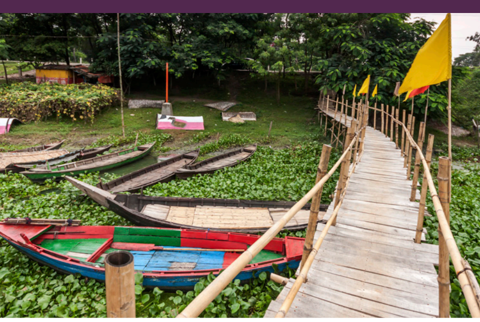
INTRODUCTION

THE LANDSCAPE FOR IMPACT INVESTING IN SOUTH ASIA

Understanding the current status, trends, opportunities, and challenges in **BANGLADESH**, **INDIA**, **MYANMAR**, **NEPAL**, **PAKISTAN**, and **SRI LANKA**






Dalberg

GIIN
GLOBAL IMPACT INVESTING NETWORK

LIST OF COMMON ACRONYMS

ADB | Asian Development Bank

AIF | Alternative Investment Funds

BoP | Base of the Pyramid

BRICS | Brazil, Russia, India, China, South Africa

CA | Chartered Accountancy

CIIE | Centre for Innovation, Incubation and Entrepreneurship

CGTMSE | Credit Guarantee Fund Trust for Micro & Small Enterprises (India)

CSR | Corporate Social Responsibility

DFI | Development Finance Institution

DFID | Department for International Development

FIL | Foreign Investment Law

FDI | Foreign Direct Investment

GAAR | General Anti-Avoidance Rules (India)

GIZ | Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)

HDI | Human Development Index

HNWI | High Net-Worth Individual

HR | Human Resources

ICT | Information and Communication Technology

IFC | International Finance Corporation

IFI | International Financial Institution

IE | Impact Enterprise

IIC | Impact Investors' Council (India)

IMF | International Monetary Fund

LP | Limited Partner

LTTE | Liberation Tigers of Tamil Eelam

MDG | Millennium Development Goal

MEB | Myanmar Economic Bank

MFI | Microfinance Institution

MFTB | Myanmar Foreign Trade Bank

MNC | Multinational Corporation

MICB | Myanmar Investment and Commercial Bank

NABARD | National Bank for Agriculture and Rural Development

NASE | National Association of Social Enterprises (India)

NEDA | National Enterprise Development Authority (Sri Lanka)

OPIC | Overseas Private Investment Corporation

PE | Private Equity

PM | Prime Minister

PPP | Purchasing Power Parity

RBI | Reserve Bank of India

SEBI | Securities and Exchange Board of India

SIB | Social Impact Bond

SIDBI | Small Industries Development Bank of India

SME | Small or Medium Enterprise

SMED | Small and Medium Enterprise Development (Sri Lanka)

SVF | Social Venture Fund

VC | Venture Capital

WHO | World Health Organization

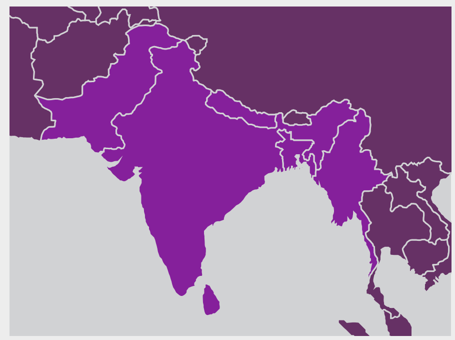
SETTING THE SCENE

Introduction and objectives

In recent years, impact investing has gained prominence on the global stage as an approach to deploying capital with social/environmental goals as well as financial return objectives. Deployed in both developing and developed markets, impact investments are made across a range of sectors and asset classes.

South Asia* is home to more than 1.6 billion people and has experienced significant economic growth over the last decade. However, this rapid growth, while changing some economies dramatically, has been uneven between and within countries; about a quarter of the region's population continues to live on less than USD 1.25 per day.[1] Nonetheless, the region presents enormous opportunities as a large market with a significant share of its population being young and potentially economically active; approximately 30%[2] of the population is currently under the age of 15, creating a future demographic bulge that presents an opportunity to develop human capital and nurture entrepreneurship.

*South Asia, for the purposes of this study, includes



- Bangladesh
- India
- Myanmar
- Nepal
- Pakistan
- Sri Lanka

Map is based on UN map.
Source: UN Cartographic Section.

Within South Asia, we see enormous variation between countries in terms of population size, economic growth and market maturity, entrepreneurial activity, and indeed, investing activity (both impact and conventional). The impact investing model is most well established in India, with pioneers such as Aavishkaar and Acumen active since the early 2000s. The industry has grown dramatically with almost 50 funds now active in the market, a huge range of impact enterprise models of varying scales and across many sectors, and a vibrant and robust ecosystem to support these actors. Pakistan, Bangladesh, and Sri Lanka also have markets that are sizeable in their own right, while investors are actively thinking about opportunities being presented in Nepal and Myanmar—two countries going through fundamental political and economic transformations.

With the population of India at 1.2 billion in 2012, and the additional combined populations of Bangladesh, Myanmar, Nepal, Pakistan, and Sri Lanka at close to 450 million people, South Asia represents an enormous potential market for products and services. South Asia also presents a particular set of needs and opportunities for the so-called base of the pyramid (BoP) populations[3] who largely lack access to quality

1 *Weighted average calculated with the latest country data (2010–2012) from World Bank Development Indicators; Myanmar figures are not included in the weighted average.*

2 *Weighted average calculated with the latest country data (2013) from World Bank Development Indicators.*

3 *In this report, we use "base of the pyramid (BoP)" as a general term to refer to poor or low-income populations, with no specific threshold in terms of income level.*

social services, finance, energy, and infrastructure as well as to affordable consumer products. The opportunity for impact through the deployment of capital into organizations and enterprises that increase incomes, create jobs, and provide access to essential services is significant, and the status of the impact investing industries in these countries is worthy of attention.

The objective of this study is to develop an understanding of the status of the impact investing markets in these countries, as a critical input to future investments and engagement to build and grow these markets. The key themes explored include the current status and trends in terms of the types of active investors, capital deployment, opportunities for and challenges to investing, the demand for impact capital, challenges to accessing capital and opportunities for enterprise growth, and the vibrancy and scale of the supportive ecosystem for the industry.

Defining key terms and concepts

THE SUPPLY SIDE: WHO IS AN IMPACT INVESTOR?

As defined by the Global Impact Investing Network (GIIN), impact investments are **"investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."**[4]

The three key characteristics of an impact investor are as follows:

1. Expectation of a financial return that can range from the return of capital to risk-adjusted market-rate returns and that can be derived from investments in a range of asset classes. Impact investors may also earn fees from the provision of catalytic instruments such as guarantees.

2. Intent to generate positive social and/or environmental impact through investments. For example, investors may seek to use investments to increase access to financial services, education, healthcare, affordable housing, or quality employment by underserved populations. Investors may also invest in solutions aimed at mitigating the negative effects of climate change and environmental degradation.

3. Commitment of the investor to measure the social/environmental performance of the underlying investments.

This report focuses significantly on the impact investing landscape in each of the six countries covered. Various terms may be used to refer to the impact investing landscape, including "impact capital" and "impact funds," depending on the context. For the sake of fluency, the modifier "impact" will be dropped when the context is clear.

While the central goal of this study is to map the current landscape of impact investing activity in South Asia, there is also significant investment activity on the

4 *For more details, refer to the GIIN website, www.thegiin.org.*

periphery of "impact investing" that is interesting to explore. In particular, we consider the following two types of investment activity:

a. Investments in businesses serving BoP populations by investors who have no explicit impact intention

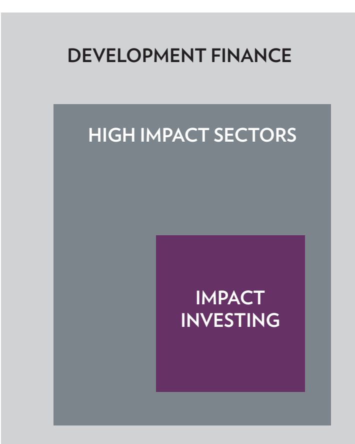
b. Investments where there is some intention to have social and/or environmental impact, but this impact is assumed to occur as a by-product and is not measured in any meaningful way

An analysis of such investment activity is also important for understanding the broader opportunity landscape for impact investing in the future. When a section in the report focuses specifically on investment activity in this peripheral region, we will refer explicitly to such investment activity as **"impact-related" investments**, clearly differentiating them from "impact investing." (Please note that we are using these labels purely for the ease of reference and do not intend the names to imply any subjective judgment on the nature of an investor's investment activity or approach.)

One simplifying feature of this framework is that it is investor-driven rather than transaction-driven. In the impact investing market, there is a healthy ongoing debate on whether a particular investment should be treated as an "impact investment." Often, this debate centers on the portfolios of DFIs, who tend to be large players, and invest across a range of sectors and organization types—from small microfinance institutions to large land conservation and real estate projects. Accordingly, while some are happy to consider all DFI activity as "impact investing," others would argue that a more considered segmentation needs to be applied to DFI portfolios.

PORTFOLIO SEGMENTATION: THE OPIC APPROACH

A recent announcement by OPIC's President described their new approach to segmenting their portfolio based on impact intention at the investment level, and the rationale for the approach. Recognizing the learning from the growth of impact investing that "there are rarely clear, bright lines that distinguish true impact intent from investing with impact," OPIC shared their categorization approach with a view to help inform the ongoing debate around how best to define impact investing, as well as to support other agencies as they think through their own impact portfolios.



- **Development finance:** All of OPIC's financial commitments aim to have a positive development impact. By definition, the projects we support are expected to demonstrate positive development, social, and financial returns while safeguarding against damage to the environment and promoting high-quality job creation.
- **High impact sectors:** Investments in sectors generally associated with impact investing. These sectors face the most difficult challenges in attracting capital: agriculture, education, access to finance, housing for the poor, small and medium enterprise finance, healthcare, renewable energy, water, and sanitation. Given the far easier investment options, these are sectors investors would only engage in out of a deep commitment to impact.
- **Impact investing:** These investments had an explicit and inherent intent at startup to address environmental or social issues, as well as a business model with a structure dedicated to achieving both impact and financial returns. To select these transactions, projects in impact sectors were first identified, and then project teams were asked to identify impact intent at origination, reviewing project sponsor's intent to generate impact.

It is an interesting development to note that some DFIs have, indeed, recently begun thinking more carefully about their overall portfolios and how these are segmented (see boxed note on OPIC, the US Overseas Private Investment Corporation). However, these exercises are still early-stage, and it would be premature to begin segmenting DFI portfolios (or any investor's portfolio for that matter) in our own research at this stage. Therefore, for the purposes of this study, we have chosen to be investor-driven, i.e., to apply a common intentionality standard across an investor's entire portfolio. While we recognize that this may be simplifying, we find that the approach does not detract from our ability to conduct detailed analyses of and obtain a nuanced understanding of the opportunities and challenges across the countries under study.

THE DEMAND SIDE: WHERE IS THE IMPACT CAPITAL GOING?

With impact investing being defined primarily by the intention of the investors, and not necessarily the intention or approach of the investees, the types of organizations that absorb capital from impact investors vary.

As will be described in the individual country landscapes, we see a different set of target enterprises absorbing the impact capital in each country. One subset that is important to call out is "impact enterprises." Impact enterprises (sometimes called social enterprises or inclusive businesses) have been variously defined as follows:

- The IFC defines an inclusive business as one that "expands access to goods, services, and livelihood opportunities for those at the BoP in commercially viable, scalable ways."[5]
- The ADB defines a social enterprise as one meeting the following three key criteria: 1) exists primarily to create specific positive social or environmental impact (as opposed to ancillary or secondary initiatives, such as a company's Corporate Social Responsibility (CSR) program); 2) adopts a market orientation; and 3) focuses on financial sustainability.[6]
- The Rockefeller Foundation describes impact enterprises as "enterprises that intentionally seek to grow to sustain financial viability, realize increasing social impact, and influence the broader system in which they operate."[7]

5 *Jenkins, B; Ishikawa, E; Geaneotes, A; Baptista, P; and Masuoka, T,* Accelerating inclusive business opportunities: Business models that make a difference*, Washington, DC: IFC, 2011.*

6 *Asian Development Bank,* Impact investors in Asia: Characteristics and preferences for investing in social enterprises in Asia and the Pacific*, 2011.*

7 *Rockefeller Foundation, Innovations in accelerating impact enterprise growth to scale, <http://www.rockefellerfoundation.org/our-work/current-work/innovation/impact-enterprise>*

Paraphrasing from the above definitions, for this study, **we describe impact enterprises as enterprises that**[8]

- **have articulated a core objective to generate a positive social or environmental impact (i.e., as a part of their operating model rather than an ancillary activity as with CSR programs), and**
- **seek to grow to financial viability and sustainability.**

In more mature impact investing markets such as India, and in the rapidly growing markets of Pakistan, Bangladesh, and Sri Lanka, we see a large number of successful impact enterprises; many of these have reached significant scale, making them strong investment targets for impact investors. Further, a relatively large volume of impact capital in these markets may be directed into such business models. However, in less mature markets, where the impact enterprise model is less embedded or where the scale is still small, we see the impact capital directed to a broader range of enterprises.

Approach and Methodology

The content and analysis presented in this study are developed from both a review of the existing literature and extensive primary data collection as detailed below.

The data and perspectives gathered from both the primary and the secondary research were synthesized to arrive at the estimates of the total capital flow, key trends, and preferences by sector, instrument, deal size, and growth stage. In specific cases where detailed information was missing, we made assumptions on the split of capital between sectors or investment categories and, subsequently, validated our outputs through expert interviews. All of our assumptions are clearly annotated in the corresponding analyses.

The existing literature on impact investing in the region is sparse, except for India, for which there is a growing body of research that we have analyzed in depth. Consequently, our analysis both builds on the existing literature and outlines where our findings differ from the findings of other related studies.[9]

Overall, given the limited volume of the existing research, the research process relied heavily on the primary data collection. Three tools were used for primary data collection to capture activities and perspectives across the investor, enterprise, and ecosystem categories. These tools are as follows:

8 To note, this definition does not represent a perspective articulated by the GIIN across its global activities but is developed and adopted for the purposes of this study in order to enable a description and discussion within the context of the six countries considered in this study.

9 An indicative list of relevant studies will be released with the full report in early 2015.

INDIVIDUAL SEMI-STRUCTURED STAKEHOLDER INTERVIEWS

More than 135 interviews were conducted across the six countries included in this study, with investors, entrepreneurs, and other market stakeholders active in or scoping the region.

Interviews with investors were used for gathering data on investment portfolios and other activities, key trends observed, challenges faced, and opportunities perceived. With entrepreneurs, we conducted interviews to understand business models and rationale, opportunities for and challenges to growth, sources of finance, and perspectives on and preferences for instruments and investors. Within the ecosystem, we sought to interview across the range of relevant players, including regulators/policymakers, professional service providers, business development service providers, and incubators/accelerators.

ONLINE QUESTIONNAIRE DISTRIBUTED TO INVESTORS AND ENTREPRENEURS

To supplement the interviews described above, a questionnaire was developed for distribution and completion online by investors and entrepreneurs with whom it was difficult or impractical to schedule individual conversations (n=58). The similarity of questions allowed for the collection of both comparable data and supplemental data.

EXPERT ADVISORY GROUPS

In the final phase of the study, between two and four expert advisors for each country under study were convened, and the conversations facilitated the sharing of emerging findings, collection of feedback, and validation of perspectives. Expert advisors were selected from previous interactions for their broad view on the market and awareness of key actors and activities, as well as for a balance of perspectives across the supply, demand, and ecosystem segments.