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IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2023, IFC committed a record $43.7 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of global compounding crises.

For more information, visit www.ifc.org

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British International Investment (BII) is the UK’s development finance institution and impact investor with a mission to help solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation. We invest to create more productive, sustainable and inclusive economies in Africa, Asia and the Caribbean, enabling people in those countries to build better lives for themselves and their communities. We invest every year in green infrastructure, technology and other sectors that need our capital the most. We currently partner with over 1,500 businesses in emerging economies, and we have total assets of £8.2 billion. We work with our investee partners to support them to succeed and grow impactful businesses.

For more information, visit www.bii.co.uk

About FMO

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a 50+ year proven track record in empowering entrepreneurs to make local economies more inclusive, productive, resilient and sustainable. FMO focuses on three sectors that have high development impact: agribusiness, food and water, energy, and financial institutions. With a total committed portfolio of EUR ~12 billion spanning over 85 countries, FMO is one of the larger bilateral private sector development banks globally.

For more information: please visit www.fmo.nl
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FOREWORD

BII

Across the globe, issues such as conflict and climate change have a disproportionate effect on those living in poverty. As the United Kingdom’s development finance institution and a leading impact investor, British International Investment (BII) seeks to address these challenges by making investments that have meaningful and long-lasting impact on people and the planet.

Inclusive development is one of the core pillars of our current five-year strategy. To this end, we have focused our capital deployment and geographic remit in parts of the world where the poorest and most marginalized segments of society live, enabling us to make a lasting difference. BII is the largest European development finance institution investing in least developed countries, with approximately 50 percent of our current portfolio concentrated in Sub-Saharan Africa. In line with the World Bank’s targets to scale its investment in low-income and fragile states by 2030, BII has prioritized reach to IDA17 countries—International Development Association (IDA) countries from the 17th Replenishment of IDA—and those affected by fragility and conflict. Thirty-seven percent of all commitments in our portfolio are tracked to these countries. Diversity is also a critical lens that we apply to ensure our investments are inclusive. Cumulatively, in 2022 and 2023, 38% of our portfolio representing £943 million, was 2X qualified, reflecting our focus on businesses that empower women and enhance their economic participation. We also seek to enhance the representation of Black-owned and -led businesses in our Sub-Saharan African portfolio.

With economies across the world facing setbacks such as rising food and energy prices, more people are being pushed into poverty, making it even more important to direct capital towards investments that support low-income populations. We hope this guide provides direction to any investor wanting to follow in BII’s footsteps in reaching these groups, by enabling them to incorporate an inclusive investing lens into their operations, while generating strong financial returns and positive social impact.

Maria Smith
BII Chief Impact Officer

FMO

In a world grappling with increasing inequalities, FMO believes inclusive business offers an opportunity for investors to meaningfully contribute to improving the quality of life of lower-income populations.

The divide in income distribution is widening and persistent, and crises such as the COVID-19 pandemic and climate change impact low-income populations the hardest. Furthermore, they face a diverse set of challenges, including lack of access to essential goods and services and opportunities for decent work. Inclusive business, with its focus on expanding access to goods, services, and livelihood opportunities, plays a critical role in addressing these challenges.

Reducing inequalities is central to our strategy, with the ambitious objective of growing our portfolio to €10 billion in Sustainable Development Goal 10 investments by 2030. Investing in inclusive business is a crucial component, underscoring our commitment to providing, blending,
and mobilizing finance for inclusive business, while also offering essential capacity building and technical assistance. Through our focus sectors we aim to increase access to finance and energy for low-income populations and increase inclusion of smallholder farmers in value chains. We have developed dedicated programs and financing instruments to support inclusive business, including the Nasira guarantee program and Ventures program.

We are aware of the challenges that persist in raising investors’ appetite for these types of investments. There is undoubtedly the need across the investor community for greater operational understanding, intentionality, and structural approaches with respect to capital allocation towards inclusive business. As we collectively strive for a more equitable and sustainable future, we trust this guide will enable investors to increase their engagement with, and support of, inclusive business. This in turn will unlock the power of the private sector to contribute to the goals of reducing inequality.

Huib-Jan de Ruijter  
FMO Co-Chief Investment Officer

***IFC***

We are at a critical point in the fight to eradicate poverty on a livable planet. We have seen declines in development gains, and we face a daunting array of intersecting challenges, including climate change, stagnating economic growth, and geopolitical crises, among others. Just as the challenges are intertwined, so too are the solutions. We all need to step up and do more—and at speed.

IFC is committed to using our capital and expertise to accelerate inclusion. Since 2005, IFC has committed $27 billion to companies that reach low-income people at the base of the pyramid globally. These inclusive businesses improve livelihoods and create opportunities for the people who need them most. They expand access to finance for low-income individuals, link smallholder farmers and micro entrepreneurs to markets, increase access to water and other critical infrastructure, deliver essential health services, and much more. But we know we need to do more. We are working to develop more solutions that can help the private sector expand its sustainable impact at the base of the pyramid.

We also know that we cannot do this alone. This guide is part of a series of inclusive investing guides that IFC and our partners have developed to help more investors intentionally direct their capital to address different facets of inclusion. From gender lens investing, to exploring an LGBTI lens, and now inclusive business investing for people at the base of the pyramid, these guides provide investors with step-by-step resources to help them expand the impact of their portfolio and address inequalities. We are happy to share the knowledge we have gained through decades of impact investing and look forward to learning from others.

IFC is committed to supporting the private sector to increase impact at the base of the pyramid and we invite other investors and partners to join us. Never has it been more important.

Nathalie Akon Gabala  
IFC Global Director, Gender and Economic Inclusion
This guide was produced by British International Investment (BII), the Dutch entrepreneurial development bank FMO, and the International Finance Corporation (IFC), with financial support from the Government of Japan.

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EXECUTIVE SUMMARY

Inclusive businesses engage and create value for low-income consumers, workers, and entrepreneurs in their supply chains while striving for financial success—and they are key to private sector efforts to address poverty and inequality. These businesses use market-based solutions that enable people at the base of the economic pyramid to expand their access to essential goods and services at affordable prices and improve their livelihoods. Inclusive businesses do this on a scalable, commercially-viable basis across the value chain.

Investors play a critical role in supporting inclusive businesses and in helping them to increase their impact on low-income populations. However, until now, investors had few practical resources to draw on when developing an intentional approach to inclusive business investing. This guide fills that gap by leveraging the knowledge and experience of the International Finance Corporation (IFC), the Dutch entrepreneurial development bank FMO, British International Investment (BII), and other inclusive business investors. This guide seeks to help investors allocate capital to inclusive businesses and to support inclusive business strategies among their investee companies. It also aims to coalesce investors around a common approach to investing in inclusive businesses.

This guide uses the term ‘low-income’ to refer to a broad segment that lacks the disposable income and opportunities more commonly associated with middle-income populations. Investors have adopted various thresholds to define a low-income segment relevant for market-based approaches. Common thresholds include fixed global lines of $6.85, $8.44, or $12 per day per capita in purchasing power parity (PPP).

The guide focuses on five key aspects of inclusive business investing:

1. Understanding inclusive business challenges and solutions.

Investors must be able to identify inclusive business opportunities that align with their expectations for impact and for financial return. Inclusive businesses may engage low-income stakeholders as employees, suppliers, distributors, retailers, or customers. If investors are unable to obtain precise income data on stakeholders, proxies—based for example, on stakeholder livelihood, assets, or access to basic goods and services—can be used to estimate if a stakeholder is low-income.

These stakeholders can face a variety of challenges, including a lack of awareness of the value and availability of products, services, or opportunities; limited access to these products, services, or opportunities; and affordability barriers. Businesses that seek to engage the low-income segment should consider the factors that create barriers for low-income stakeholders and build solutions into the company’s operating model.
2. Establishing an intentional approach to inclusive business, including definitions, criteria, and targets.

Investors can take an intentional approach to inclusive business investing by integrating it into their strategy and impact framework. Not only does this send a signal to the market, but it also encourages investors to track their progress and maintain their focus on inclusive business. Investors with an existing theory of change—the framework that outlines how the investor will achieve its impact investment goals—can consider how inclusive business might support that theory of change. Investors can use several approaches to formalize their work on inclusive business in ways that work for them. Investors with other impact priorities, such as climate change or gender equality, can integrate a partial focus on inclusive business into these priorities, so that a share of their investments address the given issue as it relates to low-income stakeholders, such as gender equality for low-income women.

Investors are strongly encouraged to establish their definition of 'low-income', as well as clear inclusive business criteria with two key components: i) that low-income stakeholders have a key role in core activities or operations of the company and ii) that the company implements a solution for low-income stakeholders. Setting portfolio-level targets for inclusive business can incentivize investors and encourage successful implementation of an inclusive business strategy.

3. Incorporating inclusive business considerations into pre-investment processes.

Investors can add a focus on inclusive business into their pre-investment processes, including pipeline development, due diligence, and deal structuring.

Investors can add positive inclusive business screens into their existing pre-investment screening and then use the due diligence phase to obtain a baseline of the potential investee company’s engagement with low-income stakeholders. The objective of this analysis is to gain insights into the potential investee company’s work with low-income stakeholders—including the nature of the engagement, its scale, and its depth—and to determine whether it aligns with the investor’s inclusive business criteria. Investors can conduct the analysis by adding inclusive business-focused questions into their existing due diligence questionnaires.

Using their inclusive business analysis as a starting point, investors should have a broader conversation with the potential investee to uncover ways the investment could enhance inclusion and create additional value—both for the investee company and low-income stakeholders. While the investee’s capital requirements drive the structure of an investment, there may be opportunities for an investor to incentivize and influence the investee’s progress toward its target impact on low-income stakeholders.

Lastly, the investor and potential investee company should agree on the indicators the investee will use to report its results related to low-income stakeholders. Investors should consider the five dimensions of impact—what, who, how much, contribution, and risk—outlined by the Impact Management Project.

Good impact management requires an investor to monitor whether an inclusive business investment is delivering on its impact goals and to use this information to steer progress or correct course, as outlined in the Impact Principles. It is also critical in enabling an investor to confidently report on the impact of its portfolio and to raise additional capital in the future. The guide describes various approaches that investors can choose depending on their resources and monitoring needs at different levels—output, outcome, and impact.

Investors typically monitor inclusive business indicators at least once per year, and this can be integrated into their financial review process. The indicators are usually scale-oriented outputs agreed upon with the investee at the contracting stage. At the portfolio level, investors can aggregate the results of the inclusive business output indicators across similar investments. This will provide a high-level overview of their inclusive business investments’ performance in terms of geography, type of business, and the extent of reach to low-income stakeholders, as well as successes and red flags.

Investors are encouraged to complement the investee’s regular reporting by collecting additional data on outcomes. Outcomes data provides a better indication of the likelihood of achieving impact goals. Investors can use a light touch or an in-depth approach depending on the context, the depth of information required, and the data collection costs for both investor and investee.

When exiting an inclusive business investment, investors should consider the implications for both financial and development impact. A responsible exit seeks to ensure that the inclusive business investee will sustain and scale its impact on low-income stakeholders after the transfer of ownership or as the inclusive business pivots towards other sources of capital.

5. Tailoring advisory and technical assistance for inclusive businesses.

Inclusive businesses that aim to reach and benefit low-income populations can face particular challenges, and advisory services, also known as technical assistance and capacity building, can provide impactful solutions. Advisory services facilitated by investors or partners can be highly effective in helping inclusive businesses overcome challenges in reaching and benefiting low-income populations. This support can range from light to intense engagement.

The guide describes and provides case studies on four key areas particularly relevant for inclusive businesses, including understanding the target market and business case for inclusion, ensuring inclusive product and service design, supporting effective impact measurement and management systems, and fostering talent development.

Inclusive business investing provides an avenue for investors to create better social outcomes for low-income people at the base of the pyramid, while also realizing financial returns on their investments. It offers an investment opportunity that spans industries and geographies, and supports other investor priorities including climate change, gender equality, food security, fragility, financial inclusion, and more.
However, more needs to be done to develop a greater inclusive business focus among investors. We must continue to build the business case by sharing data on the financial performance and development impact of inclusive business investments. We must also work to develop common and robust inclusion proxies and definitions across portfolios. We must also continue to share learnings on what works and what does not, and ease the burden on investees.

This guide offers practical guidance for investors seeking to intentionally grow an inclusive business portfolio. Our hope is that investors will leverage the information in this guide to expand the share of capital invested with the goal of improving livelihoods and access to essential goods and services for those at the base of the economic pyramid.
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<td>British International Investment</td>
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<td>Environmental, social, and governance</td>
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<td>HIPSO</td>
<td>Harmonized Indicators for Private Sector Operations</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>KPI</td>
<td>Key performance indicator</td>
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<tr>
<td>LGBTI</td>
<td>Lesbian, gay, bisexual, transgender, intersex</td>
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<td>MFI</td>
<td>Microfinance institution</td>
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<tr>
<td>PPP</td>
<td>Purchasing power parity</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>SLBP</td>
<td>Sustainability-linked Bond Principles</td>
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<tr>
<td>SLLP</td>
<td>Sustainability-linked Loan Principles</td>
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<tr>
<td>SME</td>
<td>Small and medium enterprise</td>
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INTRODUCTION

The importance of the private sector in helping to address the global challenges of poverty and income inequality is as critical as ever. The COVID-19 crisis stalled progress in this fight and pushed an additional 90 million more people into poverty.\textsuperscript{1} Across the world, low-income people face large gaps in access to, and uptake of, essential goods and services such as healthcare, finance, affordable housing, and formal work. Moreover, rising food and energy prices stemming from climate shocks, the Russian Federation’s invasion of Ukraine, and other conflicts have hindered recovery from the pandemic.\textsuperscript{2} Income inequality remains exceedingly high, and climate change, if unchecked, could force an additional 130 million people into poverty over the next 10 years.\textsuperscript{3}

Inclusive businesses represent a significant opportunity for investors seeking to address these challenges through their investments. Inclusive businesses employ market-based solutions to create value for low-income people through the core activities and operations of the company. They do this by expanding access to essential, affordable goods and services, and improving livelihoods for low-income consumers, workers, and entrepreneurs across the value chain while striving for financial success, at scale or in a scalable manner.

The G20, in its \textit{Leaders Call on Inclusive Business}, highlighted the important role of inclusive businesses in meeting the \textbf{Sustainable Development Goals (SDGs)} by 2030. By allocating capital to inclusive businesses and supporting inclusive business strategies among their investee companies, investors can align their capital with a wide range of SDGs.

Research has demonstrated the business benefits for companies that adopt these strategies. Companies can expand market share, create competitive advantage, strengthen supply chains, increase access to a skilled and productive workforce, attract socially-conscious consumers, and potentially access lower-cost capital.\textsuperscript{4} As a consumer market, the low-income segment represents an estimated $5 trillion global market annually, as shown in Box 1.\textsuperscript{5} More than ever before, new technologies are also enabling companies to expand their reach to new segments.\textsuperscript{6}

\textbf{BOX 1: Methods Investors Can Use to Define the Low-Income Segment}

A variety of socioeconomic factors can contribute to an individual lacking full, fair, and equitable access to market opportunities—and one of these factors is personal income. This guide uses the term ‘low-income’ to refer to a broad segment that lacks the disposable income and opportunities more commonly associated with the middle-income population. However, the low-income segment—representing half the global population and $5 trillion in collective purchasing power—is one that the private sector cannot afford to ignore.

Investors have adopted various thresholds to define a low-income segment relevant for market-based approaches. Common thresholds include fixed global lines of $6.85, $8.44, or $12 per day per capita in purchasing power parity (PPP). Some investors may prefer lines that take country context into account. For example, this could be a variable line that reflects the bottom 40 or 50 percent of people in a country based on consumption.
The low-income segment is often referred to as the ‘base of the pyramid’—not to be confused with the extremely poor segment commonly referred to as the ‘bottom of the pyramid’. People at the base of the pyramid are active market participants, buying and selling goods and services from the private sector. Typically described as economically vulnerable, people in this segment often have unpredictable and volatile incomes. Many lack a social safety net and are susceptible to falling back into poverty, for example, if a family member falls ill or a crop harvest does not meet expectations. Depending on the market and local context, the low-income segment may disproportionately comprise of women, sexual and gender minorities, ethnic and racial minorities, displaced populations, indigenous peoples, persons with disabilities, and others.

Investors should consider their development priorities and geographic context when they establish the monetary threshold for stakeholders. In some sectors, it may be more feasible for companies to go deeper into the base of the pyramid and reach people at lower income levels. It is important to remember, however, that poverty is not the only measure of well-being or welfare and does not always reflect individuals’ unmet needs and vulnerabilities. As a result, people who lack access to basic goods, services, and livelihood opportunities are commonly considered to be part of the base of the pyramid, even if their income exceeds the established threshold or cannot be determined precisely. It is important for investors to consider this when establishing their strategy. While this guide defines the segment based on a monetary threshold, it can also be applied when using definitions that consider a lack of access to basic goods and services and other aspects of well-being. However, investors should be mindful not to conflate the two concepts.

Once an investor establishes its definition for the low-income segment, it can integrate this into its criteria for inclusive business investments as outlined in Section 2, Table 4. This will help to ensure that inclusive business investees reach a material number of low-income stakeholders and implement a solution that adds value to low-income stakeholders.

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a. As explained by the World Bank Poverty and Inequality Platform, monetary poverty estimates are based on either income or consumption, which are often jointly referred to as welfare. Consumption captures household expenditure on a set of items over a given period of time. Income captures the value of monetary inflow a household receives or earns over a given period of time. Consumption measures can be more common in low and middle-income country contexts, while income is more commonly used in Latin American and the Caribbean, Europe and Central Asia, and other high-income group countries.

The commonly used investor thresholds cited above are updated at varying frequencies and thus the underlying data sources and PPP exchange rates will differ. Setting thresholds in PPP terms adjusts the real figure to equate the relative purchasing powers among different countries. Investors using the $6 threshold often refer to the World Bank’s $6.85 per person per day poverty line for upper-middle-income countries (2017 PPP). Forty-seven percent of the global population live below this line as of 2022. The $8.00 threshold was established in The Next 4 Billion report in 2007 and updated to $8.44 per person per day (2005 PPP) in 2015 in the World Bank’s Global Consumption Database based on a ranking of the bottom 75 percent of the global population by income per capita. The $12 line is often used to represent those who are economically vulnerable as described by Brookings, with those above $12 considered to be part of the ‘consumer class’, per World Data Lab. It is often used in the Latin America and Caribbean context, as research shows individuals living on $12 per day or less have a high probability of becoming poor (2011 PPP).
Why This Guide?

Until now, investors have struggled to find practical resources for inclusive investing that deliver impact for low-income people. Generally, prior research focused on topics such as market sizing, the types of catalytic capital needed, business model case studies, and high-level inclusive business frameworks. There is also extensive literature and guidance related to impact investing more broadly. This guide closes that gap by offering practical tools and strategies that enable investors to adopt a rigorous and intentional approach to investing in inclusive businesses and to accelerate impact for low-income people.

The objective of this guide is to help investors allocate capital to inclusive businesses and to support inclusive business strategies among their investee companies. The guide aims to coalesce investors around a common, practical approach to inclusive business investing, drawing upon the collective experience of the International Finance Corporation (IFC), the Dutch entrepreneurial development bank FMO, British International Investment (BII), and others in the market.

Who Should Use This Guide?

This how-to guide is broadly aimed at established investors and asset owners that seek development impact for low-income people. This includes development finance institutions, fund managers, and asset owners—including limited partners and general partners, venture capitalists, and other impact investors and financial institutions. The guide will also be valuable for third-party advisers that provide support to investors, companies seeking to assess their own practices against best practice for inclusive business investing, and other market stakeholders.

How to Use This Guide?

This guide provides background information on inclusive business and covers the challenges and solutions companies can develop to serve the low-income segment. It explains how investors can adopt an inclusive business strategy, integrate inclusive business considerations into their pre-investment processes, measure and manage impact, and provide capacity building.

The guide focuses on advancing impact in the low-income segment and it sits alongside established guides on other aspects of inclusive investing, such as the Guide to Gender-Smart Investing from IFC and BII (formerly the CDC Group). It may be used within the context of the Operating Principles for Impact Management or ‘Impact Principles’, which provide a broad framework for the design and implementation of impact investing management systems.

Each investor will be at a different starting point, with different priorities and different resources at their disposal. Each investor should determine which approaches are most suitable for their own context.
Businesses that generate economic value while engaging with, and adding value for, low-income populations are known as inclusive businesses—and this goes beyond large multinational companies that engage low-income suppliers. Although inclusive businesses do not need to intentionally strive for development impact, supporting low-income stakeholders should be material to their business. Inclusive businesses can be large formal companies or small social enterprises. Regardless of their size, these businesses engage low-income populations through a variety of inclusive strategies that overcome barriers and increase access to goods, services, and income opportunities, and improve well-being.

Financial returns for inclusive businesses can come from improved productivity and output of workers, the value they provide to supply chain partners, or the goods and services they supply to their customers. To maintain commercial viability, inclusive businesses will often scale to become mass-market where relevant or target a variety of income segments, diversify their procurement among multiple sources, or leverage multiple distribution channels. Some inclusive strategies can, or are designed to, generate more profit than others. The investor’s ability to identify opportunities that align with their expectations for impact and for financial return is key (see Box 2).

With any potential investment, especially those that engage low-income populations, it is critical to ensure that environmental, social, and governance (ESG) risk management safeguards are in place. Concepts such as decent work, responsible lending, and ethical sourcing are all relevant to inclusive business. While this guide focuses on value creation by inclusive businesses and positive impacts among low-income populations rather than risk management, various global standards and frameworks can support ESG decision-making, management, and compliance with best practices. These include the UN Guiding Principles on Business and Human Rights, the Consumer Protection Code of the Global Off-Grid Lighting Association, and the Client Protection Pathway of Cerise+SPTF, among others.
BOX 2: Building the Business Case for Inclusive Investment

While there is a lack of comprehensive data on the financial returns of inclusive business investing, the number of funds that include a focus on reducing poverty points to growing opportunities for investors. For example, **ImpactYield** is a private impact funds database for investors and asset managers. It lists 243 funds that claim to contribute to SDG 1—to end poverty in all its forms everywhere. This represents 47 percent of ImpactYield’s total listings. Similarly, a 2023 analysis by the Global Impact Investing Network (GIIN) on financial performance found that 55 percent of respondents to its annual survey targeted SDG 1 as part of their impact goals.\(^{15}\)

Data from the $2.5 billion private equity firm **LeapFrog Investments** also contributes to the business case. LeapFrog invests in technologies such as microinsurance, telemedicine, and mobile money as part of its strategy to break down barriers in access to financial services, healthcare, and climate solutions. It has reached an estimated half a billion consumers, including 359 million living on less than $11.20 a day. On average, LeapFrog companies held for at least two years have a track record of growing their revenues by more than 23 percent annually. In 2023, LeapFrog’s portfolio of companies collectively generated $4.9bn in revenue.

Engaging and Identifying Low-Income Stakeholders

A business might adopt several different approaches or models that are inclusive of low-income people—any of which can lead to improved well-being. The following list of low-income stakeholders provides examples of the benefits they can derive from inclusive business:

- **Employees** gain access to safe work environments, benefits, and job advancement opportunities.
- **Suppliers, retailers, and distributors** can increase their awareness of best practices and improve their access to markets, inputs, and services, including financial services.
- **Customers** gain access to goods and services that meet their needs, support their well-being, and grow their incomes.
Typically, low-income business owners operate microenterprises and their needs do not align with the minimum investment size for most investors. Instead, investors can reach low-income business owners indirectly through microfinance institutions and other financial intermediaries that on-lend to low-income entrepreneurs in the institution’s customer base.

Case Study 1 contains examples of how three inclusive businesses engage with different groups of stakeholders. Business models may involve more than one role for low-income stakeholders. For example, an agribusiness company might reach low-income stakeholders through its sourcing channels, as well as through its distribution and retail network, within its employee base, and potentially within its customer base as well. As a result, investors should look across a potential investee’s operations for for opportunities to drive impact for low-income stakeholders. Table 1 provides an indication to investors as to where they may wish to focus their analysis, depending on their sector of interest.

**TABLE 1: Indicative Mapping of Engagement with Low-Income Stakeholders**

This indicative mapping can help investors to ensure their analysis of potential investees includes the typical areas where an inclusive business may engage with low-income stakeholders across a range of sectors. The shading reflects the likelihood that investees will engage with these low-income stakeholders, from less likely to more likely, but it is not a comparison of the scale or depth of reach to these stakeholders.
**CASE STUDY 1: Inclusive Business by Stakeholder Type**

**Employees: iMerit (Business Services)**

iMerit is an artificial intelligence data solutions company based in India that provides end-to-end data labeling services. iMerit’s workforce is primarily sourced from underserved communities in rural areas. Workers initially receive three months of training focused on workforce readiness, mindset change, and basic technology competence. This training is provided by a partner non-governmental organization. Graduates of the course are offered jobs at iMerit that would typically be out of reach due to a lack of higher education. The company also uses ongoing, personalized training to build key competencies and further upskill its workforce.

iMerit also benefits from this ‘impact sourcing’ model for employees. The company has a high retention rate of more than 90 percent compared to the average of 30 percent in India’s tech sector. It says employees value frequent upskilling and resulting wage increases. In addition, its workers do not need to migrate to urban centers to secure a job. This high level of retention also enables iMerit to deepen relationships with its customers, who appreciate the consistency of working with the same data labelers over time.

**Suppliers: Jacoma Estates (Food and Agriculture)**

Jacoma Estates is an agribusiness in Malawi that produces macadamia nuts and spices. Smallholder farmers are integral to its operating model.

The company has an outgrower management system with software that registers, monitors, and transacts with almost 5,000 local smallholder farmers. It enables the company to handle registration, GPS plotting, and traceability of product, and supports the purchase of product from farmers transparently, with a focus on the early intensive cultivation period. The company also provides irrigation to roughly 100 hectares of smallholder land. This increases income opportunities for farmers, and in turn produces stable supplies and high-quality crops for the company.

**Distributors and Retailers: TradeDepot (E-Commerce)**

TradeDepot is an e-commerce platform in Nigeria that connects suppliers of fast-moving consumer goods with micro, small, and medium-size retailers via an online platform and tech-enabled logistics network. Approximately 80 percent of TradeDepot retailers are women-owned businesses.

The company aims to solve a range of problems that informal retailers face when purchasing goods through traditional channels. For example, TradeDepot manages its own warehouses and delivers goods directly to retailers, thereby cutting the costs and time retailers would otherwise spend travelling to wholesalers. TradeDepot has a simple product procurement process and transparent prices, and by removing intermediaries, retailers can secure higher margins. It provides a consistent and broad inventory of products, and it supports access to finance by enabling retailers to obtain loans to purchase goods on credit. In addition, the platform offers business intelligence tools that help retailers to better manage their inventory and make data-driven decisions.

**Customers: Advans (Microfinance)**

Advans operates in several countries in Africa and Asia, where it focuses on micro and small businesses and farmers, primarily women, who would otherwise have limited or no access to formal financial services. By offering loans, savings accounts, mobile banking, and more, it aims to help businesses grow and to contribute to sustainable economic development and job creation. During the COVID-19 pandemic, Advans updated its business model, used digital tools, and remotely-trained staff on new product offerings to quickly scale up customers’ resilience and recovery.
In practice, it can be difficult for inclusive businesses to determine a stakeholder’s income level without access to data on household size, availability of goods and services, income, and savings. Stakeholder research, such as surveys, may be needed to obtain precise data. However, this can sometimes be challenging, time-consuming, or costly to obtain. Inclusive business investors should aim to support investees in obtaining this data, and Box 4 contains a cost-effective means to do so.

Surveys such as the Poverty Probability Index described in Box 3 can be used to determine stakeholder incomes. Alternatively, in lieu of precise income data, proxies may be used to estimate if a stakeholder is low-income. Proxies can be based on the profile of the individual stakeholder or on how they engage with the company. It is worth noting that proxies based on individual profiles tend to be more reliable than those based on business models. The proxies listed below can be refined according to how an investor defines ‘low income’.

Proxies based on stakeholder characteristics may use:

- **Assets**: For example, smallholder farmers who own less than five hectares of land.
- **Livelihoods**: Stakeholders may be informal or low-wage workers, microentrepreneurs such as kiosk operators, small ‘mom and pop’ shopkeepers, or rickshaw drivers, for example.\(^{16}\)
- **Level of access to, and use of, basic goods and services**: Individuals may be unbanked, lack water, power, or internet connections, or be excluded from formal education.

Proxies based on engagement with the company may use:

- **The purchase of products or services tailored for low-income households**: This may include microfinance, upskilling services, or off-grid products.
- **Affordability support**: This includes flexible payment options, need-based financial aid, financing, and cross-subsidizing, for example.
- **Capacity building support**: Examples include training in basic business skills, digital awareness, or farming techniques.
- **Distribution channels designed to reach low-income stakeholders**: Examples include decentralized solutions, digital-based services, ‘asset-lite’ or small-format facilities, and mobile outreach.

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**BOX 3: Using the Poverty Probability Index to Identify Low-income Stakeholders**

The **Poverty Probability Index** is a pragmatic, cost-effective approach to gathering information about low-income stakeholders. It uses econometric techniques and the results of a simple ten-question survey to estimate a household’s probability of living under different national and international poverty lines. Developed by the Grameen Foundation and housed at the research and policy organization Innovations for Poverty Action, the Index can be used once or periodically to track changes in an investor’s portfolio over time.
Inclusive Business Challenges and Solutions

Businesses that seek to engage the low-income segment should consider the factors that create barriers for low-income stakeholders. Businesses with a history of focusing on middle- to high-income stakeholders may have to adapt their offerings, operations, or both and this can be challenging. Barriers include:

- **Awareness**: Individuals may not be fully aware of the potential value and availability of certain products, services, or networks, and these knowledge gaps may impede their participation or performance. Some may have been excluded from formal education, re-skilling or upskilling opportunities, or formal or informal business networks.

- **Accessibility**: Businesses must ensure their products, services, and employment opportunities meet the needs of low-income stakeholders and are of decent quality. In rural areas, stakeholders are often challenged by long travel times and poor transport and digital connectivity. In urban centers, traditional distribution and sales channels may not reach low-income neighborhoods. Access to financial services may be limited by a lack of documentation, such as a banking history or official employment record.

- **Affordability**: Low incomes and uneven and unpredictable cash flows make it challenging for stakeholders to pay for essentials, plan ahead financially, and save for larger assets.

Trust also plays a key role in ensuring that vulnerable low-income stakeholders are not exploited by a business. ESG risks such as customer protection and job quality must be considered.

A sample of the challenges facing stakeholder groups—and the solutions an inclusive business might use to overcome them—are summarized in table 2. These will vary by sector and geography, among other factors. Solutions that are not sufficiently built into the company’s operating model or rely on external sources of funding may be challenging to maintain over the long-term. Section 5 also provides details on how investors can enable clients to address these challenges.
### TABLE 2: Examples of Challenges and Solutions in Engaging Low-Income Stakeholders

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Challenges</th>
<th>Solutions</th>
</tr>
</thead>
</table>
| Employees                    | • Lack of awareness of job opportunities.  
• Inadequate education or skills.  
• Limited access to business networks and mentors.                                                                                   | • Target recruitment and offer job-readiness support.  
• Offer on-the-job training to enhance skills, build resilience, and provide mentoring.                                                                                                          |
| Suppliers, Distributors, Retailers | • Limited awareness of available inputs or services and their benefits.  
• Inadequate understanding of effective business practices.  
• Limited technology skills.  
• Limited access to supply chains due to quality or certification requirements.                                                         | • Provide training to improve performance and productivity.  
• Provide support to meet certification requirements, including through grants.                                                                                                               |
| Customers                    | • New products or services perceived as risky.  
• Low literacy levels and language barriers.  
• Knowledge gaps about the value or utility of a product or service.                                                                     | • Offer educational tools and marketing to reach low-income customers.  
• Develop products and services based on need, affordability, value for money, and access to customers with fluctuating incomes.                                                            |
| Employees                    | • Physical or cultural constraints, for example job opportunities may be limited in remote locations or social norms may exclude certain groups from formal employment.  
• Legal or administrative barriers, such as a lack of formal identification or employment records.                                      | • Offer fair pay and clear work terms.  
• Offer a safe working environment and benefits such as basic transport.  
• Use recruitment and sourcing channels that target low-income populations/workers.                                                                                                          |
| Suppliers, Distributors, Retailers | • Limited access to markets.  
• Limited access to good quality inputs.                                                                                                  | • Create or leverage digital marketplaces to increase efficiencies and expand reach when purchasing or distributing goods and services.  
• Facilitate access to inputs, including equipment.                                                                                                                                           |
| Customers                    | • Lack of appropriate goods and services that meet customers’ needs.  
• Regulatory, physical, and digital barriers.                                                                                                             | • Adapt sales and distribution strategies to address infrastructure barriers in rural and remote areas.                                                                                              |
| Employees                    | • Costs associated with transport to work, childcare, and other needs.                                                                          | • Extend access to benefits through free or subsidized childcare, meals, and transport to work.  
• Provide formal employment and income stability by offering base pay to commission earners and seasonal workers during slow or off-peak cycles.  
• Create work opportunities during off-peak cycles or build capacity to develop supplementary income streams.                                                                                  |
| Suppliers, Distributors, Retailers | • Limited individual bargaining power.  
• Limited access to financing for investment or working capital needs.                                                                               | • Facilitate access to finance to grow the business as well as credit to cover production costs and inventory purchases.  
• Aggregate low-income stakeholders to reduce costs and simplify logistics.  
• Tailor distribution schedules and methods, including through digital tools, to accommodate the needs of small businesses.                                                                     |
| Customers                    | • Limited ability to access financing for larger investments, including access to collateral.  
• Uneven and unpredictable cash flows.  
• Risk averse.  
• Low individual purchasing power.                                                                                                           | • Leverage local retailers and technology to maximize reach to low-income customers while also minimizing costs.  
• Facilitate access to finance and payments, offer alternative pricing, and address perceived risks.  
• Reduce costs through process efficiencies while maintaining quality.  
• Tailor design and packaging to needs and purchasing power.                                                                                                                                     |

For more information on barriers and solutions see:  
- IFC: [Shared Prosperity through Inclusive Business: How successful companies reach the base of the pyramid](https://www.ifc.org/en/country-services/  
- Business Fights Poverty: [Building Back with Better Jobs](https://www.businessfighterpoverty.org/)
- UNICEF: [Availability, Accessibility, Acceptability and Quality framework: A tool to identify potential barriers to accessing services in humanitarian settings](https://www.unicef.org/)

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SECTION 2: ESTABLISHING AN INTENTIONAL APPROACH TO INCLUSIVE BUSINESS

In this section:

- Integrating Inclusive Business into Impact Strategies
- Adopting Inclusive Business Criteria
- Establishing Inclusive Business Targets

Investors that seek to use an intentional approach to investing in inclusive businesses can integrate this into their impact strategies, set portfolio targets for inclusive businesses, and establish straightforward inclusive business criteria.

Integrating Inclusive Business into Impact Strategies

Individual preferences, experience, resources, and other factors can all influence an investor’s approach to inclusive business investing. Due to the sectors or markets they focus on, some investors may find they already have inclusive businesses in their investment portfolio. Investors may already be knowledgeable about the challenges and opportunities associated with engaging low-income stakeholders without a formal inclusive business investment strategy or framework. Other investors may focus on sectors or markets with fewer opportunities to pursue inclusive business investments. Some may be new to inclusive business and may want to build their knowledge and capacity on inclusive business before determining how they want to pursue inclusive business and potentially formalize it into their strategy.
However, all investors can benefit from examining the following questions:

- What are the gaps and challenges facing low-income stakeholders within the investor’s existing focus areas and geographies? For example, for an investor focused on climate change, what are the biggest climate challenges and risks for low-income stakeholders?
- How might a focus on low-income stakeholders support the investor’s impact on other target populations, such as women or youth? To what extent do these groups overlap?
- Could inclusive business be embedded into an existing focus area? Which geographies present the greatest opportunity and pipeline for inclusive business? Should a new focus area be added?
- To what extent can the investor’s type of capital influence an investee to expand its inclusion of low-income stakeholders?

Investors may decide to formalize their focus on inclusive business, for example, by integrating it into their strategy and impact framework. Not only does this send a signal to the market, but it also encourages investors to track their progress and maintain their focus on inclusive business. Investors with an existing theory of change—the framework that outlines how the investor will achieve its impact investment goals—can consider how inclusive business might support that theory of change. Investors can use several approaches to formalize their work on inclusive business in ways that work for them.

**Incorporate a focus on low-income stakeholders into other impact priorities.** Investors with other impact priorities, such as climate change or gender equality, can integrate a partial focus on inclusive business into these priorities, so that a share of their investments address the given issue as it relates to low-income stakeholders, such as gender equality for low-income women. For example, Citi’s Impact Fund seeks to create more access to more people in more places. It invests in US-based, venture-backed startups operating in the fund’s four verticals: financial inclusion, future of work, climate solutions, and social infrastructure. Within social infrastructure, the fund invests in solutions that expand access to essential services such as housing, health care, and transportation for underserved communities, including low and moderate-income individuals. Within the future of work, a subtheme focuses on providing career pathways for upward economic mobility. More examples of inclusive business opportunities within other impact priorities can be found in table 3.

**Adopt a thematic focus dedicated to generating impact for low-income stakeholders.** Some impact themes may inherently revolve around low-income stakeholders—such as microfinance, smallholder agriculture, food security, or access to clean water. For broader themes, investors could specify that low-income stakeholders are the primary target population. For example, Blue Earth Capital is an impact investment firm that invests globally with a dual focus on measurable social and environmental impact while aiming for market-rate returns. For its social impact focus, Blue Earth Capital aims to improve the lives of underserved people by providing access to basic products and services and by creating new jobs, while protecting the environment.

**Prioritize impact for low-income stakeholders as the firm’s primary impact goal.** Investors that want inclusive business strongly represented in their portfolios may opt for an umbrella focus on low-income stakeholders that cuts across all of its investments. Some investors may specifically include inclusive business in their impact thesis—the concise articulation of an investor’s impact investment strategy. For example, an impact thesis might explicitly state that the investor plans to invest in inclusive businesses to expand access and livelihood opportunities for low-income people.
This approach would be most relevant for new impact investors or for existing investors seeking to establish an impact thesis for an upcoming fund.

Investors with an overarching focus on low-income stakeholders include **Bamboo Capital Partners**, which provides financing solutions to businesses in emerging markets that serve the needs of low and middle income populations, including a specific focus on the least developed countries. It aims to improve the lives of the world’s most marginalized communities across its four focus areas: financial inclusion including fintech and small and medium-sized enterprises, access to clean energy, and nature-based solutions. Another example is **Aavishkaar Capital**, which focuses on the emerging three billion—the low and middle income population of the Global South—to build sustainable, impactful, and highly-scalable businesses that create value for both investors and society. Aavishkaar’s focus on this segment spans its three core sectors: financial inclusion, food and sustainable agriculture, and essential services.

**TABLE 3: Examples of Inclusive Business Opportunities to Support Investors’ Existing Priorities**

<table>
<thead>
<tr>
<th>Existing Priorities</th>
<th>Inclusive Business Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate Resilience and Adaptation</td>
<td>Livelihood opportunities for low-income workers affected by climate change that support a ‘just transition’ by greening the economy in a way that is as fair and inclusive as possible. Access to climate-smart agriculture technologies for low-income customers.</td>
</tr>
<tr>
<td>Diversity</td>
<td>Access to essential products and services for low-income women and sexual and gender minorities. Opportunities for low-skilled women and lesbian, gay, bisexual, transgender, intersex (LGBTI) workers or microentrepreneurs.</td>
</tr>
<tr>
<td>Financial Inclusion</td>
<td>Access to responsible and affordable financial services and products for low-income, unbanked, or micro-level customers.</td>
</tr>
<tr>
<td>Health and Education</td>
<td>Affordable, quality access for low-income patients and students.</td>
</tr>
<tr>
<td>Housing Development</td>
<td>Affordable, quality housing for low-income buyers and tenants.</td>
</tr>
<tr>
<td>Infrastructure Development</td>
<td>Affordable and improved access for low-income and last-mile customers.</td>
</tr>
<tr>
<td>Jobs and Workforce Development</td>
<td>Opportunities for low-income or low-skilled workers.</td>
</tr>
<tr>
<td>Small and Medium Enterprise (SME) Development</td>
<td>Inclusive business SMEs that engage low-income stakeholders.</td>
</tr>
<tr>
<td>Technology and Telecoms</td>
<td>Access and use of technology for low-income users.</td>
</tr>
</tbody>
</table>
Adopting Inclusive Business Criteria

Investors are strongly encouraged to clearly define their inclusive business criteria. Explicit criteria will help investors to operationalize their strategy and to classify a given deal as inclusive business. It is recommended that the criteria integrate two key aspects:

1. Low-income stakeholders should have a material role in the core business. Typically, this is based on the representation of low-income stakeholders across the value chain, in the workforce, or in the customer base. Minimum thresholds tend to range from 20 to 35 percent of a given stakeholder group—for example, the share of suppliers, workers, distributors, retailers, or customers. Investors should confirm the share of representation regardless of the income level of the country where the investment occurs. For investments in financial institutions that will on-lend proceeds to low-income customers, these criteria may be applied to the project’s use of proceeds.

2. The company should implement a solution that creates value and addresses a need among low-income stakeholders. This helps to ensure that the engagement with low-income stakeholders adds value and is not coincidental. Companies may not have defined a strategic impact objective, but they can still add value and address barriers for low-income stakeholders through their operating model. A solution may enhance positive impacts on this segment or it may address a barrier that disproportionately affects low-income stakeholders. It could be a process or product adjustment or an additional offering. For example, a product could be tailored to better meet the needs of the low-income consumer, training or inputs could be provided to microentrepreneurs, or specific distribution channels could be leveraged to reach underserved communities.

Table 4 contains suggestions for inclusive business criteria for direct and indirect investments based on current market practices. Investors can also consider adding to the criteria that the company uses to measure and manage their impact on low-income stakeholders (see Section 3). Inclusive business criteria can be used alongside other types of inclusion criteria, such as the 2X Challenge criteria commonly used for gender-lens investing. One investment could potentially be classified in multiple ways.

Depending on the sector, market, and other factors, not all companies will be able to meet these criteria. These criteria are illustrative, and investors should avoid encouraging impact that does not align with the investee’s operating model.
**TABLE 4: Suggested Criteria for Inclusive Business Investments**

These illustrative criteria are based on current practices of inclusive business investing. In the absence of monetary data, investors should leverage proxies to identify low-income stakeholders.

<table>
<thead>
<tr>
<th>Direct Investments (company level)</th>
<th>Both Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Material to Core Business: At least 20–35 percent of the investee’s suppliers, workers, distributors, retailers, or customers are low-income.(^a)</td>
<td></td>
</tr>
<tr>
<td>Investors that focus on sectors or geographies with fewer inclusive business opportunities may wish to adopt materiality thresholds on the lower end of the range or adopt a phased approach that increases over time. Investors focused on areas with more inclusive business opportunities may wish to adopt higher thresholds.</td>
<td></td>
</tr>
<tr>
<td>Investors may also use the percentage of sales of a given product, sales through a given distribution channel, the volume of crops sourced from smallholder farmers, or other similar metrics. For investments in financial institutions, investors may use share of proceeds to be on-lent to low-income customers.</td>
<td></td>
</tr>
<tr>
<td>2.Adds Value: Investee implements solution/s designed to address a barrier or enhance impact for low-income stakeholders.(^b)</td>
<td></td>
</tr>
<tr>
<td>For example, the investee provides capacity building or inputs, facilitates financing, or tailors product design, business processes, or distribution channels to overcome barriers and/or be more relevant for the low-income segment. It may also enhance the participation, resilience, empowerment, or advancement of low-income workers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect Investments (fund level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Focus: Investee fund has a clear focus on investing in inclusive businesses.</td>
</tr>
<tr>
<td>A focus on low-income stakeholders may be articulated in the fund’s investment thesis, or the fund may have a clear pipeline or track record demonstrating that approximately 30 percent of investees meet the criteria for direct investments. A regional focus or a target investee size are not typically considered to be a clear focus.</td>
</tr>
<tr>
<td>If the predecessor fund achieved the inclusive business threshold and a follow-on fund maintains the same investment strategy and geographic focus, investors in the follow-on fund may wish to adopt higher thresholds, thus pushing fund managers to continue to raise the bar.</td>
</tr>
</tbody>
</table>

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\(\text{a. Proxies can be used to confirm whether stakeholders qualify as low-income. In addition, investors will often require the investee company to report on an inclusive business-related indicator during the investment period.}\)

\(\text{b. See Section 1 for additional examples of inclusive business solutions.}\)
Establishing Inclusive Business Targets

Setting targets is important to incentivize successful implementation of an inclusive business impact strategy that pushes an investor beyond business as usual. An investor can establish one or more key performance indicators (KPIs) at the portfolio level, the fund level, or both. See Box 4 for sample indicators. For investment-level indicators, see sections 3 and 5.

When setting a target for their portfolio or fund, investors should first determine their baseline. One way to do this is to assess the extent and type of inclusive business investments, if any, in their existing portfolio. New investors can look to their peers with a focus on the low-income segment in similar geographic areas or within similar sectors. The target will depend on the extent to which the investor plans to focus on inclusive business. The sectors and geographies of focus are also important considerations when establishing a target, as some may have more established inclusive business models and ecosystems that could enable a greater pipeline.

To track progress, investors could integrate an inclusive business flag into their information systems. Once a flag is set, it is important that investors maintain the integrity of the data. The rationale for flagging an investment as inclusive business should be clearly documented as part of the investment review process. Investors may also wish, for example, to have impact specialists validate all their inclusive business-flagged investments, or a sample of these, to ensure they meet inclusive business criteria.

BOX 4: Portfolio-level Key Performance Indicators

Experienced inclusive business investors or those focused on a specific sector may opt for more advanced portfolio-level metrics. However, the following examples of portfolio-level KPIs provide a solid starting point for inclusive business investors:

- Number of inclusive business investments (#)
- Percentage of investments in inclusive business (%) 
- Investment volume in inclusive business ($)
- Percentage of investment volume that is inclusive business (%) 

a. For investments through financial institutions, investors may opt to track the volume intended to be on-lent to low-income customers.
SECTION 3: INCORPORATING INCLUSIVE BUSINESS IN PRE-INVESTMENT PROCESSES

In this section:

- Developing a Pipeline
- Incorporating Inclusive Business Considerations into Due Diligence
- Influencing Inclusive Business Through Deal Structure

Investors can add a focus on inclusive business into existing pre-investment processes, including pipeline development, due diligence, and deal structuring.

Developing a Pipeline

To proactively develop a pipeline of potential inclusive business deals, investors can add positive inclusive business screens into their existing pre-investment screening for alignment with investment criteria. An inclusive business screen identifies whether a company might have potential to be classified as an inclusive business, which can then be explored further during due diligence. For example:

- Does the company have operations in low-income areas, or has the company indicated a desire to expand into a low-income area?
- Does the business model or sector tend to have material engagement with low-income stakeholders?

Because many inclusive business investment opportunities already exist at scale, investors may be able to develop a pipeline through their existing sourcing channels. Investors may also seek out additional sourcing channels to expand their inclusive business pipeline, if desired. Investors new to inclusive business may seek out networks of other inclusive business investors and participate in co-investment opportunities. Investors that aim to support early-stage inclusive businesses can consider partnering with accelerators or incubators that have a focus on inclusive business startups. See Box 5 for more information.
Collaborate with other investors

*Tonic* is a member organization that provides support to investors across a range of thematic areas relevant for inclusive business investing, such as access to clean water and energy, regenerative agriculture, gender and racial equity, ocean health, financial inclusion, affordable housing, and more. Tonic manages multiple programs focused on impact investing funds and direct deals across the UN Sustainable Development Goals, geographies and asset classes. Impact investment opportunities are presented to investors through a global deal flow platform and live webinars, and Tonic investors can collaborate on specific themes for co-investment and due diligence. Investors also receive support in portfolio construction and impact measurement.

Leverage accelerators

Launched in 2015 and managed by [BFA Global](#), the [Catalyst Fund Inclusive Fintech Accelerator](#) focused on startups in emerging markets that offer affordable, accessible, and appropriate digital financial solutions for the world’s 3 billion people who are financially underserved. Within fintech, the accelerator had three main themes: financial health, essential services, and the future of work. This early program for the Catalyst Fund ran through 2022 and facilitated connections for startups with its Circle of Investors—a community comprising over 140 investors. Today, the Catalyst Fund is a venture capital fund and accelerator investing for a climate-resilient future in Africa, partnering with founders building tech solutions for climate adaptation and resilience.

Incorporating Inclusive Business Considerations into Due Diligence

Investors should use the due diligence phase to obtain a baseline of the potential investee company’s engagement with low-income stakeholders, and determine whether the investee might align with the investor’s inclusive business criteria. This analysis provides a chance to identify opportunities to create additional impact for low-income stakeholders. It also enables the investor and potential investee to agree on the impact indicators the investee will report on during the investment.

1. Conduct an Inclusive Business Analysis

The objective of the inclusive business analysis is to gain insights into the potential investee company’s work with low-income stakeholders—including the nature of the engagement, its scale, and its depth—and to determine whether it aligns with the investor’s inclusive business criteria. Investors can conduct the analysis by adding inclusive business-focused questions into their existing due diligence questionnaires, such as those in Box 6. It is important to note that the inclusive business analysis does not replace an investor’s ESG due diligence for any negative impacts on low-income stakeholders, as outlined in IFC’s [Performance Standards](#), among others.17
**BOX 6: Questions for an Inclusive Business Analysis**

To gather quantitative and qualitative information for an initial inclusive business analysis, investors can integrate the questions below into due diligence questionnaires. Questions can be tailored based on the sector, as needed. Investors with a focus on a specific subsegment, such as low-income women, can add additional lenses to these questions as relevant. Refer to the proxies in Section 1 for more information on identifying low-income stakeholders.

### Suppliers

- How much of the company’s purchasing comes from low-income suppliers, such as smallholder farmers, by number, dollar value, or volume? What is the number of low-income suppliers the company sources from?
- Does the company tailor its sourcing practices or channels to better reach low-income suppliers? Does the company offer capacity building, financing, inputs, or other support to help its low-income suppliers overcome barriers? If so, how does it do this, for example, does it use sourcing channels that reach low-income suppliers?
- Is there evidence of the suppliers’ incomes increasing?

### Workers

- What number or percentage of the company’s workers are considered low-skilled?
- Is there evidence of workers’ incomes increasing? Does the company provide support to its low-skilled workers related to participation, advancement, resilience, or empowerment?

### Distributors or retailers

- What is the volume or dollar value of the company’s sales through distribution or retail channels that are predominately low-income, for example, kiosks, three-wheelers, or informal traditional trade?
- Does the company tailor its distribution practices or channels to better reach low-income distributors or retailers? Does the company provide low-income distributors or retailers with capacity building or financing, or does it help them to overcome barriers in other ways? If so, how?
- Is there evidence of growth in distributors’ or retailers’ revenues?

### Customers

- Does the company help low-income customers overcome awareness, affordability, or accessibility barriers to using its products or services? If so, how?
- Does the company offer a product or service that is specifically designed, packaged, priced, or targeted for low-income customers to increase affordability or accessibility, including uptake? Note that such products may be attractive to other customer segments as well. How much of the company’s sales or portfolio does the product or service represent, by dollar value or volume?
- What number or percentage of customers are provided with an essential good or service for the first time, for example, power, water, or wastewater connections, mobile broadband/internet access, a bank account, or affordable housing?
Traditionally, companies have perceived the low-income segment to be less attractive than others. However, they should be proactively encouraged to consider the potential benefits these segments offer. Investors should also be aware that potential investee companies may frame their engagement with low-income stakeholders in different ways. For example, many inclusive businesses do not specifically define an objective to create impact for low-income stakeholders, even though they still create value for this segment and integrate them into their operating model.

Investors are encouraged to tailor their analysis to the company’s business model and to clearly communicate potential business opportunities. Although companies often lack precise stakeholder income data, they may collect valuable information that can be used in conjunction with the proxies discussed in Section 1. When gathering information, investors are encouraged to clarify all definitions with the company. See Case Study 2 for more information.

### CASE STUDY 2: An Inclusive Business Analysis: Lessons from IFC

When a deal with inclusive business potential advances to the due diligence stage, IFC’s impact specialists may adapt a few inclusive business questions to make them relevant to the company’s subsector and add these to the due diligence questionnaire. IFC also leverages the company’s operational key performance indicators (KPIs), any market assessments conducted by the company, and other studies to understand the profile of the company’s stakeholders.

Based on the information gathered by investment officers, an IFC impact specialist may request a follow-up conversation with the company. These conversations can help to elicit additional information on low-income stakeholders. They also ensure a common understanding of definitions and proxies. In the tech sector, where surveys can be rolled out in a swift, cost-effective manner, IFC piloted a pre-investment survey of a sample of the company’s customer base. These surveys include more detailed questions on customer income and other characteristics.

### 2. Identify Opportunities to Create Additional Value

Using their inclusive business analysis as a starting point, investors should have a broader conversation with the potential investee to uncover ways the investment could enhance inclusion and create additional value—both for the investee company and low-income stakeholders. Investors are encouraged to dive into the challenges that the potential investee company may face when engaging with low-income stakeholders, and to discuss potential solutions that could help the investee expand the depth or the scale of their impact beyond their planned activities. It should be noted that the type of capital being invested may affect the extent to which the investor can influence the potential investee.

Box 7 presents questions that can be used as a starting point for these discussions. These questions are not exhaustive and can be adapted as appropriate. Investors—especially those that are new to inclusive business investing, the sector, or the geography—can prioritize hearing directly from low-income stakeholders as well, potentially through surveys or focus groups. This can provide the investor with insights into challenges and opportunities, and can be used as additional inputs for discussions with potential investees.

Depending on the context and resources available, investors may consider providing the investee with advisory support, as discussed in Section 5. Investors should review the potential investee company for alignment with the investor’s inclusive business criteria again, considering any new activities that will be initiated during the investment.
BOX 7: Discussion Questions to Identify Opportunities to Create Additional Value

The discussion questions below focus on identifying and addressing challenges of awareness, affordability, and accessibility for low-income stakeholders.

**Awareness**

- Are low-income customers aware of the potential benefits associated with the product or service? How could the company more effectively conduct outreach, screening, or raise awareness among low-income stakeholders who are less likely to know of or pursue the product or service? How could partnerships support these efforts?

- What education or training could be provided to increase uptake and use of products or services among low-income stakeholders or to improve the performance of microretailers? This could be basic business training or financial literacy training, for example.

- Are there gaps in quality from microsuppliers? Are there opportunities to enhance support to microsuppliers to generate improvements in quality or productivity?

- What are the most effective methods and channels to deliver capacity building?

- How can technology create new opportunities for outreach?

**Affordability**

- Does the company have a detailed understanding of low-income consumers’ spending habits, willingness to pay, and preferences? Are there opportunities to address any of the key barriers?

- Are out-of-pocket costs a barrier? What are the hidden costs? How could the company extend financing that is accessible to low-income consumers, including the amount of financing, the requirements, and the terms? Are there opportunities to partner with a financial institution or fintech?

- Are there processes, approaches, or partnerships that could reduce costs and increase efficiencies? How could these savings be passed on to low-income customers without sacrificing quality?

**Accessibility**

- What are the key barriers preventing uptake among low-income stakeholders?

- Are there opportunities for the company to reach, expand into, or recruit from underserved communities? How would the offering, store format, processes, or other elements of the business model have to adapt to remain viable? How can the company overcome infrastructure barriers?

- Could digital solutions be leveraged to expand access without excluding unconnected populations?

- How can the company create distribution systems or leverage existing channels to reach people in remote and less accessible areas?
3. Agree on Inclusive Business Indicators for Investee Reporting

Before the investment, the investor and potential investee company should agree on the indicators the investee will use to report its results related to low-income stakeholders. Investors should follow best practice when establishing impact reporting requirements and refer to harmonized indicator libraries whenever possible, such as the IRIS+ platform or Harmonized Indicators for Private Sector Operations (HIPSO). Reporting requirements should be incorporated into deal documentation or detailed in a side letter. Investors should also consider the five dimensions of impact—what, who, how much, contribution, and risk—outlined by the Impact Management Project.

What to measure depends on the objectives of the investment and the investor’s own impact framework. For example, is the investment expected to expand access to essential goods, services, and livelihood opportunities, improve affordability, or increase productivity? Investors can consider reporting requirements at the output, outcome, and impact level.

Outputs are the direct tangible results of the investment. These are typically measured as a quantity, for example, the number of low-income people reached. Output indicators are often used to show an investment’s scale of impact. Outcome indicators go a step beyond that and focus on the depth of impact—or the degree of change experienced by the low-income stakeholders. In some cases, this type of data collection can be agreed upon upfront with the inclusive business, however it should be weighed against the potential costs and resources required.

The who dimension is of particular importance in understanding an investee’s impact on low-income stakeholders. This often requires the investee to disaggregate a standard high-level indicator (see Box 8). The IRIS+ system includes indicators with a ‘poverty lens’ that are often highly relevant for inclusive businesses. It is important that investors ensure this reporting is feasible for the potential investee company and that they share a common understanding of the indicator. Investors may opt to support investees to establish reliable reporting, if needed.

The initial inclusive business analysis conducted during due diligence will help investors to identify indicator baselines. Investors are strongly encouraged to reach agreement with potential investee companies on ambitious, yet achievable, targets related to low-income stakeholders. Indicator targets may reflect the investee’s plans to scale their existing work with low-income stakeholders and any new activities that will be launched during the project. Investors can use external benchmarks and data from other clients in their portfolio to define appropriate targets (Box 9).
BOX 8: Understanding Who: Measuring Results for Low-Income Stakeholders

Indicators should be disaggregated to reflect results related to low-income stakeholders. Depending on the investor’s impact objectives, indicators can be further disaggregated to analyze specific subsegments, such as sex-disaggregating data to identify low-income women. Depending on the investment, indicators might include those listed below, by stakeholder type. This list is not exhaustive.

**Suppliers**

- Value of the company’s payments to low-income entrepreneurs who sold goods or services to the company.
- Number of smallholder farmers who sold to the company.
- Units or volume purchased from smallholder farmers.

**Workers**

- Number of low-skilled workers recruited.
- Number of low-skilled workers promoted.
- Percentage of employees using benefits provided by the company.

**Distributors or retailers**

- Number of low-income individuals who served as distributors (or retailers) of the company’s products and services.
- Earnings of individual low-income distributors (or retailers) from selling the company’s products and services.

**Customers**

- Number of new energy/water/broadband connections for low-income households.
- Number of microfinance loans disbursed.
- Percentage of company-built housing units that are considered affordable housing.
- Number of products sold that are designed for low-income consumers.
**BOX 9: Establishing Targets for Microfinance Investments**

Investors can use the [60 Decibels Microfinance Impact Index](#) to establish evidence-based targets and track the ongoing absolute and relative impact performance of their microfinance institution (MFI) investees. The Microfinance Index gathers outcome-level data directly from the clients or borrowers of MFIs to benchmark their impact. It also provides insights on outcomes in areas such as financial resilience, financial management, client protection, household living standards, business outcomes, and access to finance for people below various poverty lines. The tool has been used by more than 100 financial service providers worldwide. Users can repeat data collection on an annual basis to understand how their impact performance changes over time, both for themselves and in relation to their peers.

**Influencing Inclusive Business Through Deal Structure**

The structure of an investment is primarily determined by the capital requirements of the investee company. However, there can be opportunities for an investor to incentivize and influence an investee company’s impact on low-income stakeholders. Investors can leverage concessional sources of capital, if available, to facilitate high-impact deals or to provide flexible capital. They should also consider if the use of incentives poses any risk.

**Use of Proceeds**

Depending on the type of investment, investors may consider ring-fencing the use of proceeds in the legal documentation of the project. In cases where proceeds will be used for on-lending, investors can require that all or a portion of proceeds be on-lent to low-income borrowers. Alternatively, investors can require that investment proceeds be used in certain geographies, for certain projects, or for specific lines of business.

Investors can also consider use-of-proceeds social or sustainability bonds issued by inclusive businesses or by the financial intermediaries that serve them. As detailed in the International Capital Market Association’s [Social Bond Principles](#), these tackle social issues and aim to deliver positive outcomes for target populations, such as low-income or underserved individuals. See Box 10 for examples.
Incentives

Investors can use a variety of tools to incentivize impact for low-income stakeholders, including mechanisms within the investment firm itself as well as within the structure of the deal.

At the firm level, investors could include impact performance as an element in the performance reviews of their investment teams. This would link investment teams’ compensation, discretionary pay such as bonuses, or other awards to progress toward the firm’s inclusive business targets. Alternatively, investors could use a carried interest structure, which is more relevant for indirect investments into funds where the carried interest is adjusted up or down. Incentives could be based around the share of investees that are classified as inclusive business or the share of investees that reach their impact targets for low-income stakeholders.

According to a study by impact verification firm Bluemark, 31 percent of impact investors link impact achievement with performance management and/or incentives. When establishing impact-linked incentives, investors should ensure that the incentive is meaningful, transparent, and simple. Investors should consider the overall impact of the project and ensure they do not unintentionally incentivize one aspect over another, create perverse incentives, or negatively disrupt the dynamic between the investor and investee.

At the investment level, investors could tie financial incentives to the investee’s achievement of target milestones or key performance indicators for low-income stakeholder impact. These could also take the form of performance-based incentives tied to the development of the investee’s inclusive business model. These incentives could be delivered when the investee reaches a given number of low-income people or delivers a previously agreed-upon outcome, for example.

Sustainability-linked finance instruments tie positive and/or negative financial incentives to performance targets. If the investee fails to meet its targets, this can trigger a step-up in the interest rate, while meeting or exceeding targets can result in a step-down (for an example, see Box 13). For inclusive businesses, these targets could be tied to expanding access for low-income customers or opportunities for low-skilled workers. The Sustainability-Linked Loan Principles (SLLP) and the Sustainability-Linked Bond Principles (SLBP) provide a useful framework that encourages investees to achieve ambitious sustainability outcomes. The SLBP’s Illustrative KPIs Registry includes some metrics for incentivizing impact for low-income stakeholders, especially in its ‘Access & Affordability’ category. IFC’s Social KPIs Matter discussion paper also outlines key factors to consider.

BOX 10: Social and Sustainability Bonds for Inclusive Business

Bond issuers can use the proceeds from social and sustainability bonds to fund activities that address social issues for low-income stakeholders. Issuers include financial institutions, corporates, governments, non-profits, and others. For example, IFC allocates the proceeds of its social bond issuances to its inclusive business investments across sectors, as well as investments that focus on other underserved stakeholder groups. In another example, Mexican housing developer Vinte issued a Sustainability Bond to finance community development projects that included a focus on low- and middle-income households.
Results-based financing can also incentivize investees and ensure accountability, and is most commonly used for high-impact investments with measurable outcomes. Although this financing can be structured in a many ways, typically the investee receives premium payments if it meets outcomes agreed on previously, which are then verified by a third party. No premium is paid if the investee does not achieve these outcomes. Premium payments are typically provided by a philanthropic source or government donor. For examples of how results-based financing has been used in practice, see Case Study 3.

Results-based financing can be most effective when the impact objectives of the investor and the outcome funder align with the investee’s operating model. This can expand and deepen the investee’s impact on low-income stakeholders, without a trade-off or change to the investee’s existing objectives. While setting up a results-based financing structure can be complex and may require third-party assistance, the process can help to build trust, clarify expectations, and establish clear targets.

Post-investment, investors with seats on an investee company’s board can use their influence there to encourage the investee to maintain its inclusive focus.

CASE STUDY 3: Investment-level Incentives for Impact for the Low-Income Segment

Expanding mobile access

In 2022, Airtel Africa signed a $125 million revolving sustainability-linked credit facility with Citi. The facility provides potential interest rate savings in exchange for achieving social impact milestones in digital inclusion and gender diversity, with a focus on rural areas and women.

Scaling health outcomes

To help broaden the impact of Clínicas del Azúcar (CDA), a network of Mexico-based diabetes care facilities, the Swiss Agency for Development and Cooperation acted as the outcome payer in a results-based financing structure. It provided premium payments to CDA on top of the company’s regular revenues for improvements in the effectiveness of treatment for low-income patients and for increases in the share of low-income patients. The result-based financing mechanism was the result of a partnership between the agency, Roots of Impact, the Inter-American Development Bank, the social entrepreneurship NGO Ashoka, and entrepreneurship accelerator New Ventures.

Mobilizing finance for clean cooking

The Clean Impact Bond used results-based financing to expand clean cooking solutions for low-income customers. Created through a partnership between IFC, Cardano Development, BIX Capital, the Osprey Foundation, and Sistema.bio, the Clean Impact Bond monetized the health and gender benefits of clean cooking solutions by creating certified health and gender credits similar to carbon credits. These tradable credits were sold to impact investors as a way to mobilize private financing for small and medium size enterprises that manufacture and distribute clean cooking solutions.
Concessional Finance

Concessional capital provides more favorable terms than commercial capital and can be valuable to catalyze investment in high-impact projects. While inclusive businesses aim for commercial success, tapping into concessional capital can help investors to mitigate specific risks and rebalance the risk-reward profile of a pioneering inclusive business investment. Inclusive businesses are often required to devote disproportionate resources toward market-building activities, such as raising awareness, building capacity, and overcoming obstacles such as a lack of infrastructure. Concessional capital could include grants, debt at below-market rates, flexible financing terms such as longer tenors or subordinated positions, or equity with asymmetrical returns. It can be applied in a variety of ways, such as a co-investment, performance-based incentive, credit enhancement, or technical assistance facility. From 2018 to 2020, 52 percent of transactions that blended concessional and commercial capital had impact objectives linked to the low-income segment. Case study 4 contains examples.

Concessional financing is often funded by donors, foundations, or other philanthropic organizations to support high-impact areas of strategic importance. To avoid distorting the market, investors should employ best practices such as the enhanced principles for blended concessional finance used by more than 20 development finance institutions and multilateral development banks.
CASE STUDY 4: Leveraging Concessional Finance

Improving the livelihoods of smallholder farmers

The Global Agriculture and Food Security Program Private Sector Window is a blended finance facility focused on improving the livelihoods of smallholder farmers in the world’s poorest countries. Managed by IFC, it offers concessional terms in a blended finance solution covering short and longer-term loans, guarantees, first or second loss cover, and equity capital.

Support is targeted at risky existing or greenfield agribusiness projects or at banks, microfinance institutions, funds, and other financial intermediaries operating across the entire food supply chain—from farm inputs to logistics, storage, processing, and financing. Projects must have high potential to deliver direct or indirect development impact for smallholders, with an emphasis on nutrition, climate-smart agriculture, and gender. All projects receiving this support must meet the Enhanced Principles of Blended Finance. It also offers funding for advisory services that support the investment project.

The concessional funding comes from government partners, namely Australia, Canada, Japan, the Netherlands, the United Kingdom, and the United States.

Expanding access to clean energy

The Energy Entrepreneurs Growth Fund provides patient, flexible capital to early-stage businesses with products and services that increase access to renewable, safe, reliable, and affordable energy for off-grid households and businesses in Sub-Saharan Africa.

The fund aims to invest in around 30 businesses in the access-to-energy ecosystem to strengthen services and increase sector efficiency. The fund has a 12-year lifespan to accommodate long-term support, such as providing follow-on investments to assist companies in their expansion efforts.

Using mezzanine instruments combined with operational ‘engine room support’ and a technical assistance facility, the fund aims to reach 71 million beneficiaries, create over 92,000 jobs, and avoid 23.9 million tons of greenhouse gas emissions. Acknowledging the relationship between access to energy and gender equality, the fund also addresses the unique needs of women as customers, employees, and energy entrepreneurs by applying the 2X Challenge criteria for gender-lens investing. And while it is an impact-first fund, it does expect a financial return.

The fund is managed by Triple Jump which provides investment advice and receives operational support from Persistent, an off-grid energy venture builder. Patient, risk-tolerant capital from investors is blended with fund capital to provide loans on more affordable terms. Launched in 2019 by the Shell Foundation and the Dutch entrepreneurial development bank FMO, investors now include the African Development Bank, FinDev Canada, Development Finance Corporation, Nordic Development Fund, and Oesterreichische Entwicklungsbank (OeEB).
SECTION 4: MANAGING INCLUSIVE BUSINESS IMPACT

In this section:

- Monitoring Outputs
- Gathering Additional Information on Outcomes
- Using Inclusive Business Evaluations to Inform Impact and Investor Strategy
- Sustaining Impact through a Responsible Exit

Good impact management requires an investor to monitor whether an inclusive business investment is delivering on its impact goals and to use this information to steer progress or correct course, as outlined in the Impact Principles. It is also critical in enabling an investor to confidently report on the impact of its portfolio and to raise additional capital in the future. To establish or strengthen their impact management practices, investors can draw on resources available through the Impact Management Platform, the IRIS+ platform, and the Business Call to Action from the UN Development Programme.

The following section contains approaches for investors to consider depending on their monitoring, evaluation, and learning needs at different levels—output, outcome, and impact. It also includes ways to sustain impact for low-income stakeholders by executing a responsible exit.

Monitoring Outputs

Investors typically monitor inclusive business indicators at least once per year, and this can be integrated into their financial review process. The indicators are usually scale-oriented outputs agreed upon with the investee at the contracting stage. Data collected from investees during monitoring can be compared against the baseline obtained during due diligence and analyzed against goals or expectations. If these results deviate from expectations, the investor and investee should discuss this potential red flag and seek a better understanding of the main obstacles, risks, ways to correct course, and lessons learned.

At the portfolio level, investors can aggregate the results of the inclusive business output indicators across similar investments. This will provide a high-level overview of their inclusive business investments’ performance in terms of geography, type of business, and the extent of reach to low-income stakeholders, as well as successes and red flags. Monitoring how investments contribute to an investor’s theory of change and to portfolio-level goals for inclusion can provide learning from both successes and failures. For example, if impact is not as expected during the lifetime of an investment, investors can engage with the inclusive businesses to better understand the context and incorporate any learnings for future investments and strategy.

Some investees may face challenges collecting and reporting data. Investors can provide tailored advisory services (see Section 5) to build investees capacity in this regard.
Gathering Additional Information on Outcomes

Investors are encouraged to complement the investee’s regular reporting by collecting additional data on outcomes. Outcomes data provides a better indication of the likelihood of achieving impact goals. Investors can use a light touch or an in-depth approach depending on the context, the depth of information required, and the data collection costs for both investor and investee. The timing of data collection will depend on the type of business, but measuring outcomes relies on a baseline for future comparison and subsequent data points to gauge the degree of change experienced by the target group of low-income stakeholders.

A survey of the company’s low-income stakeholders can be an effective way to gather outcome-level data. Although not a rigorous impact assessment, self-reported information can deliver insights into the experiences of low-income stakeholders and whether expected outcomes are being achieved. Gathering self-reported information on outcomes such as changes in quality of life, health, or income can also help to identify barriers in product adoption and contribute to product development.

Surveys can be carried out by the inclusive business itself, depending on its interest and capabilities, and data collection can be embedded into its management information systems. Alternatively, surveys can be outsourced to specialized consultants. Additional resources may be required, such as dedicated staff to process and analyze data, along with changes to management and information systems. Investors can provide support to investees to enhance the quality of the investees’ reporting (see Section 5). For an example of a light-touch approach, see Case Study 5.
CASE STUDY 5: Understanding Outcomes: Insights from Lean Data

British International Investment (BII) uses the Lean Data methodology developed by 60 Decibels to hear directly from customers, employees, suppliers, and other stakeholders. This methodology uses telephone-based social research interviews in local languages to uncover respondents’ opinions on products and services, and if and how they have affected their lives. It can be used to collect information on inclusivity rates, social outcomes, and user insights. While surveys can be customized with questions relevant to different business models, 60 Decibels is standardizing surveys within impact themes and sectors to enable greater comparability.

GreenPath Food is a company that produces and sources organic food products through a network of smallholder farms in Ethiopia. BII had financed Greenpath through an investment in Novastar Ventures, and to measure its impact BII commissioned 60 Decibels to survey approximately 250 farmers at two points over a year to collect outcome data. Farmers reported that working with GreenPath improved their incomes and this was corroborated by the company’s own data systems. The survey also identified the services valued most by farmers, such as access to markets, equipment, and training. Farmers were also able to suggest improvements, such as timelier payments. GreenPath used insights generated by the survey to improve its farmer engagement strategy and service offerings.35

More information can be found here.

BII has also used Lean Data surveys to assess the broader impact across its portfolio. For example, in 2021, BII conducted ‘India Sprint’—a survey of 3,500 stakeholders across 25 of BII’s portfolio companies in India. The study provided BII with a nuanced understanding of the socio-economic characteristics of the people it reaches and showed that BII investments were improving quality of life and incomes among low-income stakeholders. BII is also using the results of the study to inform decision-making and enhance impact. More details on the insights of the study can be found here.

Using Inclusive Business Evaluations to Inform Impact and Investor Strategy

Evaluations offer a more in-depth approach to establishing outcomes and impact. These can provide a more detailed account of the impact of an investment or a portfolio of investments and contribute to accountability. In addition, evaluations are particularly useful for learning purposes and to inform future strategies.

Evaluation studies typically reveal how impact is occurring and why impact goals are achieved or not. Evaluations can also test certain assumptions in an investment thesis or theory of change. The list of questions in Box 11 can be used or adapted as a starting point for evaluating the impact of inclusive businesses. These questions are not exhaustive.
**BOX 11: Examples of Questions for Evaluating Inclusive Business Impact**

- To what extent are inclusive business investments reaching the target group of low-income stakeholders? What works and what does not?

- Is the investment increasing access to goods, services, or livelihood opportunities for low-income stakeholders? What are the main barriers and what role can an investor play in overcoming these obstacles?

- How are the products, services, and work opportunities contributing to improved livelihoods for people with low incomes? What are the impact pathways and mechanisms?

- Do these products or services have any potential unintended negative impacts?

- How likely is it that impact can be sustained over time? How can impact be made more sustainable?

The information generated by an evaluation should loop back to the investor’s strategy and decision-making. For example, it can be used to adjust an inclusive business strategy, a theory of change, or targets. It can also provide investees with knowledge about how to increase their impact. Evaluations often require greater time and resources from both investor and investee, and partnerships with research institutes, other investors, or development financial institutions can share both knowledge and costs.

**Sustaining Impact through a Responsible Exit**

When exiting an inclusive business investment, investors should consider the implications for both financial and development impact. A responsible exit seeks to ensure that the inclusive business investee will sustain and scale its impact on low-income stakeholders after the transfer of ownership, or as the inclusive business pivots towards other sources of capital.

While outcomes may not always be ideal, impacts on low-income stakeholders need to be carefully examined during the investor’s decision-making process. Investors should carefully consider all options and chose that which best safeguards and optimizes impact and mitigates future negative risk. While the notion of responsible exits primarily applies to equity investments where an active decision is required, it can also be applied to debt and funds, such as secondary sales of loans and management of distressed assets, respectively.

Responsible exits should consider the effects of exit timing, structure, and process. Key markers could include:

- The business is economically viable.
- The impact on low-income stakeholders is locked into the business model and/or company practices.
- The business has delivered on its impact objectives for low-income stakeholders and the investor has delivered on any plans to add value beyond financing.
- Key risks have been identified and effectively mitigated.
- The exit will be to an impact-aligned buyer and/or the investor will retain a stake to continue to drive impact for low-income stakeholders.

See Case Study 6 for an example.
CASE STUDY 6: Considering Impact During Exit Decisions

In 2008, BII made its first equity investment in ASA International—a microfinance institution that seeks to reduce poverty and enable female empowerment—via the holding company Catalyst Microfinance Investors. BII also obtained a direct stake during ASA’s initial public offering in 2018. By the end of 2021, BII was considering an exit. As part of the exit process, BII used a framework that covered both impact and commercial implications and asked the following questions:

- Is the decision-making process conducive to impact-driven decisions?
- Is it the right time to exit? Has the impact thesis been achieved? Has BII executed its value-add action plans? Is the business sustainable?
- Is the new structure conducive to sustained or enhanced impact? Are there material impact or reputational risks to the exit? Is the new structure aligned with the impact thesis?

BII’s original investment in ASA was made when the commercial viability and sustainability of microfinance institutions had yet to be proven. Through its investment, BII sought to enhance financial inclusion and have a demonstration effect in the market. Since 2008, ASA has built a network of 13 microfinance subsidiaries in Africa and Asia. As of December 2022, it was serving 2.3 million low-income entrepreneurs of whom 97 percent are women. It has also grown into a commercially-scaleable listed business—achieving BII’s impact objectives for the investment. The exit posed limited risk to impact, as ASA had a diverse shareholder base and had maintained a strategic focus on low-income segments in underserved markets. The exit would realize BII’s investment objectives and allow it to redeploy capital to other development impact opportunities.
In addition to financial investment, investors can provide valuable support through advisory services, also known as technical assistance and capacity building. This type of support strengthens an investee’s operations, strategy, or impact. Advisory services facilitated by investors or partners can be highly effective in helping inclusive businesses overcome challenges in reaching and benefiting low-income populations. This support can range from light to intense engagement. It can be delivered to individual investees or to a cohort. It can also be provided directly by the investor if in-house capacity exists, or through third parties. Investors should consider the stage and sectors of its investees when determining relevant advisory services. When resource-constrained, investors can prioritize support based on strategic alignment with their development objectives, commercial rationale, the potential for replication or scale, and other factors.

This guide provides a variety of examples of how advisory services can add value to companies on topics particularly relevant to inclusive business. Investors can also refer to resources such as GIIN’s Beyond Investment: The Power of Capacity Building Support and Endeva’s More Than Money: Mapping the Landscape of Advisory Support for Inclusive Business. When providing advisory services, it is critical to regularly evaluate their effectiveness.

Insights into Low-Income Markets

The defining feature of inclusive business is that it engages and adds value for low-income people as customers, suppliers, retailers, distributors, or employees. To do this effectively, companies should understand these populations, their needs and challenges, the best methods to engage with them, and the specific business rationale for doing so. Investors can help companies to better understand their target markets and to improve and increase their reach, as shown further in Case Study 7. This can be especially valuable for companies seeking to develop a new product or service offering or to expand to a new geography.
The Dutch entrepreneurial development bank FMO has a focus on sectors such as agriculture, food, and water, where the inclusion of smallholder farmers in supply chains is key to driving inclusive growth. FMO partnered with the Commercial Agriculture for Smallholders and Agribusiness (CASA) Technical Assistance Facility, funded by the UK Foreign, Commonwealth Development Office (FCDO), and with TechnoServe to support its agribusiness investees to develop more inclusive and resilient business models.

The facility works with investees to create tailored inclusive business plans that provide a road map to deepen, broaden, or strengthen supply chains in ways that deliver value to both smallholders and shareholders. The plans diagnose challenges in investees’ smallholder supply chains, identify and quantify growth and impact opportunities, and more. The plans then lay out a strategy to operationalize the recommendations, including the investment required, potential partners, and additional technical assistance needs. The facility provides support during implementation.

**Insights into farmer needs in India**

DeHaat is one of the fastest growing agritech platforms in India. As part of its inclusive business plan, the facility identified that smallholder farmers in DeHaat’s areas of operation could benefit from an input finance scheme that would reduce the cost of finance and increase yields. This would drive greater farmer loyalty and improve DeHaat’s competitiveness, but it had high operational risk. As a result, DeHaat’s inclusive business plan included a technical assistance package with an input finance pilot to design and test a loan product and operating model prior to scaling. It also included partnerships with financial institutions to reduce financial risks for DeHaat, as well as extension services and input packages that would boost farmer purchases, production, and sales.

To date, these initiatives have directly reached over 79,321 smallholder farmers, with over 90 percent accessing extension services for good agricultural practices, pest and disease management, and harvesting. The subset of farmers who participated in the input finance pilot increased their net incomes by $494. This compares to a $258 increase for a control group with no pilot. DeHaat is now scaling up the input finance scheme and intends to significantly expand its reach in coming years.

**Overcoming challenges and realizing opportunities**

Sucafina, a global coffee trader, overcame challenges sourcing sustainable, certified coffee from smallholder farmer cooperatives in Tanzania through an inclusive business plan that led to the development of a loyalty program. The plan detailed how a loyalty program could gradually deepen Sucafina’s engagement with reliable cooperatives while limiting its engagement with those identified as higher risk. As cooperatives progress through the loyalty program, they become eligible for larger investments from Sucafina to enhance coffee quality, volume, and sustainability. For example, at the ‘silver’ loyalty level, cooperatives can access wet-mill equipment loans, and at the ‘gold’ level they receive tailored agronomy advice, technical support, and/or financial incentives. The initiative has reached 5,973 farmers reached to date, and is expected to benefit up to 40 cooperatives and over 15,000 smallholder farmers by 2026. Farmers in cooperatives at the highest tier of the loyalty program could potentially increase their annual incomes by up to $276.
Designing Inclusive Products and Services

Products and services need to be tailored to the unique needs of low-income customers, including those who live in remote and rural areas with limited delivery channels. Investors can help companies to tailor their offerings by partnering with organizations with expertise in designing for low-income customers and last mile delivery. This can help companies reach more low-income populations with more suitable products and services. See Case Study 8 for an example.

CASE STUDY 8: Designing Services to Reach More Low-Income Customers

In 2016, British International Investment (BII) invested in Jumia, a leading online marketplace in Africa, and subsequently sold its shares in the initial public offering in 2019. Jumia wanted to expand its services to secondary cities, where populations are typically lower-income, less comfortable with digital platforms, have fewer connections to logistics infrastructure, and limited access to high-quality, affordable products. To overcome these barriers, Jumia pioneered a model of brick-and-mortar centers, staffed by sales agents who could help customers unfamiliar with online ordering to place and pick up purchases.

In 2021, BII commissioned Hystra and Bopinc to assess the impact and business opportunities for Jumia in secondary cities in Côte d’Ivoire and to help the company pilot new service features. Their assessment found that customers could access better-quality products faster and at better prices, including products that helped some customers to generate income. It also found potential to replicate the brick-and-mortar centers in other secondary cities.

They launched three pilots focused on three key activities:

- Engaging with suppliers of farm equipment and inputs to negotiate terms and conditions for price-competitiveness and affordability at the end-customer level.
- Launching a category of agricultural products on the Jumia platform.
- Promoting the new category through a roadshow including visits to cooperatives and breeder associations, Jumia-branded football matches, and flyers dedicated to agricultural products.

Nine months after launching the pilots, Jumia had added more than 3,500 different agricultural products to its platform, sold more than 10,000 of these items, and generated an additional $127,000 in revenue. Jumia’s pricing for top-selling agricultural products was 30 percent cheaper than local offline competitors. The platform plans to expand its agricultural offerings and to leverage lessons learned to scale the pilot in other markets such as Kenya and Nigeria.
Supporting Impact Measurement and Management Systems

Effective impact measurement and management systems are key to enabling investees to maximize positive outcomes for low-income stakeholders and in optimizing impact for investors. Investors can provide advisory services to help their investees develop or improve these systems. See Case Study 9 for an example.

CASE STUDY 9: Supporting Investees to Measure Impact

Global Partnerships is an impact-first investment fund manager dedicated to expanding opportunity for people living in poverty. Its affiliated funds make loans and early-stage investments in social enterprises that enable people to earn a living and improve their lives. These affiliated funds are active throughout Latin America, the Caribbean, and Sub-Saharan Africa.

Impact measurement and management are central to Global Partnerships’ practice, both in portfolio construction and in engagement with investee social enterprises. With capacity-development funding from the Dutch entrepreneurial development bank FMO and philanthropic support from additional donors, Global Partnerships leverages mobile-based Lean Data surveys by 60 Decibels, an impact measurement company, to help investee social enterprises capture, interpret, and act on client-level data. (See an example of a Lean Data report provided to client Friendship Bridge.)

Five years into the work, Global Partnerships is witnessing the alignment and value created across stakeholders:

- **Social enterprises** can focus on operational improvements and adapt products and services to better reach and create value for low-income clients.
- **Asset managers** gain clarity on impact performance and can direct more appropriately-designed capital to help scale inclusive, high-impact businesses.
- **Asset owners** gain visibility into where their capital creates value, and for whom, and can use that to make informed decisions about risk, return, and impact.

With all these stakeholders aligned on increasing value for end clients, Global Partnerships hopes to see the industry move toward client-level data as the norm in impact measurement, driving improved impact performance over time, and ultimately expanding access to opportunities that enable meaningful impact in the lives of people living in poverty.
Developing Talent

Human resources and talent development is a key area where investors can add value through advisory services, and it is relevant to companies across sectors, stages, and geographies. A survey of impact investors by the Global Impact Investing Network cited human resources development as the most frequent type of capacity-building support. See Case Study 10 for an example.

CASE STUDY 10: LeapFrog Investments Helps Investees Grow Through its Talent Accelerator

LeapFrog invests in growth markets across Africa and Asia and focuses on creating value for companies in healthcare, financial services, and climate solutions, many of which are inclusive businesses. LeapFrog provides investees with several types of technical assistance. This includes its Talent Accelerator program, which leverages in-house management experience to create better and more strategic practices in human resources and talent management. To deliver value, LeapFrog’s investment and Talent Accelerator teams work closely to assign programs that benefit both employees and the investee as a whole, from due diligence through to exit.

The Talent Accelerator addresses talent gaps across emerging markets through a global network of facilitators, coaches, and consultants who help to upskill leaders at all levels. It also offers broader talent development initiatives to improve productivity, impact, and employee retention. Tailored leadership programs run for 12–18 months. They blend face-to-face and remote learning, one-on-one coaching to facilitate self-reflection, and on-the-job action projects to embed learning. Talent Accelerator has worked with 1,800 employees from 27 companies, including those held by other investment firms.
CONCLUSION

Inclusive business investing is a vital channel for investors to deliver social outcomes for low-income people at the base of the pyramid, while also realizing financial returns on their investments. This guide has drawn upon the experience of the International Finance Corporation, the entrepreneurial development bank FMO, and British Investment International to offer practical guidance for investors seeking to intentionally grow an inclusive business portfolio.

It includes advice on developing an understanding of inclusive business challenges and strategies, ways to establish an intentional approach to inclusive business, and how to incorporate inclusive business considerations into pre-investment processes. It also shares strategies to manage impact and suggestions on how to best leverage advisory services.

However, more needs to be done to develop a greater inclusive business focus among investors and to grow the share of capital invested with the goal of increasing incomes and expanding access to essential goods and services for people at the base of the economic pyramid. For this to happen, we must continue to build the business case by sharing data on the financial performance and development impact of inclusive business investments. We must also work to develop common and robust inclusion proxies and definitions across portfolios. This will enable more investors to pursue inclusive business investments that align with their expectations for financial returns.

Developing more advisory solutions will help inclusive businesses overcome barriers. We must share learnings on what works and what does not, in order to develop best practices and find common proxies and indicators that can ease the burden on investees.

Investors have an important role in advancing the fight to end poverty. Inclusive business offers an investment opportunity that spans industries and geographies, and supports other investor priorities including climate change, gender equality, food security, fragility, financial inclusion, and more.
NOTES AND REFERENCES


5. According to the World Bank global consumption database, the $5 trillion market estimate is based on an income threshold of $8.44 per person per day, representing the bottom 50 percent of the global population.


15. For more information on ESG-related standards, see the Equator Principles: https://equator-principles.com/https://equator-principles.com/


Common topics for advisory services include human resources development; impact targeting, measuring, and reporting; financial management; technical or specialized support; governance; product development; and marketing. For more information, see GIIN (2017).

For more information:

www.bii.co.uk

www.fmo.nl

www.ifc.org/inclusivebusiness