

STUDIES IN TRADE, INVESTMENT AND INNOVATION NO. 92



ADVANCING ENABLING POLICY
ENVIRONMENTS FOR
INCLUSIVE BUSINESSES IN ASEAN



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Preface

This publication is an extract from the Report on Advancing Enabling Policy Environments for Inclusive Businesses in the Association of Southeast Asian Nations (ASEAN), which was prepared as part of the work of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) to support Governments enhance the policy environment for inclusive business. It also responded to a request of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) for policy guidance on inclusive business in ASEAN. Ms. Vivian Marcelino, international consultant, ESCAP, wrote the Report under the supervision of Ms. Marta Pérez Cusó, Economic Affairs Officer, ESCAP, and Mr. Markus Dietrich, Director for Policy and Asia, iBAN. It was issued on 1 November 2019.

The objective of this publication is to inform policymakers and other stakeholders on the development of new business models that support sustainable and inclusive development. The new forms of enterprises allow markets to channel investments to populations at the base of the economic pyramid and to promote more balanced growth. The publication focuses on business, policy and legal frameworks in ASEAN and it may be particularly useful for policymakers in the Asia-Pacific region while also providing valuable insights for policymakers globally.

This material, as an extract from the original Report, was prepared for publication by Michał Podolski and edited by Mary Ann Perkins, and it is issued as part of the Studies on Trade, Investment and Innovation.

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The following individuals also provided valuable technical advice: Mr. Armin Bauer, International Expert on Inclusive Business; Mr. Reginald Lee, Director of Partnerships, Grow Asia; and Ms. Sangeetha Yogendran, Inclusive Business Sector Expert and Manager, Asian Venture Philanthropy Network.

Executive summary

In 2017, the member States of the Association of Southeast Asian Nations (ASEAN) endorsed the ASEAN Inclusive Business Framework (AIBF). Since then, they have made encouraging progress toward the development of enabling policy environments for inclusive business (IB), but they remain at very different stages in the promotion of IB. Most countries have only just begun exploring policy and support options, while others have not yet placed IB on their national agendas. Nevertheless, IB is increasingly important in the inclusive and sustainable development efforts in the region.

Inclusive businesses (IBs) are defined as providers of goods, services and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the economic pyramid (BOP), making them part of the value chain of a business as suppliers, distributors, retailers or customers. Awareness of the potential of IBs to contribute to poverty reduction and inclusive and sustainable economic growth is increasing in the region. It is now the right time to scale support for IB within ASEAN and its member States.

As awareness of IB has increased, ASEAN member States have sought to understand how IBs can complement other efforts aimed at harnessing the potential of the private sector for development. Depending on the socioeconomic context of each country, the IB agenda has found synergies with the promotion of micro, small and medium-sized enterprises (MSME), social enterprises, including measures to promote impact investment, and corporate social responsibility (CSR).

These synergies represent opportunities to further promote IB by building on existing policy frameworks focussing on MSMEs, social enterprises and CSR. Indeed, in several member States, the IB agenda has been linked to one or more of these frameworks, depending on the national development priorities. Leveraging the existing frameworks has allowed countries to move faster on the IB agenda.

The AIBF, however, specifically emphasizes promoting the growth of inclusive business models. In their efforts, it will be important for ASEAN member States to put in place measures that support companies with IB potential to shift from MSMEs, social enterprises and CSR models with limited economic and social impact towards becoming IBs with strong inclusive business models.

As highlighted in the AIBF, governments can encourage inclusive business models to emerge, expand and scale up by establishing conducive rules to spur an

enabling business environment, providing relevant information and raising awareness, building the capacities of the population at the base of the economic pyramid (BOP) and IBs, and enhancing access to finance.

Establishing conducive rules, regulations and definitions

In Myanmar, the Philippines, and most recently Cambodia, the IB agenda has advanced rapidly over the past two years, and national strategies and pilot support have been developed. Other countries, such as Indonesia, Malaysia and Viet Nam, have achieved significant progress with the launch of national studies on IB. Although progress has been made and awareness is increasing, few ASEAN member States have adopted concrete rules and regulations to support IB. The notable exception is the Philippines, which has piloted an accreditation and tax incentive system for IBs.

Providing information and raising awareness

The ASEAN secretariat, development partners and IB champions within national Governments have dedicated significant efforts to raising awareness around IB and its development potential. As a result, IB has featured in regional discussion forums and IB policy-oriented initiatives have advanced in several countries. Moving forward, efforts are needed to expand awareness among a broader range of stakeholders, creating a general understanding at the national level to sustain momentum and support strong policy development for IB.

Strengthening the capacity of BOP populations and IBs

Technical assistance for IB has mostly been driven by development partners in ASEAN with the support of donor countries. Directly targeting IBs, efforts have been focused on helping companies develop or strengthen lines of IB or supporting government actors to design IB policy measures. ASEAN member States have put in place several mechanisms, including strong private sector support institutions that can extend their technical assistance services to IB. These include national accelerators, entrepreneurship and innovation centres, and trade and investment bodies, among others. Development actors can be important partners in generating local expertise for IB support.

Enhancing access to financial resources and providing financial incentives

Currently, there are no government funds specifically targeted at IB in ASEAN and there are virtually no financial incentives tailored to IBs other than the tax incentive in the Philippines. Nonetheless, several recent developments are helping extend access to financial resources for IBs. At the national

level, commercial banks, MSME banks, certain government funds, funding from development finance institutions and, most recently, private impact investors, have sporadically supported IBs, as have development partners. With increased awareness around impact investment and the growth in investor activity in the region, an opportunity exists to raise the visibility and business case for investment in IBs.

As ASEAN member States begin to develop their support to IBs, several common challenges are emerging that offer important lessons for the strengthening of efforts. The challenges faced include: difficulty in raising awareness and securing strong buy-in for IB nationally; limited national institutional and technical capacity to design and implement policies; difficulty in overcoming certain charitable and philanthropic mentalities in private sector engagement in development; difficulty in securing space for IB among MSME, social enterprise and CSR agendas; lack of resources to fund policy development and support for IBs; and limited knowledge of the BOP market in countries and, consequently, of the real potential for IB, among other factors.

Inclusive business in ASEAN

The ASEAN secretariat has acted as a champion of IB. Building on the momentum created, the current context is optimal for ASEAN, as a regional organization, to enhance its promotion of IB and support countries to develop concrete enabling policies. In this context, ASEAN has a key role to play in coordinating regional action on IB by providing platforms for the exchange of experiences and learnings, as well as best practices for advancing IB in the region. The ASEAN secretariat can also work to ensure that national frameworks are aligned to enable regional cooperation and raise awareness and incentivize the adoption of inclusive business models across the region.

Inclusive business in ASEAN member States

Governments have been the main drivers of the IB agenda in ASEAN member States. Awareness of the potential of IB for inclusive and sustainable development and the championing of committed policymakers have been the key forces behind the progress achieved. The experience of frontrunners provides important lessons and a potential blueprint for other countries in the region.

National studies have helped countries better understand their potential for IB and the existing environment for IB growth, guiding the development of policy recommendations and strategies. Participatory approaches with a diverse set of stakeholders in the public and private sectors, have supported countries in raising awareness and gathering support from the private sector for IB. In addition,

partnerships with development partners have offered access to technical expertise and resources to drive efforts further.

Policy design has focused on eight key strategic areas for promoting IB:

- 1) Awareness: Fostering information sharing and awareness raising through events, workshops, publications, promotional materials, websites, IB awards, etc.;
- 2) Coordination: Establishing special IB focal points in government agencies and among private sector actors and, preferably, establishing a steering committee to further support coordination and shared action of focal points;
- 3) Accreditation: Creating a registration or accreditation system for IB to enhance participation of companies and understand and successively monitor inclusive business models and the social impact of the private sector in the country;
- 4) Procurement: Embedding pro-poor targets into government contracts and prioritizing procurement from companies that have inclusive business models, especially those that have obtained accreditation;
- 5) Incentives: Together with the private sector, designing suitable incentive systems, including tax incentives, to stimulate the adoption and growth of inclusive business models;
- 6) Finance: Developing financial products that are customized to the needs of IBs, such as de-risking facilities for investors, and fostering suitable investments linkages, such as by facilitating impact investment in the country;
- 7) Technical assistance: Creating a technical assistance facility specifically dedicated to supporting IBs that could provide business coaching to aspiring businesses, support business development, foster innovation exchange to develop new inclusive business models, as well as support government actors to strengthen the overall ecosystem for IBs;
- 8) Monitoring and reporting: Developing strong monitoring system and systematically reporting on the contributions of inclusive business models and of IBs to the Sustainable Development Goals.

The mainstreaming or housing of IB under existing MSME, social enterprises and CSR frameworks has been a common trend in ASEAN member States. In addition, ASEAN has adopted a strong participatory approach, which has brought the public and private sectors together and created opportunities for the development of public-private partnerships in IB promotion, although efforts are still at a very early stage.

Moving ahead, ASEAN member States will need to develop national capacity to drive further the design and implementation of IB policies as well as mobilize the resources needed to build an enabling environment for IB and create a strong basis for the sustainability of IB efforts.

Acronyms and abbreviations

ACCMSME	ASEAN Coordinating Committee on Micro, Small and Medium Enterprises
ADB	Asian Development Bank
AIBF	ASEAN Inclusive Business Framework
ASEAN	Association of Southeast Asian Nations
BOI	Philippine Board of Investments
BOP	base of the economic pyramid
CSR	corporate social responsibility
DFID	Department for International Development (United Kingdom)
DFIs	development finance institutions
DICA	Directorate of Investment and Company Administration (Myanmar)
ESCAP	Economic and Social Commission for Asia and the Pacific
G20	Group of Twenty
GIIN	Global Impact Investment Network
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IB	inclusive business
iBAN	Inclusive Business Action Network
IBs	inclusive businesses
MaGIC	Malaysian Global Innovation and Creativity Centre
MSMEs	micro, small and medium-sized enterprises
PIIs	private impact investors
raiSE	Singapore Centre for Social Enterprise
SMEs	small and medium-sized enterprises
UNDP	United Nations Development Programme

Contents

Preface	iii
Acknowledgement	iv
Executive summary	v
Acronyms and abbreviations	ix
Introduction, report structure and methodology	1
1. Inclusive business for inclusive and sustainable development	2
1.1. Defining inclusive businesses	2
1.2. A shared ASEAN inclusive business agenda	6
1.3. Inclusive business, business growth, social entrepreneurship and corporate social responsibility	10
2. Inclusive business policy advances in ASEAN	17
2.1. Policy development	17
2.2. Policy implementation	31
3. The road ahead for inclusive business policy in ASEAN	33
3.1. Challenges to promoting inclusive business	34
3.2. Innovative approaches to inclusive business policy	37
4. Learnings and recommendations	38
4.1. Inclusive business in ASEAN	38
4.2. Inclusive business in ASEAN member States	40
Bibliography	44
Annex – ASEAN inclusive business focal points	48

List of Tables

Table 1. Inclusive business approaches	4
Table 2. Examples of inclusive business in ASEAN	9
Table 3. IB regulation and aligned policies	21

INTRODUCTION, REPORT STRUCTURE AND METHODOLOGY

In September 2017, member States of the Association of Southeast Asian Nations (ASEAN) endorsed the ASEAN Inclusive Business Framework (AIBF). The ASEAN Chairman's statement of November 2017 called on member States to foster an enabling environment for inclusive business (IB) through conducive rules and regulations, enhanced access to financial resources, awareness raising and education, and capacity-building for businesses and the populations they engage. Following this call to action, a new movement started to unfold in ASEAN member States to develop specific policies and to set up promotion institutions and programmes to develop an enabling ecosystem for inclusive businesses (IBs). This report contains an overview of the most recent advances in IB policy development in the ASEAN region. It includes challenges ahead and recommendations for further supporting an enabling environment for IB. IBs provide goods, services and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the economic pyramid (BOP), making them part of the value chain of a business as suppliers, distributors, retailers or customers (G20, 2015, p. 3).

The AIBF recognizes that IB is implemented through three major approaches – IB models, IB activities and social enterprise initiatives. However, it centres on the promotion of the IB model approach and views the support of the other two approaches in the context of scaling them up into IB models. This report provides an update to the report, “Asia-Pacific: Inclusive Business in the Association of Southeast Asian Nations” (Dietrich, 2018a), focussing particularly on the development of IB policies aimed at promoting “inclusive business models” in ASEAN, aligned to the priorities set in the AIBF.

The report also takes note of the contribution of IB to inclusive and sustainable development in ASEAN and explores how IB promotion reinforces and complements existing and emerging policies on micro, small and medium-sized enterprises (MSMEs) development, social entrepreneurship and corporate social responsibility (CSR) in the region.

Section 1 of this report examines the concept of IB in the ASEAN context. Section 2 reviews IB policy development efforts in ASEAN, including a discussion on key challenges. Section 3 presents challenges to promoting IB, and section 4 includes recommendations and opportunities for advancing efforts in the region.

The annex contains a list of IB focal points in each ASEAN member State, who were selected in 2017 during the ASEAN Inclusive Business Policy Development Programme.

This report was drafted by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), in partnership with the Inclusive Business Action Network (iBAN), and it builds on their expertise in IB policy development and experience in supporting an enabling environment for IBs in ASEAN.¹ More importantly, the report is based on the inputs provided by the 10 ASEAN member States through their IB focal points in response to the annotated outline of the report, open ended questionnaires and earlier drafts of the report.

1. Inclusive business for inclusive and sustainable development

This section provides a definition of IBs and discusses its importance in promoting economic growth that is inclusive of and sustainable for BOP populations in ASEAN. In addition, it highlights the intersection between IB and the Sustainable Development Goals.

1.1. Defining inclusive businesses

According to the Inclusive Business Framework of the Group of Twenty (G20), IBs are companies that: “provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers. In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. IBs should promote sustainable development in all its dimensions – economic, social and environmental” (G20, 2015, p. 3). This definition was adopted in the 2017 AIBF.

¹ iBAN and ESCAP currently provide policy support on IB to the ASEAN secretariat, ACCMSME and ASEAN member States, including Cambodia, Malaysia, the Philippines and Viet Nam.

The IB framework of the G20 further defines the BOP as men and women in low-income families or who lack access to basic goods and services. The low-income segment is commonly considered to be the bottom 40–60 per cent of the population and includes people earning up to \$5–\$22/day in purchasing power parity terms.² The actual BOP cut-off, however, differs per country.³

According to the Global Consumption Database of the World Bank, the BOP population is estimated to account for 4.5 billion people located in 92 developing countries and emerging markets. Collectively, this segment of the population spends more than \$5 trillion a year and represent a new and promising market (World Bank, 2019).

In South-East Asia, the BOP population is estimated at 349 million people, or 56 per cent of the population. Together, they have a purchasing power of \$220 billion–\$320 billion. This represents a sizeable opportunity for businesses seeking to enter new markets and expand their customer base (Dietrich, 2018a, pp. 16–17).

IBs capitalize on this market opportunity by developing business models that engage BOP populations at scale while generating sizeable profit. While IBs can be found across all sectors and operate a broad range of business models, they have four key common features:

- Have commercially viable, bankable and for-profit business models that are core to business operations;
- Provide systemic solutions for the relevant problems of the poor and low-income people;
- Possess scale in business operation, growth and social impact;
- Display degrees of innovation, needed to reduce risks, be impactful and profitable while engaging BOP populations.

IBs promote structural transformation and systemic change. Inclusive business models look at scale and see no trade-off between social and commercial impact. Through scale, IBs deliver reach and depth in the solutions they provide. Studies have shown that IB is mainly undertaken by medium to large, normally domestic, companies (Dietrich, 2018a, p. 11).

2 Setting the maximum in purchasing power parity terms adjusts the real figure to equate the relative purchasing powers among different countries.

3 The income level of BOP populations depends on the socioeconomic status of a society. The BOP threshold in Latin America was set at \$8 per capita daily expenditure based on 2005 purchasing power parity, but in developing Asia, this is \$6 to \$4, and in the developed economies in the Asia-Pacific Economic Cooperation, this would be around \$15 or more. (Asian Development Bank, 2018, p. 3).

Inclusive business models are private sector contributions to poverty reduction and to the achievement of the Sustainable Development Goals and create multi-faceted wins for society. The Goals call for increasing commitment of the private sector to deliver inclusive growth and leave no one behind. IBs are a catalytic agent for the Global Goals because they contribute to inclusive economic growth and poverty reduction. They create triple wins:

- For the poor and low-income populations: Inclusive business models create income opportunities above the market rate and/or expand access to essential goods and services.
- For businesses: Inclusive business models offer profitable business and investment opportunities, develop new markets, and foster innovation. They also enhance branding and visibility of companies, expand access to support mechanisms and new ecosystems.
- For society and governments: IBs help governments achieve job creation and address essential needs of the poor, low-income and vulnerable people. This includes the creation of income opportunities that lift people out of poverty at scale and the delivery of relevant and affordable goods and services to the BOP (for instance, in education, health, water, energy and housing).

The G20 IB framework describes three approaches to implementing IB for companies: (i) they can operate directly as scaled-up IB models; (ii) companies can operate IB activities [e.g., through core business-related CSR programmes], which can be scaled up into inclusive business models; and (iii) entrepreneurs can start social enterprise initiatives, which can be scaled up to become inclusive business models. These approaches are described in table 1.

Table 1. Inclusive business approaches

Business characteristics	Inclusive business models	Inclusive business activities (e.g. strategic CSR)	Social enterprise initiatives
BOP relationship to business	Core value chain	Ancillary	Ancillary or core value chain
Financial return	Market returns	Market returns or below-market returns	Not profit-maximizing
Primary funding type	Commercial	Commercial	Mixed a/
Investment size b/	\$5 million–\$200 million	\$300,000–\$3 million	\$100,000–\$3 million
Type of company promoting the model	Large and medium, often family-owned, sometimes multinational	Large and medium, sometimes multinational	Small

Source: Dietrich, 2018a, p. 8.

Notes: a/ Mixed funding comprises commercial and grant funding. b/ Investment sizes are derived from observed investments and revenues of IB in Asia.

A company can be fully dedicated to inclusive business models or operate regular and inclusive business lines in parallel.⁴ Examples of companies that operate parallel business lines are large-sized firms like WorldBridge International in Cambodia and Manila Water investment in the Philippines. Answering to market demand, these companies operate commercial business lines of products that engage BOP populations as either customers, suppliers, distributors or retailers.

Manila Water is a subsidiary of Ayala Corporation, the largest business conglomerate in the Philippines with a diverse set of investments. Manila Water is the exclusive provider of water and used water services to over 6 million people, mostly BOP populations, in 23 cities and municipalities of Metropolitan Manila. Since 1999 the company – through its Tubig Para Sa Barangay (Water for the Community) programme - has expanded water connection to about 2.9 million households (including 1.8 million people from marginalized communities), reduced system losses, and increased safe and affordable water availability from 26 per cent to 99 per cent of households in the served areas, predominantly slum regions of Metropolitan Manila (Manila Water Enterprise, n.d.).

In Cambodia, logistics solution provider WorldBridge International launched the WorldBridge Homes to provide good quality, safe and affordable housing for low- and medium-income households (WorldBridge Homes, n.d.). In 2017, WorldBridge Homes announced a project to build near 2,500 affordable houses in the outskirts of Phnom Penh, with each house unit priced at \$25,000–\$30,000. The company adapted its payment scheme to allow low-income populations to access the offer. Previously, buyers were requested to pay 30 per cent of the house value in the first six months, which was difficult for BOP families. In the new payment scheme, buyers are only required to pay 5 per cent in the first month. Subsequently, they have 24 months to complete payment without interest, and they can choose to provide 20, 25, or 30 per cent of payment based on their capabilities (Hin, 2018).

4 Examples of multinational companies that operate regular and inclusive business lines are Unilever and Nestlé. Answering to market demand, these companies have launched commercial business lines of ethically sourced and fair-trade products that engage BOP as either suppliers, distributors or retailers as well as developed lines of products directly targeted BOP populations as consumers. For instance, one of Unilever’s BOP products is Pureit, a countertop water-purification system sold in India, Africa and Latin America.

1.2. A shared ASEAN inclusive business agenda

While IB is a private sector investment, governments can encourage IB to emerge and thrive through enabling policies with targeted incentives to enable businesses to be inclusive while meeting profit targets. Governments in ASEAN economies are increasingly interested in promoting meaningful enterprises that directly contribute not only to growth but also to social inclusion and poverty reduction.⁵

In September 2017, the ASEAN member States endorsed AIBF, a framework that institutionalizes and mainstreams IB into ASEAN economic community-building efforts. The framework highlights the important contributions of IBs in the context of the ASEAN Economic Community Blueprint 2025, notably in strengthening the role of MSMEs and the private sector, narrowing the development gap, opening a new area of public-private partnership, and achieving the Sustainable Development Goals.

In November 2017, the ASEAN Chairman's Statement acknowledged the importance of "inclusive business models in achieving the ASEAN Economic Community Vision 2025 of a resilient, inclusive, people-oriented and people-centred community, through market driven and innovative solutions to economic empowerment and social impact to over 300 million people at the Base of the Pyramid in ASEAN." It called for "greater emphasis on creating an enabling environment for IBs in ASEAN member States through conducive rules and regulations, enhanced access to financial resources, awareness raising and education, and capacity-building for both businessmen and women, and poor communities" (ASEAN, 2017b).

The AIBF stressed the importance of government support for the widespread adoption of IB. Four thematic areas of contribution were identified based on the G20 IB framework to support the development of an enabling environment for IB in ASEAN:

- i. Establishing conducive rules, regulations and definitions;
- ii. Enhancing access to financial resources and providing financial incentives;
- iii. Providing information and raising awareness;
- iv. Strengthening the capacity of the BOP and of IBs.

5 In 2017, only Myanmar and the Philippines had initiatives to promote IBs. Over the past two years, Cambodia, Indonesia, Malaysia and Viet Nam began to assess the potential of IB, and several other countries have advanced in social enterprise promotion, as discussed further in this report.

Moreover, AIBF stressed the importance of focussing on inclusive business models as the main channel to promote IB in the region. Along these lines, it outlined that ASEAN would emphasize the promotion of inclusive business models, support for IB activities (including strategic CSR) and social enterprise initiatives with the objective of scaling them into inclusive business models. ASEAN member States were, in this sense, incentivized to focus on the development of policies that specifically promote inclusive business models.

The ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) took on the task of advancing IB in ASEAN, notably in determining how IB could contribute towards the objectives of the ASEAN Strategic Action Plan for Small and Medium Enterprise Development 2016–2025.

Strong support for IBs in ASEAN was also demonstrated by the first ASEAN Inclusive Business Summit held in Manila in September 2017 and the inaugural ASEAN Inclusive Business Award of the ASEAN Business Advisory Council.

To advance the development of national IB policy action plans, ACCMSME launched the ASEAN Inclusive Business Policy Development Programme in March 2018, a collaboration with iBAN, a global initiative supporting the scaling and replication of inclusive business models funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union. As part of this programme, policy forums were conducted on IB policy development (Singapore, June 2018) and IB ecosystems (Nay Pyi Daw, November 2018).⁶ Representatives of the 10 ASEAN member States and the ASEAN secretariat participated in the programme.

In 2018, iBAN partnered with ESCAP to support governments to enhance the policy environment for IB in South-East Asia. Together, the partners are conducting research and analysis that helps inform policy design, fostering platforms to share knowledge and lessons learned across ASEAN and providing forums for member States to explore IB opportunities. Through this framework, iBAN and ESCAP are collaborating with five members of ASEAN (Cambodia, Indonesia, Malaysia, the Philippines and Viet Nam) and the ASEAN community through ACCMSME and the ASEAN Business Advisory Council.

⁶ For more information on the policy forums and other initiatives, see www.inclusivebusiness.net/IB-training.

Currently three national IB landscape studies (Cambodia, Malaysia and Viet Nam) and two policy advisory services (Indonesia and the Philippines) are underway in five ASEAN member States. As part of the ESCAP regional programme on IB, ESCAP and iBAN are developing the landscape studies and policy recommendations to identify concrete opportunities and critical challenges for the development of IBs and SMEs to help guide the design of enabling policies.

The Third ASEAN Inclusive Business Policy Forum took place in Bangkok in September 2019. In November 2019, ASEAN member States came together in the same city during the Second ASEAN Inclusive Business Summit to share the progress made in promoting IB in ASEAN.

ASEAN member States have already started setting up specific policies, promotion institutions and programmes to develop an enabling ecosystem for IB. In the Philippines, since 2018, inclusive business models are eligible for tax incentives. Countries such as Cambodia, Indonesia, Malaysia, Myanmar and Viet Nam are currently studying policies that support IB development. A detailed overview of recent developments in ASEAN member States is provided in table 2.

Several of these efforts are already bearing fruit in terms of economic opportunities and the development of micro, small and medium-sized enterprises (MSMEs), and they are providing new pathways to achieve socioeconomic development goals. This report discusses in detail the experience of frontrunners in ASEAN, especially the example of the Philippines. After implementing the IB accreditation and incentive system for one year, five accredited projects in the Philippines led to \$57 million worth of sourcing from MSMEs through value chain engagement, and they provided income generating opportunities for 1,185 people at BOP, of which 30 per cent were women.⁷

Two years after the adoption of AIBF, the time is ripe for taking stock of the progress achieved in the region in developing policies that create an enabling environment for IBs. In addition, as the IB agenda evolves in ASEAN member States, it is a good moment to assess how IB is contributing to their development priorities.

7 Figures provided by the Philippine Board of Investment (BOI).

Table 2. Examples of inclusive business in ASEAN

Brunei Darussalam	Founded in 2009, An-Nur Harapan is a company dedicated to driving meaningful change in the community, families, individuals and nature, and be a catalyst for change by helping to minimize the community's social challenges with strategic solutions. The charity fund is currently focussed on running an 11-month training programme called Uniklearn to empower differently abled young adults towards independent living. With Uniklearn, it aims to enhance their social skills towards employability and personal interactions. The charity fund also runs a vocational training programme (Unikkone) to provide trainees from UnikLearn an opportunity to experience on-site job training after their six-month training programme. It also aims to identify their respective line of work that is suitable to each trainee's capability.
Cambodia	Kamworks Solar Power is the leading solar energy company in Cambodia. It started as a social enterprise initiative and has now reached the scale of an inclusive business model. It was founded in 2006 and has since provided solar power to well over 150,000 people, mostly from BOP. Furthermore, Kamworks' products have been exported to Africa, Europe and the Americas.
Indonesia	PT Peradaban Land, formerly Elang Group, developed a profitable business model selling standardized housing to BOP in Indonesia. In seven years, Elang Group has grown from a start-up with a vision to sell affordable homes, to a profitable company which has built and sold nearly 7,000 housing units (up to 2014) and employs 300 workers. PT Indofoods, one of Indonesia's largest food companies, has several inclusive business models along its upstream and downstream value chain involving smallholder farmers and over 50,000 micro-entrepreneurs.
Lao People's Democratic Republic	K.P. Company Limited offers fertilizers to smallholder farmers, supports them to diversify and improve production and provides export linkages to clients in Japan. Ironbark Lao, a subsidiary of Australia-based Ironbark Citrus, has set up an IB in the Lao People's Democratic Republic to increase farmers' incomes sixfold and create entrepreneurship opportunities for local communities throughout the citrus supply chain. It exemplifies the potential of foreign investment in IB in ASEAN.
Malaysia	Batik Boutique works with artisans from rural Malaysia to create textiles and natural fibres. The 150 artisans engaged earn 40 per cent above the market rate. Nestlé Malaysia, through its Shared Value commitment, engages in rural development through the integration of smallholder farmers in its value chain of chili, rice, red rice and sustainable oil palm initiative. Nestlé also operates IB in Indonesia, the Philippines and Viet Nam, with plans to reach close to 100,000 famers.
Myanmar	Mandalay Snacks is an agribusiness exporting organic spices and involving poor farmers – mostly women – in high-value supply chains. The company has institutionalized various innovative business lines that help reduce company and farmer risks and improve farmer incomes. Unlike traditional contract farming, the company buys organic spices at the spot-market price in Yangon, which is 16–23 per cent higher than the price a farmer traditionally gets from traders. It then dries the produce in its own solar-powered facilities, processes it and sells it through organic and conventional channels, especially in foreign markets.

Table 2. (Continued)

Philippines	Erikagen Inc., through its more than 750 Generika drugstores, offers access to affordable medicine and other medical services to millions of people within BOP. Manila Water, part of the Ayala Group, is one of two water utilities in Metro Manila. Its award-winning inclusive business model, Water for Poor Communities, provides millions of low-income households in informal settlements with clean piped water at affordable rates. Kennemer Foods International has developed an inclusive business model and grown into a major producer, buyer and processor of cacao beans in the Philippines providing high-quality planting materials, training and agri-technologies to over 10,000 smallholder farmers increasing their income fivefold.
Singapore	Bettr Barista is a B Corp certified social enterprise which empowers marginalized women and youth at risk via its coffee barista training programme. Singapore also hosts regionally active impact investors financing IB such as LGT Impact Venture and Bamboo Capital Partners.
Thailand	The Premier Group sources all food and service requirements for its tourism resorts from social enterprises which in turn engage with smallholder farmers and other BOP communities. The Urmatt Group has engaged with over 3,000 smallholder farmers to produce organic jasmine rice, chicken eggs and coconut water sharing the premium afforded to organic produce in domestic and export markets with the farmers. It recently ventured into the Lao People's Democratic Republic with its inclusive business model, which provides an example of cross-border IB activities.
Viet Nam	Topica EdTech Group is a leading online education provider in Viet Nam and it is expanding in South-East Asia, offering affordable, high-quality online degrees and English speech tutoring. Viet Nam is also host to extensive inclusive business models in the coffee industry in a purchasing power parity model facilitated by Grow Asia reaching 20,000 farmers.

Source: Dietrich, 2018b; BOI, 2018; and DaNa Facility and Directorate of Investment and Company Administration, 2018.

1.3. Inclusive business, business growth, social entrepreneurship and corporate social responsibility

IB complements three important avenues through which the private sector supports economic and social development: MSME growth, social entrepreneurship and CSR. This section further explores the differences and complementarities between these private sector approaches to development.

1.3.1. Inclusive business and the growth of micro, small and medium-sized enterprises

IB contributes to MSME growth, and frameworks that promote IB development support the implementation of MSME development agendas, especially those related

to poverty reduction. Likewise, in certain cases, support for MSME development may also benefit IBs to achieve greater impact.

IBs matter for MSME growth

In the ASEAN member States, IBs tend to be medium to large-sized, often family-owned companies. Multinational companies are often engaged in shared value propositions and strategic CSR initiatives. Mainstream micro and small enterprises, although often working in the markets of the poor, do not predominately employ inclusive business models, in which poor and low-income people are part of the value chain. To be relevant for poor and low-income people, such solutions must be very innovative to address risk, small margin and the peculiarities of the markets, affordability and consumption behaviour of the poor. Naturally, promoting IB will include the promotion of medium-sized enterprises.

Besides the fact that many medium-sized enterprises have an inclusive business model, four additional connection points between IB and MSME development can be identified:

- MSMEs are part of the value chain of an inclusive business model: IBs often integrate MSMEs as suppliers, distributors or retailers in their operations and enhance market access for MSMEs. For instance, downstream in its value chain, PT Indofoods, one of Indonesia's largest fast-moving consumer goods companies, engages with over 50,000 micro-entrepreneurs retailing and distributing its products (Dietrich, 2018a, p. 24). IBs abide to fair-trade principles and often offer above-market margins to their MSME partners.
- IBs can build capacity in MSMEs: IBs often provide capacity-building to the MSME they engage with and help fulfil the pressing need for MSME support in developing countries. As an example, in Indonesia, Olam International, a leading food company and agribusiness, developed a training programme for its cocoa suppliers that helped increase seeding production from 8,000 to 73,500 per cycle (BOI, 2018, p. 15). Another example is the Philippines' Jollibee Farmer Entrepreneurship Program that enabled subsistence farmers to develop into micro-entrepreneurs in an agricultural IB value chain. Jollibee Foods Corporation enabled over 1,000 farmers to supply market grade vegetables to the fast food giant's procurement system, while at the same time providing capacity-building to enable the farmers to sell produce into the open market and increasing the entrepreneurial acumen of the farmers (Dietrich, 2018b, pp. 44-45).
- IBs enhance access to resource for MSMEs: Inclusive business models that aim to support MSMEs as part of their social impact goals play a role in enhancing access to inputs and affordable technology for MSMEs. This also includes enhancing MSME access to resources through value-chain

finance. The significant contributions of IBs in value chain development make them efficient, effective delivery instruments for value chain financing while reducing risk (ASEAN, 2017a, p. 49). For Instance, Amru Rice, an IB from Cambodia, provides their farmers with appropriate inputs, guarantees prices and arranges finance at lower interest rates, among other support measures.

- IBs foster the creation of new MSMEs: IBs can also play a role in spurring the formation of new enterprises. For instance, PT Indofoods, supported the establishment of small enterprises that produce semi-finished products from the agricultural produce sourced from smallholder farmers (Dietrich, 2018b, p. 44).

Promoting IB development benefits MSMEs directly and indirectly, and there is great scope for synergies between MSME support and IB promotion. ASEAN acknowledges the connection between IB and MSME development. The AIBF directly connects IB efforts to the ASEAN Strategic Action Plan for Small and Medium Enterprise Development 2016–2025, implemented by ACCMSME and highlights how IBs contribute to its five strategic goals.

Promoting MSMEs will help the development of inclusive business models but is not sufficient

In some countries, certain IBs can qualify for MSME support measures. For instance, the new MSME law of Viet Nam includes enterprises that have 200 employees, a total capital of around \$4.4 million or a past year revenue of around \$13.2 million. This definition allows most medium-sized IBs to qualify for incentives.

A second way MSME support complements IB promotion is through the capacity-building of MSMEs as suppliers, distributors and retailers of IBs. Inclusive business models that engage MSMEs in the value chain often face challenges related to the limited productive, knowledge, financial or technological capacity of their MSME business partners. Measures that develop the capacity of MSMEs reduce the costs for IBs and foster a more enabling environment for the thriving of inclusive business models. While many ASEAN member States have direct support policies for MSME capacity development, converging those with IB promotion policies offers new opportunities to scale up targeted MSME capacity-building with the private sector operating inclusive business models.

However, while some IBs might benefit from existing MSME laws, these laws do not cater for larger IBs that can deliver increased inclusive growth and well as social impact. Moreover, while IBs face the typical business challenges in emerging economies, their business models require differentiated support. Firms

with the potential to develop inclusive business models may require specialized coaching on how they could develop in their business area. This may include coaching on how to deepen their social impact or on innovation opportunities that would enable the firm to pay above-market rates to their suppliers while remaining competitive. Current IBs, as well, could benefit from accreditation systems that enhance visibility and help them gain niche market shares.

MSME laws can also help small IBs to scale up. However, it is important to highlight that currently very few MSMEs are IBs or have the ambition to become IBs.

ASEAN member States have strong MSME frameworks that can be expanded to include IB. Malaysian and Viet Nam are looking at incorporating IB in their MSME development efforts. In the Philippines, the IB promotion programme supports the Government's programme for poverty alleviation through assistance to MSMEs and includes incentives under the Philippine Omnibus Investments Code.

Cambodia is currently mainstreaming IB support in its MSME framework. It has integrated IB in the new MSME strategy (2019–2023). The Ministry of Industry and Handcrafts of Cambodia, in its draft of the new MSME development policy and its five-year action plan, mainstreams IB under each of the five strategic areas and recommends specific activities to support IBs, including setting up institutionalized IB support systems, an accreditation system and a technical assistance facility. The draft of the new national strategic development plan (2019–2023) refers to IB as a crosscutting theme for industry development.

1.3.2. Inclusive business and social enterprises

In several ASEAN member States, efforts to enhance private sector engagement in development have focused on the promotion of social enterprises. Richer economies tend to focus on social enterprises because most BOP communities are already served by mainstream industries and public services, and low-income markets are small and niche and can be better served by social enterprises.

The approaches to social enterprise promotion have varied across the ASEAN member States. For example, social enterprises are recognized as a distinct type of organization in Viet Nam's Enterprise Law. Thailand has an active social enterprise promotion policy, including tax incentives and funding for social enterprise initiatives and adopted the Social Enterprise Act in May 2019. The social enterprise sector has also experienced growth in countries without legislation, but with supportive government policies, such as in Indonesia, Malaysia and Singapore. For instance,

Singapore has institutionalized support for social enterprises providing identification, research, incubation and funding services to domestic social enterprises through Singapore Centre for Social Enterprise (raiSE). Brunei Darussalam is also focussing its efforts on creating an enabling ecosystem for social enterprises, although the concept is still largely unknown in the country. Social enterprise policies in ASEAN member States, however, have not included IBs.

IBs and social enterprises are often referred to interchangeably. Although both models provide private sector contributions to the Sustainable Development Goals, they differ in terms of scale of impact and business in ASEAN:

- IBs tend to be medium to large-sized operations while social enterprises tend to be smaller. As such, IBs tend to focus on models that deliver scale, including internationally, while social enterprises are often community-driven/based entities and have business models that seek to develop social impact.
- IBs have profit at the centre of operations and employ strictly commercial models. Inclusive business models see no trade-off between social impact and commercial gains. One maximizes the other and IBs seek to generate private profit. Social enterprises in turn, especially in South-East Asia, are observed to be not profit-maximising and seek to reinvest some of their profits into the community they are serving. Often social enterprises in the ASEAN region have business models that are closer to those of non-governmental organizations, including dependence on grant financing, especially during the start-up phase.
- IBs serve the poor and low-income populations at large scale, while social enterprises can seek to serve various niche markets of vulnerable communities. Social enterprises are providing income opportunities and affordable services for marginalized sectors, such as the homeless, out-of-school youth, elderly without families and indigenous communities. In addition, many social enterprises are seeking to develop solutions to the environmental challenges of our time and do not have a focus on the poor and low-income groups. Social enterprises in ASEAN are also found to be led in large number by women and young people, making them more inclusive than the traditional SME sector.

Policies that support social enterprises can also support IB development. Social enterprises predominantly start as small companies with a social mission. Larger social enterprises have the potential to scale-up into inclusive business models. A recent report published by the Asian Development Bank (ADB) concluded that not all social enterprises can or need to become IBs. However, a few belonging to the category of leading social enterprises can be nurtured to become IBs in

the future (Dalberg Global Development Advisors, 2017). Social enterprise policies can help relatively small enterprises with potential to scale up into strong IBs. Social enterprise initiatives can also be integrated into an IB value chain, and provide community organizing, technical assistance and aggregation services. They are also a source of social innovation and business model development and piloting, which larger companies can adopt and scale up (Dietrich, 2018a, p. 9).

Moreover, efforts focussed on creating an enabling environment for social enterprises has played a key role in advancing impact investment in ASEAN. Some countries have established regulatory frameworks under which social entrepreneurs can register and receive benefits such as tax incentives. Such policies have been passed in Malaysia,⁸ Thailand and Viet Nam, and the Philippines is considering the introduction of such a bill (Global Impact Investing Network, 2018, p. 15).

Measures that facilitate impact investment for social entrepreneurs can support them to scale up to inclusive business models. Across the ASEAN region the social enterprises often identify their greatest challenges as access to finance and capital. Policies and programmes to support social enterprises to develop the capacity and business models that would allow them to absorb large amounts of capital would help them to scale-up. For instance, the Malaysian Global Innovation and Creativity Centre (MaGIC), an institution created by the Government of Malaysia to foster an enabling environment for entrepreneurship, launched the Impact Driven Enterprise Accreditation initiative in 2017. Social enterprises which meet MaGIC criteria are validated as ‘impact driven enterprises’, with the aim of giving them more legitimacy when connecting with potential funders. MaGIC also promotes matchmaking between social enterprises and impact investors (British Council and Economic and Social Commission for Asia and the Pacific, 2019, p. 34).

At the investment side, the Sustainable and Responsible Investment Fund Framework of Malaysia enables funds to be designated as sustainable and responsible investments, aiming at widening the range of investment products and investors that social enterprises can access in Malaysia. These measures can benefit IBs directly if they are classified as social enterprises or indirectly by expanding the interest and engagement of impact investors in the country.

8 Key policy document related to social enterprise in Malaysia include: Eleventh Malaysia Plan, 2016–2020, the Malaysian Social Enterprise Blueprint 2015–2018 (MSEB), Guidelines on Sustainable and Responsible Investment Funds, the National Entrepreneurship Framework, in addition to the Sustainable and Responsible Investment Fund Framework. (British Council and Economic and Social Commission for Asia and the Pacific, 2019, p. 35)

However, social enterprise support measures do not target the needs of IBs once they reach scale. IBs find specific challenges to accessing finance for their inclusive business models; investors are discouraged from investing in inclusive business models because of the high cost of entry, long investment time horizon, and high risk and uncertainty. Moreover, such as in the case of MSME laws, social enterprise frameworks only support IBs to a limited extent.

In this context, efforts to promote private sector engagement in IB in ASEAN need to complement social enterprise frameworks with tailored and aligned IB measures (Dietrich, 2018b). Countries in ASEAN are starting to explore this avenue. In Viet Nam, the integration of IB in the decree that guides the operations of social enterprises in the country is being explored.

1.3.2. Inclusive business and corporate social responsibility

IBs are intrinsically different from corporate social responsibility (CSR), as well as from the broader shared value concept. Traditional CSR initiatives have focused on mitigating the negative impacts of businesses on society or complying with business ethics standards, while IB proactively seeks to address the needs of BOP populations. IB also differs from CSR projects by the nature of the business investment (i.e. core business versus peripheral activities) and the general lack of financial sustainability in CSR projects.

However, companies increasingly realize that “CSR can become more strategic and add financial value to a business. Being strategic and linking CSR to core business (rather than an add-on activity) can increase the value of CSR to a business, enable the company to manage a broader range of externalities, and extend social impacts through larger and more sustainable investments” (Dietrich, 2018a, p. 9).

This distinguishes two models of CSR: traditional CSR and strategic CSR as core business. Strategic CSR understands that social impact initiatives can and should be commercially viable. CSR thus becomes an effective pathway toward the development of IB models and activities. The promotion of more strategic CSR activities, which integrate social impact and inclusiveness into core business processes, could eventually scale up to become IB models (Dietrich, 2018b).

ASEAN member States have strong CSR and responsible business traditions and CSR initiatives are common. Many ASEAN economies also have strong CSR policies in place. Indonesia, Malaysia and Thailand have CSR laws and requirements for greater disclosure of corporate environmental, social and governance performance (Dietrich, 2018a).

Considering that CSR is becoming more strategic and could potentially develop into IB activities, CSR support could foster the emergence of new inclusive business models and existing CSR frameworks could provide a template and steppingstone towards promoting IB. For instance, legislation that requires firms of a certain size to develop CSR provides an obligation for firms to invest in social outcomes and could be an opportunity to invest in the development of IB models.

2. Inclusive business policy advances in ASEAN

This section presents advances in IB policy development in ASEAN member States and describes the measures adopted or being developed towards building an environment that fosters IB growth.

The first subsection presents IB policy developments following the four critical areas to support the development of an enabling environment for IBs, as identified in the G20 IB framework and AIBF.

The second subsection discusses the actual implementation of IB policies, focussing in particular on the experience of the Philippines, the first ASEAN country to adopt IB specific policies.

2.1. Policy development

Establishing an enabling policy ecosystem for IB is a means to spur inclusive growth and to strengthen the foundation for achieving sustainable development targeted at the BOP. Governments can encourage the emergence, expansion and scale up of inclusive business models by establishing conducive rules to spur an enabling business environment, providing relevant information and raising awareness, building the capacities of the BOP and IBs, and enhancing access to finance.

IB policymaking has, only recently, started gaining recognition in ASEAN, as policymakers start to explore how IB can help fulfil national development objectives. Yet, promising developments are starting to be seen, and potential exists to grow the number of IBs and social impact of IB in the region.

2.1.1. Establishing conducive rules, regulations and definitions

To establish rules and regulations conducive for inclusive business, governments can review existing regulations that limit BOP participation in market activities, embed pro-poor targets into government contracts, introduce appropriate regulations for IBs, and favour procurement from IBs.

Among ASEAN member States, only the Philippines has adopted specific rules and regulations to support IBs. Countries such as Cambodia, Indonesia, Malaysia, Myanmar and Viet Nam are making significant progress towards the development of IB regulations and frameworks, including in connection to their MSMEs, social enterprises and CSR frameworks. Other countries have developed related policies that could support the advancement of their IB environments. For instance, in February 2019 Thailand adopted the Social Enterprise Act to define and support the development of social enterprises and aligned regulations could support IBs.

In the Philippines, IB is seen as one of the pathways to reducing poverty in the Government's new poverty reduction strategy. In 2014, the Philippine Board of Investments (BOI) and ADB came together to support IB. The Government made IB a part of its Investment Priorities Plan (2014–2016) and offered specific tax incentives for companies with inclusive business models in selected sectors. The Investment Priorities Plan 2017–2019 included inclusive business models among the priority sectors eligible for incentives.

Under the Philippines IB policy framework, inclusive business models are defined as business activities of medium and large enterprises that provide business opportunities to micro and small enterprises as part of their value chains. It is currently operational in the in the agribusiness and tourism sectors. The IB policy has two components: reach and depth of impact, and innovation. Reach and depth focuses on the companies' engagement of the marginalized sectors and the socioeconomic impact of such engagement.

Companies applying for IB incentives in the Philippines are expected to engage marginalized individuals as employees and/or micro and small enterprises as suppliers. Income increases of the individuals engaged are monitored to prove that the businesses indeed provided sustainable livelihoods and decent jobs.

Moving forward, the Philippines launched a process in 2019 to further enhance the implementation and design of the existing policy, and to secure stronger institutional support. Regarding policy implementation, it will seek to develop further support for IB, by reinforcing the linkages between IB promotion and MSMEs development. In order to boost IB models, the BOI aims to accredit more IBs by expanding the sectors and reviewing the criteria for incentives in partnership with ESCAP and iBAN. The country is also exploring creating policies to include IBs in public procurement.

Although Cambodia, Malaysia, Myanmar and Viet Nam do not have rules and regulations around IBs, they have completed or are in the process of developing

national IB landscape studies to inform their plans to establish IB policies in the near future. The landscape studies give examples of IB cases, analyse the enabling environment for IB and make recommendations for IB policy support.

Myanmar is promoting IB through the Directorate of Investment and Company Administration (DICA), a government agency under the Ministry of National Planning and Economic Development. In 2018, a framework for IB was developed to guide reforms. The resulting document, with its recommendations, has helped carry the IB message to the Myanmar Investment Commission and the Myanmar Private Sector Development Committee, which have generally endorsed the framework. DICA, as the secretariat to the Myanmar Investment Commission, plans to support the preparation of an action plan and coordinate implementation. Government, development partners and investors are also involved in plans to implement the strategy.⁹

In 2018, Myanmar launched the Inclusive Business/Impact Investing Steering Group – a public-private activity to promote and guide IB and impact investment development in the country. This group provides a platform to roll out the various elements of the framework for IB. DICA is exploring the possibility of setting up IB desks internally and in other agencies, and of eventually developing accreditation criteria and investment incentives for IB.

Cambodia is strongly committed to promoting IB and has shown fast and strong progress on IB policy development. The country is promoting IB through the Ministry of Industry and Handicrafts. The country is currently in the process of approving a strategy for IB with eight key recommendations.¹⁰ This strategy

9 This framework is part of the study on IB in Myanmar, published by DICA in partnership with the DaNa Facility. Recommendations include: a. Establish a steering group on IB, social enterprises and impact investment and mobilize support from development partners; b. Broaden awareness of IB; c. Provide technical assistance for developing IB and impact monitoring; d. Set up IB support desks in various agencies; e. Set up an IB accreditation or certification system; f. Prioritize IB in industrial policies and incorporate them in incentive structures; g. Strengthen demand for IB products through public procurement; h. Establish an investment fund for IBs and social enterprises.

10 Refer to section of this report on Learnings and Recommendations for additional information. The recommendations are: 1) establishing focal points and a steering committee, 2) enhancing awareness in IB, 3) establishing an IB accreditation system, 4) including IB in the new investment law and creating IB incentives, 5) prioritizing IBs and social enterprises in public procurement, 6) establishing a technical assistance facility for business coaching, impact assessment and policy work, 7) establishing a risk reduction facility for IB impact investors, and 8) doing IB reporting as part of reporting on the private sector's contribution to inclusive growth and development under the Sustainable Development Goals.

includes an accreditation system that sets clear criteria for qualification of IBs in the country, the creation of a technical facility under the Ministry of Industry and Handicrafts to support IBs and establishing incentives for IBs.

SME Corporation Malaysia under the Ministry of Entrepreneur Development and the Agency for Enterprise Development of the Ministry of Planning and Investment of Viet Nam conducted national IB landscape studies. The studies comprise: a) profiling of companies with IB lines; b) an analysis of the enabling environment; and c) recommendations for further promoting IB in the countries.

In Viet Nam, efforts will focus on recommendations for an IB accreditation system to be implemented at the national and provincial level, and the establishment of IB focal points in different agencies and business associations. Efforts will also focus on exploring opportunities to include IB in the revision of the country's Decree on social enterprises and other existing frameworks. In Malaysia, policy recommendations will particularly consider opportunities for building on and expanding existing public instruments that support SMEs and social enterprises.

Indonesia completed a market scoping study for IBs in 2012 that included recommendations for creating a framework for IBs in the country. In 2019 a study was launched on the potential for IB in the wellness tourism sector. The study, conducted in partnership with ESCAP and iBAN, will include the profiling of selected companies and a potential road map for supporting IB that could include policy measures.

Brunei Darussalam, the Lao People's Democratic Republic, Singapore and Thailand have not initiated IB policy development. However, the Lao People's Democratic Republic and Thailand engaged in regional IB initiatives. As the Chair of ASEAN, Thailand hosted the Second ASEAN Inclusive Business Summit in 2019.

Finally, it is worth highlighting that most ASEAN member States have frameworks that can be leveraged and extended to support IB. These include policies on MSME promotion, social entrepreneurship as well as CSR as previously discussed. Table 3 provides an overview of the policy framework in each country.

Table 3. IB regulation and aligned policies

ASEAN member States	IB	MSME	Social enterprise	CSR
Policy frameworks and regulations				
Brunei Darussalam	No	Yes Assessing feasibility of IB elements to be included	No Under consideration	No
Cambodia	No Development of a Strategic Framework ongoing	Yes New SME policy to include IB	No	No
Indonesia	No Market scoping study developed	Yes	No National Entrepreneurship Development and the Medium Term Development Plan 2015-2019 – mentions development of social enterprises	Yes
Lao People's Democratic Republic	No	Yes	No	No
Malaysia	No Landscape study started in July 2019	Yes IB promotion aligned to MSME policy	No National blueprint and support systems in place. Inclusion of IB under consideration	Yes
Myanmar	No Strategic Framework developed	Yes	No	No CSR requirement for companies
Philippines	Yes IB accreditation system and tax incentives	Yes IB promotion aligned to MSME policy	No	No
Singapore	No	Yes	No A support system is in place to develop the sector	No
Thailand	No	Yes	Yes Social Enterprise Act of 2019	Yes
Viet Nam	No Landscape study launched	Yes IB promotion aligned to MSME policy	Yes Decree of 2015	No

Source: Author, building on inputs provided by IB focal points of each ASEAN member State.

Notes: Policy frameworks and regulations refer to instruments that officially recognize, provide definition and/or award incentives and support to qualifying companies.

2.1.2. Enhancing access to financial resources and providing financial incentives

Targeted access to finance opportunities and financial incentives play a key role in fostering new and larger IB models. Currently, there are no government funds specifically targeted at IB in ASEAN and, except for the abovementioned tax incentive in the Philippines, there are virtually no financial incentives tailored to IBs.

Inclusive businesses have been able to tap into existing funding vehicles, including commercial banks, MSME banks, certain government funds, funding from development finance institutions (DFIs) and, most recently, private impact investors (PIIs). However, these are not targeted towards IBs, and these companies still face challenges to tap into traditional financial vehicles given the nature of inclusive business models. Efforts are required to alleviate the difficulties to access funds for IBs in ASEAN.

As part of their MSME support policies, ASEAN member States have put in place SME Banks and/or special MSME funds. Brunei Darussalam, for instance, has created a shariah compliant SME Bank. Malaysia has also established a dedicated bank for SMEs, the SME Bank, as have Thailand and others. Myanmar has several programmes to enhance access to finance for MSMEs and disburses loans to MSME through the Myanmar Economic Bank. However, IB access to MSME-tailored funding is lukewarm as these have, in most cases, not made provisions for the inclusion of IBs, and IBs usually require much larger investments than MSME banks can provide.

There are innovative ways countries can leverage MSME Banks to provide tailored support to IBs. Cambodia is a promising example in this direction. The country is currently establishing a new SME Bank and discussions are ongoing on adding a risk reduction facility for IB investors. Financial mechanisms that reduce the risks of inclusive business models can help leverage commercial financing and are a potential area of IB support in ASEAN.

ASEAN member States have also launched specific socially oriented funds, including social enterprise funds, that support IBs. In Myanmar, for instance, the Responsible Business Fund (also known as Challenge Fund), implemented as part of the Danish Development Assistance to the country, made available MMK 12.5 billion (approx. \$8.15 million as of 17 June 2019), over three years, to provide partial grants to SMEs for the implementation of innovative projects that “increase the competitiveness and responsible behaviour of Myanmar enterprises” (RBF Myanmar, 2019).

As part of its efforts to stimulate social innovation, the Government of Malaysia launched a MYR 3 million (\$690,000) Social Outcome Fund in March 2017. This fund is open to all social-purpose organizations, including non-governmental organizations and social enterprises.

Although these are valuable instruments in the region, they do not directly support IBs. To help foster the growth of inclusive business models, ASEAN member States will need to diversify from MSME and social enterprise funding.

Development partners have been key actors advancing funding for IBs. In Viet Nam, SNV Netherlands Development Organization, a not-for-profit international development organization, implemented the 2015 “Viet Nam Business Challenge Fund,” funded by the United Kingdom Department for International Development (DFID). The Fund provided non-reimbursable funding of up to 49 per cent of the total investment in selected IB projects that were innovative, inclusive and commercially viable.¹¹

In Myanmar, the DaNa Facility, a private sector development programme funded by DFID, facilitated loan agreements between commercial banks and regional farmers’ development associations. DaNa Facility also provided grant support to a project named “Shwe Lan” to improve access to finance for MSMEs.

There is an opportunity for ASEAN member States to work together with development partners to advance funds to accredited IBs in the region.

2.1.2.1. Impact investment

IBs are often financed by impact investors who aim to achieve both social impact and financial returns. Impact investing is defined as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” (Global Impact Investing Network, 2018, p. 4).

South-East Asia’s impact investing ecosystem has developed significantly over the last decade, with \$904 million deployed to the region by PIs and around \$11.2 billion deployed by DFIs from 2007 to 2017. Almost a third of impact investors invest in South-East Asia, and 44 per cent plan to grow their impact investing allocations to the region in the year ahead (Global Impact Investing Network, 2018, p. 3).

¹¹ See www.snv.org/project/vietnam-business-challenge-fund.

The growth of impact investment in the region represents a significant opportunity for IBs. Even though there are also many social enterprises in need of investment, investment opportunities are much bigger in IB models as they are larger in scale and have greater commercial viability, whereas social enterprises more often require smaller investments and grant funding.

Globally, most impact investments come almost equally from DFIs and PIIIs, especially commercial banks. In ASEAN, however, investments by DFIs accounted for over 90 per cent of impact investments from 2007 to 2017 (Global Impact Investing Network, 2018, p. 13). Indeed, DFIs have been leaders in leveraging private sector contribution to development through impact investments in developing countries. Given their poverty eradication mandates and long-term objectives, Development Banks are well placed to invest in IB and leverage private capital. It is worth noting, nevertheless, that only a portion of DFIs investments go to enterprises. DFIs might provide capital to either enterprises or projects that improve socio-economic outcomes and catalyse the flow of commercial capital to sectors that otherwise would not receive investment. Projects can be implemented by governments and development actors, among others.

Important advancements in private sector investments are seen in ASEAN as PIIIs become more familiar with IB models. In fact, although DFIs accounted for most of the impact capital deployed in volume, in terms for number of deals, DFIs and PIIIs have completed 289 and 225 deals respectively. This shows that although PIIIs invest smaller amounts, they are as active. Since 2013, investment activity has increased, and investors are generally positive and optimistic given the inherently large market opportunity (Global Impact Investing Network, 2018, pp. 4 and 14).

Examples of local players engaging in impact investment can be seen across the region. Despite having a disproportionately large international investor base compared to other countries in the region, Indonesia has three angel investor networks to encourage local investors to invest in social enterprises. Mekar, one of the largest peer-to-peer systems in Indonesia, connecting funders with micro enterprises with positive economic and social benefit, is planning to launch first impact investing fund in Indonesia, Mekar Impact Fund in 2019 (Mohan, Harsh and Modi, 2017).

Singapore's Temasek Trust launched an impact investing fund in June 2019 called the ABC World Asia, which focuses on firms with positive social and environmental impact. The fund will be managed from Singapore and will invest in companies that funnel their efforts toward South-East Asia, South Asia and

China. Encouraging models have also been seen in Singapore with the DBS Foundation and in the Philippines with the BPI Foundation, which sponsor social enterprise awards thereby generating a pipeline for their commercial operations (Watson and Wo, 2019). Viet Nam's impact investing market also has several homegrown impact funds like the Mekong Brahmaputra Clean Development Fund of Dragon Capital and the Lotus Hub of Lotus Impact.

Another example is the recently created Equity@Scale programme funded by the Australian Government's Department of Foreign Affairs and Trade (DFAT) and implemented by Impact Investment Exchange, together with Brightlight Funds Management, which aims to support 500 women-focused impact enterprises in countries such as Indonesia, the Philippines, Thailand and Viet Nam (Impact Investment Exchange, 2019). This last example is representative of an increasing interest in gender equality and women's economic empowerment in impact investment, which could offer opportunities for the development of inclusive business models focussed on engaging women and girls.

Despite the opportunity, few policy provisions encourage impact investments in the region. Most policies related to impact investing indirectly stimulate the field through demand, for example by making it easier for companies to comply with the formalities needed to access investment and to access technical assistance and government support that decrease the risk of investment by impact investors (Impact Investment Exchange, 2019). In addition, some countries promote impact investment through regulatory frameworks for social entrepreneurs. Yet, these measures rarely directly improve the environment for investors (Global Impact Investing Network, 2018).

In addition, although examples of local players exist, most of the impact investors active in the region are still international players. The relatively low levels of impact investment by ASEAN PII, including regional commercial banks, can be associated with the still incipient awareness of inclusive business models among these actors in the region. In ASEAN member States, commercial banks typically lack a specific objective to create social impact and few have demonstrated interest in lending to IBs and other impact enterprises (Dietrich, 2018a). Local banks represent a supply of potential impact investment capital yet to be tapped, and they could play a much larger role in supporting IB.

In addition, despite overall regional growth, the impact investing market in ASEAN remains highly fragmented. Countries in the region have entrepreneurial ecosystems with varying maturity levels and challenges. Indonesia, the Philippines and Viet Nam have developed comparatively mature private impact investing ecosystems,

with the Philippines having the most mature ecosystem among the three (Global Impact Investing Network, 2018). Investors have also taken advantage of opportunities in the relatively open, dollarized economy of Cambodia to catalyse its microfinance sector. As a result, Cambodia has attracted nearly as much private impact investment capital as Indonesia, the Philippines and Viet Nam combined. The Lao People's Democratic Republic, Malaysia, Myanmar and Thailand, in turn, have all had comparatively less activity, and Brunei Darussalam and Singapore, the two high-income countries with small populations, have sustained little private impact investment activity to date (Global Impact Investing Network, 2018, p. 12). Singapore, in turn, has become an important regional hub for impact investors, even though the domestic need for impact capital is not as strong as in other markets in the region. Many investors operate in Singapore to fund companies in other ASEAN member States.

Fostering an enabling environment for impact investment among ASEAN member States will require targeted action by governments. The roles governments play in supporting impact investment within countries include the following: facilitating the market; regulating the market; creating instruments through outcomes commissioning, procurement, impact products; supporting the ecosystem through fiscal incentives on both the supply and demand sides; and enabling interaction within the market.

2.1.3. Providing information and raising awareness

Important progress has been achieved in the promotion of IB among ASEAN member States. Despite encouraging developments in policy development, low levels of general awareness on IB are still prevailing in ASEAN. The number of IBs is also still relatively small, estimated to be less than 1 per cent of all registered companies outside the informal sector (iBAN, n.d.). Especially when compared with the MSME, social entrepreneurship, CSR as well as start-up agendas, IB is an unknown topic among most players in the entrepreneurial and business ecosystems.

Raising awareness and fostering information sharing on IB among different ecosystem partners, including policymakers and businesses, is essential to advance the IB agenda in the region. Greater awareness on IB can be generated through seminars, information material, websites and campaigns, and enhancing visibility of IBs through public recognition of IB accredited companies and IB awards. Collaboration with private sector organizations is critical to reach larger numbers of companies.

Progress in this area has been relatively slow in most ASEAN member States and activities to generate awareness are still limited. However, important and

encouraging progress is seen in countries committed to IB promotion, including Cambodia, Indonesia, Myanmar, the Philippines and Viet Nam.

The Philippines has played an active role to enhance the knowledge of IB in the Philippines and ASEAN. In 2017 and 2018, the Philippine Board of Investments (BOI), together with partners, released IB publications (hard copy and digital formats): *Business+ the Philippines: IB awareness and engagement among companies in the Philippines*; *Inclusive Business in the Asia-Pacific Economic Cooperation* (ADB, 2018) and *Impact Catalysts: Inclusive Business Models in the ASEAN* (BOI, 2018).

The “Business+ the Philippines” study, developed in partnership with the United Nations Development Programme (UNDP), engaged 200 businesses in the country and provided key information in the context of the development of the IB incentive measures in the country (Yudakul and Çitilgölü, 2017). In the aftermath, the UNDP Country Office in the Philippines also continues to work on improving awareness of IB, while also supporting companies in improving inclusive business models and seeking to build capacity.

To provide information and generate awareness on IB among businesses, the BOI operates an IB Centre that provides information and carries out awareness raising activities. For instance, BOI in collaboration with UNDP, the Philippine Business for Social Progress and the Department of Trade and Industry held the Inclusive Business Leaders Conference on 28 November 2018 in Pasay City. The conference provided an opportunity for active participants in the IB ecosystem to showcase, share and develop their knowledge.

The Government of the Philippines, as chair of the Asia-Pacific Economic Cooperation in 2015 and ASEAN in 2017, also worked to promote IB at the international level. Together with the ASEAN Business Advisory Council, it launched the ASEAN Inclusive Business Awards in 2017 to recognize successful inclusive business models in the region and identify a pipeline of existing IB projects for replication and funding by impact investors and commercial banks.

In Myanmar, DICA and the DaNa Facility are joining hands to increase awareness of IB in the country. The 2018 study on IB in Myanmar has formed the basis for several ongoing and planned activities to build and strengthen the IB ecosystem, including through awareness raising and capacity-building sessions.

At the Myanmar Entrepreneurship Summit in December 2018, the DaNa Facility held a session on IB. In 2019, the Inclusive Business Steering Group and DaNa

Facility, as its secretariat, reached out to different states and regions, through the regional chapters of the Myanmar Young Entrepreneurs Association, to provide information on IB and raise awareness within the public and private sectors throughout the country. DICA is also considering setting up IB desks internally and in regional offices to increase awareness of IB and other initiatives.

In Cambodia, discussions with existing and potential IBs have highlighted that to incentivize inclusive business models, they need greater visibility. Awareness raising is also essential to strengthen support for and trust on IB within the private sector. To address these needs, the Government of Cambodia is raising awareness, developing promotional material targeted at businesses and launching information campaigns through the Ministry of Industry and Handicrafts.

The development of IB national landscapes studies provides a good opportunity for information sharing and awareness raising. Myanmar held several awareness raising sessions during and following the development of its study. In 2019, national IB workshops were held in Cambodia, Malaysia and Viet Nam. Indonesia and the Philippines are also expected to hold IB workshops aligned to their IB efforts. In order to enhance the number of accredited IBs and to finetune the design of its current IB policy, the Government of the Philippines (led by BOI) organized three regional consultation workshops with government officials and private sector actors in June 2019.

To facilitate the sharing of information among and between policymakers and the private sector, some countries have established or are planning to establish IB focal points in government agencies and business associations, and/or a multi-stakeholder steering committee to support information and experience sharing and foster IB support.

The ASEAN member States have designated national IB focal points to help drive IB discussions in each country. In addition, some countries, such as Cambodia and the Philippines, have started appointing IB focal points in different national agencies, which would play an important role in disseminating information by acting as IB help desks for businesses.

ASEAN has played a key and impactful role in fostering information sharing and awareness raising around the IB agenda among member States, and it hosted important forums to disseminate IB support in the region, including the ASEAN Inclusive Business Policy Forums and the ASEAN Inclusive Business Summit, among other initiatives (see section 1.2). In particular, ACCMSME has ensured that the IB agenda is closely connected to the priorities of ASEAN member

States on MSME development. Moving forward, and considering the increasing interest in IB in the region, ASEAN should continue its awareness raising and information sharing initiatives.

Finally, development actors have also been playing a key role in information and awareness raising around IB in ASEAN. To increase awareness among firms with the potential to develop inclusive business models, a series of workshops and information sessions have been organized by iBAN and ESCAP in Cambodia, Indonesia, Malaysia, the Philippines and Viet Nam.¹² The Asian Venture Philanthropy Network and iBAN organized a series of masterclasses on IB in 2019 for companies in Indonesia, the Philippines, Thailand and Viet Nam to provide information on becoming investment-ready and facilitate linkages to impact investors.

Grow Asia, a multi-stakeholder partnership platform aimed at developing inclusive and sustainable value chains that benefit farmers, is also working to accelerate IB design in agriculture and leverage digital technology in partnership with iBAN. In 2019, Grow Asia will produce an open-source Digital Solutions Directory to share digital tools available to support smallholder supply chains. Grow Asia is also implementing a series of activities to support actors to design better solutions to BOP farmers (Grow Asia and iBAN, 2018).¹³

2.1.4. Strengthening the capacity of the base of the pyramid and of inclusive businesses

Technical assistance drives the implementation of IB support. This includes assistance to policymakers and private sector actors to enhance the environment for IBs and to companies to design and implement inclusive business models and change their traditional business operations.

There is currently no formal, public driven, technical assistance facility fully dedicated to supporting IBs in ASEAN member States. There are also very few technical assistance agencies providing support to IBs and there is little collaboration among actors to advance and support the IB agenda. However, countries have IB technical assistance initiatives, and discussions are taking place in some ASEAN member States to improve support to IBs.

¹² For information on iBAN activities for Inclusive Business in ASEAN, see www.inclusivebusiness.net/; For information on ESCAP activities for Inclusive Business in ASEAN, see <https://artnet.unescap.org/sti/policy/inclusive-business>.

¹³ Grow Asia was established by the World Economic Forum in collaboration with the ASEAN Secretariat. The organization brings together companies, governments and non-governmental organizations to help the 100 million smallholder farmers in South-East Asia improve their livelihoods through access to information, knowledge, markets and finance.

In the Philippines, the BOI IB Centre provides some support to IBs, mostly on accreditation and monitoring and connecting IBs and MSMEs. Some regional offices of the Philippine Department of Trade and Industry have started their own MSME-IB linkages programmes (e.g. Maximizing Investments by Leveraging Enterprises). Linking MSMEs to markets is one of the key activities of the regional and provincial offices.

In Myanmar, DICA is exploring the possibility of setting up IB desks. In 2018 November, the DaNa Facility, in collaboration with DICA and the Directorate of Industrial Supervision and Inspection, organized a two-day training on IB for staff of DICA and the Directorate of Industrial Supervision and Inspection from different states and regions, members of the Myanmar Young Entrepreneurs Association, DaNa IB and social enterprise grantees and other ecosystem players.

Cambodia and Viet Nam are currently working on the plans for a technical assistance facility to provide business coaching and impact assessment of companies that wish to engage in creating new inclusive business lines, growing their IBs, or restructuring their business to be more IB relevant.

Although not many government support systems for IBs are currently in place, ASEAN member States have strong organizations supporting entrepreneurship and private sector development that could play a key role in supporting IBs. Institutions such as SME Corporation Malaysia and raiSE are good examples.

Most technical capacity programmes around IB in ASEAN member States have been driven by development partners. Organizations such as iBAN and GIZ, the DaNa Facility, SNV Netherlands Development Organization, Asian Venture Philanthropy Network, GrowAsia, UNDP and ESCAP have implemented or are implementing IB initiatives in the region in collaboration with national Governments, and development donors have demonstrated increased interest in supporting IB programmes in ASEAN.

One example of such programmes is the grant window “Inclusive Business Ecosystem Window” launched in Myanmar in 2018 by DaNa Facility in collaboration with DICA and funded by DFID. The window provided grant funding to two organizations to help accelerate the growth and amplify social impact of 20 potential IBs in Myanmar, including through technical assistance. The project aimed to help Myanmar IB entrepreneurs become investment-ready and connect them to potential investors, to scale up and serve the needs of BOP populations, addressing the problems they face either on the consumer side or the supplier side.

In Viet Nam, the above-mentioned “Viet Nam Business Challenge Fund” of SNV Netherlands Development Organization, provided technical assistance, training and mentoring to selected IB projects in addition to funding. The “Inclusive Business Accelerator” project, also implemented by SNV Netherlands Development Organization and funded by the Government of the Netherlands, provided support for businesses to innovate, grow, replicate and improve their inclusive business strategy.¹⁴

Efforts to strengthen the capacity of BOP populations in ASEAN member States are numerous as exemplified by the multiple micro-entrepreneurship, SME development and economic empowerment programmes implemented in the region. However, these are currently not tied and/or aligned to IB promotion. In addition, IBs are tapping into many other private sector development programmes, including those focussing on MSMEs, social enterprises and CSR as previously discussed, but these programmes have no direct focus on the potential of IBs for poverty reduction and sustainable and economic growth. These programmes offer the opportunity for the conscious inclusion of IBs or for the creation of synergies with new IB initiatives.

2.2. Policy implementation

Based on the inputs provided by ASEAN member States, this section contains cases of policy implementation focused on IB in ASEAN. Since 2017 the IB agenda has gained prominence in the region and, new examples are expected to emerge as countries move forward in their efforts to develop IB policies.

The Philippines is the first country to have introduced a specific IB policy in ASEAN. The IB tax incentive provided by the BOI has been in place for one year, since early 2018. As of 2019, there are five registered IB projects which can provide a valuable contribution to the BOP market, estimated at \$55 million. The current incentives are aimed at businesses in the agribusiness and tourism sectors.

In the implemented system, interested businesses can apply for recognition/accreditation through the Government. Accreditation is based on an initial assessment of the company’s business model, and the preliminary rating is then validated with a follow-up check after 6–12 months. Once accredited, businesses are recognized as IB and can access incentives.

14 See www.snv.org/project/inclusive-business-accelerator.

As a frontrunner on IB in ASEAN, the Philippines faces the challenge of developing new policies and programmes. Of the three sectors considered in the market scoping study done in 2013, only two sectors - agribusiness and tourism - are covered by the current policy. Out of 12 pilot firms in these two sectors with potential to be accredited as IB, only one has applied and qualified for the incentive. The challenges for companies to access the IB accreditation are as follows:

- The policy only supports new projects, and excludes changes in existing business models (e.g. changing the sourcing of suppliers from abroad to local BOP communities);
- The policy requires fixed asset investment which is often not part of the inclusive business model. In short, businesses are required to make investment in physical assets, such as machinery, land, buildings, installations, vehicles, or technology. Inclusive business models, however, often consist of business model innovations, focused on changing interactions along value chains or on human capital;
- In the case of agricultural IBs, the requirement that 25 per cent of the final cost of the product consist of inputs sourced from BOP populations. This is deemed too high and unachievable even if one commodity of the project is sourced 100 per cent from BOP, as the product requires value addition to be competitive in the market.

The implementation of the current policy has also faced a number of institutional challenges that are addressed later in this report (see section 3.1.2). Notably, challenges included limited institutional structure to support the implementation of the policy and the need to increase awareness of IB within other government agencies, including the regional offices of the Department of Trade and Investment.¹⁵

After rolling out the IB policy in the country, the Government of the Philippines, through BOI, aims to finetune the current policy design to increase the number of companies receiving the incentive. To finetune the design and enhance the implementation of IB policy in the Philippines, work must go forward along three parallel strands as follows:

1. Establish an implementation road map for the current policy, including an IB framework and an operation manual to support the implementation of the policy throughout the different regions in the country;
2. Finetune the current IB policy to increase the number of accredited projects and expand IB to other sectors;

¹⁵ Inputs provided by BOI.

3. Strengthen the institutional support for IB through an IB executive order and a national IB bill.

Despite the challenges, the policy on incentives represents a strong push for the private sector to engage in IB. The BOI is continuously working on strengthening its collaboration with other government agencies and development partners to address the gaps in the implementation of IB projects.

Efforts to implement IB frameworks also took place in Indonesia and Myanmar. As previously discussed (see section 2.2.1), these two countries developed national studies that led to the development of policy recommendations for supporting IBs.

In Indonesia, the discussions on a national framework were initiated as early as 2013. In the context of the market feasibility study and following discussions, recommendations for advancing IB in Indonesia included IB accreditation, the development of a pipeline of IBs for investment, technical assistance, public awareness events, among others (Vega Jr., Rumondang and Finneran, 2013). Despite efforts, progress has been only incremental. Especially regarding policy development, no major initiative has taken place. Currently, the focus is on integrating IB in the health tourism framework, taking a sector approach to IB development.

In Myanmar, discussions are more recent. The country developed in 2018 its IB framework, endorsed by key national stakeholders, including government actors. The creation of the DaNa Facility, as a private sector development programme aimed at supporting the development of an enabling environment for IBs, was also expected to boost IB policy development in the country. The Steering Group on Inclusive Business and Impact Investment met in late 2018 and defined lines and a workplan for policy development to support IBs. Efforts were ongoing in 2019. Yet, the country has been facing challenges to put in place concrete measures, including low awareness of IB among government stakeholders to drive policy development further.

3. The road ahead for inclusive business policy in ASEAN

This section provides an overview of emerging challenges in advancing IB policy in ASEAN based on the experience of the pioneering countries highlighted in this report. It also presents innovative policy ideas, building on examples from other countries and regions, to address these challenges.

3.1. Challenges to promoting inclusive business

3.1.1. Challenges in policy development

IB policy has gained recognition recently in ASEAN as policymakers increasingly realize the contributions of fulfilling and accelerating the achievement of national development objectives. However, the development of IB policies is still limited, not only in ASEAN, but across the globe (ADB, 2018, p. 32).

Highlighting the challenges in developing IB policies, a recent study by the Donor Committee for Enterprise Development pointed out that setting up an enabling environment for IB is a complex undertaking. It found that “While many ‘standard’ regulatory reforms to stimulate private investment are likely to benefit inclusive business as well, the market entry and scaling up of innovative inclusive business models will often require additional, tailor-made government responses based on an assessment of the target sector, and the needs of individual businesses” (Heinrich-Fernandes, 2016).

Challenges in policy development vary greatly depending on the socioeconomic profile of the country. ASEAN is home to a varied set of economies, from least developed countries to emerging and developed economies, and each is likely to experience challenges that are unique to their contexts.

Some of the challenges ASEAN member States have encountered when developing IB policies include:

1. Insufficient awareness and understanding of the specific characteristics of IB, including among key government actors and business associations critical for the promotion of IB, including in the private sector. As discussed through this report, in most ASEAN member States, the MSME, social enterprises and CSR agendas have advanced significantly. IB, however, is a lesser known and emerging concept in private sector engagement in development in contexts.
2. Institutional limitations (such as existing weak coordination among IB-related agencies) and limitations in capacity among actors to incorporate an IB agenda at various levels of governments, including lack of technical expertise. For instance, cooperation with development actors in Cambodia, Indonesia, Myanmar, the Philippines and Viet Nam has been key to initiate IB discussions. However, countries find they lack institutional and technical capacity to develop IB policies.
3. Building wider national buy-in for the IB agenda and, in some instances, increasing ownership of IB promotion among ecosystem actors, including government agencies. Building wider buy-in for the IB agenda requires time

and continuous set of engagement activities, such as the organization of workshops and forums carried out in the Philippines.

4. Dominance of the charity and philanthropic practices among business communities, slowing the adoptions of IB agendas and models and enabling the widespread prevalence of CSR practices. For instance, in countries such as Indonesia, Myanmar, the Philippines and Thailand, charitable giving is an important cultural practice (Centre for Asian Philanthropy and Society, 2018) and promoting the adoption of inclusive business models require a shift in mindset regarding the positive role of business in society.
5. Blending of IB and social entrepreneurship, where social enterprises received earlier attention and greater support – particularly as Governments have focused on an agenda to generate jobs, rather than livelihoods. This is the case for example of Brunei Darussalam, Malaysia, Singapore and Thailand.
6. Lack of resources to finance ecosystem building and carry out IB policy development. IB efforts have benefited from the support of donors and development partners. However, within national Governments, IB is still a new agenda and few resources have been allocated to enable actors to focus on the development of enabling measures and support systems. This includes the lack of human resources as the IB policy development work has depended on the drive of national stakeholders and IB focal points who personally believe in and champion the IB agenda.
7. Lack of knowledge of the BOP market and of available data on target groups to support the IB agenda and policy development. Lack of data on existing and potential inclusive business as well as on MSMEs with potential for value chain integration.

Given the relatively recent emergence of the IB agenda in ASEAN, challenges are only starting to emerge. As ASEAN member States expand their efforts to create an enabling environment for IBs, new lessons on challenges are likely to emerge.

3.1.2. Challenges in policy implementation

As the Philippines was the only ASEAN member State to implement an IB policy, challenges in policy implementation are mainly drawn from that country's experience. As one of the pioneers of IB in Asia, the Philippines is faced with the challenge of developing new and untested policies and programmes that can deliver the expected impact. Challenges identified include:

- Concerns from the private sector regarding the design of the current policy and need to finetune the instrument to facilitate accreditation and access to the incentives.
- Difficulties in building further awareness on IB as the policy moves to the implementation among actors and agencies involved in the IB ecosystem,

despite the many advocates of IB coming from both sectors, especially at the subnational level.

- Lack of resources for the promotion of IB and further development of suitable policies, both at the IB Centre at BOI and at the regional level, including limited human resources to implement the policy as well as to develop IB expertise and intelligence.
- Limited financial resources to develop the IB ecosystem. While resources are available to finance inclusive business models (for example, from impact investors), the resources dedicated to support and develop and IB ecosystem (for example, to have data/mapping for developing inclusive business models) are very limited and hamper the capacity to provide technical support to IBs and identify a pipeline of IBs for investment and support in the different regions.
- Limited budget for monitoring and evaluating accredited IBs as stipulated in the current accreditation system, and dependency on ad hoc field support from government agencies to carry out monitoring and evaluation.
- Lack of structure in place within government agencies to support IB pre-registration (including limited data on inclusive business models and knowledge of IBs and activities in the country) and project implementation (convergence in the field with other government programmes that could support IBs, such as MSME development programmes, social entrepreneurship programmes, and investment promotion initiatives).
- Lack of data within government agencies on potential communities that can be engaged in inclusive business models. IBs search for communities to engage with; however, the Government can only provide limited support. There is a need to generate further intelligence (e.g. potential suppliers for IBs) in this area.
- Limited institutional basis for the IB incentive policy. The current IB policy of the Philippines is based on existing investment priority policy instruments. The creation of an IB bill is one of the legislative recommendations in the current Philippine Development Plan.

The experience of Indonesia and Myanmar also revealed key challenges in transforming IB frameworks into concrete policy measures. In both cases, efforts were hampered by difficulties in raising awareness and securing widespread endorsement of and commitment to IB as a priority policy area in the country. The capacity of government actors to provide substantial support to IB policy development was also highlighted as a challenge. In Myanmar, although the DaNa Facility is an important actor, it is not an actor of the national Government, and therefore it can only drive the IB agenda to a certain extent. These issues indicate the need to promote stronger awareness raising among essential actors,

secure more widespread buy-in among government stakeholders, embed the IB agenda deeply within national actors to ensure ownership, and invest in capacity development among national IB champions.

3.2. Innovative approaches to inclusive business policy

Given that IB policy is still incipient in ASEAN, innovations are marginal and limited. However, it is worth highlighting good examples of novel thinking in the region.

The Philippines, being the first mover on IB policy in ASEAN, has designed and implemented new and untested policies and programmes to support IB. The piloted accreditation system and tax incentive support for IBs represents a significant advancement for the region and offers important learnings for ASEAN member States. Moreover, the Philippines has demonstrated its strong support for IB promotion and innovative spirit through the piloting of the current policy.

A way to address existing gaps includes the development of an IB road map, and the institutionalization of the programme by passing an executive order and/or national bill on IB. These will further provide novel approaches for IB promotion and help enhance policy development models in the region.

The first ASEAN Inclusive Business Awards in 2017 were also a new development, launched by the ASEAN Business Advisory Council in partnership with the Government of the Philippines and development institutions. The award recognized, for the first time, companies in the ASEAN region that are implementing exemplary IB models. As such, it helped create visibility of profitable inclusive business models and further enhance the IB agenda in ASEAN.

Myanmar was the first in the region to launch a national study, presented in the report “Inclusive Business in Myanmar: An Agenda to Catalyse Social Impact”, including a framework for IB for the country with eight strategic recommendations which were enforced by key national stakeholders. This model represented an innovation in the region and has served as an example for other ASEAN member States.

In Myanmar, the Inclusive Business/Impact Investing Steering Group was created by the Government together with the DaNa Facility and private sector counterparts in December 2018. It was created to guide the formulation and implementation of policies to support IB ecosystem, and it is a novel model for the region. However, it is still too early to assess the impact of the Steering Group.

Finally, also in Myanmar, the creation of the DaNa Facility represented an important landmark for IB support in the region. Supported by development actors and donors along with the development of the IB study in Myanmar, the DaNa Facility was created to support IB and it is the basis for proposals to create other technical assistance facilities focussing exclusively on IBs in the region.

As part of the ongoing effort to develop an IB promotion framework for Cambodia, innovative models are being explored that could provide important models for ASEAN. A promising innovative model would be the inclusion of the risk reduction facility for IB under the new SME bank or another MSME platform. Under commercial terms, this facility would offer financial actors, such as impact investors, a risk reduction support to encourage investment and leverage private sector resources. Another promising innovation being explored by Cambodia is the creation of a dedicated technical assistance facility for IB that would support government and private sector actors to develop and implement IB policies and enhance the enabling ecosystem for IB.

4. Learnings and recommendations

4.1. Inclusive business in ASEAN

IB in ASEAN is on the cusp of developing into a major force for inclusive and sustainable development. ASEAN has played a key role in initiating the IB discussions in the region and creating momentum for IB regionally. Now is the right time for ASEAN to enhance the IB agenda and drive actors towards fully embracing IB as a new approach to fostering private sector contribution to development in the region.

ASEAN can continue to champion IB by fostering the sharing of information and raising awareness on IB. As IB efforts start to emerge in the region, ASEAN can provide platforms for the exchange of experiences and learnings, as well as best practices for advancing IB in the region among ASEAN member States. ASEAN regional forums, such as the ASEAN Inclusive Business Policy Development Forum and the ASEAN Inclusive Business Summit are important platforms for knowledge exchange, as well as awareness raising and IB promotion.

As more countries in ASEAN advance in their IB efforts, a regional forum will be essential to ensure that national frameworks are aligned and enable regional cooperation. Regional standards, such as a common definition of IB at the national level that builds on AIBF, could help foster synergies and promote collaboration

among ASEAN member States. As a regional forum, ASEAN can play an active role by helping its member States to build on experience and exchange information on their ongoing and planned efforts.

IB awards at the ASEAN level could also help highlight good examples of IB in the region and incentivize the adoption of inclusive business models. ASEAN could also integrate the IB theme into regular ASEAN events to draw attention to the contribution of IB to the specific topics discussed, including investment promotion, SME promotion, food security and women and the economy. Finally, ASEAN could continue to promote IB at its higher levels by highlighting the progress achieved in the region in the ASEAN Summit of 2019.

To foster the understanding of IB in the region, ASEAN can also increase and improve the coordination and collaboration with development partners for IB support. ASEAN can build on existing projects and programmes to continue the implementation of key IB-related work, such as through IB awards, seminars, conferences, publications and strategic advice to governments and companies. ASEAN could also discuss the coordination of bilateral aid for IB to achieve greater collective impact.

IB should be considered a cross-cutting theme for private sector engagement. While anchored in ASEAN's MSME agenda, close cooperation with other ASEAN institutions such as the ASEAN Business Advisory Council and the ASEAN Women Entrepreneurs' Network could help IB achieve its full potential. Indeed, because IB is a cross-cutting theme that engages all sectors of the economy, it offers unique opportunities for ACCMSME to collaborate with other ASEAN working groups and partner organizations.¹⁶ Strong support by ASEAN could be highlighted by encouraging different ASEAN forums to include IB in their respective work agendas and implement a workplan for IB development.

Another opportunity to raise awareness of IB in ASEAN is for countries to report on the impact of IBs in poverty reduction and inclusive development. Several ASEAN member States currently report on progress towards the Sustainable Development Goals, and IB reporting could be integrated into this exercise.

16 Partner organizations such as ADB, Organization for Economic Cooperation and Development, and iBAN also support IB development in ASEAN. Other support organizations are the ASEAN CSR Network, and accredited civil society organizations such as the AirAsia Foundation (Centre for Asian Philanthropy and Society, 2018, pp. 51–52).

4.2. Inclusive business in ASEAN member States

Since the adoption of AIBF in 2017, ASEAN member States have made significant progress towards placing IB at the centre of the inclusive and sustainable development efforts. IB awareness has increased, national interest is growing and more Governments in the region have started to foster an enabling environment through IB policies and programmes. Especially in several frontrunner countries, including Myanmar, the Philippines and most recently Cambodia, the IB agenda has advanced rapidly over the past two years. Others, such as Indonesia, Malaysia and Viet Nam have also made significant progress in the IB discussions.

IB extends viable opportunities for ASEAN member States to deliver positive economic and social impact at scale. ASEAN member States should continue to drive the IB agenda to further scale efforts to develop an enabling policy environment, building on the experience of frontrunners in realizing the wins of IB for business, governments and society. For those that have already initiated an IB policy development process, it will be essential to maintain momentum for implementation of frameworks and strategies.

While IB ecosystems have already begun to develop in ASEAN member States, IB is still far from reaching its full potential, and requires greater and strategic support by governments, businesses, and other business development actors. In addition, despite the progress, awareness remains low across ASEAN member States of the role IB can play to promote inclusive and sustainable development and of inclusive business models as profitable basis for private sector support for development.

Government support is also crucial for the widespread adoption of IB and strong action is needed at the national level across ASEAN member States to establish conducive rules, regulations and definitions; enhance access to financial resources and provide financial incentives; provide information and raising awareness on IB; and strengthen the capacity of BOP communities and IBs.

The success of IB policies relies on the adoption of IB as a model by the private sector and the commitment and active support by key public sector stakeholders for IB promotion. However, awareness of IB at the national level remains low in ASEAN member States. There is a pressing need for ASEAN member States to invest in IB awareness raising and capacity-building.

Currently, IB efforts in ASEAN member States have paid limited attention to women's economic empowerment and gender equality. Yet, for women in BOP populations, access to essential goods and services as well as income opportunities

is particularly concerning. Many IBs include women and the mapping of IBs in countries has taken into consideration gender aspects. However, moving forward, a systematic approach needs to be adopted to mainstream women's empowerment and gender equality into ongoing IB discussions. Governments have an essential role to play in this regard, bringing the IB agenda closer to efforts focussing on women and girls.

Although IB intersects with MSME growth, social entrepreneurship and CSR activities, these should not be seen interchangeably. ASEAN member States can achieve greater impact by aligning their MSME development efforts, social entrepreneurship support and CSR incentives to IB promotion at the national level. To align efforts, governments can complement existing MSME, social enterprise and CSR frameworks by: (i) expanding relevant incentives to IBs of all sizes, and; (ii) putting in place additional frameworks that respond to the specific needs of IBs.

Governments can also foster an enabling environment for IBs by helping identify pipelines of IB projects for replication and funding. This includes identifying inclusive business models and activities as well as social enterprise initiatives that could be supported to reach IB levels. Governments can develop mechanisms to monitor the outcomes and impacts of such investments. Efforts could focus on fostering the interest of investors and business leaders and generating further buy-in for policy development.

In general, recommendations for IB promotion in ASEAN member States remain the same as previously highlighted by key IB studies in the region. These include:

An emerging blueprint for IB policy development

A blueprint for IB policy development in ASEAN has started to surface based on the experience of frontrunning countries. Although the development of IB policies in ASEAN is still at an early stage, some common practices in the design, development and implementation of policies in the region are emerging.

Developing the IB agenda

National IB studies: Several ASEAN member States have undertaken national studies as a first step in the design of IB policies. In general, these studies include:

- 1) The mapping of IBs in the country, including the assessment of potential and existing inclusive business models, IB activities and social enterprise initiatives with IB potential;
 - The mapping of companies provides intelligence for the development of suitable policies and as well as an opportunity to start the dialogue on IB and raise awareness in the private sector.

- 2) The analysis of the enabling policy environment for IB, including the revision of existing rules and regulations that hamper IBs and/or limit BOP participation in market activities, as well as the identification of those that could be leveraged to promote inclusive business models;
- 3) The development of strategic recommendations for promoting IB, including on awareness raising, establishing coordination and operational mechanism, introducing policy measures and implementing programmes to support IBs and better integrate BOP populations in the economy.

Participatory approach: In the development of national IB studies, ASEAN frontrunners have opted for a broad participatory approach, bringing together public and private actors. In the observed cases, a national government agency served as main owner and coordinator of the exercise (e.g. the Ministry of Industry and Handicrafts in Cambodia and DICA in Myanmar). Focal points from other government agencies as well as from business associations were nominated to provide inputs early on the study. This guaranteed the participation of a broad set of stakeholders for the development of a joint agenda.

Designing IB policies

Based on the experience of ASEAN member States that have already completed or are in the process of developing national IB studies, eight key strategic areas for promoting IB can be identified:

- 1) Awareness: Fostering information sharing and awareness raising through events, workshops, publications, promotional materials, websites, IB awards, etc.;
- 2) Coordination: Establishing special IB focal points in government agencies and among private sector actors and, preferably, establishing a steering committee to further support coordination and shared action of focal points;
- 3) Accreditation: Creating a registration or accreditation system for IB to enhance participation of companies and understand and successively monitor inclusive business models and the social impact of the private sector in the country;
- 4) Procurement: Embedding pro-poor targets into government contracts and prioritizing procurement from companies that have inclusive business models, especially those that have obtained accreditation;
- 5) Incentives: Together with the private sector, designing suitable incentive systems, including tax incentives, to stimulate the adoption and growth of inclusive business models;
- 6) Finance: Developing financial products that are customized to the needs of IBs, such as de-risking facilities for investors, and fostering suitable investments linkages, such as by facilitating impact investment in the country;
- 7) Technical assistance: Creating a technical assistance facility specifically

dedicated to supporting IBs in the country that could provide business coaching to aspiring IBs, support business development for IBs, foster innovation exchanges to develop new inclusive business models, as well as support government actors to strengthen the overall ecosystem for IBs;

- 8) Monitoring and reporting: Developing strong monitoring systems and systematically reporting on the contributions of IB models and of IBs to the Sustainable Development Goals.

Synergies: To develop these policy areas, countries have sought to develop new frameworks, but also to leverage existing ones. This includes, as discussed, the experience of the Philippines in leveraging its MSME framework to support IBs. The same strategy is being pursued in Cambodia, Malaysia and Viet Nam. Other countries could adopt this model, building on the MSME, social enterprise and CSR frameworks in place.

Implementing IB policies

To bring all IB policy elements together, a strong coordination mechanism must encompass the private sector and different government agencies.

Technical assistance programmes could ensure IB promotion is sustainable in ASEAN member States. Implementing recommendations requires technical expertise of IB promotion as well as institutional capacity at the national level. Partnerships with development partners active in the IB landscape in the region can offer an opportunity to develop IB capacity among governments. Governments can benefit from ongoing or future initiatives driven by these partners and supported by bilateral donors.

Sustainability, however, requires efforts to be strongly anchored in national institutions with capacity to push for the implementation of the different elements of AIBF. The institutions should have strong relationships with the private sector and be able to leverage business support. Resources need to be properly allocated by national Governments to enable systematic promotion of IB in their country. The creation of national technical assistance facilities in national agencies or other institutions could contribute to the development of IB policies and support companies and investors in implementing new inclusive business models. In addition, strong capacity-building for policymakers and government representatives involved in the accreditation of IBs, for instance, could foster the creation of IB knowledge bases in ASEAN member States and further ensure that the results achieved are maintained.

17 Actors such as DICA in Myanmar and BOI in the Philippines are well placed to become strong national IB centres with the support of relevant ministries. In Cambodia, IB could be promoted through the Young Entrepreneurs Association of Cambodia.

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Annex – ASEAN inclusive business focal points

National focal point	Agency
Brunei Darussalam	
Mr. Fadli M Zaini	Darussalam Enterprise
Mr. Muhammad Saiful Azzam bin Haji Sarpudin	Darussalam Enterprise
Cambodia	
Mr. Vanthou Chorn	Ministry of Industry and Handicraft
Mr. Chhea Layhy	Ministry of Industry and Handicraft
Indonesia	
Mr. Totok Hari Wibowo	Coordinating Ministry for Economic Affairs
Ms. Destry Anna Sari	Ministry of Cooperative and SMEs
Lao People's Democratic Republic	
Dr. Souphaphone Saignaleuth	Ministry of Planning and Investment
Mr. Vannaseng Ounalom	Ministry of Industry and Commerce
Malaysia	
Ms. Kausalya Gopal	SME Corporation Malaysia
Ms. Farah Yasmin Yahya	SME Corporation Malaysia
Myanmar	
Ms. Yi Yi Khaing	Ministry of Industry, Directorate of Industrial Supervision and Inspection
Ms. Phyu Hnin Wutyi	Ministry of Planning and Investment
Philippines	
Mr. Jerry T. Clavesillas	Department of Trade and Industry
Ms. Melanie Moleño	Philippine Board of Investments
Singapore	
Mr. Tham Jierong	raiSE Singapore Centre for Social Enterprise
Thailand	
Mr. Supree Terapat	Office of Small and Medium Enterprises Promotion
Ms. Sonthariya Netirungsiwathara	Ministry for Social Development and Human Security
Viet Nam	
Mr. Phuong Lam Nguyen	Ministry of Planning and Investment
Ms. Thi Lan Nguyen	Ministry of Planning and Investment

