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**PADM-GP 4319**

**Financing Inclusive Businesses – Summer 2024**

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*This is an online, half-credit course that will be delivered in 6 seminars over the two weeks beginning Monday, 29 July, 2024 and ending Thursday, 8 August 2024*.

**Agenda**

# Course Description

This course assesses the role of inclusive business (IB) as a strategy for economic growth, private-sector development and poverty reduction, and the two main IB financing modalities: bank debt provided by financial institutions (FIs) and private equity (PE), with particular focus on the latter. Thematically, the course concentrates on the role that IB financing can play in addressing critical environmental and social challenges, most prominently, climate change. Analytical frameworks are provided for understanding how IB strategies incorporate and affect the poor as consumers, producers, suppliers, distributors and employees. In this context, important distinctions are drawn between IB financing and environmental, social and governance (ESG) policies; socially-responsible investing (SRI); and corporate social responsibility (CSR). Using case studies from selected developing economies, we take stock of the successes and failures of FIs and PE funds in IB financing. In assessing modifications and solutions needed to boost capital deployment in IBs, the key debates in this emerging discipline are considered and placed in the wider context of impact investing and social finance. You will learn to identify and interrogate IB strategies and determine the most appropriate—and likely successful—financing modalities for them. The course will enable you to identify and prioritize key components and risk factors through the design of an IB lending program and/or private equity fund.

## Course Goals

* Students will learn to, (i) identify, select and articulate the most appropriate modality of capital deployment in inclusive businesses; (ii) assess the strengths, weaknesses and success drivers of IB debt/equity strategies; (iii) understand the role of technical assistance and blended finance tools; (iv) design an IB lending and/or equity investment strategy; and, (v) be equipped with the tools to articulate to key stakeholders, including investors, portfolio companies, providers of blended finance and technical-assistance funding, where IB lending and investment strategies lie on the financial and social/environmental spectrum of (impact) investment offerings.
* Students’ mastery of the subject matter and analytical skills required for IB analysis will be assessed through participation and coursework, both of which will focus on past and current IB debt/equity strategies.
* Students will be able to draw on their knowledge of, and interest in, social finance and impact investing in order to evaluate the likely effectiveness of IB debt/equity strategies in achieving social, environmental and financial objectives.

## Course Objectives

1. To gain a solid understanding of IB models and evaluate associated opportunities and challenges.
2. To understand how IB financing differs from ESG, SRI and CSR interventions, and why articulating the difference is important.
3. To understand the role of banks and private equity funds in achieving social and environmental impact through IB financing.
4. To be familiar with the role, usage and market implications of technical assistance and blended finance tools.
5. To learn how to design viable IB debt and/or equity investment strategies and assess their risk/reward profiles as accurately as possible.
6. To learn how to articulate IB strategies to key stakeholders.

## Teaching Approach

Engaging with, building and investing in inclusive businesses requires the ability to position financing strategies on the spectrum of financial, social and environmental returns. The spectrum is broad, and there are diverging views and orthodoxies emerging in the field. Because this is an evolving discipline, there are many views on how to categorize and communicate IB lending/investment opportunities. Therefore, you will need to engage fully with the more contextual, theoretical first lecture of the course in order successfully to undertake the class assignments. My objective is for students to acquire practical analytical, design and communication skills around IB financing; thus you need to be prepared to apply academic concepts to concrete capital-deployment strategies. Classes will begin with a lecture, followed by discussion, in-class exercises and further discussion. Students should feel free to ask questions throughout, using the ‘raise hand’ icon. I would prefer that students do not ask questions during the lecture components unless there is something specific I have said that is unclear. I encourage diverse perspectives in class and in your writing assignments. Importantly, no knowledge of particular country contexts is required for the case studies and assignments. However, students are encouraged to do some limited background reading on the country/regional contexts in order to get the most out of them. Reference materials (publications, websites) will be provided.

## Assignments and Evaluation

There will be five pieces of work required for this course: two short written assignments, two very brief in-class presentations (see Seminars 2 and 3 below) and one final paper. Given that the course teaches practical skills in evaluating IB financing strategies from a financial and social impact perspective, the two assignments and presentation will involve applying the analytical frameworks and diagnostic approaches presented in the lectures, readings and developed in in-class discussions. The written assignments will require analysis of the opportunities and challenges associated with hypothetical IB financing proposals. The presentation will require students to make the case for an IB financing strategy in response to parameters provided for a debt product or fund thesis. In the final paper, students will demonstrate their ability to design an IB financing strategy in response to a request, arguing why the proposed strategy is viable, how it addresses key risks, what the likely financial return will be and why, and the way in which social impact will be achieved.

Individual feedback on your assignments will be returned to you via Brightspace. If something seems amiss about the grading of your assignment, or you would like more information about the evaluation of your work, please do get in touch by email. I am very focused on ensuring that you gain practical, applicable skills through the course as well as a solid academic understanding of the cross-currents in IB.

## Required Readings

Learning resources include articles in academic journals, publications, documentation from past funds and lending programs (anonymized, as appropriate, for reasons of confidentiality), publications produced by the course professor and additional materials available on the internet (such as multilateral and bilateral development finance institutions’ websites, financial institution and fund manager websites and reports). The above resources will be used in preparation for class participation and in-class reference, but also for completing assignments. The latter will include partial designs of lending and investment strategies which students must finish in written submissions, drawing on materials/learning from the professor’s lectures, in-class discussion, and case studies.

There are two publications that are required for the course. The first is a publication that I produced in 2018 for the Asian Development Bank and Credit Suisse, I*nclusive Business Financing: Where Commercial Opportunity and Sustainability Converge*. The second is a landmark text that radically transformed the perception of market-based approaches and solutions to poverty: *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, written by the late Professor C.K. Prahalad in 2006. My publication will be available to you on Brightspace in PDF format. The latter can be found in libraries and very inexpensive copies are available on-line. If you continue/pursue a career in this field, you will return to this critical resource frequently, as I do!

## Brightspace

All announcements will be delivered through Brightspace and materials and assignments posted there. I may modify assignments, due dates, and other aspects of the course as we go through the term with advance notice provided as soon as possible through the course website. Nearly all the readings for the term will be posted in the Resources folder.

## Academic Integrity

The students and faculty at NYU are very concerned about academic integrity. Each student should have the assurance that the rules of the game are understood by everyone and enforced equally. Students are encouraged to learn and study together. Individual assignments are just that, but mutual assistance is appropriate. The Wagner School has an academic code that is available here: <http://wagner.nyu.edu/students/policies/academic-code>. Every student is expected to maintain academic integrity and is expected to report violations to me. If you are unsure about what is expected of you, ask.

## Henry and Lucy Moses Center for Students with Disabilities at NYU

Academic accommodations are available for students with disabilities. Please visit the Moses Center for Students with Disabilities (CSD) website at [www.nyu.edu/csd](http://www.nyu.edu/csd) and click on the Reasonable Accommodations and How to Register tab or call or e-mail CSD at (212-998-4980 or mosescsd@nyu.edu) for information. Students who are requesting academic accommodations are strongly advised to reach out to the Moses Center as early as possible in the semester for assistance.

## Class Policies

Students should note that this is an intensive J-Term course taught over two weeks. The introductory lecture will establish the definitional framework for the rest of the course. Thereafter, each seminar will incorporate elements of the previous seminar. Only students who are able to attend all seminars—barring unforeseen circumstances, of course—should sign up for this course.

## Assignments and Evaluation

See the schedule at the end of the syllabus for specific dates. This course involves three main components: class participation, two assignments and one final paper of 5-7 pages. Individual feedback will be returned to you via NYU Classes for most of your assignments. If you are not comfortable with how your assignment has been graded, or would like additional information about the evaluation of your work, please get in touch to arrange a time to discuss. This section is a brief overview of the assignments and elements that will factor into your final grade:

* **Class Participation (15% of total grade) and Presentations:** Participation is awarded based on attendance, punctuality and engagement in class discussions. Missing or being late for two or more classes will have a negative impact on your participation grade. Extraordinary circumstances include [religious observance](https://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/university-calendar-policy-on-religious-holidays.html) and illness but you must give notice via email in advance (religious observance) or as soon as possible (illness).

If you foresee missing a class due to personal obligations, please notify me via email but also note that it will count as your one allotted unexcused absence. All students benefit from high levels of participation, so you are expected to do readings prior to class, attend class, and contribute to discussions. Attendance is taken at the beginning of every class and I will be making note of those who routinely participate in discussion.

There will be two in-class exercises for which you will be asked to make a brief presentation and answer questions. The exercises will require you to reflect on the key debates and questions in the field covered in the lectures, and apply them to hypothetical cases of inclusive business financing for social impact strategies.

* **Assignments (35% of total grade):** You will submit two short pieces of written work (3-4 pages) during the course. These assignments will require you to consider further the challenges and possible solutions to inclusive business financing in specific circumstances – i.e., sectors, geographies, transaction types. The objective of the assignments will be to enable evaluation of your ability to analyze the key issues that emerge from a proposed IB financing strategy, and the factors which drive (i) viability; (ii) sustainability; and (iii) likelihood of achieving and sustaining social impact.
* **Final Paper (50% of total grade):** A 5-7 page final paper will be submitted. The paper will take the form of written responses to a hypothetical IB financing proposal (as if one were preparing a memo for colleagues outlining a response and follow-up questions to an official Request for Proposals from a development finance institution or foundation, for example). In the paper, you will be asked to analyze the opportunity, identify the weaknesses and potential risks, outline the measures and instruments you would use to mitigate them, and suggest how the proposed IB financing strategy might by modified (if necessary) in order to maximize the chances of achieving the financial and social impact objectives intended. The final paper will be due one week after the final seminar, by **05:00pm** on **Thursday, 15th August, 2024**, (New York City time).

## Additional Administrative Details / Responses to Frequently Asked Questions

* All emails regarding this course should have “IB Financing” in the subject and a hint about the key issue in the email. Members of the faculty get an enormous volume of emails, much of which is not related to our courses, so flagging emails related to the course help me to prioritize your message is important. If you do not have a response in about 48 hours, it is not considered rude to re-send your email. Emails sent directly to me should be limited to specific matters or queries regarding the course or subject matter. Questions about the course material or assignments that would be of more general interest should be posted on for all to see.
* You are responsible for obtaining any materials distributed in or outside of class. If you cannot find something on Brightspace, email me immediately or post an enquiry online.
* Please mobile phones and all other electronic devices while in class. I understand many of you have children at home or work responsibilities that may require you to monitor your phones for incoming messages. Although discouraged, that is understood, but please ensure in this case that your devices are on mute.
* I may make slight adjustments to the syllabus or lecture focus as the seminars progress. If I make changes, I will use the course email system to notify you.

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## Course Schedule

### Seminar 1 – Monday 29th July, 2024

**INTRODUCTION TO INCLUSIVE BUSINESS FINANCING: DEFINITIONS, ENGAGEMENT MODELS AND FINANCING MODALITIES**

**Objective:** To introduce the key concepts and terms in Inclusive Business (IB) and IB Financing; explore why IB Financing should be considered a critical strategy/tool in social finance and impact investment, specifically its contributions to poverty alleviation, wealth creation and further positive social and environmental outcomes.

**Readings:**

* Beckwith, Noah. *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge;* June 2018, Executive Summary, Chapters 1 and 2.
* Prahalad, C.K.. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*; 2006 Chapters 1 and 2.
* World Bank Group, *Poverty and Shared Prosperity,* 2018 *Piecing Together the Poverty Puzzle;* Chapter 4, *Beyond Monetary Poverty*.
* Blue Orchard Academy, *SMEs and SDGs: Supporting Small and Medium Enterprises to Achieve the Sustainable Development Goals;* November 2017, pp.1-14.

**Preparation:** Be prepared to interrogate and discuss core IB Financing concepts and strategies and to consider where they sit on the spectrum of interventions broadly included in the fields of impact investment, social finance, development finance, ESG and so on. If in our discussion it is agreed that IB Financing is in fact a key tool in achieving positive social, environmental and financial outcomes, then how can it be mainstreamed and vastly expanded? What are the obstacles? Further discussion topics will include:

* What characteristics distinguish IB engagement strategies and models from others?
* Is the ‘inclusive’, in IB financing more than a positive, hopeful, reassuring term?
* In what way can IB engagement strategies realize social impact and what are some of the key issues that should be borne in mind when considering IB financing strategies?
* Which stakeholders or constituencies in society are we thinking about when we consider designing an IB financing strategy?
* In what ways can IB financing enable us to reduce poverty, increase environmental sustainability as we do so, and achieve the Sustainable Development Goals (SDGs)?

### Seminar 2 – Wednesday 31st August, 2024

**THE ROLE OF FINANCIAL INSTITUTIONS IN IB FINANCING**

**Objective:** To gain a detailed understanding of *how* capital deployed by **financial institutions** can achieve inclusion, and why the commercial viability of these strategies and the financial products that deliver them is so critical to realizing positive social and environmental outcomes.

**Readings:**

1. Noah Beckwith, *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge;* Chapter 3.
2. Michael Chu and Namrata Arora, *YES BANK: Mainstreaming Development into Indian Banking*, Harvard Business School, November 2010.
3. David Ulrich and Justin Allen*, Corporate Governance – Private Equity’s New Phase*, Harvard Business Review, 9 August, 2016

**Preparation:** With the concepts digested in Seminar 1 in mind, Seminar 2 looks at actual lending products. It unpacks how their approaches to inclusion drive commercial viability and the generation of impact. Be prepared to evaluate which strategies, tools, instruments and other dimensions of lending products determine whether they might meet their objectives, both commercial and socio-environmental. The ability clearly to explain this to internal and external stakeholders in a professional context—the credit committee of a bank or development finance institution, for instance—is the mindset students should attend this Seminar with. Areas of discussion will include:

* Should FIs view lending to inclusive businesses as a viable or attractive opportunity?
* Should banks expect a trade-off between returns on IB products and achieving social impact? Does social impact qualify as an appropriate, viable objective for a bank at all?
* What do IBs need from banks in addition to loans, and is it viable for banks to provide it to them?
* What do the three case studies in Chapter 3 of *Inclusive Business Financing* tell us about what an FI should consider when developing IB products?
* What further opportunities may emerge for a bank by developing IB products?

**Class Exercise:** Students will be asked to briefly prepare and then present on aspects of the three case studies included in Chapter 3 of *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge*.

### Seminar 3 – Thursday 1st August, 2024

**THE ROLE OF PRIVATE EQUITY FUNDS IN IB FINANCING**

**Objective:** To gain a detailed understanding of *how* capital deployed by **private equity funds**[[1]](#footnote-1)can achieve inclusion, and why the commercial viability of fund strategies and their investment portfolios is so critical to realizing positive social and environmental outcomes.

**Readings:**

1. Noah Beckwith, *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge;* Chapter 4.
2. Noah Beckwith, *Annual Development Impact Review 2004 (Aureos Capital)*; Introduction, Brookside Dairy and Mount Elgon Orchards (pp. 1-17).
3. David Ulrich and Justin Allen*, Corporate Governance – Private Equity’s New Phase*, Harvard Business Review, 9 August, 2016

**Preparation:** Based once again on the concepts examined in Seminars 1 and 2, and considering the inherent limitations of FIs as conduits of IB financing seen in Seminar 3, Seminar 4 explores the role of private equity funds in reaching IBs with appropriate capital. Students should have developed ideas on why private equity may be more effective than FIs in delivering IB financing. They should also begin to consider ways in which private equity and bank finance might be deployed in tandem. Be prepared to evaluate which strategies, tools, instruments and other dimensions of private equity funds determine whether a fund might meet the objectives of its stakeholders, both commercial and socio-environmental. The ability clearly to explain this to internal and external stakeholders in a professional context—to a prospective investor or the investment committee of a fund manager, for instance—is the mindset students should attend this Seminar with. Areas of discussion will include:

* What are the key challenges in designing IB funds, and how can they be addressed?
* What are the critical issues to be considered when structuring an IB fund?
* In IB financing, what are the advantages of IB funds compared to FI debt?
* What financial returns and social impact can realistically be expected from an IB fund, and how do these vary with fund design? Must there be some or any trade-off between them in IB funds?

**Class Exercise:** Students will be given a hypothetical investment thesis asked to present the key issues, priorities and challenges in designing a fund thesis for it.

**Written Assignment 1:** Your first written assignment will be due by 09:00 on **Monday, 5th August**. The assignment will be posted online after Seminar 3.

### Seminar 4 – Monday 5th August, 2024

**THE ROLE OF TECHNICAL ASSISTANCE AND BLENDED FINANCE IN IB FINANCING**

**Objective:** Technical Assistance (TA) and, more recently, blended finance, have become prominent tools in IB financing. Seminar 4 will introduce students to both of them, evaluating their pros and cons. Importantly, the Seminar will consider the ‘optics’ of their use from an investor perspective, meaning how asset-owners and allocators might interpret their incorporation into IB financing strategies.

**Readings:**

1. Noah Beckwith, *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge;* Chapter 4, pp 55-59 (Table 2), and pp 65-68 (Section C.2).
2. Andrea Armeni with Miguel Ferreyra de Bone, *Innovations in Financing Structures for Impact Enterprises: Spotlight on Latin America;* Sections 1-6, pp 2-16, Inter-American Development Bank, The Rockefeller Foundation and Transform Finance, 2017.

**Preparation:** We know that IB financing, whether via FIs or funds, is an important tool in addressing environmental and social challenges, and poverty and inequality more generally. However, many sectors, economic segments, themes and geographies that desperately require capital struggle to attract it. Likewise, many banks and funds avoid them. At the same time many recipients of capital require capacity-building and are can only be ‘included’ in a bank product or fund strategy if the costs and risks of trying to reach them are somehow mitigated. Technical assistance and blended finance are there for this purpose, among others. For this Seminar, be prepared to consider how these tools might best be deployed and what the advantages, disadvantages and risks are of using them. Areas of discussion will include:

* The key features of technical assistance and blended finance tools.
* What implications do such tools have for the commerciality—real or perceived—of an IB financing strategy?
* What signals do the use of such tools send to borrowers, investment recipients, investors/lenders to banks and investors in IB funds?
* Can such tools truly drive capital to strategies that would otherwise fail to attract financing?

**Written Assignment 2:** Your second written assignment will be due by 09:00 on **Thursday, 8th August**. It will be posted online immediately after Seminar 4.

### Seminar 5 – Wednesday 7th of August, 2024

**DESIGNING AN IB-FOCUSED PRIVATE EQUITY FUND**

**Objective:** Using an actual consulting mandate to evaluate the prospects for an IB Fund in East Asia, this Seminar will examine in detail how fund design is done and the elements that must be considered. The objective is to apply the concepts seen in Seminars 1-4 to this concrete case which is, in fact, still evolving and going to market early 2025.

**Readings:** Fund-related documents will be circulated on Brightspace in late 2024 to be read before the Seminar. Some concise materials will be shared on country context, but no prior knowledge of particular economies of East Asia will be necessary to fully benefit from and participate in the Seminar.

**Preparation:** It is essential that students read thoroughly the fund documents in order to get the maximum benefit from this actual fund design exercise. It is intended to be a practical case study. In reading the materials and attending the lecture, students should be considering as many fund design options as possible and the implications they may have, along with the trade-offs between financial and social returns (if any) that might have to be made. Students should be aware that there are no right or wrong designs or ‘answers’ here; rather, it is a question of trying to optimize the design elements that are most likely to lead to the desired IB fund outcomes and, of course, most likely to convince investors to allocate capital to the fund.

**Class Participation:** There will be no class exercise per se for Seminar 5. Instead, there will be debate and discussion of the numerous design features and choices that have been, and continue to be made in the design of the IB fund. Depending on the questions that arise in the discussion, I may break the class into groups briefly to prepare and present key elements for consideration under topic headings such as blended finance tools, technical assistance, portfolio construction and so on. The purpose of keeping this Seminar fluid is for students to get a sense of quite how many issues that must be taken into account when designing an IB fund.

### Seminar 6 – Thursday 8th August, 2024

**AN IB LENDING PRODUCT IN ACTION TARGETING AFRICA’S HEALTHCARE SECTOR** *and*

**CONCLUSION: FUTURE DIRECTIONS IN INCLUSIVE BUSINESS FINANCING: HYBRID APPROACHES AND INCREASING CAPITAL RAISED AND DEPLOYED IN IB STRATEGIES TO MAXIMISE SOCIAL IMPACT**

**Objective:** Using an example IB lending product in the healthcare sector in Africa launched in the mid-2010s, to understand how IB banking products can both generate buoyant new business lines for FIs precisely as they engage with socio-economic segments they may have overlooked or avoided in the past. By way of conclusion to the course, there will also be a brief second lecture providing a practitioner’s perspective on where IB financing is heading and its future prospects. Significant time will be left in the second hour of the Seminar for discussion, clarification of any issues and topics that have been considered over the six seminars, and to consider how all of the concepts learned can best be applied in future employment opportunities that students may pursue.

**Readings and Preparation:** Documents related to the African healthcare fund will be available online in late July before the course begins. It will be essential to read them carefully in order to follow the lecture and participate effectively in the discussion. No prior knowledge of or travel to Africa are assumed or are necessary.

1. Noah Beckwith, *Inclusive Business Financing: Where Commercial Opportunity and Sustainability Converge;* Chapters 5 and 6.

**Final Paper:** The Final Paper (written responses to questions) will be due no later than **05:00pm** on **Thursday, 15th August, 2024**, (New York City time). The questions will be circulated shortly after Seminar 6 on Thursday 8th August, 2023.

## Grading Scale and Rubric

Students will receive grades according to the following scale:

There is no A+

A = 4.0 points

A- = 3.7 points

B+ = 3.3 points

B = 3.0 points

B- = 2.7 points

C+ = 2.3 points

C = 2.0 points

C- = 1.7 points

There are no D+/D/D-

F (fail) = 0.0 points

*Student grades will be assigned according to the following criteria:*

(A) Excellent: Exceptional work for a graduate student. Work at this level is unusually thorough, well reasoned, creative, methodologically sophisticated, and well written. Work is of exceptional, professional quality.

(A-) Very good: Very strong work for a graduate student. Work at this level shows signs of creativity, is thorough and well-reasoned, indicates strong understanding of appropriate methodological or analytical approaches, and meets professional standards.

(B+) Good: Sound work for a graduate student; well-reasoned and thorough, methodologically sound. This is the graduate student grade that indicates the student has fully accomplished the basic objectives of the course.

(B) Adequate: Competent work for a graduate student even though some weaknesses are evident. Demonstrates competency in the key course objectivesbut shows some indication that understanding of some important issues is less than complete. Methodological or analytical approaches used are adequate but student has not been thorough or has shown other weaknesses or limitations.

(B-) Borderline: Weak work for a graduate student; meets the minimal expectations for a graduate student in the course. Understanding of salient issues is somewhat incomplete. Methodological or analytical work performed in the course is minimally adequate. Overall performance, if consistent in graduate courses, would not suffice to sustain graduate status in “good standing.”

(C/-/+) Deficient: Inadequate work for a graduate student; does not meet the minimal expectations for a graduate student in the course. Work is inadequately developed or flawed by numerous errors and misunderstanding of important issues. Methodological or analytical work performed is weak and fails to demonstrate knowledge or technical competence expected of graduate students.

(F) Fail: Work fails to meet even minimal expectations for course credit for a graduate student. Performance has been consistently weak in methodology and understanding, with serious limits in many areas. Weaknesses or limits are pervasive.

1. Note that the term, ‘private equity funds’ is used as a catch-all for IB investment funds in general. There are also many debt-only IB funds. Further, many PE funds either provide debt alongside equity as part of a funding package in a business or, in some cases, do debt-only transactions within a PE fund because the manager has deemed debt the appropriate instrument for the company. [↑](#footnote-ref-1)