IMPACT INVESTING IN ASIA
OVERCOMING BARRIERS TO SCALE
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KEY TAKEWAYS

1 Impact investing is defined by the **intention to generate positive and measurable** social and environmental impacts alongside financial returns.

2 Fundamental to the growing demand for impact investing is the **shift in investment preferences** among certain demographic groups—such as women and millennials—and the emerging evidence of commercial returns, which in turn boosts the evolution of key ecosystem builders and infrastructure that support the growth of the industry.

3 However, **concerns around the identity and essence of impact investing remain**. A lack of clarity in the nature of impact investing and the strategies adopted results in 'impact-washing' undermines the integrity of the industry and adversely impacts its growth. Initial efforts to refine the definition of impact investing through impact measurement and management (IMM) solutions have been fragmented.

4 Investors keen to make **impact investments face additional barriers in Asia**, attributed to a lack of awareness and familiarity with impact investing and IMM, limited regulatory foundation, the absence of an efficient marketplace, and a nascent support ecosystem.

5 The **motivations and preferences of impact investors across Asia vary**. It is thus imperative to consider the different investment approaches of impact investors and not make the common mistake of grouping them under a single label.

6 **Impact investors must leverage their existing networks, work with relevant stakeholders, and engage in suitable matchmaking solutions** in order to contribute to building a strong impact investing ecosystem for the future.

7 **Ecosystem builders must also proactively collaborate with other network platforms and serve as the go-to source for relevant information** while playing the active educator role through multiple channels to build consensus across the impact investing ecosystem.
FOREWORD

Since 2011, AVPN has worked to increase the flow of financial, human, and intellectual capital to the social sector by connecting and empowering key stakeholders across the social investment landscape, including capital providers and the social purpose organizations (SPOs) they support. AVPN recognizes a broad scope of players within this landscape, such as family offices, foundations, impact funds, corporates, banks/wealth management organizations, private equity and venture capital funds, and intermediaries.

These organizations practice different social investment methodologies such as philanthropy, venture/strategic philanthropy, ESG investing and impact investing. They ultimately provide financial and non-financial support by offering grants and debt as well as public and/or private equity.

In 2018, the Global Impact Investing Network (GIIN)—the global champion of impact investing and dedicated to increasing its scale and effectiveness around the world—published a roadmap for the future of impact investing. This roadmap aims to articulate a new endgame for financial markets on a global scale, the role of impact investing in achieving that vision, and the actions required.

While the Asian social investment ecosystem is maturing, growth is uneven and impact investment remains less developed here compared to the rest of the world. And as a result, the impact investing industry in Asia remains less understood compared to its counterparts elsewhere. Against this backdrop, AVPN and GIIN have collaborated with Oliver Wyman and Marsh & McLennan Insights to explore the current characteristics of impact investing in the region, with special focus on China, India, Indonesia, Japan, and the Philippines.

*Impact Investing in Asia: Overcoming Barriers to Scale* serves as a resource for impact investors and other key stakeholders in Asia to better understand the growing industry within a regional context.

This report captures the experiences and insights of stakeholders from the AVPN network who serve different roles within the broad impact investment ecosystem in Asia. It also provides key recommendations on developing the ecosystem further.
1. **The rise of impact investing**  
   1.1 Global trends and driving forces of impact investing  
   1.2 Defining global impact investing  
   1.3 The challenge in forming an Asian identity  

2. **The Asian impact investing ecosystem**  
   2.1 Diverse impact investing landscape in Asia  
   2.2 No single framework for impact measurement and management  

3. **Key challenges in Asia**  
   3.1 Missing common language for impact  
   3.2 Limited regulatory and structural foundation  
   3.3 Reality perception gap  
   3.4 Lack of an efficient marketplace  
   3.5 Nascent supporting ecosystem  

4. **Call to action – What role can each player take on?**  
   4.1 How can impact investors increase the visibility of impact investing?  
   4.2 How can ecosystem builders help facilitate uptake of IMM frameworks?  

5. **Conclusion**  

Appendix  
AVPN’s deal share  

References
Impact investing is defined by the intention to generate positive, measurable social and environmental impact alongside financial returns. Although the concept of impact investing has existed for many years, the term was first coined in 2007, and began gathering steam after the 2008 Global Financial Crisis, as capital providers started to rethink and redefine long-term sustainable investments over investments that potentially contributed to short-term speculative bubbles. Today, impact investing is steadily becoming a recognized and legitimate investment practice amid increasing concerns over climate change, human rights, and social justice dominating the emerging risk landscape.

In the last decade, impact investing has evolved into a functioning market that encompasses a wide array of investors pursuing social and environmental objectives, including but not limited to pension funds, financial institutions, foundations, and development finance institutions. A 2019 GIIN study estimated that there are over 1,300 such organizations currently managing at least $502 billion in impact investing assets worldwide.
DEFINITION: GIIN guidelines for impact investments

The supply of capital is calculated based on the aggregate assets under management (AUM) that satisfy the core characteristics of impact investing – a set of guidelines developed by the GIIN to define what constitutes an impact investment and to help investors understand the essential elements of impact investing.

Exhibit 1: Core characteristics by GIIN that provide clarity to establishing baseline expectations for impact investing

- Intentionally contribute to positive and social and environmental impact
- Use evidence and impact data in investment design
- Manage impact performance
- Contribute to the growth of Impact Investing

Source: Global Impact Investing Network (GIIN)

“Impact investing is steadily becoming a recognized and legitimate investment practice amid increasing concerns over climate change, human rights, and social justice dominating the emerging risk landscape.”
1.1. Global trends and driving forces of impact investing

Demand side

Underlying the growing demand for impact investing is the increase in social and environmental trends that are adversely affecting various communities globally.

Growing interest from key demographic groups

There is growing demand from all types of investors, with particularly prominent increases in demand from women and millennials, to rethink investment strategies and their approach to the market. According to a survey conducted by Bloomberg, millennials lead in terms of social impact investing interest at 77 percent, as compared to 35 percent of baby boomers. Similarly, 84 percent of women are interested in social and environmental impact investing, while the number for men stands at 67 percent. This results in strong investor appeal for organizations that lead in socio-environmental and sustainability performance.

Emerging evidence on commercial returns

Contrary to conventional beliefs about return expectations, recent studies also suggest that impact investments may generate commercial returns comparable to those generated through traditional investing. Findings from these initial studies have led to positive changes in the impact investment ecosystem, which have proven to be helpful in reshaping perceptions, and providing tangible differentiation from traditional philanthropy. The GIIN’s 2019 Annual Impact Investor Survey indicated that two-thirds of impact investors target risk-adjusted, market-rate returns, with a majority performing in-line with or above their expectations.

Supply side

The rising demand for impact investing is matched by an increasingly efficient intermediation process, providing greater variety of investment vehicles and paving the path forward for more mature ecosystem infrastructure.

Increasing variety of investment vehicles

The number of investment tools and range of structures have grown in the last decade, providing a better fit between investors’ needs and impact projects. The growth in funds, fund managers, and innovative financial products enables interested capital providers to direct capital towards projects with a positive impact. These capital providers range from funds that make only impact investments such as Bridges Fund Management, to funds such as The Rise Fund managed by household names such as TPG Growth.

Maturing ecosystem infrastructure

The ecosystem has also grown through the development of supportive infrastructure, ranging from the construction of a common language to the building of platforms for consensus-building, collaboration, and field-building. While still at a nascent stage, these platforms are quickly starting to close the knowledge gap that prevents investors from understanding one another and articulating the execution of their investing approaches.
1.2. Defining global impact investing

Concerns around the defining characteristics of impact investing remain. A lack of clarity in the nature and adopted strategies may introduce confusion and undermine the integrity of the industry, thereby stifling growth. Initial efforts to clarify this definition through impact measurement and management (IMM) solutions and guidance have been fragmented. As illustrated in Exhibit 2, key industry stakeholders have made efforts to define common terminologies, set boundaries, and standardize metrics to alleviate confusion.

Exhibit 2: Timeline of impact investing through major milestones

- **OCT 2007**: ‘Impact Investing’ coined
  - Formalized at a Rockefeller Foundation gathering to serve two purposes: (a) making investments to create positive impact; and (b) changing the broader practice of mainstream investing

- **SEP 2008**: IRIS launched
  - GIIN launched and continues to manage IRIS, a catalogue for social and environmental performance metrics

- **SEP 2011**: The Global Impact Investing Ratings System (GIIRS) launched
  - B Lab launches GIIRS, the first comprehensive accounting of environmental impact funds and companies

- **SEP 2015**: The United Nations Sustainable Development Goals (UN SDGs) adopted
  - 17 goals were adopted by world leaders to transform our world, along with a call to the private sector to assume the role of a catalyst and accelerator for the SDGs

- **JUL 2017**: Impact Management Project launched
  - IMP publishes its consensus findings on the core concepts of impact management

- **APR 2019**: GIIN publishes the ‘Core Characteristics of Impact Investing’
  - The set of characteristics aims to provide clear reference points and practical actions to establish the baseline for impact investing

- **MAY 2019**: IRIS+ released
  - IRIS+ is an impact measurement and management system created to increase data clarity and comparability

Source: The Rockefeller Foundation, GIIN, B Lab, UN Development Programme, Bridges Fund Management, IFC

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GIIN published the *Roadmap for the Future of Impact Investing: Reshaping Financial Markets* report in response to growing demand to address major sustainability targets such as the 17 Sustainable Development Goals (SDGs). The roadmap defines the immediate actions needed to enhance the scale and effectiveness of impact investing. These collective actions are organized into six categories of action, as depicted in Exhibit 3.

The first category, *identity*, refers to the need to establish clear principles and standards for practice. On a global level, the roadmap identifies the following hurdles in the formation of an impact investing identity:

- The central definition of ‘intentionality’ remains broad
- Impact measurement and management efforts are fragmented

Against this backdrop, it is imperative to uncover the level of market maturity among Asian impact investors, clarify their roles, and elevate certain aspects of their identities to better assess opportunities and attract more capital from the market.

"It is imperative to uncover the level of market maturity among Asian impact investors, clarify their roles, and elevate certain aspects of their identities to better assess opportunities and attract more capital from the market."
1.3. The challenge in forming an Asian identity

Asia has gained significant traction as an economic hotspot in the past decade. Many countries are transitioning from frontier to emerging market status, offering increased opportunity for new industries, further fueled by the rise of digital connectivity and e-commerce. Affluence in Asia has also been increasing rapidly, and the region is predicted to be the third-largest growth market in terms of ultra-high net worth individuals between 2019 and 2023. This suggests that more capital is going to be allocated to private investments in Asia.15

This has led to the increase in discretionary AUM of Asian asset owners16 (both institutional such as pension funds, and private such as family offices) and the overall volume of investment in the region.17 Similarly, unwavering global interest in Asia18 provides a large potential pool of capital for impact investing.

The rapid economic growth, however, has come with its challenges: a widening wealth gap19, unequal access to resources and socio-economic mobility, and gender inequality are but a few. Environmental and sustainability issues continue to persist.20 Many budding enterprises are building their business models and offerings around products and services that aim to address these shortcomings and the attaining of the SDGs, leading to increased opportunities for impact investment activity.

Impact investing is a young concept in Asia, but it is growing rapidly. In total, 16 percent of global impact investment AUM are allocated to East, South, and Southeast Asia, compared to 28 percent of AUM allocated to the US and Canada. From 2014 to 2018, South Asia experienced a compound annual growth rate (CAGR) in AUM of 24 percent while East and Southeast Asia saw a CAGR of 20 percent.21 Further, impact investment activity in Southeast Asia has increased over time, with $904 million deployed through 223 direct deals by private impact investors and an additional $11.3 billion deployed through 289 direct deals by development finance institutions in the past decade.22

However, we see a divergence in intention and target preferences of investors who are emerging market (EM) focused vis-à-vis those who are developed market (DM)-focused.23 For example, EM-focused investors are more likely to target socio-economic causes while DM-focused investors place more emphasis on sustainability-driven agenda, as illustrated in Exhibit 4. Besides targeting different SDG-aligned themes, these differences manifest themselves in sector allocations, types of financing instrument utilized, and selected stages of investee companies.

From 2014 to 2018, South Asia experienced a compound annual growth rate (CAGR) in AUM of 24 percent while East and Southeast Asia saw a CAGR of 20 percent.
Exhibit 4: Emerging and developed markets have different target preferences

SDG preferences across funds in different markets

<table>
<thead>
<tr>
<th>SDG Category</th>
<th>Emerging markets (EM)</th>
<th>Developed markets (DM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No poverty</td>
<td>76</td>
<td>42</td>
</tr>
<tr>
<td>Gender equality</td>
<td>63</td>
<td>32</td>
</tr>
<tr>
<td>Decent work and economic growth</td>
<td>80</td>
<td>63</td>
</tr>
<tr>
<td>Climate action</td>
<td>36</td>
<td>62</td>
</tr>
<tr>
<td>Sustainable cities and communities</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Peace, justice and strong institutions</td>
<td>38</td>
<td>54</td>
</tr>
</tbody>
</table>


While we recognize that this diversity is intrinsic to the impact investing community, there remains a need to strengthen key principles that define the practice. This report therefore seeks to capture and characterize the definition of impact investing in Asia through interviews with current investors and other ecosystem participants, and a review of existing literature in five selected countries – China, India, Indonesia, Japan, and the Philippines. It shares the lessons learnt relating to the underlying objectives and drivers of impact investing, and how Asian organizations define, measure, and manage impact.

This report focuses on the unique challenges faced by impact investors in Asia, as they strive to break away from traditional misconceptions about impact investing and distinguish themselves from traditional philanthropic activities. This is important, for the Asian impact investing ecosystem holds much promise for investors and all stakeholders alike.
While the paper draws insights through the lens of impact investors, it recognizes that all segments of the ecosystem contribute to bridging the disconnect between the demand and supply of capital and are integral to the growth of the industry in the region.

The insights in the following sections are derived from interviews with selected AVPN members who are representative of the impact investing ecosystem in Asia. We aim to capture the diversity of the impact investing landscape in Asia as well as the many nuances and challenges unique to this region.

Key findings from conversations with impact investors in the five focus countries indicate that impact investing activity in Asia is supported by a broad ecosystem comprising four groups of key actors (see Exhibit 5).
2.1. Diverse impact investing landscape in Asia

To fully understand the different characteristics that make up impact investing in Asia, it is essential to highlight the diversity of impact investors in the region, as well as the wide range of approaches and selection criteria these investors utilize.

2.1.1. Impact investor archetypes

While it is convenient to group impact investors under a single label in a nascent market, even investors of the same maturity can have significantly different traits, motivations, and challenges.

Therefore, we segment market participants in Asia who identify as impact investors into four archetypes, and draw common insights from each archetype (see Exhibit 6). These archetypes, which can also be found in the global markets, are differentiated along the spectrum across two key factors – expected returns on investment and prioritization of impact investing activities. The former encapsulates the range of expectation on returns for capital across entities. The latter captures the relevance and centrality of impact investing as part of the overall mandate of each entity.
Exhibit 6: Investors in Asia\(^1\) have exhibited a range of traits, motivations, and challenges

### EXPECTED RETURNS\(^2\)

- **Market return**
- **Concessionary**
- **No returns**\(^4\)

### PRIORITIZATION OF IMPACT INVESTING ACTIVITY\(^3\)

- Traditional FIs with an investment arm expanding into impact investing
- CSR team/foundations of large corporations
- Mission-driven impact investment funds/non-profit organizations

### ARCHETYPE

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Drivers of Impact Objective(s)</th>
<th>Primary Capital Sources</th>
<th>Investee Maturity</th>
<th>Typical Challenges Faced</th>
</tr>
</thead>
</table>
| **Pivoting traditional investors** | • Clients’ demand for investments with social/environmental returns  
• Portfolio diversification                                                   | Own funds; Clients’ (institutional and retail) funds                                       | Generally mid-late stage    | • Convincing stakeholders that impact investments can offer commercial returns  
• Accounting standards discount full value of impact investments  
• Longer time horizon and higher costs of impact investments than traditional investments |
| **Market-rate seeking impact investors** | • Clients’ demand for investments with social/environmental returns  
• Grounded in targeted stakeholders                                               | Predominantly private investors (institutional investors, increasing number of high net worth and family offices) | Evenly distributed         | • Trade-off between rigorous measurement required and appeal of funding source for social enterprises  
• Investments limited by maturity of companies and risks in individual markets (for example currency risk)  
• Nascency of industry results in lack of a track record in terms of exit – difficulty in raising funds |
| **Below market rate impact investors** | • Driven by organization’s vision and mission  
• Grounded in targeted stakeholders                                                 | Mix of public and private investors (mostly philanthropic in nature)                      | Generally early-to mid-stage | • Low impact investment literacy amongst investors (institutional and retail) restricts capital availability  
• Social enterprise space often not well-defined, resulting in limited network and support for investors to enter |
| **CSR and public interest groups**   | • Public/shareholder sentiment-led  
• Driven by organization’s vision and mission                                      | Own funds                                                             | Generally early-to mid-stage | • Justification of resources (financial or otherwise) for impact investments to management  
• Lack of preparedness of most social enterprises, resulting in lack of investible transactions |

\(^1\) Based on JP, CN, ID, IN and PH markets  
\(^2\) Ranges from no returns (breakeven investments) to market rate (inclusive of at or above market rate)  
\(^3\) Proportion of available funds dedicated to impact investing  
\(^4\) Grant providers that may identify with impact investing having given to impact funds  

2.1.2. Diverse selection criteria and approaches

We also observe another layer of complexity in that investors in Asia utilize different approaches and selection criteria (see Exhibit 7), a result of the diverse range of impact objectives, ambitions, and resources among investors. These considerations can also be found in global impact investing activities and decision-making processes.

**Exhibit 7: Investors in Asia utilize a variety of selection criteria and investment approaches**

<table>
<thead>
<tr>
<th>6 selection criteria</th>
<th>Investment approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus area (region, sector, themes, etc.)</td>
<td>‘Ecosystem building’</td>
</tr>
<tr>
<td></td>
<td>• Investment in activities to bridge capital gap and reduce investment opacity</td>
</tr>
<tr>
<td></td>
<td>• E.g. new financing instruments, incubators, network association activities</td>
</tr>
<tr>
<td>Investment horizon</td>
<td>‘Active management’/High-touch</td>
</tr>
<tr>
<td></td>
<td>• Capital investment</td>
</tr>
<tr>
<td></td>
<td>• Non-financial assistance to help grow and increase value of investments, and can come in the form of:</td>
</tr>
<tr>
<td></td>
<td>– Management support</td>
</tr>
<tr>
<td></td>
<td>– Technical assistance</td>
</tr>
<tr>
<td></td>
<td>– Access to networks</td>
</tr>
<tr>
<td></td>
<td>– Operational or regulatory expertise</td>
</tr>
<tr>
<td>Ticket size</td>
<td>‘Silent investor’/Low-touch</td>
</tr>
<tr>
<td></td>
<td>• Purely capital investment</td>
</tr>
<tr>
<td></td>
<td>• Thesis involves the provision of financing for targets that have limited access to capital to achieve their envisioned social/environmental outcomes</td>
</tr>
<tr>
<td>Fit with current assets</td>
<td></td>
</tr>
<tr>
<td>Funding stage (early vs. growth vs. mature)</td>
<td></td>
</tr>
<tr>
<td>Target stakeholders</td>
<td>High</td>
</tr>
<tr>
<td>Level of involvement of investors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
</tbody>
</table>
2.2. No single framework for impact measurement and management

Impact measurement and management

The IMM has evolved rapidly – there are now numerous proposed solutions for IMM, driven by the industry’s desire to find a common language. Conversely, the emergence of more solutions creates a perception of an increasingly fragmented field. Certain organizations are beginning to consolidate these proposed solutions to provide impact investors with a more comprehensive and unified IMM solution, as illustrated below.

Complementing IMP efforts that set forth the framework, GIIN also recently launched the IRIS+ system that incorporates inputs from over 800 stakeholders across the impact investing ecosystem globally and includes core metrics generally accepted by the industry.24

While it is in its early stages, it represents a meaningful step forward for the industry to both prioritize and standardize specific metrics necessary to integrate social and environmental factors into investment decisions alongside risk and return.

Investors in the region indicate that the barrier to initiate or adapt to a proposed global solution is even higher in Asia, owing to the lack of contextualized approaches, a less developed understanding of the landscape, and an inconsistent IMM application across investment targets. As a result, most local entities either adopt a proprietary IMM system, choosing not to fully align with any global solutions, or do not yet have a formalized IMM system in place as their foreign counterparts do, as shown in Exhibit 9.

DEFINITION: The Four-stage IMM cycle

The Impact Management Project (IMP) has brought together more than 2,000 practitioners to agree on shared fundamentals for impact measurement and management – from social and environmental impacts, to enterprises of all kinds, to asset managers and owners.

Exhibit 8: Consensus achieved includes four shared elements

1 UNDERSTAND IMPACT
Understanding impact through the five dimensions (what, who, how much, contribution, risk) and drilling into specific data categories to measure and report

2 DEFINE INTENTIONS AND CONSTRAINTS
• Demarcation of impact intentions across three categories (acting to avoid harm, benefiting stakeholders or contributing to solutions)
• Definition of investors’ impact strategy through their contribution level, complementing the investors’ impact intention

Source IMP, Bridges Fund Management annual report
Exhibit 9: Local impact investors are less likely to align actively to global IMM solutions

Breakdown of interviewees’ responses

System aligned to global standards

Adopters
“IRIS has a comprehensive catalogue of metrics which we pick from as a basis for our agreed KPIs.”
– Foreign core impact investor

“By aligning strongly to global standards like IRIS and using of industry statistics, we obtain a fuller picture of the investee.”
– Foreign core impact investor

Proprietary system

Context-aligned
“Global standards aren’t realistic and contextual enough for our model and the kind of impact investments we are making.”
– Local core impact investor

“We prefer to be guided by the impact we are bringing.”
– Local core impact investor

No system in place

Newcomers
“We are in works with a global organization to kickstart our impact management system.”
– Local core impact investor

“Honestly, we do not know where to start, given the wide number of standards available globally.”
– Local non-core impact investor

1 Foreign impact investors are defined as investors that are not headquartered in the country they invest in

SET GOALS
Using the shared fundamental principles in stages 1 and 2, IMP forms impact classes to map and compare heterogeneous entities

DELIVER AND IMPROVE IMPACT
Phase 2 of IMP seeks to facilitate consensus-building on the practical application of agreed principles, with three work streams:
• Processes for managing impact
• Accounting framework and data standards for measuring and reporting impact
• Rating and valuation techniques for comparing impact
From the study, five thematic challenges surfaced across the target countries. As the applicability of each theme varies across countries, we will illustrate each theme anecdotally, drawing references and highlighting relevant case studies, where necessary.
3.1 Missing common language for impact

The traditional concept of impact is perceived as broad and subjective – a characteristic not commonly prioritized in investing. Unsurprisingly, the most consistent challenge across local investors in different countries revolves around IMM. It constitutes one of the biggest barriers to operation and entry for impact investors. The following pain points are commonly flagged by investors:

**DESIGN DIFFICULTY**

For new investors
- Lack of consolidated knowledge resources on IMM
- Lack of consensus on the set of universally accepted IMM solutions

For more established investors
- Lack of contextualization found in international standards for parameters (for example stage of company, data environment)
  - Excessive measurement demanded by capital providers
  - More nascent enterprises may not have the resources to incorporate on sophisticated indicators

**IMPLEMENTATION DIFFICULTY**

Generally, most investors identified challenges with international solutions (for example IMM system)
- Impact assessment and data collection methods are often too costly and complex for investees to execute
- Investees are mostly not able to track additional impact metrics beyond core business performance metrics
- Lack of reliable data results in poor baseline comparisons for benchmarking

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**CASE STUDY | INDIA**

**Ankur Capital: Adapting international IMM solutions**

Ankur Capital, an impact investing venture capital fund based in India, invests primarily in startups and early stage innovations intended to improve people’s lives as they move up the economic ladder.

One technology company that Ankur invested was the mass production of proteins used in agriculture, bringing down the price of those products so that they are more accessible to small farms.

As the nascent technology had not yet made it to market, Ankur needed to adapt from existing IMM solutions to track the impact outcomes of its investment. Similarly, capturing the trickle-down impacts on individual farmers of an investment in a company working along the food supply chain required them to have a tool that captured the impact of system-level transformation. These are in addition to direct outcomes and impacts.

Adopting a proprietary approach allowed Ankur the flexibility to incorporate a company’s business growth, from seed to maturity, within its impact framework. This is developed through a unique logic model for each deal, focusing on eventual impact and outcome desired. Appropriate metrics are identified accordingly and aligned with the enterprise’s management team to ensure feasibility of measurement and management.
3.2 Limited regulatory and structural foundation

Investors cite unfavorable and uncertain regulatory environments as a key concern when operating within certain markets. This potentially has a two-fold impact: it materializes in the form of a higher return hurdle for investors and capital providers by increasing actual and perceived risks, and reduces ease of entry for stakeholders looking to enter the space.

Regulators’ unfamiliarity with impact investing can result in complex, inefficient, and restrictive policies or the absence of enabling policies. This is exemplified by the lack of a regulatory framework for social enterprises, foreign ownership limitation and benefits in the case example illustrated below.

Another area of concern for investors is the more volatile political and regulatory landscape compared to developed markets, which is not unique only to impact investing. For example, the Indonesian regulatory environment is considered complex\(^{25}\), with substantial effect on investors and companies to deliver on their financial promise, as highlighted by the case study below. In addition, entrepreneurs face barriers of their own throughout their life cycle, as bureaucratic processes add to transaction costs and time required to establish a business, and to maintain compliance with regulations during growth and scale-up phases.\(^{26}\)

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CASE STUDY | INDONESIA

**YCAB Ventures: Navigating impact investing policies and regulations in Indonesia**

The policy and regulatory environment for social investment in Indonesia has improved in recent years. For example, the 2007 Limited Liability Law mandates that companies working in natural resources must budget for social and environmental sustainability.\(^{27}\)

However, despite being the largest impact investing market in Southeast Asia, by capital deployed and deal count, there are still no legal definitions of impact investing in Indonesia. Some investors welcome this as an opportunity to define the boundaries themselves, while others view this as possibly leading to higher actualized risks that dampen the prospects of the industry.

YCAB Ventures was set up in 2015 as part of the YCAB Social Enterprise Group to support high-potential early-stage businesses that drive economic empowerment and raise education levels. Under existing regulations, it had to be registered with the Indonesian financial services authority as a venture capital firm (*Perusahaan Modal Ventura*), making it subject to capital gains tax and shareholding thresholds per investee company. The fund has also found it challenging to attract external investors as the market does not allow for differentiation between market-rate seeking and below-market-rate seeking funds.

Building a stronger framework around impact funds and enhancing clarity around the regulatory environment will be valuable support for YCAB Ventures and others in the Indonesian impact investing community.
3.3 Reality perception gap

Investors in the region have also commented on socio-cultural challenges in the markets they operate in. Often described as an acute misconception of impact investing, these challenges allude to the general stereotyping of impact investing as a form of philanthropy, which often dissuades some investors from market entry.

These can be attributed to past examples, experiences, and prior knowledge that has resulted in a rigid investing spectrum consisting of only for-profit and non-profit investments. There is no provision for utilizing private capital for public good. Additionally, there are country-specific dimensions to the different socio-cultural challenges across Asia. For instance, the level of financial and investment literacy among capital providers is relatively low in Japan, a further deterrent to adoption of impact investing.

As a direct consequence, investors face difficulties in raising funds from local capital pools. Organizations also shy away from referring to themselves as ‘social enterprises’ fearing the label may hamper their future funding stages.

CASE STUDY | JAPAN

Shinsei: Integrating impact investing in a traditional financial institution

After 15 years of private equity investing, a team of like-minded investment managers sought to introduce a fund focused on impact investing under an investment arm of Shinsei Bank. The team began confronting several deep-rooted misconceptions and business considerations around impact investing over a nine-month negotiation process with senior management, which included serious doubts around risk-adjusted market rate returns, market size, and the growth potential for the bank’s risk appetite. Eventually, the team managed to convince senior management by:

- **Promising reasonable risk-profit balance** in measurable economic terms, with the social aspect serving as a secondary filter
- **Developing gap analyses** for specific key areas they lacked expertise in, the team worked out action plans to close the gaps, such as collaborating with third party knowledge partners; and
- **Educating and creating awareness** on impact measurement through interactions with relevant academic entities

A pilot fund targeting social issues around childcare and women’s work-life balance was established in 2017. The team has since observed considerable progress in both the mindset among senior management and financial success of existing impact investments. In June 2019, the team established its second impact fund which builds on the impact objectives of the first, and targets child and nursing care for working adults and businesses that support the shifting needs of the workforce.
3.4 Lack of efficient marketplace

Even with fast-growing demand, the capital available for impact investing has not been fully utilized. Many investors cite the difficulty faced by capital providers in optimal fund allocation to suitable enterprises that fulfill their investment motivation. Further, intermediation processes in Asia are also rudimentary. Most funds depend on an informal networking process, which is lengthy, costly, and ultimately unscalable. While ecosystem builders such as AVPN have taken the first step in creating platforms to efficiently connect stakeholders, these methods have yet to reach a critical mass.

3.5 Nascent supporting ecosystem

Another challenge that resonates with most investors is the limited development of the supporting ecosystem. Support services for early stage social enterprises are less established compared to those for conventional enterprises, resulting in fewer investment-grade social enterprises ready for capital funding than in more developed markets (with the exception of India). Financial intermediaries are still warming up to the idea of facilitating and structuring deals for social enterprises, as evidenced by the limited base of exits. While some investors have taken on the role of providing risk capital, such as through blended finance structures, these are done on an ad-hoc basis as innovative financial tools and structures are yet to be introduced.
CALL TO ACTION – WHAT ROLE CAN EACH PLAYER TAKE ON?

There has been considerable progress in Asia’s impact investing ecosystem in emulating global success stories, with organizations around the world and Asia catalyzing efforts and driving change.

In this context, how can actors across the ecosystem further promote the growth of the industry? We have put together an initial action plan for investors and ecosystem builders to address key challenges. Each action theme is detailed by guiding steps one can customize for use and track against.
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- **Missing common language for impact**
- **Limited regulatory and structural foundation**
- **Reality perception gap**
- **Lack of efficient marketplace**
- **Nascent supporting ecosystem**
4.1 How can impact investors increase the visibility of impact investing?

Leveraging existing network to promote knowledge sharing
- Direct newcomers and other participants to relevant ecosystem builders to lower the barriers to entry into a market
- Accelerate partnerships between experienced and new investors (for example, Narada Foundation works in partnership with EH Capital, which is one of the earliest private equity management companies to specialize in impact investments, pioneering impact investing in China in 2018)
- Successful investors must share positive experiences and learnings of operating models with the broader investment community
- Network contributions by developing standardized resources to be leveraged within local markets (for example, term sheets for impact venture capital funds)

Advocacy to increase awareness and correct myths and misconceptions
- Report impact performance and drive IMM solutions together with ecosystem builders, acknowledging that IMM is a shared responsibility
- Collaborate with ecosystem builders and execute a regional campaign to increase awareness
- Highlight the possibility of commercial returns and relevant factors to consider when seeking such returns, focusing on segments of capital providers within areas of operation and expertise
- Lead by example and influence the mindset shift of the organization top-down (that is, take advantage of opportunities to influence key business decisions, and manage timelines and return expectations around impact investments)

Matchmaking demand and supply of untapped funds to smooth flow of capital
- Make active efforts to map individual impact objectives to the requirements of the capital provider
- Proactively search for alternative large local capital providers to address capital deficits across the continuum of capital; for example, catalytic funding that include aligning church funds and Islamic finance with impact investing, which can be another major resource pool in markets such as the Philippines and Indonesia respectively
- At a regional level, enroll in a suitable and effective matchmaking (matching target investment needs with investors and capital providers) platform established by ecosystem builders to build critical mass (see next page for example)
- Actively communicate past track record and investing approach to allow greater granularity in the classification of impact funds and capital

Building a future state ecosystem to support the scaling of impact investing in Asia
- Invest in internal capabilities or in ecosystem builders that will provide capacity building support for social enterprises in the local context
- Support new ecosystem builders and scope expansion of existing local organizations or establish regional ecosystem builders. For example, the China Social Enterprise and Impact Investment Forum was initiated in 2014 to integrate resources to develop the social enterprise and investment industry through research, education, and capacity building
- Cooperate with appropriate external ecosystem builders to lobby for a regulatory environment conducive to impact investing (for example, serve as advisors and a sounding board for national governments that might require assistance)
4.2 How can ecosystem builders help facilitate uptake of IMM frameworks?

Serve as the go-to source for information
- Proactively collaborate with other prominent platforms to disseminate shared knowledge
- Become an aggregator of knowledge resources by establishing a centralized knowledge base and benchmark database, such as the Impact Toolkit by GIIN
- Provide region-specific thought leadership on the subject, starting with clarification of linkages between the global IMM solutions and then work on the granularity around sector-specific information
- Make resources readily available to all

Build consensus and educate
- As highlighted in GIIN’s roadmap, ecosystem builders should play a critical role in facilitating conversations around a set of common, mutually agreed-upon principles that define what being an impact investor means
- Involve new partners such as development consultants and auditors who can provide insights and lend credibility to consensus
- Play an active educator role through multiple channels to share and proliferate best practices for impact measurement, management, and reporting

CASE STUDY
Train-the-Trainer Program with AVPN, IMP, and Social Value International (SVI)

As a strategic partner of IMP and in collaboration with SVI, AVPN will be rolling out a series of training programs to equip network members to leverage the framework for their investment activities. Accompanying the initiative, a series of Train-the-Trainer sessions will also be conducted to build upon the capacity of ecosystem builders to educate impact investors on use of the framework and how to develop their own.
Globally, impact investing is becoming an increasingly recognized and legitimate practice. In particular, within the Asian investment community, impact investing serves as an important means of bridging the financing gap to achieve the UN SDGs.

As we look to convert growing interest to mainstream impact investing and drive material investments in Asia, it is becoming crucial for the impact investing community to define its own identity to reduce intangible barriers arising from confusion and misconceptions around the practice, considering the heterogeneity of Asia and the distinct challenges faced by the Asian investment community.

Beyond recognition of the current situation in the region, crafting an Asian identity will require concrete actions and stewardship from all stakeholders. This will include leveraging existing resources, changing mindsets, reducing market inefficiencies, and greater collaboration between stakeholders.

We envision a future-state consideration of the broader social and environmental impacts alongside financial returns becomes the norm.
APPENDIX: AVPN’S DEAL SHARE

AVPN Deal Share bridges the gap between demand and supply by providing Social Purpose Organizations (SPOs) the opportunity to gain access to financial, human, and intellectual capital from AVPN’s members’ network. Deal Share supports SPOs to scale, develop sustainably or be investment-ready to unlock both philanthropic capital and impact investment. Through working with members who comprise funders and resource providers, Deal Share opens opportunities for members to identify suitable pipelines across markets and causes. It also allows tapping into non-financial resource providers to deploy intellectual and human capital in a more targeted manner. Beyond the Deal Share Platform, selected SPOs take part in Deal Share Live events, which are in-person events held regionally to share information about the SPO landscape and to showcase SPOs’ work to members.

How deal share works

Guided by the overarching objective of bridging social investment, Deal Share draws on gathering insights to better understand the SPO landscape and develop cause-specific pipelines. The listing of deals on the Deal Share Platform is driven by the endorsement that is provided by member organizations. An endorsement by a member is indicative that there has been some sort of support provided by the member either in terms of financial or non-financial resources and that the member is equipped with a good understanding of the SPO and the project. This endorsement lends a layer of credibility that allows other members and resource providers to be more confident in engaging with the particular SPO.

SPOs are connected with interested members and relevant resources which are recommended based on their level of investment readiness through the launch of the pilot Social Enterprise Development Toolkit. In addition to the targeted connections and nominations that are facilitated through the platform, the SPOs are also presented with the opportunity to learn, exchange insights, and showcase in a more intimate setting through virtual convenings and through in-person interactions with the members at Deal Share Live sessions that takes place throughout the year at AVPN, or partners’ events.
Beyond the Deal Share Platform and the Deal Share Live sessions, members also leverage Deal Share’s strength of being able to access both the supply and demand side of the social investment landscape. Members also work together to forge partnerships that will further their objectives and structure engagements that are directed towards their various goals in this space as seen through the Disaster Tech Innovation Programme which brought together 17 partners from different profiles.

**Key metrics**

Currently, the Deal Share Platform houses more than 370 active deals spanning 15 markets and touching 17 sectors. Additionally, the platform also showcases 130 unique endorsers who have lent their support to these SPOs.

- >380 SPOs listed on DSP (July 2019)
- 115 SPOs showcased at DSL and other events
- 225 resources in the Social Enterprise Development Toolkit
- >156 targeted connections between SPOs and members
- >$116 million funding resources featured for SPO development
REFERENCES

1. Social purpose organizations refer to organizations such as for-profit social enterprises, inclusive businesses, not-for-profit organizations, non-governmental organizations and charities, among others, whose mandate is to deliver positive social and/or environmental impact.


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3. Ankur Capital
4. B Current
5. Bamboo Capital Partners
6. BankerBay
7. BNP Paribas
8. C4D Partners
9. Capacity Building and Assessment Center
10. China Social Enterprise and Impact Investment Forum
11. Cicero Capital
12. Daiwa Institute of Research
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53. UOB Venture Management
54. Vilgro Philippines
55. Vitrum Group
56. Xchange
57. YCAB Foundation
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ABOUT AVPN
AVPN is a unique funders’ network based in Singapore committed to building a vibrant and high impact social investment community across Asia. As an advocate, capacity builder, and platform that cuts across private, public and social sectors, AVPN embraces all types of engagement to improve the effectiveness of members across the Asia Pacific region. The core mission of AVPN is to increase the flow of financial, human and intellectual capital to the social sector by connecting and empowering key stakeholders from funders to the social purpose organizations they support. With over 550 members across 32 countries, AVPN is catalysing the movement towards a more strategic, collaborative and outcome focused approach to social investing, ensuring that resources are deployed as effectively as possible to address key social challenges facing Asia today and in the future.
www.avpn.asia

ABOUT GIIN
The Global Impact Investing Network (GIIN) is the leading global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.
www.thegiin.org