

IMPACT INVESTING TOWARDS ASEAN SUSTAINABLE DEVELOPMENT GOALS (SDGs)

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IMPACT INVESTING
TOWARDS
ASEAN
SUSTAINABLE
DEVELOPMENT
GOALS (SDGs)



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Notes

The terms “country” and “economy” as used in this study also refer, as appropriate, to territories or areas. The designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the ASEAN-Japan Centre concerning the legal status of any country, territory, city, or area or of the authorities, or delimitations of frontiers or boundaries.

- The following symbols have been used in the tables:
- Two dots (..) indicate that data are not available or are not separately reported.
- A dash (–) indicates that the item is equal to zero or its value is negligible.
- Use of a (–) between dates representing years, e.g., 2015-2016, signifies the full period involved, including the beginning and end years.
- Reference to “dollars” (\$) means United States dollars, unless otherwise indicated.

About this Paper

This paper, “Impact Investing towards ASEAN Sustainable Development Goals (SDGs)”, focuses on the essentials of impact investing in ASEAN, an emerging type of SDGs investment. The state of global and Japanese impact investing market is also added. Goal 17 of the SDGs is particularly central, as it is an independent sole objective in the SDGs dedicated to mobilising “additional financial resources ... from multiple sources”.¹ Goal 17 stresses the pivotal role that private investment plays for financing and sustaining the benefits achieved in the targets.

The ASEAN Comprehensive Investment Agreement (ACIA) Article 25 also recognizes the need to “create the necessary environment for all forms of investments” (Invest in ASEAN 2009). The ASEAN’s biggest free trade pact, the Regional Comprehensive Economic Partnership (RCEP) also stipulates the same in Article 10.12 Facilitation of Investment. This paper, Impact Investing towards ASEAN SDGs, presents the latent potential of impact investment as a new, innovative form of investment to promote private investment for realization of the SDGs in ASEAN.

The objective of this paper is to present the current overview of the impact investment market in ASEAN to spur progress towards the SDGs. While comprehensive market data is not systematically available, this paper provides information on the definition and position of impact investment, a snapshot of key global initiatives and case studies that demonstrate good practice within the region as well as recommendations to facilitate further investment for the SDGs.

Impact investing is distinct in its intentionality in creating societal impact along with financial return beyond mitigating risk and incorporating factors related to environment, society and governance (ESG). There are a range of scholarly and practitioner debates particularly surrounding the distinction between increasing ESG ‘investment’ and impact investment. In following the recent intellectual development by Japan Sustainable Investment Forum (JSIF 2021, 16-19) and for globally consistent conceptualization, this paper takes the view that ESG is a factor to ‘incorporate’ and ‘integrate’ and that the ESG ‘integration’ is a strategy embedded within the sustainable investing category.

With Japan as the second largest source of foreign direct investment (FDI) into ASEAN, it is imperative that ASEAN re-designs its investment policy strategy to enable Japan to increase its contribution in the region through SDG investing. It is our hope that this paper contributes to increasing impact investment in ASEAN, a potential market of high impact.²

1 This report does not label ASEAN countries as “developing countries”, and AJC recognize that the SDGs are goals for all.

2 This report does not identify SDGs investment gap but provides a landscape of impact investing activities in ASEAN with the data available and indicate potential recommendations.

Acronyms

A-BAC	ASEAN Business Advisory Council	Lao PDR	Lao People's Democratic Republic
ACIA	ASEAN Comprehensive Investment Agreement	LDC	Least Developed Countries
ACGF	ASEAN Catalytic Green Finance Facility	METI	Ministry of Economy, Trade and Industry
ACSS	ASEAN Community Statistical System	MFI	Microfinance institutions
ADB	Asian Development Bank	MSME	Micro, small, medium-sized enterprise
AIIF	Asia Impact Investment Fund	NAB	National Advisory Board
AJC	ASEAN-Japan Centre	ODA	Official Development Assistance
AMS	ASEAN Member States	ODF	Open defecation free
AUM	Assets under management	OECD	Organisation for Economic Co-operation and Development
ASEAN	Association for the South East Asian Nations	PII	Private impact investment
AVPN	Asian Venture Philanthropy Network	PRI	Principles for Responsible Investment
B-Corp	Benefit Corporation	ROE	Return on equity
CDFI	Community Development Finance Institutions	SDG	Sustainable Development Goal
CLMV	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam	SDGI	Sustainable Development Goal Investment
COVID-19	Coronavirus disease 2019	SIB	Social impact bond
DFAT	Department of Foreign Affairs and Trade	SIIF	Social Innovation and Investment Foundation
DFI	Development Finance Institution	SLB	Sustainability-linked bond
DFID	Department for International Development	SME	Small- and medium-sized enterprise
DIB	Development impact bond	SPV	Social purpose venture
EMIIF	Emerging Markets Impact Investment Fund	SRI	Socially responsible investment
ESG	Environment, Society and Governance	SVX	Social Venture Exchange
FDI	Foreign direct investment	UN	United Nation
GIIN	Global Impact Investing Network	UNCTAD	United Nations Conference on Trade and Development
GLI	Gender lens investing	UNDP	United Nations Development Programme
GPIF	Government Pension Investment Fund	UNSIF	United Nations SDG Impact Finance/SDG Innovative Finance
GSIA	Global Sustainable Investment Alliance	UOB	United Overseas Bank
GSG	Global Steering Group for Impact Investment	UOBVM	UOB Venture Management
G8	Great Eight	USAID	United States Agency for International Development
HNWI	High net worth individual	US SIF	The Forum for Sustainable and Responsible Investment in the United States
IADB	Inter-American Development Bank	WASH	Water, sanitation, and hygiene
IFC	International Finance Corporation	WGSDGI	Working Group on Sustainable Development Goals Indicators
IIFAF	Insitor Impact Asia Fund		
IMP	Impact Management Project		
IRR	Internal Rate of Return		
JAWEF	Japan ASEAN Women Empowerment Fund		
JBIC	Japan Bank for International Cooperation		
JICA	Japan International Cooperation Agency		
JSIF	Japan Sustainable Investment Forum		
KPI	Key performance indicator		

Executive Summary

This report, “Impact Investing towards ASEAN Sustainable Development Goals (SDGs)”, focuses on the latent potential and essentials of impact investing. It is an emerging, innovative form of SDGs investment for realization of the SDGs in ASEAN. **Impact investing is distinct in its intentionality in creating and measuring societal impact along with financial return, beyond mitigating risk and incorporating factors related to environment, society and governance (ESG).**

This report aims to further mobilize financial resources that can be measured in terms of both financial and societal performance to accelerate realization of the SDGs, as part of the “Decade of Action”.

ASEAN witnesses differing levels of progress in impact investing market building. Despite the lack of comprehensive data, **ASEAN as a whole captured over \$6 billion through 298 deals made in the market from 2017-2019.** Its growth rate of impact investing market is remarkable. Within ASEAN, the largest amount of impact investing capital went to Indonesia, both from private capital and development financial institutions (DFIs). Thailand and Viet Nam are ranked second and third by capital value. Singapore is the only country that receives more private capital than DFI capital inflow. Five significant impact investing case studies in ASEAN—BlueOrchard, Garden Impact, ADB Ventures, Insitor Partners and UOB Venture Management—illustrated in this report also demonstrate its highly promising potential of ASEAN producing strong financial and societal performance that contribute to the SDGs.

ASEAN shows its impact investing ‘ecosystem’ taking shape yet requires further institutional coordination from all actors in transactional, facilitative, intellectual and government dimensions. Some of the major challenges raised are further skills and expertise in impact measurement required in the market as well as SDG-washing. SDG-washing, in particular, refers to the misleading presentation as a marketing exercise of an investment portfolio to demonstrate seemingly social impact and alignment with the SDGs, despite the lack of intentionality or the lack of capacity of investees in evaluating and reporting societal impact to investors. **Skills required for impact measurement will serve to mitigate the risk of SDG-washing which can discredit the overall work of impact investing.** To nurture impact investing activities for sustainable development, also stressed by the ASEAN Economic Community Blueprint 2025, facilitative support—**capacity building of investees**—is imperative to promote ‘**investment readiness**’ in aspects of business and impact measurement, leading to build the pipeline. This can raise confidence of national or international impact investors to galvanize the impact investing market for SDGs financial mobilization. Intellectual resources are integral to share the **ASEAN- specific knowledge and taxonomy** through scholarly resource development that reflect evidence-based policy recommendations. Finally, **ASEAN-driven institutional effort** and **ODA-incorporated impact investing initiatives** for Least Developed Countries in ASEAN are suggested to spur progress to the SDGs.

This report unearths the highly fragmented understanding of the current impact investing market and ecosystem in ASEAN and invites further research to compliment this research. **Impact investing has an approach distinct from other investment vehicles, which indeed symbolizes the ‘new normal’, aiming to deliver both financial and societal performance.** Impact investing will only continue to grow, as is essential for sustainable development.

1. Introduction

Year 2021 marks the beginning of a second quarter of the timeline towards 2030, as we entered the “decade of action” towards the 2030 Agenda or the Sustainable Development Goals (UN 2020a). Before the crisis of coronavirus disease 2019 (COVID-19), financing the SDGs required \$3.3 to 4.5 trillion annually (UNSDG 2018, 3). The health and economic threat of COVID-19 is continually eroding three decades of global poverty reduction efforts (Sumner, Chris Hoy, and Ortiz-Juarez 2020), with the decline in investment relevant to SDGs greater in developing and transition economies (UNCTAD 2021). Even though the current decline of ASEAN economies is triggered by the repercussions of the pandemic, it implies that the previous business models are not necessarily viable and adequate. Resilience of global value chains (GVCs) is consistently challenged in ASEAN, and so too, is the relationship between ASEAN and Japan in the way we reform and rebuild the ASEAN-Japan economy (Fujita 2020). There is urgent need for adjusting and adapting the new normal of driving the renewed economic paradigm. Doing so in ASEAN would further nurture and benefit the ASEAN-Japan economy.

This paper serves to promote an emerging type of investment, impact investment between ASEAN and Japan. The economic recovery from the COVID-19 shock is underway in ASEAN, despite resurgent outbreaks that persist to be a threat. Indeed, the decline in SDG-specific projects and finance is a matter of fact (UNCTAD 2021). However, Asian Development Bank (ADB) found that while the progress of vaccine rollouts is at different speeds, Southeast Asia is forecast to grow by 4.4% in 2021 and 5.1% in 2022 (ADB 2021a), which is positive for business and investor communities.

The COVID-19 shock is accelerating positive forces to strategize a post-pandemic economic recovery. The global effort to fight the pandemic was already visible in the private sector where the total value of social bonds, \$55 billion, issued in 2020 as a response to COVID-19 exceeded that of 2019. Stock exchanges have actively supported the social bond market by waiving listing fees (UNCTAD 2020). Looking at ASEAN alone, in April 2020, the Government of Indonesia issued the 50-year issue of COVID-19 bonds, the largest tranche of US dollar bond in history (ADB 2021b).³

With respect to bond issuance on the front of sustainable development, Asian Development Bank (ADB) and ASEAN Catalytic Green Finance Facility (ACGF) published Green Finance Strategy of Southeast Asia at the end of 2020 for a green and sustainable ‘recovery package’ through bond issuance in ASEAN capital market (ADB and ACGF 2020).

³ See Asian Development Bank (ADB 2021b) for further information on social bond market in Asia.

Similarly, many investments in ASEAN are increasingly taking environment, society and governance (ESG) into consideration for investment decisions (Korwatanasakul and Majoe 2019). The COVID-19 crisis has clearly fuelled the need to mainstream investment that creates and sustains developmental impact and significantly contributes to the growth of socially oriented funds and bonds (UNCTAD 2020). The next 10 years, a decade of action will witness the gradual growth of the SDG-oriented financing projects (UN 2020a).

To allocate capital for the SDGs, impact investment can be considered the next financial driver. The world has reached an “inflection point” where innovative approaches are required. There is a thirst for new approaches to incorporate the private sector into public social development, which is expected to increase in the post-COVID 19 world—because of the lack of public finance that was diverted to fight against the pandemic. Private finance has an influential role in the effort to achieve the SDGs particularly through “steering the investment decisions” to “fasten the realignment... to invest in the SDGs” and “foster change in company and consumer behaviours” for further sustainable markets (UNDP 2017, 3). While impact investment will not replace the role of the public sector and philanthropy, with global wealth estimated at \$399 trillion (Credit Suisse 2020, 8), there is substantial scope to attract the participation of the private sector in global sustainable development.

As will be seen in this paper, impact investing is a growing field of practice, both globally and in ASEAN. It has been over a decade since the term “impact investing” was coined by the Rockefeller Foundation in 2007, and since its emergence as a concept, there has been a remarkable progress in its institutionalization. The field of impact investing is still fragmented and complex⁴, yet has displayed significant growth and momentum through the concerted effort of global and national policy-makers and increased attention from investor communities (Ono 2020).

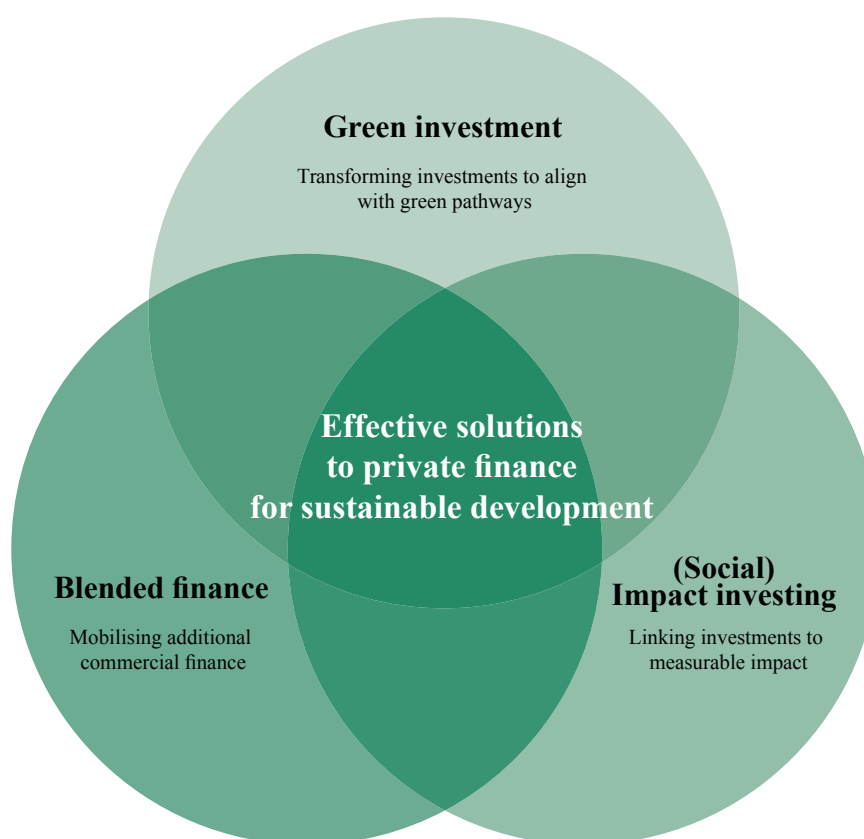
This paper provides an overview of impact investing practice that contributes to achieving the SDGs in ASEAN countries. It describes different types of impact investments and the global actors that construct the impact investing architecture. Through selected case studies and recommendations pertinent to ASEAN, this paper aims to encourage the involvement of more actors into the impact investment field to facilitate resource mobilization for SDGs in ASEAN.

4 Impact investing first gained prominence in the philanthropy sector, as was first termed by the Rockefeller Foundation in 2007 (IFC 2020).

1. Sustainable Development Goals and Investment

Into the last decade of the milestone towards the SDGs, greater investment in sustainable development is vital⁵, and channelling sustainable investments to SDG-aligned opportunities continues to be a critical discussion point.⁶ The increasing role of the private sector is essential. Figure 1 illustrates a role of “private finance” for sustainable development (OECD 2019, 28). The theme of sustainability must be embedded across all SDGs, as actions for one Goal affect outcomes in other Goals. It is important to design holistic strategies for SDGs.

Figure 1: The role of private finance for sustainable development (OECD 2019, 28)



Source: OECD (2019, 28)

- 5 Researchers such as Walkate and Krosinsky (2018) who acknowledge the vast pool of money already available for renewable energy at the same time warn the use of SDGs as a simple tick-box of investment strategies. The notion of “SDG-washing” is also discussed in Chapter 4.
- 6 In September 2017, the UNDP established the United Nations SDG Impact Finance (UNSIF)—a fund which incentivizes various global funds and commercial investors as well as philanthropic foundations to mobilize financial resources to achieve the SDGs. However, the role of UNSIF has shifted more to engage with leading global universities and academic research institutions to improve the analytical frameworks, evidence and policy environment that supports its original purpose (Ono 2020).

Impact investing as part of the effective solution to private finance for sustainable development is a focus of this paper. Impact investing is of direct relevance to the focus of SDG 17: Partnerships for the Goals, particularly the focus of additional financial mobilization (For more information on blended finance and green finance, see OECD 2019). Increasing commitment of private finance, in this case impact investing, is essential to the realization of the 2030 Agenda.

In fact, there is growing attention to **Sustainable Development Goal Investing (SDGI)**, re-defined and coined in 2017 in the discussion paper *Advancing A New Normal in Global Capital Markets* commissioned by the Financing for Development Office and the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs. SDGI is defined as “all investment strategies whereby sustainability and/or the SDGs form a ‘material’ factor in investment decisions” (C-Change 2017, 4). SDGI is an umbrella term that includes a full spectrum of impact investing as well as sustainable and responsible investing more broadly (see Figure 2), and therefore brings vast amount of financial resources for SDGs.⁷ The World Investment Report (UNCTAD 2020, 182) shows the summary of SDG investment gaps and directional trends based on the World Investment Report 2014. The areas that require the largest financing include energy (excluding renewables)⁸ estimated at \$370-690 billion in investment gap in developing countries and climate change mitigation at \$380-680 billion in developed countries. As of 2017 (C-Change 2017), SDGI was estimated at \$23 trillion globally, which is composed of \$15 trillion as responsible investing and \$8 trillion as sustainable investing, and \$0.12 trillion of which was estimated to be impact investments. While this figure of impact investing within SDGI as of 2017 may be considered fractional, the global impact investing market as of 2020 has grown by six times to \$0.71 trillion (see Chapter 3). As will be explained in the next chapter, this paper reveals the significant potential of impact investment globally and ASEAN to mobilize resources for the materialization of the SDGs.

On the ASEAN front, the ASEAN Secretariat published the ASEAN Sustainable Development Goals Indicators Baseline Report in November 2020. The Working Group on Sustainable Development Goals Indicators (WGSDGI) within the ASEAN Community Statistical System

⁷ It is important to note that *not* all impact investments are SDGI. SDGI can be regarded as impact investment if there is intentionality in creating social impact aligned with one or any of the 17 SDGs.

⁸ This pertinent explanation here does not refer to the SDGs per se as the figures of funding gap here (\$370-690 billion and \$380-680 billion) are estimated based on the World Investment Report 2014, before the adoption of UN SDGs.

(ACSS)⁹ reviewed the ASEAN SDG indicators and provided a list of 63 SDG main indicators along with sub-indicators, forming 134 indicators in total in 2019. This 268-page Baseline Report provides the baseline assessment and measurement of the progress in achieving the SDGs in the region from 2016-2018, as well as relevant policy recommendations at the national and regional levels for the achievement of SDGs.¹⁰ In addition, the issue of limited data availability and/or poor data quality restrict the ability to assess investment trends of emerging economies such as ASEAN in all SDG sectors (UNCTAD 2020). Of urgent importance is that investments in statistical capacity as well as increased coordination between governments and the private sector for financing the SDGs are required to strengthen institutional capacity and accelerate the efforts for materialising the SDGs (ASEAN Secretariat 2020).



⁹ The ACSS was established in 2011 as a partnership among each national statistical systems of the ASEAN Member States (AMS), the ASEAN Community Councils and the ASEAN Secretariat to provide ASEAN statistics in support of evidence-based policy and decision making and enhance the statistical capacity of the AMS and the ASEAN Secretariat.

¹⁰ For more information, see ASEAN Secretariat (2020).

2. Overview: The What and How of Impact Investment

2.1. Definition and scope of impact investment in the capital spectrum

Impact investment, in this paper, refers to **an investment approach that generates positive societal impact (social and environmental) alongside a financial return** (GIIN 2020; International Finance Corporation 2020). Investors make impact investment in investees that can include companies, organizations and funds that provide goods and services to recipients of such “products” with a view to creating positive societal impact. Impact investment is not a new and independent asset class but rather, is made across diverse asset classes. Investment vehicles used to practice impact investing are explained further later in this chapter.

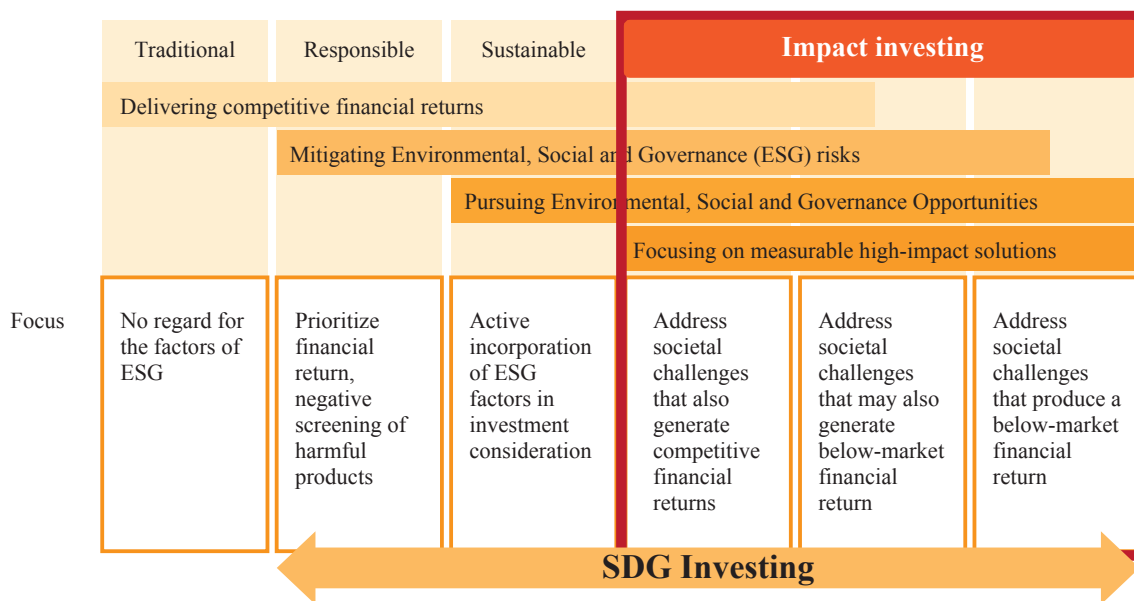
The core characteristics of what constitutes impact investing are four-fold (GIIN 2019b):

1. intentionality in creating positive societal impact,
2. societal impact evidence in investment design,
3. managing societal impact performance, and
4. contributing to the growth of impact investing.

Impact investment sits within the spectrum of capital (see Figure 2).

On one end, there is a “traditional” segment where financial-oriented businesses have no regard for the factors of environment, society and governance (ESG). From the left to the right, the segments are classified according to the level of consideration for societal impact, within which, impact investing is positioned.

Figure 2: Spectrum of investment capital



Sources: National Advisory Board of Japan (2020b); Bridges Fund Management (2017); C-Change (2017)¹¹

Figure 2 shows that the second left “**responsible**” capital category is an investment approach that conducts “negative screening”—to avoid investing in harmful products and practices such as tobacco, firearms and military weapons. The responsible capital category mitigates the broader issues that surround ESG factors into investment decisions. Responsible investment brings enormous financial volume from the market. The estimated global value of responsible investment globally is \$89.6 trillion (Principles for Responsible Investment 2018a, 6) which, in fact, is above the world’s total GDP, \$87.27 trillion, according to the World Bank (2019).

The **sustainable** capital category refers to investment approach that conducts “positive screening” i.e. actively invest in companies that work to mitigate issues surrounding the ESG factors in the investment decision. The 2019 report on the future of finance by the Rockefeller Foundation, Asian Venture Philanthropy Network (AVPN) and FSG state that 88 % of the 190 academic papers on sustainability and firm performance concluded that companies with robust sustainability practices demonstrated better operational performance (Thuard et al. 2019). For ASEAN, AJC’s paper on ESG “investment” (Korwatanasakul and Majoe 2019) confirms that profitability is high for ESG-implementing firms than non-ESG firms (see Box 1).

¹¹ Author acknowledges that among other investment approaches, socially responsible investment (SRI)—which has a long history—is now termed sustainable investment (JSIF 2021).

The segments of **impact investing**—a focus of this paper—represents investments that have clear intent of addressing societal challenges. As Figure 2 suggests, impact investing is distinct from other investment approaches in its characteristic of intentionality in creating positive societal impact. It is beyond mitigating risk, assessing companies' non-financial performance and incorporating the ESG-related factors and compliance in their investment decisions alongside financial return (Principles for Responsible Investment 2018b; JSIF 2021; National Advisory Board of Japan 2021). The practice of impact investing¹² emphasizes the business models, products and services of investees which contribute to generating financial and societal return, which is why the potential of impact investing is enormous (NAB of Japan 2021).

12 Impact investing encompasses both a finance-first segment to (societal) impact-first segment, emphasising the orientation that impact investors pursue to maximize (For more, see Monitor Institute by Deloitte (2009, 31)).

Box 1. Impact Investing and “ESG investing”

There is rapid intellectual development in this sphere among scholarly and practitioner research. Most importantly, JSIF (2021) has just warned the use of the term ESG ‘investing’ in April 2021. The often-raised debates surrounding the differences between ESG ‘investing’ and impact investing originates from this confusion. In fact, six principles of the Principles for Responsible Investment (PRI) (See Appendix 1) does not list ESG as ‘investment’ in their definition. In addition, the biennial report of Global Sustainable Investment Alliance (GSIA 2019) also makes this point clear that ESG is not an investment approach but is a strategy for integrating the ESG factors (see Table 1).

Table 1: Sustainable investment activities and strategies (GSIA 2019)

Activities and strategies of Sustainable Investment	
1	Negative/exclusionary screening
2	Positive/best-in-class screening
3	Norms-based screening
4	ESG integration
5	Sustainability themed investing
6	Impact/community investing
7	Corporate engagement and shareholder action

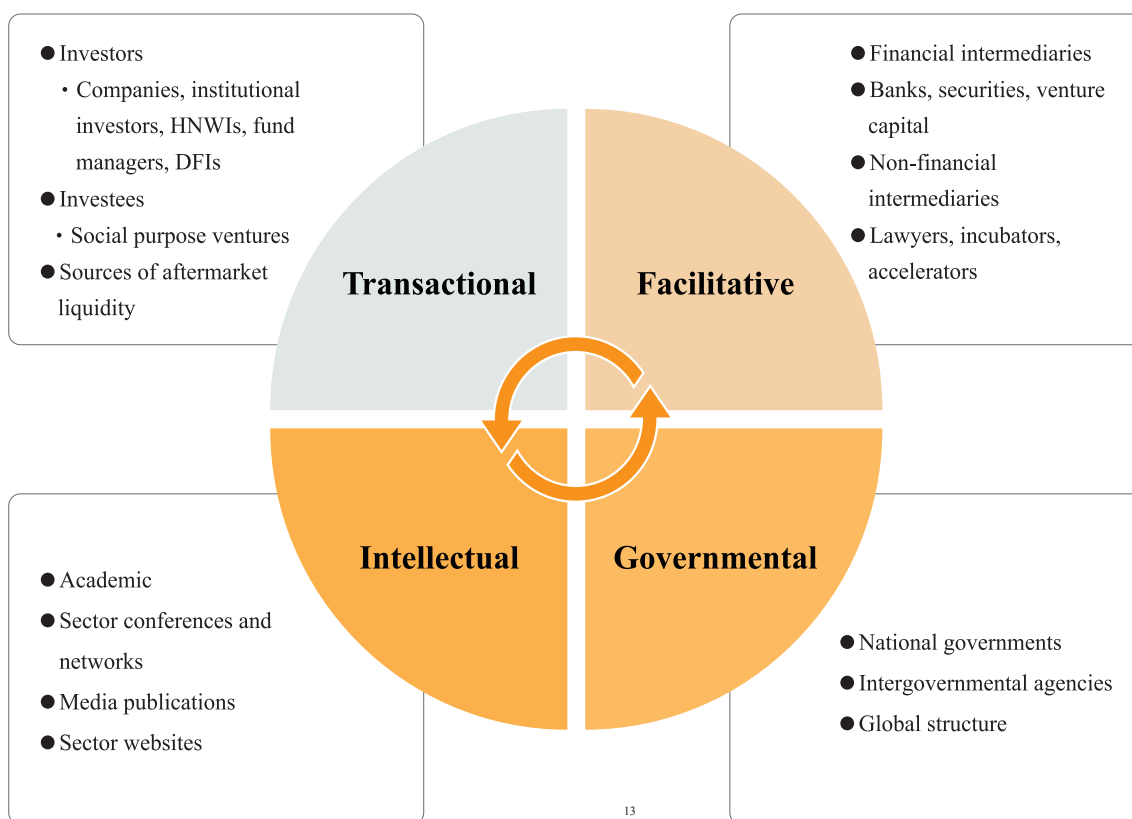
Therefore, for consistent conceptualization, this paper takes the view that ESG is a factor to ‘incorporate’ and ‘integrate’. Figure 2 excludes ESG ‘investment’ as a category from the capital spectrum and instead, embeds the ESG ‘integration’ within the sustainable investing category. Impact investing by definition includes ESG factors as an integral part of sustainable investment.

2.2. Ecosystem: Impact investment actors

Investing in SDGs and impact investing in particular, requires a diverse range of actors such as investors, investees and intermediaries who are necessary in the impact investing architecture. However, there are more variety of actors required to facilitate and lubricate the investment flow. This overall framework composed of multiple forces as such is often referred to as an *ecosystem* (Roundy 2019). The impact investing ecosystem involves cross-sectoral players (Schwartz, Jones, and Nicholls 2015, 489), who are also discussed extensively in the list of recommended domestic policy instruments in the OECD’s Impact Imperative Report (OECD 2019, p. 167).

The characteristics of actors can be categorized into four groups that are: transactional, facilitative, governmental and intellectual (Schwartz, Jones, and Nicholls 2015, 489; National Advisory Board of Japan 2020b, iii; OECD 2019). Figure 3 shows each category with multiple characteristics that feed into differing categories.

Figure 3: Ecosystem of impact investing actors



13 Based on Schwartz, Jones, and Nicholls (2015); OECD (2019); National Advisory Board of Japan (2020b).

Transactional:

◆ Impact investors

Investors take diverse forms that range from companies, institutional investors, fund managers, family offices, foundations, banks, pension funds, individual investors that include small-scale investment via crowdfunding platforms or funds as well as high net worth individuals (HNWIs) including angel investors and development finance institutions (DFIs).¹⁴

While inclusiveness of investors can be contested, particularly in relation to DFIs, this paper takes a holistic view that any entities that make investment that fall under the criteria of impact investment (intentionality of societal impact creation, expectations of differing degree of financial return as well as commitment to impact measurement) can be viewed as impact investors. In the context of ASEAN, DFIs as government-funded financial institutions are important to finance the MSMEs in the private sector to promote developmental impact (see Chapter 3).¹⁵

◆ Impact investees

Investees include any entities deemed as “social purpose ventures” (SPVs) (OECD 2019, 66)—be it for-profit or not-for-profit entities that operate on new business models to actively address societal challenges. For-profit businesses can range from micro, small and medium-sized enterprises (MSMEs) to larger enterprises. Some can be called social enterprises where market-oriented companies approach social development with an emphasis on social innovation.¹⁶ Not-for-profit — or “for-purpose”—entities can also be included that create societal impact, raise profit to re-invest into future impact-creating activities. The investee category may also include “start-up” companies designed to grow fast, but there needs to be an emphasis that they address societal challenges.¹⁷ SPVs are the essential actor that creates societal impact to contribute to achieving the 2030 Agenda.

14 For a comprehensive list of types of potential social impact investors, see OECD (2019, 69-70). IFC (2020) also suggests a convergence of investment practice between private investors and DFIs which were previously considered to be different.

15 However, DFI’s bilateral or multilateral assistance may not always fall under the category of impact investment.

16 Social innovation refers to innovative activities and services that are motivated by, and developed for, the creation of “long-lasting outcomes” that aim to solve societal challenges (Voorberg, Bekkers, and Tummers 2014, 2). It is often practised by any organizations or individuals—including social enterprises—whose primary focus is societal good (Yunus 2006).

17 There is no universal definition of a number of years categorizing a company as a start-up, hence we do not know when a start-up company stops being one. For reference, the recommendation report on start-up investment in Southeast Asia and India by METI and PwC (2020) defined the start-up to be those in operation within 15 years for the research purpose.

◆ Sources of aftermarket liquidity

Sources of aftermarket liquidity can be a liquidity provider such as the stock exchanges. Aftermarket liquidity platforms for the impact investing ecosystem can include socially-focussed stock exchanges (See further in this Chapter for examples). These platforms perform to support development of the impact investing ecosystem to facilitate smooth transaction and investment.

Facilitative:

◆ Intermediaries

Intermediaries can take two forms that are financial intermediary and non-financial intermediary.

- **Financial intermediary** represents entities such as venture capital, banks, securities or local financial service agencies that serve as financial “middlemen” for financial transactions. They provide services of creating impact investment product for investors. These are investment dealers essential for both impact investors and investees in Japan and ASEAN to galvanise the investing market and offer potential investors expert investment advice on financial risk and return – and in some occasions, societal risk and return as a package.
- **Non-financial intermediary** represents entities such as generalist and specialized consulting firms, industry support associations, lawyers, accountants, designers, engineers, evaluation institutes and/or foundations. These actors connect impact investors and impact investees through a) the provision of networking opportunities and conferences as well as b) the opportunity to enhance investment-readiness of impact investees. For the aspect of a), non-financial intermediary organise sector conferences, investment pitch, and business matching events to fill the gap between investors and investees. Awards and challenges, once granted, simultaneously promote SPV’s investment readiness through recognition and reputation (Schwartz, Jones, and Nicholls 2015, 489; National Advisory Board of Japan 2020b, 7). For the aspect of b), initiatives to

18 There is a wide range of social business and social impact-related awards and competition around the world. Relevant to ASEAN can include ASEAN Impact Challenge, ASEAN Social Entrepreneurship Innovation Challenge, ASEAN Social Impact Awards, Impact Investment Summit Asia Pacific, to name a few. The prominent one in Japan is Social Business Contest, organized by Nikkei Newspaper, encouraging Japanese SPVs to enter and compete for business models that create SDGs impact. The ASEAN Social Entrepreneurship Innovation Challenge Another is, organized by Research Synergy Foundation, Prokompas, Ubud Cycling Bike Education Program in Indonesia and Macquarie University students in Australia.

promote investment readiness include technical assistance, capacity building, incubation and acceleration service which include mentoring on commercialising socially oriented activities, advising approaches to governance and due diligence of societal impact and finance to increase data transparency and interoperability, advice on public relations and communication campaigns.

Governmental:

Firstly, the government sector—national and intergovernmental—has the public authority to effect the necessary regulatory environment through policies and financial services legislation. These are critical to establish conditions conducive to “enhance policy coherence” for sustainable development (UN Department of Economic and Social Affairs 2015 Goals 17.13 and 17.14). Each national government acts to formalize national strategies and plans applicable to facilitate the promotion of impact investing. It is a first step that assists enforcing legislation and regulation, which includes fiscal incentives such as tax and investment relief. It is also important to “harmonize, where possible, investment policies and measures to achieve industrial complementation” (Invest in ASEAN 2009, Article 26). Key global governance structures can play a role for coordinated policy guidance. In addition, establishing a certification system for SPVs (See “B-Corp” further in this chapter) can also assist in strengthening their legitimacy and credential, hence further financial resource (UN Department of Economic and Social Affairs 2017 Goal 17).

Intellectual:

The intellectual infrastructure represents academic institutions, sector conferences and networks, media publications and sector websites, in order to accelerate the ecosystem development of impact investing through increased research, studies and data publication. The body of knowledge, expertise and technology shared across sectors will be used as best practices and/or guidelines which will translate into more improved policies and practice. Communication campaigns and consulting with external stakeholders in advance can effectively raise awareness and bring more actors into the impact investing field, in order to “enhance the global partnership for sustainable development, complemented by

multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources” (UN Department of Economic and Social Affairs 2015 Goal 17.16).

Finally, needless to say, outside these categories are “product recipients” as direct and indirect beneficiary population of the impact investing ecosystem.

These transactional, facilitative, governmental and intellectual groups of actors as well as product recipients make up for the overall impact investing ecosystem. The next section details types of impact investment, introducing potential investment vehicles applicable in the ASEAN context that can be utilized by current and future impact investors.

2.3. Types of impact investment

This section focuses on the types of impact investment practiced globally. The list below is not exhaustive but has relevance to the context of the ASEAN region for applicability in practice (see Appendix 2 for detail). Impact investments cut across differing asset classes. While the spectrum of capital detailed in Chapter 1 only describes the extent to which capital is deployed pertinent to types of financing categories, this section explores the types of impact investing vehicles which can potentially be considered and utilized.¹⁹

Types of investment vehicles	Descriptions
Loan	A loan is frequently utilized through mediums such as crowdfunding/ crowdlending, microfinance institutions (MFIs) and community development finance institutions (CDFIs).
Publicly traded debt	Publicly traded bonds or loans, can often be seen in green, social or sustainability bonds. Green bonds gained prominence particularly after 2015, marking the Paris Agreement.
Equity	Equity investment takes the form of both publicly traded shares/stocks and private stocks. It is one of the most often practised instruments by impact investors. Through private equity, impact investors can shape a portfolio of companies' strategies and work directly with companies to help them meet the intended impact. ²⁰

¹⁹ This report, like other scholarly reports, does not include grants as part of the impact investing instrument, since a grant does not need to be repaid, time-bound and restricted to projects. However, the concept of venture philanthropy is an additional mechanism for consideration in the broad spectrum that use grants for early-stage seed funding as well as investors' voluntary engagement to enable new social purpose organizations to start up their operation. Capital used in venture philanthropy is often called "patient capital" as the investors employing this type of capital maintain greater patience for risk. Investors do not expect an immediate financial return with a purpose to support the early stage of their operation. For further, see John (2015); and Thuard et al. (2019).

²⁰ Occasionally, impact investors wish to work closely with impact investees to co-create the impact-making processes (IFC, 2020).

Types of investment vehicles	Descriptions
Debt-equity swap (Debt-for-SDG swap & Debt-for-Climate swap)	Debt-equity swap is a type of financial mechanism for debt relief practiced since the 1980s as part of the official development assistance (ODA) funding. It is a mechanism to mobilise finance for development in debtor countries (aid recipient countries) by converting a portion of external debt owed to the creditor countries into funds for new and existing aid programs in the debtor countries. In other words, the mechanism turns the debt into another financial resource to contribute to development programs.
Impact bonds	Impact bonds provide public-private-non-profit partnership. The impact bond models aim to tackle the funding shortfall by engaging with private investors as resource-mobilisers to deliver financial returns measured against the level of societal impact created. The impact bond model is commonly referred to as ‘pay for success’. A financial return is distributed based on the societal impact performance delivered by social service providers. ²¹ Notable impact bonds are social impact bonds (see Appendix 2) and development impact bonds . ²² In ASEAN, there is one case of development impact bond practised.

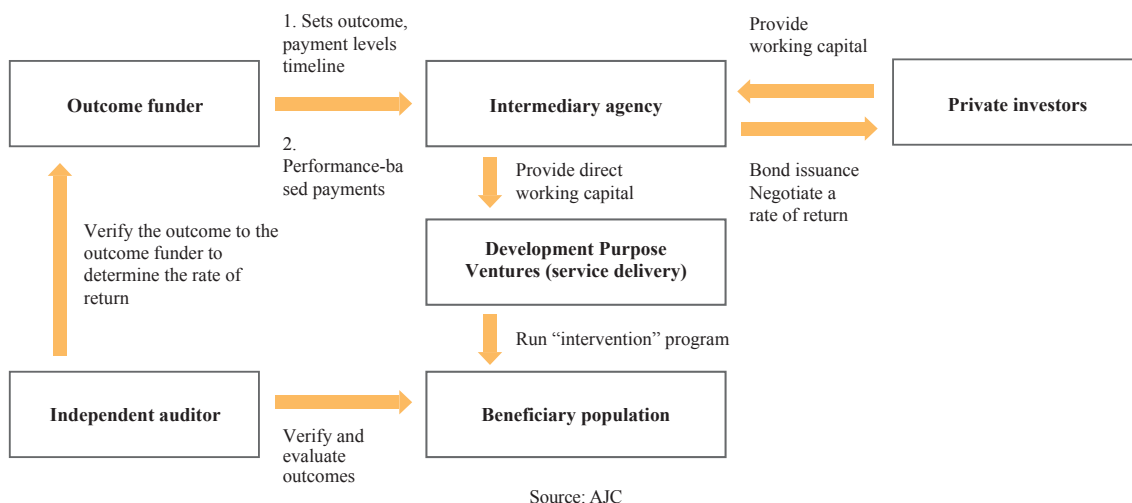
Development impact bond

Development impact bonds (DIBs) are results-based instruments that transform development challenges into ‘investible’ opportunities. Combined actors of public, private and social service delivery stakeholders agree on measurable, prevention-oriented objectives and a method for measuring success in ‘cross-sectoral’ partnerships. The DIB working model involves holistic multi-sectoral partnerships—**impact-oriented investors, intermediary, social service delivery and outcome funder**. The intermediary agency secures working capital from investors—in the case of DIB, usually philanthropic foundations—and provides allotted capital to the service delivery organization to produce the development outcome, which is to be audited by the independent evaluator. Once the intervention is deemed successful by the auditor, outcome

- 21 Similar activity was launched in Singapore as the world’s first “Social Impact Guarantee” through the program enhancing support for youth at risk – unemployed or out of school (Ang 2021). This model employs “money back guarantee” for donors that provided grant if predefined and agreed outcomes are not achieved.
- 22 The model of social impact bond is explained in detail in Appendix. There is also humanitarian impact bond launched in 2017 by the International Committee of the Red Cross (ICRC), Physical Rehabilitation Programme. See the website of ICRC for more information.

payers—commonly donors or philanthropic foundations—are to repay investors with interest; as pre-agreed according to the level of development performance (see Figure 4).

Figure 4: The development impact bond model mechanism



This model is used in existing DIBs such as one for quality education (see Box 2) and maternal and newborn health in India (International Network for Data on Impact and Government Outcomes 2021).^{23, 24} The development of DIBs is reflective of significantly growing interest in this model as an approach to monetising development impact that can contribute to global sustainable development.

23 See more at <https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/utkrisht-impact-bond/>

24 The DFID in the UK announced in April 2014 that it would launch the world's first DIB project to tackle African sleeping sickness in Uganda, and the Inter-American Development Bank (IADB) pledged US\$5.3 million for the development of a DIB market to address high priority social issues in Latin America and Africa (Social Finance, 2014). However, this project launched as DIB is now termed SIB, according to the DFID website (DFID 2017), as this was a feasibility study project to develop a new outcome instrument to address sleeping sickness.

Box 2. Quality Education India DIB

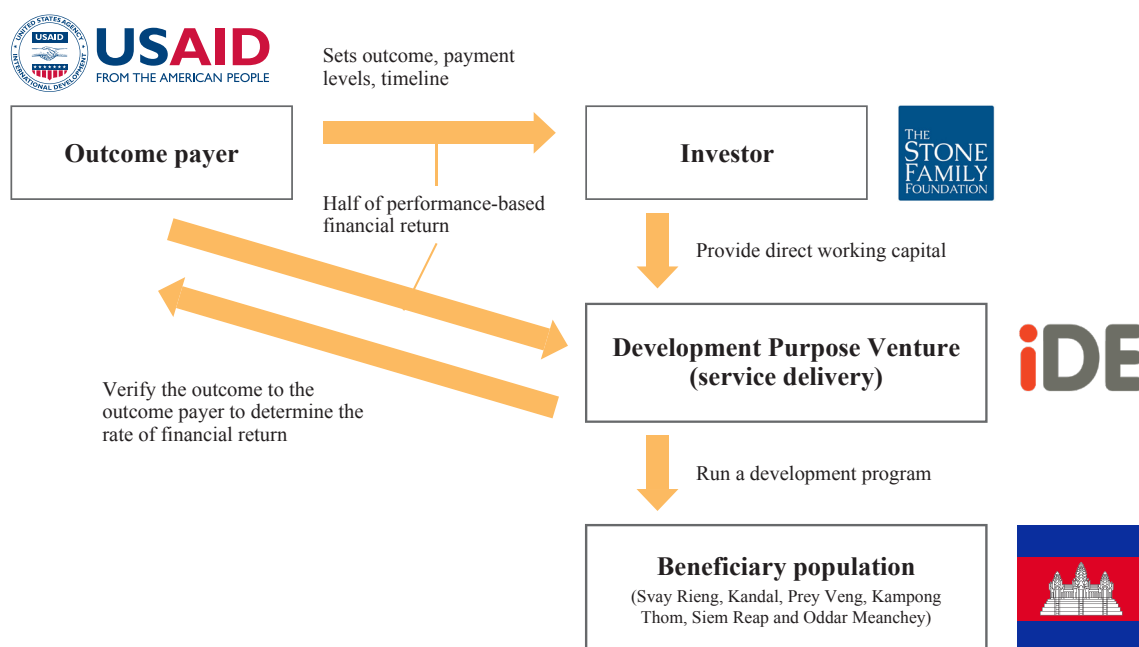
This was a three-year project to address the challenges of high dropout rates and education quality. The UBS Optimus Foundation provided upfront capital of \$267,000 from UBS clients to Educate Girls, an NGO that works in public schools in Rajasthan to improve results in basic English, Hindi and mathematics for 20,000 students in roughly 150 of the most poorly performing schools (Instiglio 2015, 5). The Children’s Investment Fund Foundation pays investors back with returns at around 7% to 13%, depending on the rates of retention and academic achievement. ID Insight is an external outcome evaluator, and Instiglio, a Boston-based non-profit intermediary, is the project manager in this pilot project.

Since the launch in 2015, this DIB project has demonstrated strong performance, resulting in the financial return to investors in the form of an ‘outcome payment’. The UBS Optimus Foundation (2018, 5) reports that the service provider Educate Girls has achieved 116% of the enrolment target and 160% of the learning target in its final year—owing to its child-centric curriculum and improved outreach to change the community mindset toward education. The Children’s Investment Fund Foundation as the ‘outcome payer’ has repaid the UBS investment with a 15% return—\$144,085—due to the initially set outcomes being exceeded (Saldinger 2018, 5). The total payout, according to the UBS Optimus Foundation report, will be reinvested into further development programs, of which 32% will go to Educate Girls and the remainder to UBS Optimus Foundation initiatives (UBS Optimus Foundation 2018, 5).

In the same province in India, another impact bond was launched in 2017. In November 2018, the world’s first healthcare development impact bond, Utkrisht was launched by Palladium, an international advisory and management business. It aims to improve the quality of maternity care providers in Rajasthan, India, with a view to reducing mother and baby deaths. It is a three-year project in partnership with the UBS Optimus Foundation providing initial capital as an investor, Palladium as an intermediary manager, HLPPT as a service provider, and the USAID and MSD for Mother in India as outcome payers. The Government of Rajasthan also participates in the program in a non-executive role and lays the ground for government outcome funding.

As of April 2021, within ASEAN, there is only one DIB case in progress—in Cambodia. Figure 5 illustrates the operation of the first ASEAN example of DIB. This, the world’s first DIB in the water, sanitation and hygiene (WASH) field responds to SDG 6: Clean Water and Sanitation. It is a market-based financing structure launched with \$10 million, to enable 1,600 villages in six selected provinces (Svay Rieng, Kandal, Prey Veng, Kampong Thom, Siem Reap and Oddar Meanchey) to become open defecation free by the end of 2023²⁵. This DIB is a significant driving force for the government of Cambodia that has made a commitment to eradicating the high rates of open defecation by 2025, as per the National Strategic Plan for rural water supply, sanitation and hygiene (RWSSH) 2014-2025 (World Bank 2015).

Figure 5: The DIB operation in Cambodia



Source: AJC

Unlike the described DIB model (see Figure 4), this DIB only entails a three-party collaboration between the Stone Family Foundation, International Development Enterprises (iDE) and the United States Agency for International Development (USAID). The Stone Family Foundation, specialized in WASH in countries including Cambodia for over 10 years, serves as an impact investor that provides upfront capital. The iDE as a service-delivery agency is a non-profit

25 To further understand the rural sanitation context in Cambodia, see the website of the Stone Family Foundation at <https://www.thesff.com/system/wp-content/uploads/2021/03/Development-Impact-Bond-lessons-learned-March-2021.pdf>

organization that promotes a market-based model in approaching development challenges. The iDE also has a proven model for building sanitation markets in Cambodia since 2006 where they train sales agents to sell toilets to households in communities and works closely with businesses of cement and materials to expand the toilet business (International Development Enterprise 2021). Finally, the USAID works as an outcome funder to release payment as financial dividend relative to the level of development outcome achieved by the iDE.

This DIB model is innovative not only because of the world's first WASH impact bond, but also because of this operation involving neither the intermediary agency nor independent auditor. Based on the detailed feasibility study by Social Finance Inc., an intermediary agency specialized in impact bonds and impact investments, this particular DIB project was deemed appropriate to have only three parties for two reasons (Social Finance 2021). Firstly, the development of the DIB model was relatively simple, building on USAID's internal precedents as an outcome payer. Secondly, there is a long-standing partnership between the Stone Family Foundation and iDE on the work of WASH in countries, including Cambodia. An independent auditor was unnecessary because of "historical performance and cost data... that the partners were able to confidently price the outcomes, which to date have tracked as forecast" (The Stone Family Foundation 2021, 8). In addition, the DIB leveraged the official government of open defecation free (ODF) claim process, verified using iDE's data—clear performance, cost data and real-time updates (The Stone Family Foundation 2021). Therefore, without having to engage an independent auditor as well as the intermediary agency, this DIB model enabled smooth negotiation for outcome agreements and simpler governance arrangements and reduced significant transaction costs.

As of March 2021, about 500 villages—31% of the overall goal of 1,600 villages—has been impacted to ensure ODF. These villages hold 88,738 households which have all confirmed to have safe access to sanitation, aligned with the Royal Government of Cambodia's ODF guidelines (The Stone Family Foundation 2021). The fact that 31% of the overall goal has been reached means that 31% of the total pre-agreed return has been paid out by the outcome funder, equivalent to \$3.1 million in outcome payments disbursed by USAID (The Stone Family Foundation 2021). This DIB model has agreed to innovatively split up the outcome payment, bringing half, \$1.55 million each to the Stone Family Foundation and the iDE (Social Finance 2021). It project had marginal interruption by the influence of COVID-19, as a result of few cases identified in Cambodia. This project is set to conclude in 2023, by which time, in theory, the remaining 1,100 villages can ensure ODF and if so, the total of \$10 million will be paid out to both the Stone Family Foundation and the iDE.

This DIB project can be taken as an example in ASEAN that demonstrates an innovative instrument that can source finance for SDGs.

Box 3. DIB Critiques

Similar to the SIB model, the DIB model also presents several challenges. Firstly, the complexity of functions involving actors across sectors blur the boundary between grant making and investment. As John, Chia, and Ito (2017, 53) claims, DIBs can be a mere example of “outcome-based grant making in the context of international development”. In the SIB model, national government commissions service providers to deliver the agreed social outcomes, but in the context of developing countries, where the government capacity needs to be considered, the DIB model configures the “philanthropic capital investors” such as the UBS Optimus Foundation as in the example (John, Chia, and Ito 2017, 53). In addition, DIBs may not necessarily harness greater public-private collaboration without involving the government in developing countries (Gustafsson-Wright, Gardiner, and Putcha 2015). While impact bonds as a financing mechanism have the potential to instigate cross-sectoral collaboration, the degree of public-private collaboration may be low in the DIB model.

The introduction of market principles into welfare service provision fundamentally illustrates the privatization of public policy and shifts the relationship between the service provider and user. Such approaches that monetize the benefits of tackling complex societal impact is generating a fundamental shift in the landscape of investment. Impact bond model can transform not only citizens into “commodities” as “payment triggers” but also the ideology of public policy that is configured to the needs of private investors (Roy, McHugh, and Sinclair 2018). Private social investment can potentially corrupt the “integrity of outcome-based commissioning” by altering such a relationship with supremacy of market-based model (Edmiston and Nicholls 2017). Bond models could appear to seek evidence-based interventions with proven track records rather than encouraging financing innovation (Corry 2016). All in all, it is important to be judicious regarding the critiques when employing the impact bond models and strategizing instruments for SDG financing.

2.4. Key global initiatives covering elements of impact investments

The potential of impact investment is sufficient to warrant serious attention, due to active initiatives by several global groups and agencies that include the following:



Global Steering Group for Social Impact Investment (GSG)

As part of the governmental actor, the Global Steering Group for Social Impact Investment aims to have input into national policy making and galvanise the development of impact investment markets globally. The GSG can be a platform that provides organizational legitimacy conveyed through responses such as new laws, regulations and accreditation processes. The GSG is a successor of the G8 Social Impact Investment Task Force, comprised of the Group of Eight (G8)²⁶, which was launched in 2014 and modelled on the UK's Social Investment Taskforce. In 2014, the G8 Social Impact Investment Taskforce transformed into the GSG to accommodate the evolving initiatives of established and emerging economies worldwide.

As of April 2021, there are 33 countries/regions involved in the Global Steering Group. These include Argentina, Australia, Bangladesh, Brazil, Canada, five Central American countries, Chile, Colombia, the EU, Finland, France, Germany, Ghana, India, Israel, Italy, Japan, Republic of Korea, Mexico, New Zealand, Portugal, Spain, South Africa, Sweden, the UK, Uruguay, the UK, the US and Zambia (Global Steering Group for Social Impact Investing 2021). Argentina and Uruguay as well as five Central American countries are combined to make up one National Advisory Boards (NAB) under the group's

²⁶ The G8 Taskforce included the US, the UK, France, Canada, Italy, Germany, Japan and Australia. Russian Federation is excluded on the basis that its participation has been suspended since 2014 and instead, Australia has joined the G8 Taskforce due to its active development of social impact investment market.

umbrella. While none of the ASEAN Member States is part of the GSG, the potential of impact investment in ASEAN is sufficient to warrant serious attention, due to its active promotion of the use of impact investing as a way to finance sustainable development.

Socially oriented stock exchange initiatives

As an aftermarket liquidity platform, socially-focused stock exchanges were launched in South Africa, the UK, Canada, Kenya and Singapore to support the growth of impact investors in the field. While these are not necessarily active in practice, they are introduced as a concept through which galvanization of the impact investing market can be made possible. The South African Social Investment Exchange was launched in 2006, and the Social Stock Exchange was launched in the UK by private fund managers in 2013 (Social Stock Exchange 2015). In the same year, a group of Canadian fund managers launched the Social Venture Connexion (SVX), a local, impact-first platform linking social enterprises, funds and investors to catalyse new debt and equity investment capital for local ventures that have demonstrable social and environmental impact (Social Venture Exchange 2021). The Impact Investment Exchange was established subsequently by fund managers in Singapore and is the only public social stock exchange that lists, trades, clears and settles securities issued by social enterprises across Asia and Africa. This enabler is also considered to assist social enterprises to become “investor ready” (Logue and Hollerer 2015 para 9).

Similarly, knowledge-sharing contributing to shared models of sustainable investment practice is promoted by the Sustainable Stock Exchanges Initiative, created by the UNCTAD. The Initiative claims to provide “a peer-to-peer learning platform” for “investors, regulators and companies” to explore how exchanges among them “can enhance corporate transparency and performance on ESG issues and encourage sustainable investment” (Sustainable Stock Exchanges Initiative 2021 para 1). Private social stock exchanges are a response from unconventional ‘development’ actors, principally private sector fund managers, who see latent value in impact investing. These platforms help impact investors register and publicize their impacts as evidence of their social and environmental credentials (Global Impact Investing Network 2016).

The following aftermarket liquidity platforms facilitate an increase in liquidity, transparency and efficiency, opening up impact investment to retail investors, and making it more attractive to mainstream investors.



B-Corp Certification

B-Corp certification is a “mediator icon”, equivalent to fair-trade certification which produces cross-sector legitimacy. This is a certification system²⁷ which enables actors in the emerging field of impact investment to negotiate their legitimacy and to provide the B Impact Report, which is “a rigorous assessment of a company’s impact on its workers, customers, community, and environment and make their B Impact Report transparent on bcorporation.net” (B Corporation 2021). Just as there is a fair trade certification logo on products to promote social benefit, B-Corp is a logo for business to certify their socially-oriented operations which then provides acknowledgement and endorsement from their potential customers to purchase their product and from potential investors to provide further capital to scale their business (B Corporation 2021). In order to be certified as a B-Corp, companies must have a “B Impact” score out of 100 and details of their performance evaluation in environmental impacts, governance and stakeholder engagement with workers, customers, community and governance.



Global Impact Investing Network

Global Impact Investing Network (GIIN) is a non-profit organization in the US established in 2009. Its core mission is to build infrastructure and support activities, guide and research that help to increase the scale and effectiveness of impact investing. The GIIN’s Annual Impact Investor Survey is published annually, frequently cited by scholars and practitioners globally.

²⁷ B-Corp certification was created by the non-profit B Lab in the US, established in 2010 to promote purpose-driven entrepreneurs using their business for social good.



IRIS + system for Impact Measurement

IRIS+ is a system that provides resources for measuring, managing and optimising impact, managed by the GIIN. IRIS+ is generally accepted and publicly available in the impact investing community to promote transparency, credibility and accountability necessary for impact measurement and management of impact investment. IRIS+ provides core metrics sets to increase impact data clarity and comparability and thematic taxonomy. The catalogue of metrics is frequently updated and aligned with SDG goals and targets. IRIS+ also offers interoperability with third-party data platforms and systems that use IRIS metrics. By promoting data reporting, IRIS+ facilitates capital mobilization as it enables investors to view their investment progress in societal impact in their investment portfolio. It also enables investees to use wide-ranging impact metrics on IRIS+ in reporting their business activities for investors who wish to translate their impact objectives into investment outcomes. This is particularly critical as the definition of impact investing does require measurable societal impact to be reported in their investment operation.

IMPACT MANAGEMENT PROJECT

Impact Management Project

The Impact Management Project (IMP) is a global network and forum of leading organizations which aims to mainstream impact measurement and management for sustainability. There are GSG, UNDP, IFC, GIIN, PRI, and other leading businesses and investors for their ESG integration and impact investment activities. The IMP aims to build global consensus by having over 2,000 leading practitioners who share their best practices to continue improving impact measurement and management and identify areas for restructuring and standardization. While IRIS+ provides the *what* of measurement, the IMP provides five

dimensions that stipulates *how* impact needs to be measured.²⁸ The IMP is a global public interest project funded by global donors from Europe, the US and Asia.



OECD Social Impact Investment Initiative

The Organisation for Economic Co-operation and Development (OECD) started a Social Impact Investment Initiative in 2013 when the G8 Social Impact Investment Task Force was developing. This resulted in OECD publishing a ground-breaking report “Social Impact Investment: Building the Evidence Base” in 2015 that aimed to develop global standards on definitions of social impact investment, data collection, impact measurement and policy development. A 2019 report “Impact Imperative” emphasized impact in four areas: financing, innovation, policy and data to provide recommendations for delivering on the “impact imperative” of financing sustainable development.

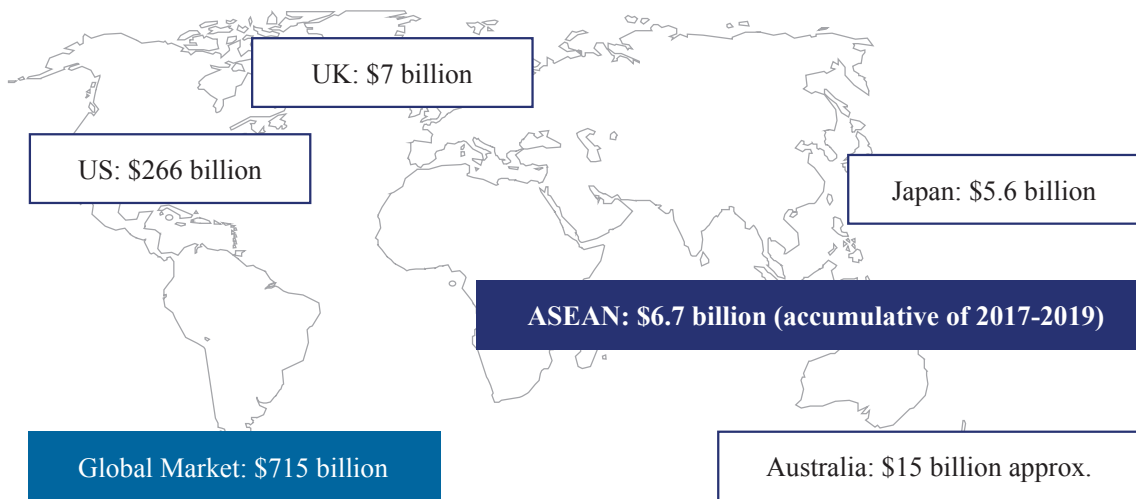
The next chapter highlights the overview of impact investment in global, Japan and ASEAN contexts.

²⁸ The IMP stipulates how impact can be measured across five dimensions: what, who, how much, contribution and risk. See further at <https://impactmanagementproject.com/impact-management/impact-management-norms/>

3. Impact Investment in the World, Japan and ASEAN

This chapter provides an overview of the impact investment landscape in global, Japan and ASEAN contexts. The supply of capital is calculated based on the aggregate assets under management (AUM) that satisfy the core characteristics of impact investing according to each report used in the source (US SIF 2020; GIIN 2020; Responsible Investment Association Australasia 2020; National Advisory Board of Japan 2020a; Big Society Capital 2020).

Figure 6: A glance of impact investment in figure



Sources: US SIF (2020); GIIN (2020); Responsible Investment Association Australasia (2020); Big Society Capital (2020); Prasad, Gokhale, and Agarwal (2020); National Advisory Board of Japan (2021)^{29, 30}

29 The impact investing figure in ASEAN is extremely limited and therefore accumulative data is the only one available.

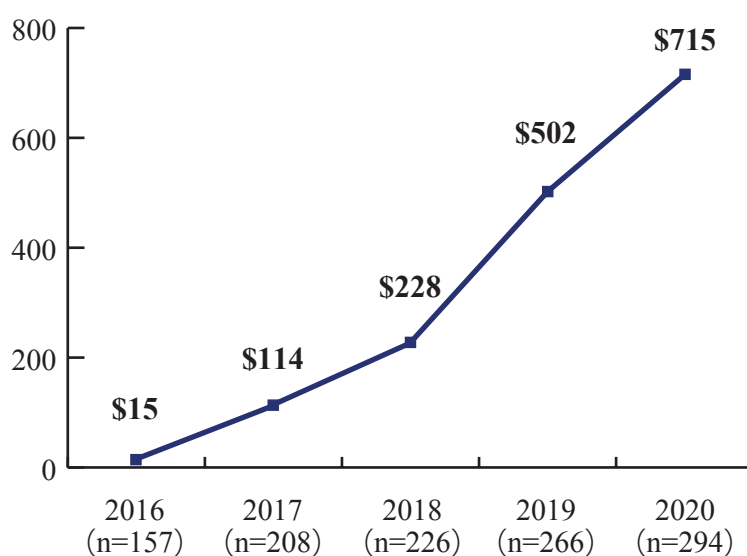
30 Note: The figures in the UK (£5 billion), Japan (512.6 billion yen) and Australia (A\$19.9 billion) were all converted into USD figure according to Morningstar as of March 28, 2021.

3.1. Overview of global context

There is limited statistical data that accurately shows the volume of *all* impact investments currently pooled in the global market. Whilst it was stated in Chapter 2 that \$120 billion is impact investment out of SDGI, diverse sources point out differing figures on the impact investing market scale. As acknowledged by many agencies and institutions (International Finance Corporation 2019, iii), this can be attributed to different survey samples and size, and perhaps most importantly, understanding, definition and spectrum of impact investment, which is currently patchy.³¹

However, according to the GIIN whose signature Annual Impact Investor Survey is often cited by practitioner and scholarly reports, the global impact investment market volume (n=294) reaches \$715 billion (GIIN 2020).³² Clearly the impact investing market is “growing steadily” (GIIN 2020, iii) and in June 2020, when the Report was published, no respondents saw impact investment declining, even amidst COVID-19.

Figure 7: Global impact investment market scale, 2016 - 2020



Sources: GIIN (2016, 2017, 2018, 2019a, 2020)

31 For example, authoritative agencies such as the OECD (2019), Global Impact Investing Network (2020), International Finance Corporation (2019) have slightly differing emphasis in their definitions.

32 All samples are engaged in “meaningful investment” activities, meeting the criteria of either 1) managing at least \$10 million in impact investing assets and/or 2) having made at least five impact investments (GIIN 2020).

Of \$715 billion, 45% or \$321 billion was confirmed to be allocated over 75% of their AUM to emerging markets such as Sub-Saharan Africa, Latin America and the Caribbean, South Asia and South East Asia (GIIN 2020). Although only 1.7% of 294 respondents invested in South East Asia, it is recognized as one of the fastest-growing regions of impact investment as over half of respondents (52%) plan to increase allocations to South East Asia over the next five years (GIIN 2020, xvi).

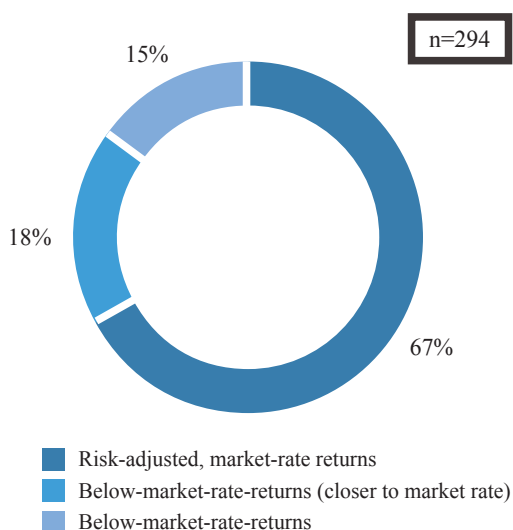
Impact investment, as explained before, is not an independent asset class. Impact investors make investment across diverse asset classes, and globally private debt is the major asset allocations in terms of AUM, whereas private equity is the most common asset class in terms of percentage of respondents (GIIN 2020 p. 36). In addition, about 51% of the total respondents come from for-profit asset managers (including fund/investment managers), followed by not-for-profit asset managers (including fund/investment managers), foundations and DFIs (GIIN 2020 p. 36). Notably, over half of the respondents (61%) make only impact investments, whereas 9% make both impact and conventional investments.

On the global stage, impact investment by sector is diverse. In 2020, the energy sector appeared to receive the most uptake of impact investment, followed by financial services excluding microfinance, forestry and food and agriculture. Looking at the percentage of respondents, food and agriculture tops the momentum, followed by healthcare energy and education (GIIN 2020 p. 33) as well as other sectors.³³

One of the most important factors determining the choice of investment is the level of financial return on top of societal impact. While the practice of impact investment may no longer be nascent, challenges remain in generation of investment outcomes—both in terms of financial and social return.

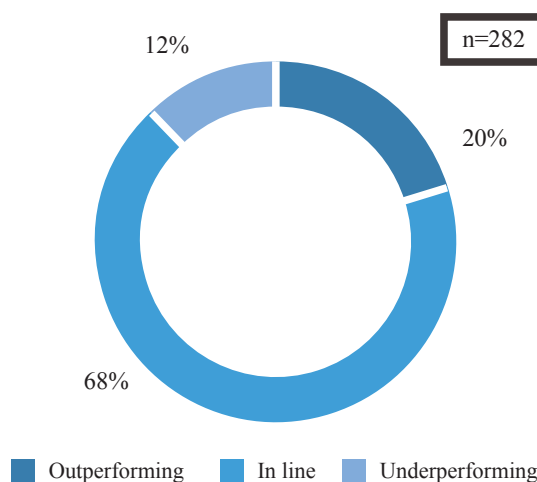
33 Other includes real estate, tourism, community development, retail, and sector-agnostic investment.

Figure 8: Target financial returns for impact investors surveyed (n=294)



Source: GIIN (2020)

Figure 9: Financial performance relative to expectations (n=282)



Source: GIIN (2020)

Figures 8 and 9 illustrate the target financial returns and actual financial performance relative to expectations. A clear majority, 67% of 294 respondents surveyed globally (GIIN 2020) seek risk-adjusted market rate returns.³⁴ In contrast, 68% expressed that their financial performance has outperformed relative to their expectations. This is an evidence that demonstrates impact investing globally is delivering financial track record.

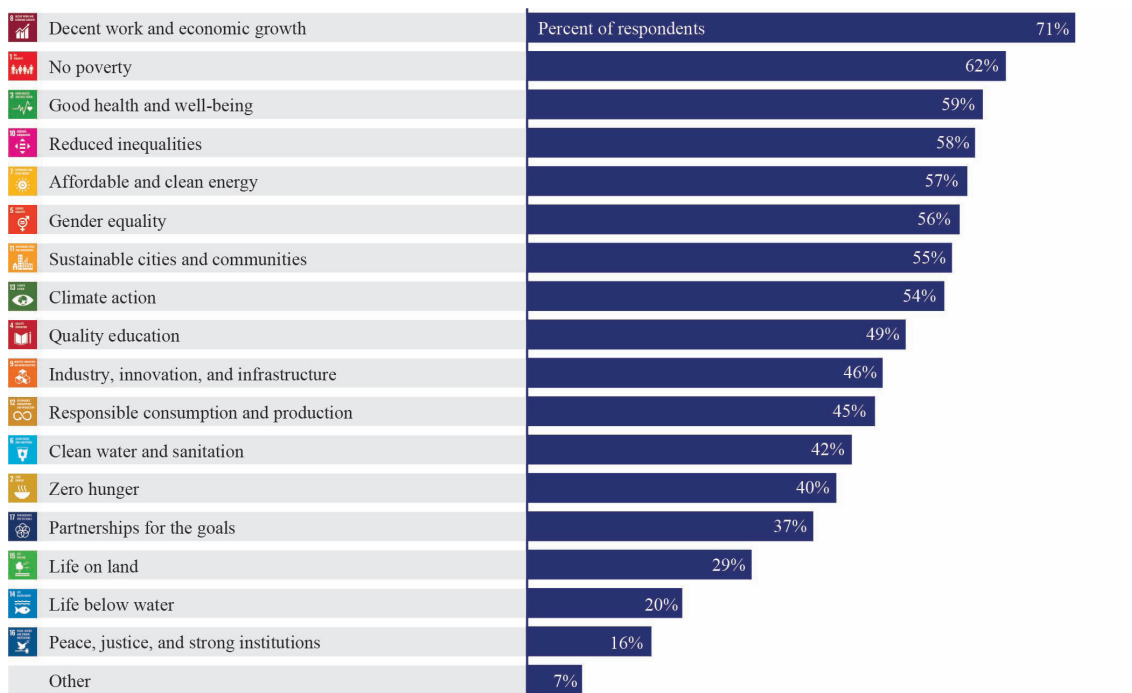
Interestingly, the demonstration of financial results was not identified as a major challenge for impact investors globally but rather, the consideration for impact performance, measurement and management was of greater concern (GIIN 2020 p. 10).

As illustrated in Chapter 2, one of the four core characteristics of impact investing includes management and measurement of the societal impact created to determine the investment performance alongside financial return. Over half of the total respondents sought to generate both social and environmental impact, whereas 34% focused on social impact and just 6% on environmental impact (GIIN 2020, 44). Just over half, 57% of investors focused on emerging market (including ASEAN) target for both social and environmental impact, followed by 47% on social impact and just 2% solely on environment.

³⁴ The level of financial return varies according to asset class, organization size and type—for example, over 80% of private equity-focused investors target market-rate returns, compared to only 48% of private debt-focused investors. About 25% of the latter, private debt-focused investors tend to opt for capital-preservation strategies, whereas only 6% of private equity-focused investors choose capital preservation.

The SDGs are often used for the scope of impact investment measurement. Roughly 70% of the respondents used the SDGs for at least one measurement purpose (GIIN 2020).³⁵

Figure 10: SDGs used for impact measurement by impact investors surveyed



Source: GIIN (2020)

In particular, nearly three-quarters of respondents targeted SDG 8: Decent Work and Economic Growth in their investment, yet the average of eight SDG-aligned impact themes is used for their impact investment goal (GIIN 2020). Investors focused on developed markets tend to seek to achieve SDG 11, Sustainable Cities and Communities, whereas a greater proportion of investors focused on emerging markets including ASEAN target SDG 5: Gender Equality and SDG 1: No Poverty. 70% of large investors who make impact investment AUM over \$500 million have a higher preference to focus on SDG 13: Climate Action, SDG 7: Affordable and Clean Energy, compared to Small and Medium investors.³⁶ Figure 10 clearly evidences the orientation of impact investors increasingly relying on the SDGs as an impact measurement framework. The goals and indicators are an important reference point that enables to further institutionalize the impact investment field.

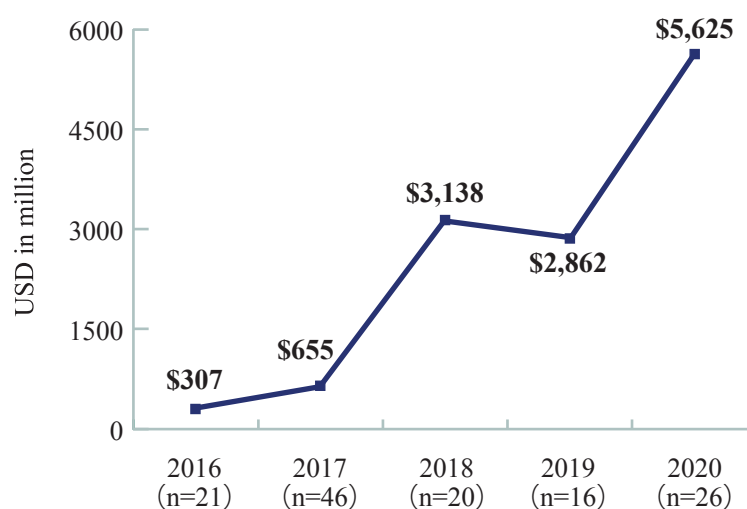
35 The SDGs are used to identify what to measure but not how to measure it.

36 Small Investors are those with total impact investment AUM less than \$100 million. Medium Investors are those with total impact investment AUM > \$100 million and AUM ≤ \$500 million (GIIN 2020, x).

3.2. Overview of Japan context

Japan has experienced an unprecedented rate of growth in the sphere of impact investment and is therefore drawing global attention. According to the National Advisory Board (NAB) of Japan, Japan's impact investing 'market scale' as of April 2021 is nearly \$5.6 billion or 512.6 billion yen (National Advisory Board of Japan 2021). The scale in Japan displays a drastic growth from \$307 million in 2016 to \$655 million in 2017, doubled in just one year. Following this, there was a fivefold increase from \$655 million in 2017 to \$3.1 billion in 2018.³⁷ While the figure decreased in 2019, the Japan NAB concluded that the impact investment market in 2020 showed a spike, doubling to \$5.6 billion.³⁸

Figure 11: Japanese impact investment market scale, 2016 - 2020



Sources: Japan NAB 2016, 2018, 2019, 2020, 2021³⁹

37 Notably, as pointed out by the NAB report (2021 p. 39), due to the limitations of methodology taken in reaching the figure, the figure does not show comprehensive state of the market, hence it is difficult to conclude that the figure is the current "market scale". For further explanations, see <http://impactinvestment.jp/user/media/resources-pdf/gsg-2020.pdf>

38 The SIB market in Japan also witnesses remarkable developments. As of 2019, there were roughly 20 SIB projects, pooling 900 million yen (SIIF 2020). 20 as the number of "current SIBs" is a rough figure because some of them are in the planning stage. As explained in Chapter 2, SIBs are indeed difficult to materialize as it requires cross-sectoral coordination and consensus. Japanese SIBs are mainly preventive measures in the areas of health, education and aged care (See NAB 2020 for further details).

39 Figures in Japanese yen are 33.7 billion yen in 2016, 71.8 billion yen in 2017, 344 billion yen in 2018, 317.9 billion yen in 2019 and 512.6 billion yen in 2020. Note: these figures are converted into USD based on the Morningstar rate as of March 28, 2021.

National Advisory Board of Japan (2021, 65) reveals that by value, over half (52%) of impact investors in Japan surveyed in 2020⁴⁰ invest in companies within Japan, followed by Europe (32%), North America (9%) and Asia excluding Japan (6%). Yet, by volume, Japan is the major destination, accounting for 83%, followed by the rest of Asia, North America, Europe and Central America and in Africa.

Japanese impact investors surveyed tend to have private equity (40%), followed by public equity (28%) as their allocation by number of responses. By contrast, greater assets by value are allocated to private debt (52%) and public equity (33%). The major type of investees are commonly private companies (56%) by volume, whereas publicly listed companies (80%) gained the most confidence as investees by capital value deployed, followed by private companies (13%).

By value, the thematic areas of impact investments are concentrated in climate change adaptation and mitigation (28%), followed by renewable energy and health (13%). On the other hand, quality education and childcare (70%), health (65%) and women's empowerment⁴¹ (61%) appear to be more urgent themes by the number of responses. Some of these thematic areas are naturally in line with focus of SIBs in Japan (See Footnote 38).

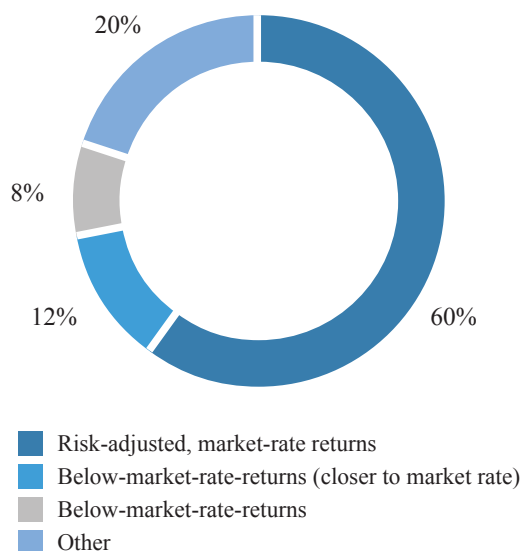
Japanese impact investors overall can be deemed more risk-tolerant investors in consideration of the degree of financial return, compared to the findings of global annual impact investor survey. As can be seen in Figure 12, 60% of the impact investors surveyed in Japan seek risk-adjusted market rate returns, compared to 67% of the impact investors surveyed globally.⁴² Twelve percent pursues below-market rate (close to market-rate) and 8% aims for below-market rate. Similarly to impact investors surveyed globally, Japanese impact investors would also target risk-adjusted market-rate returns.

40 Out of 591 companies to which the survey was distributed, only 75 responded, of which 26 fit the category as impact investors, according to the criteria consistent to the global impact investor survey (GIIN 2020).

41 Literal translation is close to “promotion of female participation and career advancement”.

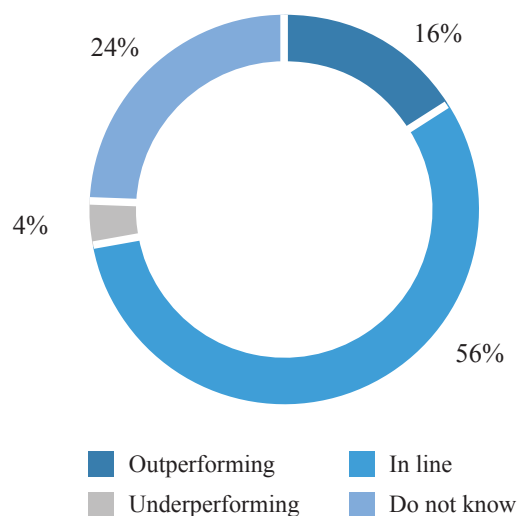
42 In particular, just over half, 59% of the equity-focused investors seek risk-adjusted market rate returns, whereas 80% of global impact investors in general pursue risk-adjusted market rate returns.

Figure 12: Target financial returns for impact investors surveyed (n=25)



Source: Japan NAB 2021

Figure 13: Financial performance relative to expectations



Source: Japan NAB 2021

In turn, Figure 13 illustrates the actual performance of financial return. This is reported not by the market rate but is whether or not “financial expectations were met”. Similarly to the global impact investing report, 56% of the Japanese impact investors surveyed expressed that it was in line with their expectations. While 24%, the next majority answered that they do not know, 16% of them considered it to have outperformed.

Finally, the 2021 Report on impact investment by the Japanese NAB presented a dramatic increase in impact investors’ alignment with the SDGs (Japan NAB, 2021). The similar pattern can be observed in the global impact investor survey in terms of the SDGs framework used for impact measurement. The Japanese NAB report indicated that the number of respondents that align *all* SDGs with indicators for societal impact grew from 23% in 2018 to 39% in 2020% (Japan NAB, 2021). This is primarily because the SDG framework is employed globally, which provides a recognized indicator showcasing the societal impact evaluated. The second reason was that the investors surveyed recognized the importance of their investment closely linked to the realm of international development. For investees, the SDG framework could potentially attract further investors who may want to diversify their respective portfolios.⁴³

⁴³ National Advisory Board of Japan (2021) details impact measurement mechanisms in the report (p. 70-76) in Japanese.

Japan's alignment with the UN SDG agenda is also reflected in its explicit actions in other aspects.⁴⁴ First, at the time when the UN SDGs were declared and adopted in 2015, the Japanese Government committed its Government Pension Investment Fund (GPIF), the world's largest pension fund worth \$1.5 trillion, to become a signatory to the Principles for Responsible Investment in 2015 (GPIF 2015). Second, the former Executive Management Director of the GPIF, Mr. Hiromichi Mizuno was appointed by the UN Secretary-General António Guterres in December 2020 as the Special Envoy on Innovative Finance and Sustainable Investments, emphasising the leading role Japan plays on the global stage (UN 2020b). The Special Envoy will serve to strengthen engagement in global public-private dialogue to pool various instruments of sustainable finance toward the SDGs.

When the bill for the use of dormant account funds—The Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector—was passed in the National Diet in 2016 (*Japan Times* 2016), it generated over \$727 million per annum, scaling Japan's impact investing market at an unprecedented rate. This act is used for financing public interest activities in Japan (Cabinet Office of Japan 2020), with under 4 billion yen of dormant account funds in FY 2021 projected to fund NPOs, institutions and for-purpose enterprises serving to promote greater social good. While the use of dormant account funds was initially expected for loans and investment, this practice currently is used only for providing \$33 million or 3.6 billion yen in grant (Cabinet Office of Japan 2021). Further discussions on this possibility will determine the possibility of potentially pooling the fund for investing in the SDGs.

The survey conducted by Social Innovation and Investment Foundation (SIIF 2020) in Japan showed that while only 6.8% of the surveyed population (n=3,098) understand the meaning of social impact investment, 20.7% of the surveyed population—mainly millennials in their twenties and thirties, high-income groups and those experienced in investments⁴⁵—is interested in purchasing impact investment product. This survey also demonstrates that the interest for impact investment in Japan will only continue to grow, and more investors are aligning their investment with the SDG framework.

44 Further, the Japanese Prime Minister Suga has unveiled \$19.2 billion (2 trillion yen) of green technology fund as part of a COVID-19 stimulus package (Cabinet Office, 2020), reflecting the policy direction of investments in Japan.

45 The survey also exhibited that 500,000 yen is the amount most commonly considered for the initial ticket for impact investment product (SIIF 2020).

Major challenges described by Japanese impact investors (SIIF 2020) surveyed are as follows:

1. Fragmented impact measurement and management approach
2. Profit maximization of impact investees and lack of human resource that supports successful exit
3. Lack of impact investment ‘product’ or lack of product information
4. Lack of investees that fit the definition of impact investees

The undercoordinated impact measurement and management appears to be the major obstacle.⁴⁶ Impact investment requires due diligence and evaluation of not only financial performance but also societal impact. The approach to impact measurement remains diverse and patchy. This reflects the fragmented nature of the impact investment market in Japan, which requires further coordination and impact investment promotion policy from the central and local government.⁴⁷ Promotion policy would work as an institutional force to legitimize impact investing practice and raise awareness of such investment approaches to pave the way for accelerating the achievement of the SDGs. This will encourage the increase of more investment product, information disclosure and commercialising SDG-specific projects with the aim of creating impact investment products.

However, it is imperative to bear in mind that not all projects can be investment product. Some developmental challenges can be scalable through impact investment, but other challenges cannot necessarily be addressed through monetizing development work. Impact investment does not—and will not—replace the work of philanthropy (Ono 2020), and this will be further discussed in Chapter 4. Awareness of impact investment as an approach must come with a careful consideration of *societal risk* that market development brings.

On a positive note, amidst the COVID-19 crisis, 75% of the current Japanese impact investors express their willingness to increase their impact investment, and no respondents expressed their intention to withdraw or decrease it (National Advisory Board of Japan 2021, 68).⁴⁸ This is a valuable finding that presents greatest opportunity to increase further ASEAN-Japan impact investment and accelerate the realization of the SDGs—with a careful plan and coordination. For this, the next section focuses on the overview of impact investing in ASEAN, along with five case studies and challenges.

46 Globally, the major challenge was raised as the risk of ‘impact washing’—a misleading portrayal or “selective disclosure” about unsubstantiated claims that promote non-impactful initiatives of businesses in exchange for their public reputation (Steinberg 2015, 81). This will be further discussed in Chapter 4.

47 Policy support for impact investment promotion (such as tax relief system) is considered the most important by those who practice impact investment in Japan, according to the Japan NAB research (2021, p. 57). Refer to the report for further market development challenges listed.

48 The survey by the Japanese NAB was conducted from September to December, 2020.

3.3. Overview of ASEAN context

Similarly to the global overview, there is a lack of comprehensive data on the impact investment market particularly in the ASEAN region. In such a diverse and fast-growing region as ASEAN, a challenge lies in data collection that presents an adequate measure of the market scale. Nevertheless, the most pertinent, recent report published in 2020 on the Advance of Impact Investing in South East Asia (Prasad, Gokhale, and Agarwal 2020)⁴⁹ reveals a steep growth trajectory. This section provides the overview of impact investment activities in ASEAN, based mainly on data by this Report, as well as GIIN and Intellectap (2018)⁵⁰.

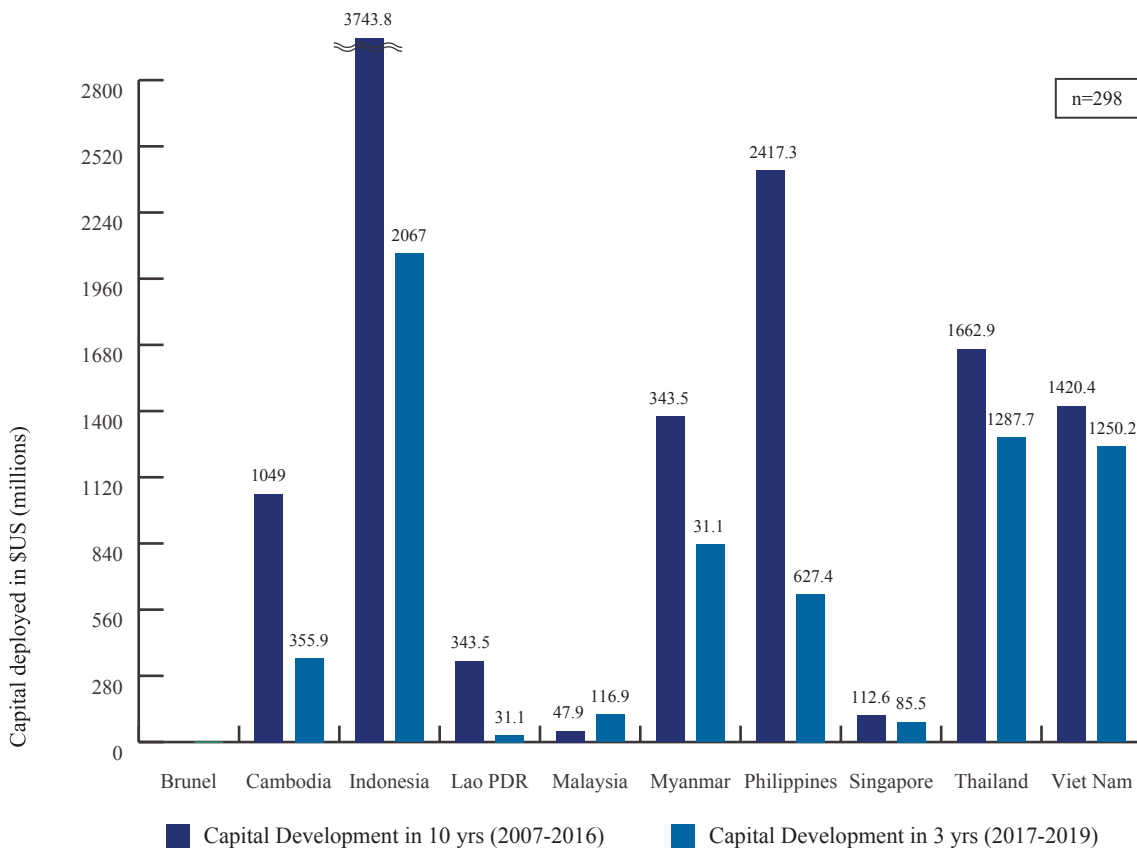
Both the amount of investment capital and number of deals continued to grow in South East Asia, **as the amount of impact investing capital deployed in the region within a 3-year period between 2017-2019 reaches up to \$6.7 billion through 298 deals**,⁵¹ nearly half of \$11.3 billion made through 449 deals in the previous *decade* in 2007-2016 (GIIN and Intellectap 2018). Figure 14 shows the comparison of overall impact investing activity in ASEAN between a *decade* in 2007-2016 and a *three-year* period in 2017-2019. The comparison of amount and deals is made with only available data. In this figure, the data on Brunei Darussalam was undisclosed in the report by Prasad et al. (2020).

49 This report was carried out with Investing in Women, an Australian Government initiative.

50 This report presents insights from impact investments and gender lens investments across 11 countries (ASEAN plus East Timor) between 2017 and 2019, with focus on Indonesia, the Philippines and Viet Nam.

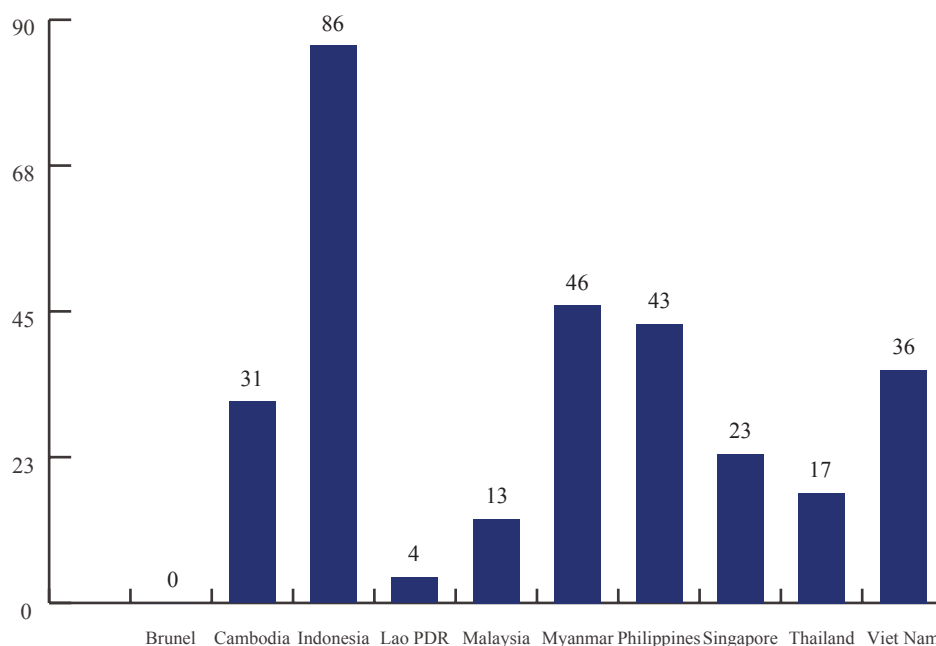
51 Additional \$736 million (or just over 10% of the impact capital) was made through co-investment by non-impact investors.

Figure 14: Impact investment capital deployed in ASEAN, 2007 – 2016 and 2017 – 2019



Sources: Prasad et al. (2020); GIIN and Intellectap (2018)

Figure 14 shows the significant momentum of impact investment activity in ASEAN between a past decade and a recent three-year period. Impact investment as a practice in ASEAN is undoubtedly an emerging—and in specific countries more established—practice. In addition, Figure 15 shows the volume of impact investments in ASEAN.

Figure 15: Number of impact investment deals in ASEAN, 2017 – 2019

Source: Prasad et al. (2020)

Table 2 shows the breakdown of impact investment activities divided into private impact investments (PII) and DFIs.

Table 2: Breakdown of impact investment activities in capital and deals, 2017 – 2019

Country	Private Impact Investors (n=159)		Development Finance Institutions (n=141)		Total amount of Investment capital (\$ million)	Total number of deals
	Investment Capital (\$ million)	Number of deals	Investment Capital (\$ million)	Number of deals		
Cambodia	\$54.9	11	\$301.1	20	\$355.9	31
Indonesia	\$138.5	61	\$1,928.9	25	\$2,067.4	86
Lao PDR	\$10	1	\$21.1	3	\$31.1	4
Malaysia	\$45.5	10	\$71.2	3	\$116.7	13
Myanmar	\$18.6	15	\$816.3	31	\$834.9	46
Philippines	\$105.4	28	\$522.3	16	\$627.4	43
Singapore	\$45.1	19	\$40.4	4	\$85.5	23
Thailand	\$5.2	3	\$1,282.5	14	\$1,287.7	17
Viet Nam	\$7.7	11	\$1,242.5	25	\$1,250.2	36
Total	\$430.9	159	\$6,226.3	141	\$6,657.2	298

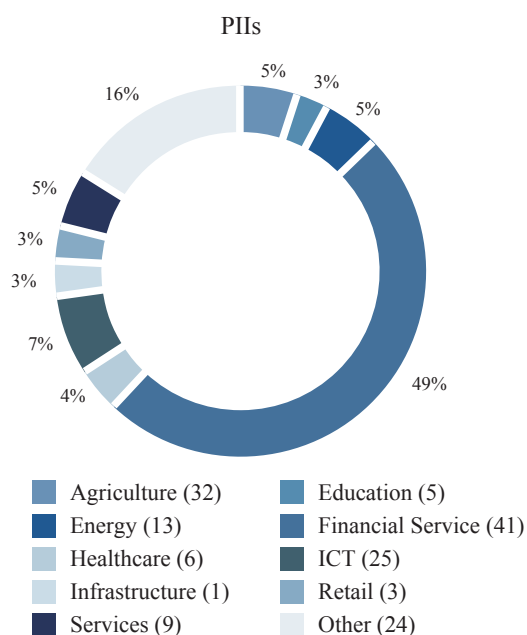
Source: Prasad et al. (2020)

Within ASEAN, the largest amount of investment goes to Indonesia, both from PIIs and DFIs, exceeding \$2 billion. Thailand and Viet Nam are ranked second and third in terms of the total investment capital deployed, whereas there is an imbalance where DFIs are over 99% of the total inward capital. Thailand receives the least PIIs, whereas Lao PDR receives the least DFI capital. Finally, Singapore is the only country that receives more PIIs than DFI capital inflow, followed by Malaysia, which is relatively overshadowed by DFIs.

The number of deals is another factor that reflects the level of interest in investing and financing any given country. While the above table shows DFIs to be significant key players in terms of the amount of capital deployed, the number of deals shows that the private impact investments outweigh DFIs. Myanmar receives the greatest number of DFI deals, followed by Indonesia and Viet Nam, whereas in terms of the number of PII deals, Indonesia tops ASEAN, followed by the Philippines, Singapore and Myanmar. Lao PDR receives only one PII deal but the capital deployed from one PII deal is \$10 million, which nearly doubles that of Thailand from three PII deals. Finally, it is also encouraging to see that the total number of deals is, in fact, higher in PII than DFIs despite the lower capital investment deployed in total—as it suggests a growing interest by private investors.

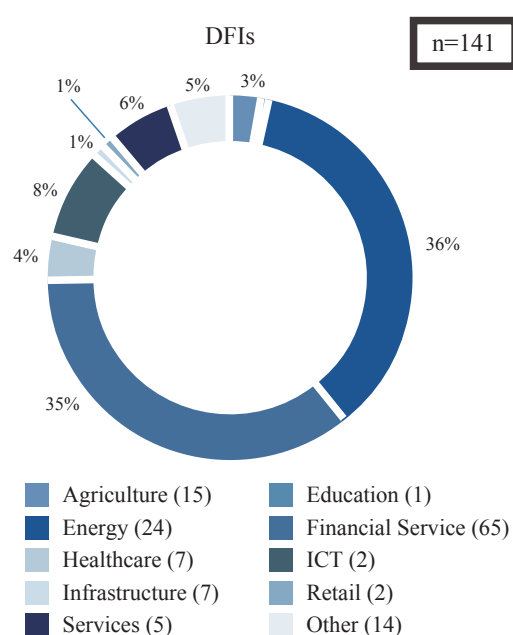
In looking at both investment sources, PIIs and DFIs by sector, the distinctions are evident.

Figure 16: Private impact investment by sector, 2017 – 2019



Source: Prasad et al. (2020)

Figure 17: Development financial institutions by sector, 2017 – 2019



Source: Prasad et al. (2020)

As illustrated in Figures 16 and 17, nearly half of the PIIs appear to be interested in financial services; this is the sector that receives the greatest capital from the highest number of deals. According to Prasad, Gokhale, and Agarwal (2020), this is concentrated on fintech, which includes online financing/insurance marketplaces, crowdfunding/P2P lending platforms, digital payments and credit scoring solutions. The second largest fraction, “other” include forestry, industrial trading, logistics, manufacturing and waste and water. Recently, some impact investment has been directed to the gender dimension of SDG factors, including women empowerment (See Box 4).

Almost 70% of the total number of DFI deals and over 85% of the total private capital were deployed as debt. While equity investments started to show steady growth since 2015, a large part of DFI investments go to lending institutions such as banks or MFIs, large-scale energy projects or traditional agriculture businesses where debt is deemed more appropriate for investment.

Box 4. Gender-lens investment (GLI)

Gender-lens investment (GLI) is the “deliberate incorporation of gender factors into investment analysis and decisions” for improved social and business outcomes (Australian Aid, Investing in Women, and Value for Women 2021). GLI has an explicit focus on gender-relevant factors, much like incorporating the ESG factors in investment decisions.

GLI has increased significantly in ASEAN, particularly in the financial services sector, followed by agriculture in terms of capital deployed. There are 39 GLI deals deploying over US\$350 million in ASEAN within the last 3 years. GLI in ASEAN is predominantly invested by DFIs in terms of capital, whereas PIIs outweigh in the number of deals made. **Thailand** has the highest GLI capital, whereas **Indonesia** has the highest number of deals of GLI. 22% of impact investing deals (19 out of 86 deals) in Indonesia is GLI, which is the highest proportion in ASEAN.

Women in **Indonesia**, **the Philippines** and **Viet Nam** are particularly significant players in the SME market, where over half of SMEs are run by women. These three countries account for over 80% of GLIs in ASEAN by volume, although **Thailand** and **Cambodia** are the majority by value. As such, “gender-lens investment” can be a potential source of financing the SDGs.

3.3.1. Overview of activities relevant to impact investing in ASEAN

Member States⁵²



Brunei Darussalam, a high-income country with small population, is among the least active of the ASEAN Member States on impact investing activities. Awareness of impact investing is low compared to other ASEAN countries and impact investing data on Brunei Darussalam is difficult to identify.⁵³ While the government's commitment to SDG-aligned initiatives through investment is not explicitly identified, the private sector appears more active to drive socially-responsible initiatives. Companies such as Shell and Brunei Gas Carriers conduct social investment as part of their corporate social responsibility for environmental conservation, education, and community development. The country's limited commitments to responsible investments such as ESG (Korwatanasakul and Majoe 2019) suggest that the national priority be placed on the development of green economy only in the medium to long-term. Brunei's interest in Islamic finance—in particular social or green *sukuk* (See Malaysia) can be a starting point. Zakat-based microfinance is a practice gaining traction in community development (Nurhayati, Safei, and Ono 2020) and is a potential area for further exploration in driving progress of the SDGs.



Cambodia showcases a rapid growth of impact investing. Cambodia has a burgeoning impact investing ecosystem with an active presence of those from foundations, impact investment funds (a Japanese social investment fund, ARUN LLC or Insitor to name a few) to SPVs. Cambodia receives the third highest amount of PII capital in ASEAN. Its open and common use of US currency can be attributed to this. In addition, due to its history of aid flows into the national economy, as many as 3,500 NGOs in Cambodia pursue diversification of their funding structure and channels (AVPN 2019a). Key actors in impact investing appear to concentrate on micro finance and

⁵² The level of detail in this section is varied relative to the activities as well as data availability.

⁵³ The Sustainability Fund Act from the Ministry of Finance and Economy is mainly for the purpose of sustaining the national economy to “reduce oil revenue shortfall” and broadens the revenue base (Ministry of Finance and Economy 2021), which is indeed an important development agenda for all countries and responds to the SDG 8: Decent Work and Economic Growth.

debt capital (AVPN 2019a), yet the presence of the ASEAN’s first DIB (see Chapter 2) signals Cambodia’s great potential of being the next hub for impact investment.



Indonesia is the largest impact investing market in ASEAN—both in terms of capital and deals. Its abundant natural resources, presence of unicorns and a workforce dominated by MSMEs present opportunities to maximize national capital and bring financial capital and sustainable development impact into the country.⁵⁴ Natural resources such as palm oil or natural gas present significant potential for renewable energy. Further, Indonesia appears to be the “next frontier” for the major US Tech companies (Tani 2020). Unicorns such as GoJek as well as e-commerce platforms Tokopedia and Bukalapak are set to receive significant investments by Microsoft, Google and Singapore’s Temasek (Tani 2020). These investments raise the profile of Indonesian unicorns among global investors and facilitate an accelerated digital transformation across Indonesia. However, intentionality of investing in SDG-aligned opportunities needs further exploration.

Seventy-two percent of impact investing deals in Indonesia are under \$10 million, most of which are in the seed or early to growth stage (Prasad, Gokhale, and Agarwal 2020). Investments made are in energy, financial services as well as healthcare. Sixty percent of PII deals use equity, whereas 34% of DFI deals are debt instruments. The country’s major workforce dominated by micro, small, medium enterprises (MSMEs)⁵⁵ reflects challenges and opportunity. Research concludes that MSMEs account for almost 100% of all existing firms in Indonesia (Seno-Alday 2017; Tambunan 2019). Yet they contribute only about 60% of national GDP due to lack of technology,⁵⁶ access to credit, market access or so-called funding gap for scaling and upgrading their business capacity (Tambunan 2019). There remains a \$54 billion financing gap of MSMEs doing activities pertinent to SDGs in

54 Islamic finance is one of the long-standing financial transactions that intentionally seek social and environmental objectives. Further exploration of impact investing through the deployment of Islamic finance is recommended for future study.

55 In Indonesia, Ministry of Cooperatives and SMEs defines MSMEs in terms of the assets and revenues as per SME Law 20/2008, Ministry of Cooperatives and SMEs.

56 Lack of technology leads to transactional record and data which most banks require to assess their credit status and ability to manage and repay loan.

the country (Thuard et al. 2019).⁵⁷ ⁵⁸ Unlocking investment capital for MSMEs through innovative, sustainable financing models such as impact investing can be the key driver for Indonesia to scale and create sustainable developmental impact.



Similarly to Cambodia, **Lao PDR** is one of the CLMV⁵⁹ countries that have relatively less private impact investing capital compared to DFI capital inflows. GIIN and Intellecap (2018) note that the majority of the private impact investment capital and deals as of 2018 were deployed in clear energy, in line with the 8th National Socio-economic Development Plan (NSEDP). The DFI capital, similarly, has also been in the energy sector, followed by financial services and manufacturing. There are no policies that promote and arrange socially oriented or SDG-relevant investment activities. However, with the introduction of the 9th NSEDP, Lao government can be encouraged to play an active role in promoting and increasing impact investment that specifically achieves the goals of NSEDP, SDGs and beyond. This transition presents an opportunity.



Malaysia is a key leading figure in socially responsible investing market in Asia. Malaysia issued its first ever green *sukuk*—sharia compliant bonds—worth \$58 million in the world⁶⁰, and its active corporate engagement with societal impact is noteworthy (AVPN 2019b). Malaysia remains at the forefront in Islamic finance in Southeast Asia, as it became the first country to sell a dollar *sukuk* linked to the theme of sustainability in April 2021 (Flynn and Suhartono 2021). Looking at the impact investing landscape, Malaysia slightly

57 The key issue in the persistent funding gap of MSMEs reflects its informal and unorganized nature of the business scheme (Tambunan 2019), where a collective group of these businesses are often uncoordinated.

58 MSMEs are considered as high risk for loan due to their inadequate credible information of their business or their capacity in managing loans and repayment are questioned. The segment, so called the “missing middle” (Oliver Wyman 2016) is estimated to reduce Indonesia’s GDP by \$130 billion. While the figure is from the pre-COVID period, this significant segment that contributes centrally to the national GDP demonstrates an area of improvement.

59 The term for four less developed countries of ASEAN (Cambodia, Lao PDR, Myanmar and Vietnam)

60 Mainly these funds go to financing major solar-power project in the state of Sabah (The ASEAN Post 2020). In addition, 82% of the total *sukuk* outstanding in Southeast Asia is within Malaysia.

lags behind. By value, Malaysia is ranked seventh in ASEAN, and it shows remarkable progress and development of the impact investment market. Although 10 out of 13 deals made are sourced by PIIs, 3 deals made by DFIs are higher in value—\$71.2 million by DFIs compared to \$45.5 million by PIIs (Prasad, Gokhale, and Agarwal 2020). Key sectors of impact investment are undisclosed.

Malaysia established the Social Enterprise Accreditation in 2019⁶¹ to guide and grant accreditation status to Malaysian businesses to become social enterprises for a period of not over three years. The definition of social enterprise in Malaysia is an entity that earns more than half of the total revenue through their business with simultaneously contributing to societal impact creation (Malaysian Global Innovation and Creativity Centre 2015). The benefit of this accreditation is mainly eligibility to apply for tax deduction to be considered by Ministry of Finance as per Section 44 (11C) Income Tax Act 1967.

Impact investees tend to be either in not-for-profit or for-profit structures, as there is no legislative framework as of 2019 (AVPN 2019b). The 2018 study on 122 Malaysian social enterprises found that the majority of them surveyed are young (55% under 40) and female (54% of them run by women) (British Council 2018). Many SPVs face challenges of investment opportunities, and therefore require direct financial and facilitative support to run, sustain and scale their businesses.



In 2020, **Myanmar** was one of only 2 countries in ASEAN—aside from Viet Nam—that recorded positive growth during the COVID-19 shock (World Bank 2021). Its strong industrial performance, particularly in garment manufacturing steadily supported the economic growth in the country (AVPN 2019c). Myanmar's impact investing market showed signs of growth, as it was ranked second in ASEAN, followed by Indonesia, in terms of the number of deals. Out of 46 deals made, two-thirds was from DFIs, mobilizing over \$800 million, whereas 14 deals from PIIs mobilized \$18.6 million. Even by total investment value, Myanmar is positioned fourth, followed by Indonesia, Thailand, and Viet Nam. The incubation and acceleration programs for impact investees were on the rise, and large local corporations displayed their move towards

⁶¹ This came after the three-year roadmap called Malaysia Social Enterprise Blueprint 2015-2018. This outlined a range of policy measures to build human capital for social entrepreneurship and accelerate the development of social entrepreneurship in Malaysia (UNESCAP 2017; Kadir et al. 2019).

more strategic social investment aligned with community needs (AVPN 2019c). There is great potential in harnessing the impact investment market in Myanmar, with more central support and coordination in place. The political turmoil since February 2021, however, casts a shadow to the growth of such investment, let alone traditional investment.



The Philippines has one of the most active impact investing markets in ASEAN (AVPN 2019d). The Philippines is ranked highly in terms of the number of deals yet sits in the middle within ASEAN in terms of the total capital deployed. The Philippines was the second largest impact investing market in ASEAN according to the study in 2018 but lagged behind with the influx of impact investing capital flowing into other ASEAN countries such as Indonesia and Thailand. The study by Prasad, Gokhale, and Agarwal (2020) reveals that the key sectors attracting impact investing in the Philippines include financial services (typically microfinance and SME financing institutions or fin-tech companies) and energy (solar and renewable energy), both of which account for 84% of capital deployed. Foreign investors came from European countries such as Belgium, France, Denmark, the Netherlands and the US, mostly providing equity investments. Major DFIs are FMO, a Dutch development bank and IFC, of which, 90% of deals using debt capital, with an average ticket being \$27 million.


GLI (See Box 4) has gained a remarkable traction in the Philippines, signalling a significant source of finance to drive investments for the SDGs. Eight out of 43 impact investing deals (18.6%) made within 2017-2019 were GLI⁶². The proportion of women-owned SMEs is higher than men-owned SMEs in the Philippines and yet, women face more structural barriers, ranging from family constraints, limited access to finance, technology and relevant skills training to safety issues (Australian Aid, Investing in Women, and Value for Women 2021). Skills training, is required to build the pipeline for impact investing and investment readiness of impact investees i.e. SPVs must be harnessed through facilitative support, which equates to capacity building in the ecosystem.



Singapore showcases its strong leadership in terms of ecosystem maturity— institutional, human and technical capacity to galvanize the market. Singapore

⁶² Patamar, Capital 4 Development Partners, SEAF and Calvert Impact Capital concluded GLI deals.

has been named as one of the most innovative economies—evidently, Singapore is ranked third in the world in the International Property Rights Index 2020 (International Property Rights Index 2020)⁶³ and eighth in the Global Innovation Index 2020 (World Intellectual Property Organisation 2021). With its strength in innovation, venture capital penetration is among the highest (World Intellectual Property Organisation 2021), and as of 2018, 75% of all start-up funding deals in Southeast Asia went through Singapore (AVPN 2019e). Although the ability of investors to maintain a presence in the investee country is increasingly important in light of the current pandemic challenge, many PII funds are headquartered in Singapore—the region’s financial capital. Singapore holds offices of major impact investing ventures that include Aavishkar (Indian impact investing fund), the Aspen Network of Development Entrepreneurs (ANDE), AVPN, BlueOrchard, Bamboo Finance, Impact Investment Exchange and Omidyar Network, all of which are critical actors that shape the impact investing ecosystem on a global stage. In addition, since 2015, banks in Singapore are required to incorporate some level of ESG standards in their financing decisions under the Guidelines on Responsible Financing. These factors include but not limited to GHG emissions, deforestation, corporate ethics and integrity (Associations of Banks in Singapore, 2018). With its strong institutional infrastructure, Singapore can possibly remain an effective gateway to ASEAN impact investing markets. Further cross-sectoral harmony between the public, private and civil society can drive social innovations to sustain developmental impact.

 **Thailand** has a relatively coordinated environment to enhance the impact investing ecosystem. The Government of Thailand has established the National Taskforce on Social Impact Investment in 2016, in collaboration with the current Global Social Impact Investment Steering Group to accelerate the development of an effective social impact investment market (UNESCAP 2017).⁶⁴ Three years later in 2019, it has also established the Social Enterprises Promotion Act in February 2019. The Social Enterprise Promotion Act was critical to build the pipeline of impact investment—impact investees—to galvanise the market. This Act established three new entities that are 1) the

⁶³ The Index measures the strength of a country’s property rights regime, including both intellectual and physical property rights.

⁶⁴ However, Thailand is not part of the GSG (Global Steering Group for Social Impact Investing 2021).

Social Enterprise Promotion Committee, responsible for policy design and recommendations, 2) the Office of Social Enterprise Promotion, and 3) the Social Enterprise Promotion fund, providing loans and grants for registered social enterprises (British Council 2020). The Office of Social Enterprise Promotion is the registrar of social enterprises, assessing businesses to qualify social enterprises—either non-profits or for-profits.⁶⁵ The 2020 study on the state of social enterprises in Thailand shows that there are 141 registered social enterprises (British Council 2020).

Despite its national institutional effort, however, access to funding, network and a lack of public understanding of their impact remain major challenges (Joffre 2021). As Figure 14 shows, the volume by PIIs trails behind as the majority comes from DFIs, accounting 14 deals worth \$1.8 billion, while 3 deals are from PIIs, mobilising \$5.2 million. Nevertheless, Thailand is ranked second in ASEAN, followed by Indonesia by value of impact investment capital.^{66 67}

As explained in Chapter 1, as part of the activities in ASEAN’s Catalytic Green Finance Facility (ACGF), the Government of Thailand shows its commitment to the achievement of the SDGs in the way it aligns their COVID-19 recovery framework design and monitoring schemes with the SDGs and the 2015 Paris Agreement (ADB 2020). Overall, Thailand enjoys relatively solid institutional structure placed in aligning activities with SDGs and societal impact, and this will continue to facilitate and build the pipeline of impact investees for a broader ecosystem in Thailand.



As a country next to Myanmar that maintained positive economic growth despite the pandemic crisis, **Viet Nam** remains to be a strong and stable economy (World Bank 2021). It has great potential in turning its economy into a social one, by further driving financial and facilitative actors in the ecosystem. Viet Nam is the third largest impact investing market by value in ASEAN. In fact, Viet Nam has passed the 2015 Law of Enterprise to legally recognize social enterprise as business committed to address societal issues

⁶⁵ It also facilitates tax relief for businesses establishing social enterprises as well as tax incentives for impact investments.

⁶⁶ Although the key sector of investment is not disclosed, the major sectors in which Thai social enterprises operate entail agriculture, fisheries and livestock, education and health (British Council 2020).

⁶⁷ In addition, ESG integration is growing to be a mainstream activity in Thailand, as the Thailand’s largest institutional investor, Government Pension Fund launched an ESG-focused portfolio and mobilising other funds to join the momentum (AVPN 2019f).

for public benefit *and* re-invest at least 51% of profit in the business conducts that fulfil social and environmental needs (AVPN 2019g).⁶⁸ The market is predominantly invested by DFIs by value, although the volume of deals is outweighed by PIIs. The key sectors of impact investment include financial services and energy which account for around 80%. The source of impact investment in these sectors is largely DFIs by volume, using debt by IFC and ADB. 20% of the total impact investing deals (7 out of 36) are GLI (Box 4), primarily in the agriculture and financial service sector.⁶⁹ GLI is slowly gaining momentum in Viet Nam, making this a critical source for financing the SDGs.



All in all, the impact investing ecosystem in ASEAN is taking shape, yet it requires further institutional support coordination from all actors in transactional, facilitative, intellectual and government dimensions. Thailand and Viet Nam in addition enjoys relatively more coordinated institutional support with its legal definition and framework for SPVs. The group of CLMV witnesses differing levels of progress. Cambodia receives the third highest amount of impact investing capital and represents the only DIB project. Lao PDR is ranked the lowest in terms of value and volume—yet there is potential in turning the next NSEDP more SDG-relevant. Myanmar has the second highest number of deals in ASEAN as well as increasing incubators and accelerators in place.

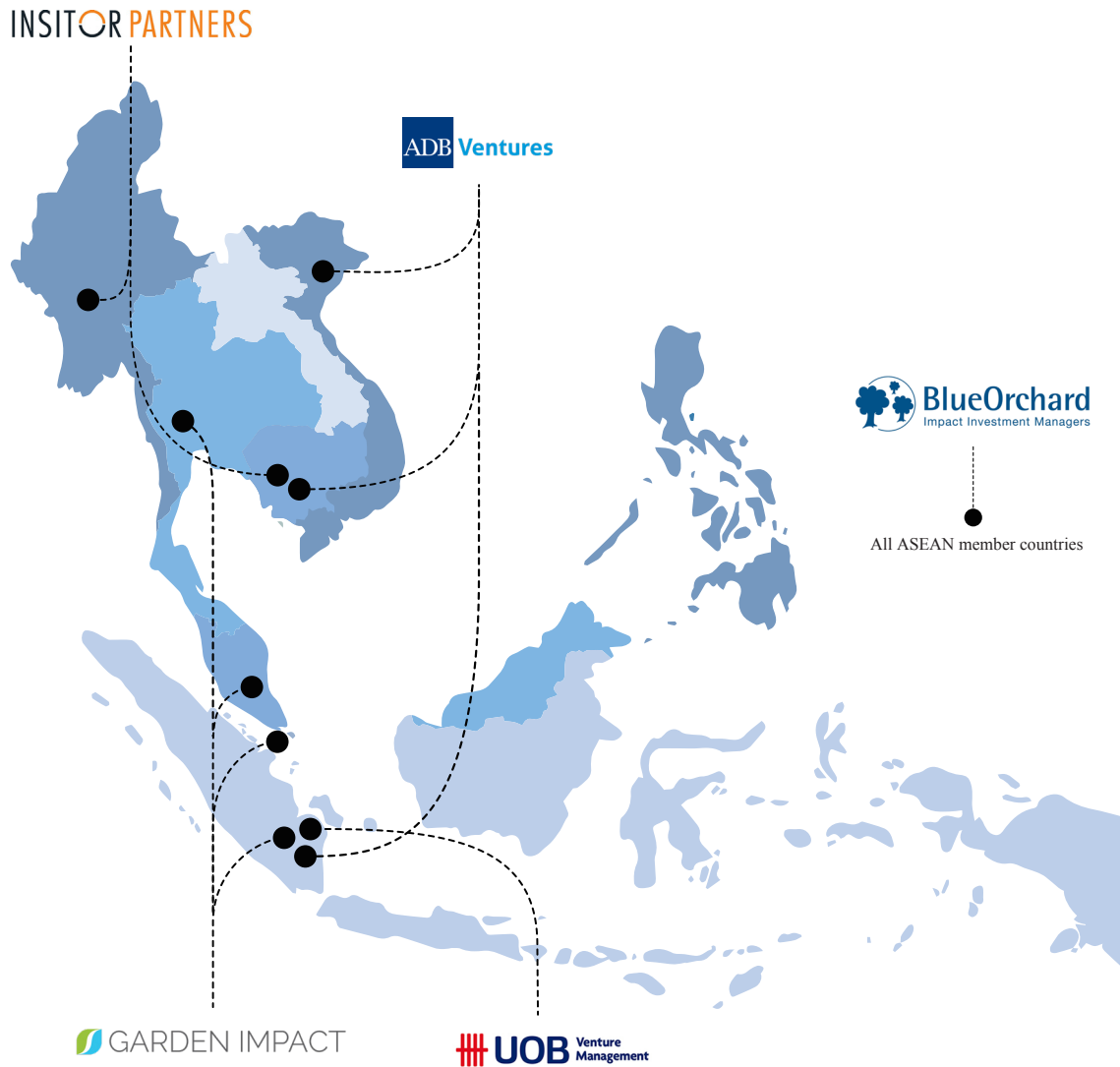
Facilitative support, in particular, is a key word in ASEAN, essential to promote investment readiness of impact investees in many aspects, leading to build the pipeline. This can raise confidence of national or international impact investors—transactional contribution—to strengthen the impact investing market. Further intellectual and government commitment is critical to institutionalize and shape the overall impact investment ecosystem in ASEAN.

The next section introduces five case studies of existing impact investing practice to illustrate the most up-to-date experience of impact investing in ASEAN.

⁶⁸ However, many enterprises choose to remain informal due to the lengthy process of registration, which remains to be one of the challenges. Majority of social enterprises in Viet Nam are in agriculture, education and skill training, non-farm livelihoods, business support and consultancy, and handicrafts sectors.

⁶⁹ Similarly to the Philippines case, GLI private impact capital investors are Patamar, SEAF and Thrive.

3.4. Case studies of impact investment in ASEAN





1. BlueOrchard (ASEAN)

1. General description of the fund

Japan ASEAN Women Empowerment Fund (JAWEF) is a blended finance fund that provides **loans** to microfinance institutions (MFIs) that serve female entrepreneurs in the ASEAN region and beyond. Launched by BlueOrchard in 2016, with support from the Japanese government, JAWEF is a three-tiered fund that leverages first-loss and mezzanine tranches to mobilize institutional investors in the senior tranche.

JAWEF achieved its first close in 2016, raising \$120.5 million from Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA), as well as institutional investors. In 2019, JAWEF underwent a second fundraising round that increased its total size to \$241.0 million with repeat commitments from investors including JBIC, JICA, and Sumitomo Life Insurance Company, and a new partnership with The Sasakawa Peace Foundation.

2. Theme/sector and relevant SDGs



JAWEF aims to empower women through increasing their access to financial services, by investing in microfinance institutions (MFIs) that serve female entrepreneurs primarily in ASEAN countries. The MFIs need to be equipped with products that include credit and leasing, savings, insurance, payments and remittances, pensions services, or mobile banking for the purposes of income-generation, housing, education, health, water and sanitation, or energy efficiency. The fund has priority on SDGs #5 (Gender Equality).

3. Size and type of investment

JAWEF provides **debt** finance to MFIs. The uniqueness of the fund is in its three-tier capital structure—\$1 million first loss capital by BlueOrchard and Summit Financials, \$120.5 mezzanine tranche provided by JBIC and JICA and \$120 million senior shares by Sumitomo Life, the Japanese Pension Fund Association and The Sasakawa Peace Foundation. The below

image captures the breakdown of JAWEF portfolio (as of Q4 2020).

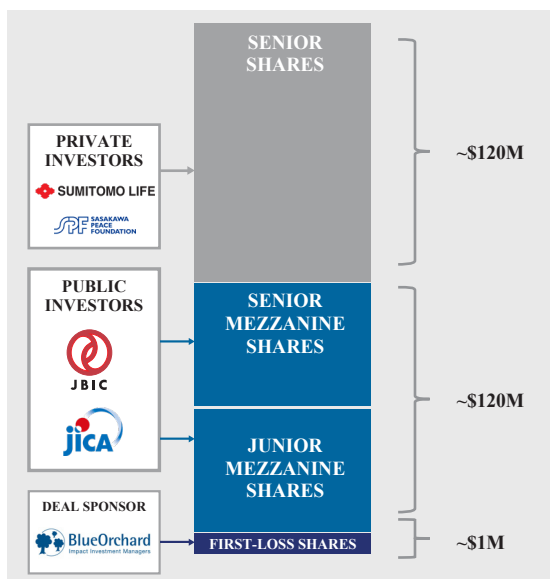


Image: Convergence

4. Financial return

Financial return is undisclosed.

5. Social Impact Measurement

The fund takes measurement of the number of borrowers and ratio of female and rural clients. As of December 2020, the fund has **432,597 microentrepreneurs**, of which **77% are rural clients** and **92% are female**. BlueOrchard uses its proprietary B. Impact Framework to evaluate the social and environmental performance of JAWEF’s investees pre-and post-investment, which is aligned with the International Finance Corporation’s Operating Principles for Impact Management (Principles).

6. List of Investees (Case Study)

As of Q4 2020, JAWEF has made **77 loans** since inception and active investments to **29 MFIs**. Almost all loans are **senior (approximately 98% of investments)**, with the remainder being subordinate. Most loans are invested in the agriculture sector, followed by trade.

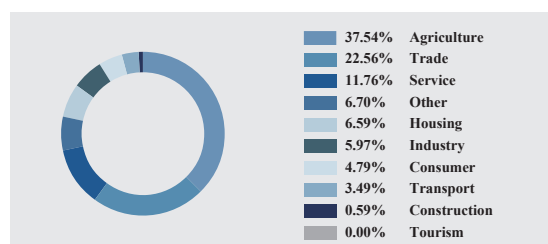


Image: Convergence

7. Target beneficiaries

The Fund aims at providing improved financial access to female entrepreneurs in ASEAN countries. The MFIs must either disproportionately target female borrowers (at least 60%), or have or intend to develop a specific product for women's empowerment.

8. Accomplishments

The Fund has been an enormous accomplishment due mainly to:

- a fast ramp-up (in less than 1 year all committed capital initially mobilized was invested);
- success in using capital by JBIC and JICA to mobilize private commercial capital (best case in blended finance with more than 50% of total Fund assets from commercial capital); and
- demonstrated track-record of delivering on its impact objectives (direct outreach to approximately 400,000 female microentrepreneurs as of Q4 2020).

9. Perspective of stakeholders (investors, investees, intermediaries and beneficiaries)

The direct testimonial from each stakeholder is undisclosed, but JAWEF investors are impact-driven investors who share with BlueOrchard the ambition to provide social impact to underserved communities in developing countries. (not a woman)



Image: Sasakawa Peace Foundation



2. Garden Impact (Singapore, Indonesia, Malaysia and Thailand)

1. General description of the fund

Garden Impact was founded in 2013 by a team of social impact investors led by Mason Tan in Singapore to deploy catalytic capital into scalable impact-driven businesses. Their aim was to invest in a set of portfolio companies that bring sustainable positive social change to low-income communities and those living in disadvantaged circumstances, elevating their quality of life. Garden Impact targets Southeast Asian countries including Singapore, Indonesia, Malaysia and Thailand.

2. Theme/sector and relevant SDGs

The fund is sector-agnostic and considers any sector that creates sustainable social impact.



3. Size and type of investment

Garden Impact provides capital to early-stage impact ventures in the form of **equity and convertible debt** with the average **ticket size of \$500,000**.

4. Financial return

The fund has made one full investment exit, but the financial return was not disclosed. The fund is targeting a 5% annual return to investors.

5. Social impact measurement

Garden Impact focuses on poverty alleviation by increasing livelihood opportunities and increasing accessibility to necessities. The key social impact metrics include number of jobs created, number of people living in affordable housing, number of beneficiaries completing tertiary education and access to education for remote communities.

6. List of investees

Until December 2020, Garden Impact invested in **11 companies** including the following companies.

- Agape Connecting People (Singapore)
- DANAdidik (Indonesia)
- Mahoni Edukasi Digital (Indonesia)
- Greenhope (Indonesia)
- Affordable Abodes (Malaysia)
- Kestrel Bio Sciences (Thailand)



Image: Garden Impact

7. Target beneficiaries

The fund assumes the beneficiaries to be low-income communities and people living in disadvantaged circumstances such as those with disabilities or former prisoners.

8. Challenges and accomplishments

Following challenges were mentioned in the interview:

- Being a pioneer in social impact investing in Southeast Asia, they had to overcome many hurdles such as lack of track record, skepticism, relatively high transaction costs (due to the small ticket size) and lack of manpower.
- Paradigm shift of mindset from profit-driven to purpose-driven investments.
- Negative stigma that all social enterprises are loss-making and thus unsustainable.
- Market was unprepared for an integration of doing well (profit) and doing good (helping others), since charity/philanthropy seemed like the only way to help vulnerable communities.



Image: Garden Impact

9. Perspectives of stakeholders (investors, investees, intermediaries and beneficiaries)

- **Investor**, Anita Fam: ‘I think for me, the proudest moment was seeing these organizations really growing from strength to strength. I use the example of Agape, which is a call center and it actually employs persons who come from vulnerable backgrounds.’



Image: Garden Impact

- **Investor**, Song Tjoa: ‘Using business, to fight poverty, resonates with me because it truly gives a sustainable model, but beyond a sustainable model, we understand that people need work for dignity.’
- **Investee**, Joseph See (CEO) of Agape Connecting People: ‘Garden Impact, they came at a time where we really needed their help. At the end of the day, we look at the lives that we have impacted, and we are so grateful.’
- **Beneficiary (employee)** Nur of Agape Connecting People: ‘I was grateful that I was employed, people like us also will need the opportunity to develop ourself and look for finance to support our family. Working at Agape is really like a family to me.’

10. Lessons learned

The following points were mentioned in the interview with Garden Impact.

- It is impossible to achieve profit maximizing with above market returns and impact maximizing at the same time.
- Many social enterprises failed not because of business models but due to lack of capital since these social enterprises do not have appropriate creditworthiness to access traditional financing.
- Since social impact investing in unlisted instruments involves a longer maturity period (10 years), we need to exercise discretion when it is time to cut loss (fail early, fail small).
- Impact investing is more than just **pure positive financial returns**. It also provides positive **social impact returns** and **legacy** through the investment portfolio therefore we need to take social impact outcomes into critical consideration when managing the portfolio.



Image: Garden Impact

ADB Ventures

3. ADB Ventures

1. General description of the fund

ADB Ventures is the Asian Development Bank's (ADB) venture arm, targeting more than \$1 billion in impact investment into technology-driven businesses delivering solutions which contribute to the Sustainable Development Goals (SDGs) in developing Asia-Pacific markets by 2030. ADB Ventures provides a range of financing instruments (**equity, debt and grant**) as well as technical assistance and access to ADB's networks and partnerships to facilitate the entry of impactful technology companies into key emerging Asia-Pacific markets.

Aside from its inaugural investment fund which provides equity, ADB Ventures currently operates its 12 million technical assistance program implemented across both a Seed and Labs program. **Seed Program** provides grant funding for rapid market and product validation in developing Asia-Pacific markets. **Seed grants are provided in exchange for future investment "rights" to receive additional finance opportunities to scale successful investments while also increasing potential return at the Fund level.** **Labs Program** complements Seed by playing a critical role in matching demand for impact technology by sourcing Fund level and Seed investment opportunities and connecting potential investees with value added technical assistance and commercial partnerships.

ADB Ventures is supported by Finland's Ministry for Foreign Affairs, the Clean Technology Fund, the Nordic Development Fund, the Republic of Korea's Ministry of Economy and Finance, the Korean Venture Investment Corporation, and E-Asia and Knowledge Partnership Fund.

2. Theme/sector and relevant SDGs

ADB Ventures focus on technology-oriented ventures such as cleantech, agritech, fintech or healthtech. Its initial focus is in climate and gender impact in Southeast and South Asia and it has intention to gradually expand operations into new geographic regions and SDG themes. Currently, the fund focuses on SDG #1, #3, #4, #7, #8, #9 and #13.



3. Size and type of investment

ADB Ventures provide **multi-tier funding** to different levels of its investees, which consists of **grant, equity and debt financing**. Seed Program, which has \$5 million fund size, focuses on pre-series A ventures and makes funding available up to \$200,000 per grant. These products enable early-stage companies to validate and commercialize their products and services in the emerging Asia-Pacific. Its \$60 million equity fund (Fund 1), which targets at pre-Series A to series A stage ventures plans to provide up to \$4 million funding to around 20 investees. ADB Ventures launched fundraising for its \$100 million debt fund (Fund 2) in February 2021, which will be for venture companies at series B or later stage ventures. The fund will provide debt funding up to \$8 million.

Funding Vehicle	Seed Program	Equity Fund	Debt Fund
Market Gap	*Diverse and fragmented small markets. High market entry costs	*Growing but limited pool of patient capital *Incumbents with long and risk-adverse development cycles	*Capital intensive businesses *Banks reluctant to lend *Nascent venture debt market
Objective	Market validation	Commercialization	Scaling deployment
Instrument	Up to \$200k Future equity rights	Up to \$4 million Equity financing	Indicatively up to \$8 million Debt financing
Fund Size	\$5 million (during 2020-22)	\$60 million (around 20 investments)	Target min. \$100 million
Stage Fit	*Seed to pre-Series A *Prototyping and completed production development *Some revenue traction	*Pre-Series A to Series A *Product-market fit established *At/near positive unit economics	Indicatively Series B and beyond *Broad(er) market penetration *At or near breakeven
Sector Fit	Cleantech/Agri-tech/Fintech/Healthtech		Cleantech/Agri-tech
Geographic Fit	Southeast Asia / South Asia		
Impact Fit	Climate Mitigation / Climate Resilience / Climate Adaptation (gender investment lens)		
Type Fit	Technology-enabled business models; commercially feasible and scalable		

Image: ADB Ventures

4. Financial return

ADB Ventures distinguishes itself from other impact investment initiatives through the provision of financing options in **all stages of a company's life cycle**. Although target return is not specifically disclosed, ADB Ventures takes a longer-term view than contemporary commercial and impact investment funds with individual Fund longevity up to 17 years providing **greater strategic patience** in investment combined with a **higher risk to return ratio** than most contemporary funds.

5. Social impact measurement

As the fund has only recently been capitalized and the assessment of the first tranche of investees is ongoing, the facility does not have any specific impact metrics to report at this stage.

6. List of investees and a case study: Smart Joules

ADB Ventures' investees for the Seed program in ASEAN include Otago (Cambodia) and Duithape (Indonesia), among other regions from Captain Fresh (India), Three Wheels United (India), Zaroor (India), Pinatex by Ananas Anam (UK), Kiu (Hong Kong, USA, with back office operations in Vietnam) to Good Bricks by InnoCSR (Republic of Korea).



Image: ADB Ventures

ADB Ventures announced the first investee for their Fund 1 in March 2021. Smart Joules is a relatively young Indian company (founded in 2015) that increases the energy efficiency of commercial and industrial buildings through smart equipment management and retrofits received capital from Fund 1⁷⁰. Smart Joules offers CAPEX-free (capital expenditure) retrofits of aging energy-intensive equipment in commercial and industrial facilities and replaces them with a smart system comprised of design and equipment improvements. The system utilizes various sensors to track and manage individual equipment performance and overall facility performance in real-time. This technology enabled Smart Joules to guarantee its clients 15% energy savings.

7. Target beneficiaries

ADB Ventures has an initial focus on specific geographies and SDGs but no particular focus on target beneficiaries.

8. Accomplishments and challenges

ADB Ventures' key accomplishment has been structuring multi-tier funding scheme with

⁷⁰ While this company is not from ASEAN, this presents a good reference point for ASEAN countries. As observed by ADB, Smart Joules has the potential to scale into markets throughout the Asia-Pacific region (BW Online Bureau 2021). As explained above in the general description of fund, ADB Ventures takes the financing form of 1) grant and 2) equity investment. Other "grant investees" have obtained the "right" to receive the next phase of financing which is equity investment.

support from different bi-lateral and multi-lateral funders leveraging ADB's resources in development finance. A challenge for ADB, mentioned in the interview, was establishing a venture arm in a multi-lateral development bank more accustomed to large-scale investments, which has different expertise and culture.

9. Perspectives of stakeholders (investors, investees, intermediaries and beneficiaries)

The direct testimonial from each stakeholder is undisclosed as the assessment of the first tranche of investees is ongoing.

10. Lessons learned

ADB Ventures found that there was a strong synergy between the grant program/technical assistance and equity/loan investment programs. The grant program helps pipeline development while the technology-matching program helps validation of investee's potential for commercialization and scaling in the process of technology matching. This ensures a portfolio with double-bottom line—social and financial returns.

INSITOR PARTNERS

4. Insitor Partners (Cambodia and Myanmar)

1. General description of the fund

Insitor Partners (hereafter Insitor in this paper) is a Singapore-based and regulated regional impact fund manager established in 2009 by two founders, Micaela Ratini and Nicholas Lazos. The fund invests in Cambodia, Myanmar, India and Pakistan as of 2020. Insitor has closed two funds, Insitor Seed Pilot (\$15 million) and Insitor Impact Asia Fund (\$33.2 million) and they are in the process of raising \$70 million for Insitor Impact Asia Fund (IIAF) II as of January, 2021.



2. Theme/sector and relevant SDGs



The fund works across sectors with the unifying theme of investing in companies that directly provide critical goods and services to the low-income population. The fund complies with IFC's Operating Principles for Impact Management to ensure its position as an impact fund.

3. Size and type of investment

The funds at Insitor Partners provide capital to impact ventures at an early stage in the form of equity or convertible debt. At the same time, the fund provides non-financial assistance to enhance management capability in governance, financial management, ESG, fundraising, and strategy development. These efforts have resulted in multiplied additional funding by external investors totaling \$85 million versus \$16 million invested by Insitor Impact Asia Fund as of 2020.

4. Financial return

As of March 2020, Insitor Impact Asia Fund has **21% of gross internal rate of return (IRR)** which includes realized and unrealized returns. \$8 million was repaid to investors through these exits.

5. Social impact measurement

Insitor Partners set different impact metrics depending on the field of impact by the investee companies. The example of impact metrics includes number of jobs created, ratio of female hires, number of students of education companies, number of patients for healthcare companies, number of borrowers of financial services and so on. The fund reports that **38 million beneficiaries are served** by its investees and **13, 500 new jobs** were created by December 2019 through the investees' business activities.

6. List of investees

The target of the investment includes low-income housing developers, education providers, healthcare providers, diagnostic companies and micro and mini-water infrastructures for basic services. The target for the financial inclusion portfolio focuses on specialty finance companies such as housing microfinance, education finance, agriculture inputs and machinery on credit, and microinsurance.

The list of investees includes following companies:

- Khmer Water Supply Holding (Cambodia)
- Boost Capital (Cambodia)
- SolarHome (Myanmar)
- Alliance MFI (Myanmar)
- Drishti (India)
- Edubridge Learning (India)
- Aviom India Housing Finance (India)
- WizKlub (India)



Image: Insitor Partners

7. Target beneficiaries

The fund aims at serving low-income customers' broad demand for critical goods and services and financial products.

8. Challenges and accomplishments

Insitor Fund has successfully invested \$48million in South and Southeast Asian companies and achieved 21% internal rate of return as of March 2020. The following challenges were mentioned in the interview.

- Raising capital for new Funds is a key concern. The supply of capital to emerging market impact funds is still concentrated amongst DFIs and a small number of progressive family offices. As such, raising new capital is extremely difficult and time-consuming. At the same

time, there are ample new startups in need of capital, but not enough supply.

- Exiting investments takes time and must be planned years in advance. The secondary market for shares in these types of companies has not developed yet, so exits primarily come in the form of a trade sale of the entire business to a strategic buyer.
- Strong human capital. In some sectors and countries, there is a lack of strong human capital for specialized/technical positions in portfolio companies. This can typically be managed by outsourcing or bringing in expatriates but is not ideal.

9. Perspectives of stakeholders

Investee: Josephine Price, Managing Partner, Anthem Asia, Myanmar:

‘Insitor has been involved in this sector for many years, backing sustainable businesses with real social impact before it became mainstream. Senior management have operated in the commercial world and bring a very solid understanding how businesses operate. They help create real value in scaling up and not just measuring impact.’

Investee: Ravi Bahl, former head of financial services ChryCapital, India:

‘Insitor is one of a small handful of VC funds in multiple Asian markets, each being complex. They truly are pioneers... Many qualities [include]: a passionate and committed team and leadership, highest standards of governance, a long-term view balanced between the interests of investors and of portfolio companies.’

Investee: Khurram Zafar, Managing Partner, 47Ventures, Pakistan:

‘Great companies are about great people and that’s precisely what differentiates Insitor from its peers. The management is deeply committed to social impact but knows how to delicately balance that with fiscal responsibility towards the fund’s investors. Everyone at this company has impact on their minds, empathy in their hearts, clear burden of fiduciary responsibility on their shoulders, and most importantly, thrift in their stride.’

10. Lessons learned

Two valuable lessons were learned from Insitor’s investment strategy.

First, the application of follow-on investment accelerates the investment growth and exit process. Insitor Impact Asia Fund has validated its effectiveness on follow-on investment, to make additional investment when the investee companies perform well after the first investment. The 12 companies initially invested in by IIAF I were provided with follow-on investment of 70% value of the initial investment. This approach will reduce information

asymmetries and enable the investors to allocate larger funds to more mature and liquid assets. Secondly, the investment strategy can increase the potential of the exit strategy. It is important to start planning for the exit strategy in the early phase, such as conducting a scenario analysis on liquidity options, holding open discussion with stakeholders and putting investees on the radar of investment banks and private equity investors. Larger investment makes exits more likely—usually exits worth more than \$15 million have more potential buyers.



5. UOB Venture Management (Indonesia)

1. General description of the fund

UOB Venture Management (UOBVM) is a wholly-owned subsidiary of the United Overseas Bank (UOB) Group headquartered in Singapore. UOBVM manages private equity/venture capital funds that provide **equity financing** to **privately-held companies** across Southeast Asia and Greater China. Engaged in responsible investing since 2004 integrating ESG into its investment evaluation, UOBVM took a step further in 2015, moving into investing with a positive social intent by launching its first impact fund, **Asia Impact Investment Fund I (AIIF I)**. The fund's objective was to invest in companies in Southeast Asia and China that seek to improve the wellbeing and livelihoods of lower income communities at the base of the economic pyramid.

UOBVM offers **institutional and high-net-worth investors** a strong **value proposition** to support sustainable growth businesses with impact-driven business models through this **double bottom line** focused fund which values both financial return and social impact. UOBVM also demonstrated its commitment to responsible investing by being the first signatory to the Operating Principles for Impact Management⁷¹ in Southeast Asia, completing its external verification and disclosure in September 2020. In addition, UOBVM is also a signatory of UN Principles for Responsible Investment (PRI). Riding on the success and experience of its first impact fund, whose portfolio companies have reached more than 16 million low-income individuals⁷², UOBVM launched its second impact fund, AIIF II, which shares a similar investment mandate as AIIF I.

2. Theme/sector and relevant SDGs

In executing its investment mandate, the AIIF Funds strive to contribute towards SDGs #1, #2, #3, #4, #6, #7, #8, #10 and #11. UOBVM believes in generating both social impact and attractive financial returns at the same time through deploying capital into private companies

⁷¹ The initiative to develop the Impact Principles was led by the International Finance Corporation (IFC) in consultation with leading impact asset managers and asset owners. For more information, please refer to <https://www.impactprinciples.org/>.

⁷² As at 31 December 2020 and since AIIF I's investment into these portfolio companies

in Southeast Asia and China. Hence, AIIF I and AIIF II Funds aim to make investments in sectors most likely to generate positive impact for the lower-income groups including, but not limited to, agriculture, education, healthcare, affordable housing, sanitation and water management, logistics, clean energy and financial inclusion.



3. Size and type of investment

AIIF provides growth capital to small- and medium-sized companies through **equity investments** that typically range from **\$2 to \$15 million**.

4. Financial return

As at 31 December 2020, AIIF I has a gross internal rate of return of more than 30%⁷³.

5. Social impact measurement

As at December 2020, more than 16 million low-income individuals have been reached by AIIF I's portfolio companies. Through the efforts of portfolio companies, for example, in the area of education, 11 million+ youths from low-income households have gained access to quality educational resources, improving individual learning outcomes and national education outcomes. AIIF I also conducts social impact measurement and tracks meaningful indicators at portfolio companies, such as improvement of income of beneficiaries like farmer groups, women borrowers who have benefited from microfinance loans and financial education programs, etc.

6. List of investees (Case Study)

AIIF I has invested in more than **10 companies in five countries** across various impact sectors—two cases of which from Indonesia are selected and featured as below.

1. Halodoc (Indonesia)

Indonesia has a population of 274 million, and similarly to many fast-growing developing countries, providing affordable and quality healthcare at scale remains a significant challenge. Based on the World Bank data, there are only four doctors per 10,000 individuals in Indonesia,

⁷³ Based on total portfolio value of realized and unrealized investments on a fair value basis.

compared with the OECD average of 34 doctors per 10,000 individuals.

Owing to the skewed distribution of medical personnel, gaining access to a doctor is not always easy especially for communities located outside major cities. More than 80% of tele-consultations with doctors on the Halodoc platform are utilized by patients located outside Jakarta and Surabaya, some of whom do not have access to specialist doctors otherwise. Halodoc aims to simplify access to healthcare services by integrating online and offline components of the healthcare ecosystem. Leveraging technology, Halodoc's app and website now enable patients in Indonesia to gain access to doctors, including specialists, within a minute through online consultations, and to have their medication delivered to them within an hour. This significantly improves the patient experience. Halodoc also enables midwives, many of whom are located in city fringe areas or rural regions, to provide a better quality of ante-natal care through its suite of services and products.

2. Ruangguru Pte. Ltd. (Indonesia)

The Indonesian education technology company Ruangguru was co-founded in 2014 by two young Indonesians aiming to address and solve the nationwide gap in the quality of education. Indonesian students often rank among the lowest globally in the Programme for International Student Assessment (PISA) tests. The disparity of the quality of teachers and teaching resources varies widely across the Indonesian Archipelago. Ruangguru combines pedagogy with technology and focuses on providing affordable digital education content across the education verticals, starting from Grade 1 to 12. For a few dollars a month, students get access to a whole year of learning resources for their level covering all core subjects, affordable even for lower income households.

The UOBVM team saw the potential of the commercially scalable Ruangguru model in enabling access to affordable quality education and became the lead investor in Ruangguru's Series B financing in 2017. Since then, Ruangguru's **revenue has grown by more than 200 times**, cementing its position as the leading education technology platform in Indonesia. In 2020, Ruangguru also brought its affordable and scalable learning solution to new markets like Viet Nam and Thailand. Covering a wide spectrum of education needs for the population, its product offerings have now expanded beyond K12 to adult short courses and language training. Against the backdrop of education disruption with school closures due to the pandemic, Ruangguru enabled students to continue learning through its free online school that was broadcast daily covering Grades 1 to 12. The company ensured students' access to its learning platform would not be hampered by financial concerns by working with large telcos in the country to provide free internet data when accessing the Ruangguru platform. More than **10 million students** had accessed the online school in a mere five months. More than **200,000 teachers** across the country benefited when Ruangguru made its teachers' training program available for free in the midst of the COVID-19 pandemic. Even though its core learning

platform is priced affordably, it is shown to be effective as more than 85% of its paid subscribers said their grades improved after using Ruangguru.⁷⁴

Though a relatively new business unit, Skill Academy by Ruangguru, became a leading course provider in the Indonesian government's pre-employment training program, which was launched in 2020 in the midst of COVID-19 to realize the vision of a trained workforce. Through user surveys, more than 35% of Skill Academy users reported that they were successful in getting additional income or a new job after the completion of their courses.

7. Target beneficiaries

AIIF Funds' target beneficiary group is the population living at the bottom of the pyramid in Southeast Asia and China, as the funds seek to invest in companies that can help to improve their livelihood and well-being.

8. Challenges and accomplishments

The following challenges were mentioned in the interview.

- **Finding and backing the right—mission aligned—team.** For impact deals, it is crucial to ensure that the founders and senior management are aligned on the mission and vision of the company and solving social challenges in commercially feasible ways. It is hence important to find entrepreneurs with genuine passion and motivation to avoid mission drift. They find that it usually takes them longer to get to know the founders and undertake due diligence before committing to the investments. Their management process is to get to know the entrepreneurs early and tracking them over a period of time where possible.
- **Impact measurement.** This is not a simple process where standard metrics can be used as a wide range of sectors are involved, and each business model can be quite different. AIIF therefore, try to utilize a mix of industry standard metrics like IRIS plus (see Chapter 2), and develop other meaningful tracking metrics and indicators in discussion with their portfolio companies. AIIF also combine qualitative and quantitative approaches to provide their fund's investors with a better view of how target beneficiaries have benefitted through the efforts of AIIF Funds and their portfolio companies.

⁷⁴ In subscriber surveys carried out in the first half of 2020 covering more than 30,000 students in total.



An Indonesian youth using the Halodoc app

Source: UOB Venture Management

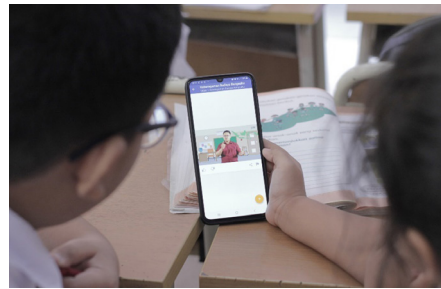
9. Perspectives of stakeholders

Investee—Jonathan Sudharta, Founder &CEO of Halodoc:

‘We are delighted to have UOBVM on board, their sustainable and impact investing DNA is something we appreciate and resonate with. Halodoc is committed to simplifying and improving healthcare access in Indonesia, and values the support of like-minded partners and investors.’

Beneficiary—Ibu Junengsih, Bogor, Indonesia:

‘I used to walk three kilometres to get clean water. After I received a loan... I started earning more money from farming. I used the extra income to build a toilet and a well at home.’



Primary School students discussing while watching a learning video on Ruangguru's platform

Source: UOB Venture Management

10. Lessons learned

AIIF had a dual objective of financial returns and positive social outcomes with particular scrutiny on the sustainability of the business' social impact generation. AIIF found that **commercially scalable models with a strong management team leads to success**. The company emphasizes that they will not prioritize models which focus on social enterprise where impact may be deep but only target a relatively small beneficiary pool.

* * *

Myth buster: There *are* investible opportunities with track record in ASEAN

As these five case studies illustrated, there are investible fund opportunities in ASEAN. Impact investing is a diverse marketplace. However, discerning the legitimacy of funds is only possible through being an active part of the impact investing community and accessing up-to-date reports such as this one. This paper showcased examples of funds with a high financial track record. **Insitor Partners** active in Cambodia and Myanmar (See Case Study 4) produced 21% of gross IRR and created over 13,500 new jobs with 38 million beneficiaries served through the investee companies. Their 11-year experience in impact fund management is well-reflected in the successful closure of two recent funds worth over \$48 million. The **UOB Venture Management** active in Indonesia (see Case Study 5) has a gross IRR of over 30%. Over 16 million low-income individuals have been reached through their Asia Impact Investment Fund and provided access to quality educational resources to more than 11 million youth.

In addition, the case studies showed investment funds that have high legitimacy and grant a choice of smaller ticket size and multi-tier funding structure. **BlueOrchard's** ASEAN Women Empowerment Fund (see Case Study 1) impacted over 430,000 microentrepreneurs of whom, 92% are female and 77% are in rural areas. Despite the rate of financial return undisclosed, they present significant legitimacy through their partnership with JBIC, JICA and Sumitomo Life Insurance from whom they raised over \$240 million. **Garden Impact** provides a relatively smaller ticket size (see Case Study 2), and the **ADB Ventures'** multi-tier funding structure consists of grant, equity and debt financing (see Case Study 3), allowing more social ventures to take part to grow and scale their financial and societal impact. These are good examples of financial intermediary (see Chapter 2), which has a role in the design of investment products. These selected funds currently active in the ASEAN impact investing market are critical evidence that there *are* investible investment opportunities with strong financial track record.

3.5. Summary of challenges raised in case studies

This section showcased five case studies of impact investing activities currently in progress in ASEAN. ASEAN's diversity in economic and social development as well as the capacity of ecosystem reflects the differing challenges of impact investment, which simultaneously can also bring opportunities. The list below is a summary of challenges currently experienced in the five case studies featured in this section – reflective also of impact investing ecosystem in ASEAN:

1. Financial:

- Lack of strong track record of financial return,
- Lack of capital pooled in general in the market,
- Foreign exchange risk,
- Potential high transaction costs to accommodate for smaller ticket size and
- Risk-averse investors mainly unwilling to take concessionary return

2. Facilitative:

Logistical considerations such as time difference need to be considered. Human capital and organisational capacity need more expertise for:

- Design of commercially scalable business models
- Coordination of impact measurement
- Large-scale, infrastructure investment projects
- Support of successful exit process
- Full consensus on mission alignment
- Logistical considerations such as time difference

3. Intellectual:

- Scepticism toward impact investment as a result of instilled perspectives that integration of financial performance into societal performance is impossible

4. Governmental and intellectual:

- Lack of data and case studies in ASEAN for a better grasp of regional progress
- Lack of impact investment-specific policies to enable new impact investors to scale the impact

These challenges demonstrate that in ASEAN, impact investment is in the early stage where generally the market requires a pool of financial capital. Scepticism and risk-aversion are of common concerns in ASEAN regarding impact investing. However, **there are funds in ASEAN that deliver well in both financial and societal performance.** Building on these challenges in ASEAN, Chapter 4 further illustrates main challenges for consideration and corresponding recommendations.

4. Challenges and Recommendations for Impact Investment in ASEAN

Impact investing is a symbolic approach that negates the long-held views that businesses should solely maximize financial profit. For impact investing, “return” signifies not only financial return but also societal impact and beyond.⁷⁵ However, there are still varied challenges for impact investors globally to fully engage in impact investing as an approach to realize the SDGs. This paper does not provide all the answers to strategize risk management and financial and societal performance, but rather, it maps out some of the major challenges highlighted in ASEAN, along with possible recommendations.⁷⁶

Table 3 below summarises recommendations that respond to challenges identified per area and relevant stakeholders that can be considered for recommended actions. Further explanations follow in this chapter.

Table 3: List of recommendations for area-specific challenges

Areas	Challenges	Recommendations	Relevant stakeholders
Transactional	1.1 Lack of investible impact investment products	<ul style="list-style-type: none"> ● Actively source information and strategies by learning from early adopters and innovators. ● Seek latest information e.g. AVPN and/or Toniic. 	Investors (finance mobilisers)
	1.2 Lack of track record of financial return	<ul style="list-style-type: none"> ● Accept differing degrees of investment readiness. ● Identify each role to play. (pre-seed, seed, early, later to initial public offering) → angel investors. ● Combine grant and investment. 	

⁷⁵ Research shows that the form of return does not only entail financial and societal dimensions but also personal through intangible gains from the impact-creating journey shared—such as a degree of emotional fulfilment, reputation, knowledge, experience and newly built relationship network (Epstein and Yuthas 2014; Ono 2020).

⁷⁶ Recommendation numberings do not necessarily respond to challenge numberings.

Areas	Challenges	Recommendations	Relevant stakeholders
Facilitative	2.1 Coordination and sophistication of impact measurement and management approach	<ul style="list-style-type: none"> ● Identify non-financial intermediaries (mainly incubator and accelerator programs) that builds investees' capacity in impact measurement & management. ● Gain better access to capital and mentoring programs. 	Investees
	2.2 Inadequate skills and expertise required in human capital	<ul style="list-style-type: none"> ● Increase legitimacy by actively joining competitive events and pitch opportunities. 	Investees
		<ul style="list-style-type: none"> ● Implement, increase and promote opportunities for investees. 	Intermediaries
	2.3 Societal risk of impact investment	<ul style="list-style-type: none"> ● Promote use of certification for legitimacy. 	Policy makers
Intellectual	3.1 SDG-washing	<ul style="list-style-type: none"> ● Demonstrate evidence and commitment to intentionality. 	All actors
	3.2 Lack of research (understanding) of impact investing in ASEAN and beyond	<ul style="list-style-type: none"> ● Seek performance-based grant capital in research and development activities (e.g. social impact guarantee). ● Incorporate education of impact evaluation in Business Schools 	Intellectual actors

Areas	Challenges	Recommendations	Relevant stakeholders
Governmental	4.1 Fragmented policy development at different speeds	<ul style="list-style-type: none"> ● Must formulate engaged public policy to encourage demand, supply, intermediaries (e.g. tax relief, certification, dormant account, stock exchange among others). 	Relevant institutions
		<ul style="list-style-type: none"> ● Consider joining the international frameworks (e.g. GSG) ● Establish the NAB under the GSG. ● Institutional effort for national and regional policy, regulatory and legal frameworks (certification). 	Relevant institutions
		<ul style="list-style-type: none"> ● Create an ASEAN Impact Investment Hub (tentative) to harness coordination of regional effort and build ecosystem. 	ASEAN
		<ul style="list-style-type: none"> ● Coordinate with ODA donor countries to increase public-private initiatives (e.g. Australian Government's EMIF) ● Initiate to discuss the use of development impact bond 	Least Developed Countries in ASEAN

Source: AJC

Transactional:

Challenge 1.1: Lack of investible impact investment products

Lack of accessible impact investing products is a perceived gap for impact investors who are willing to make investment. This was the third major challenge identified by Japanese impact investors, and by less than a quarter of impact investors globally. Yet, the question lies in whether it refers to availability or investability. If the former, availability is of concern⁷⁷, the issue is inadequate number of actors and activities in the market or the criteria that qualifies products as impact investment. For the latter, investability, the issue signifies inadequate information about the investment product for assessment or the absence of ‘high-quality’ investment with a track record of generating finance and societal impact worth investing. Similar to Challenge 1 (financial track record), investability is a significant gap perceived by impact investors globally (International Finance Corporation 2019).

Challenge 1.2: Lack of track record of financial return

A financial instrument is mainly driven by a financial priority that values transactional record and financial return; this should also be the criteria for impact investment. While Japanese impact investors do not see the lack of a track record of financial return as a major issue, as expressed by Japanese impact investors (Japan NAB 2021), an inadequate financial track record appears to be a significant gap for impact investors particularly focused on emerging markets such as Africa and Asia (GIIN 2020). Lack of financial track record can lead to general lack of financial capital pooled in the emerging markets, hence the persistent funding gap for SDGs. While financial return can be used as a track record to sustain cash flow for financing SDGs, the key is to inform current and existing impact investors active in the ASEAN market that the market is still in relative infancy.

⁷⁷ Foreign exchange risk, lack of small ticket sizes and/or high transaction costs for availing small ticket sizes are also of consideration.

Recommendation 1.1: Actively source information and strategies through network opportunities and associations

To identify such investment opportunities and fully engage in impact investing, one must be part of active communities to seek up-to-date investment opportunities. In any investment endeavours, information is critical in making investment decisions. There are two practical platforms to pursue this. Firstly, Tonic⁷⁸, a membership-based global community of active impact investors, is a useful platform that provides education, direct access to fund and investment, and impact measurement support. Secondly, Asian Venture Philanthropy Network (AVPN)⁷⁹ is another membership-based network group that connects all actors of social investment ecosystem and provides funding and collaboration opportunities through services such as Deal Share platform. There are at the forefront in the impact-creating market, actively working to spur progress towards the SDGs. Learning from early adopters and innovators who managed difficult stages in the impact investing journey will pave the way to prepare for new and emerging practice such as impact investing.

Recommendation 1.2: Accept the differing degree of investment readiness in the impact investing market and identify each role to play.

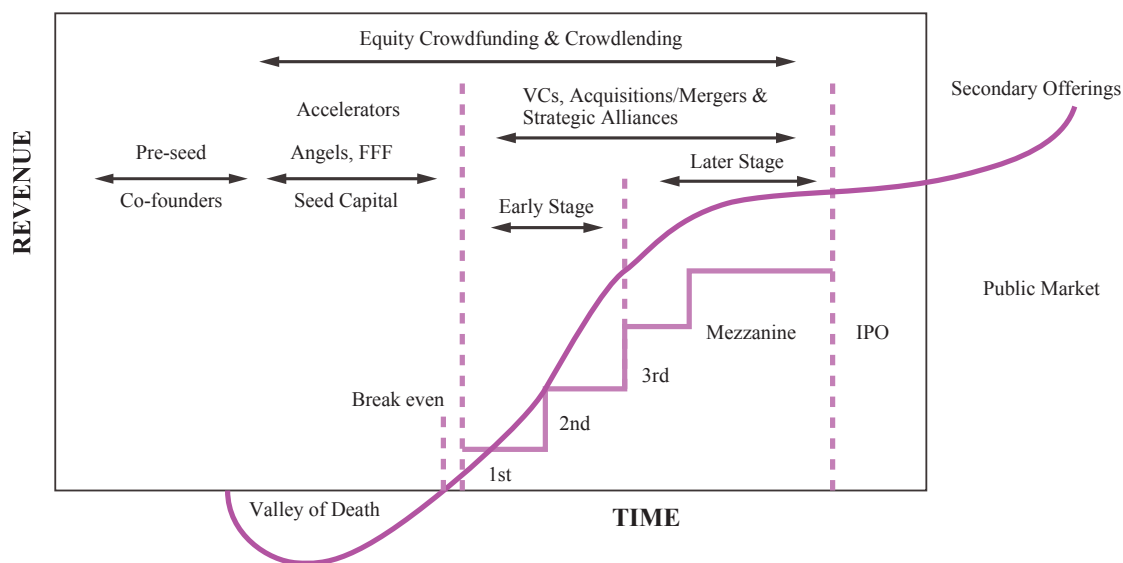
While there are indeed investible opportunities in ASEAN, it is true that not all SDG-driven businesses are investment-ready. Turning SDG-driven business into commercially viable investment product is extremely challenging—particularly if they cannot be monetized. Markets usually fail to serve low-income and marginalized groups (International Finance Corporation 2020), and for this, more risk-tolerant capital is required where the combination of grant and follow-on investment such as the ADB Venture case (see Chapter 3) can be encouraged. ASEAN requires more concerted effort for overall eco-system building.

Secondly, identifying the stage in the financing cycle can inform the role that actors need to play. The conventional five-stage venture capital financing model is applicable to impact investing in ASEAN—starting from pre-seed, seed, early-stage, later-stage to initial public offering (IPO) (Figure 18).

⁷⁸ <https://tonic.com/>

⁷⁹ <https://avpn.asia/>

Figure 18: Financing cycle of new business ventures

Source: AJC⁸⁰

In the seed-capital stage, angel investors who see the benefit of impact investing can be a potential source of funding, filling the “valley of death” (see Figure 18). Angel investors with an expectation of financial return are commonly successful entrepreneurs themselves—some of whom may be HNWIs—therefore, more risk-tolerant and experienced in navigating through the early stage of business ventures (John 2015)⁸¹. While grants are not part of the spectrum of impact investment, grant as a financing tool can help develop the pipeline for more investible opportunities.⁸² Angel investors and DFIs can serve to provide proof of financial viability while targeting SDGs. An evolving market requires more impact investors willing to take on concessionary return and to value societal priorities in addition to financial priorities, as this is where impact investment is distinct from conventional investments.

80 FFF refers to friends, family and fools. https://en.wikipedia.org/wiki/Venture_capital

81 See John (2007) for the idea of venture philanthropy—philanthropy adopting venture capital practice—which may be of benefit, if one is seeking non-equity seed capital to increase commercial value of companies. Venture philanthropists provide performance-based development finance and voluntary professional service.

82 The beneficial reading for this is (AVPN 2020).

Facilitative:

Challenge 2.1: Coordination and sophistication of impact measurement and management approach

The *facilitative* issue of impact measurement is regarding the capacity of impact investees to report impact measurement.⁸³ The greatest challenge perceived by Japanese impact investors is fragmented use of impact measurement and management (Japan NAB 2021). This is also echoed by impact investors globally, although sophistication of measurement and management practice is of greater concern. It is an essential factor to bring and ensure confidence for impact investors because impact investees need to be able to ‘demonstrate impact results’ and ‘compare impact results with peers’ to highlight their investability (GIIN 2020). Investability refers to both financial and societal performance and data for both is imperative (OECD 2019; IFC 2020).

Challenge 2.2: Expertise required in human capital

Investees must be trained to design and manage commercially scalable business models converted from SDG-pertinent challenges. The capacity for investees to navigate ways to manage and scale businesses is another aspect of investability. Human resource with a high level of technological and sector-specific expertise is a key to successful delivery of impact investment projects with a positive financial and societal performance. Investment fund managers or advisors must also have a high level of technical capacity to manage investment exit process, as reflected in the case studies, global impact investor survey and the Japan NAB report.

Challenge 2.3: The societal risk of impact investment

As explained in Chapter 3, it is imperative to bear in mind that *not* all projects can be investment product. This is particularly the case if the SDG-relevant projects are focused on working

83 If fragmentation of impact measurement and managing is the issue, global consensus may be the answer. Standardization of impact metrics is considered to advance financing the SDGs, as it promotes transparency, data analysis, and interoperability (OECD 2019), yet it is also important to bear in mind that standardization may not always be the answer due to continued innovation in impact measurement and diverse impact target. It still is ‘not at the stage of standardized metrics and accounting standards’ (IFC, 2020, 70). Ecosystem development requires exploration, debates, and resources to address this conundrum.

with vulnerable communities. Impact investment is essentially a market where the seemingly incompatible—financial metrics and the welfare of vulnerable people and the planet—intersect (Ono 2020; Nicholls and Huybrechts 2016). By prioritizing the need to commodify such projects into investment product, the real need and voice of the disadvantaged may be ignored and diminished.

Lack of both financial and social return indicates that there is no positive ‘impact’ made from the investment, despite the intentionality by which impact investing is defined. Even with a good intent, unintended negative consequence may be inevitable without open communication (IFC 2020). These may heighten *societal risk* to the beneficiary population—with and for whom societal impact must be created. Impact investment will not replace the work of philanthropy, funded by grants (Kobayashi 2016), yet where PIIs and DFIs both play significant roles in the ASEAN impact investing market, this is a critical aspect that requires commitment from all actors to reconciling the incompatible priorities and align united missions. A careful consideration for *societal risk* as a result of investment commodification is an urgent agenda for the field of impact investment.

Recommendation 2.1: Fuelling non-financial intermediary to build capacity of investees

The creation of intermediaries and further fuelling existing ones is central to understand to appropriately respond to the needs of actors at a local level and provide capital access (OECD, 2019). Intermediaries can provide capacity building of investees for every step of impact investing endeavours for building a pipeline in the ASEAN impact investing market. Running a business in itself is difficult, yet running a business aligned with SDGs is even harder. For investees as social purpose ventures, the non-financial intermediary should play a role in building capacity to measure, manage and report societal impact performance. Investees can pursue training of impact measurement and management by joining forces such as Impact Management Project (see Chapter 2) and the Social Value International (SVI). SVI is a membership-based global network with over 20 country chapters around the world that supports and connects through training, knowledge-sharing and networking for social value measurement. Japan, Indonesia and Thailand have chapters: Social Value Japan⁸⁴, Social Value Indonesia⁸⁵ and Social Value Thailand⁸⁶ respectively. Increasing such intermediaries in all ASEAN countries is encouraged to fill the resource gap for investees.

84 <http://socialvaluejp.org/>

85 <https://socialvalue.id/>

86 <https://socialvaluethailand.org/>

Investees can, in addition, join incubator and accelerator programs to enhance their investability as viable businesses. Through incubator and accelerator programs, young social purpose ventures can obtain relevant mentorship and training to strategize business operation and governance.

Access to investment to scale their business can be granted to all accelerator programs, but not all incubator programs do. With over hundreds of thousands of accelerator programs worldwide, platforms such as the Global Accelerator Learning Initiative that investigate program effectiveness can be useful. Investees are required to cultivate their manpower as part of the resource environment to achieve double bottom line—the delicate balance between commercialization and societal loss.

Recommendation 2.2: Promote existing competitive events and increase pitch opportunities

Promoting existing events related to SDG impact and increasing such opportunities in ASEAN will lead to increasing talent in the ecosystem and promoting investees' investability. Investability is closely linked to legitimacy. Legitimacy can be gained through winning competitive events and investment pitch which are a popular means for certifying or rating businesses to demonstrate their social credentials. Such endorsement will enable them to secure finance to drive their social ventures. Regionally in ASEAN, two major contests are the ASEAN Impact Challenge, managed by Impact Hub in Malaysia and the Social Entrepreneurship Virtual Innovation Challenge, managed by the Indonesian and Australian institutions—both with a specific focus to contribute to the SDGs. In Japan, there were 43 events specific to social ventures in 2018 alone, some of which include the Social Venture Competition (the first in Japan since 2002), Nikkei Social Business Contest (since 2018) and U-25 Tohoku Social Business Contest (since 2017).⁸⁷ While it is not about numbers, events as such will enable investees to increase exposure and test their social business ideas to increase investability.

Recommendation 2.3: Promote use of certification for legitimacy

To reduce societal risk, commitment from all actors to manage financial and social priorities is integral. As a response, the use of certification is recommended to demonstrate the commitment.

87 <https://www.galidata.org/>

88 It is important to bear in mind, however, that the real value of business can be visible and substantiated only when the business comes into existence. Endorsement is deemed a step to gaining legitimacy and access to investment.

The SDGs icons are a symbolic example; many companies and initiatives utilize SDGs icons to increase awareness of their commitment and worthiness. Certification such as B-Corp and GIIRS perform as a mediator icon that softens competing priorities through cross-institutional legitimacy. It enables common rules and practices to be co-designed to reflect hybrid priorities, sustain cross-sectoral collaboration and grant access to further resources and finance (Ono 2019; Nicholls and Huybrechts 2016). In addition, social enterprise certification practiced in Thailand (and on a global stage—Republic of Korea and the United Kingdom for instance) also promotes hybrid activities to embed double bottom line in the principles of impact investing actors.

Intellectual:

Challenge 3.1: SDG-washing

Investments without the intentions to generate societal impact—and increasing financial return in particular—cannot represent impact investing. This leads to the need for countering the risk of impact-washing or rather “SDG-washing”. Impact/SDG-washing appears to have come from the synonymous term, greenwashing. Greenwashing refers to information asymmetry; a misleading portrayal or “selective disclosure” about unsubstantiated claims that promote non-impactful environmental initiatives of businesses in exchange for their public reputation (Steinberg 2015, 81). Similarly, SDG-washing refers to “scaffolding for corporate branding and easy fodder for Public Relations departments” for their contributions to spur progress towards SDGs (Chakravorti 2017 para 1). Impact- and SDG-washing involve the misleading presentation of an investment portfolio to demonstrate social impact and alignment with SDGs, despite the lack of intentionality or the lack of capacity of investees in evaluating and reporting societal impact to investors. The importance of impact measurement, as heralded by the OECD (2019), is to mitigate the risk of impact/SDG-washing as a mere marketing exercise which can discredit the overall work of impact investing. Once again, one of the characteristics that fits impact investing requires *intentionality* in generating societal impact, alongside financial return.

Challenge 3.2: Lack of research of impact investing in ASEAN and beyond

Further research and study of impact investing is required in such a diverse region as ASEAN. For market development, newly market entrants must assess the current overview and progress to gain confidence and make judgments. Practitioner reports that provide a set of recommendations to span cross-institutionally are central to overall ecosystem-

building. Knowledge and knowledge sharing construct and re-construct a significant resource environment to harness the impact investing ecosystem. However, knowledge sharing is as yet intangible and cannot be scaled as a commercial action, which in turn means that is not an incentive for investment.

An emerging practice such as impact investing entails boundary-spanning actors across sectors: the public, private, and civil society. Where diverse actors join forces, a balance of financial and societal priorities is a major hurdle in the market beyond ASEAN. Impact investing helps finance the SDGs for *all*, and further research, with the aim of promoting more inclusive thinking, ideas and policy is needed to contribute to building a more holistic, harmonious ecosystem.

Recommendation 3.1: Mobilize performance-based grant capital in research and development activities to shape the ecosystem

For research and development activities, increased grant capital—specifically “social impact guarantee”— can be employed (see Footnote 21). Similarly to the Singaporean way of performance-based grant schemes, social impact guarantee can be used to contract research institutes, research centres in universities and agencies that pursue interdisciplinary research activities for themes surrounding impact investing with research grant funders. The pre-defined achievement can be the level of research outputs and if applicable, existing impact indicators used in the international university ranking. Scholarly and practitioner research on data, case studies of best practice, and stories of success and failure specific to ASEAN contexts is critical to increase understanding of regional impact investing activities across multi-disciplines.

Secondly, new and existing sector conferences, consultations and networks must also be funded to feed and share up-to-date knowledge to policy makers. Essentially, the ASEAN-specific knowledge shared through these activities would strongly influence policy that reflect evidence-based recommendations. In addition, scholarly researchers can play an active role in collaborating with impact investees to develop capacity of impact investees in impact measurement and management (NAB of Japan 2020)—countering the risk of impact/SDG-washing. Successful partnership between public-private-academic sectors will lead to accelerate market development and ecosystem-building.

Recommendation 3.2: Education for Impact Measurement in Business Schools

In order for the academic sectors to contribute to the impact investing ecosystem, it is essential that universities with Business Schools actively incorporate societal impact measurement and management into their education curriculum and cultivate the mind of creating, scaling and measuring societal impact in their future business. Typical Business Schools in universities do not always have the educational curriculum established to teach and discuss impact investment and its related areas. Curriculum development to increase impact-focused entrepreneurs is not a mainstream yet. There are relevant short courses of Business Strategies for Social Impact in the Wharton School (online) at the University of Pennsylvania, for example, or the School for Social Entrepreneurs in the UK and India, which perform to be an incubator or accelerator for those who come with intentions to build and run a socially oriented business. While the primary focus can be to build economic benefits for the purpose of business sustainability, it is important for universities with Business School to integrate the idea of societal benefits into the business vision and contexts.

Governmental:

Challenge 4.1: Fragmented policy development at different speeds

The impact investing market in ASEAN is characterized by diversity and fragmentation that needs institutional forces to support policy formulation and ecosystem coordination. No ASEAN countries are currently part of the Global Steering Group (GSG) of impact investment, yet there are policy developments evident particularly in Malaysia, Thailand and Viet Nam, pertinent to impact investment as well as potential impact investees—social enterprises. Fiscal incentive policy instruments such as awards, certification and tax relief (see Chapter 2) are overall absent yet necessary to help build public trust in impact investors and their projects. As explained in Chapter 3, Japanese impact investors, in particular, wish to see more impact investment-specific policies to invite new impact investors and enable them to expand their investment activities and scale the impact.

Identifying the needs and agenda of all actors in the ecosystem (see Chapter 2) is necessary to inform how the market actors need to be coordinated. More institutional support to set the policy levers and promote and legitimize impact investing practice would lead to mobilization of finance for the SDGs.

Recommendation 4.1: Institutional effort for national and regional policy, regulatory and legal frameworks

The role of government is market regulator, participant and facilitator (OECD 2019). In addition to each country's engagement in impact investing in ASEAN, more concerted effort for engaged public policy is central to nurturing impact investment, and for this, two immediate steps are recommended.

First, ASEAN countries can consider the benefits of becoming part of the international frameworks of impact investment such as the GSG. Joining the GSG and learning from the global learning of impact investment can be used as the analytical basis for international comparison and assisting in national-level policy formulation.

Secondly, the establishment of NAB under the GSG will become critical as a contact point for national impact investing activities and to mobilize all actors within the country to promote impact-creating initiatives and accelerate the realization of SDGs. The established NAB in AMS can build the nationally agreed definition of impact investing strategies and identify each key actor's function and possible stakeholder partnerships. Policy makers can devise fiscal incentives, legislation for unclaimed assets (e.g. dormant accounts), regulation for pension and reporting standards as well as initiatives such as impact bonds, investment readiness fund grant, and social impact incentives.

Table 4: Analytical dimensions of the OECD Policy Framework for Social Impact Investment

Policy dimension	
Target	Demand, supply, intermediaries and enabling environment
Government role	Market regulator, market participant and market facilitator
Policy type	Policy instrument
STEER: Employing or reforming government structure and capacities	<ul style="list-style-type: none"> ● Definition of a national strategy for impact investing ● Identification of a formalized function ● Internal government consultation ● Stakeholder partnerships ● Other
RULE: Setting and enforcing rules	<ul style="list-style-type: none"> ● Certification ● Fiscal incentives: tax and investment relief ● Legislation: fiduciary responsibility, social enterprises, unclaimed assets ● Social stock exchange ● Other

<p>FINANCE: Levying and granting financial resources</p>	<ul style="list-style-type: none"> ● Awards and challenges ● Funds: investment readiness fund, outcome fund, venture capital fund ● Pay-for-success: social, development or humanitarian impact bond, social impact incentives, outcome commissioning ● Technical assistance and capacity building ● Wholesaler, incubator, accelerator, fund of funds ● Other (grant, debt, equity, mezzanine, guarantees)
<p>INFORM: Providing and sharing information</p>	<ul style="list-style-type: none"> ● Communication campaign ● Consultation with external stakeholders ● Research, studies, data publication ● Other

Source: OECD (2019, 158)

International initiatives such as the OECD (2019, 158) can certainly assist in national uptake in AMS. However, it is also important to build policies and practices that fit the ASEAN contexts. Governments of AMS should provide integral administrative foundation applicable to each nation's circumstance to facilitate relevant processes for future scalability of impact investing.

Recommendation 4.2: ASEAN regional concerted effort for ecosystem building

ASEAN countries can collaborate to build the ASEAN Impact Investment Hub (tentative) as part of the 2025 Economic Community Blueprint initiative and/or under the GSG (or as part of the ASEAN Centres and Facilities⁸⁹). The ASEAN Impact Investment Hub can serve as the ASEAN version of GSG, composed of NABs of each ASEAN country. It can provide a platform to build ASEAN consensus on the need for impact investment by building ASEAN taxonomy, sharing knowledge, research and ASEAN best practices and setting regionally collective policy targets—to shape ecosystem and spur progress towards the SDGs. Having the clearly defined taxonomy agreed upon in ASEAN will also prevent impact- and SDG-washing (ADB 2021a, 138).

In fact, the ASEAN Economic Community Blueprint 2025 (ASEAN Secretariat 2016) also emphasises sustainable economic development under Sections 40 and 41.⁹⁰ Furthermore, Article 26 of the ASEAN ACIA highlights all four critical points to build an ecosystem of impact

⁸⁹ There are currently 15 centres and facilities that are specific to thematic areas and industries. They can be viewed at <https://asean.org/asean/asean-centres-facilities/>

⁹⁰ Themes highlighted in eight measures include renewable energy, low-carbon technology, biofuels for transportation, energy connectivity, agriculture, food safety, environment, health, forest management and so on.

investment in ASEAN (Invest in ASEAN 2009, 31). Article 26 mandates the Member States to endeavour to, among others:

- Harmonize, where possible, investment policies and measures to achieve industrial complementation,
- building and strengthening capacity of Member States, including human resource development, in the formulation and improvement of investment policies to attract investment,
- share information on investment policies and best practices, including promoted activities and industries, and
- support investment promotion efforts amongst Member States for mutual benefits.

To nurture impact investing activities for sustainable economic development, Article 26 becomes integral to direct policy makers. In line with this, the ASEAN Impact Investment Hub can partner with active networks such as Toniic, AVPN, IMP, SVI and beyond for real-time updates from practitioners and knowledge feedback for application. It should essentially be distinct from ASEAN Business Advisory Council (ABAC) to reflect the nature of impact investing—intentionality—yet it can build on the learning from ABAC for contextual application from existing business frameworks. Regional hub of impact investment will send the world a strong signal that ASEAN is a potential destination for impact investing and speed up the progress of ecosystem-building which will simultaneously advance the achievement of SDGs.

Recommendation 4.3: Further support for least developed countries

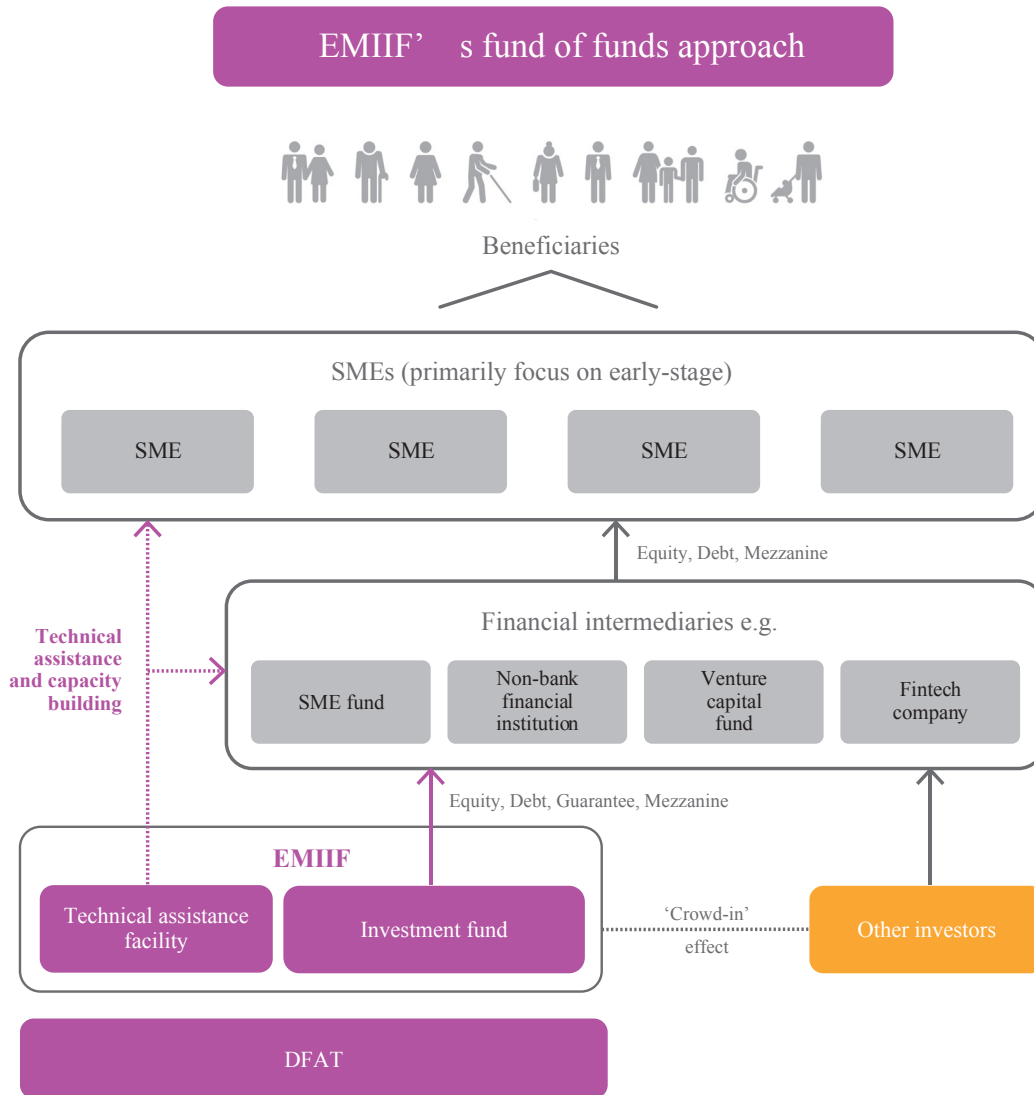
Countries that are less active and less prosperous can obtain extra support to shape the impact investing market. Firstly, for least developed countries (LDCs) in ASEAN, using instruments such as debt-for-SDG swap (see Chapter 2) can be suggested to drive progress on the SDGs. This instrument is to reduce some debt obligations and leverage swapped resources for SDGs, increasing the value of their remaining debt and contributing to the SDGs. This instrument can also facilitate the establishment of trust funds that can be dispensed long-term (UNDP 2020). It is important to bear in mind, however, that the transaction costs may be higher compared to other financing instruments and negotiations can be time-consuming due to the complex nature of functions. It can possibly take several years to just arrive at limited debt reduction.⁹¹

Secondly, for LDCs in ASEAN, public-private initiatives by overseas government as part of ODA is possible. For example, Australian Department of Foreign Affairs and Trade (DFAT)

⁹¹ Further risk factors are listed on the website of the UNDP SDG Finance (UNDP).

launched the A\$40 million Emerging Markets Impact Investment Fund (EMIIF), filling the gap for funding and providing capacity for SMEs and a pipeline for investors (see Figure 19). EMIIF provides loan, equity and guarantee and technical assistance to venture and early-stage capital funds, private debt funds, and non-bank SME funds to support SMEs grow in South Asia, Southeast Asia and the Pacific—Australia’s strategic development partners (DFAT 2020). The EMIIF aims to raise commercial value and mainstream impact and gender in their operation for SME funds and SMEs through technical assistance. The EMIIF also seeks to support the region to recover from the economic impact of pandemic, particularly in six countries in ASEAN that are Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines and Viet Nam among others in Indo-Pacific (MEDA 2020). Sanora Asset Management serves as an investment manager, working along with MEDA that provides technical assistance to SMEs across sectors from agriculture, healthcare, education, financial inclusion to clean energy. Volta joins as a technical assistance provider for SME funds and financial intermediaries. The Whitelum Group represents an impact auditor (DFAT 2020).

Figure 19: Mechanism of Australia’s EMIIF



Source: DFAT (2020)

This presents a public-private partnership example of impact investing through ODA that can be considered for LDCs in ASEAN. While it may be a challenge to source early-stage SMEs, countries like CLMV demonstrated their flourishing market activities (see Chapter 3). More investment opportunities linked to ODA such as the EMIIF can inspire other initiatives to foster the market for ecosystem-building.

It is urgent for all ASEAN countries to further explore areas for investment preparation and to “create the necessary environment” to accommodate and lubricate impact investment for the materialization of 2030 Agenda (Invest in ASEAN 2009, 30).

5. Conclusion

Impact investing as a financial vehicle can play an instrumental role in resource mobilization for materialization of the SDGs. Despite diverse challenges raised in this paper, impact investing will only continue to grow, as is essential for sustainable development. Although it may take time to mainstream impact investing, this shift in the financing approach to bring both financial and societal return indeed symbolizes a ‘new normal’.

In addition to the window of \$26.2 trillion as a result of the RCEP trade pact, ASEAN as a whole captured over \$6 billion in the impact investing market from 2017-2019 (see Table 2). The willingness of impact investors in Japan to increase their investment presents an opportunity to promote ASEAN-Japan investment that can scale societal impact. It is true that the outlook of impact investing market is dependent on the impact of COVID-19—the significant drop in SDG-relevant investment was greater in emerging economies than in developed countries. Nevertheless, Southeast Asia is forecast to grow by 4.4% in 2021 and by 5.1% in 2022, regardless of different pace and progress. ASEAN is indeed a market of high potential for impact investment.

The significant impact investing activities including case studies in this paper also demonstrates its highly promising potential of ASEAN as a way to finance the SDGs. This paper provided information on the definition and position of impact investment, a snapshot of key global initiatives and global, Japan and ASEAN overview of impact investing market. Transactional, facilitative, intellectual and governmental recommendations specific to ASEAN were highlighted as a response to challenges in the current ASEAN impact investing ecosystem.

This paper has only been able to provide the limited overview of impact investing activities in ASEAN with available data. However, it contributes to unearthing the highly fragmented understanding of the current impact investing market and ecosystem in ASEAN and calls for further research to complement its findings.

Change is frequent in an evolving field like impact investing. While impact investment may no longer be nascent, transformation is perpetual, predominantly attributed to by the common intention to make the planet a better place. A high degree of tolerance for change and failure is a key feature in this ecosystem to achieve double bottom line. ASEAN-Japan Centre invites you to join us on this exciting journey of trailblazing, innovating and shaping the ASEAN market of high impact investing.

Appendix 1.

Six principles of the UN Principles for Responsible Investment

Possible actions for Principle 1:	
We will incorporate ESG issues into investment analysis and decision-making processes.	
1	<ul style="list-style-type: none"> Address ESG issues in investment policy statements.
2	<ul style="list-style-type: none"> Support development of ESG-related tools, metrics, and analyses.
3	<ul style="list-style-type: none"> Assess the capabilities of internal investment managers to incorporate ESG issues.
4	<ul style="list-style-type: none"> Assess the capabilities of external investment managers to incorporate ESG issues.
5	<ul style="list-style-type: none"> Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
6	<ul style="list-style-type: none"> Encourage academic and other research on this theme.
7	<ul style="list-style-type: none"> Advocate ESG training for investment professionals.
Possible actions for Principle 2:	
We will be active owners and incorporate ESG issues into our ownership policies and practices.	
1	<ul style="list-style-type: none"> Develop and disclose an active ownership policy consistent with the Principles.
2	<ul style="list-style-type: none"> Exercise voting rights or monitor compliance with voting policy (if outsourced).
3	<ul style="list-style-type: none"> Develop an engagement capability (either directly or through outsourcing).
4	<ul style="list-style-type: none"> Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
5	<ul style="list-style-type: none"> File shareholder resolutions consistent with long-term ESG considerations.
6	<ul style="list-style-type: none"> Engage with companies on ESG issues.
7	<ul style="list-style-type: none"> Participate in collaborative engagement initiatives.
8	<ul style="list-style-type: none"> Ask investment managers to undertake and report on ESG-related engagement.
Possible actions for Principle 3:	
We will seek appropriate disclosure on ESG issues by the entities in which we invest.	
1	<ul style="list-style-type: none"> Ask for standardized reporting on ESG issues (using tools such as the Global Reporting Initiative).
2	<ul style="list-style-type: none"> Ask for ESG issues to be integrated within annual financial reports.
3	<ul style="list-style-type: none"> Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
4	<ul style="list-style-type: none"> Support shareholder initiatives and resolutions promoting ESG disclosure.

Possible actions for Principle 4:	
We will promote acceptance and implementation of the Principles within the investment industry.	
1	<ul style="list-style-type: none"> ▪ Include Principles-related requirements in requests for proposals (RFPs).
2	<ul style="list-style-type: none"> ▪ Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
3	<ul style="list-style-type: none"> ▪ Communicate ESG expectations to investment service providers.
4	<ul style="list-style-type: none"> ▪ Revisit relationships with service providers that fail to meet ESG expectations.
5	Support the development of tools for benchmarking ESG integration.
6	Support regulatory or policy developments that enable implementation of the Principles.
Possible actions for Principle 5:	
We will work together to enhance our effectiveness in implementing the Principles.	
1	Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
2	Collectively address relevant emerging issues.
3	Develop or support appropriate collaborative initiatives.
Possible actions for Principle 6:	
We will each report on our activities and progress towards implementing the Principles.	
1	Disclose how ESG issues are integrated within investment practices.
2	Disclose active ownership activities (voting, engagement, and/or policy dialogue).
3	Disclose what is required from service providers in relation to the Principles.
4	Communicate with beneficiaries about ESG issues and the Principles.
5	Report on progress and/or achievements relating to the Principles using a comply-or-explain approach.
6	Seek to determine the impact of the Principles.
7	Make use of reporting to raise awareness among a broader group of stakeholders

Appendix 2.

Further explanations of types of impact investment

Loans

Loans can be repaid over the longer-term with interest appropriately outlaid with the consideration of risk. Development financial institutions' (DFIs) such as the ADB have been active in their lending scheme through partnership with the private sector to structure financial mechanisms (OECD 2018).

Publicly traded debt

ADB and ASEAN Catalytic Green Finance Facility (ACGF) published Green Finance Strategy of Southeast Asia in 2020 for green and sustainable 'recovery package' through bond issuance in ASEAN capital market (ADB and ACGF 2020).

One of the most recent development noteworthy in relation to this type of instrument is the establishment of Sustainability-linked Bond (SLB) in 2020. This model is distinct from existing bonds in two ways. Firstly, SLB is "any type of bond instrument for which the financial and/or structural characteristics can vary" according to achievements of predefined sustainability or ESG goals (International Capital Market Association 2020, 2). Secondly, SLB explicitly embeds sustainability-related outcomes as key performance indicator (KPI) that issuers must commit to deliver. In this sense, this type of instrument can be used for impact investment. The SLB model encourages companies to specifically contribute to sustainability through such debt markets.

Equity

A private investment into a company or fund can take the form of an equity stake (not publicly traded stock). There is also equity-like debt, an instrument between debt and equity such as mezzanine capital⁹² or deeply subordinated debt. There is often potential profit participation, such as convertible debt, warrant, royalty, or debt with equity kicker.

⁹² Mezzanine capital is hybrid capital between subordinated debt and equity—often used by non-bank investors seeking return on capital. Subordinated debt that require higher capital and return (Silbernagel and Vaitkunas 2012).

Debt-equity swap (debt-for-SDG swap & debt-for-climate swap)

The UN Special Envoy on Financing the 2030 Agenda for Sustainable Development, Mahmoud Mohieldin, emphasises that sustainable and inclusive recovering measures could include debt-for-SDG swaps (International Institute for Sustainable Development 2020)⁹³. Whilst this instrument is time-consuming and requires complex negotiation with creditor countries, spanning several years, this may present as an option for exploration to convert their debt stock into SDG-related investments, in negotiation with creditor countries. A comprehensive review of the ASEAN experience of debt-equity swap may pave the way for further impact investing in future.

“Impact” bond

However, it is important to note that most of these bonds are not bonds commercially issued and are not practically transferrable.

Social impact bond

The world’s first social impact bond (SIB) was launched in September 2010 to reduce reoffending among short-sentenced prisoners leaving Peterborough Prison in the UK (See Box 5). Since the inception of the first SIB in 2010, the pay-for-success SIB model has attracted considerable interest by investors because of its impact-oriented nature, and governments and non-profits as a new source of capital.

93 A sub-scheme for SDG-related investment is debt for climate swap. The debt for climate swap is an agreement that reduces debtor’s debt stock in exchange for their commitment to delivering climate-related projects. Debt for nature (environment) swap is another term for debt relief in exchange for investing in conservation projects.

Box 5. The world's first social impact bond: Peterborough SIB

As the prisoners had no support upon release, they were more likely to re-offend as a result of substance abuse or mental health issues exacerbated by their family or job which they had returned to. Social Finance UK is an NPO that performs as an investment consultancy; it was established in the UK in 2007 to resolve funding shortfalls faced by the social sector.

Foundations such as the Rockefeller Foundation, Big Lottery Fund, and Bill and Melinda

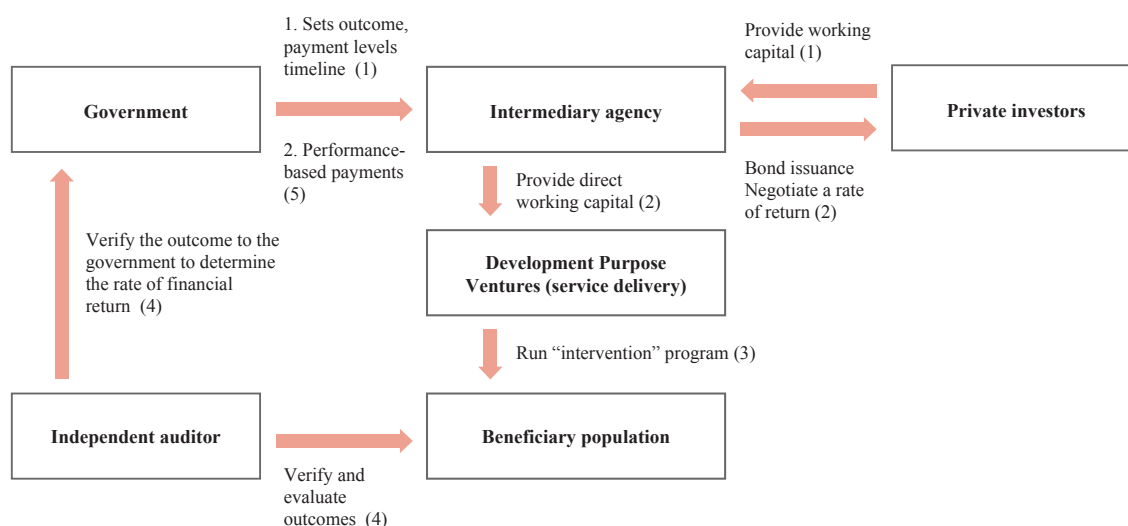
Gates Foundation have been at the forefront as financial drivers for SIBs. Social Finance UK raised £5 million from 17 investors, which provided six years of funding distributed to One Service, an umbrella organization selected to provide a service to reduce re-offending (Social Finance 2014). There were several delivery organizations under One Service, such as St. Giles, Sova and the YMCA, which focused on early intervention and immediate support to 3,000 males released from Peterborough Prison, offering accommodation, medical services, employment and training, benefits and financial advice, with a view to providing security (Social Finance, 2014). Investors ranged from various philanthropic foundations such as Cadbury Trust and Rockefeller Foundation to finance the SIBs. Social Finance partnered with the Ministry of Justice and the Big Lottery Fund to allocate returns of up to 13 per cent to investors once the expected impact was measured against the key objectives (Social Finance 2014). In 2017, reduction of reoffending of short-sentenced offenders by nine per cent was confirmed by the Ministry of Justice, exceeding the initial target of 7.5 per cent (Social Finance UK 2018). This indicates that the 17 investors that invested in this SIB received a single payment of their initial capital in addition to a return of three per cent per annum for the period of investment (Social Finance UK 2018).

The regulatory and policy risk that SIBs may hold can be seen in the cancellation of the third cohort of the world's first SIB Peterborough in the UK due to the introduction of Transforming Rehabilitation—a new policy under the Conservative and Liberal Democrat coalition government (Government of UK 2013; Tomkinson 2014). This policy had the capacity of delivering support to a population that was 50 more than the Peterborough SIB, and also filled a service gap that SIBs attempted to fill—minimising the benefit and value of SIBs (Tomkinson 2014).

As of March 2021, there are over 200 impact bonds globally, over \$450 million mobilized in 33 countries such as the UK, the US, Germany, Australia, Cameroon, South Africa and so on (International Network for Data on Impact and Government Outcomes 2021). The first Japanese SIB project launched in April 2015 was to address mushrooming social issues around child adoption (Social Impact Bond Japan 2015). As of December 2020, there were roughly 20 SIB projects around Japan.⁹⁴

The SIB model facilitates a mechanism where private investors provide direct working capital to finance social welfare programs based on early intervention, prevention or building financial sustainability. The figure below shows an SIB working model that involves holistic multi-sectoral partnerships across the government, the private and the non-profit.

Annex Figure 1: The mechanism of social impact bond model



Source: AJC

In this model, (1) the private “impact-oriented” investors inject the working capital for social development projects which are traditionally funded by governments. The government determines outcome scope and return levels according to performance of social service outcome. (2) The facilitative intermediary as a “middle-man” agency are generally specialized consultants or generalist professional services firms that ‘smooths out’ arrangements to balance investment goals with financial and social priorities. The intermediary sources highly effective Social Purpose Ventures to ensure outcomes are delivered and funds are secured. (3) The Social Purpose Ventures, a social delivery organization funded by private investors

94 For further information about the SIBs in Japan, see Page 4 of the Recommendation report of National Advisory Board of Japan (2020b). For global map of SIBs, please refer to the Impact Bond Dataset at <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/impact-bond-dataset-v2/>

through the intermediary, spend their invested capital on social service delivery to generate the social impact promised at the outset. (4) Their activities are then assessed by the third-party independent auditor to evaluate the level of performance of the social service. (5) Finally, the government releases the lump sum of budgeted fund—which was initially to be used for the social service—to repay the investors’ “financial return” after the auditors prove that the social service interventions improved social outcomes and achieve goals set by the government.

Theoretically, as can be seen in Annex Figure 1, the SIB composition involves a holistic, collaborative, and cross-sectoral approach involving public, private and non-profit actors.⁹⁵ In theory, the SIB model benefits all stakeholders through continuous improvement of social programs based on structured performance indicators, significant impact on the beneficiary population, returns for investors and reduced social welfare budgets for governments. The SIB operational framework scales evidence-based interventions, facilitating an unprecedented sustainable cash flow cycle between investors, financial sectors, social service providers and governments. The SIB model transfers the risk of funding prevention services to private capital and promotes accountability for taxpayer money because the government only releases return relative to performance levels of achieved outcomes, that have been agreed upon by project partners, and which are evaluated by independent auditors. According to the impact bond database (International Network for Data on Impact and Government Outcomes 2021), there are no cases of SIBs in operation in ASEAN as of March 2021.

Despite the critiques, global interest in the SIB model illustrates increasing attention to SDG 17: Partnership for Goals and another layer of resource mobilization. Based on the theoretical benefits it brings, the “development impact bond” has been created to apply the SIB mechanism to the context of international development.

95 The complex nature of SIBs also invites critiques, particularly in regard to four aspects—technical challenges such as increased oversight, administrative burden, transactional costs and little flexibility around outcome measures (Roy, McHugh, and Sinclair 2018). The process of SIB projects can be highly vulnerable to public policy change as this can mean the cancellation of the planned program, leading to minimized value of SIBs (Rizzello et al. 2016). The diversity of the motivations and characteristics of SIB investors as well as intermediaries results in inconsistent and variable expectations, which leads to more rigid oversight from public sector commissioners Edmiston and Nicholls (2017). As noted by Edmiston and Nicholls (2017), the presence of private social investment capital limited flexibility and discretion of service providers in regard to resource allocation and operation due to excessive real-time outcome measurement and approval required for service processes.

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