

# **CHAPTER III**

## **UNLOCKING THE POWER OF IMPACT INVESTING IN ASIA AND THE PACIFIC\***

### **INTRODUCTION**

Sustainable business practices, corporate social responsibility (CSR), sustainable investment, social investment and impact investment are means by which business activity contributes to creating social value in addition to financial value, and are means through which the private business sector contributes to social impact and development. Social impact and development goals have traditionally been seen as the responsibility of Governments and non-profit non-governmental organizations but the opportunity to engage the private sector in contributing resources to the development agenda warrants attention from Governments, policymakers and multilateral agencies that can help facilitate the growth of sustainable business and investing practices.

Sustainable investment is an investment discipline that aims to create both a financial return as well as social and environmental benefits and is gaining traction and interest from both the commercial investment sector and the development sector. While the fast increasing interest in sustainable investment is positive for the development sector, this has also resulted in much confusion in the sector. Within the field of sustainable investment, different models exist; for example socially responsible investment which refers to investment in publicly traded securities and seek risk-adjusted market rate returns while avoiding certain industries deemed to create negative impact, or impact investment, which refers to private placement structures that actively seek to create impact.

There is much confusion on the topic of sustainable investment and the differences between socially responsible investment and impact investment, complicated further by the use of other terms such as venture philanthropy or social venture capital. This spectrum of jargon terms and the fact that models are constantly evolving make it difficult for both investors and policymakers to distinguish between distinct models that require different approaches. Confusion between models and applying a single approach to distinctly different model can have unintentional negative consequences and can delay the development of the practice of sustainable investment.

Effective policies by Government and support mechanisms by other actors for sustainable investment first require an understanding of the distinct models within this spectrum. The aim of this study is to provide an overview of the models within the spectrum of sustainable investment, to determine which models can make the most significant contribution to development, and to provide recommendations for Governments and other actors on how to increase the type of sustainable investment activity that has the most potential to respond to intervention.

The research methodology for this report consists primarily of secondary research, an informal survey of selected actors in the sustainable investment environment in Asia and the

---

\* This chapter was prepared by Jana Svedova, co-founder of Synergy Social Ventures.

Pacific and draws upon the author's own experience and knowledge of the current state of sustainable investment practices in the Asia-Pacific region and at the global level. The details of the informal survey of investors in the region are not published in this chapter as the sample size was small, but the findings did conform to the findings of larger published global surveys of investors. It is also important to note that the field of impact investment, as a subsector of sustainable investment, is a very dynamic and continuously evolving field. It is also a very new field and many claims and predictions are not yet supported by data. Data are beginning to emerge in the sector and were collected to the extent available.

Examples and case studies are also an important component of this chapter. Due to the relatively newness of the impact investment sector, examples of investors and enterprises provide important insights into the investment practices and into the variations of the model. Care was taken to choose examples of impact investors who have the longest history of experience with investing in the region and who have a degree of transparency, publicly available information, and an excellent reputation among peers. These examples, however, are not intended to be endorsements of any particular entity. In addition to examples of investors and investees, examples of policies and other support mechanisms for the impact investment sector being implemented by Governments and various non-government actors are provided. Although there are no data on the effectiveness of these measures, the examples were chosen based on the perceptions of good sources of impact investment by investors.

The chapter begins with an overview of the spectrum of sustainable investment, from socially responsible investment to impact investment and a discussion on the differences between the various models (section A). Section B continues with a more in-depth discussion of impact investment, a distinct model within the spectrum of sustainable investment, and explains how the types of investors that engage in impact investment and the types of entities they invest in provide new opportunities for creating impact beyond what is possible with the more established model of socially responsible investment. Section C further discusses how impact investment activity contributes to development goals as well as the limitations of impact investment as a tool for development. Section D examines the current state of and the future prospects for the impact investment sector globally, while section E examines the sector in the Asia-Pacific region and identifies the primary barriers to enhanced impact investment activity in the region. Section F focuses on how the various barriers to impact investment in the region can be effectively addressed. The paper concludes with recommendations for policymakers and other actors such as nonprofit organizations, philanthropists and investors to overcome the current barriers and help increase impact investment in the region (section G).

## **A. THE SPECTRUM OF SUSTAINABLE INVESTMENT – FROM SOCIALLY RESPONSIBLE INVESTMENT TO IMPACT INVESTMENT**

The various models existing within the spectrum of sustainable investment differ by the degree to which they intentionally focus on impact creation and by the weight put on intended financial versus social returns. An understanding of these differentiating factors is critical to understand how much each model can contribute to development and social agendas, and what support mechanisms can enable enhanced activity of these types of investment. This knowledge will help policymakers and other actors select the particular model where intervention can be most effective in increasing investment activity and ensuring impact.

## 1. Socially responsible investment

### (a) Overview

The term socially responsible investment (SRI) emerged in the early 1990s when the practice of taking social and ethical considerations in the investment decision became more formalized. In its most basic form, SRI is investment activity that factors environmental, social, and corporate governance (ESG) into investment decision-making. At a minimum, SRI involves negative screening, or not making investments into sectors deemed to have negative social or environmental impacts, such as tobacco, gambling, and defence. Another method of practising SRI goes beyond negative screening and involves active engagement with company leadership through shareholder advocacy. Under this scenario, investment funds not only screen out certain sectors but also use their shareholder power to proactively try to influence management of the companies they invest in to improve ESG.

SRI most commonly refers to investment in a fund that invests in shares of publicly traded companies. Each SRI fund defines its own criteria for the application of negative screening and the extent to which it practises shareholder advocacy. It is each investor's choice as to which fund's screening criteria align with his or her values. SRI funds do not differ from other types of funds investing in public securities in terms of their risk profiles. Investors have a range of funds of different risk profiles and sector focuses to choose from, and SRI products are available for retail and institutional investors.

Industry associations exist to support SRI, while internationally accepted guidelines exist for both investors and companies to help them consider and report on factors related to social responsibility. National level and multinational initiatives and organizations are engaged in promoting and supporting the SRI industry and setting best practices. For instance, the United Nations Global Compact backed Principle for Responsible Investment (PRI) initiative lays out six principles that provide a voluntary framework which enables institutional investors to incorporate ESG issues into their decision-making and ownership practices<sup>25</sup>. Another example is the Global Reporting Initiative (GRI) which provides voluntary standards for uniform reporting on sustainability issues and helps standardize the reporting methodology by companies on ESG issues.

SRI investment practices are widespread. Currently, 1,096 asset owners and investment managers representing some of the world's largest institutional investors such as pension funds are currently signatories to the PRI<sup>26</sup>. Despite its widespread adoption, policies to further encourage and enable SRI have been implemented by some Governments. These policies aim at providing information to investors to enable them to make SRI decisions, legislating against investment in certain sectors deemed to be not socially responsible, and providing investors with economic incentives to engage in SRI. The Government of the Netherlands, for example, has sponsored a guide providing investors with information on SRI and available sustainable investment funds and grants a tax incentive for investment in the green energy sector, while

---

<sup>25</sup> The United Nations Principles for Responsible Investment website. <http://www.unpri.org/signatories/>. Accessed on 8 August 2012

<sup>26</sup> Ibid.

Belgium has enacted a law prohibiting Belgian investors from investing in companies in the weapons sector (Steurer, Margula and Martinuzzi, 2008).

Although SRI activity has been slower to gain traction in the Asia-Pacific region than in Europe and North America, the level of interest and activity in SRI is increasing. A 2012 report published by the Association for Sustainable and Responsible Investment in Asia (ASrIA) stated that in 2011 there were over 130 investment managers in Asia that engaged in SRI with \$74 billion of sustainable investment assets under management.<sup>27</sup> As a share of the total investment assets market, identified sustainable investment assets in Asia (excluding Japan) were 2.9 per cent compared with 21.6 per cent globally.<sup>28</sup> The lack of credible ESG data was identified as the primary barrier to more SRI in the region, but the report published by ASrIA states that stock exchanges in Asia are making progress to take ESG disclosure more seriously. The role of asset owners, especially large ones such as pension funds and sovereign wealth funds, in providing direction to their asset managers is also critical to increased SRI activity.<sup>29</sup>

(b) *Social venture capital*

SRI generally refers to investment in publicly traded securities, but there is also a practice of incorporating sustainability and social responsibility considerations into investment in the private equity sector. Several private equity and venture capital funds have chosen to focus on industries that, by their nature, create positive impact for society and the environment and thereby contribute to sustainable development. An example of a venture capital fund that focuses on investments with a social impact is SJF Ventures. Since its founding in 1999, SJF has invested in companies in the clean tech and sustainability-related sectors. SJF has invested in ventures in the areas of reuse and recycling, resource efficiency and infrastructure, sustainable agriculture and food safety.<sup>30</sup>

There is no difference between “social venture capital” funds and traditional private equity/venture capital funds in terms of the financial returns they seek or in the way they are regulated. For some investors, the fact that a fund has focused on a sector such as clean technology or a fund that is investing in an underdeveloped market is sufficient to ensure them that the investment will create positive impact on society or the environment. Some private equity funds actively market their social focus while others do not, and ultimately the decision of what constitutes impact lies with the investor and is a matter of individual opinion. The primary investment goal remains maximizing financial return.

There is no system of measuring the impact created by funds that identify themselves as “social venture capital”, and Governments have not been active in directly encouraging more of this type of investment activity. However, Governments have been developing and implementing policies to encourage certain industries considered beneficial to society or the environment, such as clean technology. Government initiatives have included measures such as subsidies to the industry or requirements for clean energy use, which in turn have had a positive impact on

---

<sup>27</sup> Association for Sustainable and Responsible Investment in Asia, *Asia Sustainable Investment Review 2012* (Hong Kong, China, 21 December 2012). Accessed from <http://www.asria.org/news/press/1356084134> on 13 January 2013

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> SJF Ventures website, [www.sjfventures.com](http://www.sjfventures.com). Accessed on 3 August 2012.

demand in the industry and thus have made financial investments in these industries more lucrative for investors. Through this type of support to a particular industry, policy has also effectively created incentives for investment from the private sector in that industry.

## **2. Impact investment**

### *(a) Overview*

The concept of impact investment emerged from discussions within the social and business sectors throughout the late 1990s and early 2000s on moving from the bifurcated view that non-profit organizations and Governments were responsible for addressing social and developmental challenges, while the business sector was only expected to focus on profit maximization. This thinking eventually evolved to the realization that the business and private sectors could also contribute to the development and social agendas while the social sector could engage with the market and business sectors while pursuing social and development goals.

The term impact investment was coined at the Rockefeller Foundation and “Harnessing the Power of Impact Investing” has been one of the Foundation’s primary initiatives as of 2007.<sup>31</sup> The Rockefeller Foundation has played a significant role in building the impact investment industry to date, funding research, conferences, playing a founding role in establishing industry organizations and infrastructure, and engaging in many other industry building activities worldwide. Although the popularity of impact investment has significantly increased since the Rockefeller Foundation’s efforts to promote it, the concept of investing for impact is not new. In a 2012 survey of impact investors by J.P. Morgan, 17 respondents stated that they had been engaging in impact investment already before 1995 (J.P. Morgan, 2013).

Since the adoption of the term “impact investment”, its definition has remained quite broad and the term actually refers to a range of models, not one specific model. A 2009 report published by the Monitor Institute and funded by the Rockefeller Foundation defines impact investment as “actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor” (Monitor Institute, 2009). This definition encompasses a range of models from philanthropic funding of impact-focused enterprises to commercial investment in ventures that seek to create a positive social or environmental impact in addition to maximizing financial returns. What impact investing models have in common is their focus on using the private sector, via enterprise and investment, to create social impact and achieve development goals.

Since 2009 the discussion around the topic of impact investment has grown very widespread and has engaged private investors, philanthropists, foundations, and development organizations. The following provides an overview of different types of impact investors and the type of investment activity they engage in. As is evident from these examples, impact investors are varied, as are their reasons for engaging in the model and impact goals. Furthermore, there is also a wide range of impact investment models.

---

<sup>31</sup> Rockefeller Foundation website, <http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing>. Accessed on 3 August 2012.

Impact investment is an extension of SRI practices, moving beyond negative screening and shareholder advocacy to even more intentional creation of impact through investment in private enterprise. The differences between SRI and impact investment are significant and impact investment has developed as an independent industry. SRI and impact investment, however, are not mutually exclusive. An investor can engage in SRI and impact investment simultaneously with different pools of capital. Table III.1 lists the most common sectors of impact investment as identified by a survey of global impact investors.

**Table III. 1. Common sectors of impact investment**

Sector	Number	Percentage	Notional <sup>a</sup>	
			Millions of United States dollars	Percentage
<b>Microfinance</b>	742	34	1,612	37
<b>Food and agriculture</b>	339	15	247	6
<b>Clean energy and technology</b>	291	13	281	6
<b>Cross-sector</b>	286	13	650	15
<b>Other</b>	270	12	436	10
<b>Housing</b>	165	7	906	21
<b>Healthcare</b>	59	3	89	2
<b>Education</b>	44	2	139	3
<b>Water and sanitation</b>	17	1	16	0
<b>Total</b>	2,213	100	4,377	100

Source: J.P. Morgan Global Social Finance, *Perspectives on Progress: The Impact Investor Survey*, 7 January 2013. Accessed from [http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated\\_download\\_1](http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1) on 14 January 2013.

<sup>a</sup> “Notional” refers to the total value of a leveraged position’s assets, as impact investments are often leveraged.

While SRI primarily refers to investment in publicly traded securities, most commonly through SRI funds, impact investment is private placement. Impact investments can be made into a range of legal structures ranging from charities to corporations and can be made through various funding vehicles. Funding structures include but are not limited to:

- (i) *Grant funding* with no requirement for repayment or repayable grants
- (ii) *SME loans with preferential rates*
- (iii) *SME loans at market rates*
- (iv) *Patient capital* – debt or equity investment with a long-term horizon and usually seeking return of capital below market rate of return
- (v) *Equity investment* – private equity investment ranging from angel investments to venture capital investment are common forms of impact investment as social ventures are private companies and the majority of these companies are in the start-up and early stages of venture development.
- (vi) *Social venture* specific investment structures. A common problem with using equity structures for making impact investments is lack of exit opportunities. The most common exit strategies for private equity investments are an initial public offering (IPO)

or an acquisition. Both are unlikely for socially focused companies due to the risk of impact dilution. In response, investment structures such as demand dividend and royalties based repayment have recently been suggested as alternatives.<sup>32</sup>

(b) *Financial-first impact investment versus impact-first impact investment*

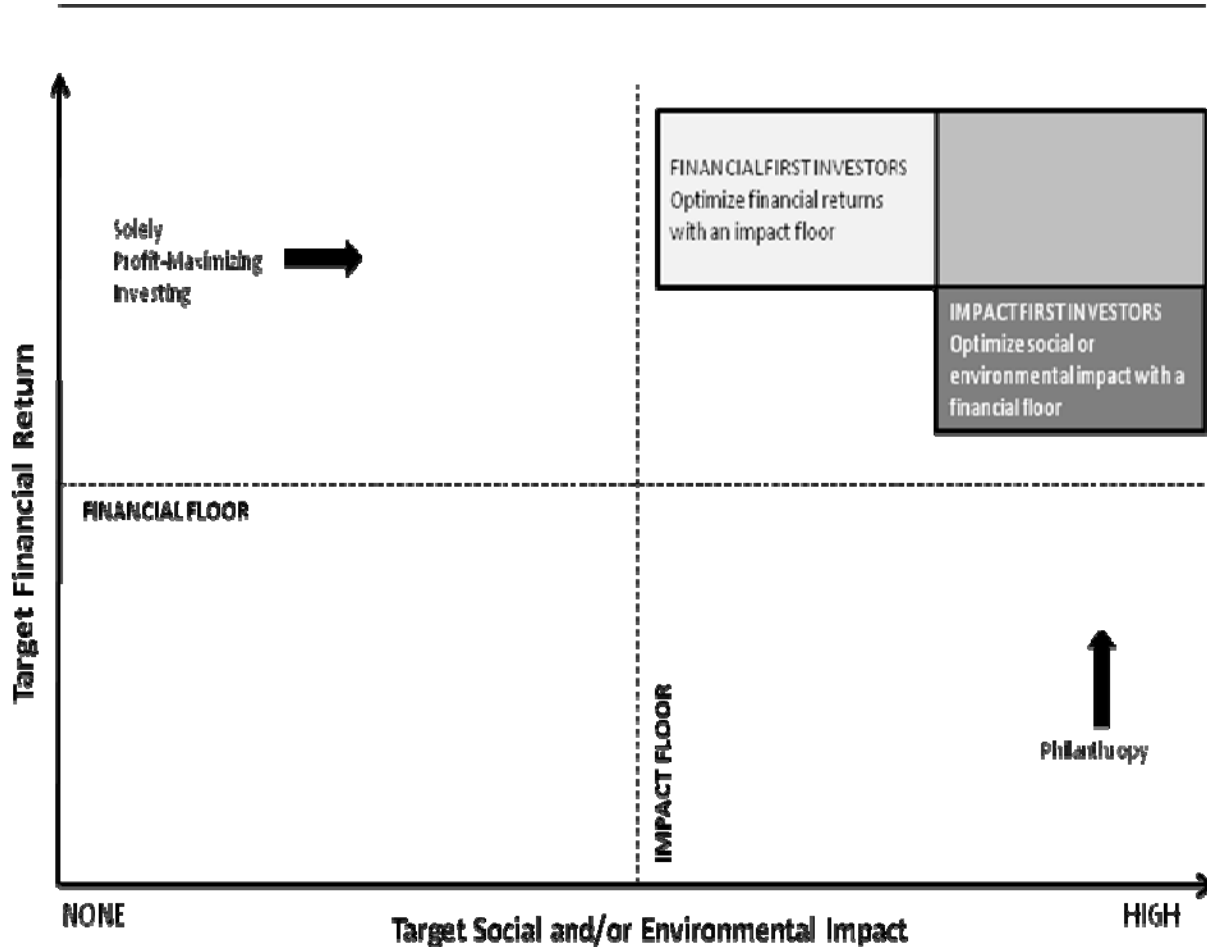
While practitioners agree that the purpose of an impact investment is to create both social/environmental impact and a financial return, there is not yet agreement about the weight given to each goal. A 2010 survey by J.P. Morgan of leading impact investors showed that expectations of financial return vary dramatically, from those that expect to trade off financial return for impact to those who expect impact investments to outperform traditional investments (J.P. Morgan, 2012).

As the current definition of impact investment is wide in scope, the practice has been further subdivided into “financial-first” impact investment and “impact-first” impact investment in a report by the Monitor Institute (Monitor Institute, 2009). Financial-first impact investment refers to investment where an investment will be made only if the opportunity to create impact also has the opportunity to realize a risk-adjusted market rate return. In the practice of impact-first impact investment the primary goal is impact creation, and investments are evaluated on their potential social/environmental impact, and financial returns are sacrificed if the impact potential is high (figure III.1)

---

<sup>32</sup> Santa Clara University Center for Science, Technology, and Society news. *Santa Clara University Team Selected to Design New Capital-Investment Approach for Developing-World Entrepreneurs*, 8 October 2012. <http://www.scu.edu/socialbenefit/news/blog.cfm?c=14525>.

Figure III. 1. Segments of impact investors

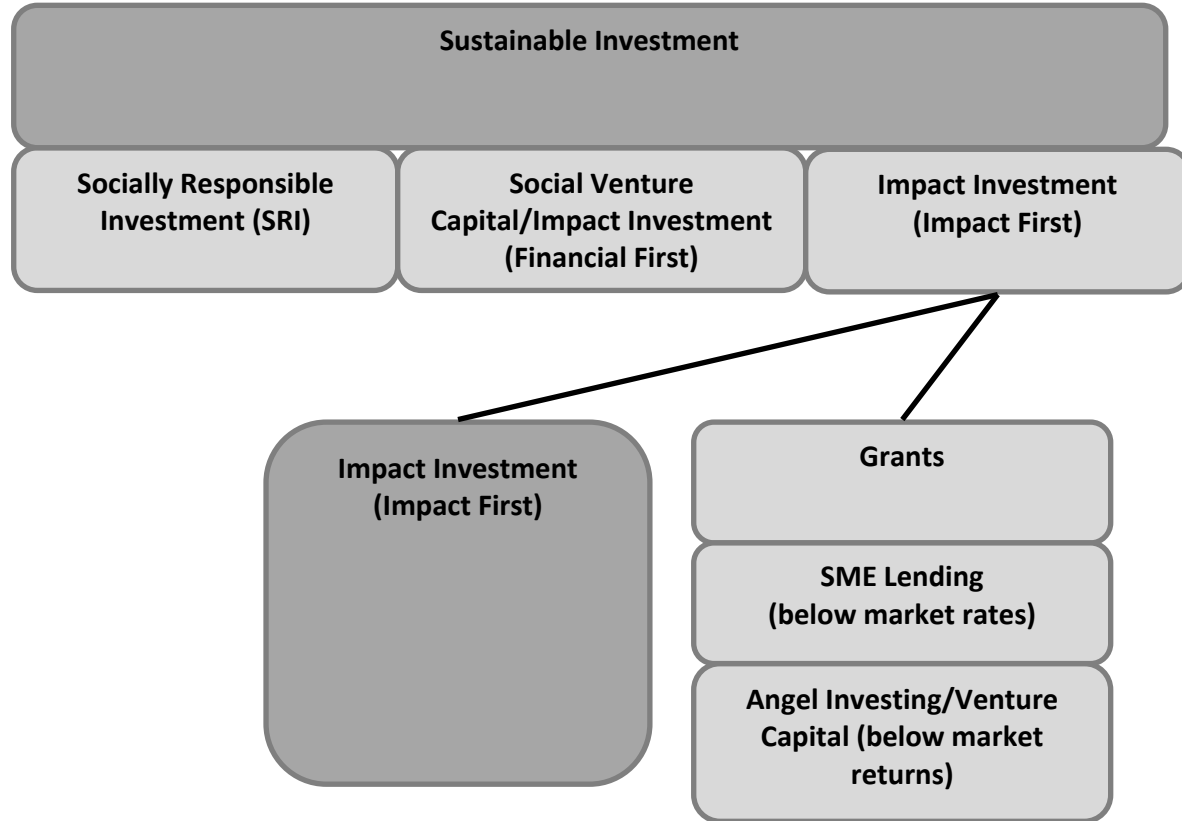


Source: Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*, January 2009. Accessed from <http://www.rockefellerfoundation.org/uploads/files/3d58520b-a89d-42ff-8ed1-9f5efa7c8aa0.pdf>.

Financial-first impact investment is not a new concept, but is traditionally referred to as social venture capital. This investment practice has, however, gained more popularity and an increased number of investors are seeking to engage in impact investment. As the return expectations are the same as in traditional venture capital and private equity, financial-first impact investment does not provide new opportunities to create impact or contribute to development. Impact-first impact investment, however, is a new type of funding that blends development and impact creation goals with private sector mechanisms in new and innovative ways for the purpose of impact maximization. Figure III.2 shows impact investment within the spectrum of sustainable investment.



**Figure III. 2. Summary of the spectrum of sustainable investment**



**B. IMPACT INVESTMENT – IMPACT OPPORTUNITIES BEYOND SOCIALLY RESPONSIBLE INVESTMENT**

**1. The impact potential of private, small and hybrid enterprises**

Private companies are a significant component of the economy and present a significant potential for impact creation. Unlike large publicly traded companies, smaller and privately held companies often have the flexibility to focus more intentionally on impact. A company with a smaller group of shareholders is able to focus on a social or environmental mission more directly. A privately held company can often even legally integrate its social objectives by modifying standard company documents.

Unlike SRI, impact investment focuses on privately held companies and presents new opportunities for privately held companies that intentionally focus on impact creation to access financing and grow their business and increase impact. Companies that seek impact maximization while they distribute profits that are below the market rate are another modality for impact creation through business models. Impact investment also refers to investment in companies that seek to create financial as well as social/environmental value and where profit maximization is not sought if it would come at the expense of impact (“hybrid” companies).

Impact-focused companies commonly take one of the following forms:

(a) *Social enterprises and social ventures*

Social enterprises and social ventures are not legal forms but umbrella terms for organizations using market-based models to create social or environmental impact. As such, social enterprises or social ventures come in many different legal forms, determined by the legal contexts in which they operate. Social ventures can be legally structured as traditional businesses, non-profit organizations, or hybrid forms, for example a non-profit organization that fully owns and controls a business entity.

(b) *Small and medium-sized enterprises*

The majority of what is referred to as “social ventures” or “social enterprises” globally are in essence small and medium-sized enterprises (SMEs). As such social venture development has many parallels to SME development and impact investment has many parallels with SME financing. An important implication is that countries that wish to attract impact investment funds must first have a supportive environment for SME development.

(c) *New legal structures for impact-focused businesses*

Some jurisdictions have legislated new legal structures to create a formal entity for social enterprises. Examples of such legal entities include the Low Profit Limited Liability Company (L3C)<sup>33</sup> and the Benefit Corporation<sup>34</sup> in the United States, and the Community Interest Company (CIC)<sup>35</sup> in the United Kingdom. These legal structures are all different in form, but the common purpose is to help investors determine that impact truly is the goal of the enterprise and that this cannot be changed after an investment is made.

Another alternative taken by social enterprises in jurisdictions without a specific legal entity is the B Corporation certification.<sup>36</sup> B Corporations are defined as organizations that use business to create a public benefit. Social enterprises globally can apply for the B Corporation certification. The primary benefit, as with special social enterprise legal structures, is to provide a form of third party verification of the venture’s intentions of impact creation to investors.

## **2. Impact investor criteria and types**

Who qualifies as impact investor? Impact creation has traditionally been the domain of foundations and philanthropists, while investors focused solely on profit maximization. With the development of impact investment an increasing number of actors can engage in funding impact and development, increasing the overall funding that is channeled toward these goals. It is, however, important to note that only a minority of financial investors can engage in impact

---

<sup>33</sup> For more information on L3C structures see [http://www.sec.state.vt.us/corps/dobiz/lc/lc\\_l3c.htm](http://www.sec.state.vt.us/corps/dobiz/lc/lc_l3c.htm)

<sup>34</sup> For more information on Benefit Corporations see <http://benefitcorp.net/>

<sup>35</sup> For more information on the CIC see <http://www.bis.gov.uk/cicregulator/>

<sup>36</sup> For more information on the B Corporation certification see <http://www.bcorporation.net/>

investment due to its higher risk profile and the fact that impact investment is a form of private placements.

Impact investment is not accessible to two large groups of asset holders: most institutional investors and most retail investors. The regulatory environment does not presently allow many institutional investors, such as pension funds, to engage in most forms of impact investment. An exception in the institutional investor category are sovereign wealth funds, the Government Pension Fund of Norway and the Abu Dhabi Investment Authority, which are two examples of funds that engage in impact investment. For individual investors, securities regulators in most jurisdictions require a certain level of net worth to access private placement investment opportunities, thereby excluding most retail investors. For example, in the United States, a company that intends to issue securities must make a filing first which requires approval from the Securities and Exchange Commission unless the investor qualifies as “accredited”, in which case an individual must have a net worth exceeding \$1 million or an income exceeding \$200,000 in the past two years prior to the securities purchase.<sup>37</sup>

Investors who currently engage in impact investment include high net worth individuals who meet the risk profile or are willing to sacrifice financial returns for social impact and qualify for access to private placement opportunities as accredited investors. Philanthropists and foundations may engage in impact investment and justify the risk level by considering the potential of creating a significant positive social/environmental impact. Impact investment is also of interest to government development agencies and development finance institutions. It is important to note that the various types of investors engaging in impact investment have varied goals for their investment, and as a result follow different models of impact investment.

Impact investment clearly has a higher risk profile than SRI. At its basic level impact investment carries a comparable range of level of risk to investment in private equity and venture capital investment. Often, however, impact investors are willing to assume an even higher risk and invest in new and unproven models, justified by the potential impact that could be created if the model was proven to generate the expected impact.

Acumen Fund, a veteran of over 10 years in the impact investment sector, stresses that innovation is risky, and even more so when innovation takes place across multiple dimensions to pioneer new business models that serve the world’s poorest people. Furthermore, margins are lower and more volatile (Koh, Karamchandi and Katz, 2012). Traditional venture capital investment is characterized by high risk, but this risk is balanced with a potential for high return. Although impact investment carries the same or higher levels of risk, the potential for financial return is not the same.

---

<sup>37</sup> United States Securities and Exchange Commission website, <http://www.sec.gov/answers/accred.htm>. Accessed on 2 February 2013.

## C. THE CONTRIBUTION OF IMPACT INVESTMENT TO SOCIAL AND DEVELOPMENT GOALS

### 1. Impact investment as a tool for achieving inclusive and sustainable development

Impact-first impact investment has the potential to be a powerful tool to help achieve inclusive and sustainable development goals. Enterprises that seek to address market failures and provide goods or services to underserved populations in a financially sustainable way can create solutions to long-standing problems and decrease the dependence on ongoing grant funding. SMEs that help create jobs also make a significant contribution to a country's economic and social development. However, it is important to recognize that the social enterprise model is just one type of development tool that is appropriate to address certain types of development challenges. It is not a panacea for all development issues and cannot replace aid and philanthropy.

Most impact investment is made in businesses that are small and medium-sized. SMEs make up a significant portion of the global economy. As such, their potential to make a positive contribution to development is also significant. Some impact investors believe that investment in any SME in developing countries or emerging markets has a positive impact on economic development and is socially beneficial. An organization actively working to unleash the potential of SMEs to contribute to development is the Aspen Network of Development Entrepreneurs (ANDE).

Launched in 2009 and based in Washington, D.C., ANDE is a global network of organizations working to promote sustainable development by supporting SMEs (referred to as small and growing businesses, or SGBs, by ANDE) that create economic, environmental and social benefit for developing countries. In 2012, the membership of ANDE amounted to 157 organizations that support the growth of SMEs in developing regions worldwide, working in 150 countries globally.<sup>38</sup> This is evidence that the potential of SMEs to contribute to sustainable development is recognized and that support for these enterprises is growing.

Impact investment is also able to fund organizations working toward the goals of impact and development through business models as opposed to charity structures. These business-like models are an important component of sustainable development but cannot be funded by traditional grants due to their business-like legal structures. Impact investment can fund these types of entities, and can therefore support the growth of this important model.

Social ventures that are funded through impact investment operate in many sectors and address many different social and environmental challenges. The most common types of impact-focused business models are listed in table III.2.

---

<sup>38</sup> Aspen Network of Development Entrepreneurs website, <http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs/about-membership>. Accessed on 8 August 2012.

**Table III. 2. Impact-focused business models**

<ul style="list-style-type: none"><li>• <b>Products and services for the bottom of the pyramid</b><ul style="list-style-type: none"><li>- Low-cost products that improve the quality of life of people in the lowest income categories<ul style="list-style-type: none"><li>* Examples: low-cost water filters, solar powered lighting</li></ul></li><li>- Low-cost products that improve productivity and increase incomes<ul style="list-style-type: none"><li>* Examples: low-cost irrigation pumps</li></ul></li></ul></li> <li>• <b>Employment opportunity creation</b><ul style="list-style-type: none"><li>- Developing or reviving industries in areas with high unemployment</li><li>- Employment opportunities for marginalized groups</li></ul></li> <li>• <b>Environmental protection</b><ul style="list-style-type: none"><li>- Examples<ul style="list-style-type: none"><li>* Renewable energy</li><li>* Sustainable agriculture</li><li>* Alternative industry development to prevent resource depletion</li></ul></li></ul></li></ul>
--

The concept of impact investment also attracted interest during the global financial crisis in 2008 as concerns rose about the availability of public and philanthropic funding necessary to address mounting global challenges. Elizabeth Littlefield, CEO of the Overseas Private Investment Corporation (OPIC) claims that private sector funds are essential to address the world's problems. "Every dollar that we catalyze from the private sector to invest in development is one more dollar that does not need to be spent by the public sector or philanthropists." She does, however, caution that investing for this type of impact and public good needs a longer and broader perspective as opposed to investors' common preferences for short-term returns and quick payback.<sup>39</sup>

Impact investment is of course not only applicable in developing regions, but can contribute to achieving social and environmental impact in developed countries as well. Countries in different stages of development face different social and environmental challenges, and consequently social ventures and impact investment mechanisms will look different in a developing country from those in a developed country. Market-based solutions and financing mechanisms, however, are relevant to address challenges faced by all countries, developed or developing.

## **2. The new role of impact investment in development finance**

Development funding agents are increasingly beginning to view impact investment as a financing tool for sustainable development. At the November 2011 Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea,<sup>40</sup> the United States Secretary of State Hillary Clinton said: "We need to continue shifting our approach and our thinking from aid to

<sup>39</sup> Overseas Private Investment Corporation blog. *Putting the Impact in Investing*, 25 April 2012. Accessed from <http://www.opic.gov/blog/impact-investing/putting-the-impact-in-investing> on 4 October 2012.

<sup>40</sup> 4<sup>th</sup> High Level Forum on Aid Effectiveness. Busan, Republic of Korea. 29 November-1 December 2011. Conference website, <http://www.aideffectiveness.org/busanhl4/>.

investment, investment targeted to produce tangible returns.” She added that, “with official development assistance representing a much smaller share of the resources flowing into developing countries, we have to think differently about how we use it.” She mentioned several important agency-level methods to spur greater investment in the developing world. She argued that development assistance can reduce the risks companies face when investing in the developing world, increase access to finance for local SMEs, reduce structural barriers to investment, and provide local Governments with technical assistance to increase their own capacity in these areas.<sup>41</sup>

The following examples demonstrate how various development organizations worldwide have begun to use impact investment as one of the tools to achieving their goals:

(a) *The Overseas Private Investment Corporation (OPIC)*

OPIC is the United States Government’s development finance institution, and has been mobilizing private capital to address development challenges globally for over 40 years. In response to the increasing interest in impact investment, in October 2011 OPIC made a commitment of up to \$285 million for six new investment funds with the aim to catalyze \$875 million in investments in emerging markets.<sup>42</sup> The funding was provided to a selection of equity funds that invest in emerging markets projects that improve lives, create employment, enhance health care, protect forests, and address climate change.<sup>43</sup> Among the funds to receive funding from OPIC is Saron Asset Management. This fund-of-funds intended to invest in 12-18 private equity funds that target market-based returns and invest in SMEs in frontier markets, which are expected to contribute to employment, wealth creation, and access to goods and services to underserved populations.<sup>44</sup>

(b) *The Bill & Melinda Gates Foundation*

The Bill & Melinda Gates Foundation is a United States based philanthropic foundation that focuses on addressing needs in the areas of health, development and education. In addition to its grant activities, the Foundation also engages in impact investment through programme-related investments (PRIs), which are the legal form for impact investment for foundations in the United States. An example of a PRI by the Gates Foundation is an equity investment of \$2 million in Inigral Inc. Inigral is an early-stage social media company that creates closed and safe virtual social networks for post-secondary students, their peers, professors and administrators. The Gates Foundation was interested to invest in this company because of its potential to create virtual campus communities and address challenges ranging from recruitment to retention and

---

<sup>41</sup> United States Department of State website, <http://www.state.gov/secretary/rm/2011/11/177892.htm>. Accessed on 17 August 2012.

<sup>42</sup> Overseas Private Investment Corporation website, <http://www.opic.gov/blog/education/six-questions-about-impact-investing>. Accessed on 18 August 2012.

<sup>43</sup> Overseas Private Investment Corporation press release, In historic commitment to impact investing, OPIC Board Approves \$285 million for six funds catalyzing \$875 million in investments, 27 October 2011. Accessed from: <http://www.opic.gov/press-releases/2011/historic-commitment-impact-investing-opic-board-approves-285-million-six-funds-c>.

<sup>44</sup> Ibid.

support at a fraction of the cost of traditional methods, resulting in increased post-secondary student retention and degree completion.<sup>45</sup>

(c) *Oxfam*

Oxfam is a leading charity in the United Kingdom that addresses poverty and development issues worldwide.<sup>46</sup> Recently, Oxfam identified support of SMEs as an important modality to help achieve development goals and further decided to engage in impact investment as a way to support SMEs in the developing world. For that purpose, it launched the Small Enterprise Impact Investment Fund in collaboration with the City of London and Symbiotics (an international development organization), a fund that aims to deploy up to \$100 million. Contributors to the fund are private and institutional investors, and Oxfam's role is to monitor and measure the impact of the investments. According to Oxfam "there are countless small businesses in developing countries that have the potential to thrive but are completely stifled by the limited access to credit." Impact investment can unlock this potential by providing credit to these SMEs.<sup>47</sup>

An important characteristic of initiatives supported by impact investors is innovation. Innovation is often lacking in traditional NGO approaches to development. This is potentially a result of traditional project-based grant funding, which does not value innovation and risk taking. Impact investors, on the other hand, are more willing to take risk and fund innovation, and understand that funding made available up-front is necessary to innovate, test models and build organizational capacity before a model can be scaled.

### 3. Limitations of impact investment as a tool for development

To achieve inclusive and sustainable development goals, a range of tools applied in appropriate contexts is necessary. While impact investment is an important tool that can unlock new opportunities and make significant contributions to development, it also has many limitations. With the growing challenges facing societies and the environment, no silver bullet solution exists. However, with private enterprise participation it is possible to unleash the power of market mechanisms to break these challenges down into smaller more manageable parts and attack them in a more sustainable manner and more efficiently and effectively than what Government alone could do (Rangan, Appleby and Moon, 2011).

The generally accepted definition of impact investment requires a deliberate intent to create social or environmental impact while providing a return on the principal invested, but allows for a range of expected returns from return of principal only to risk adjusted market rate financial return (Rangan, Appleby and Moon, 2011) This is a wide range and implies that market rate investments are included in the definition of impact investment. However, it can be argued that investments that have the potential to generate market rate returns in addition to social

---

<sup>45</sup> Global Impact Investing Network website, *Impact Investment Profile: The Bill & Melinda Gates Foundation/Inigral Inc.* Accessed from: <http://www.thegiin.org/cgi-bin/iowa/resources/profile/9.html>.

<sup>46</sup> Oxfam website, <http://www.oxfam.org.uk/what-we-do/introduction-to-oxfam>. Accessed on 30 October, 2012.

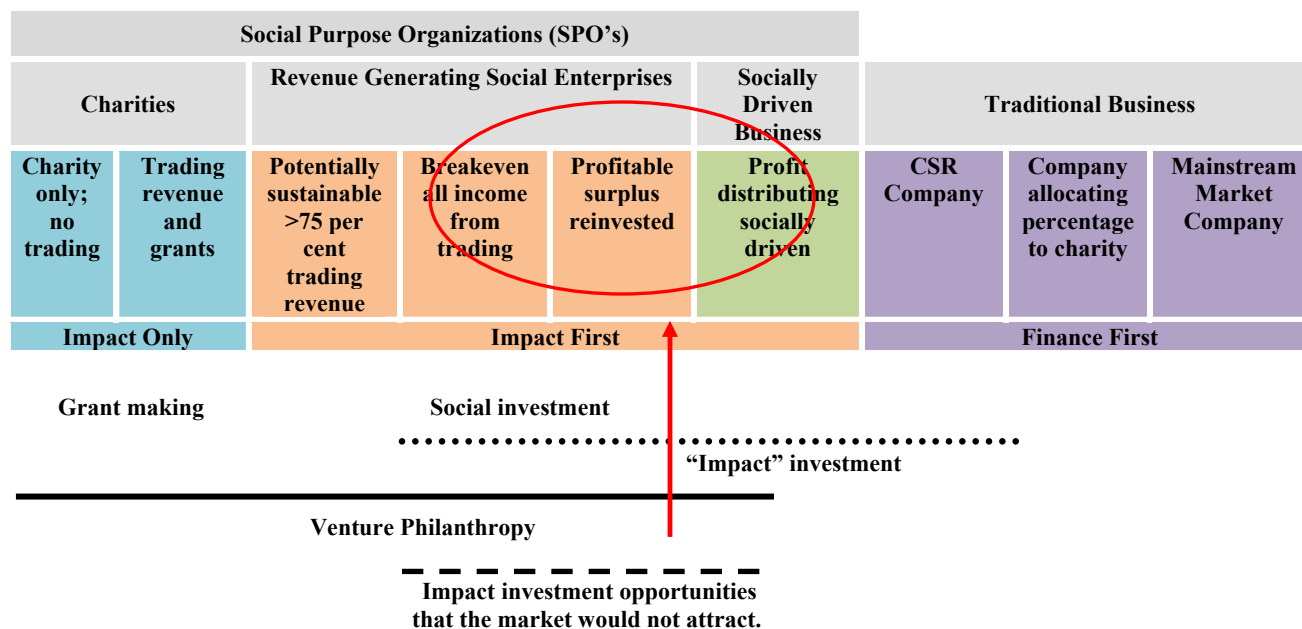
<sup>47</sup> Third Sector United Kingdom, *Oxfam Launches Fund to Make "Impact Investments" in the Developing World*. 10 October 2012. Accessed from: [http://www.thirdsector.co.uk/go/social\\_enterprise/article/1154243/oxfam-launches-fund-impact-investments-developing-world/](http://www.thirdsector.co.uk/go/social_enterprise/article/1154243/oxfam-launches-fund-impact-investments-developing-world/) on 12 October 2012



impact will attract investors regardless of the social impact as the market is seeking the level of returns the investments promise. As such, impact-first impact investments are not necessarily a new opportunity.

As figure III.3 shows, impact investment provides funding for only a small subsector of the spectrum of charity and business models.

**Figure III. 3. The spectrum of social purpose organizations and impact investment**



Source: European Venture Philanthropy Association: An Introduction (October 2011), p. 5. Available from [http://evpa.eu.com/wpcontent/uploads/2010/08/EVPAIntroduction-October\\_2011\\_2.pdf](http://evpa.eu.com/wpcontent/uploads/2010/08/EVPAIntroduction-October_2011_2.pdf). Accessed 20 October 2012 and adapted by the author.

#### 4. Case study: microfinance and the limitations of impact investment

The microfinance sector is one of the biggest sectors for impact investment inflows (J.P. Morgan, 2012) and is often used as an example of how social goals can be achieved while generating market rate returns for investors. At the same time, however, recent insights into the microfinance industry have resulted in claims to the opposite, and microfinance has also become the example used by those who believe it is not possible to achieve impact and market rate financial returns simultaneously.

The pioneer of microfinance is Grameen Bank, founded in Bangladesh in 1976 by Professor Muhammad Yunus. Professor Yunus learned that basket weavers in his community were selling their products to middle men at an extremely low profit margin because they had no way to purchase their raw materials other than from the eventual buyer of their product, who also required that the baskets be sold to him at a pre-agreed price which was very disadvantageous for the weavers. He tested a model of lending these weavers small amounts of funds so they could



purchase their raw materials and then sell their products at a market price.<sup>48</sup> The success of this experiment led to the establishment of the microfinance model, where access to credit is made available to people who are at the bottom of the economic pyramid and are excluded from formal credit systems.

When Professor Yunus developed the microfinance concept he was addressing a specific problem faced by micro business people at the bottom of the economic pyramid who needed to access credit for their businesses. Access to credit for the poor in itself is not a solution to poverty. Rather, it can be the cause of a cycle of indebtedness for an individual resulting in more problems. This is true in any context and the implications of excessive access to consumer credit were demonstrated by the recent consumer credit crisis in the United States. In developing contexts consumers are even more likely to access available credit as they are often faced with truly dire situations. Even when funds are used to meet life's essentials such as food and housing, access to credit does not benefit the poor overall if they are not able to repay it. The resulting over-indebtedness without a means of repayment compounds the borrowers' problems when they have to face aggressive collection practices or resort to loan sharks to borrow funds for repayment.

It took the Grameen Bank 17 years to break-even (Koh, Karamchandi and Katz, 2012) and it is still not a commercial business model, nor does it intend to become one. The organization's business model has, however, developed and proven to be a microfinance model that is now used by many other organizations to provide people at the bottom of the economic pyramid access to appropriate credit that has helped many people significantly improve the economic situation and quality of life of their families. Microfinance is currently a frequently used tool to address poverty that is effective only when applied appropriately. Funders who helped to develop this model have made a significant contribution to poverty alleviation globally.

The success of the Grameen Bank's microfinance model also attracted attention from investors who saw a potential new market opportunity in providing credit services to the world's poor. Viewed at this basic level, the market of poor people who would take loans is very large. However, when taking into consideration the appropriateness of credit for an individual and the required sources of repayment the potential market shrinks considerably, limited for example to micro business owners who can demonstrate that they can use credit effectively to grow their business and generate sufficient income to repay their loans and still have a surplus. Furthermore, small loans have a very high transaction cost as even for very small loans a loan officer must assess the borrower, his or her business, and intended use of funds.

The drive to commercialize microfinance has led to efforts to make this model more profitable. As a result, lending criteria have become very loose, loan sizes have increased to decrease average transaction costs, and collection practices have become more aggressive. The average microfinance loan size in Cambodia is currently \$559, which is not the usual loan size targeting the poorest people.<sup>49</sup> In 2010, the microfinance industry in India came under scrutiny

---

<sup>48</sup> Grameen bank website, [http://www.grameeninfo.org/index.php?option=com\\_content&task=view&id=19&Itemid=114](http://www.grameeninfo.org/index.php?option=com_content&task=view&id=19&Itemid=114). Accessed on 4 November 2012.

<sup>49</sup> Cambodia Microfinance Association website, <http://cma-network.org/drupal/MicrofinanceEnvironment>. Accessed on 28 November 2012.

after reports that as many as 200 microfinance borrowers in the state of Andhra Pradesh had committed suicide after being unable to repay their loans. Microfinance lenders were accused of coercive collection practices that had led these borrowers to take their lives.<sup>50</sup>

The experience of the microfinance sector demonstrates that commercial investment cannot always, and likely not even often, be effective in addressing social issues. Although the contribution of private sector finance to development has a strong potential, caution is warranted about the expectations of financial return that can be generated alongside impact. Impact investment is not the same as commercial investment.

## **D. PROSPECTS FOR IMPACT INVESTMENT**

### **1. Developing impact investment**

In a December 2011 survey, 75 per cent of respondents defined the impact investment sector as “in its infancy and growing”.<sup>51</sup> As a relatively new concept impact investment has generated attention, but it is not clear how much this attention has translated into actual impact investment activity. In 2010, J.P. Morgan estimated that the potential size of the impact investment sector ranged from \$400 billion to \$1 trillion.<sup>52</sup> However, in this report impact investment is defined broadly as any investment that also seeks to generate social or environmental impact, regardless of whether impact or financial returns are primary objectives. It is difficult to determine how much impact investment capital is actually allocated to “impact-first” impact investment.

The SRI industry is a mature industry. Investments that qualify as SRI investments are a subset of traditional investments and fall under the same regulations. Investors are protected in the same way as they are when they invest in any publicly traded security. Industry associations are established and there is plenty information available to investors about SRI investment opportunities. Investment advisors are knowledgeable about SRI opportunities and able to offer their clients investment options. There are few barriers for an investor who desires to invest into publicly traded securities in a way that is socially responsible.

Impact investment, on the other hand, is a very new industry in its early stages of development. Impact investment models are also still developing, and there is no agreement yet on which method of impact investment is the most effective one. There is little track record of financial returns in the industry and a lack of transparency as to the details of past investments as the information of privately held companies is not readily accessible to the public.

---

<sup>50</sup> New York Times. India Ink. “Yunus was Right”, *SKS Microfinance Founder Says*. 27 February 2012. Accessed from <http://india.blogs.nytimes.com/2012/02/27/yunus-was-right-sks-microfinance-founder-says/>, on 28 November 2012.

<sup>51</sup> J.P. Morgan Social Finance Research, *Insights Into the Impact Investment Market*”, 14 December 2011. Accessed from <http://www.thegiin.org/cgi-bin/iowa/resources/research/334.html>.

<sup>52</sup> J.P. Morgan Global Research, *Impact Investments: An Emerging Asset Class*, 29 November 2012. Accessed from [https://www.jpmorgan.com/cm/cs?pagename=JPM/DirectDoc&urlname=impact\\_investments\\_nov2010.pdf&track=no](https://www.jpmorgan.com/cm/cs?pagename=JPM/DirectDoc&urlname=impact_investments_nov2010.pdf&track=no).

As an emerging sector, the impact investment sector has until recently lacked a formal infrastructure of industry associations, standards, and other sector building institutions. One of the most notable supporters and champions of impact investment has been the Rockefeller Foundation with its initiative “Harnessing the power of impact investing”.<sup>53</sup> The Rockefeller Foundation has initiated and led research and dialogue, and contributed to building much needed infrastructure for the sector, which will enable more impact investment activity to take place.

Currently the most active and largest industry organization supporting impact investment is the Global Impact Investing Network (GIIN). The GIIN manages several initiatives to provide infrastructure and market mechanism support to impact investment:

- (a) *ImpactBase* is an online global directory of impact investment vehicles;
- (b) *The Impact Reporting and Investment Standards (IRIS)* is a set of metrics that can be used to measure and describe an organization’s social, environmental and financial performance;
- (c) *The Investor’s Council* is a leadership group that supports knowledge exchange, peer collaboration and field building among active large-scale investors.

The GIIN’s highlights the obstacles faced by the impact investment sector on its website.<sup>54</sup> It observes that this emerging sector remains beset by inefficiencies and distortions that currently limit its impact and threaten its future trajectory. In particular it identifies three main issues that hamper the future development of impact investment: (a) Investors are largely unable to work effectively together given the general confusion on terminology; (b) This limits investors' ability to share knowledge and co-invest, which perpetuates inefficiency and fragmentation in the sector; (c) The absence of basic market infrastructure, such as standards for measurement and benchmarking performance, constrains impact and capital flows; (d) These problems are exacerbated by the weakness of market mechanisms such as rating agencies, market clearinghouses, syndicated facilities, and investment consultants. The combination of these factors – barriers to information flows and collaboration, a lack of infrastructure, and an underdeveloped environment of intermediaries and services providers – threatens the evolution of the impact investment sector and, ultimately, its ability to realize its potential to achieve social and environmental impact.

## 2. The future of impact investment

Interest in impact investment is significant and continues to grow. Between 2008 and 2012, 200 impact investment funds were established.<sup>55</sup> The majority of these funds are in their very early stages, i.e. in the process of fundraising and making their first investments. Although funds have set their financial return targets, it will take another 5 to 10 years before these investments are completed. Only after these initial investments have been completed, data will be available on the potential financial returns of impact investments.

---

<sup>53</sup> Rockefeller Foundation website. <http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing>. Accessed on 1 August 2012.

<sup>54</sup> GIIN Website. <http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html>. Accessed on 15 November 2012.

<sup>55</sup> Aspen Network of Development Entrepreneurs. *Impact Report 2010*. March 2011. Accessed from: <http://www.aspeninstitute.org/publications/ande-2010-impact-report> on 9 September, 2012.

When surveyed in 2011, investors identified the lack of a track record of successful investments” as the primary challenge to the growth of the sector.<sup>56</sup> The true interest in and potential of impact investment cannot be assessed until the first investments are completed and a track record is established. If the majority of investments are successfully completed and financial returns are close to or above the risk-adjusted market rate returns, it is likely that impact investment activity will continue and the volume of impact investment will increase. New investors who currently find impact investment too unproven to engage in, such as pension funds, would likely also enter the sector. The level of investment activity could reach the levels as predicted by J.P. Morgan.

If current impact investment funds fail to achieve financial returns close to the risk-adjusted market rate, the volume of impact investing will significantly decrease. Not all impact investors expect an acceptable level of returns but the majority of funds currently self-identifying as impact investing funds do. These investors would likely not reinvest in funds if their current investments fail to meet their expectations. Due to these unknown factors the future size of the impact investment sector could be much smaller than is currently predicted.

### **3. The role of philanthropy in impact investment**

There are many existing successful examples of using business models and market interaction to create social and environmental impact. It is, however, not clear whether most of these models can also generate market rate financial returns. Many such models require significant philanthropic support at the onset to reach a level where they would be of interest to investors. Acumen Fund, a United States based non-profit impact investment fund with over 10 years of experience, recently published a report with the Monitor Group highlighting the importance of philanthropy in impact investment. This report argues that impact investment is not a replacement of philanthropic funding, but rather a complement that can continue funding organizations that have proven their model with the initial support of philanthropic funding (Koh, Karamchandi and Katz, 2012).

The term venture philanthropy is also frequently used to refer to impact investment models that use philanthropic funding. The terms can refer to both philanthropic funding of social ventures in grant form and funding that requires repayment. As impact investors face a lack of capital, this philanthropic form of impact investment will be increasingly important for funding models until they are proven and have developed a track record, for funding models that cannot achieve market rate returns but nevertheless create significant impact, and for funding new models that address pressing social problems in ways that will not require ongoing grant funding. Table III.3 shows the different forms of philanthropic impact investment with examples.

---

<sup>56</sup> Rockefeller Foundation website, <http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing>. Accessed on 1 August 2012.

**Table III. 3. Forms and examples of philanthropy in impact investment**

Approach	Description	Options for New Funding agents	Examples
<b>1. Grants to firms, including for profits</b>	‘Classic’ enterprise philanthropy direct to inclusive businesses in less-developed countries	<ul style="list-style-type: none"> <li>▪ Build own capability</li> <li>▪ Collaborate/co-fund with established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shell Foundation</li> <li>▪ Lemelson Foundation</li> <li>▪ Africa Enterprise Challenge Fund</li> <li>▪ KL Felicitas Foundation</li> </ul>
<b>2. Grants to nonprofit hosts or intermediaries</b>	Grant making to non-profit incubating or otherwise developing inclusive businesses	<ul style="list-style-type: none"> <li>▪ Seek own opportunities</li> <li>▪ Collaborate/co-fund with established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bill &amp; Melinda Gates Foundation – AKAM, IDEI</li> </ul>
<b>3. Philanthropic funds deployed as equity or debt</b>	Investing debt or equity into businesses in higher-risk situations, aiming for 1x return	<ul style="list-style-type: none"> <li>▪ Build own capability</li> <li>▪ Fund or co-fund with established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Acumen Fund</li> </ul>
<b>4. Early-stage accelerators</b>	Layering grant funding with investment capital to pursue high-risk, early-stage situations, with significant capacity building support for investees	<ul style="list-style-type: none"> <li>▪ Build own capability</li> <li>▪ Fund established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ First Light Accelerator</li> <li>▪ Village Capital</li> <li>▪ ACCION Venture Lab</li> </ul>
<b>5. Technical assistant/capacity building adjunct</b>	Grant funding to enable investee capacity building, alongside return-capital investment operation	<ul style="list-style-type: none"> <li>▪ Build own capability</li> <li>▪ Fund established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Grassroots Business Fund</li> </ul>
<b>6. Market/ecosystem development</b>	Grant funding to develop a range of complementary business models and promote wider conditions(e.g. standards, regulation) needed for sustainable impact at scale – focused on a given sector	<ul style="list-style-type: none"> <li>▪ Build own capability</li> <li>▪ Fund or co-fund with established players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shell Foundation – clean burning cooking stoves</li> <li>▪ Omidyar Network – microfinance</li> <li>▪ Michael &amp; Susan Dell Foundation –clean water</li> <li>▪ Gatsby Foundation – agriculture</li> </ul>

Source: Harvey Koh, Ashish Karamchandi and Robert Katz, *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* (April 2012), p. 45. Accessed from: [www.mim.monitor.com/blueprinttoscale.html](http://www.mim.monitor.com/blueprinttoscale.html)

Most funding required by start-up social ventures will be small scale, and can be most efficiently deployed if it comes from domestic sources of philanthropy. In regions such as Asia-Pacific where the model of funding social entrepreneurship is new to philanthropists, initiatives that introduce potential funding agents to the model can have significant impact in unlocking sources of funds. An example of such an initiative is the Nexus Global Youth Summit (Nexus), which introduces innovative philanthropy and social entrepreneurship to next generation wealth holders.<sup>57</sup>

Nexus is now developing regional and national initiatives to further the discussions from the annual global event. The first Asian Nexus initiative, Nexus Beijing, convened over 30 young Chinese wealth holders and social entrepreneurs in July 2012. As philanthropy as a professional sector is relatively new in China, the conversation revolved around the importance of philanthropy in addressing major social issues in China. Older philanthropists shared their

<sup>57</sup> Nexus Global Youth Summit website, <http://www.nexusyouthsummit.org/nexus-beijing/>. Accessed on 12 August 2012.

perspectives and experiences with the next generation of leaders eager to learn how to be effective and strategic change makers. Participants visited two well-known social ventures initially supported by philanthropic funding and learned about the significant challenges facing both young and established social ventures in China. Some challenges were related to policy and regulatory issues while difficulties involved access to funding and revenue generation.<sup>58</sup>

Another case study of philanthropy in impact investment is provided by Husk Power Systems in India.<sup>59</sup> More than 1 billion people in India, many of them living in remote villages, have no access to electricity. This lack of access to electricity is a key barrier to development that the Government was not able to address effectively despite attempts at policy reforms to increase power generation. In 2002 Gyanesh Pandey and Ratnesh Yadav were exploring ways to bring electricity to India's rural villages through solar or wind power when they discovered the biomass properties of rice husks, which are plentiful in India. Pandey and Yadav realized that rice husks, when combined with diesel, could be gasified without emissions using simple technology, and provide clean energy for local populations. Although Husk Power's goal is development and access to electricity, the model operates as a business. Using a biomass that is plentiful and free and requires simple technology, Husk Power could provide affordable energy to local village households.

The development of Husk Power was financed by many different sources of capital as the venture progressed from start-up to growth stage. In the start-up phase, the entrepreneurs used their own savings and winnings from business plan competitions but later used foundation grants and impact investment capital. After the feasibility of Husk Power's model was proven with the help of grant funding including over \$2.4 million in grants from the Shell Foundation, impact investors were able to provide growth stage funding for the venture. Impact investment received by Husk Power included \$750,000 in debt financing from OPIC and \$390,000 in convertible debt from Acumen Fund.

## **E. UNLOCKING THE POTENTIAL OF IMPACT INVESTMENT IN THE ASIA-PACIFIC REGION**

### **1. Impact investment in the Asia-Pacific region**

As impact investment is an emerging sector and most impact investment data are not publicly available, it is a challenging effort to determine the exact level of impact investment in any region. However, there is evidence that the interest in impact investment has been growing fast in the Asia-Pacific region over the last few years, though the region lags behind most other regions globally in the level of activity. A notable exception is South Asia, namely India, where social entrepreneurship and impact investment have a longer history and are more firmly established.

---

<sup>58</sup> Interview with Abigail Jung, Nexus Asia Coordinator, 12 August 2012.

<sup>59</sup> This case study has used the following references: OPIC website. <http://www.opic.gov/projects/husk-power-systems>, accessed on 10 November 2012. Acumen Fund website. <http://www.acumenfund.org/investment/husk-power-systems.html>, accessed 10 November 2012. The Monitor Group. *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* (April 2012), accessed from: [www.mim.monitor.com/blueprinttoscale.html](http://www.mim.monitor.com/blueprinttoscale.html)



In recent years, the increased interest in impact investment in the Asia-Pacific region is evidenced by the increasing number of discussions among investors and academics on the topic and the emergence of industry organizations focusing on providing assistance to help the sector develop. Most of the discussions on impact investment have taken place in traditional investment hubs such as Hong Kong, China, Japan and Singapore, while impact investors generally appear to be interested in investing in countries throughout the region. These investors include both Asian investors who are looking to engage in impact investment, many for the first time, and foreign impact investors who either are already actively making impact investments in Asia or desire to expand their investment activity to the Asia-Pacific region.

Between 2009 and 2012 the region saw the establishment of several organizations that are working to create an environment conducive to impact investment in the region. Examples include the Impact Investment Exchange Asia, which is an organization that aims to facilitate connections between social entrepreneurs and impact investors, and the Asian Venture Philanthropy Network (AVPN) which targets organizations practicing venture philanthropy (impact investment using philanthropic funds) and provides resources and support to members. The AVPN was developed out of the established European Venture Philanthropy Association and leads regular gatherings and conferences in Asia and the Pacific where Asian venture philanthropists have the opportunity to interact with and learn from the experiences of their European counterparts. As of January 2013, the AVPN had 38 practising and 79 associate members,<sup>60</sup> which is evidence at least of significant interest in impact investment and venture philanthropy in the region.

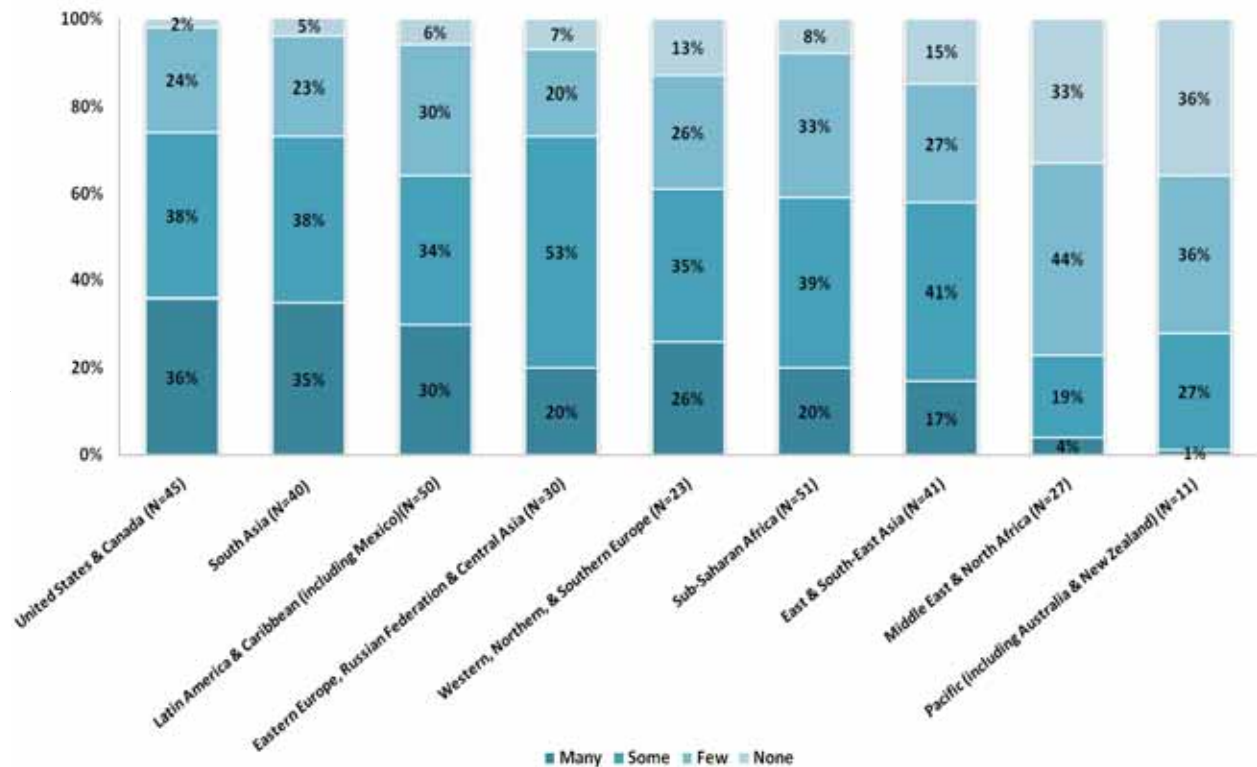
Despite the evidence of growing interest in impact investment, most social entrepreneurs feel that it is difficult to find investors to support their social ventures and it appears that there is a lot of conversation but not as many closed funding deals. A recent report by J.P. Morgan, based on a global survey of impact investors, presents some evidence for the lack of impact investing activity in the Asia-Pacific region. From the total number of impact investors surveyed (members of the GIIN), 56 per cent were headquartered in Canada and the United States and 27 per cent in Europe. Although this survey is not representative of all impact investors, it is a good sample of the most active investors and an implication is that in the Asia-Pacific region most impact investors are foreign. Almost a third of investors surveyed stated they were seeking investments in Asia, but the majority of investors, 78 per cent, are seeking investment opportunities in growth stage companies rather than early stage ventures (J.P. Morgan, 2013).

The report also concludes that compared with other regions of the world the actual implementation of impact investments in Asia (with the exception of South Asia) is one of the least robust, as evidenced by the number of investment opportunities which pass the initial screening by the investor. East and South-East Asia ranked above only the Middle East and North Africa and Oceania (figure III.4).

---

<sup>60</sup> The Asian Venture Philanthropy Network membership directory, available from <http://www.avpn.asia/directory/avpn-members>.

**Figure III. 4. Number of investment opportunities considered in 2012 that passed initial impact and financial screening based on a survey of impact investors**



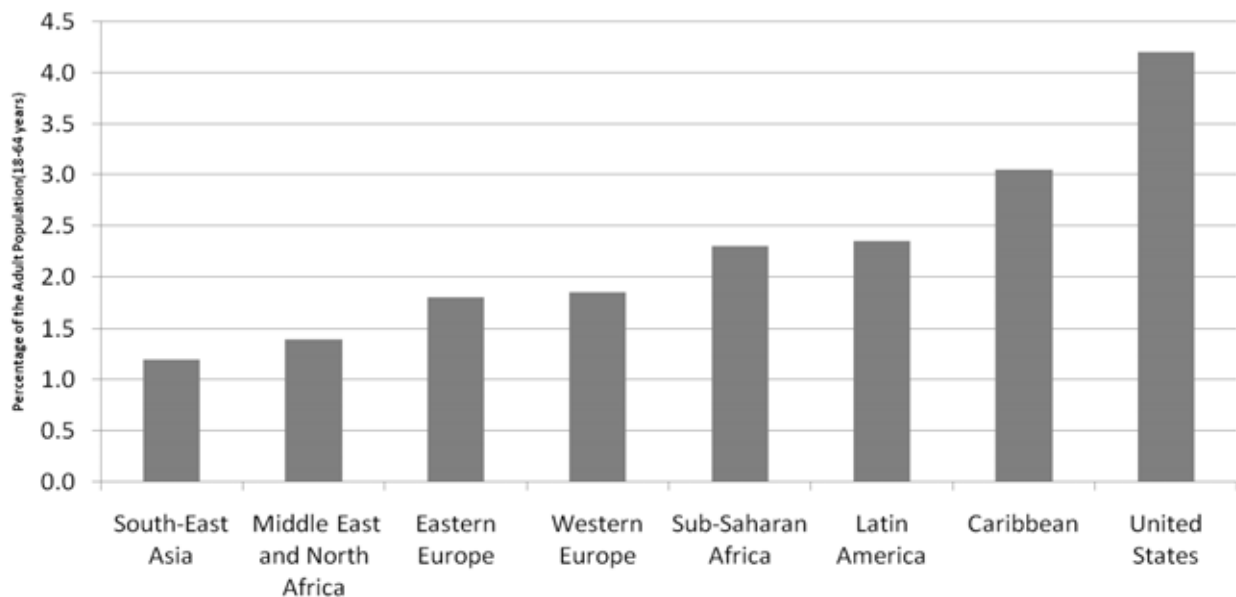
Source: J.P. Morgan Global Social Finance, *Perspectives on Progress: The Impact Investor Survey* (7 January 2013). Accessed from [http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated\\_download\\_1](http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1), on 14 January 2013.

## 2. Increasing social entrepreneurship in the Asia-Pacific region

Impact investors identify the lack of investment opportunities as one of the primary barriers to impact investment. When comparing the level of impact investment activity in the Asia-Pacific region with the level of social entrepreneurship activity in the early stage, both are low in the region relative to the rest of the world. This clearly shows that efforts to increase impact investment must first be focused on increasing social enterprise activity in general and providing more support for early stage social ventures that will enable them to become attractive investment targets for foreign impact investors. Figure III.5 shows the level of social entrepreneurship activity in the region.



**Figure III. 5. Level of social entrepreneurship activity in the Asia-Pacific region**



Source: Global Entrepreneurship Monitor, *2009 Report on Social Entrepreneurship* (2009). Accessed from: <http://www.gemconsortium.org/docs/download/2519>.

Social enterprise and impact investment activity have a longer history and are at a more advanced stage in countries such as Canada, the United Kingdom and the United States. These countries intend to further increase the amount of impact investment activity through measures specifically related to the social venture sector, such as the implementation of special legal structures, investment incentives, and development of social stock exchanges. For most countries in the Asia-Pacific region, however, such measures will have no effect until the basic environment conducive for SME development and attraction of foreign private equity investment in general has been improved. The development of such an environment for enterprise development should therefore be a priority for policymakers as impact investors need more quality investment opportunities than incentives or special mechanisms to encourage investment.

### **3. Examples of impact investment in the Asia-Pacific region**

Despite the fact that Asia and the Pacific lags behind most other regions in impact investment and social enterprise activity, some impact investors are actively seeking and making investments in the region. The following are examples of investments made by veteran impact investment organizations in the Asia-Pacific region: Insitor Fund and Finance First, Cambodia; Acumen Fund; Hippocampus Learning Centers, India; LGT Venture Philanthropy; and Dripteck, China.

#### *(a) Insitor Fund and First Finance in Cambodia<sup>61</sup>*

<sup>61</sup> This example has drawn on the following references: Asian Venture Philanthropy Network Directory. <http://www.avpn.asia/directory/organisation/35/> Accessed on 2 November 2012; and

Insitor Fund is a self described “social venture capital fund” that focuses on investing in developing Asia, primarily Cambodia, India, the Lao People’s Democratic Republic, and Viet Nam. Insitor fund is structured as a for-profit private fund and seeks to invest in young innovative for profit companies with a strong social mission and solid business model which are working in the housing, water, education, or health sectors. Insitor aims to maximize social impact with its investments, while providing patient and responsible financial returns.

The fund invests in companies as early as their pilot and start-up stages, and the typical investment size is over \$500,000. In addition to financing, Insitor Fund provides investee companies with non-financial support such as strategy consulting and mentorship.

The mission of First Finance is to build economic stability of low-income Cambodian families by increasing access to home ownership. The company provides long-term home loans and medium-term home improvement loans to underserved low-middle income Cambodians who do not have access to formal commercial lending.

(b) *Acumen Fund*<sup>62</sup>

The United States-based Acumen Fund is a non-profit impact investment fund that has been investing for impact since 2001 and is one of the pioneers in the field. Acumen Fund supports entrepreneurs who are pioneering sustainable solutions to poverty by developing models to offer critical services (water, health, housing, and energy – at affordable prices to people earning less than \$4 a day).

Acumen Fund uses philanthropic capital from donors to make loans and equity investments and seeks to achieve social and financial returns. Any financial returns remain in the fund and are reinvested. Core to the organization’s investment model is the concept of patient capital, defined as capital that has the characteristics of: long time horizons, risk-tolerance, and a goal of maximizing social rather than financial returns.

The fund’s geographic focus is on East Africa, India, Pakistan and West Africa, and investments typically range from \$300,000 to \$2,500,000.

(c) *Hippocampus Learning Centres, India*<sup>63</sup>

Hippocampus Learning Centres was established to address the failures of the local education system in rural Karnataka, India by providing extremely low cost pre-school and after-school coaching programmes for children aged 3-12. While the low quality local primary education system fails to prepare students for further academic achievement or success in the job

---

First Finance website, <http://www.firstfinance.biz/>. Accessed on 2 November 2012.

<sup>62</sup> Acumen Fund website,  
<http://www.acumenfund.org/about-us/what-is-patient-capital.html>  
<http://www.acumenfund.org/investments/investment-discipline.html>

<sup>63</sup> Acumen Fund website,  
<http://www.acumenfund.org/investment/hippocampus-learning-centres-.html>

market, Hippocampus Learning Centres is pioneering a new model to fill this gap with a low-cost system to deliver quality learning outcomes at a cost of monthly \$2-5 to parents.

(d) *LGT Venture Philanthropy*<sup>64</sup>

LGT Venture Philanthropy Foundation (LGTVP) was founded in 2007 by the initiative of the Princely Family of Liechtenstein. Any profits generated by impact investments made by LGTVP stay within the foundation and are reinvested into new social ventures. The aim of LGTVP's impact investments is to support organizations with outstanding social or environmental impact with tailored financing, strategic advice, and access to relevant networks. LGTVP has investments and staff in five continents and supports organizations in various sectors whose models are aimed at improving the life of less advantaged people.

LGTVP provides funding in the form of donations and investments and their typical funding range is from \$200,000 to \$1 million. The time horizon for investments ranges from three to seven years.

(e) *Driptech*<sup>65</sup>

Driptech is a water technologies company based in Silicon Valley and with offices and operations in China and India. The company produces affordable, high quality irrigation systems designed for small plot farmers. Most small plot farmers cannot grow crops year round due to insufficient rainfall and are unable to utilize existing irrigation systems as they are too expensive, too complicated to use or of too poor quality.

## F. OVERCOMING BARRIERS TO IMPACT INVESTMENT IN THE ASIA-PACIFIC REGION

### 1. Entrepreneurial ecosystem as a requirement for impact investment

Despite the fast growing global interest in impact investment, barriers on both the capital supply and demand sides are preventing more impact investment activity in the Asia-Pacific region. Global barriers are also present in the region, in addition to the presence of region-specific factors inhibiting a higher level of impact investment activity.

The primary barrier frequently identified by prospective impact investors is the lack of investment ventures, or a lack of “deal flow”. The lack of deal flow is a result of several factors. As is the case in other parts of the world, there appears to be no shortage of impact investors and capital seeking investment opportunities in the Asia-Pacific region. However, very few impact investments have been made so far because investors find that deal flow is of low quality and few enterprises are “investment ready”. This does not indicate that there is a lack of entrepreneurial talent in the region or lack of opportunity for social ventures to develop. Rather,

---

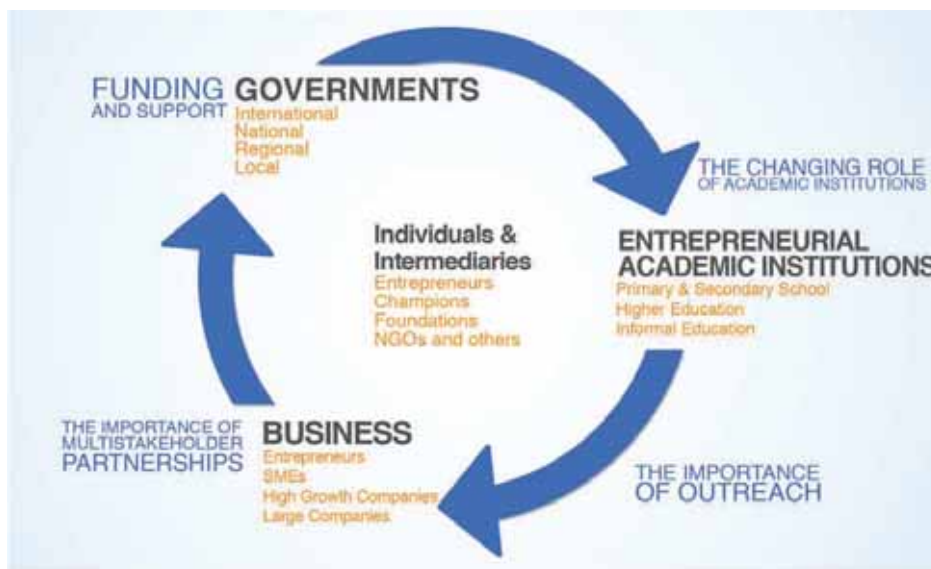
<sup>64</sup> LGTVP website, [www.lgtvp.com](http://www.lgtvp.com).

<sup>65</sup> Driptech website, [www.driptech.com](http://www.driptech.com).

it is an indication of the need for more support for the development of entrepreneurial talent and start-up ventures, generally.

A country that seeks to benefit from social enterprise and impact investment activity must first be supportive of SMEs and have in place an environment or ecosystem which is conducive to the establishment and development of both traditional and social enterprises. Policymakers, at the international, national, and regional levels, all have important roles to play in the entrepreneurial ecosystem, as do other actors such as academic institutions, the business sector, philanthropists and the non-profit sector. To be most effective these parties need to work in a coordinated way to provide the required range of support to such a system (figure III.6).

**Figure III. 6. Entrepreneurial ecosystem**



Source: World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from: [http://www3.weforum.org/docs/WEF\\_GEI\\_EducatingNextEntrepreneurs\\_ExecutiveSummary\\_2009.pdf](http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf) on 15 October 2012.

Culture and social norms also play an important role in determining the level of entrepreneurship and the level of development and attraction of both traditional and impact investment ventures in any country. While in some countries entrepreneurship is celebrated and encouraged, in others it is viewed as a last resort for employment. The level of risk aversion in a culture also contributes to acceptance or non-acceptance of entrepreneurship. This is a much more difficult factor to address, and a generational shift in mentality may be needed to realize the required culture change in favour of entrepreneurship.

## 2. The role of education in social enterprise development

A 2012 survey of impact investors in emerging markets found that an experienced management team is highly valued by impact investors (Darragh and Aman, 2012). This implies that countries with a strong entrepreneurial culture and experienced entrepreneurs who launch

social ventures are likely to see more inflow of impact investment capital than countries with a lack of experienced entrepreneurs. Entrepreneurship itself cannot be taught directly – it takes a certain personality and appetite for risk in an individual. The education system, however, can help to nurture and develop entrepreneurial skills in those who naturally have them, and expose students to the idea of social enterprise.

In 2009 the World Economic Forum’s Global Education Initiative published a report that consolidates existing knowledge and practices in global entrepreneurship education. The WEF believes that education systems must transform and adopt methods and tools to develop learning environments that encourage creativity, innovation, and the ability to “think out of the box” to solve problems. The following approaches were found as most effective in entrepreneurship education: developing leadership and life skills, embedding entrepreneurship in education, taking a cross-disciplinary approach, utilizing interactive pedagogy, and leveraging technology.<sup>66</sup>

Around the world examples of teaching social entrepreneurship can be found at all levels of the education system. In Scotland, teachers in primary and secondary schools are exposing young students to entrepreneurship through experiential learning where a class starts and operates a small social business, for instance a business making and selling scarves from recycled materials.<sup>67</sup> In the United States, the PBS Foundation has developed a social entrepreneurship curriculum targeting secondary school students that teachers can download and incorporate into the standard curriculum.<sup>68</sup>

Social entrepreneurship education is most active at the university level, based primarily within business faculties. In addition to a wide variety of courses focusing on social entrepreneurship, there are university centres focusing on it as well, for example the Centre for the Advancement of Social Entrepreneurship<sup>69</sup> at Duke University in the United States and the Skoll Center for Social Entrepreneurship at the Said Business School at Oxford University in the United Kingdom.<sup>70</sup> Universities are currently providing support to students who launch social ventures, going beyond the curriculum. For instance, the Levy Social Entrepreneurship Lab at the Kellogg School of Management at Northwestern University supports students launching social ventures with funding of up to \$80,000.<sup>71</sup>

In Asia and the Pacific, a notable example of a university initiative focusing on social enterprise and impact investment is Thammasat Business School of the Thammasat University in

---

<sup>66</sup> World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from: [http://www3.weforum.org/docs/WEF\\_GEI\\_EducatingNextEntrepreneurs\\_ExecutiveSummary\\_2009.pdf](http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf) on 15 October 2012.

<sup>67</sup> Social Enterprise Academy website, [http://www.theacademy-ssea.org/latest/news/551\\_award\\_winning\\_pupils\\_prove\\_budding\\_scots\\_social\\_entrepreneurs\\_mean\\_business](http://www.theacademy-ssea.org/latest/news/551_award_winning_pupils_prove_budding_scots_social_entrepreneurs_mean_business). Accessed on 15 October 2012.

<sup>68</sup> PBS.org Enterprising Ideas, <http://www.pbs.org/now/enterprisingideas/educators.html>. Accessed on 15 October 2012.

<sup>69</sup> Duke University Center for the Advancement of Social Entrepreneurship, <http://www.caseatduke.org/>. Accessed on 3 November 2012.

<sup>70</sup> Skoll Centre for Social Entrepreneurship, <http://www.sbs.ox.ac.uk/centres/skoll/Pages/default.aspx>. Accessed on 3 November 2012.

<sup>71</sup> Kellogg’s Social Entrepreneurs, <http://www.kellogg.northwestern.edu/Departments/seek/extra-cur/levy/social-entrepreneurs.aspx>. Accessed on 3 November 2012.

Bangkok, Thailand. The School's Center for Sustainable Enterprise not only works to incorporate social entrepreneurship into the business curriculum, but is also a partner of the Global Social Venture Competition (GSVC). The GSVC, based out of the Haas School of Business at the University of California at Berkeley, is one of the world's longest running business plan competitions with focus on social ventures. The finalists for the annual competition are chosen through regional rounds, and the Center for Sustainable Enterprise at Thammasat Business School is the organizer of the GSVC South-East Asia competition.<sup>72</sup> Each year, GSVC South-East Asia brings social entrepreneurs from around the subregion to Bangkok to compete for two spots at the GSVC final in Berkeley. In addition to the business plan competition, applicants are provided with mentorship leading up to the competition, and impact investors from outside the subregion are brought to Bangkok to participate in the competition and meet promising social entrepreneurs in the region.

Creating an education system supportive of entrepreneurship development may require significant change, especially to some Asian education systems that historically have not focused on aspects such as critical thinking and experiential learning, favouring instead methods such as memorization and drilling. Producing entrepreneurs will require a rethinking of formal and informal education systems, and changes in the way in which teachers and educators are trained, examination systems function and the way in which rewards, recognition and incentives are given.<sup>73</sup> However, if entrepreneurial talent is not nurtured, there will always be a shortage of enterprise activity and investment opportunities for both traditional and impact investors and significant opportunities for development through enterprise activity will be missed.

### **3. Domestic funding support for social enterprises**

#### *(a) The need to develop domestic funding*

The concept of impact investment first developed in North America and Europe, and these regions currently also account for most of the sources of impact investment capital. The implication for the Asia-Pacific region is that most impact investment capital is from foreign rather than domestic sources. A recent survey of impact investors found that the majority of impact investors would prefer to fund enterprises in the growth stage and that the top government policy that would help them to make impact investments would be “technical assistance for investees” (J.P. Morgan, 2012). This supports the conclusion that countries in the region that wish to attract more impact investment need to provide more technical assistance and funding to social ventures, in particular those in the start-up stage. Governments can engage by providing support and funding to experienced intermediaries that are in the best position to provide their own support to social enterprises and to monitor funding.

Early stage funding requires sufficient time for a proper conduct of in-country due diligence and sufficient time spent for the investment team to meet with the management of social enterprises and ventures, and more detailed knowledge of the local context. For a foreign

---

<sup>72</sup> Thammasat Business School website, <http://www.bba.bus.tu.ac.th/studentnewview1.php?newid=2762>. Accessed on 3 December 2012.

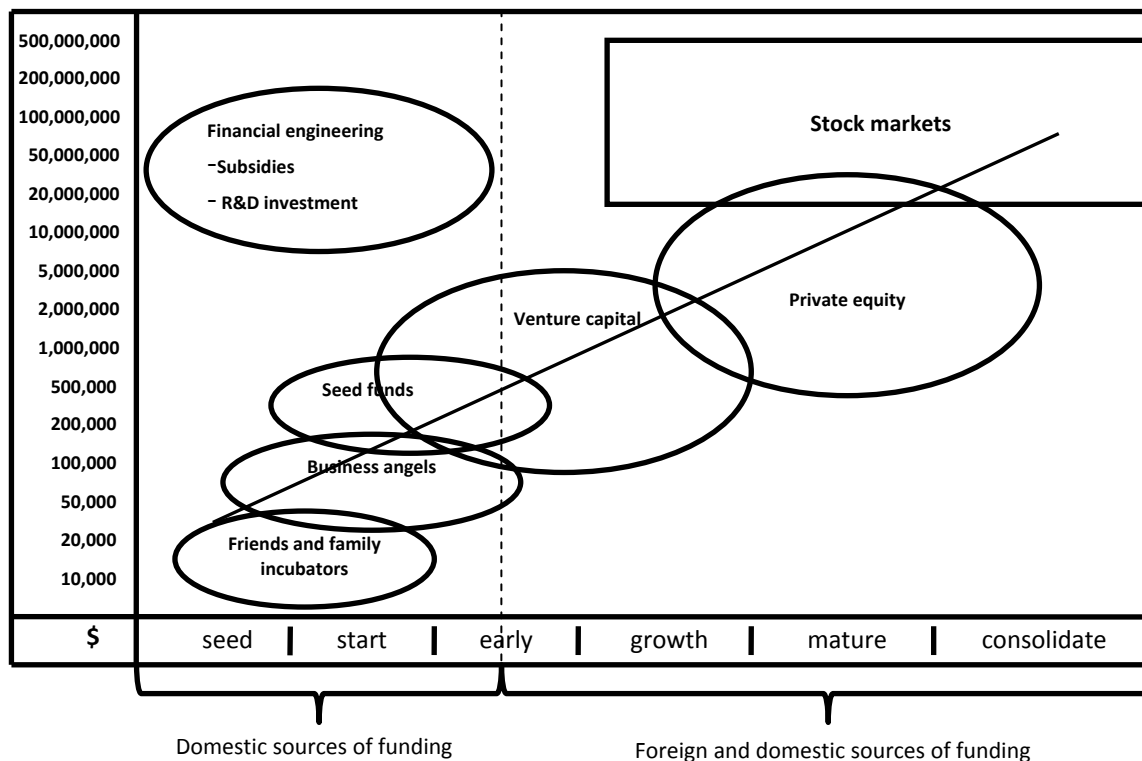
<sup>73</sup> World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from [www3.weforum.org/docs/WEF\\_GEI\\_EducatingNextEntrepreneurs\\_ExecutiveSummary\\_2009.pdf](http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf) on 3 December 2012.



investor these requirements usually carry significant sourcing costs in terms of time and money, and it is not always feasible to meet these requirements. Foreign impact investors are best positioned to fund a social venture once it has passed the seed and early start-up stages and has entered the growth stage while domestic capital sources need to be found to fund ventures in the start-up stage.

Figure III.7 shows the types of capital involved in the various stages of venture development and growth.

**Figure III. 7. Sources of venture funding**



*Source:* Diagram adapted from Nils De Witte, Short guide on creating sustainable informal capital markets in emerging economies (2010). Available from <https://sites.google.com/site/nilsdewitte/short-guide-on-creating-sustainable-informal-capital-markets>.

Typically, countries with a strong track record of traditional and social venture development also have a developed a diverse range of funding options available to start-up enterprises. In the United States for example, early stage social enterprises have a wide range of seed and start-up funding options from government to university to foundation funds. As they develop and their capital requirements grow, they can access funding from angel investor networks before graduating to commercial bank or venture capital funding.

However, a country cannot rely only on foreign resources for the early-stage development of domestic social venture activity. Domestic investment in social ventures in Asia-Pacific countries, both in terms of seed and early stage funding, can have a large pay-off as the supply of global impact investment capital is currently larger than demand and investors are

eager to find investment opportunities to deploy capital. Domestic support from various sources ranging from the Government to private angel investors and philanthropists is essential to every entrepreneurial ecosystem. Domestic funding agents, however, face a learning curve with respect to the impact investment model, which significantly deviates from traditional methods of funding development. In the region, the Asian Venture Philanthropy Network provides learning and networking opportunities for organizations interested in the venture philanthropy and impact investment model.<sup>74</sup>

*(b) A case study of domestic impact investment support: the Thai Social Enterprise Office<sup>75</sup>*

In Thailand, the Thai Social Enterprise Office (TSEO) was established to provide support for social enterprises. TSEO was created in 2010 under the Thai Health Promotion Foundation Act as the executive authority to deliver the Social Enterprise Master Plan (2010-2014). As an entity directly under the Cabinet, TSEO is managed by the Thai Social Enterprise Board which is chaired by the Prime Minister. It is funded by the Thai Health Promotion Foundation and has received operational support of 105 million Baht (\$3.4 million) over three years as well as direct funding for Thai social ventures of 40 million Baht (\$1.3 million) over two years.

The Government's Social Enterprise Master Plan has set three non-negotiable criteria for social enterprises to receive support. Social enterprises must: (i) have clear objectives related to community development and addressing social or environmental problems; (ii) have a primary revenue model based on a good or service that is in line with its social mission; (iii) not have profit-maximization as an objective.

TSEO carries out its mission to support the Thai social enterprise sector through various modalities including awareness creation, capacity-building, facilitating access to financing and resources, and policy formulation. Key to TSEO's model is close collaboration with Thai organizations that support social enterprises.

Three different financial support programmes serve social enterprises in various stages of development:

*(i) The Open Grants Programme* conducts awareness raising and capacity-building activities through business plan competitions and workshops. Twenty-five seed stage enterprises working in the areas of health, food, learning, energy and environment receive grant funding of 100,000 Baht (\$3,300).

*(ii) Development Grants* provide funding of up to 1 million Baht (\$33,000) for start-up social enterprises and intermediaries or 3 million Baht (\$98,000) for so-called "mover" enterprises.<sup>76</sup>

---

<sup>74</sup> Asian Venture Philanthropy Network website, <http://www.avpn.asia/about-us/avpn-background/>. Accessed on 1 December 2012.

<sup>75</sup> The material for this case study is derived from an interview with Prapapan Banlusilp, Senior Associate, Thai Social Enterprise Office, August 2012.

<sup>76</sup> "Mover" enterprises are enterprises that have developed past the start-up stage.



(iii) *The Investment Fund* makes interest free debt or equity investments in social enterprises of up to 3 million Baht (\$98,000) and in social enterprise clusters of up to 5 million Baht (\$163,000).

In terms of policy, TSEO is working on passing the Social Enterprise Act, which would establish TSEO as a government entity. It is also lobbying for the Government and private sector to purchase goods and services from social enterprises and incentivize this with tax benefits. The Ministry of Finance and Thailand Board of Investment have also agreed to reduce taxes for “accredited” social enterprises.

There are some lessons which can be drawn from TSEO’s experience.

(i) There are few “investment ready” social enterprises in Thailand.

(ii) In Thailand, social enterprises have access to a wide range of financing options including grants from competitions, awards, foundations, incubators and government and loans from SME funding schemes operated by commercial banks and government programmes.

(iii) Capacity-building support is the biggest need of social enterprises. Despite the interest from the Government and private impact investors to invest in social enterprises, not many are “investment ready”. TSEO has recognized this and is trying to build up the support infrastructure for early stage social ventures by funding intermediary organizations that can provide capacity-building, incubation or help with the “clustering” of social enterprises.

(iv) While new legal structures and tax incentives are being considered they may not be needed because social enterprises have expressed willingness to pay their share of taxes. Instead, the type of support they would prefer to receive from the Government involves capacity-building, marketing, sales and access to relevant networks.

#### **4. Domestic capacity-building support for social enterprises**

The Thai case study of domestic funding demonstrates the importance of capacity-building for a start-up venture. In particular, the types of non-financial support that early stage entrepreneurs need include mentorship, knowledge resources, and access to networks. Providing a tailored set of support to early stage enterprises is often referred to as venture incubation or acceleration. The importance of incubator and accelerator programmes to the impact investment ecosystem was core topic at the 2012 Social Capital Markets conference in San Francisco, the world’s biggest annual event focusing on the theme of capital markets for social good.<sup>77</sup> Explaining the reason for this focus, Mark Beam of Halloran Philanthropies stated that “accelerators are a core piece of the ecosystem in impact investing that wasn’t getting enough attention.”<sup>78</sup>

---

<sup>77</sup> SOCAP12 website, <http://socap12.socialcapitalmarkets.net/details/themes/>. Accessed on 29 November 2012 .

<sup>78</sup> Mark Campanale, How can accelerators help? Reflections from SoCap2012, *Alliance Magazine* (1 December 2012). Accessed from: <http://www.alliancemagazine.org/node/4172> on 9 December 2012.

The following examples describe social venture incubation and acceleration programs in the Asia-Pacific region that are providing this critical type of venture development support:

(a) *Dasra, India*<sup>79</sup>

Dasra is a philanthropic organization in India that works with social entrepreneurs and philanthropic funders to build the capacity of both funders and entrepreneurs thereby increasing the amount of social enterprise and philanthropic impact investment activity. For social entrepreneurs, Dasra provides capacity-building through education and mentorship programmes as well as funding support.

For philanthropists, Dasra provides education and resources to help funders determine which enterprises to support and how to create the most impact with their money. The organization also provides philanthropists the opportunity to join Giving Circles, a programme which allows them to access funding opportunities and connections to other funders. A key component of Dasra's successful model is that the programmes are personal and interactive, rather than online platforms.

(b) *UnLtd Thailand*<sup>80</sup>

Instead of developing a new model to support social ventures, ChangeFusion Institute in Thailand adapted a successful model for supporting social enterprises from the United Kingdom, namely UnLtd UK, which promotes and supports early stage social enterprises in the United Kingdom through education and funding.

By bringing an existing programme to Thailand, UnLtd Thailand benefited from the resources, knowledge and networks of the more established and experienced United Kingdom organization. UnLtd Thailand provides seed funding, capacity-building and network linkages to young social ventures in Thailand. UnLtd Thailand is supported by the Thai Social Enterprise Office and works in close collaboration with other players in the Thai social enterprise ecosystem.

(c) *Center for Social Initiatives Promotion (CSIP), Viet Nam*<sup>81</sup>

CSIP is a non-profit and non-governmental organization that supports the emerging social entrepreneurship sector in Viet Nam. The organization aims to provide direct capacity-building and funding support to early stage social ventures in order to maximize their chances of success. CSIP also works and engages with other stakeholders to improve the operating environment for social enterprises in the country and engages in raising public awareness and network building initiatives as well as lobbying the Government to promote social enterprises.

CSIP receives support and funding from international agencies and donors including One Foundation, a philanthropic organization based in Dublin, Ireland, and the British Council in Viet Nam.

---

<sup>79</sup> Dasra website, <http://www.dasra.org/what-we-do>.

<sup>80</sup> ChangeFusion website, <http://www.changeofusion.org/workgroups/change-venture/social-enterprise/468>.

<sup>81</sup> CSIP website, <http://www.doanhnhaxahoi.org/index.php>.

## 5. Investment attractiveness and impact investment

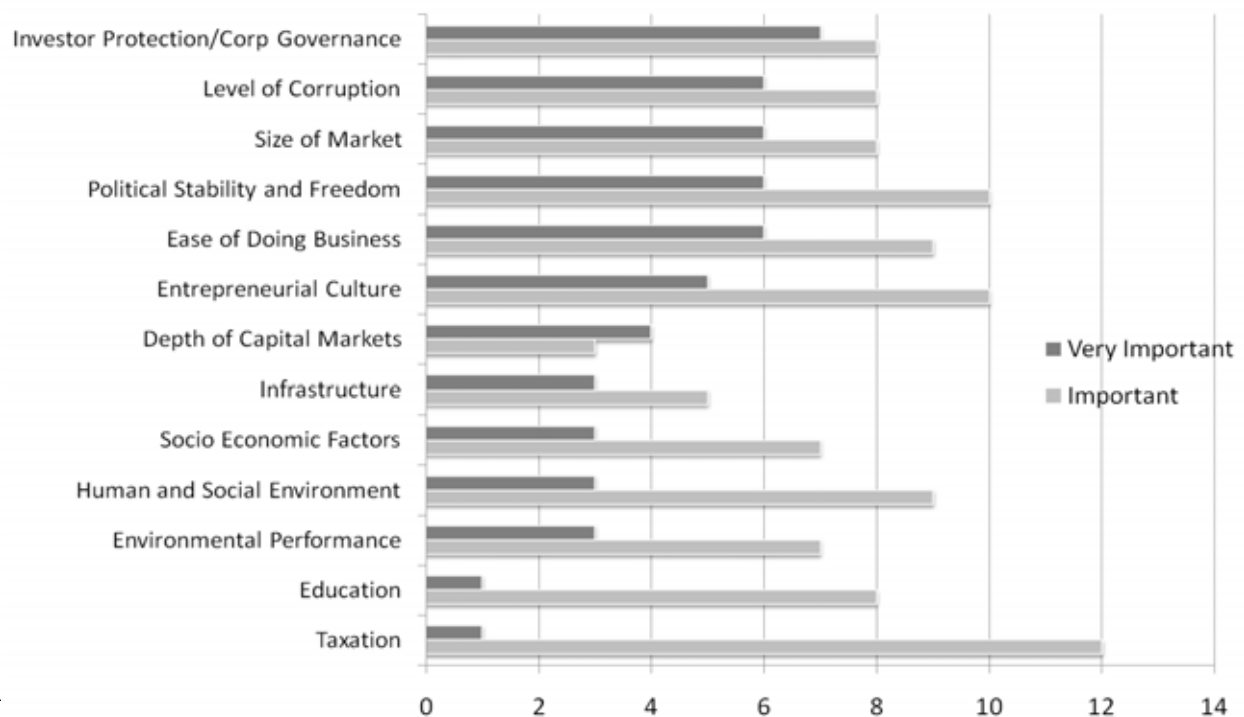
As the majority of impact investors today are from North America and Europe, foreign investment will play an important role in impact investment activity in the Asia-Pacific region. The most important area of focus for countries that want to benefit from impact investment is to support an ecosystem for social entrepreneurship which results in investable deal flow for investors. When investable deal flow is present, countries can further increase inflows of impact investment by eliminating barriers to foreign investment. If such barriers are not eliminated, investors may favour other regions with similar quality of deal flow and need for development solutions.

The Global Venture Capital and Private Equity Country Attractiveness Index uses the following indicators of attractiveness of a country for private equity and venture capital investors.<sup>82</sup> These are the key drivers of a country's attractiveness to investors:

- (a) Economic activity
- (b) Depth of the capital market
- (c) Taxation
- (d) Investor protection and corporate governance
- (e) Human and social environment
- (f) Entrepreneurial culture and deal opportunities

Figure III.8 shows the comparative rating of investment attraction factors based on a survey of impact investors undertaking due diligence of investment opportunities.

**Figure III. 8. Comparative rating of impact investment attraction factors in host countries**



Source: Linda Darragh and Aman Nurkholisoh, *Impact Investing in Emerging Countries: Insights from the Due Diligence Process* (January 2012), prepared for the United States Secretary of State's Global Impact Economy Forum. Available from [http://www.chicagobooth.edu/entrepreneurship/docs/impact\\_investing\\_in\\_emerging\\_countries\\_v3.pdf](http://www.chicagobooth.edu/entrepreneurship/docs/impact_investing_in_emerging_countries_v3.pdf).

## **G. CONCLUSIONS AND RECOMMENDATIONS**

### **1. General**

The term sustainable investment encompasses several distinct models, from SRI to impact investment, each of which has a role in engaging the private sector in the development agenda. All of these models warrant policy support, but “impact-first impact investment” can make the greatest contribution to development as a new source of funding. SRI activity is already widespread and financial-first impact investment needs a portfolio of investment opportunities that can only be developed through the support of impact-first impact investment. Policy and other support initiatives should focus on increasing the amount of impact-first impact investment and supporting the development of social ventures.

The potential of private enterprises funded by private investment to create social impact and contribute to inclusive and sustainable development has been demonstrated. However, such investment will not predominantly consist of commercial investment that also generates a market rate financial return. Philanthropy will always play an important role in the development of social enterprises and investments that generate a market rate of return will only be a part of the spectrum of impact investment.

As with any model under development there will be a period of learning and mistakes in developing impact investment and the social enterprise and impact investment sector. Immediate success should therefore not be expected and proper testing and adjustments of the models will be necessary which requires patience.

Impact investment will not replace existing forms of development funding; rather it will be an important addition to the range of available funding tools and will alleviate some of the pressure on grant funding. Impact investment is suitable and can be effective only in addressing social and development challenges that lend themselves to market based solutions.

On the one hand, the utilization of private sector funding for development and impact goals provides important opportunities, but on the other hand this new blended model is also open to exploitation for financial gain at the expense of the poor and vulnerable. Governments have a role to play in protecting their most vulnerable citizens.

The types of support needed for the development of social enterprise and impact investment sectors differs considerably between developed and developing countries. In developed countries policy is needed to support innovation of financial instruments, establish new legal structures for enterprises actively pursuing social or environmental missions, and regulate industry. In developing countries, the development of an entrepreneurial ecosystem and elimination of barriers to foreign investment are the key priority support areas.

## **2. Support a strong SME sector and entrepreneurial ecosystem**

Any country wishing to benefit from impact investment activity and attract foreign impact investment must first ensure that it is supportive of small enterprise development and has in place a domestic entrepreneurial ecosystem that produces a quality deal flow for social enterprise development. This should be the primary focus of initiatives and policy, before the focus can shift to the social aspect of enterprise.

Governments should improve the ability of the education system to develop entrepreneurial talent. Changes to education systems will take a long time to implement and it will also be a long time before the benefits of entrepreneurial education translates into active social ventures. This is, however, a crucial aspect for a country that desires to harness the benefits of social entrepreneurship and impact investment on any significant scale. In this regard, university initiatives such as incubator programmes, social enterprise specific curricula, and engagement with foreign universities can play a significant role in inspiring and enabling students to pursue social entrepreneurship.

Policymakers have an important role to play in creating a supportive infrastructure that enables private enterprise development, encouraging local enterprise activity as well as enabling foreign social entrepreneurs to operate in a country. In this context, areas that should be the focus of policy include the establishment of an effective and efficient system for the registration of new companies, establishment of a legal system that adequately protects entrepreneurs and small business owners' interests, and effective enforcement of measures curbing corruption that distorts entrepreneurial ecosystems.

## **3. Eliminate barriers to foreign investment and take a multi-stakeholder approach to policy development**

In order to attract foreign impact investment, policymakers should ensure that barriers to foreign investment in industries and sectors of interest to impact investors are eliminated. Examples of measures include reductions in foreign investment and ownership restrictions in impact sectors, reductions in paid-up capital required for foreign ownership to enable undercapitalized foreign social entrepreneurs to be active in a country, lower levels of bureaucracy and red tape for setting up and investing in SMEs and ensuring adequate investor protection through a quality legal system which includes proper shareholder protection laws.

Governments and policymakers face a learning curve when engaging with private sector investors. For that reason, policy discussions need to include the investors and entrepreneurs that policy seeks to support. Policymakers should actively engage with investors and entrepreneurs to understand their challenges and needs. For that purpose, Governments should set up a committee or taskforce made up of policymakers, investors, entrepreneurs and social sector experts to advise and guide policy for the development of impact investment and social enterprises.

## **4. Support domestic funding and capacity-building of social entrepreneurs**

Domestic support for seed and early stage social venture activity is essential before foreign investors are able to engage with social enterprises. Governments, the domestic business

sector and domestic philanthropists can contribute to initiatives providing capacity-building and funding to young social ventures. Incubator and accelerator programmes can make a significant contribution to social venture development in this regard.

Non-profit organizations and philanthropists are best positioned to provide seed stage capacity-building and financing support to social ventures. Initiatives to raise awareness among philanthropists of the social enterprise model can unlock more philanthropic support for early stage social ventures.

In addition, Governments should partner with and fund programmes of existing intermediaries experienced in providing support to social ventures rather than develop new initiatives.

In this regard, Governments can help philanthropic organizations more easily engage with social ventures as currently many regulations restrict philanthropic funding to registered non-profit organizations, which in turn are hampered by regulations which limit them from engaging in business activities.

## **5. Ensure that policy allows for necessary flexibility and innovation in the sector**

The diversity in legal structures and organizational forms, motivations, and activities is an important part of the social enterprise sector as it continues to innovate and evolve. Supportive government policies can play an important role in advancing the development of social enterprises and impact investment. However, Governments should take care that policies actually contribute to the development of the sector and do not become a burden. As a new sector, impact investment needs time and space to innovate. Narrow definitions of what constitutes a social enterprise will limit the development and growth of the sector.

Policymakers should not create new legal structures for social ventures. A legal structure is primarily beneficial if a Government is going to provide tax or other incentives to encourage domestic investment into social ventures that fit within the scope of the definition. Impact investors are often foreign and a local legal structure does not provide them with any particular benefit. The limitations caused by defining a legal structure for social ventures at this point in the industry's development are far greater than potential benefits. Rather than setting up new legal structures, an international certification standard as provided by the B Corporation can provide investors with third party verification of a venture's impact intentions.

However, Governments could adopt a non-profit law which allows and properly regulates entrepreneurial initiatives for a social purpose and philanthropic organizations which can fund such activities.

Because impact is often hard to measure and verify, Governments must be cautious to grant incentives for impact industries such as tax incentives. In particular, impact investors have not shown any indication that they need tax or financial incentives to engage with social ventures in a country. Rather, they need an enabling entrepreneurial environment, quality deal flow, and a legal system that allow them to efficiently deploy investment funds.

## References

- Asian Venture Philanthropy Network website. <http://www.avpn.asia/about-us/avpn-background/>. Accessed on 1 December 2012.
- Aspen Network of Development Entrepreneurs (2011). *2010 Impact Report*. March 2011. Accessed from: <http://www.aspeninstitute.org/publications/ande-2010-impact-report> on 9 September 2012.
- Aspen Network of Development Entrepreneurs website. <http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs/about-membership>. Accessed on 8 August 2012.
- Cambodia Microfinance Association website. [http://cma-network.org/drupal/Microfinance Environment](http://cma-network.org/drupal/MicrofinanceEnvironment) Accessed on 28 November 2012
- Campanale, Mark (2012). How can accelerators help? Reflections from SoCap2012. *Alliance Magazine*. 1 December 2012. Accessed from: <http://www.alliancemagazine.org/node/4172> on 9 December 2012
- Darragh, Linda, and Nurkholisoh Aman (2012). *Impact Investing in Emerging Countries: Insights from the Due Diligence Process*. Prepared for the United States Secretary of State's Global Impact Economy Forum. January 2012. Accessed from [http://www.chicagobooth.edu/entrepreneurship/docs/impact\\_investing\\_in\\_emerging\\_countries\\_v3.pdf](http://www.chicagobooth.edu/entrepreneurship/docs/impact_investing_in_emerging_countries_v3.pdf) on 27 September 2012.
- Duke University, Center for the Advancement of Social Entrepreneurship website. <http://www.caseatduke.org/>. Accessed on 3 November 2012.
- Global Impact Investing Network website. *Impact Investment Profile: the Bill & Melinda Gates Foundation/Inigral Inc*. Accessed from <http://www.thegiin.org/cgi-bin/iowa/resources/profile/9.html>.
- Grameen Bank website. [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=19&Itemid=114](http://www.grameen-info.org/index.php?option=com_content&task=view&id=19&Itemid=114). Accessed on 4 November 2012.
- IESE Business School (2011). *The Global Venture Capital and Private Equity Country Attractiveness Index*. Accessed from <http://www.iese.edu/research/pdfs/ESTUDIO-143-E.pdf> on 1 December 2012.
- J.P. Morgan (2010). *Impact Investing: An Emerging Asset Class*. Accessed from [http://www.thegiin.org/cgi-bin/iowa/download?row=151&field=gated\\_download\\_1](http://www.thegiin.org/cgi-bin/iowa/download?row=151&field=gated_download_1). on 29 November 2012.

- \_\_\_\_\_ (2012). *Insights Into the Impact Investment Market*. 14 December, 2011. Accessed from [http://www.jpmorganchase.com/corporate/socialfinance/document/Insight\\_into\\_the\\_Impact\\_Investment\\_Market.pdf](http://www.jpmorganchase.com/corporate/socialfinance/document/Insight_into_the_Impact_Investment_Market.pdf) on 1 August 2012.
- \_\_\_\_\_ (2013). *Perspectives on Progress: the Impact Investor Survey*. Accessed from [http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated\\_download\\_1](http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1). on 14 January 2013.
- Kellogg School of Management website. <http://www.kellogg.northwestern.edu/Departments/seek/extra-cur/levy/social-entrepreneurs.aspx>. Accessed on 3 November 2012.
- Koh, Harvey, Ashish Karamchandi and Robert Katz (2012). *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*. Accessed from: [www.mim.monitor.com/blueprinttoscale.html](http://www.mim.monitor.com/blueprinttoscale.html).
- Monitor Institute (2009). *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*. Accessed from <http://www.rockefellerfoundation.org/uploads/files/3d58520b-a89d-42ff-8ed1-9f5efa7c8aa0.pdf>.
- New York Times (2012). India Ink. “Yunus was right”, SKS Microfinance Founder Says. 27 February 2012. Accessed from <http://india.blogs.nytimes.com/2012/02/27/yunus-was-right-sks-microfinance-founder-says/> on 28 November 2012.
- Nexus Global Youth Summit website. <http://www.nexusyouthsummit.org/nexus-beijing/>. Accessed on 12 August 2012.
- Overseas Private Investment Corporation (2011). Press Release 2011. *In Historic Commitment to Impact Investing, OPIC Board Approves \$285 Million for Six Funds Catalyzing \$875 Million in Investments*. 27 October 2011. Accessed from <http://www.opic.gov/press-releases/2011/historic-commitment-impact-investing-opic-board-approves-285-million-six-funds-c>.
- \_\_\_\_\_ (2012). *Putting the Impact In Investing*. 25 April 2012. Accessed from <http://www.opic.gov/blog/impact-investing/putting-the-impact-in-investing> on 4 October 2012.
- Oxfam website. <http://www.oxfam.org.uk/what-we-do/introduction-to-oxfam>. Accessed on 30 October 2012.
- Rangan, Kasturi V., Sarah Appleby, and Laura Moon (2011). Harvard Business School. *The Promise of Impact Investing*. 4 November 2011. Accessed from: [http://evpa.eu.com/wp-content/uploads/2010/11/The\\_Promise\\_of\\_Impact\\_Investing3.pdf](http://evpa.eu.com/wp-content/uploads/2010/11/The_Promise_of_Impact_Investing3.pdf) on 12 October 2012.
- Rockefeller Foundation website. <http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing>. Accessed on 3 August 2012.



- Santa Clara University, Center for Science, Technology, and Society (2012). *Santa Clara University Team Selected to Design New Capital-Investment Approach for Developing-World Entrepreneurs*. 18 October 2012. Available from <http://www.scu.edu/socialbenefit/news/blog.cfm?c=14525>.
- SJF Ventures website. <http://www.sjfventures.com>. Accessed on 3 August 2012.
- Skoll Centre for Social Entrepreneurship. <http://www.sbs.ox.ac.uk/centres/skoll/Pages/default.aspx>. Accessed on 3 November 2012.
- SOCAP12 website. <http://socap12.socialcapitalmarkets.net/details/themes/>. Accessed on 29 November 2012.
- Social Enterprise Academy website. [http://www.theacademy-ssea.org/latest/news/551\\_award\\_winning\\_pupils\\_prove\\_budding\\_scots\\_social\\_entrepreneurs\\_mean\\_business](http://www.theacademy-ssea.org/latest/news/551_award_winning_pupils_prove_budding_scots_social_entrepreneurs_mean_business). Accessed on 15 October 2012.
- Social Enterprise Conference website. <http://socialenterpriseconference.org/former-chairman-of-sks-microfinance-vikram-akula-shares-lessons-learned-2/>. Accessed on 8 November 2012.
- Steurer, Reinhard, Sharon Margula and Andre Martinuzzi (2008). *Socially Responsible Investment in EU Member States: Overview of government initiatives and SRI experts' expectations towards governments*. Vienna University of Economics and Business Administration. Vienna. April. Accessed from: [http://www.eurocharity.eu/files/ec\\_sri\\_in\\_eu\\_member\\_states\\_final\\_report.pdf](http://www.eurocharity.eu/files/ec_sri_in_eu_member_states_final_report.pdf) on 3 August 2012.
- Thammasat Business School website. <http://www.bba.bus.tu.ac.th/studentnewview1.php?newid=2762>. Accessed on 3 December 2012.
- Third Sector UK (2012). *Oxfam Launches Fund to Make "Impact Investments" in the Developing World*. 10 October 2012. Available from: [http://www.thirdsector.co.uk/go/social\\_enterprise/article/1154243/oxfam-launches-fund-impact-investments-developing-world/](http://www.thirdsector.co.uk/go/social_enterprise/article/1154243/oxfam-launches-fund-impact-investments-developing-world/)
- United Nations Principles for Responsible Investment website. <http://www.unpri.org/signatories/>. Accessed on 8 August 2012
- United States Department of State website. <http://www.state.gov/secretary/rm/2011/11/177892.htm>. Accessed on 17 August 2012.
- World Economic Forum (2009). *Educating the Next Wave of Entrepreneurs: Unlocking entrepreneurial capabilities to meet the global challenges of the 21<sup>st</sup> Century*. Geneva. April. Accessed from [http://www3.weforum.org/docs/WEF\\_GEI\\_EducatingNextEntrepreneurs\\_ExecutiveSummary\\_2009.pdf](http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf) on 15 October 2012. p. 10.