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KORDANT PHILANTHROPY ADVISORS

Kordant Report Series

# Impact Investing Overview: Trends and Outlook in Asia

## INTRODUCTION

Though it was coined in 2007 at a Rockefeller Foundation meeting, the term "impact investing" wasn't widely used until a 2010 J.P. Morgan report defined it as a distinct asset class. While definitions may vary slightly today, impact investments are understood to mean those "intended to create positive impact beyond financial return."

They sit at the nexus between traditional donation-driven philanthropy and purely market-driven investment. As such, many observers welcome impact investing for its potential to usher in new money for innovation that is not yet commercially attractive to traditional funders.

Recently, this nascent field has garnered a considerable amount of attention across many outlets, including for-profit companies, NGOs, governments, the media, and prominent philanthropists. The Monitor Institute estimated that impact investments could, over the next five to ten years, grow to represent 1% of global assets under management in 2008 —a figure estimated at $500 billion.

## IMPACT INVESTORS

Foundations, development finance institutions, and high net worth philanthropists were the pioneers of impact investing at first. Since then, its reach has broadened to include corporations, government agencies, and individuals interested in varying levels of investment. Their roles typically fall under one of two categories: intermediary investment funds and industry developers.

Intermediary investment funds, which facilitate the actual investment process, may take on a variety of operating structures. Some operate as non-profits, relying on grants and donations. These non-profits occasionally set up ancillary for-profit investment vehicles to expand their funding base. For example, Acumen Fund, a non-profit entity, established the for-profit Acumen Capital Markets to tap into larger pools of private funding. Other organizations, such as Grassroots Business Fund and Omidyar Network, operate under a more fully-fledged dual non-profit/ for-profit model. At the other end of the spectrum, entities like Bamboo Finance are entirely for-profit operations.

Beyond investment intermediaries, industry developers support the field through market research and analysis. They assess needs, evaluate impact, and make recommendations for future direction. Examples of these organizations include Rockefeller Foundation and Monitor Institute. Furthermore, convening platforms facilitate discussion forums and networking at the practitioner level. Examples include: Global Impact Investing Network, Take Action! Impact Investing Conference, and Social Capital Markets.

## THE FUNDS THEY SUPPORT

Impact investors provide capital in varying deal sizes and in a number of ways that encompass both debt and equity. This large range may include micro-loans, loan guarantees, program-related investments, public equity, convertible bonds, private equity, mezzanine equity, and social impact bonds. A survey conducted for the Asian Development Bank (ADB) found that impact investors today primarily rely on private equity, loans, and quasi-equity or mezzanine finance. The expectation for financial return can vary between investors (e.g., below market rate, market rate, market-beating rate). Funds typically go to organizations that are not yet considered commercially attractive but that have a strong social change mission and the potential to generate income. As a result, recipient organizations are typically small- and medium-sized social enterprises in early- to mid-stages of development. In some cases, impact investors will also provide recipient organizations with support services beyond funding, such as access to investor networks, business training, or mentorship.

Microfinance was identified as the most developed sector, followed by healthcare and community development.

While both impact investing funders and recipients are based worldwide, Responsible Research, a Singapore-based research firm, reported that impact funds appear to concentrate activity in India and several African countries.

## THE OUTLOOK IN ASIA

In Asia, the field of impact investing is less mature than in Europe or the United States. Much of the social enterprise funding activity occurs as small direct investments, often through family and friends. Despite this late start, experts predict the region has strong potential to grow.

In terms of asset availability, Asia offers abundant opportunity. The "World Health Report 2012" report released by Capgemini and RBC Wealth Management announced that the Asia-Pacific region became home to the highest number of High Net Worth Individuals for the first time in 2011. Another report released that same year by Avantage Ventures, an investment advisory firm with offices in Hong Kong and Beijing, predicted a demand for impact investing ranging from $44 billion to $74 billion in the region through the year 2020.

However, there remain a number of challenges to leveraging opportunities in Asia. These encompass cultural realities and weaknesses in civil society, social infrastructure, and government support. For example, institutional guidance for social enterprises has not been a focal point in countries like China, where the government is seen as the central service provider. The ADB Survey found that many potential impact investors are hesitant to make commitments until they can access increased information and liquidity; see demonstrated track records of financial, social, and environmental impact; and wield options among impact investment funds with assets over $100 million. Such elements require a more robust enabling environment that can in turn strengthen recipient organizations' capacity.

Recently, a number of initiatives have emerged to address these infrastructural and cultural challenges. At the government level, policies are being introduced to support social enterprises. For example, India has already established policies to accelerate the growth of rural banking and China included sustainable development and innovation in its 12th Five-Year Plan released in March 2011. In addition, organizations such as Dasra in India and SOW Asia Foundation in Hong Kong have been working to nurture social entrepreneurship in their communities while platforms like the Asian Venture Philanthropy Network provide region-wide networking and resources on best practices. Impact Investment Exchange Asia, based in Singapore, is developing the region's first social stock exchange. Although Singapore and Hong Kong are drivers of industry exploration and capital sourcing, actual investee activity has been concentrated in India.

## THE FUTURE OF IMPACT INVESTING IN ASIA

According to the ADB, education, sustainable agriculture, alternative energy, and healthcare will see the greatest increase in future investing interest. Avantage Advisors has identified six key sectors that would benefit most from impact investments in Asia: affordable housing, primary education, water and sanitation, agribusiness, rural access to energy, and rural and elderly healthcare. South Asia and Southeast Asia will likely remain the dominant sub-regional areas.

The ADB also noted that impact investors intend to diversify their methods of financing. In particular, they expect to reduce reliance on direct investment and to increase their use of third-party advisers, funds, and funds of funds. The resounding message within this field is that all players, from investors to social enterprises, are growing increasingly sophisticated, diverse, and active in engaging with these alternative investments.

## FEATURED ORGANIZATIONS

**Asia Community Ventures**, a Hong Kong-based non-profit organization, is the outcome of EngageHK, an initiative to map, identify and convene stakeholders involved in impact investing and social entrepreneurship. Launched in Spring 2013, ACV received a grant from The Rockefeller Foundation to expand on EngageHK's work, including a regional forum and a funding initiative to support the growth of the impact investing industry and social enterprise sector. Read more about Asia Community Ventures at WWW.ASIACOMMUNITYVENTURES.ORG.

Based in India, the **Lok Capital** initiative was launched in 2000 with a grant from the Rockefeller Foundation. It provides financial and professional expertise to help create and grow businesses that make a social impact in the areas of financial inclusion, education, healthcare, and livelihoods. Lok Capital has two venture capital funds with over $85 million under management. The first was focused on microfinance and the second is invested in low-cost healthcare and education. The Lok Foundation was set up in 2003 to promote financial and social inclusion in India. Its programs includes targeted grants, technical support, research and advocacy. Read more about Lok Capital at WWW.LOKCAPITAL.COM.

**Shujog** is an advocacy, research and capacity-building non-profit social enterprise based in Singapore. Its products and services focus on preparing social enterprises in Asia with the organizational accountability, sound governance and fiscal accountability to raise funds from the capital markets or through IIX, Shujog's sister company. The Shujog Impact Assessment process assesses a company's social and environmental impact and determines whether or not the company qualifies as a social enterprise. The organization also conducts research commissioned by the Asian Development Bank on a number of topics related to impact investing and social entrepreneurship. Read more about Shujog at WWW.SHUJOG.ORG.

## FURTHER READING


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## THANK YOU

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