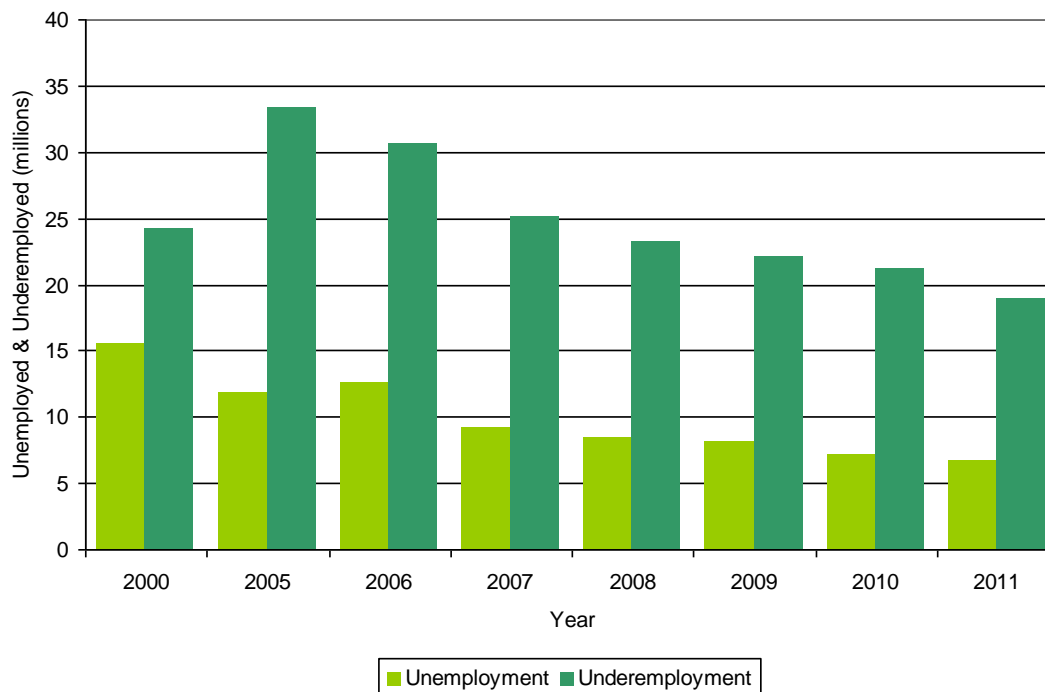
Informal employment by region - Ages 15+ (%)



Source: BPS Quarterly Wage Statistics

Unemployment figures have reduced significantly over the last decade decreasing from 15.5% in 2000 to 6.6% in 2011. The CIA World Fact Book, records Indonesia's employment rank as 73rd among 199 countries surveyed. Females are more likely to be unemployed accounting for 83% of the total figure in 2011. What also impacts the BOP is the high level of underemployment, while decreasing over recent years, underemployment still accounted for 18.9% of all workers in 2011.

Unemployment and under-employment - Age 15+ (%)



Source: BPS

Private sector expansion

According to the Institute for the Development of Economics and Finance (Indef), industry in Indonesia continued its encouraging growth because of its robust domestic demand. The Central Statistics Agency, reported a 2.6% expansion year-on-year output from Indonesia's medium and large manufacturers in the second quarter of 2012, while output of micro and small manufacturers grew by 2.1%, boosted by expansion in the non-car vehicle sector, which accounted for 11.4% of production, leather and footwear at 9.4%, and media at 6.5%.

The Industry Ministry also predicts continued growth of around 7 percent for the second half of 2012 in Indonesia's non-oil and gas manufacturing industries driven largely by domestic demand for transportation and machinery; food, beverages and tobacco as well as basic metals, iron and cement. Transportation and machinery recorded the highest growth during the first half of 2012, posting year-on-year expansion of 9.0%, followed by food, beverage and tobacco growth of 7.0% and cement at 6.9%.

Industry breakdown by scale

Size of Enterprise	Assets	Annual Turnover
Micro	> IDR 50,000,000	> IDR 300,000,000
Small	IDR 50,000,000 (50 million rupiah) to IDR 500,000,000 (500 million rupiah);	IDR 300,000,000 (300 million) to IDR 2,500,000,000 (2.5 billion rupiah).
Medium	IDR 500,000,000 (500 million) to IDR 10,000,000,000 (10 billion rupiah);	IDR 2,500,000,000 (2.5 billion rupiah) to IDR 50,000,000,000 (50 billion rupiah).
Large	More than IDR 10 billion	More than IDR 50 billion

Source: Central Statistics Agency

Future Outlook

The establishment of the ASEAN Economic Community (AEC) as early as 2015, with the objective of creating a stable, prosperous and highly competitive zone with balanced economic growth and reduction of poverty and socioeconomic disparities is a positive regional development.

The presidential elections in 2014 could potentially have both economic and social significance and could result in policy changes with potential to affect the nation's macroeconomic and investment profile. Leadership confidence can influence economic performance and although most estimates forecast real GDP growth in 2013 to remain strong, there is concern it may slow due to an uncertain political environment. Post 2014, the Indonesia economy is forecast to remain strong. According to recent Standard Chartered commentary, nominal per-capita GDP is expected to quadruple by 2020 and the economy is projected to grow 5-fold by 2025. Indonesia could potentially become the world's seventh largest economy by 2030 after China, the USA, India, Japan, Brazil and Russia.

This continued economic growth is not necessarily a panacea for the present challenges. The commitment to reform must continue to strengthen institutions, expand the tax base and create more balanced markets. In terms of inclusive business, improvements in the efficiency of domestic production and distribution chains can benefit the BOP both in terms of employment creation as access to basic services.

If the government is able to realize Indonesia's potential through regulatory stability and decreased restrictions, direct investment in 2012 from the private sector is expected to contribute as much as 25 to 30 percent of overall GDP. The government has promoted fiscally conservative policies, resulting in declining public debt, a small current account surplus, a healthy fiscal deficit below 2% and stable inflation rates.

The economic environment in Eastern Indonesia

The provinces of Eastern Indonesia are considered to be the least developed and the most challenging both in terms of business environment and development activities. In Eastern Indonesia, natural population growth exceeds the national average and increases exponentially as you travel further east. Although the unemployment rate is below the national average except in three districts (East Kalimantan, Maluku and Papua Barat² there is a higher tendency towards informal labour and underemployment is higher. Immigration has been low since the Suharto regime, which contributes to the region's stability. An exception is in the Malukas where there has been violence originating from ethnical and/or religious differences as well Papua where that has also been ongoing tensions.

There is considerable disparity and diversity of social, natural and built environments between regions and economic development trends. Key indicators clearly show the challenges in Eastern Indonesia.. National statistics indicate that 14.7% of people in Eastern Indonesia are below the poverty line compared to 12.0% nationally. Eastern Indonesia scores lowest on the Human Development Index (HDI) with a score of 70.1 compared to the national score of 72.0. Its population is also spread out over a wide area, indicating that services may be more difficult to access, despite the general trend towards urbanization.

The region however scores better than the Indonesian average for the Gini-coefficient (the most commonly used measure of inequality), which may be due to not having so many of the super wealthy as in Bali or Jakarta. Surprisingly, Eastern Indonesia has a higher average wage than the national figure. This may be skewed by who is captured in the data. For example, Maluku and Papua, generally considered among the poorest areas with 23% of people living below but an average monthly wage of IDR 2,061,500 far greater than the national average

Indonesia socio-economic indicators

	Land area, % to Indonesian total	Population, thousand (2010)	HDI (2010)	Gini Index	% of poor people (2012)	Minimum wage/mth, IDR (2012)	Average wage/mth, IDR (2012)	Household expenditure / mth IDR (2012)	Product (trillion Rp., 2011)	Domestic Product excl. oil & gas (trillion Rp. 2011)
Sumatera	25.1	50.631,00	73.50	0.35	11.5	1,131,80	1.611,00	682,20	1,417.20	1,175.70
Jawa	6.8	136,610,60	73.50	0.40	10.9	929,17	1.583,50	745,69	3,470.20	3,366.40
Bali	0.3	3,890,80	72.00	0.43	4.2	967,00	1.602,00	885,90	73.50	73.50
"Eastern Indonesia"	67.8	46,508,90	70.10	0.37	14.7	1,100,040	1.725,67	590,63	1,060.20	889.50
TOTAL Indonesia	100	237,641,30	72.00	0.41	12.0	1.121,00	1.580,00	633,30	6,021.00	5,504.90

Source: Badan Pusat Statistik (Indonesia)

² Badan Pusat Statistik 2012, *Trends of Selected Socio-Economic Indicators of Indonesia*

Focusing purely on economic indicators, the situation in Eastern Indonesia seems to be deteriorating. The Gross Regional Product (GRP) per capita in the richest province in Indonesia was around 16 times that in the poorest, in the early 2000's. Today, even without oil and gas income included, the richest province is nearly 40 times better off than the poorest. The GRP per capita growth rate in Eastern Indonesia is well below the Indonesian average, implying that income disparities will widen over time without specific intervention.

Key aspects and trends shaping the regional economy

The key barriers to economic development in Eastern Indonesia and inclusive business that engages the BOP are:

Institutions. The institutional framework governing the division of roles, responsibilities and resources between the national and local governments is incomplete³ and capacities and skills vary from location to location. Since the 2001 decentralization process⁴, provincial and local government budgets have increased significantly as has the freedom to decide on how they should be used. Yet the capacity of local institutions to deliver has not yet increased in most places and the gap is greatest in more remote areas.

The decentralization initiatives ensure that the regions now receive 80%, 15% and 30 % of the Government's net return on timber, gas and oil revenues respectively (80%, 70% and 70% for Papua)⁵. Locally this has fuelled opportunity for short term gain such as shoring up political support at the expense of longer term, sustainable management of resources. This creates a potential for corruption and combined with poor environmental management, poor infrastructure and lagging private investment in Eastern Indonesia, has a widening effect on regional disparity.⁶

Infrastructure. Roads and railroads remain in poor condition, and the capacity of seaports remains limited, especially in the more remote islands where excessive transport costs weaken regional competitiveness and hamper access to international markets. Part of the high transport costs in the eastern islands stems from the imbalance between import and export volumes, which underscores the need for improved productivity and diversification on the islands themselves⁷.

Energy infrastructure is also inadequate. The state monopoly on transmission and sales of electricity is not reliable with frequent shortages and production lower than demand. Local authorities can now legally generate, transmit and sell electricity and this has created some competition. However the sector

³ The World Bank, 2009, *Investing in Indonesia's Institutions for Inclusive and Sustainable Development*

⁴ Another institutional reform triggered by the political crisis which followed 1997.

⁵ Hill, Resosudarmo, Vidyattama, 2008, *Indonesia's changing economic geography*

⁶ The World Bank, 2012, *Indonesia Economic Quarterly- Rising to present and future challenges*

⁷ LPEM-FEUI and The Asia Foundation, 2010, *Transportation of Goods in East Nusa Tenggara: Problems and Costs*

still suffers from the incomplete framework and many in the BoP are without power or reliable energy sources. This does present an opportunity for innovating energy companies.

Market structure. Eastern Indonesia still largely depends on the agriculture sector and does not have the manufacturing base of Java. While extractive industries are important, the benefits often do not flow through to local communities and if not managed sustainably can adversely affect both the environment and long-term employment opportunities. The **service** sector in some eastern provinces is quite large, partly because of the complicated inter- and inner island transportation, but also because it has to support a large government sector related to fiscal transfers (mostly to the poor), that has to cover a large but sparsely populated area⁸.

The challenge for Eastern Indonesia is how to better integrate and the Indonesian and world economy, as the regions' best connected with the global economy display the best socio-economic performance according to development indicators⁹.

Eastern Indonesia's main challenge for business continues to be the lack of connectivity and infrastructure in the region. Hence, the development of an inclusive business models that involves the BoP will be limited to resource based sectors which includes small scale farming and production in the agro sector. Job creation in this sector will represent the major economic driving force for the community. However, other supporting service sectors such as logistics will still be required making use of the existing human resource availability within that particular sub region in eastern Indonesia.

Within eastern Indonesia itself, the bulk of entrepreneurship are in the islands of Sulawesi and Kalimantan with homegrown talent seemingly abundant in the cities of Makassar, Manado, and Balikpapan. These major cities in east Indonesia remain centres of opportunities when developing inclusive business models that are not necessarily resource based by nature.

⁸ Hill, Resosudarmo, Vidyattama, 2008, *Indonesia's changing economic geography*

⁹ *Ibid.*

III. The inclusive business market in Indonesia

Improving the livelihood of Indonesia's poor or near poor, estimated at 49% of 119 million people is an increasing priority among government and private enterprise. It is not a new ambition and for decades programs have been championed and then dismissed for numerous reasons.

Inclusive business, as its name implies, has the ability to both engage the BOP and grow their supply chain. Unlike traditional industries in Indonesia, IB have the ability to penetrate to the grass roots, add value and positively impact on long term social and systemic issues.

Beyond CSR

Determining who is responsible and best equipped to address the social needs of the poor and to what degree is not a new debate nor is it one confined to Indonesia. For decades government, businesses, NGO's and private philanthropic organisations have all employed various strategies to combat poverty. One such approach was Corporate Social Responsibility (CSR), defined by the World Business Council for Sustainable Development as "... the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large...". Gradually larger companies began exploring the benefits of sharing prosperity with poorer communities in Indonesia through consultation, engagement, and third parties, including reputable NGOs. The reality however, was that many CSR budgets and commitments were not always as effective or sustainable as initially expected.

Despite being once highly regarded and well-received, the appeal of CSR has waned, often viewed by managers as irrelevant to core business. Many managers and advisors now view CSR budgets as counterproductive – essentially "throwing money over the fence" to keep locals from disrupting operations and seen as token philanthropic attempts to appease the poor. From an IB perspective the CSR approach often ignored key institutional and political conditions important for constructive, sustainable engagement.

Many questions remain in terms of best practice. Not all companies are ready to abandon their CSR platforms, but are open to exploring avenues for improvement. As there is a Government mandated CSR commitment for companies in Indonesia there is opportunity to better utilise CSR funds by aligning more closely with a company's core business and benefiting the poor in a more sustainable way.

The Base of Pyramid (BoP)

Indonesia's poor or the "Base of the Pyramid" (BoP) are people who lack work and access to basic goods, services, and consistent income. Those living at the BoP in Indonesia represent a significant economic segment with latent untapped commercial potential.

Though not a homogenous market, Indonesia's 119 million people that make up the BOP with aspirations of improving their standard of living are now joining the market economy, as consumers and

producers, for the first time. The BoP concept champions new thinking and new ways of doing business in the world's largest, but poorest, socio-economic segments. Large firms will need to change their business models to include the poor as consumers, suppliers and distributors and also need to work with civil organizations and local governments to support new entrepreneurs at the grass roots level. There is increasing recognition that Multi-National Corporations (MNCs) investment at the BoP could lift millions of people worldwide out of poverty and help them become a major engine of innovation and growth. For the companies with resources and persistence to compete at the bottom of the world economic pyramid, the potential rewards include growth, profit, and contribution to the poverty alleviation.

The BoP concept focuses on companies working with lower income communities in ways that are both profitable and growth-oriented but also provide solutions to systematic issues such as access to energy, health care, education, food and clean water. The intent is to build links between BoP communities and broader markets to lower supply and distribution costs and increase opportunities for people to earn their way out of poverty or provide basic services to transform the lives of the poor. Access to clean water for example can have a dramatic impact on reducing instances of diarrhea which also has economic benefits for the poor by reducing health costs and lost productivity days. There are significant opportunities for market-based approaches to better meet the needs of the BoP, increase their productivity and incomes, and empower their entry into the formal economy.

For companies whose markets at the top of the income pyramid are often becoming saturated, it can make sense to consider business opportunities in the lower income segments and position themselves at an early stage to secure competitive advantage.

Dimension of poverty

Despite its economic development and declining poverty rate, Indonesia continues to struggle with poverty particularly in rural areas. Factors influencing Indonesia's poverty include:

- Population numbers and population density;
- Demographic characteristics particularly rural and urban;
- Shelter; access to clean water; and sanitation;
- Land tenure; natural resource control;
- Economic livelihoods (permanent, seasonal, migrant, unemployment);
- Social organization and power dynamics; education and literacy levels; health care;
- Ability to access technical information; status of women; and cultural values and perceptions.

According to the World Bank, "typically only a small proportion of the population is chronically poor; while many more are not always poor but are vulnerable to episodes or seasons of poverty". Indonesia's poverty figures are frequently debated and although the poverty rate has decreased it is important to recognise the large numbers of "near poor". It is estimated that 119 million Indonesian live under \$2 a day with a total of 194 million living under \$ 3 a day.

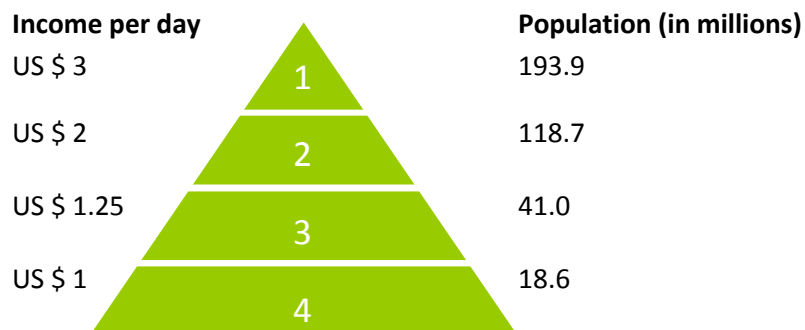
Poverty line, number and percentage of poor people (2000 – 2011)

Year	Poverty Line (rupiah)		Poor People (million)		% Poor People	
	Urban	Rural	Urban	Rural	Urban	Rural
2000	91,632	73,648	12.30	26.40	14.60	22.38
2001	100,011	80,382	8.60	29.30	9.76	24.84
2002	130,499	96,512	13.30	25.10	14.46	21.10
2003	138,803	105,888	12.20	25.10	13.57	20.23
2004	143,455	108,725	11.40	24.80	12.13	20.11
2005	150,799	117,259	12.40	22.70	11.68	19.98
2006	174,290	130,584	14.49	24.81	13.47	21.81
2007	187,942	146,837	13.56	23.61	12.52	20.37
2008	204,896	161,831	12.77	22.19	11.65	18.93
2009	222,123	179,835	11.91	20.62	10.72	17.35
2010	232,989	192,354	11.10	19.93	9.87	16.56
2011	263,594	223,181	10.95	18.94	9.09	15.59

Source: Statistical Yearbook of Indonesia 2011, BPS Central Bureau of Statistics

A large proportion of Indonesians are extremely vulnerable to poverty and live just above or below the poverty line. The country's poverty rate is sensitive to the slightest economic change and risk factors and those classified 'poor' are only a fraction of those who struggle to avoid falling into poverty. Levels of vulnerability to poverty are much higher than the poverty rate itself. As insecurity is an important component of poverty, vulnerability is another aspect of overall welfare and can be a major obstacle to social and economic development. It is important to acknowledge and understand vulnerability to achieve sustainable poverty reduction.

Indonesia Impoverished and Near Poor



Source : Central Statistics Agency (National Socio – Economic Survey) 2010

Though there is poverty throughout Indonesia, Java, particularly West, Central and East, is home to most of Indonesia's poor in terms of absolute numbers. They are often overlooked due to the perception they live better lives. This is largely incorrect. Difficult living standards remain throughout Java and the infant mortality rate in West Java, by percentage, is almost as high as it is in Papua, and far higher in absolute numbers.

Poverty across Java Island 2011

Province	Percent of Poor	Number of Poor People
Central Java	15.76%	5,107,000
Yogyakarta	16.08%	560,880
East Java	14.23%	5,356,210
West Java	10.65%	4,648,630
Banten	6.32%	690,490
Jakarta	3.75%	363,420
TOTAL	11.17%	22,941,130

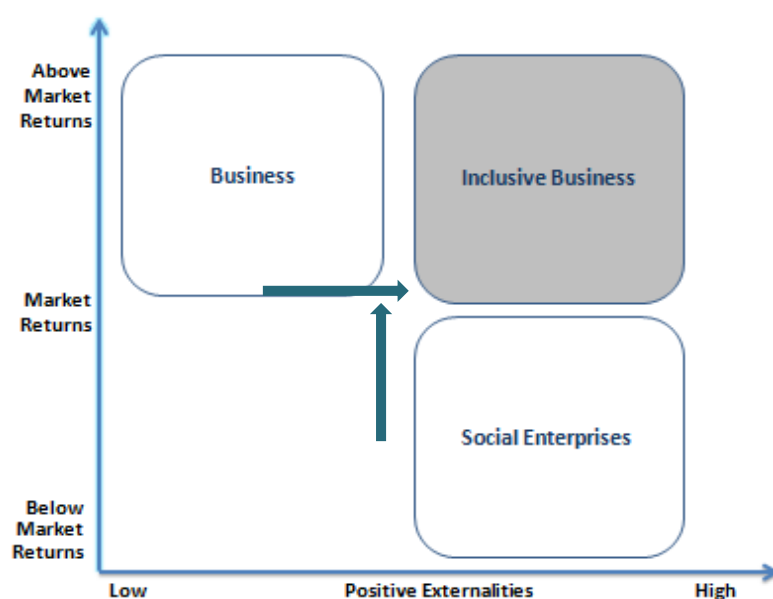
Source: BPS 2011

Inclusive business in Indonesia

Large international businesses in Indonesia are becoming more aware that inclusive business can foster cooperative, more profitable environments. Models are looking beyond philanthropy to synergies between development goals and core business - a shift from short-term means of meeting regulatory requirements to a strategic longer-term channel for relationship-building and risk mitigation.

There are two main approaches to increasing inclusive business in Indonesia. Firstly smaller social enterprises can grow their existing models to achieve impact. Alternatively larger companies can move towards more socially inclusive business models.

An Inclusive Business model



Inclusive Business and social enterprises in Indonesia

The primary aim of social businesses is not to benefit their investors unless it furthers their capacity to realize their social and environmental goals. A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximising profits for external shareholders.

Social enterprises are often regarded as non-profit organisations however they usually apply business logic to at least cover their costs. Social enterprises directly address social needs through their products and services or through the numbers of disadvantaged people they employ while promoting a sense of social responsibility at the local level. This distinguishes them from “socially responsible businesses,” which create positive social change indirectly through CSR efforts. Social enterprises can be structured as a for-profit or a non-profit, and may take the form of a co-operative, mutual organization, a social business, or a charity organization. They typically make little or no commercial profit; are often small in scale and therefore usually have low social or environmental impact.

According to the Indonesian Social Entrepreneur Association, social entrepreneurship is a growing business concept. A recent survey by Bina Nusantara (Binus) Business School revealed that 89 top managers from 31 national and multinational companies in mining, energy, agriculture, insurance, and healthcare perceived some degree of interaction with social enterprises as mandatory.

As social enterprises are often created voluntarily by groups of private citizens they are highly autonomous and not directly or indirectly managed by public authorities or private companies, even if they may benefit from grants and donations. They usually work in isolation and face challenges to expand their potential reach to impact larger populations. More collaboration, resources, and role models are needed to push social enterprises forward.

We are estimating the number of large companies in Indonesia at around 250 of which 100 of them has minimum turnover of US\$ 135,000,000¹⁰, In 2010, the number of micro-enterprises is estimated at 53 million units¹¹, and the number of small companies to be around 600,000. Of these, we estimate about one third are social enterprises in nature with a cooperative-like business structure. The number of companies with IB models are even smaller. We estimate this to be around 10% of the LSEs and 25% of the SME, and around half of the SEs can upscale at the moment to IBs.

Despite an estimated 80% of social enterprises in Indonesia being small-scale, they are ideal target partners for Inclusive Business opportunities because of their accumulated experience and existing networks. Synergies already exist, because similar to social enterprises in Indonesia, Inclusive Business

¹⁰ GlobeAsia Magazine, June 2009 – Top 100 Private Groups

¹¹ USAID Report – A Snapshot of Indonesian Entrepreneurship and Micro, Small and Medium Size Enterprises Development, Page 6 (presentation)

models also seek to create both financial and social returns. There are also advantages to partnering with social enterprise as a business, including the ability to raise capital at below market rates due to the ethical investment opportunity, easier access to publicity, and below average labor costs as often staff are willing to work for below market rates to support the values of a social enterprise. Such partnerships incorporate shared interests and capitalize on respective partner strengths.

Inclusive Business in Indonesia and SMEs

The ADB's proposed inclusive business initiative in Indonesia will have a significant focus on the small to medium enterprise (SME) sector. With the exception of the oil and gas sector, over 90 percent of all firms in the country are SME's, providing livelihood for more than 90 per cent of the population. SME's are companies with less than 100 employees with operations below certain asset, sales, and employment limits. Just over 20,000 SME's are registered in Indonesia and along with Micro Enterprises (MIEs), self-employed spread throughout rural areas and classified beneath the SME category they contribute around 60% to the GDP. They have always been a core growth engine for the Indonesian economy and outnumber large companies by a wide margin.

SMEs also accounts for nearly all the new employment creation in Indonesia according to the Organisation for Economic Co-operation and Development. The challenges to improving the competitiveness and dynamism of Indonesia's SME sector include high production costs, low levels of efficiency and inconsistent investment in human resources, technology and machinery. As a result their value capture through production is comprised which restricts income.

Administrative inconsistencies and political and economic instability has led to inconsistent and ambivalent government's SME policies. Entrepreneurial development was restricted by bureaucracy; politics, limited access to funding, high interest rates, excessive taxation and complicated government process. Government subsidies did not focus on market-driven demand objectives, but were often syphoned off to prop up uncompetitive and inefficient enterprises. Projects that were not viable wasted resources and value-added components were often done overseas rather than supporting the local economy. Most Indonesian SMEs were not equipped for the basic business fundamentals of a rapidly globalizing world – efficiency, creativity and competition. The net result was market-oriented enterprises that were not internationally competitive – which was largely irrelevant until the resurgence of China and the formerly-dormant Asian region.

Part of an inclusive business strategy for Indonesia must therefore be to concentrate not just on the more effective incorporation of SMEs into supply chains, but to create opportunities for them to add and retain value themselves.

Their accumulated experience is more commercial, their societal impact broader, and their networks usually more extensive. Unlike social enterprises, SMEs are almost without exception driven entirely by commercial returns and are not removed or isolated from their community stakeholders.

Role of private sector in poverty reduction & implications for Inclusive Business

Creating opportunities for entrepreneurship and employment through Inclusive Business is complex. A company that develops products and business models for sections of the population living in poverty will face a challenging innovation process. The Inclusive Business model is not a panacea for a business solutions or development driver and like any other business function it needs to be managed. Many Indonesian start-ups, microenterprises and small and medium-sized firms who have potential for Inclusive Business initiatives often lack sufficient business development services, technical assistance, and capital necessary to grow into long-term, sustainable enterprises. Successful Inclusive business models that engage with the BOP offer core business-led approaches that can be reviewed, revised and adjusted on an ongoing basis. This is not the sole responsibility of the private sector. Success also involves appointing trainees at the village level, assisting micro-entrepreneurs and partnering with local schools, NGOs and microfinance institutions to act as intermediaries in providing access to better contacts and better information. To delegate resources effectively, a credible stakeholder mapping method to identify productive development partners is essential. A framework to consistently measure the broader long-term impacts of intentions and initiatives should also be established.

IV. Scoping of inclusive business models in Indonesia

Introduction and methodology

A key component of the overall study was private sector mapping designed to identify the critical drivers, success factors, barriers, challenges and opportunities with working with the BoP in Indonesia.

Companies interviewed as part of the mapping process were identified based on ADB/SNV selection criteria. Detailed face-to-face interviews with senior management were conducted using the quantitative survey questionnaire in Appendix 1.

A total of 62 companies from key sectors and industries throughout Indonesia, including Eastern Indonesia, were evaluated. 12 business cases were then identified for more detailed studies and selected based on their potential to successfully and sustainably engage the BoP. Their inclusive business models demonstrated strong social impact, growth trajectory and potential for solid financial returns. The survey findings provide a starting point to develop a pipeline of potential inclusive businesses in Indonesia worthy of funding consideration.

Key survey themes

- Sector and key operating areas
- Financials
- Existing and potential BOP involvement & potential for up scaling
- Coverage: national or international markets
- CSR policies and activities
- Strategies, barriers and opportunities
- Access to finance
- Exit strategy (for private equity investments)
- Business sustainability
- Partnership/alliances
- Environmental sustainability

Snapshot - companies interviewed

A diversity of BoP engagement models was represented across the 62 companies reflecting the various business and lending/ investment opportunities for each sector. The agriculture and consumer products sectors have the highest engagement with BOP as suppliers or producers while the highest potential for growth and social impact could come from renewable energy. Development and investment in this sector would address the systemic problem of rural power supply and would enable these communities to develop new businesses and increase production yield. Employment opportunities for the BOP remain high for the manufacturing and agriculture sector.

Indonesia's archipelagic nature presents many challenges for companies wanting to reach a nation-wide market. A total of 39% of the companies interviewed (24) were either based or operate in Eastern Indonesia. The table on the following page includes the companies interviewed, their key sectors, segments of the BoP included in their engagement model and whether their presence extends to Eastern Indonesia.

Private Sector Mapping Overview

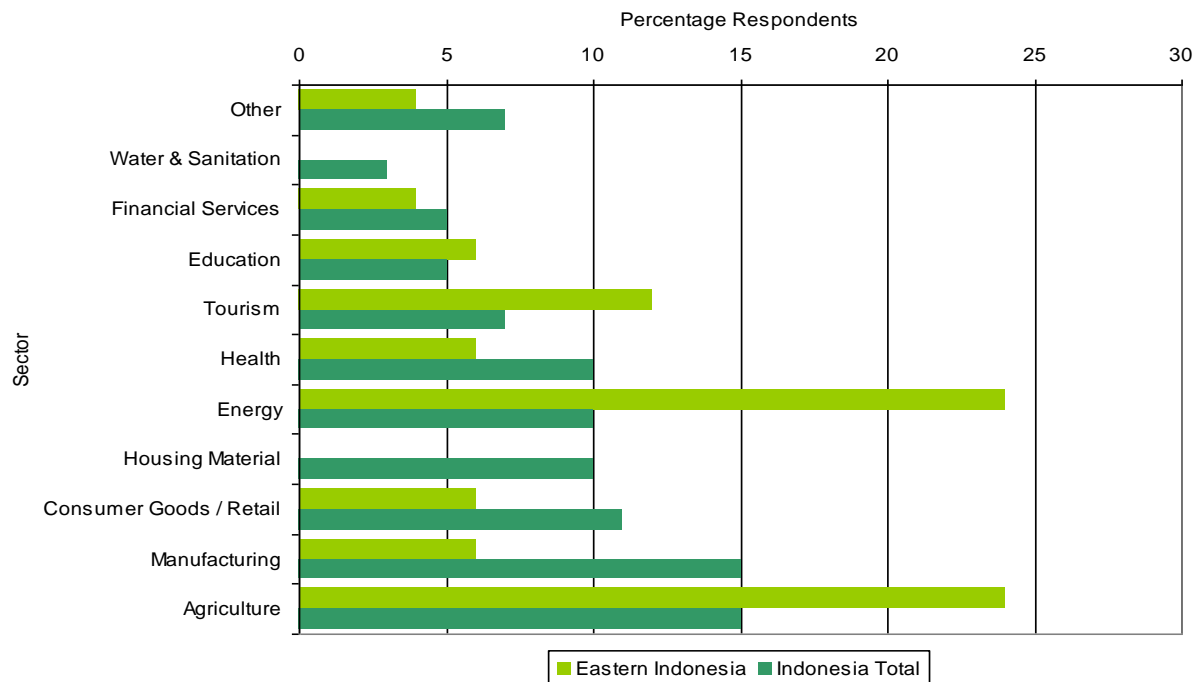
No	Company Name	Size	Sector	BoP Engagement Model				Significant presence East/Indo
				C	D	E	S	
1	PT. Usaha Kita Makmur Indonesia (PT.UKMI)	S	Agriculture		●	●	●	Yes
2	Paskomnas	L	Agriculture		●		●	Yes
3	PT. Mars Symbioscience Indonesia (MSI)	L	Agriculture		●		●	Yes
4	PT. Great Giant Pineapple	L	Agriculture		●	●	●	
5	Green Gold Group	M/L	Agriculture	●		●	●	Yes
6	Riau Sagu Lestari and Sinar Sagu Mas	S/M	Agriculture	●	●	●	●	
7	PT. Agri Spices Indonesia	M/L	Agriculture			●	●	Yes
8	CV. Indo Agro Perdana	S	Agriculture			●	●	Yes
9	Javanegra	M	Agriculture			●	●	Yes
10	Big Tree Farms	S/M	Agriculture – F&B			●	●	Yes
11	Lautan Luas Tbk.	L	Manufacturing			●	●	Yes
12	PT. Panasonic Manufacturing Indonesia	L	Manufacturing		●	●		
13	PT DUA Lighting	S	Manufacturing	●	●	●		
14	PT Aditec Cakrawiyasa	M	Manufacturing	●				
15	Mandala Marmer	S	Manufacturing			●		
16	Dian Handycraft	S	Manufacturing		●	●		
17	Silverplas Pasific	S	Manufacturing			●	●	
18	Nike Indonesia	M/L	Manufacturing			●		
19	Tetra Pak	M/L	Manufacturing	●				
20	PT. Tirta Investama Aqua Danone	L	Consumer Goods/Retail			●		Yes
21	Tudung Group	L	Consumer Goods/Retail	●		●	●	
22	Unilever Indonesia	L	Consumer Goods/Retail		●		●	Yes
23	PT. Mustika Ratu	L	Consumer Goods/Retail	●		●	●	
24	Asafood	M	Consumer Goods/Retail		●			
25	PT. Sarinah	L	Consumer Goods/Retail			●	●	
26	RUMA	S	Consumer Goods/Retail	●	●	●		Yes
27	PT. Holcim Indonesia	L	Housing material	●				
28	PT. Pembangunan Perumahan	L	Housing material	●				
29	PT. Tata Logam Lestari	M/L	Housing material			●		
30	PT. Surya Toto	L	Housing material			●		
31	PT. Keramik KIA	M/L	Housing material				●	
32	PT. Hexindo Adiperkasa	L	Housing material			●	●	
33	Medco Power Indonesia (MPI)	L	Energy	●		●		
34	PT. Sintesa Banten Geothermal	M/L	Energy	●		●		
35	PT.Sinar Indonesia Merdeka	M/L	Energy – Sorghum planting	●	●	●	●	Yes
36	Ecoport Power Persada	M/L	Energy	●				
37	Terrasys Energy	S/M	Energy	●				Yes
38	PT Reservasi Generasi (RiverGen)	S	Energy	●		●		Yes
39	STC Indonesia	S	Energy – bio energy					Yes
40	PT. Eagle Indo Pharma	M	Pharmacy	●				
41	PT. Kimia Farma	L	Pharmacy	●				
42	PT. Merck Indonesia	L	Pharmacy	●				
43	PT. Darya Varia	L	Pharmacy	●				
44	Pulan Macan Village & Eco Resort	S	Tourism			●	●	
45	Manuaba Mandiri	S	Tourism - resorts			●	●	Yes
46	Ecolodges Indonesia	S	Tourism - resorts			●	●	Yes
47	idGuides	S	Tourism			●	●	Yes
48	biMBA (PAUD)	S/M	Training and Education	●	●	●		Yes
49	Yayasan Bu Gito	S	Training and Education		●	●		
50	PT. Putratama Bhakti Satria	S/M	Training and Education		●	●		Yes
51	PT. ISS Indonesia	M	Training and Education		●	●		Yes
52	Bank Andara	M/L	Financial Services	●				Yes
53	Bank Saudara - Sampoerna Group	L	Financial Services	●				
54	PT. Astra Mitra Ventura (AMV)	M/L	Financial Services	●				
55	PT. Adiwara Worldwide	S	Health Care	●				
56	PT. K-24 Indonesia	S	Health Care		●	●		Yes
57	PT Mitra Unggul Sanitasi Terpadu	S	Water and Sanitation	●				
58	PT Zamrud Ekamitra Nusantara Engineering	S	Water and Sanitation	●		●		
59	PT. Bali Seafood Indonesia	M	Fishery		●	●	●	Yes
60	PT. Bakrie Telecom	M/L	Telecommunication	●	●			
61	PT. Garuda Sakti Persada (Link Taxi)	S	Transportation			●		
62	PT. Riau Andalan Pulp and Paper	L	Forestry			●	●	

Source: Private Sector Mapping Data

Key sectors involved in inclusive business in Indonesia

The sample of companies interviewed for this study came from a wide variety of sectors. Not surprisingly, given the number of Indonesians in the BOP who make their living from farming, agriculture was one of the sectors most strongly represented (15%), along with manufacturing also at 15%. Consumer goods, housing material and renewable energy were also key sectors.

Sector Coverage



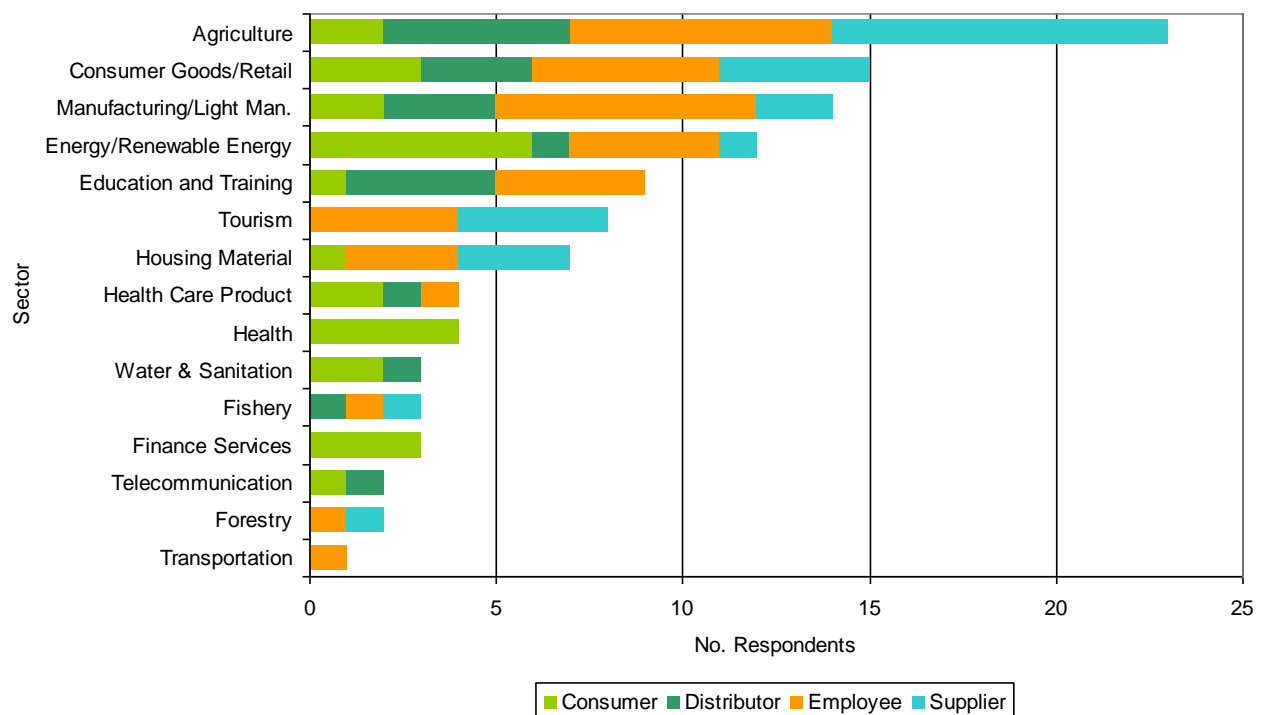
Source: Private Sector Mapping Data

The companies interviewed in Eastern Indonesia also came from a wide variety of sectors. Key differences included a stronger representation in agriculture and energy both at 24% followed by tourism at 12%. The dependence on agriculture in Eastern Indonesia as well as a limited manufacturing base helps to explain this variance. In addition, as much of Indonesia outside of Java and Bali is off the national grid, the opportunity for renewable energy in Eastern Indonesia is high.

BOP engagement model per sector – Indonesia

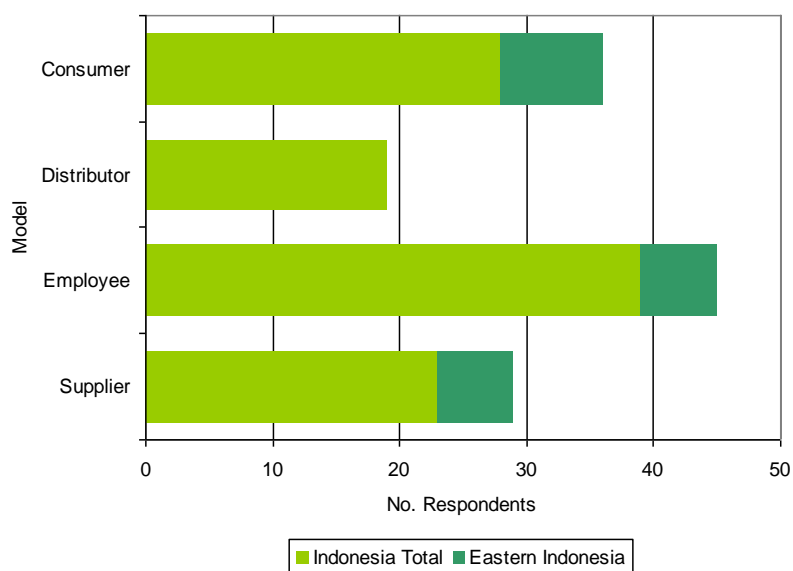
Of the companies surveyed agriculture had the strongest engagement with the BOP across all four categories, as consumers, distributors, employees and suppliers. Manufacturing, consumer goods, housing and renewable energy also engaged with the BOP across all categories. For some sectors, such as health with consumers, was focused on a specific BoP model.

BoP Model by Sector



From the companies surveyed either based or operating in Eastern Indonesia there was a fairly even split between supplier, consumer and employee models with no distributor models. The comparatively higher level of consumer BoP engagement is in part due to the proportionally higher level of energy companies.

BoP Model Indonesia and Eastern Indonesia



Source: Private Sector Mapping Data

Potential for inclusive business development within key sectors

As we began the process of identifying growth sectors with potential IB models and the 62 companies within those sectors, it was apparent that some of these companies lack an effective monitoring mechanism to gauge the social impact which includes the depth and reach of these initiatives to the BoP. PT. Bali Seafood Indonesia, a major fish processing company in east Indonesia for example, have been working with fishermen in 12 villages in the island of Sumbawa using an IB model to purchase fish catch from the local fishermen. However, due to the nature of the trade, the company was not able to provide a quantifiable number in terms of how many fishermen actually benefit from the IB model provided by PT. Bali Seafood Indonesia. This is the reason why a sectoral classification on social impact would be a more realistic measurement in assessing the potential to develop an IB model in that sector as opposed to measuring individual companies. It is also evident that those companies that only recently applied IB model as an integral part of their operations still lack the ability to assess the effectiveness as it impacts the BoP.

The survey clearly identifies priority sectors for the ADB inclusive business strategy based on size, geographical spread, relevance to the BOP and opportunity for growth and profitability. They are summarised below.

Agriculture

Agriculture is a crucial sector for the inclusive business strategy. It has a high volume of companies already engaging in inclusive business and very strong opportunity for social impact within the BOP as so many of its workforce are poor. According to data from the Ministry of Co-operatives and SMEs, 87% of the country's industrial output is attributable to micro, small and medium sized enterprises. Key to improving the livelihood of small farmers is to strengthen the linkages between small producers and larger aggregators and processors. There is vast potential for local producers to be drawn into domestic supply chains and to further develop niche products based on Indonesia's unique topography and proliferation of produce such as coffee, cacao, spices, and coconut water for export. Big Tree Farms working with 14,000 small farmers and Green Gold Global with their planned expansion into Eastern Indonesia are two key examples. There is also the opportunity for small holder farmers to increase income by value adding through further processing in conjunction with companies orientated towards being more inclusive and wish to enter into long term mutually beneficial arrangements with small holder farmers.

Manufacturing

Indonesia has successfully been a part of the global supply chains of automotive parts and other component manufacturing since the 1990s. There are two key opportunities for further expansion through an inclusive business facility: supply chain focused BOP engagement models looking to incorporate smaller producers of specific, often high-value added components into their supply chains; and the employee-based BOP engagement models where there is an opportunity to influence the lives of a significant number of workers and develop specific skill sets.

Consumer goods/Retail

Demands for consumer goods and retail products are growing within Indonesia. A burgeoning population of about 240 million and an emerging middle class with aspirational demands is driving consumption and the development of deeper domestic production markets. Consumption accounted for 55.5% of GDP in 2011. Inclusive business models that can incorporate the poor into the supply chain such as the extremely innovative RUMA with its network of small, independently owned shops equipped with mobile technology have high potential. The growing BoP also provide market opportunities for business developing products that address systemic health, energy and education issues.

Housing Materials

There is a clear opportunity in Indonesia to contribute to the development of sustainable, low cost housing materials, including a more sustainable use of timber resources for flooring and wood paneling. A more sophisticated inclusive business approach would also help such business to work with local communities engaging them more consistently in supply chains and providing increased incomes for local households. Currently however, low costs housing solutions too high to benefit the BOP.

Energy/Renewable Energy

This sector has the potential to significantly transform the lives of many Indonesian's living in poverty. It could become a key component of the inclusive business strategy. Currently approximately 80 percent of Indonesia's electricity consumption occurs via the grid; however this services mainly Java and Bali. Outside the Java/Bali grid, electrification rates often lag far below the national average and in the Eastern Indonesia province of West Papua for example, electrification rates have only reached 40 percent. Development and investment in this sector, particularly in clean energy forms such as hydro and bio-energy from companies such as STC Indonesia and RiverGen can begin to address the challenge of sustainable power and energy supply to rural regions. It would also enable local communities to improve education standards, develop new businesses and increase productivity.

Pharmaceuticals

The BoP lack healthcare coverage and quality services. It is almost impossible for the poor to access medication as they are too expensive for them to afford. Self- medication or going without is the reality for much of Indonesia's poor. Given the size of the market, and the demand, this sector could achieve considerable growth. Challenges facing manufacturers include: a lack of local raw material supply; increased competition in the generic drugs market; regulatory barriers holding back international investment and a lack of innovation. Despite these factors, four companies with inclusive business models were identified during the interviews: give the names of the 4 companies. Generic medicines and development of cheap and mobile clinics are examples of products with potential to help address systemic health issues.

Tourism

Visitation by international tourists grew by 11% in the first quarter of 2012 compared to the same period the previous year according to Central Statistics Agency data. However, BOP engagement in this sector is limited and unique to the few areas that have ecotourism potential. The inability to replicate inclusive business models at scale is a challenge. Two companies identified in the survey who are defying the trend are Manuaba Mandiri and Ecolodges Indonesia, both with strong engagement models and geographical spread. Tourism does have some unique features making it attractive: the poorer areas can often utilize “free” assets such as the environment and cultural attractions; it is labour intensive; it employs a large proportion of women and consumers come to the product creating backward linkages.

Education and training

Quality of education for the BOP is low and a mismatch exists between tertiary courses and skills required by the job market. There is an opportunity to train workers in relevant, practical skills to make them more ‘job ready’. High impact short term courses/ training with low costs for professionals are available in the following sectors: finance & banking; oil & gas/ mining; manufacturing; and agriculture. However, for the poor to be employed in reasonable paying jobs it is often not just technical skills that are needed but so called soft skills including presentation, communication and confidence. English training centers could also create opportunities for the BOP in tourism, retail and other sectors. The study identified two IB companies in the education with good potential: bIMBA and ISS Indonesia

Financial Services

Banks and financial institutions are increasingly focusing on better customer services and products and many are now investing in IT-based systems and software. Given the size of the BoP in Indonesia and the growth of the Islamic banking sector, strategic investment and partnerships opportunities exist in expanding the customer product base of the Sharia banks. Limited knowledge of banking products also presents collaboration opportunities. Access to financial services is one of the critical ways the BoP can escape the cyclical nature of poverty as the BoP are often taken advantage of by loan sharks. In the agriculture sector, small-holder farmers often harvest too early as they are in need of money. The study identified two IB companies in the finance sector with good potential: Bank Sahabat and Bank Andara

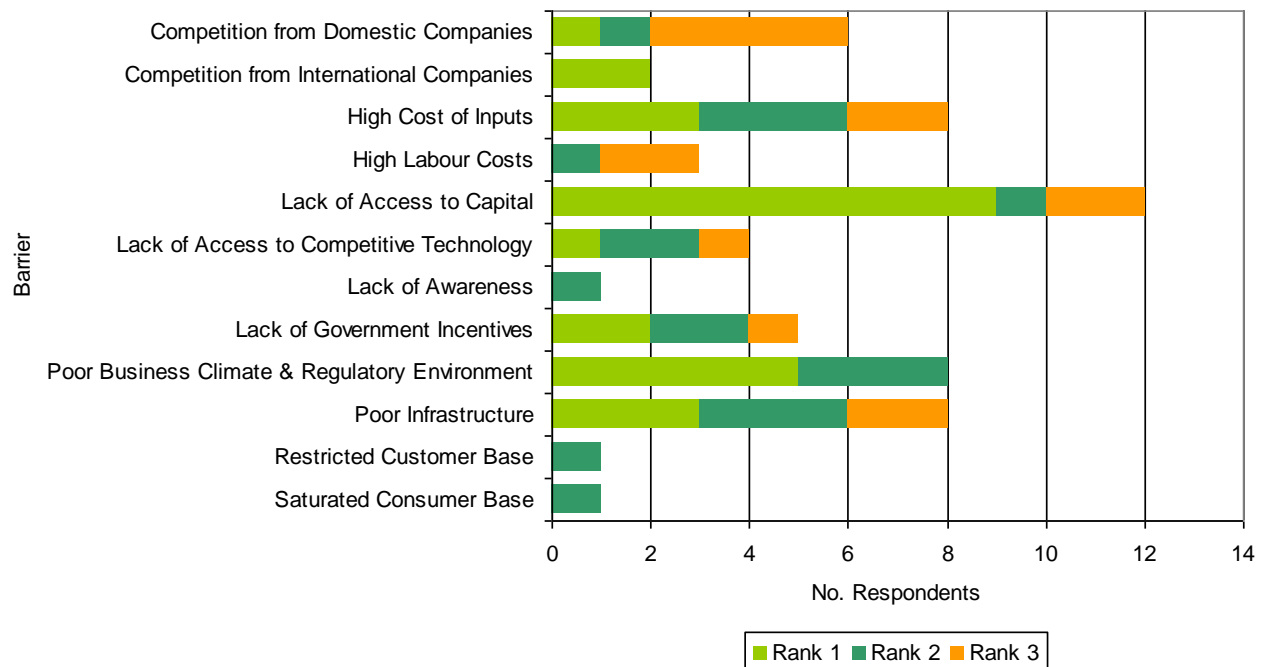
Appendix 3 provides an overview of the impact assessment of all 62 companies surveyed. The following graphs summarize – by sector – the IB potentials of the 62 companies interviewed. We have ranked the impact between low and very high with the following assumptions:

Barriers to growth for IB companies

Lack of access to capital (23% of responses), high input costs (14 % of responses) and poor business climate and regulatory environment (18 % of responses) were the most consistent responses from the companies surveyed regarding barriers to growth. There were similar results in Eastern Indonesia however the lack of access to capital was considered the number one challenge by a significant proportion of companies. The challenges facing many Indonesian companies may be more pronounced in Eastern Indonesia due to the perception of higher risks and lower levels of awareness by lenders.

The poor business climate and regulatory environment as well as infrastructure were considered the next most serious challenges, with poor roads and transport, particularly in remote areas hindering supply chains.

Barriers to growth Eastern Indonesia



Company case studies

An insight into the companies with high inclusive business potential

From the 62 company surveys the 12 most promising business cases have been further profiled. These companies provide the essential elements of a strong inclusive business model – solid financial returns, high social impact and engagement with the BOP, as well as potential for growth. The case studies are for the following companies

Profile of the IB case studies

No	Company Name	Sector	BoP Engagement Model				Returns (L, M, H, VH)	Social Impact	Financial Needs (USD)
			C	D	E	S			
1	PT. Usaha Kita Makmur Indonesia (PT.UKMI)	Agriculture		●	●	●	S	900 farmers as supplier only for agriculture product in Java island	\$ 2 Million for market development
2	Paskomnas	Agriculture		●		●	L	10,000 farmers as supplier per market location	\$ 2 Million to build one Market – plan to build at least 4

									markets
3	Green Gold Group	Agriculture	●		●	●	M	Potential to benefit up to 1,000 local farmers	\$ 3.5 – 4.5 Million
4	Javanegra	Agriculture			●	●	M	Engaging 3,200 suppliers to 16,000 households	\$ 12 – 14 Million
5	Big Tree Farms	Agriculture – F&B			●	●	H	14,000 poor farmers involved	\$ 2 – 3 Million
6	PT. Sarinah	Consumer Goods/Retail			●	●	L	600 SME producer that totally engaging over 10,000 poor people from western part of Indonesia – plan to expand and able to engage 1,000 suppliers	\$ 1 Million investment capital
7	RUMA	Consumer Goods/Retail	●	●	●		S	2 Million families and individual able to build small store (kios)	\$ 2 Million
8	Terrasys Energy	Energy	●				M	500,000 poor families benefiting and can be upscale to 1 Million households	\$ 3 – 4 Million
9	PT Reservasi Generasi (RiverGen)	Energy	●		●		M	2,000 Low income Household	\$ 10 Million
10	STC Indonesia	Energy – bio energy					S	Potential to benefit 13,500 farmers	\$ 2 – 3 Million
11	Ecolodges Indonesia	Tourism - resorts			●	●	S	300 local individual BoP as direct employee	\$ 1.5 Million
12	biMBA (PAUD)	Training and Education	●	●	●		M	30,000 BoP Children attend biMBA School teach by 3,000 trained teachers from BoP	\$ 2 – 3 Million
13	Bank Andara	Financial Services	●				L	700 Micro Finance Institutions	\$ 12 – 22 Million
14	PT. Bali Seafood Indonesia	Fishery		●	●	●	M	Involving 12 villages or around 360 families	\$ 4 Million for trade and working capital

These case studies contain overviews of the business and its finances, the BOP engagement models and the existing and potential impact these models have had to date on the lives of the poor; challenges to growth; future aspirations and financial needs to make them a reality.

Despite being from varied sectors ranging from sustainable energy to food and beverage, agriculture, retail and tourism the companies all share a common ethos in their willingness and understanding of both the economic and social benefits to be derived from engaging with the BOP.

Their challenges also create a common theme with access to finance preventing many inclusive businesses from realising their full potential.

PT. Paskomnas

Developer of 'wet market' venues with services that provide small holder farmers and traders current market prices and indicators for agricultural commodities in the region

Sector & key operating areas: Agricultural trading and retailing - South Sumatera (Palembang), West and Central Java

Annual Revenue: Not provided

Background: Paskomnas started in 2005 as contractors for local government projects in refurbishing facilities and infrastructures including the rehabilitation and upgrading of wet markets in the South Sumatra region. They eventually expanded into management of wet market operations in several regions in Indonesia. Paskomnas recognized that since agriculture is cyclical in nature, large price fluctuations occur during pre and post-harvest. Small holder farmers, because of their lack of access to other markets and price indexes have little control over dips in commodity prices.

How Paskomnas engage with the BOP: Paskomnas engage with the BOP as providers of their services as lessors of an improved and refurbished (clean) wet market. They also provide information/ services on commodity and agriculture products produced by small farmers and land holders in order to improve their bargaining leverage to buyers.

The impact: Due to Paskomnas' extensive network with other wet markets and retail outlets in the region, they are currently able assist and support approximately 10,000 small farmers by providing alternative markets for their product to optimize prices.

The challenges: The biggest challenge is eliminating the role of the middle-men that sometimes take advantage of poor farmers through predatory financial schemes.

Looking to the future: To date, Paskomnas manage three wet markets in South Sumatra as well as West and Central Java. They will be expanding their operations in these regions.

Current source of finance & future needs: Paskomnas currently uses equity to fund the operations. They are planning to expand into the West Java region and will require \$2 M in debt to develop new facilities in this area.



Green Gold Global

Providing sustainable marine farming to rural communities in Indonesia

Sector & key operating area: Agri-business and marine farming of seaweed - Bangka-Belitung (South-west Sumatra) and Banggai (Central Sulawesi)

Annual revenue: US \$ 820,000

Background: PT. Green Gold Global was established in 2009. They farm and produce export-grade seaweed using a uniquely designed farming apparatus that is replicable and easy to apply. Green Globe acquired a 10,000ha marine concession from the local government of both Bangka-Belitung and Central Sulawesi to cultivate and produce seaweed for the China market.

How Green Gold Global engages with the BOP: Green Gold Global's primary producers are BoP farming groups organized and managed by Green Global. They aid farmers by helping them design and build the farming equipment, provide seedlings, and implement international management and quality control mechanisms to optimize standards and production levels.

The impact: Currently the size of operations involves 30 farmers. With the current size of operation 3 hectares per farmer/season (or 12 hectares/year). However, with the new production farm design (framing), the scalability is easier to replicate which can be increased to benefit up to 1,000 farmers.

The challenge: The biggest challenge is the lack of "last mile" infrastructure in remote regions where the seaweed is being farmed. This affects transport cost and pricing.

Looking to the future: With the growing demand of seaweed worldwide Green Global plans to expand throughout the eastern Indonesia because of its better marine conditions and potential for scalability.

Current finance sources and future needs: Currently, Green Globe is being supported by their trading partners and buyers in China. However, the company is seeking debt financing from local banks to address their expansion requirements in Eastern Indonesia which included tissue culture facilities and processing factories. Green Globe requires around \$3.5 - \$4.5 million to expand their operations.

PT. Reservasi Generasi (RiverGen)

Providing power using micro-hydro technology to rural and remote communities that are not currently reached by the existing power grid

Sector & key operating areas: Power generation - throughout the Indonesian archipelago

Background: RiverGen was established in 2011 following a merger of three existing mini-hydro companies.

BOP Engagement model: The company will deliver 2,000 low-income households with new capacity of up to 100MW. These homes will be powered from the micro-hydro sites, are households that in the past have not been included in the government's grid system. 90% of the workforce to operate and manage the units will be derived from the surrounding local communities.

The impact: Protecting and managing the watershed through hydro-operations greatly benefits the BOP by safeguarding its quality ensuring safe drinking water. A reliable power source can be a catalyst to new business opportunities for communities who were previously not connected to the grid allowing them to operate equipment, access technology etc.

The challenges: Currently, new government regulations require PLN to buy back all power generated by renewable energy plants at a standard price under a PPA contract. According to reliable sources, a new more favorable pricing structure is being drafted by the government and be enacted into law. The process of this new legislation may be a cumbersome and time consuming process and invariably delay the implementation of several sites; particularly those that currently have margin returns.

Looking to the future: Over the next three to four years it intends to build 10 – 15 mini-hydro units which feeds into PLN's current grid network in Indonesia. The hydro-electric units have individual generating capacities between 6MW – 10MW.

Current finance sources & future needs: Already experienced in building and operating micro-hydro sites, RiverGen is expecting between 18% – 25% IRR in their investment with a funding requirement of US \$ 10M in either debt or equity financing to complete three sites currently under construction.

biMBA AIUEO

Supplementing children's education at the BoP level by improving their reading abilities using an inquiry-based approach.

Sector & key operating areas: Education – throughout Indonesia

Annual revenue: Although the company did not provide any financial statements, we estimate their revenue from franchise fees to be around US\$ 130,000 per annum. This does not include additional proceeds from training, mentoring, and other skill development services.

Background: The biMBA AIUEO institution began operating in 1996 as a foundation and functions under foundation laws (as opposed to corporations/ limited liability companies). Its main program, “Pendidikan Anak Usia Dini” or PAUD employs a method of learning support for children with poor access to quality education in both urban poor and rural communities. The goal is to raise and instill a “love of learning” in children between the ages of 3 – 6 years. biMBA currently has 681 branches/ franchises throughout Indonesia

How biMBA engage with the BoP: biMBA uses a franchise system to expand their network of students and classes. Their modest franchise fee and flexible formula means a low enrollment fee that poor BoP families in urban and rural areas can afford. biMBA uses low cost, child safe and environmental friendly learning materials and teach in a wide variety of environments including backyards. The BoP is the consumer, distributor/ franchise-holder, and employee in their business model.

The impact: With a growing and young population (over 50% are below the age of 15), biMBA is targeting Indonesia's poor and near poor children of approximately 30 million between the ages of 3 – 6 years of age. 30,000 BoP children currently attend their schools and 3,000 teachers, many from the BoP have been trained. The franchise system enables access to remote and rural areas. By targeting the very young even if they drop out of school early they are equipped with a competent reading comprehension level, and an inquisitive and resourceful mind.

The challenges: The biggest hurdle for biMBA is to differentiate itself from other learning support programs for the urban poor and rural children. A consistent quality based audit system is needed to ensure consistency of learning and adherence to methodologies and approaches.

Looking to the future: biMBA is targeting a further 50 municipalities over the next three to five years and are targeting three million students.

Current Source of finance/ future needs: biMBA needs US \$2 – \$3M using either debt or equity structure with an 3 – 5 year

PT. Sarinah (Persero)

Engaging Indonesia's SMEs by providing access to markets, developing their skills and optimizing value chains to retail/ consumer products

Sector & key operating areas: Retail, property and export import trading throughout Jakarta, Central and East Java

Annual revenue: Not provided

Background: Established in 1962 as a state-owned enterprise, the company was the first major retail store in the nation. Sarinah currently owns 5 outlets, 2 in Jakarta and 3 in Jogjakarta, Malang, and Semarang. Its main

goal is to promote Indonesia's traditional handicraft products such as batik and jewelry which also supports the tourism sector.

How Sarinah engage with the BOP: Sarinah is the main retail outlet for around 600 SME producers mostly from the BoP, engaging about 10,000 poor people. The company is currently developing selected SMEs to promote "product branding" such as fashion. As a state-owned enterprise, Sarinah applies social-based programs such as PKBL ("Program kemitraan Bina Lingkungan")

The impact: Under the PKBL program, the company provides required capacity building commitments such as training for handicraft producers, as well as provisions of loan/credit with 6% interest and a six month grace period. Sarinah has started export trade to China of 5,000 tons of cassava supplied by farmers from Jogjakarta (Bantul). Demand is expected to reach 20,000 tons.

The challenges: Bureaucratic approval process is the biggest challenge for Sarinah, which limits their ability to compete with larger private sector retailers.

Looking to the future: Future strategies include adding outlets in various major cities with tourism appeal. Sarinah also plans to start a coffee retail franchise called "Cup of Java" with supplies from coffee farmers from all over Indonesia. The export of cassava will also be improved with a strengthened business plan focused on mapping additional resources for a more sustainable supply.

Current source of finance/ future needs: Sarinah is looking to source working capital from external funders to free up their existing funds to supplement the loan facilities that they provide in their PKBL program (i.e., provide longer grace period). The company is also looking for US \$ 1M of investment capital to develop the cassava export production by raising capacity of their existing farmers.

PT. Usaha Kita Makmur Indonesia (UKMI)

Developing Indonesia's agri-resource products produced by SMEs and BOP communities using the AMWAY business model

Sector & key operating areas: Retail in key areas of Kalimantan, Sumbawa, Sumatera, and Java

Annual profit: US \$400,000 (2011)

Background: PT. UKMI was established in 2004 as a joint branding effort with AMWAY; called UKMWAY. The objective is to develop a selection of Indonesian characteristic products produced by SMEs and traditional farmers using AMWAY Indonesia's multilevel marketing strategy and market approach. The collaboration is designed to promote the products through an enhanced distribution plan and new market approach.

How UKMI engage with the BOP: UKMI engages with the BOP by purchasing crude agriculture products or raw materials from farmers in the following areas:

- Kalimantan & Sumbawa: UKMI purchases natural forest honey working with groups of traditional farmers by developing cooperatives;;
- Central Java: Some 900 farmers supply crude corn for the processing of corn oil. UKMI also provides assistance in seed supply, fertilizer, production and plantation management and harvesting. UKMI is working with farmers and a manufacturing company.
- A blend of green tea with herbal ingredients produced by a small manufacturer in Bogor, with raw material supply from local farmers around Ciapus, Cimande and Sukabumi in West Java;
- Bandung: to produce Sweet Soy Sauce UKMI buys from a small family owned manufacturer. The factory employs 70 BOP workers, 40% are from the area.

The impact: By purchasing raw products from over a thousand suppliers prior to harvest at a contracted price the company ensures optimum prices. The UKMI model incorporates low-income producers into the company value chain. Together with PT. Amway Indonesia, the company is designing modern distribution channels and remains involved from the product initiation phase. This business model associates with small farmers and

SMEs to tap into broader market bases.

The challenges: Funding is one of UKMI's main obstacles as it requires significant funds to buy unprocessed goods from farmers. Another key challenge for UKMI is determining the correct markets with well-established and well-known distribution channels in order to decide how funds are allocated to the farmers and producers.

Looking to the future: UKMI want to expand their distribution channels of their natural honey products which will require new branding, packaging and marketing.

Current finance source and future needs: UKMI is planning to expand production with additional working capital estimated at US\$ 2 million.

PT. Bali Seafood International

Sourcing seafood products through the establishment of sustainable value-chain

Sector & key operating areas: Buyer/ Wholesaler of seafood products in Bali and East Indonesia

Annual revenue forecast: 42.3 million (2016)

Background: Bali Seafood International, an Indonesian based company established in 1986 has 99.9% of its shares owned by Bali Seafood Holding (Cayman Island) - part of the North Atlantic Inc Group (NAI). It has established itself in Bali as a processor and distributor with long-standing relationships with US and EU retailers. NAI and partners have developed an integrated business model to efficiently source, process and ship market-ready sustainable seafood products, essentially creating a new sustainable supply chain.

How Bali Seafood engaged with the BOP: Bali Seafood are currently dealing with aggregators but would prefer to deal directly with local fishermen. This will result in securing supply for the company and regular income and a fair price for the fishermen. They are currently working with 12 villages in Sumbawa.

The impact: Bali Seafood creates significant livelihood value for local fishing, processing and BOP communities and works with government and leading NGOs to create long-term, measurable conservation and livelihood benefits. BSI formed "The Lesser Sunda Sustainable Fisheries Initiative" (LSSFI) providing an opportunity to link the growing international market for sustainable seafood with emerging limited access fisheries in Indonesia under the direction of North Atlantic, Inc (NAI) and selected number of small fishermen in Indonesia as partners.

The challenges: A stable investment policy and environment conducive for business continues to become a challenge to operate in this sector.

Looking to the future: BSI has established the framework for sustainable long-term operations in Indonesia and has resulted in the development of multi-level Indonesian government relationships and key strategic BOP partnerships, proprietary fisheries research for optimal site selection and the design of operational infrastructure with the government. Now the company is beginning to operationalize its plans which includes direct link to more villages and improved processing and investment in fisheries and conservation.

Current finance sources and future needs: BSI wants to raises US \$4M over the next two years to fund both capital expenditures, trade and working capital needs as BSI's operations expand to achieve scalability.

PT. Terrasys Energy

Providing solutions for alternative power generations to rural communities through a mix of renewable energy sources and technologies

Sector & key operating areas: Power generation in Jakarta, Central and East Java

Annual revenue: Pilot phase

Background: TE was established in 2008 as a company that is committed to renewable energy resources with a minimal impact on the environment. It also seeks to provide consistent and affordable energy supply to more areas of Indonesia. The company's operations focus is on hydroelectric power generation with a core team with wide-ranging expertise, including technical and long-term country-specific operations experience. The company's main office is in Jakarta. The company is now working on a national projects totaling 300 MW output. The company also experiments with risk husk peppels, a new source of energy that would not only provide energy to the poor but also livelihood opportunities.

How TE engages with the BOP: TE develops renewable energy sources in rural areas that are currently unreachable by the PLN's grid. It engages the selected BOP community in the planning, construction, and operating phase of the project. Currently about 500,000 poor families are benefiting from power solutions through Terrasys; the company wants to upscale this to 1 million households.

The impact: TE has created a pipeline capable of full generating capacity in a short timeframe with maximum impact to the BOP community by utilizing its on-the-ground presence and grassroots access to provide shovel-ready projects for strategic equity investors.

The challenges: In terms of transmission, Indonesia's rugged archipelago presents unique challenges for powering the country's vast number of inhabited islands. Currently twelve separate grids transmit electricity.

Looking to the future: TE is developing solar and micro hydro-electric power projects in South Sulawesi and Bali.

Current finance & future needs: Not provided

PT. Bank Andara

Providing financial services to Indonesia's SMEs and BOP - A social bank with a financial bottom line.

Sector & key operating areas: Financial Services throughout Indonesia

Annual revenue: N/A

Background: Bank Andara established in 2009, is a wholesale banking institution. The bank currently serves as a strategic banking partner to the Indonesian micro-finance sector, providing loans and services to MFIs. The shareholders include IFC KfW, Hivos-Triodos Fond, and Developing World Markets, a global investor in microfinance. The minimum loan for each MFI Rp. 1 -2 billion. Andara continues to make improvements in its technology through the AndaraLink installations and has grown.

BOP engagement model: The bank currently works with more than 700 MFIs (Micro Finance Institution) throughout out Indonesia, many within the BoP. The bank is now aiming to target micro housing products designed in cooperation with low cost housing developers.

The impact: Bank Andara is able to reach many remote communities throughout Indonesia through their extensive network and scalable model.

The challenges / obstacles: The major challenge for Bank Andara is maintaining the quality of its deal sourcing and managing a growing customer base.

Looking to the future: Andara plans to expand its network to 1,400 MFIs in the next 3 years. Andara plans to continue efforts in building and deepening long-term relationships with MFIs and individual clients focusing on high quality services tailored to client needs, pursuing best rates to meet MFIs' commercial needs.

Current source of finance / future needs: to develop their wholesale loan portfolio business pipeline and their third party fund. They are in need to increase capital to US\$ 12 million and US\$ 22 million respectively by 2013 and are requesting an interbank loan of US\$ 10 million.

PT. Rekan Usaha Mikro Anda (RUMA)

Providing services to the poor using information technology

Sector and key operating areas: Information Technology & Services in Jakarta and West Java.

Annual revenue: Not provided

Background: RUMA is a payment and information hub for BOP communities in Indonesia established in 2009. It began with its first product; business-in-a box selling cellphone top-up cards and numbers. In just 2 years, it grew to 4,000 active agents selling to approximately 1 million customers in Jakarta and West Java. Utility bills, job information, product selling/ buying are done through the network. RUMA was awarded 1st place at the Harvard Social Enterprise Conference and placed 2nd at the Global Social Venture Competition, 2011.

How Ruma engages with the BOP: RUMA connects big companies to their consumers through a network of small, indecently owned shops that are equipped with mobile technology. It has recruited and trained thousands of BOP entrepreneurs to sell prepaid airtime, electricity and other value added services. RUMA also empowers micro entrepreneurs to start their own business with a pre-packaged kit, a strong brand, marketing materials, initial training, ongoing mentoring and access to an efficient supply chain of quality products.

The impact: Over 85% of agents are women and the majority lived below the poverty line/ BOP before joining RUMA. Their model assists the BOP to connect with technology optimising employment opportunities and offers prepaid vouchers enabling the payment of utility bills in smaller increments to optimise cash flow. At the BOP level, goods are sold through the 2 million small kiosks (warung) throughout Indonesia. RUMA has setup a multiple contract with major consumer brands passing savings to the BOP customers. It also provides a better system of information on the local job market (“kerja lokal”) helping to limit rural migration to the major cities. Ruma collects thousands of job vacancies and screens the jobs to minimize the likelihood off fraud. Potential job seekers register on Ruma’s mobile network and are notified by SMS of an opportunity.

The challenges: RUMA’s biggest challenge is how to remain competitive in a low-margin business and to be able to stave off “copy-cat” competitors.

Current source of finance / future needs: The company is looking for \$ 2 Million in equity/ venture capital funds to invest to expand into a wider area.

Big Tree Farms

Pioneers in organic produce - Indonesia’s largest producer and exporter of coconut palm sugar

Sector & key operating areas: Food and beverage - BTF operates sustainable supply chains on more than 10 islands across Indonesia’s archipelago, notably in Java, Aceh, Bali, and the eastern Islands.

Annual revenue: 2012 \$4.5M

Background: Ben and Blair Ripple started Big Tree Farms in 2000 originally growing crops on their small farm near Sibang. By working with and supporting other local growers through fair trade and organic farming practices they created a niche export market for organic specialty produce. In 2005 they met and began collaborating with Frederick Schilling, founder of Dagoba, one of the first organic chocolate companies in the US. The partnership first focused on organic cacao but switched in 2008 to organic coconut-palm sugar, a low glycemic alternative to cane sugar. The change in business direction coincided with the formalization of the partnership with Frederick becoming Co-CEO. Organic coconut palm-sugar is now the company’s biggest seller, dominating market share.

How Big Tree Farms engage with the BOP:

- 6,000 organic coconut farmers creating farmer organizations; internal control systems; organic

certification and overseeing small cooperative maintained "sugarhouses". BTF own and operate multiple coconut palm nectar processing facilities to ensure quality assurance.

- 2,000 farmers in Bali and almost 1,000 farmers in Aceh in cacao production. Since 2004, they have worked in field with local farmers in their food forests to help restore and rehabilitate their cacao trees.
- 6,000 small farmers on the island of Java establishing an organic certified coconut water supply chain.
- Overall 14,000 poor farmers are currently involved with BigTree Farms and the company wants to upscale this significantly over the next 3 -5 years driven by the global demand for coconut sugar. Big Tree Farms estimates that coconut farmers that become part of their supply chain and are organically certified and can increase their income by an average of 30%.

The impact: When BTF first worked with producers many were considered some of the poorest in the country. Income, education and access to basic services were very low or non-existent. Results now include:

- A viable living wage for producers - smallholder sugar-tappers have risen well above the poverty line and are able to earn an increase in personal income of close to 200%.
- Over 1,180,000 coconut palms are now certified organic and producers' income has doubled.
- 100% of the money from growing, harvesting and primary producing stays in local communities
- Direct producer programs add through education and practice, market access and small business/cooperative management.
- Typically BigTree farmers are earning 30% more than their peers

The challenges: The greatest challenges facing the development of BTF and its ability to take its products to a mass market is a sustainable supply of coconut sugar that meets market standards coupled with a lack of access to substantial working capital. Sourcing, training and educating the growing supply chain in sustainable practices presents a logistical challenge as well as a financial one. Standards in food handling and hygiene must be maintained as some of the sugar is processed in home based industry.

Looking to the future: Access to working capital would enable BTF to scale up its supply chain to service a mass market within a three to five year time- frame.

Current finance sources and future needs: To date the founders have provided the funding as well as two rounds of private capital raising which includes and investment from a US based sustainability orientated fund. Debt funding has recently been raised via a Swiss based social fund. To take the company forward and realise its full potential to engage the BOP, Big Tree Farms requires funding of between \$2-\$3M US over a term of at least two years.

PT Javanegra

Sector & key operating areas: Sulawesi, Aceh, Sumatra, Java, Flores and Papua.

Background: Javanegra aims to use profitable market opportunities in the coffee industry to solve the many issues confronting the poor in coffee growing areas. The idea arose from one of the founder's experience as a rural regional development planner.

How Javanegra engage with the BoP: The company employs 22 directly, of which 20% from the BoP, and indirectly approximately 3200 poor households as suppliers. It wants to upscale its production through engaging more suppliers with a total of 16,000 households in the next 3-5 years

The impact: The company has a positive social impact on the communities of its suppliers. Key benefits include part of the payment goes to savings for health and schooling; provision of credit to solve liquidity problems along the supply chain, solving long-term individual debt problems.

The challenges: International demand is there, but capital is needed to scale up operations to be able to link up with the needs of the buyers.

Looking to the future: The domestic market for specialty coffee is growing. Javanegra has the technology in

house to expand to capsules (a growing market within the coffee industry).

Current finance sources & future needs: Two equity investors have committed funds for over a year. It is expected they will open new markets abroad; if they succeed they get commission on the resulting contracts; if they don't not they get a fixed percentage on the funds committed. An IRR rate of 20%+ is expected. PT Javanegra is interested in debt at 12% for 5 years, or preferably equity investors who may open new markets, either through existing networks or through market development efforts on the investors side. They hope to raise US \$12-14M to increase capacity five-fold, to solve liquidity tightness in the supply chain, and diversify (e.g. to capsules).

PT Ecolodges Indonesia

Sector & key operating areas: Eco tourism in Java, Bali, Flores, Komodo, and Kalimantan

Annual revenue: Not provided.

Background: Ecolodges Indonesia grew organically from a first lodge in 1996 established as a hobby to demonstrate that it was possible to run an ecologically (and socially) responsible lodge for profit, to a chain of lodges which live to prove the concept. The business also includes tours and excursions. High eco and social standards are internally upheld.

How Ecolodges engages with the BOP: All employees come from the BOP lower income segment. Shares are not publicly traded and can only be held by employees and individuals who have contributed to the development of Ecolodges Indonesia. Many of the indirect employees- suppliers of services. from laundry service to local guides and products such as food to the lodges are from the BoP (80%) and are locally sourced.

The impact: Lodge employment has elevated employee income above 'low income' Ecolodges has around 300 direct employees and suppliers to the lodges run into the thousands. Local communities benefit in terms of income as suppliers as many [products are mostly sourced locally. Almost all employees are shareholders and share in profit on annual basis. Local communities also benefit indirectly from the conservation efforts.

The challenges: Challenges include the need to professionalize systems, governance and marketing as the company is growing.

Looking to the future: Responsible tourism is becoming more popular and the company has just appointed a full time marketing manager who is currently working on the company image/brand and on contracts with agents and travel organizations.

Current financing and future needs: The current source of financing is internal from the founders and shareholders. The company is looking for US\$ 1.5 M over 6 years for successional training of replacement management team and construction of two further lodges. The ideal investment partner would bring knowledge of transparent accounting and administration to modernize the current systems. An IRR of 20% is expected.

Advancing sustainable bioenergy

Sector & key operating areas: Bio-Energy - STC operates sustainable supply chains in Eastern Indonesia with major projects in Lombok, Southern Aceh, Riau, Sumatra and Kalimantan.

Background: STC formed in 2009 with the vision to work with small to medium size farms using their non-food grade waste materials to produce low cost biofuel and biomass products.

How STC engages with the BOP: STC projects with the BOP include:

- Lombok Energy Initiative – working with farmers to develop alternative biofuels and biomass energy options from candlenut shells and palm oil kernels for agricultural curing kilns.

- South Aceh Bio-oil production working with farmers using non-food grade waste streams from palm oil.
- Bio-energy facility in Riau, Sumatra – using multiple waste streams from local forest farmer to produce energy this facility would be capable of providing 10MW of green power for direct sale to PLN.
- The potential over the next 3 – 5 years in Lombok is to benefit 13,500 tobacco farmers with sales of palm oil kernels used biomass to reach 25,000 metrics tons.

The impact: STC projects if developed to their full capacity can achieve:

- Income and improved standard of living for the BoP farmers in the supply chain
- Forest conservation – as alternate sources of fuel such as candlenuts replace wood from trees
- Reduction of greenhouse gases – Indonesia is the world’s third highest emitter of GHG emissions

The challenges: The greatest challenge facing the growth and development of STC and its ability to take its products to full scale production is lack of access to substantial working capital. Sourcing, training and educating the growing supply chain to produce alternate energy sources from available non-food waste and distribution of the product from remote areas is both logistically and financially challenging.

Looking to the future: Access to working capital would enable STC to scale up its supply chain and to progress successful trial and start-up projects into full scale production.

Current finance sources and future needs: To date the founders have provided the funding as well as grants from various international sustainability funds including Dutch Global Sustainable Biomass Fund; and USAid Indonesia Forest and Climate Support Fund. To take the company forward and realise its full potential to engage the BOP, STC requires funding of between \$2-\$3M US over a term of at least five years.

V. Financing Inclusive Business in Indonesia

Introduction and methodology

The operating environment for investment in private business in Indonesia is developing however it still presents challenges and is not without risk. The IB companies studied have investment needs between 1 and 10 million (most of them between 1-3 million) which are currently not being met by the Indonesian capital market. Banks are reluctant to invest in such smaller companies outside infrastructure and fund managers also focus mainly on mining and infrastructure. Hence there is an opportunity for the Asian Development Bank (ADB) to provide catalytic finance for inclusive business in Indonesia. As the individual deals are relatively small providing perhaps high administrative burden to a development bank, ADB could sponsor the establishment of a debt or equity facility to cluster the smaller investments. Such an IB facility would significantly improve people's lives at the base of the pyramid by addressing production, supply, consumption and employment and at the same time help to build a foundation of well-managed, profitable business with lasting economic and social impact.

The capital market study forms part of the overall assessment of the viability and opportunity of establishing a fund to invest in profitable and sustainable inclusive business opportunities in Indonesia. It focused on the following areas:

- The macroeconomic environment and future industrial growth prospects;
- Analysis of Private Equity investment funds and/or investments;
- Investigation of potential Private Equity fund managers; and
- Identification of potential co-investors.

The capital market assessment methodology included:

- 1) In-person and online interviews (Appendix 2 – Fund Manager and Co-Investor Mapping Survey)
To create a target list of interested and experienced fund managers and co-investors, twenty-eight organizations and individuals in the Indonesian public equity market and pure PE firms in the less regulated private sector were interviewed as well as relevant peers in the Asia Pacific region and major markets in North America, Europe, Japan and Australia (Appendix 3 – PE Fund Manager and Co-Investor Participants’).
- 2) Literature reviews and background research from broad range of relevant sources and organisations were conducted (Appendix 3 - Market Intelligence and Knowledge Resources).

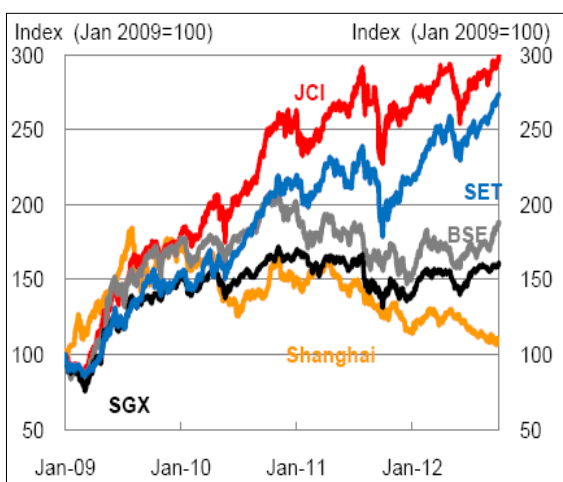
Capital markets overview

The Central Bank of Indonesia has strengthened both the regulatory framework and supervision of the banking sector in recent years increasing confidence with investors. The level of private external debt

has increased to US\$124 billion due to better compliance with external debt reporting and stronger enforcement by the Central Bank; increased external corporate bond issuance; and the provision of subsidiary financing by offshore holding companies. The shift in supervision of banks, capital markets, and other financial institutions, including Financial Services Authority (OJK) replacing capital market watchdog BAPEPAM-LK in 2013 and taking over the Central Bank's banking supervision role from January 2014 will further improve governance, transparency and integrated monitoring.

Key Capital Market Indicators

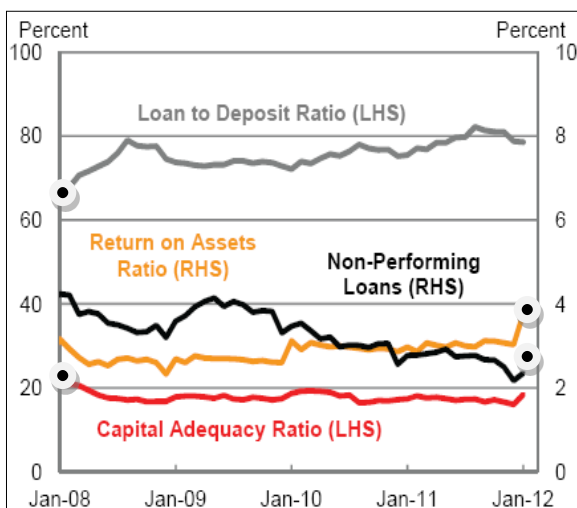
IDX/JCI Outperformance



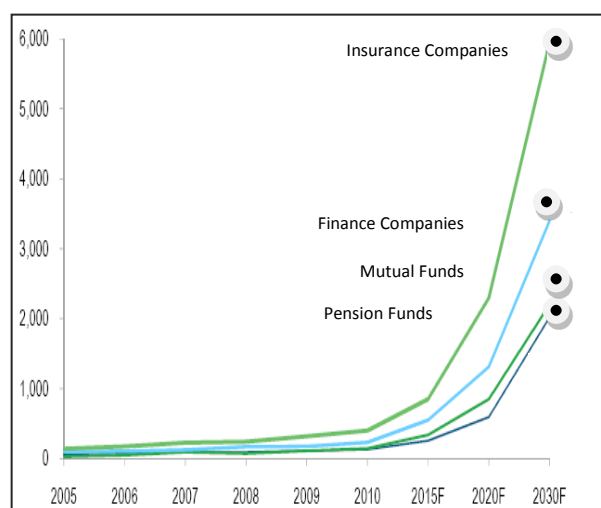
Market Capitalization to GDP (2011)

Country	Market Capitalization (percent GDP)
Thailand	78
Philippines	74
India	55
Indonesia	46
Sri Lanka	33
Bangladesh	1
Pakistan	16
Vietnam	15

Banking Sector Performance



NBFI Asset Growth (IDR trillion)



Source: BI, Bloomberg, Nomura Research, National Statistics Agency (BPS), StanChart Research, Bain & Co., Ministry of Finance, IDX Factbook (2011), Wall Street Journal, World Bank Indicators Q3 Report (2012)

Indonesia's capital markets are performing well. Market capitalization continued to grow at the Indonesia Stock Exchange (IDX) despite challenging global conditions and was valued at US\$427 Billion in October 2012 with 447 listed companies. The Jakarta Composite Index (JCI), the main IDX benchmark, also reached a historical high during the fourth quarter of 2012 (4,375.17) and foreign direct investment reached almost US\$20 Billion in 2011 and is expected to reach US\$25 Billion in 2012. The banking sector also performed strongly with average Capital Adequacy Ratio (CAR) above 17%, aggregate loans-to-deposits ratio at 83% and non-performing loan (NPL) level relatively low at 2.2%. Industry profitability as measured by Return on Assets (ROI) and Return on Equity (ROE) stood at 3.2% and 18.2%, respectively for 2011. Sharia-based financing grew 38% to pass IDR200 Trillion in 2012 and 5% of total national banking assets, IDR4,000 Trillion. Key capital market indicators and trends contributing to the strong market performance underpinning the growing domestic and foreign investment are shown below.

Investors and asset managers in both developed markets and high growth areas such as Latin America, South Africa, and Asia Pacific are frequently identifying Indonesia with high potential for private equity investment. Fund managers based in the region perceive Indonesia to be one of the most promising 'frontier markets' outside of more established centers along with Myanmar and Malaysia.

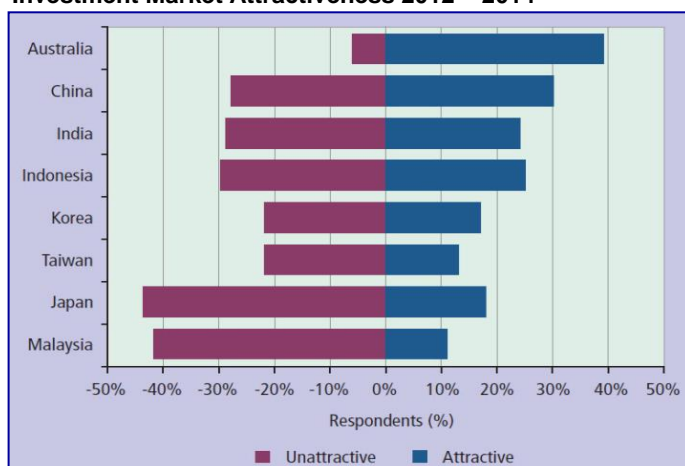
Top 10 PE High Growth Markets

Ranking	Country
1	Indonesia
2	Peru
3	Colombia
4	Turkey
5	Myanmar
6	Egypt
7	Saudi Arabia
8	Mexico
9	Ghana
10	Malaysia

Source: Grant Thornton Global PE Report (2012)

Investors often first choose a target region and then settle on a host country within that region. After calculating the trade-offs in terms of market size, labor costs, political and economic stability, resource endowments, transactional costs and the business climate, Indonesia is very well positioned. This is also the case with 40% of EU and North American Investment funds who aim to invest more than 10% of their PE commitments in the Asia Pacific region by 2014 with Australia, China and Indonesia topping the list. However, Indonesia is also viewed as an unattractive investment destination by a significant portion of investors.

Investment Market Attractiveness 2012 – 2014



Source: Dealmaker, Collier Capital Global Private Equity Barometer, 2012

Capital markets & inclusive business

Private equity (PE) investors provide a unique skill set across a diverse range of investment landscapes. The PE business model enables fund managers or General Partners (GPs) to operate more efficiently and deliver sound returns for investors or Limited Partners (LPs). While the value-add from PE firms is applied in many forms, the underlying goals are straightforward; buy right, improve business prospects, raise performance, and realize high exit value.


As financial markets develop, new investment pathways and disciplines are emerging such as venture capital, private equity, microfinance and angel investing. The Indonesian Ministry of Finance is looking to strengthen entry regulations for non-bank financial institutions by transitioning them to regulated entities, improving licensing arrangements more generally and capital requirements. This is relevant to a potential ADB fund because of the extreme difficulty SME's face trying to access finance from formal institutions. They are often left vulnerable to predatory, unregulated loan sharks, charging well above market loan repayment rates.

Most PE funds invest in Indonesia through offshore funds or special purpose vehicle companies outside the regulated capital market and become subject to prevailing Ministry of Trade and Foreign Investment requirement. A potential approach to structuring a fund is contained in Appendix 5: Strategic Investment Framework.

Other potentially positive and significant reforms for inclusive business are the new guidelines from the Central Bank requiring all banks to allocate 20% of loan portfolios to SMEs and increase in country capital asset levels from 2013 and the government's decision to grant venture capital firms tax exemptions for investing in certain sectors. Alternatives to bank finance for SMEs and the non-corporate sector more generally is critical to broad based growth.

With investment strategies ranging from ‘Traditional’ to ‘Philanthropic’, the IB investment model envisioned by the ADB PE fund (finance + impact) is most likely included in ‘Impact Investment’ illustrated in the table below.

Capital Market Investment Strategy Map

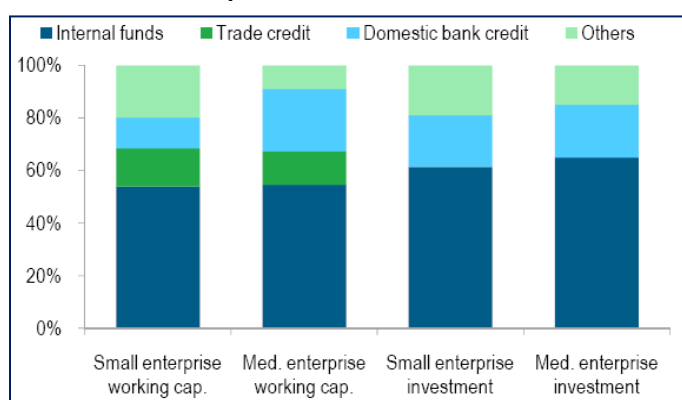
Traditional	Responsible	Sustainable	Impact Investment		Philanthropy
			Thematic	Impact	
Competitive returns + little or no ESG focus	ESG risk management via broad, deep use + negative screens	ESG opportunities via investment, management, advocacy	High E&S impact solutions + market rate returns	High E&S impact solutions + financial tradeoff	High E&S impact solutions + no financial return
Competitive Returns					
	ESG Risk Management				
		ESG Opportunities			
			High Impact Solutions		
Finance Only					Impact Only
The New Paradigm					

Source: Eurosif HNWI & Sustainable Investment (2012), Bridges Ventures & Impact Investing (2012) with updates

Current SME sources of capital, challenges and funding gaps

Despite encouraging reform, there is still limited policy guidance, incentive mechanisms and investment engagement for inclusive business in Indonesia. SMEs are most often left to the mercy of limited capital through internal funding as domestic bank credit is hard to obtain both for working capital and investment needs, forcing some SMEs to informal finance sources with exorbitant interest rates.

SME Sources of Capital



Source: BI, BPS, Enterprise Surveys. StanChart Super Cycle, World Bank (2011)

There is a lack of adequate, competitive bank funding to meet growing SME demand - improved access to finance is key to inclusive business success in Indonesia. Barriers include:

- Incomplete or sub-standard financials

- Lack of properly audited financial statements and collateral to secure loans – banks generally require three years historical data from prospective borrowers. SMEs lack relevant training.
- High repayment rates & inflexible terms
- Most banks are unwilling to accommodate irregular cash flows of prospective SME clients
- The costs borne by financial institutions in providing smaller loans is relatively high as due diligence costs are on par with larger loans
- SMEs generally require long-term capital financing and banks seek shorter term deposits to increase liquidity
- Insufficient collateral
- Indonesian banks are conservative after the Asian Crisis of 1997/98 and are most comfortable with collateral based lending proving difficult for most SMEs
- Reticence toward cash flow-based lending
- Banks are hesitant to lend against future cash flows in the agriculture sector, where most SMEs are based, with high risk of crop failures due to natural disasters and seasonality.

Rising income, high urbanization and strong economic growth is making Indonesia more attractive to private equity investment. The market is more open to investment models that employ minor equity stakes, influential teamwork and value creation versus traditional buyouts, financial engineering and majority control. In spite of active pipeline engagement actual deal levels with reasonable terms and valuations is relatively low. The current status of the private equity market in Indonesia is summarized in the table below.

Indonesia PE SWOT analysis

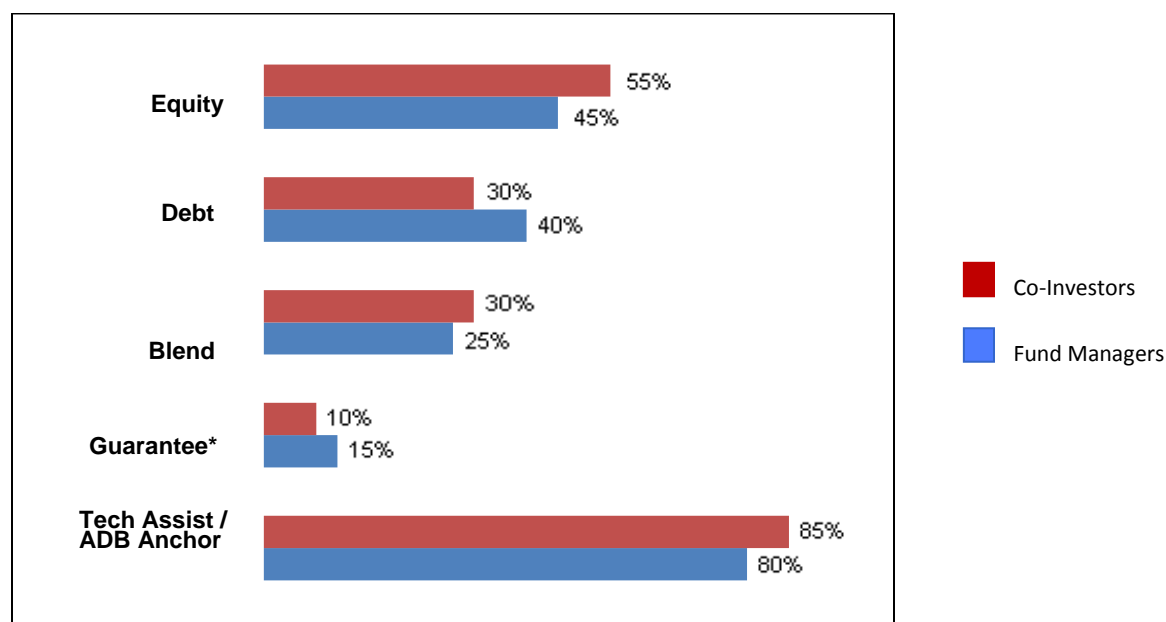
	Helpful	Harmful
Internal	Strengths <ul style="list-style-type: none"> High market potential from large, young and growing middle-income population High economic growth and investment Abundance of natural resources Political stability and ambition to develop the economy Investment grade status improves access to finance 	Weaknesses <ul style="list-style-type: none"> Double taxation on income and heavy spending on subsidies Inadequate infrastructure in many areas / islands Legal system comparatively less developed than other markets and perceived widespread corruption Larger companies tend to be state or family owned Inefficient IPO regulations reduce PE exit options
External	Opportunities <ul style="list-style-type: none"> Valuations more attractive than other major Asian countries Potential for natural resource exploration/infrastructure development Retail, telecom, energy and pharmaceutical sectors likely to experience fast growth More investment opportunity in property market with land law reform and implementation Opportunity to acquire under-valued assets of under-managed large family companies 	Threats <ul style="list-style-type: none"> Outcome of 2014 presidential elections may create a shift in current business and investment environment Continuous amendments in Negative Investment List may discourage foreign investors Unpredictable and contradictory government policies and regulations Indonesian law does not recognize limited partnerships Weak judicial independence

Source: WEF, E&Y, World Bank/IFC, Economist Intelligence Unit, IESE Business School with updates (2012)

Fund manager and co investor key findings

Indonesia is a preferred emerging market destination for PE investment. This presents an attractive landscape and sectors for early and growth stage inclusive business engagement. Opportunities exist for both debt and/or equity provided there is a quality pipeline of investee SMEs, a supporting technical assistance (TA) facility, and credible seed/anchor investment. Both fund managers and co- investors clearly recognize the importance of attaching a technical assistance facility to any fund. Future PE inclusive business fund structure and design elements shared by the fund manager and co-investor groups are outlined in below.

Proposed Fund Portfolio Instruments as suggested by possible co-investors and fund managers in Indonesia



Source: Interviews with Fund Managers and Co-Investors

* Credit guarantee defined as long-term purchase agreements, performance bond etc.

Equity: Social venture capital entities, early stage social enterprises, and growing SMEs have limited resources and access to finance for early to mid-term growth. There is a gap or ‘missing middle’ between US\$ 2-10 million where early and mid-stage growth firms lack funding, collateral and technical assistance to scale. The market void persists due to a concentration of established and new PE players geared to larger deals in both the growth and buyout spaces from US\$ 20m and above. Investors place more emphasis than fund managers on equity/quasi-equity versus straight debt in fund structure and deal sourcing while both groups recognize the option to blend equity and debt to suit cash flow, control, relationship, ownership, return and exit issues.

Debt: The financial system in Indonesia to support early and growth stage inclusive business enterprises is primarily collateral-dependent for debt with limited cash flow financial products (i.e. high bank interest and informal sector lending rates). Since working and expansion capital are the main barriers to early and growth stage inclusive business opportunities, credit guarantees (i.e. long-term purchase agreements, performance bonds) specifically designed to address IB SME conditions may contribute to access finance and mitigate risk.

Technical assistance: Over 80% of fund managers and investors recognize the need and value in a technical assistance facility for investee training, advisory support, and risk management. Technical assistance capacity and implementation would need to be available in different formats, for example, provided by an experienced fund manager, a competent and dedicated third party, or an ad-hoc specialist on an ‘as needed’ basis. Future fund participants are best placed to decide preferred options.

Anchor investor: The addition of a reputable anchor investor, in particular the ADB, was seen as critical to the success of a fund as it would provide ‘legitimacy’.

Interview results and opinions from both fund managers and co-investor groups were similar in terms of country investment potential, obstacles and challenges, industry sectors, equity/debt structuring, performance returns and exit strategies and are summarized in the table below:

Fund Manager and Co-investor Findings

Much of the interview results with the fund manager and co-investor groups were similar in terms of country investment potential, obstacles and challenges, industry sectors, equity/debt structuring, performance returns, exit strategies, technical assistance, and seed investment.

Indonesia is a major emerging market investment destination across different asset classes and industry sectors with the trend set to continue well into 2013

Positive demographics, robust growth, macro-economic stability, improved credit ratings, vast natural resources, capital market performance, regional competitiveness, low inflation and government debt versus GDP are the most common features noted by fund managers in their positive outlook for the Indonesia economy in the short and medium term. Although concerns exist due to national elections (2014), infrastructure bottlenecks, education/income disparity, low productivity, account deficit and currency valuation, the overall outlook remains promising for PE development and investment levels in country.

Government bureaucracy and corruption are key obstacles to investment with management team quality and business transparency key for investment followed by operational/cultural fit with fund objectives and sound investee track record/performance

While Indonesia enjoys relative economic and political stability, PE fund managers and co-investors recognize the need to heed local legal frameworks, regulations and associated issues which can be less straightforward than in more developed markets. Indonesia is often cited for bureaucratic delays, widespread corruption and lack of enforcement in which government agencies and tasks overlap, particularly since the reformation and decentralization process began in the late 1990s.

Fund managers emphasize the importance of quality management teams in portfolio companies with alignment in commercial purpose, operational systems and performance goals as well as a history of transparent and profitable operations. Investments are considered too risky when investee integrity, business culture and balance sheets are not in good order.

Co-investors emphasize the importance of experienced fund managers with sound portfolio company teams, operational systems and cultural synergy as well as a history of transparent performance. Investment level and outcomes are strongly influenced by a quality investee pipeline as well as the

capacity to achieve returns that include capital and cashflow requirements. Clear exit strategies and implementation plans prior to investment is also important to the co-investor group.

Fund manager and co-investor investments areas primarily concentrated in financial services and energy. Fund managers also focus in transportation/ logistics and F&B while co-investors target natural resources (including mining, agriculture, water supply, fishing), education and healthcare. Leading investments by both groups include financial services, clean energy, natural resources and healthcare.

Although most fund managers and co-investors are agnostic in their investment strategies, there is common interest in a number of key industry sectors given the unique and dynamic business opportunities in Indonesia (see **Figure _ - ‘PE Fund Manager Characteristics’** and **Figure _ - ‘PE Co-Investor Characteristics’** above). In addition to existing capital market and PE investment trends, McKinsey has identified consumer services, agriculture, fisheries, value-added resources and education as current areas of significant future growth and investment potential in Indonesia through 2030.

Most fund managers typically invest as equity and blends (quasi-equity/debt) with IRR around 20% and 5-8 year time horizon. Debt returns are several points lower. Common deal size for growth stage SMEs is US\$2.5 – 20m with debt levels and investment tenor lower than equity. Early stage SME IRRs range from 6 – 15%. Local debt interest rates reach 10% with 5 year tenor - business and credit risk premiums another 2-4%

The majority of PE co-investors focus on growth stage SMEs with minority equity positions and commercial returns (straight equity as well as convertible features with supporting warrants) over a 5-8 year period. Typical deal size ranges from US\$2.5 - 20m with an average 20% IRR. Average debt time horizon and return is 4-6 years and 10-15% IRR. There is common interest in growing SMEs within major company supply chains as a distinct investment opportunity.

Impact investment fund managers and co-investors often invest in earlier stage social enterprises with debt and smaller deal size over 3-5 years with option to extend an additional 2-3 years. Such investment can incur higher running costs, risk factors and returns. There are instances where impact investors accept 6-12% IRR based on company size, business scope, market segment, etc. Early stage enterprises with reasonable cashflow may prefer debt and guarantees (i.e. long-term purchase agreements, performance bonds, etc.) to equity due to financial information and share ownership issues.

Local cost of money is approximately 10% for Rupiah denominated debt up to five years compared to interbank levels slightly above the BI benchmark rate (5.75%). State banks have occasion to selectively lend to MSMEs at discount levels (i.e. 6%). US currency debt rate levels incountry run around 5%. Currency valuation and exchange risks are key factors for co-investors in relation to sources of investment capital, debt denomination, portfolio income and net profitability.

Co-investors acknowledge reasonable fund manager fee/incentive packages with competitive management/carry/hurdle rates (2:20/6-8%) and impact schemes (i.e. non-financial performance). Both groups are comfortable with a first round fund allocation around US\$40m with assessment/measurement tools and systems to report outcomes/impacts

Given the IB PE fund market approach and deal size, most fund managers and co-investors recognize significant due diligence and management support to facilitate SME development and growth. A smaller first stage fund size (i.e. up to US\$50m) with appropriate management remuneration and performance bonus has appeal but effective control and execution is a concern in minority shareholding situations with value-add expectations (i.e. foreign connections, new markets, technology/management transfer, etc.).

Many fund managers and co-investors recognize the need for and actively use assessment, monitoring and measurement systems and tools to gauge financial and ESG outcomes/impacts (i.e. tailor-made, IRIS/GIIRS, SROI, PPI, EVA, IFC Safeguards, etc.) and to provide a basis for informative benchmarks and metrics to verify outcomes and goals. PEI reports that investors with schemes in place to reward non-financial performance have annual returns of 11% or more over the past five years since 2008.

IPOs are most attractive exit strategy but trade (strategic, private placement, MBI/MBO) and secondary sales more realistic given nascent PE market and IDX environment. ADB seed funding and TA facility crucial to IB PE fund success

IPOs can be rewarding exit strategies for fund managers and co-investors but have not played a meaningful role in the Indonesia PE market due to relatively larger deal size, smaller market capitalization/liquidity, and close business relations. Company expansion and consolidation also tends to attract M&A interest. IPO launches are behind schedule in 2012 in spite of several oversubscriptions and healthy post-IPO returns while market trends indicate trade sales are most often used to realize investment returns.

Seed funding by DFIs like ADB is considered an important element by both groups to lend credibility and attract like-minded managers, sponsors and co-investors. Of similar interest is a competent and cost effective technical assistance (TA) facility to address a diverse range of IB operational and performance risks and opportunities. Several fund managers and co-investors have in-house TA capacity and experience but welcome a means to address gaps and add value.

Fund Manager and Co-investor Interview Results

An emerging market PE investment leader

- **Positives** include economic climate, stability, improved credit ratings, vast natural resources, capital market performance, regional competitiveness, low inflation and government debt versus GDP
- **Concerns** exist due to national elections (2014), infrastructure bottlenecks, education/income disparity, low productivity, account deficit and currency valuation
- **Opportunity** in increasing income inequality and environmental challenges make Indonesia an attractive market for impact type investments

Key obstacles to investment

- Government bureaucracy and corruption

'Must haves' to secure funding

- Management team quality, business transparency, operational/cultural fit with fund objectives and sound investee track record and performance

Main drivers in PE IB Investment

- Viable business model and IB experience, potential financial and societal returns coupled with quality investee pipeline, growth prospects, and exit pathways

Primary investment focus

- Financial services, energy, transportation/logistics, F&B, natural resources (mining, agriculture, water supply, fishing), education and healthcare

Common IB investment sectors

- Financial services, clean energy, natural resources and healthcare

Typical investment scenarios

- Minor equity and blend (quasi-equity/debt) with +/- 20% IRR and 5-8 year time horizon for growth stage SMEs
- Debt returns are several points lower (10-15%) with shorter time horizons (4-6 years).
- Common deal size for growth stage SMEs is US\$2.5-20m with debt level and investment tenor lower than equity stakes.
- Early stage SE investment IRRs range from 6-15% with a preference for debt and guarantees
- Local debt interest rates reach 10% with 5 year tenor - business and credit risk premiums add 2-4%

GP and LP management and investment expectations

- Tailored, realistic, competitive management/carry fee (2:20) with appropriate hurdle rate (6-8%)
- Impact incentive scheme (i.e. non-financial performance recognition)
- First round fund allocation up to US\$50m (including TA)
- Assessment/measurement tools and systems to benchmark, monitor and report outcomes and impacts
- Potential control and execution issues in minority shareholding with value-add expectations
- Common interest in growing SMEs within major company supply chains as a distinct investment opportunity

Investment exits, anchors and TA facility

- IPOs as attractive exit strategy but trade (strategic, private placement, MBI/MBO) and secondary sales more realistic given nascent PE market and IDX environment.
- ADB seed funding and TA facility crucial to IB PE fund development and implementation

Source: survey responses and analysis across interviewed fund managers and co-investors

Potential Fund Managers for Inclusive Business

The identified target of PE fund managers and their characteristics is summarised below. They were selected based on several key parameters: SME/IB investment experience; industry sector participation; Indonesia/ emerging market engagement; and early/growth stage investment. More detailed fund manager profiles are provided in Appendix 5: Profiles of Fund Managers and Co-Investors.

PE fund manager characteristics

Fund Manager	SME/IB Focus	Geographic Location	Investment Stage	Industry Sector
Aureos Capital	SME interest	Emerging Markets, Asia, Special Funds	Growth Expansion	Clean Energy, Hospitality, Financial Services, F&B, Transport, Education, Healthcare, Retail, Pharmaceutical/Biotech
Bamboo Finance	SME and IB interest	Emerging Markets, Asia, Africa, C. America	Early/Growth Micro/Impact	Clean Energy, Healthcare, Financial Services, Education, Water, Housing, Agriculture
Batavia Investment Management	SME and IB interest	Indonesia	Growth Expansion	Infrastructure, Mining, Transport, Energy
Batavia Prosperindo Asset Management	SME and IB interest	Indonesia	Listed Equities Fixed income	Financial Services, Energy, Transport & Logistics, F&B, Real Estate
BlueOrchard	SME and IB interest	Emerging Markets, Asia, Africa, S. America	Early/Growth Micro/Impact	Financial Services, Clean Energy, Agriculture, Healthcare
Kendall Court	SME and IB interest	SE Asia	Growth Expansion	Consumer, Natural Resources, Infrastructure, Utilities
LGTPV	SME and IB interest	Emerging Markets, Indonesia	Early/Growth Micro/Impact	Agriculture, Clean Energy, Healthcare, IT, Education
Recapital Group	SME and IB interest	Indonesia	Growth/Micro	Banking, Finance, Insurance, Water Utility, Mining, Hospitality, Office Buildings, Mass Media, Education
Small Enterprise Assistance Fund	SME and IB interest	E. Europe, L. America, Asia, Africa	Early/Growth Impact	Financial Services, F&B, Hospitality, Manufacturing, Fishing, Agriculture, Healthcare, Education, Clean Energy
UOB Global Capital	SME and IB interest	ASEAN, China	Growth Expansion	Growth Clusters: Industry Support Services, Technology, Mainstream/Old Economies

Source: Literature review and analysis across interviewed fund managers

Six of the fund managers have office presence and associated market experience in Indonesia while four are engaged in inclusive businesses (i.e. Bamboo Finance, Blue Orchard, LGTPV, SEAF) but with limited incountry establishment. Three of the SME fund managers (Aureos, Kendall Court, UOB Global) have well established and successful platforms in SE Asia with some exposure in Indonesia. The IB fund managers tend to focus on early stage investments whereas SME funds place more emphasis on growth stage investments. Additionally, most fund managers are essentially sector-agnostic and select industry sectors to maximize financial and social returns with a majority of investment concentrated on more

developed sectors such as financial services, energy, agriculture/F&B, transportation & logistics, consumer goods, healthcare, education, etc.

Batavia Prosperindo Asset Management is the only listed securities company of the ten fund managers. It actively supports professional engagement with the financial services authorities (OJK) to upgrade prevailing regulations to better reflect global standards of good governance and responsible performance in regulated PE markets. The firm plans to participate in the RDPT market (infrastructure, natural resources, healthcare, financial services) once revised laws and implementation guidelines are completed and approved. The Recapital Group includes a capital market asset management firm and plans an international PE fund in the foreseeable future.

The number of established local fund managers and co-investors is limited but continues to grow in size, diversity and experience. The most successful firms have focused on larger deals and do not share a commercial interest in the SME/IB market segment (i.e. Ancora International, Northstar Pacific, Saratoga Capital, Yawadwipa Group).

However some firms and individuals relatively new to PE in Indonesia have a business interest and/or limited exposure in the SME inclusive business market segment (i.e. Fairways Capital, Quvat Management, Capsquare Asia, Creador Capital). Mutually beneficial commercial relationships may be possible with experienced regional and global fund managers in need of incountry expertise.

Potential Co-investors for inclusive business

The target list of PE Co-Investors and their characteristics is summarised below. They were selected based on several key parameters: SME/IB investment experience; industry sector participation; Indonesia/ emerging market engagement; and early/growth stage investment. A more detailed fund manager profile is provided in Appendix 5: Profiles of Fund Managers and Co-Investors.

PE co-investor characteristics

Co-Investor	SME/IB Focus	Geographic Location	Investment Stage	Industry Sector
AlpInvest	SME interest	Developed and Emerging Markets	Growth Expansion	Manufacturing, TMT, FMCG, Financial Services, Healthcare, Clean Energy
Credit Suisse	SME and IB interest	Emerging Markets, SE Asia	Early/Growth Impact	Clean Energy, Property, Financial Services, F&B, Natural Resources, Healthcare, Education, Infrastructure, Nanotechnology
Darby Overseas	SME interest	Emerging Markets in Asia, C/E. Europe, L. America	Growth Expansion	TMT, Industrials, Financial Services, Energy, FMCG, Healthcare

Grameen Foundation	SME and IB interest	Emerging Markets in Asia, Africa, M. East, L. America	Early/Growth Impact	TMT & Financial Services as Micro-finance to multi-sectors; Natural Resources, Healthcare, Education, Clean Energy.
Grassroots Business Fund	SME and IB interest	Emerging Markets in Asia, Africa, L. America	Early/Growth Impact	Natural Resources, Handicrafts, Manufacturing, BOP & Financial Services to multi-sectors; Healthcare, Education, Clean Energy
Mahanusa Capital	SME interest	Indonesia	Growth Expansion	FMCG, Transport, F&B, Property, Manufacturing
Manulife Capital	SME interest	China, Japan, SE Asia	Growth Expansion	Natural Resources, FMCG, F&B, Healthcare, Education, Financial Services, TMT
ResponsAbility	SME and IB interest	Emerging Markets, SE Asia	Early/Growth Micro/Impact	MSME Finance, Fair Trade, Natural Resources, Independent Media, Education, Energy, Healthcare
Saratoga / Uno Kapital	SME and IB interest	Indonesia	Early/Growth Impact	Natural Resources, FMCG, Transport, Energy, Financial Services, TMT
Temasek Holdings	SME interest	Singapore, SE Asia	Growth Expansion	SME Finance: Public and Private SMEs in Education, Healthcare, F&B, Energy, Industrial Services

Source: Literature review and analysis across interviewed co-investors

Three of those selected have an office presence and relevant market experience in Indonesia - Grassroots Business Fund, Mahanusa Capital and Saratoga/Uno Kapital. Six firms participate in inclusive business investments, Credit Suisse, Grameen Foundation, Grassroots Business Fund, Obviam, ResponsAbility and Saratoga/Uno Kapital but with limited incountry establishment with the exception of Saratoga/Uno Kapital. Alpinvest, Darby Overseas and Temasek Holdings have investments in Indonesia but limited experience in the IB/SME sector. Manulife Capital aims to increase investment in Asia, including Indonesia, given its affiliate presence in life insurance and asset management.

The IB co-investors tend to focus on early stage investments and SME co-investors place more emphasis on growth stage investments. Most of the co-investors select industry sectors to maximize financial and social returns. The majority of investment concentrates on the more developed sectors of finance, natural resources (agriculture, water supply, fishing,) energy, education, and healthcare.

Temasek Holdings is the sole sovereign wealth fund among the ten co-investors that has recently created a diverse funding base of growth capital targeting a SD\$ 1.5 Billion public-private co-investment fund for SME expansion funded by public and private capital. The vehicle is managed by Heliconia Capital Management which functions as a fund of funds, directs co-investor in SMEs, and appoints PE fund managers to source private capital to match Temasek investments. While the primary focus is Singapore-based SMEs, the fund is open to the concept of regional SME investments provided there is a company and management presence in Singapore.

Saratoga Capital established Uno Kapital in 2009 to cater to the capital requirements of small entrepreneurial firms and growing SMEs with funding derived from a percentage of its major PE portfolio returns. Uno Kapital is currently managed as a breakeven fund without dividends and surplus earnings reinvested or allocated to affiliated foundations. Uno Kapital shares an interest in the development of an ADB IB PE fund. As its founders review and concentrate on increased business prospects in the dynamic middle income market segment, Uno Kapital may assume a more commercial operational model.

Banks and Foundations: Seven banks and four foundations were engaged in the process of identifying potential domestic co-investors. In several cases, the banks prefer an investee versus investor relationship (Bank Andara, Bank Sahabat Sampoerna, Mayapada Bank) to selectively expand SME clientele with the support of a technical assistance facility. However, concessionary rates for interbank funds (i.e. 6%) to develop SMEs tend to be lower than reasonable IB PE fund returns (i.e. 15%). In the event local banks consider a co-investment role (i.e. BTPN, BNI 46), offshore medium term notes or local permits to overcome regulations that complicate PE type investments may be required while traditional lending rates and margins may exceed anticipated IB PE fund returns. A competent technical assistance facility is important to IB PE fund success as most banks do not possess the requisite skill sets to support SME growth.

Incountry foundations and family offices are primarily philanthropic in their approach to social and environmental challenges. However, several have access to alternative investment methods to help finance and profit from market risks and opportunities, such as company affiliated venture capital or banking resources such as Astra, Sampoerna and Citi Foundations. This kind of investor has an interest in growing, sustainable SMEs as envisioned by the ADB IB PE fund including ways to leverage and scale positive results. Further afield, the Grameen Foundation has achieved solid growth since 1997 in the emerging market microfinance sector with MFIs, and more recently added co-investment in the BOP segment focused on early and growth stage SMEs.

Global co-investor banking groups such as Credit Suisse and UBS and impact investors including Obviam, and responsibility have investment mandates, market familiarity issues, and over-riding priorities with limited resources that tempered their level of engagement in the IB PE fund study. However, they are keen to learn more about the fund details as more structure and content emerges. Similar constraints and interest also apply to a couple of major investment houses such as Carlyle, Franklin Templeton who have affiliate firms (AlpInvest and Darby Overseas respectively) focused on small and mid-cap market opportunities which include growth stage SMEs and responsible investment .

Donor partnership opportunities for inclusive business

As part of the broader study, a mapping of donors was undertaken in Indonesia to assess their possible interest in partnering with an ADB Inclusive Business Fund as a co-investor, or providing support for a technical assistance facility associated with the fund.

Key-informant interviews and desk research were conducted to obtain information regarding:

- The Inclusive Business and/or private sector development (PSD) funding related- activities donors in Indonesia are currently engaged in,
- The focus of these sectors;
- Level of interest in partnering with an ADB IB Fund and TA facility

Current donor programs and initiatives relevant to inclusive business development in Indonesia can be categorised as follows:¹²

- Funding activities (Grants, Loans, Guarantees);
- Advice and brokerage (Providing guidance on IB models, Value chain development, linking/network);
- Implementation support (leveraging local offices/skilled staff, technical experts and networks) and
- Policy dialogue and development of business friendly environments (help with advocacy toward government to develop or revise legislation to attract investment and support PSD and IB).

As part of their overseas development assistance (ODA) programs, several countries have set up offices for development cooperation within their embassies providing funding or support for inclusive business and or private sector development or running related programs directly from the relevant embassy departments.

Donor Mapping – sector priorities and scope for cooperation

Investments in the agriculture, energy, environment, and financial sectors are popular with donors in Indonesia, as are non-sector specific initiatives that support either private sector or institutional and regulatory capacity building for private sector development. Many Development Financial Institutions also lean towards investments in energy and environment. Individual country programs may also focus their technical assistance or ODA programs on themes such as education or health.

Preferred sectors for donor investment

	Sector priorities*							IB relevant
	Water/ San	Agri	Transp/ Infrast	Energy/ Enviro	Tele/ com	Finance	Not spec**	Low/ Med/High
Bilateral aid agencies								
AusAID (AIPD-Rural)		●	●					High
DANIDA (DBP)							●	Low
DFID (Prosperity Fund)				●			●	Medium

¹² Adapted from: UN Global Compact, UNDP, Bertesmann Stiftung 2011, *Partners in Development: How donors can better engage the Private Sector for Development in LDC*

EC Delegation (AIF) ¹				●				Low
JICA (SIAP only)		●	●			●		Low
NL Embassy (PSI)							●	Medium
Multi Donor Funds, DFI and DFI funded investors								
ASEAF ¹								High
CIF				●				Low
ICD-IDB ²						●	●	Low
IFC (PENSA) ³		●		●		●		Low
ILO (ASEAN Prog) ⁴							●	Low
ILO (Promise Impacts) ⁵							●	Low
ILO (PcDP) ⁶							●	Low
ILO (SCORE-2) ⁷							●	Low
InfraCo Asia ⁸	●		●	●	●			Low
MDFF							●	Low
Other providers of support for IB								
IDH				●				High

* Not sector specific or overarching; ¹ Funded by; ² Funded by AusAID, CIDA, JICA, Government of the Netherlands, SECO, ADB(51 IDB member countries, and five public financial institutions); ³ Funded by AusAID, CIDA, JICA, Government of the Netherlands, SECO, ADB; ⁴ Funded by Japan – ASEAN Integration Fund (JAIF); ⁵ Funded by SECO. ⁶ Funded by NZAID. ⁷ Funded by SECO, NORAD; ⁸ Funded by PIDG Trust (DGIS (Government of the Netherlands), DFID, IFC, Irish Aid, KfW , SECO, SIDA)

There are many initiatives working towards inclusive business in Indonesia, each through different modalities. However, as illustrated in the table below, with bilateral donors much of the funding tends to be through the more traditional grants or supporting the enabling environment rather than investments.

Scope for co-operation

Funding			Advice & brokerage	Implementati on support	Policy dialogue, development of business friendly environments
	Grants, loans, guarantees	Investment			
Bilateral aid agencies					
AusAID (AIPD-Rural)	●		●	●	■
DANIDA (DBP)	○		●		
DFID (Prosperity Fund)	●		●		
EC Delegation (AIF) ¹	●		●		
JICA (SIAP)	■		■		
NL Embassy (PSI)					
Multi Donor Funds and DFI funded investors					
ASEAF		●			
CIF	■●			■	
ICD-IDB	●	●			
IFC (PENSA)			●	●	■●
ILO (ASEAN Prog)			●	●	
ILO (Promise Impacts)			●	●	■●
ILO (PcDP)			●	●	●
ILO (SCORE II)			●	●	●
InfraCo Asia	●	●	●	●	
MDFF	■			■	
Other providers of support for IB					
IDH	●		●	●	■●

■ = to governments ● = to private sector, partnerships and/or banks ○ = conditional funding (only applicable to business partnerships which involve a company from a specific country as an initiating partner)

In addition, **KfW** the German Development Bank is also considering an inclusive business investment fund for Asia that could include Indonesia. This project is financed by the German development cooperation ministry (BMZ). This fund is likely to be focussed on companies whose business model is entirely based on serving the bottom of the pyramid through social enterprises. KfW is considering an anchor investment of €10-12 million for its Asia-wide fund and is also providing grant funding for a technical assistance facility which will be closely coordinated with the ADB technical assistance project. KfW is looking for additional funding to further capitalize the fund.

GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) is also active in supporting companies to be more inclusive through a technical assistance matching grants program. GIZ in 2013 is planning to base a staff member in Jakarta that will have a regional role to work with inclusive businesses.

In terms of geographic focus, most donor programs were not specifically linked to a geographic area with the exception of AusAID AIPD rural, and some IFC and ILO programs.

Geographic focus of donors

	No specific Focus	Focus on Eastern Indonesia, Provinces
Bilateral aid agencies		
AusAID (AIPD-Rural)		East Java, NTT, NTB
DANIDA (DBP)	●	
DFID (Prosperity Fund)	●	
EC Delegation (AIF) ¹	●	
JICA (SIAP)	●	
NL Embassy (PSI)	●	
Multi donor funds and DFI funded investors		
ASEAF	●	
CIF	●	
ICD-IDB	●	
IFC (PENSA)		Eastern Indonesia (provinces unspecified)
ILO (ASEAN Prog)	●	
ILO (Promise Impacts)	●	
ILO (PcDP)		Papua and West Papua
ILO (SCORE II))		South Sulawesi, Southeast Sulawesi, East Kalimantan
InfraCo Asia	●	
MDFF	●	
Other providers of support for IB		
IDH	●	

VI. Conclusion & recommendations

There is the potential for the development of an Inclusive Business Fund in Indonesia that has the ability to benefit has significant benefit for the Bo. Its success is reliant on a number of factors outlined in this report including: economic climate; a stable environment, politics and governance; independent, market-driven commercial decisions; and leadership from the ADB supported by donor participation, particularly in regard to a TA facility.

Conclusions and recommendations are based on the interviews and study of 62 companies and their varying sectors and on the capital markets survey, study and interviews. It also takes into account the growing strength of the economy and the factors affecting its continued growth.

This chapter includes a summary of key findings and recommendations as follow

Key findings

The operating environment

Positive macro indicators including the growth phase of the economy and increasing private sector credit expansion; a relatively stable government, vast natural resources and the world's fourth largest population, offer potential to companies oriented toward inclusive business. Favorable economic conditions and high numbers of poor combine with stronger investment opportunities from financiers. Continued reform is key as it impacts on the ability to conduct business in an efficient, just and profitable way.

The sectors with the most potential for inclusive business

Agriculture, light manufacturing and retail market sectors have the highest engagement of the BoP and the most varied inclusive business models. The agriculture sector engages the BoP in every component of the value chain and inclusion is integral to its operations. The study did not find one food processor that did not either work with small farmers or with community cooperatives.

All agri-industries in Indonesia have inclusiveness impact, but they are not necessarily all inclusive business as defined by ADB

Other industries such as health care, education, and renewable energy are poised to deliver potentially life changing social return – they can significantly benefit the BoP by improving living standards, employment skills and local infrastructure. These three sectors are set to experience exponential growth if they can control their respective supply chain and value within their industries. Industries such as telecommunication and water sanitation are largely technology-driven and capital intensive; they depend on their ability to transfer technologies to local BoP businesses.

Current inclusive business commitment

Two broad categories of operating philosophy and vision have emerged within inclusive business companies:

1. Large multinational and national companies with a basic inclusive business approach that is not holistic throughout their operations and culture
2. Social enterprises with strong inclusive business models and substantial social impact to the BoP communities who lack one or more of the following: capital; skills; technology; and / or business savvy to ensure more attractive financial returns for investors.

To genuinely embrace inclusive business, the first category of companies needs a more organised relationship structure with their suppliers and producers within the value chain. These companies deal with hundreds of farmers in different areas and the company philosophy and culture must flow through all levels if the business is to be inclusive. Many of these companies view and interpret inclusive business as a CSR role which implies that the commitment is sporadic and may not be permanent. Financial return remains the overwhelming driving force in investing in a certain sector or geographic location. Moving inclusive business models away from the CSR and establishing it as an integral part of the value chain will require a paradigm change in corporate culture of shareholders and investors in these large corporations. Nevertheless, some companies in specific sectors such as agriculture could be convinced to restructure their business models with a specific inclusive business focus using cooperatives and other traditional methods.

The second category of companies is already inclusive. They do not need to be “convinced” to apply an inclusive business model. However, these companies are:

1. Usually smaller in scale and operation
2. Lack the managerial skills and human resource to expand their operations
3. Don’t have access or necessary training to take advantage of state-of-the-art technology and capital equipment
4. Limited access to capital and markets.

Study findings indicate there are longer term benefits to developing the second category of companies. These high impact entrepreneurs use a multi-facet approach to drive their business (i.e., profit, people, and environment). What they lack in financial performance and profitability, they gain in the innovativeness of their inclusive business model and socio-economic impact to the BOP. The strategy therefore, is to assist selected social entrepreneurs operating in growth sectors who have strong inclusive business models to enable them to be “investment ready”.

An inclusive business framework will generate social benefits that far exceed CSR programs from large multinational/ national companies as they have a tendency to be more scalable through investment for return-seeking capital. “Impact investing” in inclusive business can be developed as an integral part of the surrounding communities.

The barriers

Lack of access to capital, high input costs and poor business climate and regulatory environment were the most consistent responses from the companies surveyed regarding barriers to growth. The findings identified a funding gap and acknowledgement that lack of access to funding was impeding their ability to meaningfully upscale their operations.

Regardless of their operating sector, inclusive businesses face common challenges. Access to finance prevents many inclusive businesses from realizing their full potential.

The Inclusive business companies surveyed had many issues and needs in common:

- 51 out of 62 companies (82%) expressed strong interest and need for external funding through the Inclusive Business Fund and listed lack of funding as a major impediment to further engaging the BoP and expanding their operations
- Nearly all companies (58) were interested in equity (50%) and debt (50%) financing above \$0.5M and up to \$20 million
- Nearly two thirds of companies surveyed (63%) engaged the BoP in more than one way, as consumers, distributors, employees or suppliers.

Inclusive Business Fund parameters

Based on the capital market study content and feedback from the Indonesia Investor Forum in October 2012, the following key recommendations are:

- **Establish an inclusive business facility in Indonesia, or include Indonesia in a larger Southeast Asia IB facility.** Most SME's still struggle to access finance from formal institutions, and larger more forward-looking companies are becoming more familiar with the concept of inclusive business.
- **ADB as seed investor is crucial** to the integrity of the facility and will attract like-minded fund managers and co-investors.
- **An IB facility for Indonesia could absorb US\$ 30-50 million.** This could also be part of a broader regional fund.
- **A blended fund with a skew towards debt.** While there is familiarity with equity, particularly with smaller business enterprises there is an unwillingness to open shareholding structures involving outsiders. Debt is more familiar and quasi equity instruments also have potential
- **Offer loans of \$2,000,000 - \$10 million** – Indonesia has the critical mass to provide larger opportunities to develop successful consumer, supplier and employee-oriented BOP business models.
- **Recognize multiple efficiencies and benefits of a fund based in Singapore** with management having extensive relationships and transaction expertise in Indonesia. A small local presence (if not already available) or partnership could be established with reputable investment boutiques

having potential/experience for IB capacity building. See Appendix 4: Strategic investment framework.

- **There is an increasing interest by donors and development partners** in inclusive business and private sector development. This provides an opportunity to actively approach donors such as AusAID to investment in the fund or support the technical assistance facility.

Recommendations for ADB IB PE Fund

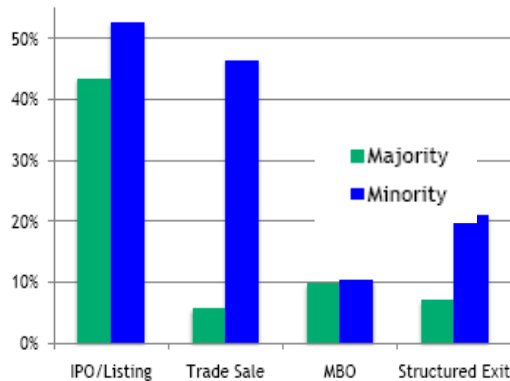
Sectors	Sector agnostic, but most investments in food processing, clean energy, financial services, natural resources (including agriculture) and healthcare. Most fund managers and co-investors are driven by investment quality and returns vs specific industry sector
Company performance	IRR expectation >15% with companies active in sectors noted above. Investee SMEs need solid management/track record, transparency and good operational/cultural fit. A sense growth stage SMEs more interested in debt and credit guarantees than equity
Investment strategy	Preference to work with debt or a mix of quasi-equity/debt. Minority stake and Board representation are essential. Target growth stage SMEs where possible with credit/performance guarantees. Interest in convertible feature to equity with supporting warrant for assurance. Fund size allocation up to US\$ 50m and deal size US\$ 2-10M. Minimum 15% IRR (average equity/blend 20% - less for debt/small firms). 3-5 year term for debt (rollover option) and 4-8 year time horizon for equity. Competitive management fees/carry (2:20) + hurdle rate (6-8%) + performance bonus. Local debt rate 10% with 5 year term + business risk premium (maybe more for small firms)
Investment exits	MBO/MBI and strategic / trade sale more likely
Fund manager/ co-investor	Quality pipeline of investee SMEs crucial for commitment/success. Experienced/reputable fund managers with asset class and in-country results – commercial tie-ins may apply. Some LPs unable to or prefer option to co-invest on individual company basis. Assessment/measurement and systems/reporting on non-financial performance and other incentives (i.e. social/environmental impacts)
TA facility	ADB seed funding and donor funded technical assistance facility key to attract co-investors and mitigate investee risks/performance. Fund Manager, third party or ad hoc TA with capacity to incubate, assess impacts and implement post-investment.

The design

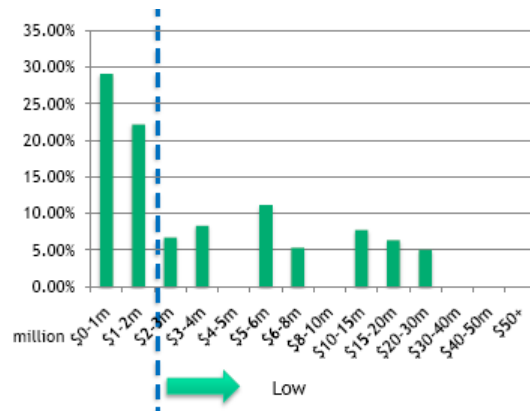
Based on the capital market study and feedback from the Indonesia Investor Forum in October 2012, the following fund structure and design is recommended:

Contrary to common market perception, PE minority positions in emerging market SMEs are not overly risky. IFC experience confirms that minor shareholding has performed well in all forms of exit, indicating risks associated with minority control can be managed effectively (see **Figure ‘Minority Exits and Average IRR’** below). The same report also recognizes that PE investment in smaller companies involves less risk in deals as low as US\$ 2m (see **Figure ‘PE Write-offs by Investment Size’** below) together with a corresponding upside in average/mean IRR.

Minority Exits & Average IRR

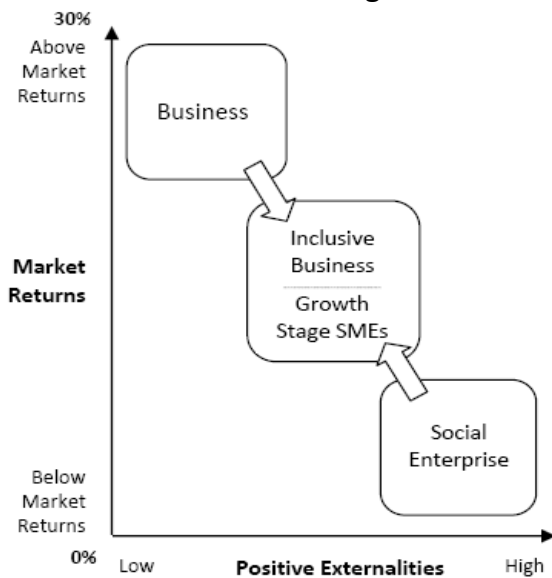


PE Write-offs by Investment Size



Source: The Case for Emerging Markets Private Equity, IFC V.9 2011 (both Figures)

Fund Design Model



Source: Indonesia Investor Forum feedback with revisions, 2012

Strategy for Business and SEs/SMEs

- Address equity and debt requirements of investee Social Enterprises (SEs)/SMEs
- Offer quasi-equity/debt to account for higher risk/value of financial and sustainable benefits created by firms expanding inclusive operations
- Provide guarantee facility to select SEs/SMEs that deliver high financial and sustainable impacts
- Identify impediments to growth and profitability
 - technology gaps
 - management skills
 - strategic alliances
- Offer TA facility to assist SEs/SMEs with operational and market areas that are under-performing or underserved due to lack of funds, expertise, or public sector development (i.e. ADB/ SNV to support SE/SME growth to help assure positive IB PE investment

The operation

Managing a fund that targets inclusive business companies in Indonesia's developing market will require a higher than average operating cost due to:

- Smaller than average deal size - the cost of originating and executing the deal is not directly proportional to its size and a large portion of the cost is fixed. Aside from government and large scale projects, most private sector and SME funding requirements are likely to be between US\$1

– 5 million. A dedicated SME Fund will find it difficult to operate using the normal management fee structure of 2%.

- The lack of supporting intermediaries in the region will require the Fund to have its own internal resources or bring the resources in from other major cities. Unless the fund size is large and there is sufficient deal flow, maintaining internal resources will be a significant burden to the operating budget.

To operate effectively, the Fund must also have:

- Local presence
- Be able to evaluate a diversified portfolio
- Experienced local nationals
- Rigorous due diligence:
- Secure proprietary deal flow:
- Develop Strong relationships:
- Ensure local ownership stakes:
- Careful selection of industries

The need for a Project Management Facility

Study results show access to funding is the single most prevalent issue facing inclusive businesses in Indonesia, particularly for small-medium enterprises and social entrepreneurs. There is a “Gap” between the funding institutions and their loan criteria and the inclusive business ability to meet their requirements.

To mitigate the “gap” between funders and companies, a separate organization, or Project Management Facility (PMF) is needed to support PE funders for ‘deal sourcing’ prospective businesses with feasible inclusive business models. A “deal sourcing” exercise would need to identify, evaluate, and prepare social entrepreneurs with a business model that is inclusive and significant in its impact to the BoP to present to PE managers and/ or debt funders.

The work to prepare these companies to be “investment ready” is extensive and will require a PMF with the resources and technical assistance to adequately identify and address the gaps and deliver the skill sets needed by the potential business. The PMF should consist of professional and expertise in both funding requirements and management.

The characteristics of the PMF should include:

- A governance structure and Board
- Experienced and qualified professionals. The talent and professionalism needs to be equivalent to a fund manager firm.

- Private sector led and managed, using similar compensation packages and incentives.
- Independent and market driven in its approach without external politics and agendas
- Donor coordination and agency support through technical assistance programs and workshops that will improve skill sets and required management expertise
- Monitoring and analysis and the ability to identify issues in raising market confidence and capital and respond strategically to changing market conditions.

PMF structure and programs

A vision and clear operating program and structure is needed to allow the management team to meet performance targets and expectations. It is proposed that the initial structure should include:

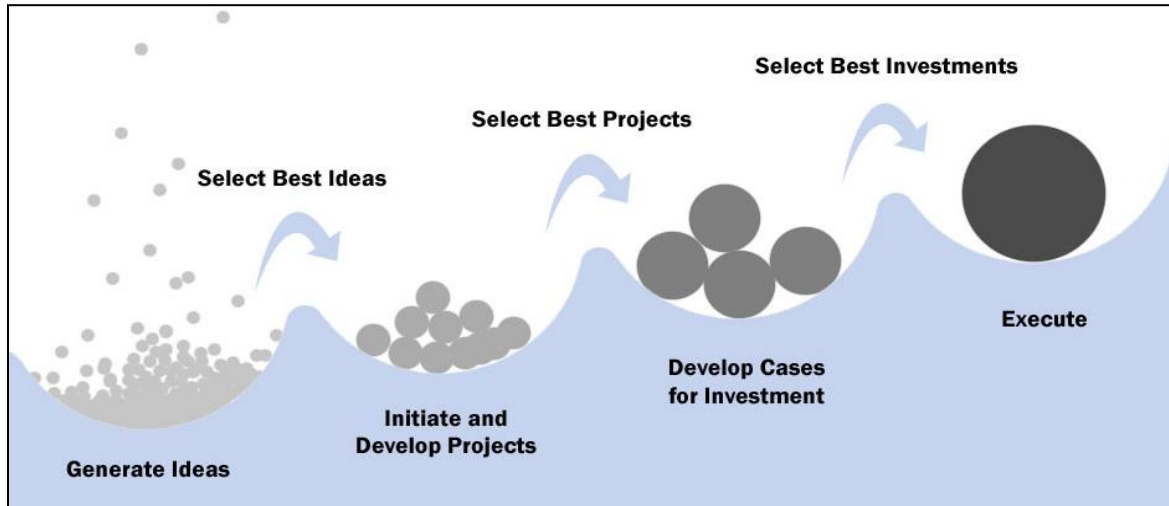
- An independent company identification and selection process that is market-driven and not subject to country or industry biases. Similarly commercial decisions must not be influenced by stakeholders and constituents.
- A matrix to re-evaluate and rank the inclusive nature and sustainability of the business model using social impact measurement tools, best practice environmental stewardship analysis and whether or not it solves inherent poverty challenges and issues in its operations.

A multi-filtering process to find the right businesses

Finding the right inclusive businesses in terms of sustainable business model and socio-economic impact on the BoP is fundamental to the success of the Inclusive Business Fund. A process must be developed that is comprehensive, objective, and meets the required PE investor criteria. The strategy is to develop a series of filters which are followed by development programs after each screening. This processes itself will be based on a set of certain criteria and pre-determined indicators.

The first stage is to make a pre-selection of the 62 companies from the initial study based on broad criteria from the priority sectors identified by market based fund managers which also includes their level of inclusiveness. It is imperative these pre-selected companies understand their compliance obligations to be part of the initiative as a penalty scheme for non-compliance will be included. The selection process must be independent and could be through a special body or stakeholder panel to ensure buy-in and acceptance.

Multi-filtering process



The filtering steps

The proposed steps would include:

- **Stage 1.** Gathering information and ideas from the shortlisted Fund Managers on the acceptable criteria of attractive companies, and stage of investment (i.e., expansion capital vs. greenfield). Companies must be tested for their attractiveness to Funds and/ or lenders and for owner readiness to subscribe to funding and financing conditions. Owners of these businesses can be educated on the pros and cons of PE investments – the real test for Owners will be the first filter where a 50% attrition is expected.
- **Stage 2.** Companies that pass the first filter will go through a rigorous review and analysis process to determine their attractiveness via a second filter of key indicators. An expected 40% success rate would result in around 10-15 companies passing to the next stage.
- **Stage 3.** The short-listed 10-15 companies will take part in a series of development modules. The final filter will be again includes key indicators but they will be more rigorous and may be more industry/ sector specific.

We expect around 5 companies to pass through the Stage 3 filter process for presentation to selected funds. The remaining short-listed companies will also be marketed to but with lesser intensity and more on referral basis.

The company evaluation process be in parallel with the PMF process. Consultation and collaboration should occur in the following key areas:

- Consultation with each fund source including potential short-listed projects that might already be on the donor agencies radar screen

- Selection criteria recommendations to pre-select around 60 - 80 companies as potential contenders for Fund Managers' consideration.
- Designing filter mechanism including screening parameters
- Conducting due diligence on the short-listed companies
- Designing and recommending a development path including training and workshops for the final filter companies, to elevate them to a level that will be acceptable to the Fund Managers' investment criteria. The development path would include: organizational capacity management; accounting procedures, business plan development, technology and operations.

The filter and the development path will be proved effective if it delivers companies that are ready for investment from a Fund at the same time highlighting potential opportunities that the Fund Manager could immediately explore to create value.

Appendix 1: Private Sector Mapping

Private sector mapping survey

GENERAL INFORMATION FOR THE COMPANY AND INTERVIEWEE

1. Company Contact Information			
A. Name of the Company:			
B. Main Telephone Number:			
C. Address:			
D. Website:			
2. Company Information			
A. Company Industry:			
B. Domestic, Regional, Global, All of the above:			
C. Number of Employees:			
D. Legal Form:			
E. Annual Turn-Over 2010 and est. 2011 in USD	2010 \$		2011 \$
F. CAGR 2010 and est. 2011	2010	%	2011 %
G. Net Profit 2010 and est. 2011	2010 \$		2011 \$
3. Interviewee Contact Information			
A. Name:			
B. Position:			
C. Telephone:			
D. Email:			

ABOUT THE COMPANY

1. FROM THE LIST BELOW, PLEASE SELECT THE INDUSTRY SECTOR THAT BEST DESCRIBES THE CORE BUSINESS OF YOUR COMPANY. PLEASE ALSO NOTE THE ESTIMATED % MARKET SHARE YOUR COMPANY HAS WITHIN THE INDUSTRY SECTOR SELECTED.

SECTOR	% MARKET SHARE
Education	<input type="checkbox"/>
Banking and Financial Services (including microfinance)	<input type="checkbox"/>
Real Estate/Property/Construction (including low cost housing)	<input type="checkbox"/>
Pharmaceuticals and Biotechnology	<input type="checkbox"/>
Retail	<input type="checkbox"/>
Hospitality and Leisure/Tourism	<input type="checkbox"/>
Food and Beverage Products	<input type="checkbox"/>
Transportation and Logistics	<input type="checkbox"/>
Oil, Gas and Natural Resources	<input type="checkbox"/>

Manufacturing	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>
Forestry and Forest Products	<input type="checkbox"/>
Information Technology	<input type="checkbox"/>
Energy (including renewables)	<input type="checkbox"/>
Textiles and Garments	<input type="checkbox"/>
Water and Sanitation	<input type="checkbox"/>
Health Insurance (including micro-insurance)	<input type="checkbox"/>

2. WHAT IS THE LEGAL STATUS OF YOUR COMPANY? SELECT ONE OF THE TWO TYPES IN EACH PAIR BELOW.

SOE	PRIVATE	CB	PT	LISTED COMPANY	UNLISTED COMPANY
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR COMPANY. WHAT ARE ITS CORE PRODUCTS AND/OR SERVICES?

4. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR MAIN PRODUCT/SERVICE LINES AND THEIR RELATIVE CONTRIBUTION TO YOUR COMPANY'S ANNUAL TURNOVER.

PRODUCT AND/OR SERVICE	ANNUAL SALES	% CONTRIBUTION
1.		
2.		
3.		
4.		
5.		

4a. WHICH OF THESE PRODUCTS/SERVICES ARE THE MOST PROFITABLE? WHY?

5. PLEASE PROVIDE A BRIEF OVERVIEW OF THE RELATIVE MARKET SHARE OF EACH OF THESE PRODUCTS/SERVICES VIS-À-VIS YOUR COMPETITORS NATIONALLY AND WHERE RELEVANT INTERNATIONALLY OVER THE PAST 5 YEARS.

PRODUCT AND/OR SERVICE	DOMESTIC MARKET SHARE					INTERNATIONAL MARKET SHARE				
	'07	'08	'09	'10	'11	'07	'08	'09	'10	'11
1.	%	%	%	%	%	%	%	%	%	%
2.	%	%	%	%	%	%	%	%	%	%
3.	%	%	%	%	%	%	%	%	%	%
4.	%	%	%	%	%	%	%	%	%	%
5.	%	%	%	%	%	%	%	%	%	%

6. PLEASE DESCRIBE ANY SIGNIFICANT CHANGES IN STRATEGY, CUSTOMER BASE, SUPPLIER BASE, DISTRIBUTION CHANNELS OR OTHER CHANGES THAT CONTRIBUTED TO THE IMPROVEMENTS IN YOUR MARKET POSITION (IF ANY)
7. PLEASE DESCRIBE WHAT PERCENTAGE OF YOUR BUSINESS IS DOMESTIC AND WHAT PERCENTAGE IS FOR EXPORTS? HOW HAS THAT CHANGED OVER THE PAST 5 YEARS? WHAT HAS DRIVEN THESE CHANGES?
8. DO YOU THINK YOUR COMPANY'S PROSPECTS FOR GROWTH ARE GOOD? WHAT NEW BUSINESS OPPORTUNITIES DO YOU SEE? WHAT DO YOU EXPECT YOUR RATE OF GROWTH WILL BE OVER THE COMING 3 YEARS? WHAT WILL DRIVE YOUR COMPANY'S GROWTH?
9. WHAT DO YOU SEE AS THE 3 MAIN BARRIERS TO THE GROWTH OF YOUR COMPANY? PLEASE RANK THE TOP 3 WITH 1 BEING THE MOST SIGNIFICANT BARRIER.

OBSTACLE	SELECT 3 OBSTACLES ONLY	RANK (1-3) 1= HIGHEST
Poor business climate and regulatory environment	<input type="checkbox"/>	
Lack of Access to Capital	<input type="checkbox"/>	
Poor Infrastructure	<input type="checkbox"/>	
High cost of inputs	<input type="checkbox"/>	
High labor costs	<input type="checkbox"/>	
Saturated customer base	<input type="checkbox"/>	
Competition from international companies	<input type="checkbox"/>	

Competition from domestic companies	<input type="checkbox"/>
Lack of government incentives	<input type="checkbox"/>
Lack of access to competitive technology	<input type="checkbox"/>
Poor corporate governance	<input type="checkbox"/>

10. WHAT DO YOU SEE AS THE 3 MAIN OPPORTUNITIES TO ACCELERATE THE GROWTH OF YOUR COMPANY? PLEASE RANK THE TOP 3 FROM HIGHEST TO LOWEST.

OPPORTUNITY	SELECT 3 OPPS ONLY	RANK (1-3) 1= HIGHEST
Favorable business climate	<input type="checkbox"/>	
Growing consumer confidence	<input type="checkbox"/>	
Increasing export opportunities	<input type="checkbox"/>	
Rise in domestic consumption	<input type="checkbox"/>	
Company Innovation	<input type="checkbox"/>	
New customer segments in the bop	<input type="checkbox"/>	
Government incentives/reduced taxes	<input type="checkbox"/>	
M&A Opportunities for company to expand	<input type="checkbox"/>	
Increased access to capital	<input type="checkbox"/>	
Increased access to technology	<input type="checkbox"/>	
Lower input costs	<input type="checkbox"/>	

11. WHAT ARE THE MOST SIGNIFICANT RISKS FACING YOUR COMPANY IN THE FOLLOWING AREAS? PLEASE PROVIDE EXAMPLES WHERE RELEVANT IN 3 OF THE MOST SIGNIFICANT RISKS:
- A. REGULATORY?
 - B. FINANCIAL?
 - C. SUPPLY CHAIN?
 - D. LABOR?
 - E. COMPETITIVE?
 - F. ENVIRONMENTAL?
 - G. SOCIAL?
 - H. POLITICAL?

ABOUT WORKING WITH THE LOW-INCOME SEGMENT

12. WHAT IS YOUR DEFINITION OF THE LOW-INCOME SEGMENT? SOMEONE WHO EARNS:

≤ \$1/DAY	<input type="checkbox"/>
≤ \$2/DAY	<input type="checkbox"/>
≤ \$3/DAY	<input type="checkbox"/>
≤ \$4/DAY	<input type="checkbox"/>
≤ \$10/DAY	<input type="checkbox"/>

13. HAS OR DOES YOUR COMPANY WORK WITH THE LOW-INCOME SEGMENT? IF SO, PLEASE CHARACTERIZE THE MANNER THROUGH WHICH YOUR COMPANY ACTIVELY ENGAGED THIS SEGMENT OF THE POPULATION (AS CONSUMERS, SUPPLIERS, DISTRIBUTORS, EMPLOYEES?)
14. DOES YOUR COMPANY HAVE A SPECIFIC BUSINESS STRATEGY AND/OR GOAL TO ENGAGE THE LOW-INCOME SEGMENT? IF SO, PLEASE DESCRIBE THE STRATEGY AND/OR THE GOAL.
15. IS THE LOW-INCOME SEGMENT IMPORTANT TO YOUR COMPANY'S CURRENT BUSINESS MODEL? DO YOU HAVE PLANS TO CONSIDER MAKING IT A PRIORITY OVER THE NEXT 5 YEARS? IF SO, WHY? IF NOT, WHY NOT?
16. WHAT WOULD BE THE MAIN REASON FOR YOU TO MORE ACTIVELY INCORPORATE THE LOW-INCOME SEGMENT WITHIN YOUR COMPANY'S BUSINESS STRATEGY? PLEASE SELECT AND RANK THE TOP 3.

REASON	SELECT 3 REASONS ONLY	RANK (1-3) 1= HIGHEST
Increase company growth and profitability	<input type="checkbox"/>	
Strengthen company reputation/brand	<input type="checkbox"/>	
Comply with Corporate Social Responsibility Strategy/internal requirements	<input type="checkbox"/>	
Comply with government regulations	<input type="checkbox"/>	

To gain first mover advantage in this market segment	<input type="checkbox"/>
To localize my company's supply chain and reduce associated costs	<input type="checkbox"/>
To secure a long-term license to operate	<input type="checkbox"/>
To appeal to company shareholders	<input type="checkbox"/>
To mitigate local stakeholder risks	<input type="checkbox"/>
To attract additional capital to the company	<input type="checkbox"/>
Improve product quality	<input type="checkbox"/>
Contribute to a charitable cause	<input type="checkbox"/>
Comply with management directive	<input type="checkbox"/>
Innovation/Research and Development	<input type="checkbox"/>

17. DOES YOUR COMPANY CURRENTLY HAVE A COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY (CSR)? IF SO, PLEASE DESCRIBE IT IN MORE DETAIL. HOW DO YOU REPORT ON YOUR CSR PERFORMANCE? WHAT PERCENTAGE OF YOUR OVERALL BUDGET IN PERCENTAGE TERMS WOULD YOU SAY YOUR COMPANY INVESTS IN CSR EACH YEAR?
18. WHAT HAS BEEN YOUR COMPANY'S COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY? PLEASE DESCRIBE IT IN MORE DETAIL
19. DOES YOUR COMPANY HAVE A CORPORATE FOUNDATION THROUGH WHICH YOU FINANCE CHARITABLE INITIATIVES? IF SO, PLEASE DESCRIBE IT IN MORE DETAIL.

POTENTIAL, CURRENT OR NO ENGAGEMENT WITH THE LOW INCOME SEGMENT

PLEASE COMPLETE QUESTIONS 20 – 29 IF YOUR COMPANY IS CURRENTLY ENGAGED WITH THE BOP.

PLEASE COMPLETE QUESTIONS 30– 36 IF YOUR COMPANY HAS PLANS TO ENGAGE WITH THE BOP IN THE NEAR FUTURE (NEXT 18 MONTHS)

PLEASE COMPLETE QUESTION 37 – 39 IF YOUR COMPANY HAS NO PLANS TO ENGAGE WITH THE BOP.

CURRENT ENGAGEMENT WITH THE LOW INCOME SEGMENT ONLY

20. DOES YOUR COMPANY CURRENTLY ENGAGE WITH THE LOW-INCOME SEGMENT IN THE FOLLOWING WAYS? PLEASE CHECK ALL THAT APPLY.

INCLUSIVE BUSINESS MODEL	CURRENTLY ENGAGE
Bop as employees	<input type="checkbox"/>
Bop as suppliers of raw materials	<input type="checkbox"/>
Bop as distributors of goods and/or services	<input type="checkbox"/>
Bop as consumers of your company's products and/or services	<input type="checkbox"/>

21. IF YOUR COMPANY IS ENGAGING WITH THE BOP IN THE AFOREMENTIONED BUSINESS MODELS, HOW MANY PEOPLE ARE CURRENTLY BEING IMPACTED BY YOUR COMPANY USING THIS APPROACH? PLEASE ESTIMATE IMPACT NUMBERS PER APPLICABLE BUSINESS MODEL.

INCLUSIVE BUSINESS MODEL	CURRENTLY ENGAGE	NUMBER OF BENEFICIARIES
Bop as employees	<input type="checkbox"/>	
Bop as suppliers of raw materials	<input type="checkbox"/>	
Bop as distributors of goods and/or services	<input type="checkbox"/>	
Bop as consumers of your company's products and/or services	<input type="checkbox"/>	

22. IN YOUR COMPANY'S ENGAGEMENT WITH THE BOP, WHAT HAVE BEEN THE BENEFITS TO THE BOP? PLEASE RANK THE TOP 3 BENEFITS.

REASON	SELECT 3 REASONS ONLY	RANK (1-3) 1=GREATEST BENEFIT
Increased income for suppliers or distributors	<input type="checkbox"/>	
Access to new products and services tailor made to their needs that contribute to their livelihoods	<input type="checkbox"/>	
Access to credit	<input type="checkbox"/>	
Access to technical assistance, know-how, vocational training	<input type="checkbox"/>	
Access to basic services like water, sanitation, health and education	<input type="checkbox"/>	
Access to new markets	<input type="checkbox"/>	

Secure and long-term buyer of goods and services	<input type="checkbox"/>
Access to technology	<input type="checkbox"/>
Employment opportunities	<input type="checkbox"/>
Improved nutrition	<input type="checkbox"/>
Access to financial services	<input type="checkbox"/>
Access to housing	<input type="checkbox"/>
Other: Please specify:	<input type="checkbox"/>

23. IN YOUR COMPANY'S IS ENGAGEMENT WITH THE BOP, WHAT HAVE BEEN THE BENEFITS TO THE COMPANY? PLEASE RANK THE TOP 3 BENEFITS.

REASON	SELECT 3 BENEFITS ONLY	RANK (1-3) 1= GREATEST BENEFIT
Cheap labor supply	<input type="checkbox"/>	
New, highly profitable (high volume, low margin) consumer market	<input type="checkbox"/>	
Stable supply of critical inputs in supply chain	<input type="checkbox"/>	
Lower transaction costs in supply and/or distribution	<input type="checkbox"/>	
Improved reputation/brand equity in local and international market	<input type="checkbox"/>	
To create shared value	<input type="checkbox"/>	
To contribute to sustainable development	<input type="checkbox"/>	
Improved results for CSR Report	<input type="checkbox"/>	
Favorable engagement with national government	<input type="checkbox"/>	
Improved sales	<input type="checkbox"/>	
Improved profits	<input type="checkbox"/>	
Innovation	<input type="checkbox"/>	
Other: Please specify:	<input type="checkbox"/>	

24. WHAT PERCENTAGE OF YOUR OVERALL BUSINESS IS RELATED TO THE BOP?

25. PLEASE PROVIDE THE PERCENTAGES THROUGH WHICH YOU INVOLVE THE BOP IN ANY OF THE FOLLOING WAYS:

As SUPPLIERS	As CONSUMERS	As EMPLOYEES	As DISTRIBUTORS
<input type="checkbox"/> %	<input type="checkbox"/> %	<input type="checkbox"/> %	<input type="checkbox"/> %

26. CONSIDERING THE IMPORTANCE OF JOB CREATION TO LONG TERM GROWTH, HOW MANY PEOPLE DOES YOUR COMPANY EMPLOY DIRECTLY? HOW MANY WOULD YOU SAY ARE EMPLOYED INDIRECTLY (INDIRECTLY REFERS TO PEOPLE WHO ARE NOT ON YOUR COMPANY'S PAYROLL BUT STILL COMPENSATED BY YOUR COMPANY)? WHAT PERCENTAGE OF DIRECT AND INDIRECT EMPLOYEES ARE FROM THE LOW-INCOME SEGMENT?

27. PLEASE DESCRIBE TWO INITIATIVES (THE MOST SUCCESSFUL OR WITH THE BEST POTENTIAL) THROUGH WHICH YOU ARE ACTIVELY ENGAGING IN A BOP-FOCUSED BUSINESS VENTURE/PROJECT? HOW DID YOU IDENTIFY AND DEVELOP THE OPPORTUNITY? WHAT WAS THE BUSINESS NEED YOU IDENTIFIED? WHY DID YOU ENGAGE THE BOP? WHAT HAS BEEN THE IMPACT TO YOUR COMPANY AND TO THE LOW-INCOME PARTICIPANTS INVOLVED? WHAT HAVE BEEN THE LESSONS LEARNED? DID YOU PARTNER WITH ANY ORGANIZATIONS TO ACHIEVE YOUR OBJECTIVES? DID YOU REQUIRE ADDITIONAL CAPITAL TO DEVELOP THE INITIATIVE?

28. WHAT OBSTACLES HAVE YOU ENCOUNTERED WHEN DEVELOPING AN INCLUSIVE BUSINESS INIATIVE WITH THE BOP?

OBSTACLE	SELECT ALL THAT APPLY	RANK THEM (1= GREATEST OBSTACLE)
Lack of information about the bop (i.e. Consumer behavior, needs, productive capacity, etc)	<input type="checkbox"/>	
Lack of access to relevant technology critical to the inclusive business initiative	<input type="checkbox"/>	
Lack of appropriate distribution channels	<input type="checkbox"/>	
Lack of skilled and qualified participants from the bop to make project a success	<input type="checkbox"/>	
Start-up costs for the inclusive business initiative were too high	<input type="checkbox"/>	
Lack of management buy-in and company support	<input type="checkbox"/>	

Lack of organizational capacity and organization among supplier (if applicable)	<input type="checkbox"/>
Insufficient volume with sufficient margins to make business viable	<input type="checkbox"/>
Lack of finance to kick-start the project	<input type="checkbox"/>
Lack of trust between the company and the bop	<input type="checkbox"/>
Lack of company capacity to effectively develop the inclusive business project	<input type="checkbox"/>
Negative perceptions about the value of the opportunity with the bop	<input type="checkbox"/>

29. CONSIDERING THE RISKS INVOLVED, WOULD THERE BE A NEED FOR A TECHNICAL ASSISTANCE FACILITY THAT COULD PROVIDE PATIENT CAPITAL (GRANTS) TO MITIGATE PRE-INVESTMENT AND/OR POST-INVESTMENT RISKS OF WORKING WITH THE BOP? IF SO, HOW WOULD YOU SEE IT HELPING YOUR INCLUSIVE BUSINESS INITIATIVE SUCCEED?

POTENTIAL ENGAGEMENT WITH THE LOW INCOME SEGMENT

30. DOES YOUR COMPANY PLAN TO ENGAGE WITH THE LOW-INCOME SEGMENT IN THE FOLLOWING WAYS? PLEASE CHECK ALL THAT APPLY.

INCLUSIVE BUSINESS MODEL	PLAN TO ENGAGE
Bop as employees	<input type="checkbox"/>
Bop as suppliers of raw materials	<input type="checkbox"/>
Bop as distributors of goods and/or services	<input type="checkbox"/>
Bop as consumers of your company's products and/or services	<input type="checkbox"/>

31. IF YOUR COMPANY WERE PLANNING TO ENGAGE WITH THE BOP IN THE NEAR FUTURE THROUGH THE AFOREMENTIONED BUSINESS MODELS, HOW MANY PEOPLE WOULD YOU SAY MIGHT BE IMPACTED BY YOUR COMPANY USING THIS APPROACH? PLEASE ESTIMATE IMPACT NUMBERS PER APPLICABLE BUSINESS MODEL.

INCLUSIVE BUSINESS MODEL	POTENTIALLY ENGAGE	NUMBER OF BENEFICIARIES
Bop as employees	<input type="checkbox"/>	
Bop as suppliers of raw materials	<input type="checkbox"/>	
Bop as distributors of goods and/or services	<input type="checkbox"/>	
Bop as consumers of your company's products and/or services	<input type="checkbox"/>	

32. IF YOUR COMPANY IS PLANS TO ENGAGE WITH THE BOP, WHAT BENEFITS TO THE BOP DO YOU AIM TO ACHIEVE? PLEASE RANK THE TOP 3 BENEFITS.

REASON	SELECT 3 REASONS ONLY	RANK (1-3) 1=GREATEST BENEFIT
Increased income for suppliers or distributors	<input type="checkbox"/>	
Access to new products and services tailor made to their needs that contribute to their livelihoods	<input type="checkbox"/>	
Access to credit	<input type="checkbox"/>	
Access to technical assistance, know-how, vocational training	<input type="checkbox"/>	
Access to basic services like water, sanitation, health and education	<input type="checkbox"/>	
Access to new markets	<input type="checkbox"/>	
Secure and long-term buyer of goods and services	<input type="checkbox"/>	
Access to technology	<input type="checkbox"/>	
Employment opportunities	<input type="checkbox"/>	
Improved nutrition	<input type="checkbox"/>	
Access to financial services	<input type="checkbox"/>	
Access to housing	<input type="checkbox"/>	

33. IF YOUR COMPANY IS PLANNING TO ENGAGE WITH THE BOP, WHAT ARE THE BENEFITS TO THE COMPANY? PLEASE RANK THE TOP 3 BENEFITS.

REASON	SELECT 3 BENEFITS ONLY	RANK (1-3) 1= GREATEST BENEFIT
Cheap labor supply	<input type="checkbox"/>	
New, highly profitable (high volume, low margin) consumer market	<input type="checkbox"/>	
Stable supply of critical inputs in supply chain	<input type="checkbox"/>	
Lower transaction costs in supply and/or distribution	<input type="checkbox"/>	
Improved reputation/brand equity in local and international market	<input type="checkbox"/>	
To create shared value	<input type="checkbox"/>	

To contribute to sustainable development	<input type="checkbox"/>
Improved results for CSR Report	<input type="checkbox"/>
Favorable engagement with national government	<input type="checkbox"/>
Improved sales	<input type="checkbox"/>
Improved profits	<input type="checkbox"/>
Innovation	<input type="checkbox"/>

34. WHAT PERCENTAGE OF YOUR OVERALL BUSINESS WOULD YOU EXPECT TO BE RELATED TO THE BOP? SPECIFICALLY, WHAT PERCENTAGE OF YOUR SALES WOULD YOU EXPECT TO BE GENERATED AS A RESULT OF GOODS AND SERVICES PROVIDED TO THE LOW INCOME SEGMENT? WHAT PERCENTAGE OF YOUR COMPANY'S SUPPLIERS WOULD YOU ESTIMATE COMES FROM THE BOP? WHAT PERCENTAGE OF YOUR LABOR FORCE (BOTH DIRECT AND INDIRECT) COMES FROM THE BOP?
35. PLEASE DESCRIBE TWO INITIATIVES (THE MOST SUCCESSFUL OR WITH THE BEST POTENTIAL) YOU ARE CONTEMPLATING THROUGH WHICH YOU PLAN TO ACTIVELY ENGAGE IN A BOP-FOCUSED BUSINESS VENTURE/PROJECT? HOW WOULD YOU IDENTIFY AND DEVELOP THE OPPORTUNITY? WHAT WOULD YOU CONSIDER TO BE THE BUSINESS NEED TO BE IDENTIFIED? WHY WOULD YOU ENGAGE THE BOP? WHAT COULD BE THE IMPACT TO YOUR COMPANY AND TO THE LOW-INCOME PARTICIPANTS INVOLVED? WOULD YOU PARTNER WITH OTHER ORGANIZATIONS TO ACHIEVE YOUR OBJECTIVES? WOULD YOU REQUIRE ADDITIONAL CAPITAL TO DEVELOP THE INITIATIVE?
36. CONSIDERING THE RISKS INVOLVED, WOULD THERE BE A NEED FOR A TECHNICAL ASSISTANCE FACILITY THAT COULD PROVIDE PATIENT CAPITAL (GRANTS) TO MITIGATE PRE-INVESTMENT AND/OR POST-INVESTMENT RISKS OF WORKING WITH THE BOP? IF SO, HOW WOULD YOU SEE IT HELPING YOUR POTENTIAL INCLUSIVE BUSINESS INITIATIVE SUCCEED?

NO ENGAGEMENT WITH THE LOW INCOME SEGMENT

37. WHAT ARE THE MAIN REASONS FOR WHICH YOUR COMPANY IS NOT INTERESTED IN ENGAGING IN BUSINESS MODELS THAT COULD INTEGRATE THE BOP WITHIN YOUR COMPANY'S VALUE CHAIN? WHAT EVIDENCE OR ARGUMENTATION WOULD MAKE YOU RECONSIDER?
38. ARE THERE ANY MARKET OPPORTUNITIES THAT COULD YIELD ADDITIONAL BENEFITS TO YOUR COMPANY?
39. IF YOU WERE PROVIDED WITH PATIENT CAPITAL PROVIDED THROUGH A TECHNICAL ASSISTANCE FACILITY TO DEVELOP AN INCLUSIVE BUSINESS PILOT TO DEMONSTRATE PROOF OF CONCEPT, WOULD YOU RECONSIDER?

ABOUT FINANCING AND FINANCING INCLUSIVE BUSINESS

40. WHAT SOURCES OF FINANCING HAVE YOU USED IN THE PAST? WHAT AMOUNTS AND UNDER WHAT CONDITIONS? PLEASE CHECK ALL THAT APPLY.

FINANCING	IN USE OR USED	TERMS (RATE/CURRENCY/PERIOD)	AMOUNT
Equity Investment	<input type="checkbox"/>		
Debt	<input type="checkbox"/>		
Guarantee	<input type="checkbox"/>		
Grant	<input type="checkbox"/>		
Other:	<input type="checkbox"/>		

41. HAVE THE INVESTORS MADE THE ANTICIPATED RETURN? IF NOT, WHY NOT?

42. WHAT ARE THE CURRENT FINANCING (BOTH DEBT AND EQUITY) OPTIONS IN INDONESIA? EXPLAIN UNDER WHAT TERMS EACH OF THESE OPTIONS OPERATE (I.E. IN TERMS OF INTEREST RATES, COLLATERAL OR GUARANTEE REQUIREMENTS, ETC)

43. WHAT ROLE DID THE INVESTORS TAKE IN THE MANAGEMENT OF THE COMPANY (I.E. GENERAL PARTNER, LIMITED PARTNER, ETC)

44. IS YOUR COMPANY INTERESTED IN RECEIVING FINANCING DESIGNED TO SUPPORT THE DEVELOPMENT OF INCLUSIVE BUSINESS INITIATIVES WITHIN YOUR COMPANY?

45. IF SO HOW MUCH FINANCING WOULD YOUR COMPANY REQUIRE (IN USD) FOR THIS INITIATIVE? WHAT WOULD THE FUNDS BE USED FOR PRIMARILY (I.E. WORKING CAPITAL, MARKETING, CAPITAL INVESTMENTS, ETC)

46. WHAT TYPE OF FINANCING WOULD YOU CONSIDER? DEBT? EQUITY? GUARANTEES?

47. UNDER WHAT TERMS WOULD YOU CONSIDER FINANCING? WITHIN WHAT TIME FRAME?

48. WHAT WOULD YOU CONSIDER TO BE THE IRR FOR THE INVESTMENT MADE AND OVER WHAT PERIOD? WHAT WOULD YOU ANTICIPATE WOULD BE THE POTENTIAL BENEFITS TO THE BOP (NUMBER OF PEOPLE IMPACTED BY INCREASED INCOME, EMPLOYMENT OPPORTUNITIES, STANDARD OF LIVING, ETC)?

49. DOES YOUR COMPANY CURRENTLY HAVE A SOURCE OF FINANCING THAT SUPPORTS YOUR BOP ACTIVITIES? IF SO, PLEASE DESCRIBE THE TYPE OF FINANCING, TERMS, AMOUNTS AND RETURNS PROVIDED WHERE POSSIBLE.

FOLLOW-UP

50. WOULD YOU LIKE TO RECEIVE FURTHER INFORMATION ABOUT FINANCING OPPORTUNITIES FROM THE ADB AND/OR SNV TO SUPPORT INCLUSIVE BUSINESS DEVELOPMENT IN YOUR COMPANY?

51. WOULD YOU LIKE TO RECEIVE ADDITIONAL INFORMATION ABOUT INCLUSIVE BUSINESS AND BE ADDED TO OUR NEWSLETTER THROUGH WHICH YOU CAN RECEIVE REGULAR UPDATES AS TO INCLUSIVE BUSINESS ACTIVITIES WORLDWIDE?

Appendix 2: Fund manager and co-investor mapping survey

1. Economic outlook for Indonesia – now and 5 years forward? Why?
1. Major obstacles to investment in Indonesia (top 3)?
2. Main reasons to invest in Indonesia (top 3)?
3. Investment/fund strategy and types of investment: what works and what doesn't? Examples of success
4. Attractiveness for PE /IB investment in Indonesia vs other South Asia countries? Why?
5. Most/least attractive industry sectors for PE /IB investment? Why?
6. Have you considered investment in companies focused on low income market segment – is it important now/in the future?
7. Which industry/IB sectors do you invest in – what percentage of fund/ portfolio?
8. Most profitable industry+IB sector opportunities (top 3) – IRR expectations? (0-5-10-15%) Why?
9. Financial instruments used for industry investment: equity – debt – blend – credit guarantee – grant (TA)? Percentage? Deal size? IRR?
10. Financial instruments preferred for IB investment: equity – debt – blend – credit guarantee – grant (TA)? Percentage? Deal size? IRR?
11. Most important PE investment factors (top 3)? Why?
12. Major obstacles to PE investment (top 3)? Why?
13. Most important PE investment risks/concerns (top 3)? Why?
14. Key opportunities for a PE fund and main challenges to start a PE fund in Indonesia?
15. Best performing PE funds incountry? Why?
16. Most attractive exit strategy (IPO – trade - secondary sale – refinance - other)? Why?
17. Key factors in making an IB PE investment in Indonesia (top 3)? Why?
18. Key concerns in making an IB PE investment in Indonesia (top 3)? Why?
19. Greatest challenges/obstacles/barriers to start an IB PE fund in Indone-sia? Why?
20. Is there really an opportunity to start an IB PE fund in Indonesia? Why?
21. Greatest challenges to capitalize and manage a successful IB PE fund in Indonesia (top 3)? Why?
22. If there are obstacles – can they be overcome? How?
23. Given possible pre/post investment risks, if there need for a TA facility working with the low market segment? How could it be structured?
24. If ADB provides \$20M seed capital could you raise another \$80M? Why or why not? Main challenges in doing so?
25. Interest to manage or co-invest in such a fund? Why or why not? Investment size? Terms?
26. What kind of investors would you target? Their risk profiles? Their expected returns?
27. Other than IRR, how do you define PE fund success? Metrics used? For financial and sustainable impacts (i.e. GIIRS/IRIS)? Is a tailored metrics tool required?
28. What kind of metrics would you use for an IB PE fund that creates value in the low market segment?
29. Do you make any investments based on sustainable impacts? What kinds?

30. What would be the average deal size and returns if you invested in (or managed) a sustainable investment fund? Preferred term (open – close – maturity)?
31. If the sustainable investment was debt instead of equity – competitive terms in current marketplace?
32. If the sustainable investment was equity instead of debt – normal stake and role? Example?
33. What incentives would you include in an IB PE fund design to attract fund managers/co-investors? Critical success factors?
34. Real or perceived benefit (if any) in ADB providing anchor investment in this type of fund?
35. Do you have any recommendations for the strategy of the fund? Specific sector focus? Debt/equity or blend? Specific sustainable targets? Others?
36. Do you know other potential investors that may be interested to co-invest in this fund?
37. If you are not interested as a Co-investor, what additional parameters might help to change your mind?

Appendix 3: Overview of impact assessment

No	Company Name	Sector	Innovativeness of IB Business Model (L, M, H, VH)	Profitability (L, M, H, VH)	Social Impact		
					Reach (L, M, H, VH)	Depth (L, M, H, VH)	Systemic Contribution (L, M, H, VH)
1	PT. Usaha Kita Makmur Indonesia (PT.UKMI)	Agriculture	H	M	VH	H	H
2	Paskomnas	Agriculture	VH	VH	VH	VH	VH
3	PT. Mars Symbioscience Indonesia (MSI)	Agriculture	H	VH	M	H	H
4	PT. Great Giant Pineapple	Agriculture	H	VH	M	M	M
5	Green Gold Group	Agriculture	VH	VH	VH	H	H
6	Riau Sagu Lestari and Sinar Sagu Mas	Agriculture	H		VH	M	M
7	PT. Agri Spices Indonesia	Agriculture	H	VH	VH	M	VH
8	CV. Indo Agro Perdana	Agriculture	H		VH	M	H
9	Javanegra	Agriculture	VH	VH	VH	M	H
10	Big Tree Farms	Agriculture – F&B	VH	VH	VH	H	VH
11	Lautan Luas Tbk.	Manufacturing	H	VH	VH	L	M
12	PT. Panasonic Manufacturing Indonesia	Manufacturing	H	VH	VH	L	M
13	PT DUA Lighting	Manufacturing	H	VH	M	L	M
14	PT Aditec Cakrawiyasa	Manufacturing	H	H	M	L	M
15	Mandala Marmer	Manufacturing	M	L	L	L	L
16	Dian Handycraft	Manufacturing	H	L	L	VH	M
17	Silverplas Pasific	Manufacturing	H	M	L	VH	M
18	Nike Indonesia	Manufacturing	H	VH	VH	M	M
19	Tetra Pak	Manufacturing	H	VH	VH	M	M
20	PT. Tirta Investama Aqua Danone	Consumer Goods/Retail	L	VH	VH	M	H
21	Tudung Group	Consumer Goods/Retail	M	VH	VH	M	M
22	Unilever Indonesia	Consumer Goods/Retail	M	VH	VH	H	H
23	PT. Mustika Ratu	Consumer Goods/Retail	M	VH	VH	H	H
24	Asafood	Consumer Goods/Retail	L	H	L	L	L
25	PT. Sarinah	Consumer Goods/Retail	H	H	M	H	M
26	RUMA	Consumer Goods/Retail	H	M	VH	H	H
27	PT. Holcim Indonesia	Housing material	L	VH	VH	L	L
28	PT. Pembangunan Perumahan	Housing material	L	H	M	L	L
29	PT. Tata Logam Lestari	Housing material	L	H	M	L	L
30	PT. Surya Toto	Housing material	L	VH	M	L	L
31	PT. Keramik KIA	Housing material	L	VH	M	L	L
32	PT. Hexindo Adiperkasa	Housing material	L	H	M	L	L
33	Medco Power Indonesia (MPI)	Energy	H	VH	L	L	M
34	PT. Sintesa Banten Geothermal	Energy	H	VH	L	L	M
35	PT.Sinar Indonesia Merdeka	Energy – Sorghum planting	H	H	L	M	M
36	Ecoport Power Persada	Energy	H	M	VH	VH	M
37	Terrasys Energy	Energy	VH	H	VH	VH	H
38	PT Reservasi Generasi (RiverGen)	Energy	VH	H	VH	VH	H
39	STC Indonesia	Energy – bio energy	VH	H	VH	VH	H
40	PT. Eagle Indo Pharma	Pharmacy	L	H	H	L	H
41	PT. Kimia Farma	Pharmacy	L	H	H	L	H
42	PT. Merck Indonesia	Pharmacy	L	VH	VH	L	H
43	PT. Darya Varia	Pharmacy	L	VH	VH	L	H
44	Pulan Macan Village & Eco Resort	Tourism	M	H	L	M	L
45	Manuaba Mandiri	Tourism - resorts	M	H	L	M	L

46	Ecolodges Indonesia	Tourism - resorts	H	H	L	M	L
47	idGuides	Tourism	M	H	L	M	L
48	biMBA (PAUD)	Training and Education	VH	VH	VH	VH	VH
49	Yayasan Bu Gito	Training and Education	H	M	M	H	VH
50	PT. Putratama Bhakti Satria	Training and Education	H	H	M	H	VH
51	PT. ISS Indonesia	Training and Education	H	VH	VH	VH	VH
52	Bank Andara	Financial Services	VH	VH	VH	H	H
53	Bank Saudara - Sampoerna Group	Financial Services	H	VH	VH	H	H
54	PT. Astra Mitra Ventura (AMV)	Financial Services	H	H	M	H	H
55	PT. Adiwara Worldwide	Health Care	L	M	H	L	H
56	PT. K-24 Indonesia	Health Care	L	M	VH	M	H
57	PT Mitra Unggul Sanitasi Terpadu	Water and Sanitation	H	M	M	M	M
58	PT Zamrud Ekamitra Nusantara Engineering	Water and Sanitation	H	M	M	M	M
59	PT. Bali Seafood Indonesia	Fishery	VH	VH	VH	H	M
60	PT. Bakrie Telecom	Telecommunication	H	VH	VH	L	M
61	PT. Garuda Sakti Persada (Link Taxi)	Transportation	L	M	L	L	L
62	PT. Riau Andalan Pulp and Paper	Forestry	M	VH	M	M	L

L : Low

M : Medium

H : High

VH : Very High

Appendix 4: Impact on Sector Coverage

Sector	Market Scope (L, M, H, VH)	Financial Returns (L, M, H, VH)	Social Returns (L, M, H, VH)			Relevance (L, M, H, VH)
	Number of IB Companies	Profitability	Systemic problem solving	Reach of the Poor	Depth of poverty reduction	Innovativeness of IB Model
Agriculture	VH	VH	H	H	VH	H
Manufacturing/ Light Manufacturing	VH	VH	H	H	H	H
Consumer Goods/ Retail	H	VH	H	M	VH	M
Housing Material	H	H	L	L	M	L
Energy/ Renewable Energy	H	H	H	H	VH	H
Pharmacy	M	H	M	M	L	L
Tourism	M	H	M	M	M	M
Education and Training	M	H	H	H	M	H
Finance Services	M	H	H	H	H	H
Health Care Product	L	M	H	M	M	L
Water and Sanitation	L	M	H	M	L	H
Telecommunication	L	VH	L	L	L	H
Forestry	L	H	L	L	L	M
Transportation	L	M	H	L	H	L
Fishery	L	H	H	L	L	H

L : Low

M : Medium

H : High

VH : Very High

Appendix 5: List of fund managers, co-investors and knowledge resources

Fund Managers (27)

- Aureos Capital AXA Asset Management
- Bahana TWC Investment Management
- Bamboo Finance
- Batavia Investment Management Batavia Prosperindo Asset Management
- BlueOrchard
- Brent Asset Management
- Darby Overseas Investments, Ltd. (USA)
- Dolma Development Fund
- First State Investments Grameen Capital (India)
- Japan Asia Investment Company
- Kendall Court
- LGT Philanthropy Ventures
- Macquarie Capital Mandiri Manajemen Investasi
- Manulife Asset Management
- Milenium Danatama Indonesia
- Nikko Securities Indonesia
- Nomura Asset Management
- OSK Nusadana Asset Management
- ReCapital Investment Group
- Schroder Investment Management Indonesia
- Syailendra Asia
- Trimegah Securities
- UOB Global Capital

* Blank domicile indicates Indonesia presence

Co-Investors - Banks (7)*

- Bank Andara
- Bank Negara Indonesia 46 (BNI 46)
- Bank Rabobank International Indonesia
- Bank Sahabat Sampoerna
- Bank Tabungan Pensiunan Nasional (BTPN)
- HSBC Indonesia
- International Finance Corporation (Indo/USA)
- Mayapada Bank

Co-Investors - Foundations (4)*

- Citi Indonesia / Foundation
- Grameen Foundation (USA)
- Sampoerna Foundation
- Astra Foundatin

Co-investors - Asset Managers (27)*

- AIG / AIA / Chartis
- AlpInvest (HKG)

- Ancora International Astra Mitra Ventura
- Capsquare Asia Partners Credit Suisse Group AG (Swiss)
- Creador Capital (Indo/Malaysia)
- Economic Development Board (Spore)
- Fairways Capital
- Grassroots Business Fund
- Leapfrog Investments (USA/Australia)
- Mahanusa Capital
- Manulife Capital (Canada)
- Northstar Pacific
- Obviam AG (Swiss)
- Overseas Private Investment Corporation (OPIC) (USA)
- PGGM N.V. / Vermogensbeheer B.V. (Netherlands)
- Pomona Capital Asia Limited (HKG)
- PT Danareksa
- Quvat Management responsAbility (Swiss)
- Saratoga Capital / Investama Sedaya Standard Chartered Private Equity (Spore)
- Threadneedle Investments (Spore)
- Temasek Holdings (Spore)
- UBS AG (Spore/Swiss)
- Yawadwipa

* Blank domicile indicates Indonesia presence

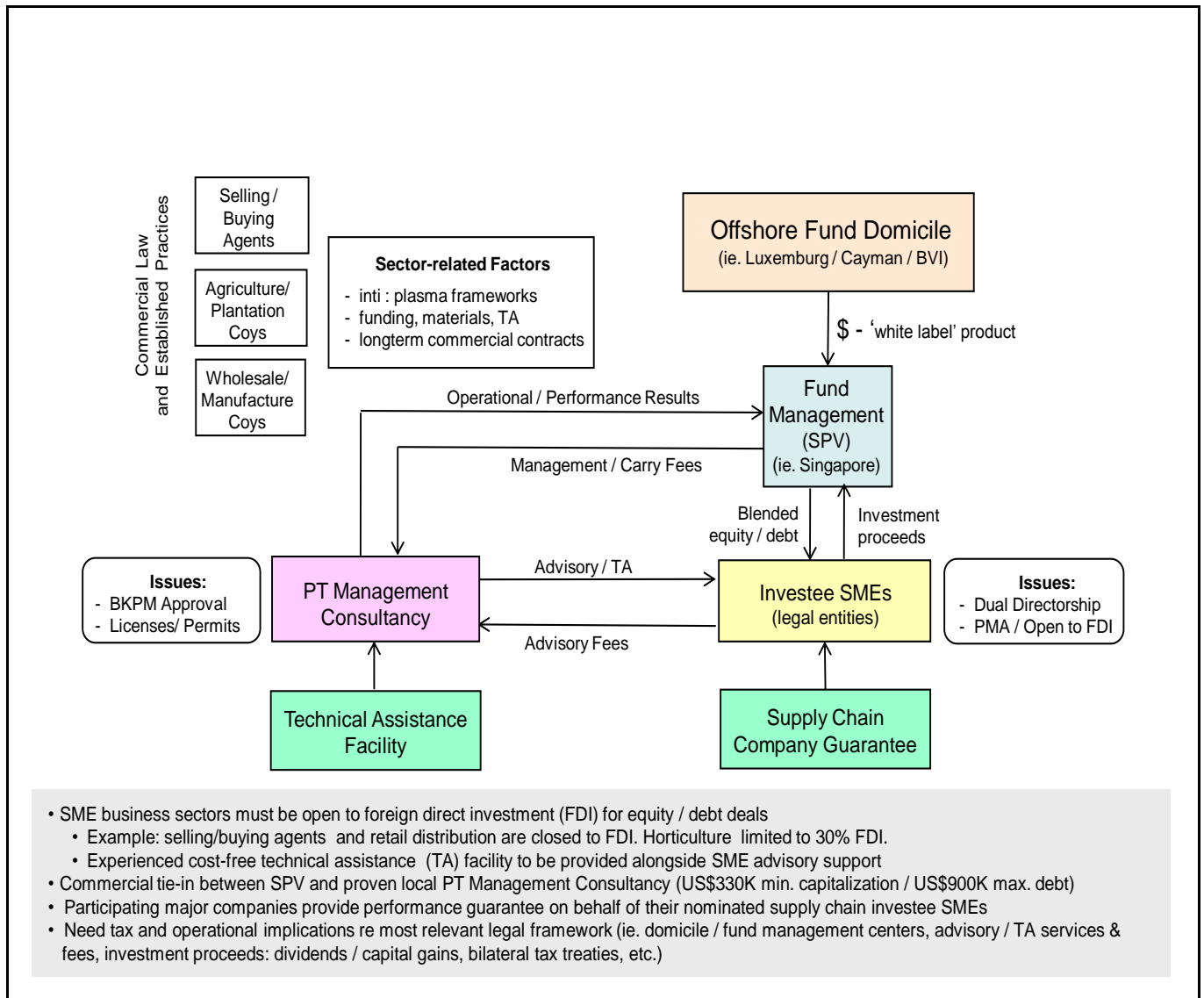
Market Intelligence and Knowledge Resources* (32)

- Asian Development Bank
- AT Kearney Indonesia
- Bain & Co. (Spore)
- Bank Indonesia
- Baker & MacKenzie
- Bank of America Merrill Lynch Cambridge Associates (Spore)
- Capital Market Supervisory Agency (Bapepam-LK)
- CLSA Indonesia
- DEG KfW Bankengruppe
- Dow Jones Asia
- Eagle Capital
- Ernst & Young (Indo/Spore)
- Family Business Network Asia Pacific / Asia Venture Philanthropy Network Ford Foundation
- Global Entrepreneurship Program Indonesia (GEPI)
- Grant Thornton (UK/Australia)
- IESE Business School (Spain)
- Impact Investment Exchange / NEXII (Spore/S. Africa)
- Indonesia Mutual Funds Association (APRDI)
- Indonesia Stock Exchange (IDX)
- International Finance Corporation (IFC) JP Morgan Securities Indonesia
- Macquarie Capital Securities Indonesia
- McKinsey & Company Indonesia
- MEKAR Entrepreneur Network

- Monitor Group (India)
- Morgan Stanley Indonesia
- New Ventures Indonesia
- PriceWaterhouseCoopers Sosial Enterprener Indonesia (SEI)
- USAID

* Blank domicile indicates Indonesia presence

Appendix 6: Strategic investment framework



Appendix 7: Profiles of fund managers and co-investors

Fund Manager Profiles (7)

1) Aureos Capital SE Asia

Fund Name	Aureos SE Asia Fund (ASEAF) II	Sample Investment	ODG Wormald Indonesia (ODG) Leading Indonesian engineering firm
Investors	CDC, EPF, DBJ, FMO		
Fund Details		Fund Strategy	
Vintage	2011	Aureos Capital is a global investment firm with a \$1.3b portfolio of emerging markets PE funds. Being a finance-first fund manager, it focuses on SMEs across all sectors with a strong track record investing in SE Asia. The firm is primarily interested in short-medium term investments in financial services, FMCG, TMT, manufacturing, and construction & engineering companies. ASEAF II is raising up to US\$250m as a regional PE fund with offices in the 5 key countries, as well as Singapore, staffed by senior investment teams with extensive regional PE experience. Aureos has completed over 270 transactions with exits averaging 30% IRR since 2001.	
Total AUM	\$250m		
Investment Size	\$8-10m		
Target IRR	20%		
Geographic Focus	Indonesia, Malaysia, Vietnam, Philippines, Thailand		
Sector Focus	Agnostic		
Impact Metrics			
Aureos has a professional suite of business standards that includes a proprietary impact measurement framework, the Aureos Sustainability Index as well as incorporating IFC performance standards, investment screens and ESG criteria. The firm is a member of the UNPRI.			
Key Contact			
Hanjaya Limanto is the Managing Partner of Aureos Capital SE Asia			

Source: Fund manager interview; secondary research

2) BlueOrchard Finance S.A.

Fund Name	BlueOrchard Microfinance Fund	Sample Investment	Bank Andara Indonesia Wholesale banking MFI provider
Investors	Institutional & Private Investors		
Fund Details		Fund Strategy	
Vintage	2001	BlueOrchard is a leading international investor and fund manager with \$677m AUM dedicated to the microfinance sector. Its investment products achieve double bottomline results – financial returns and sustainable impacts – with a focus on entrepreneur growth in the BOP. The firm has a long, successful history in Asia investing in MFIs active in many industries, particularly financial services, agriculture, energy and healthcare. BlueOrchard works alongside leading DFIs, institutional/private investors and pension fund advisors/ managers in over 50 countries and is the investment advisor for the new MIFA Debt Fund launched by KfW, IFC, BMZ and EU. Indonesia engagement includes Tier II/III MFIs and Apex/commercial banks.	
Total AUM	\$290m		
Investment Size	\$3m (average)		
Target IRR	Libor +1-2%		
Geographic Focus	Global		
Sector Focus	MSMEs via MFIs and banks		
Impact Metrics			
BlueOrchard has been awarded for its commitment to social performance reporting and has also developed a proprietary management toolkit (SPIRIT) to measure, monitor and communicate sustainable performance (social and environmental impacts). The company also uses an inhouse BlueOrchard Financial Strength and Credit Rating (BOSCO) system for MFIs and is a member of the UNPRI and Eurosif.			
Key Contact			
Maria Teresa Zappia is the Chief Investment Officer for BlueOrchard Finance S.A.			

Source: Fund manager interview; secondary research

3) Small Enterprise Assistance Fund (SEAF)

Fund Name	Blue Waters Growth Fund	Sample Investment	Hoa Binh Corporation Vietnamese agribusiness equipment
Investors	SIFEM, FMO, Norfund, Finnfund		
Fund Details		Fund Strategy	
Vintage	2007	SEAF is an investment management group with \$750m AUM that provides growth capital and business assistance to SMEs in emerging and transition markets underserved by traditional sources of capital. Through its global network of 21 offices, SEAF has invested through 28 funds since 1989 in profitable, competitive SMEs to build successful businesses, achieve sustainable economic development and realize attractive returns, including measurable development impacts in local communities. SEAF has a successful history investing in Asia since 2001 in addition to providing skills, market access and partnerships necessary to grow through its CEED centers.	
Total AUM	\$25m		
Investment Size	\$1-5m		
Target IRR	20%		
Geographic Focus	Vietnam		
Sector Focus	Agnostic		
Impact Metrics			
SEAF measures and reports investment development impacts on all stakeholder groups (ERR/NME). Detailed analysis since 2004 demonstrates that for every \$1 invested in a growing SME business an additional \$13 in benefits are returned to the local society (i.e. job creation, wage growth, employee benefits, training skills, etc.).			
Key Contacts			
Bert van der Vaart is SEAF Executive Chairman and Fahim Ahmed is a SEAF Managing Director for Asia			

Source: Fund manager interview; secondary research

4) Bamboo Finance

Fund Name	Oasis Fund	Sample Investment	Vaatsalya Indian national healthcare network
Investors	Institutional & Private Investors		
Fund Details		Fund Strategy	
Vintage	2007	Bamboo Finance is a global PE firm managing a US\$250m portfolio of 35 investments in 24 countries with offices in Europe, USA, S. America and Asia. Bamboo specializes in impact investment by scaling innovative, commercially viable, sustainable busi-nesses with local expertise to create inclusive economies and new leaders in healthcare, energy, financial services, housing, education, water, and agriculture. Bamboo possesses a solid record of exits and returns to investors that enable essential, high quality and affordable products and services for low income populations.	
Total AUM	\$53m		
Investment Size	\$1-8m		
Target IRR	20%		
Geographic Focus	Asia, Africa, C. America		
Sector Focus	Agnostic		
Impact Metrics			
Bamboo Finance uses an inhouse Impact Scorecard (ASPIRE) to quantify mission/impact goals, activities/internal processes, outputs, and impacts to identify, measure, monitor and enhance economic, social and environmental results. ASPIRE is applied during pre-investment, investment, post investment and divestment. Bamboo participates in GIIRS, IRIS and SPTF.			
Key Contacts			
Jean-Philippe de Schrevel is CEO for Bamboo Finance and Beatrice Wee is Director Investor Relations in Asia			

Source: Fund manager interview; secondary research

5) LGT Philanthropy Venture (LGTVP)

Fund Name	Impact Ventures Global Fund	Sample Investment	Husk Power Clean energy across rural India
Investors	LGT Group network		
Fund Details		Fund Strategy	
Vintage	2007	Founded in 2007 as a VC/PE initiative funded by the Princely Family of Liechtenstein, LGTVP is an impact investor supporting organizations with outstanding social/environmental impacts. Its mission is to raise quality of life for disadvantaged people through enterprise growth/expansion with effective solutions to social/environmental issues. Its key themes are relief of human suffering; access to education; and creation of sustainable livelihoods. Core investment areas are education, health, nutrition, clean energy, agriculture, resource management and water while its iCats Program provides additional operational expertise and management know-how.	
Total AUM	\$100m		
Investment Size	\$2-8m		
Target IRR	16%		
Geographic Focus	Global		
Sector Focus	Agnostic		
Impact Metrics			
LGTVP is continuously informed on portfolio company achievements and challenges via structured monthly reporting with KPIs and IRIS metrics on progress and impacts defined from early due diligence (i.e. trained youth, household clean energy use, new small businesses, etc.). LGTVP also measures material, social and physical wellbeing, security and freedom while its ‘Impact Map’ tracks resources, inputs, outputs, outcomes and impacts.			
Key Contacts			
Wolfgang Hafenmayer is Managing Partner for LGTVP and Joan Yao is Investment Manager for SE Asia			

Source: Fund manager interview; secondary research

6) Kendall Court

Fund Name	Kendall Court Mezzanine (Asia) Bristol Merit Fund LP	Sample Investment	Provident Agro Indonesia Mid-size palm oil plantation
Investors	CDC, SIFEM, DEG, Bangkok Bank		
Fund Details		Fund Strategy	
Vintage	2008	Kendall Court has grown to US\$300 AUM since 2004 with offices in Indonesia, Singapore, Malaysia, Vietnam, Thailand and China. The firm manages two closed-end, 10-year limited partnership funds primarily focused on quasi-equity investments. As a long-term growth investor, private capital is employed as convertible debt, preferred equity, and senior debt with warrants in natural resources, healthcare, TMT, clean energy, financial services, etc. with the ultimate purpose to contribute to the development and betterment of society within its circle of influence.	
Total AUM	\$150m		
Investment Size	\$4-50m		
Target IRR	25%		
Geographic Focus	SE Asia		
Sector Focus	Consumer, Natural Resources, Infrastructure & Utilities		
Impact Metrics			
Kendall Court embeds strict governance requirements across its investment portfolio in accordance to the CDC Investment Code or higher equivalent (Kendall Court Principles) plus a rigorous due diligence tool kit, ESG footprints and audit metrics to manage risk and maximize opportunities. Voted ‘Mezzanine House of the Year’ in 2011 by Private Equity Asia, the firm produces a GRI A+ Sustainability Report and is a UNPRI signatory.			
Key Contacts			
Yeo Kar Peng is Chairperson and Chris Chia is Managing Partner at Kendall Court			

Source: Fund manager interview; secondary research

7) UOB Global Capital

Fund Name	ASEAN China Invest-ment Fund II (ACIF II)	Sample Investments	Pel. Nasional Bina Buana Raya Interisland marine transportation
Investors	ADB, Proparco, CDB, FMO, UOB, etc.		Olagafood Industri Makan/Minum Noodles, snacks and beverages
Fund Details		Fund Strategy	
Vintage	2010	United Overseas Bank (UOB) was founded in 1935 and SGX listed in 1970. It holds an Aa1 rating with over US\$200b AUM. UOB Global Capital and UOB Venture Management are asset management subsidiaries with experience in SME investments. ACIF II targets investments in growth oriented companies operating in East and South East Asia. Fund emphasis is ASEAN-China growth corridor opportunities across all ASEAN countries and China. Strategic focus is on PE related investments, particularly companies to benefit from expansion of trade and investment between ASEAN, China, and respective trading partners. Portfolio companies are screened and monitored on ESG performance factors with reporting incorporated into fund due diligence and manage- ment procedures.	
Total AUM	\$150m		
Investment Size	\$5-15m		
Target IRR	30%		
Geographic Focus	ASEAN & China		
Sector Focus	Growth clusters: Energy, Industrial Services, FMCG, Materials, Technology		
Impact Metrics			
ACIF II possesses a comprehensive Environmental, Health, Safety and Labor assessment program that benchmarks local laws against ADB/IFC/ILO standards. Environmental and social policies flow through to investee companies for improved management and working conditions. Investee companies often hire more workers and increase wages with better employment opportunities for low income workers. The fund is a signatory to UNPRI.			
Key Contacts			
David Goss is UOB Global Capital Managing Director and Seah Kian Wee is UOB Venture Management Man-aging Director			

Source: Fund manager interview; secondary research

Potential Co-Investors

1) Manulife Capital

Fund Name	Asian PE Fund	Sample Investment	Sleep Country Canada Major specialty mattress retailer
Investors	Institutional investors		
Fund Details		Fund Strategy	
Vintage	2012	Manulife Capital PE group has \$2.2b AUM targeting growth equity and subordinated debt investments in N. America. In Asia, Manulife Financial (US\$ 505b AUM) has done business in China since 1897. The PE side focuses on successful track records with sustainable investment strategies and aligned management teams to create customized solutions. Investee companies have strong competitive advantage with stable, predictable cashflow. Open to multiple fund opportunities, Manulife seeks minor debt/equity co-investment relationships and has a patient approach to building value.	
Total AUM	\$155m (target \$500m)		
Investment Size	\$10-50m per fund \$5-15 per deal		
Target IRR	20%		
Geographic Focus	China, Japan, SE Asia		
Sector Focus	Agnostic		
Impact Metrics			
Manulife primary performance metrics are IRR and multiple of invested capital (TVPI). There is preference to realize consistent returns (low variance) across different investments and to have few or no investments exited at less than 1.0 x multiple of invested capital. Underlying business growth is also an important performance indicator.			
Key Contacts			
William Eeuwes is Manulife Capital Senior VP & Group Head and Rajiv Bakshi is Managing Director for Asia			

Source: Co-investor interview and secondary research

2) Grameen Foundation

Fund Name	Grameen Foundation	Sample Investments	PT Ruma Indonesia Microfranchise airline network
Investors	Foundations, Corporates, Individuals		
Fund Details		Fund Strategy	
Vintage	1997	With Muhammad Yunus as its mentor, the Grameen Foundation spreads the principles of microfinance beyond Bangladesh to help the world’s poor, particularly women, by improving lives and overcoming poverty with access to funds, services, information and income-creation oppor-tunities, including microfinance and cell phone technology. A Capital Management Advisory Center connects leading MFIs with local financial and capital markets. Dedicated funds work with early stage microfranchises and agri- cultural cooperatives. A Growth Guarantee Program en- sures local currency financing for rapidly-growing MFIs. A new Capital Markets Initiative is focusing on SMEs as a continuum of successful MFI and microfinance programs.	
Total AUM	\$27m		
Investment Size	\$1 – 3m		
Target IRR	15%		
Geographic Focus	Asia, Africa, Middle East, L. America		
Sector Focus	Agnostic		
Impact Metrics			
Grameen Foundation developed Progress out of Poverty Index™ (PPI) - a flexible tool with country-specific, non-financial poverty level indicators (i.e. family size, children in school, housing type, access to drinking water, etc.) to serve as a baseline and social bottomline. Additional benchmarks, measurement standards and financial conditions provide reliable information over time and a ‘double bottom line’. PPI is used in over 40 countries.			
Key Contacts			
Alex Counts is Grameen Foundation CEO , Camilla Nestor is VP, Financial Services and Christopher Tan is Asia CEO			

Source: Co-investor interview and secondary research

3) Temasek Holdings

Fund Name	Dymon Asia Private Equity Fund	Sample Investments	SE Asia SMEs (in progress) Public and private sector firms
Investors	Heliconia Capital Management, Private Sector		
Fund Details		Fund Strategy	
Vintage	2012	The Republic of Singapore Ministry of Finance and Temasek Holdings is committed to the growth of SMEs into globally competitive companies and creating a landscape to boost Singapore's value proposition as a base for enterprises to anchor and internationalize SMEs by providing a diverse funding base of growth capital. The target is a SD\$1.5b public-private co-investment fund for Singapore-based SMEs funded by public and private capital. Heliconia Capital Management operates to manage the vehicle co-investment program (CIP) and is selecting PE managers to source capital to match its investments. Temasek has awarded Dymon Asia Capital to manage an initial \$203m matching fund to grow local SMEs regionally and internationally.	
Total AUM	\$203m (target \$300m)		
Investment Size	\$20-50m (per SME)		
Target IRR	15-20%		
Geographic Focus	SE Asia		
Sector Focus	Education, Healthcare, Brand-ed F&B, Natural Resources, Specialized Services		
Impact Metrics			
In addition to MERITT values, Temasek frameworks for governance, finance, investment, risk and wealth-added provide a robust concentration on portfolio strategy, operations and performance to help ensure sustainable results. Temasek continues to assess CIP investment impacts as they mature over time realizing it has been in operation with patient growth capital for less than a year and also relies on the related expertise its appointed fund managers.			
Key Contacts			
Alan Thompson is Managing Director, PE Funds Investment at Temasek Holdings and Goh Hui Yang is Director.			

Source: Co-investor interview and secondary research

4) Grassroots Business Fund

Fund Name	Grassroots Business Private Investment Fund	Sample Investments	Sosial Enterprener Indonesia SME growth network
Investors	DEG, FMO, NORAD, OeEB, OPIC, DEG, Individuals		Novica Innovative artisan sourcing
Fund Details		Fund Strategy	
Vintage	2008	The Grassroots Business Fund (GBF) makes equity, mez-zanine equity, mezzanine debt, and straight debt investments in emerging markets and provides investees with long-term investment capital and advisory services to scale, be sustainable, and attract investment partners. These ‘high impact businesses’ provide sustainable economic opportunities to millions of people, often sourcing from smallholder farmers/artisans, or otherwise providing economic value to millions of producers or consumers at the Base of the Economic Pyramid. GBF work empowers the poor as independent entrepreneurs and consumers of affordable goods and services.	
Total AUM	\$60m		
Investment Size	\$1 - 3m		
Target IRR	15%		
Geographic Focus	Asia, Africa, L. America		
Sector Focus	Agribusiness, Artisanal Crafts, BOP & Financial Services		
Impact Metrics			
In addition to technical assistance focused on enhancing financial and strategic planning, corporate governance, human resource management, marketing, supply chain management, and management information systems; GBF incorporates best practice in environmental and social monitoring and improvement across its portfolio companies to evaluate impacts. GBF collects basic metrics, takes steps to ensure data quality, creates dashboards to visualize key metrics, and analyzes the information to make improved management decisions.			
Key Contacts			
Harold Rosen is CEO of Grassroots Business Fund and Pranav Nehar is Regional Manager for Asia			

Source: Co-investor interview and secondary research

5) Mahanusa Capital

Fund Name	Red River Holding Indonesia I	Sample Investment	Indonesia SMEs (in process) Private sector enterprises
Investors	Mahanusa Capital, Artemis Group, Jade River Management		
Fund Details		Fund Strategy	
Vintage	2012	Mahanusa Capital is an investment company based in Jakarta since 1999 managing US\$ 250m in PE holdings. It owns and operates companies in agribusiness, consumer goods, consumer finance, specialty chemicals and pro- perty in Indonesia and China with aggregate assets of US\$600m. Based on its experience and success to date, together with Jade River Management and Artemis Holdings, Mahanusa is establishing a new SME fund, Red River Holding Indonesia I, to capitalize on domestic mid-cap market segment opportunities with significant minority stakes and Board participation.	
Total AUM	\$80m (first close)		
Investment Size	\$10 – 20m		
Target IRR	25%		
Geographic Focus	Indonesia		
Sector Focus	FMCG, Transport, Infrastructure, Manufacturing, Industry, Supply Chain Services		
Impact Metrics			
Mahanusa uses standard financial metrics (IRR, money multiples) as current funds are pursue strict commercial objectives. In an IB SME scenario, Mahanusa will employ both traditional financial metrics as well as metrics to measure social impacts financed enterprises (i.e. job creation, gender, training, BoP stakeholders impacted, value creation, environment, and industry specific indicators).			
Key Contacts			
Daniel Budiman is President Director at Mahanusa Capital and Antoine Vigier is Senior Advisor			

Source: Co-investor interview and secondary research

6) **responsAbility Social Investment Services Ltd.(responsAbility)**

Fund Names	responsAbility Fair Trade, Microfinance & BOP Funds	Sample Investments	Driptech Drip irrigation systems
Investors	Andromeda, FINMA, Obviam		S2M Payment systems and services
Fund Details		Fund Strategy	
Vintage	various	Since 2003, responsAbility has been a leading global private financier and asset manager specializing in social investment with more than US\$ 1b AUM in 77 countries, including collective investments under the Swiss Financial Market Supervisory Authority (FINMA). responsibility in- vestment products follow structured, systematic invest-ment processes tailored to specific investment charac-teristics with proven portfolio and risk management to transparently deliver moderate financial returns and de-monstrated social benefits. responsAbility Fair Trade Fund is a US\$50m facility investing in sustainable agricultural producers and trade organizations. ResponsAbility BOP Investments is a US\$ 15m fund of funds investing in specialist PE funds focused on BOP SMEs. responsAbility Global Microfinance Fund is a US\$585m facility investing in emerging market MFIs and banks.	
Total AUM	\$1b		
Investment Size	\$1-5m		
Target IRR	15%		
Geographic Focus	L. America, E. Europe, Asia, and Africa		
Sector Focus	MSME Finance, Fair Trade, In- dependent Media, Agriculture, Energy, Education, Healthcare		
Impact Metrics			
The responsAbility Development Effectiveness Rating (rADER) enables the development-related aspects of our activities to be evaluated, monitored and managed at the portfolio level. For each investment, rADER calculates a score in five weighted dimensions: empowerment, efficiency, financial inclusion, poverty and outreach.			
Key Contacts			
Klaus Tischhauser is responsAbility Co-Founder & CEO, Rochus Mommartz is Head of Equity Investments and Anand Chandani is Asia Regional Manager			

Source: Co-investor interview and secondary research

7) Alpinvest

Fund Name	Fund Investments	Sample Investments	LA Fitness, AMC Theaters Major fitness and movie chains
Investors	KKR, Blackstone, ABP, PGGM, TPG, Apax, Bain, AXA, Others		
Fund Details		Fund Strategy	
Vintage	Various	AlpInvest Partners has an investment history on behalf of APG and PGGM Investments which ownership was transferred to The Carlyle Group in 2011. Its AUM amounts to over US\$50b since 1999 with an investment approach that includes fund investments, secondaries investments and co-investments. The Fund Investment team takes a long-term investment perspective with best-in-class GPs in most PE markets, including low mid-market, mezzanine, VC, clean energy and new funds. AlpInvest integrates ESG factors and sustainable practices into its investment processes and decisions. It explores sustainability themed investments and currently manages a €500m Cleantech mandate for APG and PGGM.	
Total AUM	\$27b		
Investment Size	\$10 – 500m		
Target IRR	25%		
Geographic Focus	Global		
Sector Focus	Agnostic		
Impact Metrics			
AlpInvest is an active UNPRI and Global Compact signatory that encourages portfolio companies and GPs to follow suit. It follows PEGCC Guidelines for responsible investment and uses exclusion criteria along with an EcoValuScreen in its investment process to create lasting value, including practices that promote social and environmental sustainability and strong corporate governance.			
Key Contacts			
Volkert Doeksen is AlpInvest CEO and Managing Partner, Sander van Maanen and Wendy Zu handle Co-Investments and Fund Investments respectively for Asia.			

Appendix 8: Glossary

Angel Investor	An angel investor is an individual or organization that invests capital into a firm or going concern in return of preference shares and/ or operations of the company. This type of equity injection is mostly used to replace an existing debt of a company or to develop a specific project of the firm and is based on equity returns.
IRB approach	An internal estimate used by banks to determine a client's credit worthiness when assessing risk in their portfolio.
Mezzanine finance	Mezzanine finance can be unsecured debt, or preference shares. This type of funding offers a higher return than debt due to higher levels of risks. However, returns are less than equity where returns are treated as residual payments. Mezzanine finance tends to be used when bank borrowing limits are reached and the firm cannot or will not issue more equity.
Partial risk guarantees	The partial risk guarantee covers part of a lender's outstanding debt service against specific political risks. This is usually used by financial institutions and lender if the organization's charter or policy does not authorize coverage of equity risks. Risks potentially can cover issues such as breach of contract and currency inconvertibility.
Risk exposure	Risk exposure equals the probability of risk occurring times the total loss if risk occurs.
Secured versus	The two main types of loans are secured loans and unsecured loans. For secured loans, the borrower pledges some sort of collateral. The bank may repossess the collateral if the loan is not repaid according to the terms agreed to when the loan was taken out. Unsecured loans do not require any collateral. Money is borrowed on the strength of the borrower's credit standing and ability to repay the loan using cash flows from the project or form an independent source.
Subordinated debt	Subordinated debt is a term used to describe debt that is unsecured or has a lesser priority than other debt claims on the same asset. If the party that issued the debt defaults on repayments, people holding subordinated debts get paid after the holders of the senior debt. A subordinated debt carries more risk than a normal debt, and earns a higher expected rate of return than senior debt due to the greater inherent risk.
Syndication	Syndication is the private placement of debt (or equity) securities to third parties. By employing debt syndication, several banks, investment firms, or other companies share the profits and diversify the risk of making a large loan. Syndications are used to transfer some or all of the risk associated with its loans and guarantees to its co-financing partners, and include fronting (CFS), non-funded risk participations, and sell-down arrangements.

Private Equity Fund A private equity fund is a collective investment scheme used for making investments in various equity securities according to one of the investment strategies associated with private equity. Private equity funds are typically limited partnerships with a fixed term of 10 years, often with extensions. At inception, institutional investors make an unfunded commitment