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DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

PREPARED FOR

Desai & Associates (D&A)
Asian Venture Philanthropy Network (AVPN)
The United Nations Department of Economic and Social Affairs (UN DESA)

SDG PROJECTS AND IMPACT INVESTOR LANDSCAPE IN ASIA ROADMAP FOR INNOVATIVE FINANCING

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1. Summary

Meeting the United Nations Sustainable Development Goals (SDGs) and effectively addressing the complex social and environmental challenges of our time requires substantial financial resources and robust cross-sector collaboration. The impact investing industry's significant growth in recent years and an estimated market size of over $1 trillion USD underscores the potential for private capital to bridge the existing funding gap to achieve the SDGs in developing economies. According to a report published by GIIN[1], approximately 24% of the global impact investing AUM is allocated to broader Asia, including South, East, Southeast Asia, the Middle East, and Central Asia. With 60% of the world's population residing in Asia and an annual need of $1.5 trillion USD[2] in financing to meet the 2030 SDG objectives, the strategic deployment of impact investments is essential. This approach is crucial for closing the funding gap and effectively addressing sustainable development challenges in the region.

In the context of meeting the SDGs, **innovative finance is broadly defined as the combination of impact investing and blended finance**. **Impact investing** specifically targets investments to generate positive, measurable social and environmental impact alongside a financial return. **Blended finance** strategically uses public and philanthropic funds as a catalyst to mobilize private capital toward sustainable development in emerging markets. This approach leverages the financial resources needed to bridge the substantial funding gaps. Together, these financing mechanisms create a powerful tool for achieving the SDGs by engaging a diverse range of investors to address global challenges effectively and sustainably.

Bridging the funding gap to achieve the SDGs requires using innovative financing approaches with varying levels of financial returns and social impact. While there is already a well-established ecosystem supporting these financing mechanisms, **effectively connecting funders and investors to impact-oriented projects and ventures remains a challenge.** This largely stems from misalignment between investors' expectations over the financial returns and impact performance of bankable projects, as well as the complexity behind de-risking investments. This report seeks to provide solutions to this challenge by **identifying the necessary conditions for Asia-focused impact investors to increase their capital deployment towards projects that will have a significant impact in achieving the SDGs.**

By providing a landscape of Asia-focused impact investors and shedding light on their preferences and concerns when investing in SDG-aligned projects, **this report offers valuable insights to investors looking to diversify their portfolios towards impact-aligned projects. It also offers policymakers recommendations on creating an enabling environment for impact investments to thrive. The investors interviewed for this report reflect a diverse spectrum of private equity and venture capital firms, foundations - philanthropic and corporate, non-governmental organizations (NGOs), and development finance institutions (DFIs), each deploying capital towards impact investments and contributing to a broader vision of sustainable development.**

[1] "2023 GIINsight: Impact Investing Allocations, Activity & Performance" https://thegiin.org/research/publication/2023-giinsight-series/

[2] "UNSDG | 2030 Agenda - Financing and Funding." United Nations, n.d. https://unsdg.un.org/2030-agenda/financing#:~:text=The%20Way%20Forward,World%20Investment%20Report%2C%202014).

This research highlights both differences and similarities in the preferences and concerns of Asia-focused impact investors.

Large global private equity and asset management firms operating in Asia strongly emphasize fulfilling their fiduciary duties and seek impact investment returns on par with traditional, non-impact investments. While **smaller private equity and venture capital firms** also tend to seek comparable returns to alternative investments, they more frequently require access to guarantees or subsidized interest rates to invest in the long-term and pursue more aggressive growth strategies through early-stage investments. **Regardless of size, impact investment firms conduct extensive due diligence evaluating both financial return and impact metrics, aiming to mitigate any potential trade-off between the two.** These firms frequently explore innovative financing strategies by forming partnerships and utilizing **blended finance structures.** However, many investors voice concerns over the complexities and substantial time commitments associated with these kinds of partnerships.

NGOs and foundations deploying philanthropic capital tend to prioritize long-term impact over short-term financial returns, championing projects with proven operational feasibility and a clear proof of concept. Along the risk-return spectrum, NGOs and foundations are mission-driven organizations with a higher risk tolerance, willing to accept lower or no returns to deliver higher-impact social and environmental outcomes, along with sustainable cash-flow positive and long-term returns. Their de-risking strategies involve a collaborative approach to spreading risk across multiple stakeholders, incorporating methods such as results-based financing and catalytic capital.

Development Finance Institutions (DFIs) have emerged as essential players in the impact investing space, providing funding for investment projects that generate public goods in sectors where other institutional investors are unable to participate due to the investments' risks conflicting with their fiduciary duties, necessitating credit enhancement mechanisms. By providing technical assistance programs and investing in catalytic capital, DFIs stimulate private resource mobilization and enhance the financial sustainability of SDG-aligned projects. DFIs can facilitate below market rate capital, robust de-risking capabilities, flexible financing structures, rigorous due diligence, and post-funding monitoring of the investment performance to foster long-term returns and impact. Indeed, there is available private capital to scale up impact investments in Asia and address the substantial development challenges outlined by the SDGs. Its effective mobilization hinges on impact investors aligning on the financial and impact performance of investable projects, and when needed establishing robust de-risking mechanisms.

Governments and policymakers are pivotal in creating the necessary conditions to drive impact investments forward. This research offers several recommendations to achieve this goal.

Firstly, institutional frameworks must be established to ensure the enforcement of predictable financial market rules, creditors' rights, property laws, and regulations governing foreign capital investments, including laws related to capital repatriation and convertibility.

Secondly, incentives and support mechanisms should be implemented to attract early-stage impact investment from funds willing to take on concentrated risks. Such capital is crucial for assisting impact enterprises with scalable business models in transitioning to larger investment rounds. Additionally, regulations should encourage investor board participation and active involvement in portfolio companies to provide strategic guidance aligning commercial growth with social impact objectives.

Thirdly, government-investor collaboration through nuanced policies and incentives can leverage impact investing to address social challenges while ensuring mutually beneficial long-term returns. Establishing an impact investment pipeline that includes businesses with a double or triple bottom line, from small SMEs and up, and providing capacity building, technical support, and incentives for companies to maintain accurate financial and impact records.

Lastly, promoting impact investment fairs at national and regional levels, particularly in Asia, can facilitate connections and partnerships among investors, project developers, governments, and development finance institutions within the SDG investment ecosystem. Notably, annual **UN SDG Investment Fairs,** alongside events like the **Asian Venture Philanthropy Network (AVPN)** national conference have served as pioneering initiatives in this regard, driving progress towards achieving the SDGs and building a more resilient and equitable future for all.

2. Introduction

Background

Achieving the 2030 Agenda for Sustainable Development requires substantial financial resources, with an estimated annual funding need of approximately $3.3 to $4.5 trillion USD[3]. According to the United Nations Conference on Trade and Development (UNCTAD), there is an annual financial shortfall for realizing the Sustainable Development Goals (SDGs) in developing countries estimated between $2.5 to $3 trillion USD[4]. Furthermore, according to the Force For Good Report 2023, funding the SDGs will require accessing 40% of the US$450 trillion in global financial wealth (gross liquid assets). On an annual basis, the funding needed for SDGs represents 20% of the global economic output (GDP) of $100 trillion USD.[5] This substantial gap underscores the need to mobilize private capital and employ a variety of innovative financing strategies to drive development. Sufficient private capital to meet 2030 SDG targets exists and its successful mobilization can contribute to a dramatic acceleration of development progress.

To fill in this gap, innovative financing strategies are critical—they are diverse and range in the realms and trade-offs of financial returns and impact. Some of these emerging financial strategies include **venture philanthropy**, which focuses on building capacities in social enterprises; **blended finance**, which combines public and private funds to leverage larger investments; and **SDG-aligned corporate finance**, which directs corporate investments towards achieving the SDGs. While the ecosystem supporting these financial mechanisms has grown, effectively connecting funders with aligned and bankable investments remains a significant challenge. This difficulty often arises from a mismatch between investor expectations in terms of impact and return and the investment's objectives and performance; additionally, from tailoring a suitable financial instrument to de-risk investments while scaling-up resource mobilization.

To address these challenges and enhance capital flows towards SDG-oriented projects, the United Nations Department of Economic and Social Affairs (UN DESA) plays a critical role through various initiatives, such as its **annual SDG Investment Fair**. Launched in 2018 by UN DESA's Financing for Sustainable Development Office, the SDG Investment Fairs not only showcase investment-ready projects but also foster crucial partnerships between the public and private sectors. These partnerships mobilize resources and facilitate substantial progress toward achieving the SDGs.

Additionally, social investor networks like the Asian Venture Philanthropy Network (AVPN) enhance the ecosystem by linking a network of impact-focused investors to SDG-aligned initiatives, thereby expanding the reach and effectiveness of sustainable investment efforts. Both organizations serve as

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[3] "UNSDG | 2030 Agenda - Financing and Funding." United Nations, n.d. https://unsdg.un.org/2030-agenda/financing#:~:text=The%20Way%20Forward,World%20Investment%20Report%2C%202014).

[4] "Developing Countries Face $2.5 Trillion Annual Investment Gap in Key Sustainable Development Sectors, UNCTAD Report Estimates." United Nations Conference on Trade and Development (UNCTAD), June 24, 2014. https://unctad.org/press-material/developing-countries-face-25-trillion-annual-investment-gap-key-sustainable.

[5] "Capital as a Force for Good: Solving the SDG Gap." Greater Pacific Capital, October 2023. https://www.greaterpacificcapital.com/thought-leadership/capital-as-a-force-for-good-solving-the-sdg-gap#:~:text=40%25%20of%20the%20US%24440,SDGs%20remain%20fundable%2C%20in%20principle.

critical hubs for dialogue, transaction facilitation, and deal closing, providing essential insights and access to impact investors in Asia, and contributing to the advancement of the SDGs.

In this context, Desai & Associates (D&A), in partnership with the UN DESA, AVPN, and graduate students from Columbia SIPA, have partnered for this research providing a landscape of impact investing in Asia, understanding, and framing the insights around impact investor typologies and enabling environment conditions for Governments to catalyze impact investments in their nations. It also takes into consideration the drivers creating impact investment opportunities for Private Equity firms, Asset Managers, Venture Capital firms, Philanthropic organizations, Foundations, NGOs, and Development Finance Institutions/Multilateral Development Banks (DFIs/MDBs).

Knowledge Partners

We extend our gratitude to Desai & Associates (D&A), Asian Venture Philanthropy Network (AVPN), and United Nations Department of Economic & Social Affairs (UN DESA) for their invaluable contributions to this study. Their inputs have been instrumental in shaping the core of our research. We are deeply appreciative of their willingness to share their expertise and provide access to the experts who have enriched our understanding of the impact investment landscape in Asia. Their collaboration has been essential in ensuring the quality and depth of our study.

Desai & Associates (D&A)

Desai & Associates (D&A), a specialized innovative finance advisory firm, is the primary client for this project. D&A offers designing and structuring of blended and outcome-based financing solutions for public, philanthropic and private sector capital providers. It also provides research, advocacy and market building services to drive improved capital allocation for sustainable development. It has a solid history of advising top-tier foundations, funds, non-profits, social enterprises, government bodies, and international organizations on creating and implementing innovative financial solutions for significant development issues.

Asian Venture Philanthropy Network (AVPN)

The Asian Venture Philanthropy Network (AVPN) is a key knowledge partner for this project and serves as Asia's premier social investment network. It connects social investors, philanthropists, and impactful organizations to drive sustainable solutions and innovative funding models across Asia. AVPN utilizes its extensive network and initiatives in knowledge sharing and capacity building to tackle societal challenges in areas like education, healthcare, and environmental conservation. As a neutral platform, it promotes cross-learning and thought leadership, influencing public policy to support the SDGs and regional development. AVPN also played a pivotal role in linking the Capstone team with impact investors from their network.

United Nations Department of Economic & Social Affairs (UN DESA)

The United Nations Department of Economic and Social Affairs (UN DESA) serves as a knowledge partner in this project, advancing global sustainable development in line with the 2030 Agenda. Through research and policy advisory, UN DESA addresses key issues such as poverty, inequality, and climate change by fostering international cooperation. Its Financing for Sustainable Development

Office (FSDO) plays a crucial role, particularly through organizing UN SDG Investment Fairs that link investors with sustainable projects in emerging markets and facilitating UN participation in G20 and other global economic forums. UN DESA also provides insights into governmental initiatives and objectives concerning SDG investments.

Thesis Statement

This report aims to formulate a framework that enables investment strategies to be more effectively integrated with impact outcomes geared towards achieving the Sustainable Development Goals (SDGs). It seeks to identify the key drivers influencing investor capital allocation and establish benchmarks for efficient implementation, thereby maximizing the financial, social, and environmental impact in relation to the SDGs. Moreover, the report provides strategic insights for investors looking to diversify their portfolios with SDG-aligned investment opportunities in Asia and offer options to policymakers for creating an environment conducive to impact investments. By creating a detailed landscape of Asia-focused impact investors, the project seeks to guide strategic investment decisions and policy formulations, ultimately enhancing the capacity for SDG-aligned investments in the region.

3. Context: Blended Finance in South Asia[6]

South Asia is one of the fastest growing regions in the world. In recent years, this diverse region has experienced significant economic growth, with a growth rate of 5.8% in 2023. Despite this success, South Asian countries continue to face major challenges, including high foreign exchange risks, difficult legal and regulatory environments, and low familiarity with blended finance. It is a significant region to consider for blended finance due to its unique combination of high development needs, rapid economic growth, and a large population that is still significantly underserved in many sectors.

The region's experience with blended finance provides valuable lessons for applying similar strategies across other parts of Asia. The subsequent methodology section will detail the research approaches used to explore these dynamics, ensuring a comprehensive understanding of how blended finance can be effectively implemented across diverse Asian markets.

South Asia comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. India's economy has the lion share in the region for economy and population with 70% and 75% respectively. The region, as many others in the world, has been subject to mounting sovereign debt year-over-year averaging 86% of GDP in 2022. Some countries in the region have defaulted while others have been assigned debt rating in or near sovereign debt distress, thereby limiting government capacity in the region to finance development. However, blended finance has been steadily growing in South Asia. The number of blended finance transactions has tripled, contributing to a four-fold aggregate financing during the past decade.

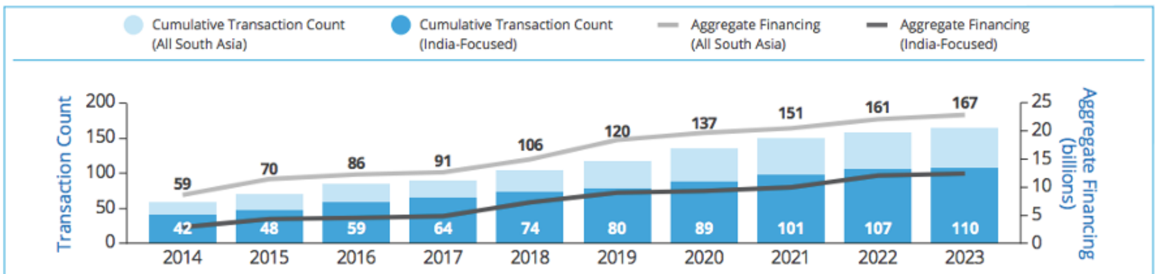

Figure 1: Market size and growth of blended finance in South Asia

Source: Convergence. 2023. Blended Finance in South Asia

As denoted in Figure 2, the allocation of blended finance growth and aggregate financing has primarily benefited India as main recipient, both for deal count and financing amount. Yet, the average deal ticket size in India has not been the largest. Pakistan leads the region with the highest average deal size at $375 million, largely attributed to its utilization of blended finance. Nepal follows with an average deal size of $285 million, and India is third at approximately $120 million per deal.

In keeping with the size of their GDP/capita, Bhutan and Afghanistan have the lowest average ticket size in the South Asia region, registering $24 and $40 million respectively.

[6] "Data Brief: Blended Finance in South Asia." Convergence, March 2024. https://assets.ctfassets.net/4cgqlwde6qyo/M8CMJWRLjGKM5Gs2zEccg/afb50aed15d258d97a325f880d8c0d51/DB_BF_in_South_Asia.pdf

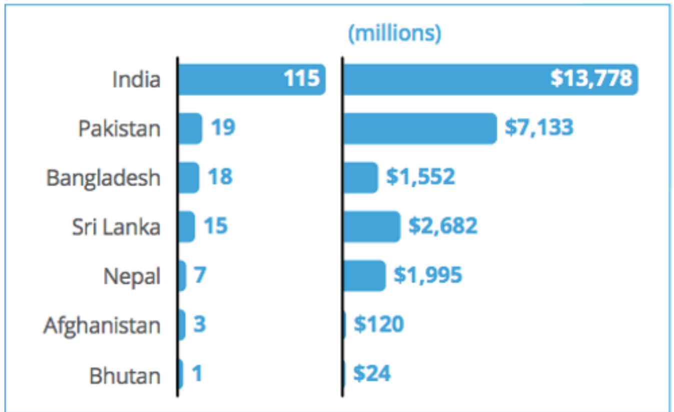

Figure 2: Deal count and aggregate financing by country [2]

Source: Convergence. 2023. Blended Finance in South Asia

According to the Financial Development Index by the International Monetary Fund (IMF), South Asia lags behind its G20 and ASEAN-8 counterparts in financial development and inclusion. In 2021, just 11% of adults in South Asia were utilizing financial institutions for borrowing and saving. Blended capital in Asia has been allocated primarily in three sectors: Energy, Financial Services, and Agriculture. This can be largely attributed to responses to regional needs. Since 2000, economic and population growth in South Asia have increased energy demand by 50%, driving up blended finance deals that finance clean energy initiatives.

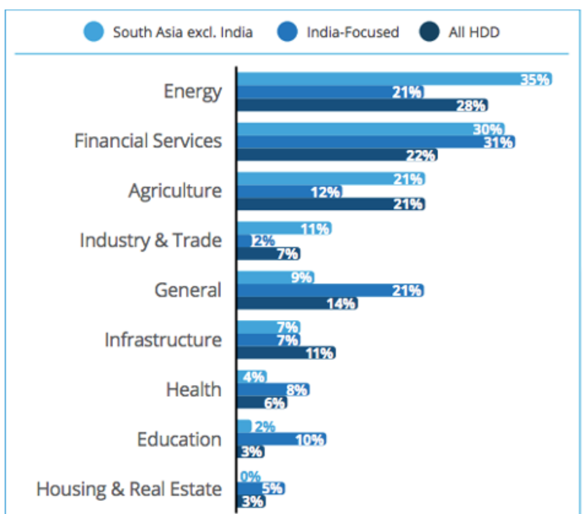

Figure 3: South Asia transactions by sector

Source: Convergence. 2023. Blended Finance in South Asia / HDD: Overall Market – Convergence Historic Deal Database

The impact investors and deal sponsors who have catalyzed development financing in South Asia have been diverse in typology. Historically, commercial investors have been the primary deal sponsors in the region. However, today we see that impact investors are matching their stake, almost sharing equivalent participations of 25% and 23% respectively. The remaining 50% is distributed between Development Agencies, DFIs/MDBs and Foundations/NGOs. India-focused investments are mainly provided by impact investors, who almost two-fold the aggregated financing from commercial investors for blended finance deals.

Blending archetypes and structures differ and blend depending on the project and the country, but in general more than half of the aggregated financing has been provided under concessional capital conditions (58%). Concessional guarantees and risk insurance have proven to be very effective to de-risk institutional and private investments, mobilizing investment capital in blended structures. In South Asia, concessional guarantees, and risk insurance account for 47%., Grants, which also play a fundamental role in reducing the cost of capital, only account for 12% of the transactions in the region. The region presents an important opportunity to increase the share of grants and allocate catalytic capital in the region to finance development projects by this means.

Technical assistance, as this study will further evidence, has also played an enabling role for blended finance in emerging economies to take projects to a "bankable" state by 1) Structuring solid and de-risked financing conditions for capital sponsors and 2) advising project developers on best practices and standards to offer them a healthier and more appealing double-bottom line performance. Technical assistance holds 27% of the used blended archetypes in the region.

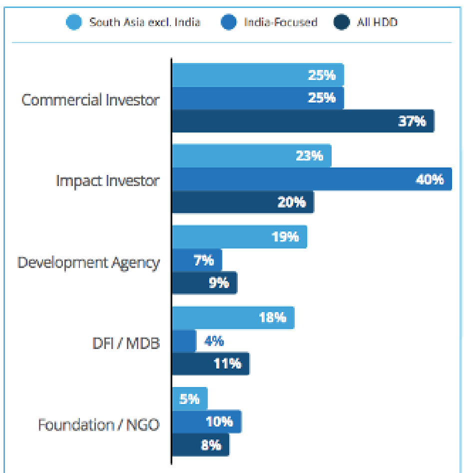

Figure 9: Deal sponsors in South Asia by organization type

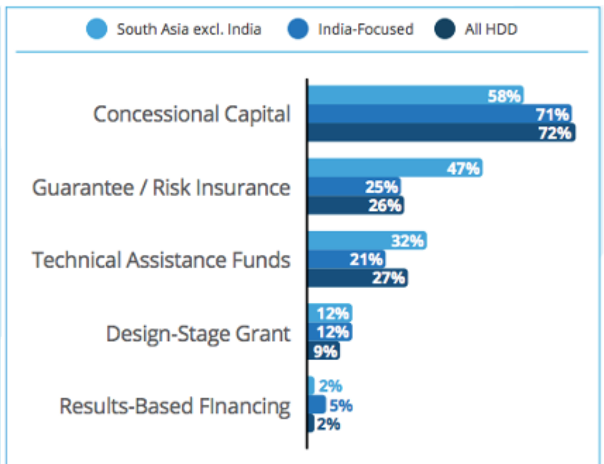

Figure 7: South Asia transactions by blending archetype(s)

Source: Convergence. 2023. Blended Finance in South Asia

4. Methodology

Research Parameters

This study synthesizes trends and feedback from impact investors operating in South and Southeast Asia. Through this synthesis, a set of enabling factors are identified across the following sectoral groups:

- **Group # 1: Private Equity, Venture Capital, & Asset Managers**
- **Group # 2: Foundations - Philanthropic and Corporate & Non-government organizations**
- **Group # 3: Development Finance Institutions**

The enabling factors capture trends in investment selection and risk management identified across the three groups and describe a set of recommendations to further optimize impact. The research concludes with a "Looking Ahead" of the impact investor landscape, offering recommendations for governing bodies to empower investors and outlining potential collaboration avenues.

An important final note is that this research is based on the sample of impact investors we consulted—it does not represent all impact investors operating in Asia. Nonetheless, we believe the analysis of this sample provides material key insights that stakeholders in the impact investing field can find actionable.

Research Process

Our research was conducted in four distinct phases, each designed to build upon the insights gathered in the previous stage:

Stage 1: Desk Research

Our sample included a set of impact investors member firms associated with AVPN. Our first step of analysis was conducting comprehensive desk research for all organizations. Desk research was standardized using the template Investor Profiles designed by the research team that pinpointed data such as location, assets under management (AUM), average ticket size, target investment sectors, investment strategies, due diligence process, and exit strategies (see Appendix B). Information that could not be found through desk research then became incorporated into our investor interviews.

Stage 2: Investor Interviews

Following the desk research, our team conducted 45-60 minute interviews with each investor to both cross-reference data found through desk research and attain additional insights from an industry insider with respect to investment selection, risk management, policy reflection, and recommendations. To standardize the information collected, the research team designed a template Investor Questionnaire to be used in interviews (see Appendix A) which also included a section of ad-hoc questions tailored to each investor, informed by specific findings from our desk research.

Stage 3: Interview Processing & Data Analysis

All interviews were transcribed and analyzed to identify key highlights based on the interview data and desk research. These insights were organized into individual and group-level analyses to discern trends in investment selection, risk management, and strategic recommendations. We categorized the firms into three main groups for further analysis: (1) Private Equity, Venture Capital & Asset Management; (2) Non-Government Organizations & Foundations; and (3) Development Financial Institutions.

Contextual Understanding

In the project phase, we first designed research tools based on past SDG fairs to formulate the investor questionnaires template. We then integrated the investment firms' targeted impact outcomes to suggest pathways for fostering collaboration with other stakeholders, with the goal of achieving optimal impact.

In the investor analysis phase, we engaged with various institutional investors to gain insights into their investment criteria and impact-driven strategies before consolidating our findings to formulate strategic recommendations aimed at enhancing the conditions for impact investing.

Research Design Development

Firstly, we conducted a literature review of past SDG fairs, blended financing reports, and impact investment trends to establish our methodology. Secondly, we designed customized tools to capture details of the SDG projects and investor landscape. Thirdly, we created an investor questionnaire that addressed previously identified gaps and integrated knowledge from initial desk research to refine the questionnaire, which we then adapted based on our client's input. Finally, we converted the refined questionnaire into a digital survey format, making it easy for respondents to use and access. This stage included an investor stakeholder map, the refined investor questionnaire, a data collection model, and a standardized template for insights analysis.

Project Set-up and Stakeholder Mapping

This involved aligning stakeholder expectations with our project framework and toolkit. Roles were assigned, and a detailed list of RFIs and key touchpoints compiled for smooth information flow. We created a project toolkit with templates, shared drives, and Gantt charts, alongside stringent risk and resource management protocols, to enhance team collaboration.

Investor Analysis & Profiling

Interviews of impact investors deepened our understanding of investors' portfolio selection and risk management. We categorized them by firm typology, investment type, and geographic locations to generalize the impact investment landscape. Additionally, we analyzed investor preferences and challenges within the realm of innovative finance.

Identification of Suitable Conditions of Funding

We synthesized our findings to make recommendations to improve the conditions for impact financing in Asia. We analyzed market trends and investor profiles to enhance strategic investment selection and financing mechanisms.

Inductive Approach

Our analysis is based on desk research and interviews with **13** impact investors across **6** impact investor firm types:

- Private Equity firms (PE firms)
- Venture Capital firms (VC firms)
- Asset Management firms (AM firms)
- Development Finance Institutions (DFIs)
- Foundations - Philanthropic & Corporate

Among the investors interviewed, **54%** are private equity or venture capital firms, **23%** are asset managers, **15%** are NGOs or Foundations, and **8%** are MDBs/DFIs.

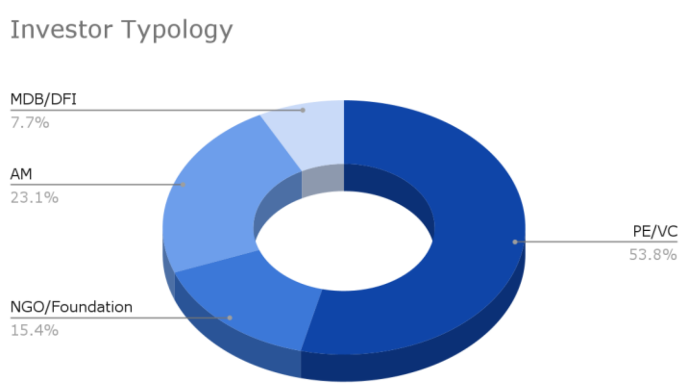

Figure 1: Investor Typology Breakdown, internal analysis based on project interview findings

Our analysis of investment types revealed over 41% managing private equity and debt. Early-stage investments constitute a significant third, highlighting a focus on emerging businesses, with NGOs representing a smaller share.

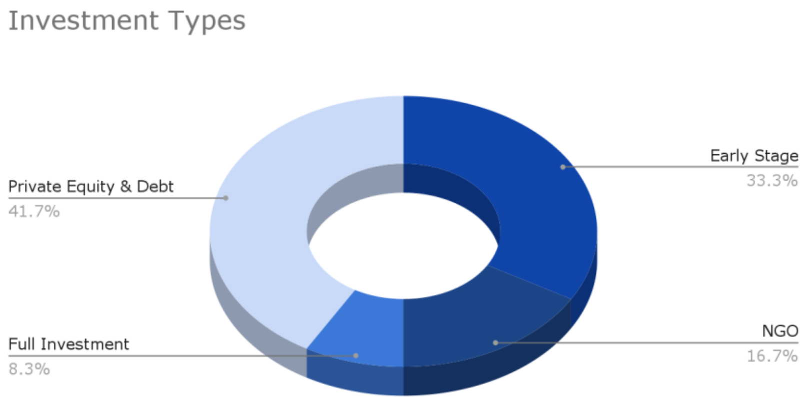

Figure 2: Investment Type Breakdown, internal analysis based on project interview findings

Significant regional differences are evident in the investment landscape, reflected in fund size, investment preferences, ease of financing and assets under management (AUM). These variations not only demonstrate different strategic approaches and operational capabilities, but also highlight how geographic origins can profoundly influence the financial behavior and opportunities of investment firms.

Large investment firms/asset managers based in developed countries and operating in Asia manage extensive portfolios for both institutional and high-net-worth investors within and outside the region. These firms offer billion-dollar impact funds with significant assets under management (AUM). **In fulfilling their fiduciary duties, they seek impact investment returns comparable to those of non-impact focused alternatives**. They focus on **investable geographies with infrastructure funding needs, access to leveraged capital at below-market rates, family-owned companies with substantial market capitalization and positive revenues, stable regulatory and legal frameworks, and minimal restrictions on divestment and repatriation of capital flows.**

In contrast, **domestic impact investment firms based in Asia,** with lower assets under management (AUM), **target companies that adhere to a singular Theory of Change Framework. This framework aims to achieve social or environmental impacts embedded within the companies' business models. These firms offer local entrepreneurs not only capital, but also business intelligence, organizational optimization, technology adoption, and sales & marketing optimization.** While these regional impact investment firms also seek returns comparable to alternative investments, **they require access to guarantees or subsidized interest rates to invest in the long-term and pursue more aggressive growth strategies through early-stage investments.**

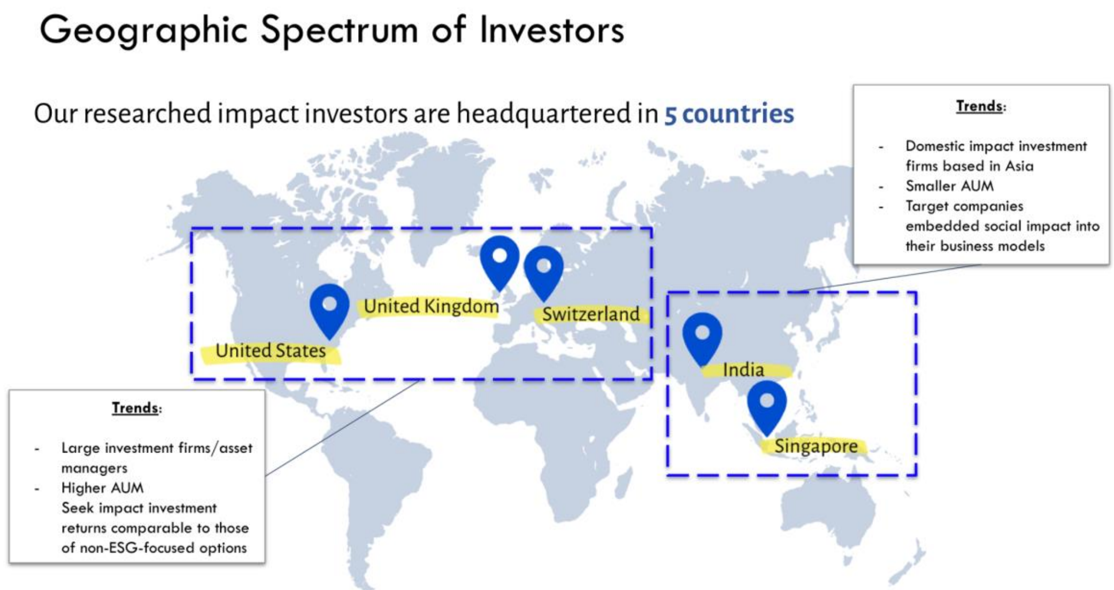

Figure 3: Geographic Spectrum of Investors, internal analysis based on public information

5. Investor Analysis

We categorized the investors into three groups to identify similarities within each category. First, we outlined common patterns, challenges, and provided targeted recommendations for each group based on our aggregated research and observations providing a macro view.

Then, we chose one investor from each group for detailed examination and insights. This micro view approach aims to provide a representative example based on interviewed impact investors for each category, offering a more comprehensive understanding of interviewed investors.

Enablers for Impact Investors – Macro View

Impact Private Equity, Venture Capital & Asset Management Firms

Key factors	Small and Medium-size impact investment firms	Large-size impact investment firms
Investment /Average Ticket Size (USD) in Asia	Entrepreneurs, SMEs yielding measurable social impact. Often family owned, they vigilantly monitor social capital to limit exposure. $50k - $60M	Mid market PE strategy, ~20% (or above) IRR. Focus on established impact investments with positive ROI Seeks alignment with controlling shareholder families to mitigate the risks associated with minority positions in Asia Pursues large-scale deals in sectors. $60M - $200M
AUM (USD) in Asia	$2M- $500M	$500M- $65B
General Investment Horizon (varies greatly for small firms)	VC avg: 3-8 years PE Avg: 3- 5 years AM: N/A, varies greatly	PE: 4-8 years AM avg: N/A, varies greatly
Equity /Debt /Convertible Debt	Private equity (no public firms). Series A funding round for mature companies, Preference for series B Debt if de-risked (subsidized rate, loss guarantees)	Mezzanine and convertible debt. Can do minority or majority equity stake, series D funding round. Might favor preferred equity, ordinary equity, convertible note. Little appetite for debt investments but interested in hybrid structures enabling

Equity /Debt /Convertible Debt (Continued)		positive risk-return trade-off
Impact preferences	Thematic (e.g.: climate mitigation, education, health, food, financial inclusion) Lower to middle-income countries	Thematic (e.g.: financial inclusion, sustainable food, climate mitigation, infrastructure, etc.) Middle-income to upper-middle-income countries
Risk appetite/mitigation	Profitability hinges on favorable conditions like low-interest rates. Firms conduct thorough due diligence upon commitment to prioritize risk mitigation and ensure investee self-sufficiency. Seek long-term ROI, perceive minimal risk when investees and their suppliers have a long-term sustainable approach to their business.	Disciplined risk management and return aimed to be comparable to non-impact-oriented investments. Seek to retain equity upside but willing to sacrifice upside for downside protection. Invest in a predictable regulatory environment.
Relationship with Governments	Limited interaction with government entities. Pursue increased timely and effective communication with government involvement. Lending facilities to finance high-impact investments that serve underserved populations, despite offering low financial returns. Predictable investment policy environment.	Private equity investors are actively engaged with national and sub-national governments. Seek government-led risk sharing mechanisms.
Relationship with DFI and MDBs	Seek guarantees to offset low returns to offer comparable returns to non-impact-oriented investments. Interested in blended finance to decrease compliance risk and complexity. Co-invest in blended finance with DFIs if synergies including improved project performance and reduced cost of capital with other impact investors are achieved. Seek philanthropic capital, and venture debt partners.	Blended finance is possible, but synergies with DFIs on equity deals may be limited due to similar return expectations.

Source: Studied Impact Investor Interviews, 2024

Background Information

The PE, VC, and AM firms we interviewed boast **geographically diversified** portfolios. These firms meticulously evaluate investment opportunities across various countries, considering growth potential and associated political risks. Many investors have shown a strong interest in investing in Indonesia. Each firm has a strategic focus on **specific sectors** within their investment scope, such as **financial inclusion, climate, and healthcare**. In contrast, others generally accept opportunities **aligned with ESG criteria across all industries**. Investments include **equity, debt, or hybrid with a bias towards equity**.

Impact investment decision-making

Investment **impact assessment** is crucial, as investors use tools such as impact assessments and scorecards to balance social and financial returns within their overall portfolio strategies. **Firms with comparatively smaller AUM** emphasize meticulous due diligence focusing on impact alignment with investees and adopt integrated impact strategies to generate scalable financial returns. Interestingly, while our findings show that there are few direct references to the UN's Sustainable Development Goals (SDGs) in investment decision-making, references to sectors or goals related to the SDGs suggest an implicit alignment with these objectives within impact investment strategies.

Regarding investment preferences, investors with Assets Under Management **(AUM) up to $30 million typically focus on equity investments in either early-stage startups or mature companies. They follow a Theory of Change approach,** planning, implementing, and evaluating the impact of their investments to generate social and environmental benefits alongside financial returns before deploying their capital. These investors are sector-agnostic, and their investment due-diligence takes a **holistic view of companies, including sometimes examining the companies' suppliers, to ensure alignment with their impact thesis.**

PE firms with investment ticket sizes of $100 million or more invest in equity and convertible notes rather than debt. They leverage the value-added from their resources and the expertise of their talent pool across industries globally, to enhance the impact and returns of their investment portfolios. **These firms typically seek majority equity stakes to control or at least exert significant influence over governance, enabling them to drive impact**. Alternatively, they take large positions in family-owned businesses committed to achieving a triple bottom line. Their due diligence criteria for impact investments prioritize the competency of the core management team and macro thematic/industry or market tailwinds. For these firms, access to liquidity is less of a concern compared to their exit strategy.

Exit strategy could be an Initial Public Offering (IPO), but if that's not feasible, the project may be sold to other investors through mergers and acquisitions (M&A). The investment time horizon varies based on a firm's AUM, ticket size, investment thesis, and individual agreements (usually performance related) with startup companies, such as Bet-on Agreement or VAM agreement. Early-stage investors face higher risk exposure. Hence, **venture capital firms that invest in the early stages (from Pre-Seed or Angel round) typically retain their shares and gradually exit over a period of 3-5 years.** Some may hold their shares until the IPO round, extending their investment horizon to around 8 years.

Meanwhile, large AUM private equity (PE) firms typically allocate funds to high internal rate of returns investments with robust capital deployment strategies. Institutional investors often join the investment around the B round, with an average holding period of 3-5 years until the projects go public. These investors sign investment documents based on aggressive terms that specify the project companies' operational and financial performance. **The robustness of their investment due diligence process lies in their risk management approach**, which includes in-depth research, analysis of financial data, **and evaluation and measurement of impact according to ESG (Environmental, Social, and Governance) factors**. Some firms hire external consultants to **identify impact and ESG risks.** One firm interviewed **enhances its due diligence by collaborating closely with local teams** or co-investing with local impact investors.

Investment firms engineer **robust portfolio strategies** to minimize risk through diversified investments across sectors and geographies. Even with sector-specific focuses, they emphasize diversification within those sectors. **Some firms limit their investments in stable markets, with a predictable regulatory environment to further reduce risk.**

Investment firms frequently pursue **innovative financing strategies by forming partnerships and utilizing blended finance structures. They co-invest with development finance institutions (DFIs), philanthropic entities, and both impact and traditional investors to maximize resource allocation**. One firm strategically collaborates with DFIs to obtain guarantees that mitigate investment risks. However, some firms raise **concerns about the complexities and extensive time commitments associated with blended finance**.

Post-investment engagements play a vital role in enhancing the performance and impact of portfolio companies. Investment firms actively **participate on boards, provide technical assistance, and offer strategic guidance** to support sustainable growth and address operational challenges. Continuous monitoring of portfolio companies allows firms to track progress, identify issues early, and **intervene if necessary**, ensuring that investments remain on track to achieve their intended impact.

One firm manages **currency and interest rate risk for non-US dollar transactions by employing comprehensive hedging strategies**. **Currency and interest rate risk can be implemented either directly, or through borrowers,** showcasing a proactive approach to managing financial risks linked with investments.

Suitable conditions for funding

Understanding the project's impact is crucial to attracting funding from the described investors.

- **Smaller impact investment firms** target SMEs, achieving long-term ROI and managing risk by selecting investees fully aligned with their impact strategies. They seek guarantees and explore blended finance when risk of short to medium term negative returns makes the project non-invertible.
- **Larger international firms** focus on ROI at par with non-impact investment options, in the short and long-term prior to valuing the materiality of their investment social impact. This research supports the idea that, in the long term, there is no tradeoff between financial return and social impact. Firms with investment ticket sizes over $100 million can enhance their long-term

returns by increasing their equity footprint in smaller firms, thereby building a pipeline of investments.

The fiduciary responsibility of PE impact firms to their investors requires astute finance professionals to achieve optimal financial returns, as well as ensuring long-term positive social and environmental outcomes. **The empirical evidence from this research suggests that smaller impact PE firms with investment ticket sizes as low as $50k and a mandate to focus on niche underserved markets/communities to deliver measurable higher-impact goals can be given more latitude by their Limited Partners (LPs) to produce competitive returns.** However, challenging business environments, including high cost of capital, and the illiquidity of investments, strongly impede these PE firms from attracting institutional asset managers, while consistently offering returns at par with non-impact investments. **To achieve the SDGs and other measures of social and environmental impacts while meeting their fiduciary responsibilities at par with plain vanilla investment options, small PE firms need greater access to liquidity and/or first-loss guarantee mechanisms to smooth the volatility of their returns.** If achieving impact is not reconcilable with offering the highest financial returns for their clients, **small PE firms need greater access to lower cost of capital and lower transaction costs to remain competitive. This access could be facilitated by organizations prioritizing measurable high impact over returns, such as governments and foundations.**

Large impact PE firms with billions of dollars of AUM have larger balance sheets that they can leverage to raise funds. They **have access to capital markets,** enabling access to preferential credit terms, liquidity, and hedge markets against volatility, inflation, and currency fluctuations. **They are also under greater scrutiny from investors to meet analysts' earning calls and deliver returns at par with non-impact investments consistently on a quarterly basis.**

While there is no consensus on international norms and standards to report impact, **all PE firms interviewed are aware of the double materiality of their investment returns for their clients.** They recognize that the long-term impact of their investments positively affects employee retention, the resilience of their business, and the trust of their clients. This research highlights that **all PE firms interviewed had in-house management systems in place to track and measure their social and environmental impact and independently audited their impact performance, often in collaboration with NGO sustainability expert networks.** Outsourcing impact audits enables compliance with the evolving reporting requirements of developed capital markets and, in full transparency, captures the material risks of their impact investment portfolio management and value chains. **Access to liquidity may be less of a challenge** because of their balance sheet size and their willingness to co-fund early-stage investments in "hot sectors."

At exit, large PE firms issuing $400m - $600m payments for a minority equity position in a business with a double or triple bottom line in Asia face a greater challenge trying to divest a billion-dollar position. Regulatory restrictions limiting exit proceeds beyond the country's border constrain capital reallocation elsewhere. **For large PE firms with an international client base, high capital gains tax and the inability to repatriate profits and reallocate capital elsewhere are significant, as they hinder their ability to fulfill their fiduciary responsibility to generate superior returns.**

Improvements for the government and regulators

Governments adopting multifaceted strategies foster economic growth and social progress. Grants and technical support funded by the public sector can benefit markets/ regions. For example, fostering the use of advanced agricultural technologies can boost productivity and resilience. Targeted grants that contribute to funding such high-impact projects, which otherwise would not be funded, have a multiplier effect towards achieving the SDGs.

Enhancing transparency and stability of law regulating PE markets contribute to increasing impact investments. To that end, Governments can **identify and prioritize investment sectors**, crafting clear guidelines, and streamlining regulatory processes to attract investors. Governments can enhance their legal framework to enable timely and **enforceable dispute resolution,** protecting investors at par with the institutional legal frameworks of mature capital markets, it would instill investors' confidence and foster larger impact investment inflows.

Developing **a fund of funds (FoF)** mandated to invest in local ventures would not only mitigate risks, it would also increase private investments, while promoting cooperation between the public and private sectors towards increasing impact AUM. Moreover, integrating **education into employment practices** can elevate the caliber of human resources, ensuring long-term prosperity.

Lastly, facilitating **synergies between incubators, local partners, and non-governmental organizations (NGOs) would further facilitate impact investment pipelines. Despite headwinds in securing capital from large financial institutions, continued outperformance in impact investing is expected to catalyze increased allocations from commercial banks, insurers, and pension funds, thereby scaling up impact.**

Governments wishing to provide market-facing downside risk protection can **develop government-led impact-driven ESG initiatives, carbon credit markets, and national mechanisms supplying sustainable renewable energy.** An "emission reduction fund" could be established, providing a fixed price-take of carbon credits over a determined period, guaranteeing a sell price floor to market participants. Such approaches could also include **credit enhancement and backstop guarantees in the initial stage of a pipeline project**—the first 3-5 years—thereby increasing investors' participation in funding early-stage businesses. To reduce/mitigate market uncertainties related to regulatory changes, governments could **increase communication about the predictability of government policies' goals.** Finally, to **foster a resilient and thriving impact investment sector independent from government intervention, policies supporting long-term organic growth should be developed,** bringing dynamic stakeholder partnerships including NGOs, philanthropies, industrial experts, and investors.

Enablers for Non-Government Organizations & Foundations

Key factors	Description
Average Ticket Size (USD)	$3M - $5M
AUM (USD)	$36M-$50M
Impact preferences	Minority stakeholders, not leading investors, prefer projects with proven operational feasibility and financial value propositions with a clear path to achieve high impact.
Risk appetite	Impact-driven initiatives will not exclude projects solely because they fail to meet the financial/return threshold. Higher risk tolerance than other institutional investors.
Relationship with government	Seek alignment with national and sub-national policy priorities in alignment with the SDGs. Collaboration with governments and communities to create value, offer technical expertise, and mitigate risks by providing guarantees, collateral funding, thus enabling leveraged funding. Seek government support to mitigate the complexity of compliance costs.
Relationship with DFI and MDBs	Partnership with DFI under the Fund of Funds (FoF) structure. Willing to explore blended finance including guarantees, insurance with such institutions. NGOs can be contracted by DFIs to provide technical local support.
Geographical Footprint and Size	Global focus, South Asia and Asia areas are believed to have high scale-up potential

Source: Studied Impact Investor Interviews, 2024

Background Information

The Evergreen Fund, supported by NGOs and foundations, invests in societal well-being across education, health, and climate sectors on a global scale without regional preference. **It engages in various investment types, including Funds of Funds (FoF), equity, debt, and convertibles.** The fund collaborates with local governments and community welfare organizations for **NGO-associated ventures** to create value and reduce risks. Foundation-associated ventures, on the other hand, partner with venture capital and private equity firms to leverage market insights and expert technical advice for scaling startups. Initially funded by its parent organization, the fund typically participates as a co-investor with a minority stake, enabling it to effectively support impactful projects and promote sustainable development across its target regions.

Impact Investment Decision-making

Two entities emerge at the intersection of finance and philanthropy: **foundation-associated and NGO-affiliated venture capital (VC) firms.** They focus on **investing in early-stage companies poised for growth from Pre-A to Series A stages**, aiming to undertake transformational initiatives. Each firm adheres to its unique investment strategy, with **foundation VCs typically investing between $0.5 million and $1.5 million** in businesses showing strong initial traction. In contrast, **NGO-affiliated VCs allocate slightly smaller investments, ranging from $0.3 million to $0.5 million,** into ventures offering potential returns and highly impactful change.

The investment process begins with an exhaustive **six-month due diligence period**. Initially, a **checklist is used to evaluate the business viability and scalability**. Subsequent analysis includes an **assessment of management expertise and intellectual property** to ensure alignment with financial stability and transformative potential. These firms **adopt a long-term investment horizon, emphasizing sustained impact over immediate financial returns**. Although these firms are relatively new, they are adeptly managing the complexities of impactful exits, aiming to redefine the role of finance in global betterment.

These **foundation-associated and NGO-affiliated venture capital** firms prioritize impact above financial gain, **focusing on projects with operational feasibility, a proven concept, and high-impact potential**. Their i**nvestment strategy employs a mix of equity and convertible debt** to mitigate risk and draw additional capital during the early growth stage. Financing strategies may involve blended finance, integrating government grants with funds from other sources such as high-net-worth individuals or institutional investors.

Impact Investing Risk Management

Non-Government Organizations & Foundations & Fund of Funds (FoF) provide more than just funding; they offer strategic guidance and operational support to enhance or expand impact. Foundations utilize their endowment capital to provide catalytic capital at low interest rates. Lacking fiduciary responsibilities typical of profit-driven investors, they can afford to assume more significant risks. Their due diligence process ensures that the impact objectives of potential investees align with their mission and values.

In volatile financial markets, these organizations are **equipped to address potential negative impacts on their portfolio companies, such as bankruptcy and cash flow disruptions. They may modify loan terms, extend additional support, or provide bridging loans**, with all such decisions requiring Investment Committee approval. These investments often have long-term horizons, aimed at generating sustainable cash flows and lasting social impact. **This is crucial for NGO-affiliated ventures dependent on grant funding and the performance of their investment portfolios**. Their **commitment extends to sustaining operations and maintaining capital allocations**, often collaborating with local governments and communities to ensure long-term project sustainability, instilling confidence in the sustainability of impact projects.

These organizations also play a critical role in supporting projects that encounter operational challenges by transforming funding mechanisms into **convertible notes** to ensure continued functionality. However, **debt issuance alone should not be viewed as a comprehensive risk mitigation**

strategy. Their risk management protocols include meticulous due diligence and continuous, collaborative on-site monitoring to assess financial returns and broader impact effectively. Moreover, innovative financing arrangements, which may involve issuing debt to external parties, enhance available funding and potentially lessen dependence on NGO funds, thus reducing capital costs and mitigating risk. This proactive and strategic approach is instrumental in fostering innovation and driving forward the evolution of the finance industry.

Innovative finance strategies are critical in defining the future of development finance. One interviewed investor firm is advancing **results-based financing and catalytic capital over traditional grants**, while another adheres to a conventional venture capital structure to reduce compliance costs. Both strategies **distribute risks among multiple stakeholders, enhancing value for investors, funding partners, beneficiaries, and local communities.** This cooperative model ensures the sustainability and viability of projects, fostering impactful results.

Suitable conditions for funding

To attract funding from the described investors, startups should ideally exhibit the following characteristics. These traits ensure that the startups not only align with the investors' mission-driven approach but also possess the foundation to grow sustainably and meet financial expectations:

- **Stage:** Be in the seed to early stage, typically up to Series A funding, where initial growth potential can be clearly demonstrated.
- **Project Type:** Demonstrate high scalability with a well-defined path to create significant impact. This impact should align with the investors' goals, such as social, environmental, or economic benefits.
- **Financial Health:** Provide evidence of financial viability and some level of cash flow continuity, which is especially important if the financing arrangement involves innovative or blended finance solutions.
- **Partnerships:** Establish connections with local governments and community groups are highly beneficial. Such relationships can facilitate smoother operations, enhance the project's credibility, and ensure alignment with local needs and regulations.

Improvements for the government and regulators

Governments and regulators play a crucial role in shaping the landscape of impact investing in middle-income countries with immense potential to address social challenges through enabling impact investments. To harness this potential, governments can play a role increasing awareness and building capacity around the benefits and strategies of impact investing. This can be achieved through educational programs and public-private partnerships showcasing successful case studies and offering practical insights into impact investment processes.

There are opportunities within national and federal government policies to work in lockstep with Non-Government Organizations & Foundations & Fund of Funds (FoF) to fund sustainable development through impact-focused businesses at scale. This involves enabling the **creation of a national impact investment pipeline that identifies promising businesses in their early growth stages and creates pathways for small and medium-sized enterprises (SMEs)** incorporating impact into their business models to receive funding from impact investors throughout their growth stages. Establishing an investment pipeline to attract capital funding for impact businesses would sustain the organic growth of sustainable businesses, thereby reducing investment risks for impact investors. **Government initiatives aimed at building a deal pipeline will enhance impact investors' capacity to identify, evaluate, and execute high-impact investment opportunities while effectively managing risks and maximizing financial returns.** Collaboration between the public and investment sector, while handling the translation or execution details of such an initiative, alignment between impact investors' and government entities' economic and social goals.

Removing barriers to entry is crucial for social entrepreneurs and small and medium-sized enterprises (SMEs), which frequently lead in innovative social solutions. Streamlining regulatory requirements, offering **tax incentives**, and providing **technical support** services can empower impact entrepreneurs to effectively launch and expand their operations. Governments have an opportunity to unlock the entrepreneurial potential needed to enact significant social change through impact investing.

Enablers for Development Finance Institutions

<u>DFI framework and strategic approaches</u>

In Asia, mobilizing private finance has been, in part, facilitated by private sector-focused Multilateral Development Finance Institutions (MDFIs) and Development Finance Institutions (DFIs). These institutions, along with Official Development Assistance (ODA) providers, play a pivotal role in funding impact across the region. Indeed, the Asian Development Bank (ADB), the China Development Bank (CDB), the U.S. International Development Finance Corporation (DFC), and other **DFIs have become essential impact investors in developing and transitional economies, financing sustainable projects that produce public goods in sectors where financial asset managers alone cannot invest without taking risks that are irreconcilable with their fiduciary responsibilities.** National DFIs are instruments of soft power: they are crucial enablers of impact investing towards the Sustainable Development Goals (SDGs) while advancing their country's foreign policy interests and national security objectives.

DFI funding capacity, risk management, collaboration, partnership, and blended finance:

When a country holds significant strategic or business interests in a specific region, its DFI facilitates Foreign Direct Investment (FDI) and impact investments in that region, subject to careful risk assessment. However, **if the government of the inbound funds enforces laws that conflict with the core values (e.g., laws contributing to human rights violations) of the investing country or countries, DFIs' funding becomes unfeasible.** Certain countries are also deemed uninvestable for DFIs due to foreign policy considerations. After identifying specific projects, sectors, and/or geographical areas to enhance **where investment funds can allocate capital for impact, they often invest alongside DFIs ranging from 5 million to one billion dollars. Funds can be for-profit funds or non-profit impact-focused,** such as the Bill and Melinda Gates Foundation. **The presence of non-profit impact focus funds provides first-loss capital, contributing to de-risking the DFI's investment and overall transaction.** Impact investors typically conduct rigorous due diligence before, and throughout, the investment process to steer the funded company towards achieving both profitability and impact.

For DFIs, the investable countries' debt rating directly influences lending rates. **The lending rates capture credit ratings but also factors such as the government structure and the robustness of government institutions**. Investment decisions take into account that the riskier the country, the more likely first-loss capital will be necessary, to price the loan attractively.

DFI capital allocation ranges flexibly from $10 million to $1 billion. Typical ticket sizes are between $7M and $10M, although they can be lower for projects with high impact. **DFIs offer technical assistance programs through grant funding** to enhance the financial sustainability and impact of supported projects. **For larger investments, they might co-invest or co-finance, participating in blended finance transactions** alongside public and private sector actors.
Robust risk management practices, including credit appraisal, portfolio diversification, and monitoring systems, enable DFIs to prudently manage the inherent risks associated with their development-focused long-term investments. DFIs leverage their due diligence, technical and operational expertise to effectively identify, evaluate, structure, and oversee development-oriented investments. **De-risking investments is highly correlated to their ongoing monitoring of invested funds,** to ensure the accuracy of financial projections and stress-test the viability of the projects. This includes evaluating factors such as employment practices, management capabilities, and expected funding sources and future revenues. When necessary DFIs refinance/structure flexible debt deals with favorable terms to match the projected timeline for investments to reach/return to profitability.

DFIs can choose to invest in catalytic capital that might be EBITDA-negative to stimulate private investments in SMEs in sectors such as healthcare, education, agriculture, off-grid energy, and climate resilience to promote prosperity, economic stability, and long-term financial returns. **DFI catalytic capital is enabled by sourcing funds from government treasury departments at a low cost of capital.** DFIs range of financial instruments offerings, from debt financing to equity investments, as well as technical assistance through grant funding, enables them to support projects with long gestation periods or in nascent impact investing markets, where local capacity may be limited. Their choice of investment strategy and vehicle is tailored to ensure maximal mobilization of private sector capital yielding the highest social impact. **Such strategies are designed to bridge investment gaps in specific countries, regions, and sectors where return on investments (ROI) are low or nonexistent**. DFIs design their funding processes to prioritize impact while mitigating financial shortfalls. This approach skillfully de-risks investments, thereby facilitating project scalability without crowding out private sector funds. DFIs achieve this through strategic use of their balance sheets rather than by providing a large percentage of loans at below-market rates.

DFIs favor grants or debt instruments when funding less capital-intensive entrepreneurial investments. For larger size investments they might co-invest or co-finance projects participating in blended finance deals along with public and private sector actors. A regulatory framework promoting flexibility in collateral and lending operations, enhances a DFI's effectiveness. This includes supportive government policies and appropriate prudential norms that facilitate effective coordination with other public and private sector actors, such as commercial banks, bilateral donors, and multilateral development banks. **Mechanisms for transparency and accountability, help align the strategic focus and operations of DFIs with national, international development priorities and private investors' fiduciary responsibilities.**

DFIs are well-suited to mitigate specific sectoral risks. For example, in the agricultural sector, DFIs can facilitate access to affordable insurance for farmers. The insurance scheme not only boosts farmers' productivity and cash-flow income but also de-risks investments, thereby encouraging increased private sector funding. **DFIs may participate in blended finance solutions, including concessional lending terms and loss guarantees, tailored to support specific SDGs and impact targets.** These conditions are structured to attract investment in areas typically overlooked by private lenders due to conventional market risk assessments.

In summary, when a country holds significant strategic or business interests in a specific region, its DFI facilitates Foreign Direct Investment (FDI) and impact investments in that region, subject to careful risk assessment. However, **if the government enforces laws that conflict with the core values of the investing country or countries, DFI funding becomes unfeasible. Additionally, certain countries are deemed uninvestable for DFIs due to foreign policy considerations. The key enablers of DFIs mandate include** access to below market rate capital, de-risking capabilities, flexible financing structures, rigorous due diligence to foster long-term returns and impact, and targeted sectoral interventions. These factors position DFIs as essential actors in driving progress towards the SDGs through impactful investments.

Selected Investor Highlights – Micro View

In this section, our team illustrates some key qualitative insights from our intensive research and interview process. We selected three examples from our sample to highlight learnings from their experience in the Asian impact investing space; specifically what works, what does not work, and what needs to be done to further scale regional impact investments.

Investor 1 - Emerging Markets Asset Manager (AM) with PE Funds in Asia

Our first selected impact investor is an emerging markets asset manager with a sectoral focus and experience in private equity and debt. This investor has a **strong impact thesis** but still aims to achieve PE-style returns. In other words, it attributes fairly equal weighting to impact and financial considerations. It only targets **middle and bottom-of-the-pyramid investments** aimed at achieving systemic change. While its team recognizes that **balancing financial returns and impact** is a real challenge for impact-oriented funds, it has developed a framework conducive to the achievement of both.

What Works?

• Investor 1 views **alignment** as the key to reconciling the inherent tensions between achieving impact and generating attractive financial returns. More specifically, they believe in alignment between **company DNA, founder DNA,** and **capital DNA.** This implies that there must be alignment between the problem being targeted, the founder, and the investor. Moreover, Investor 1 emphasized the importance of driving entrepreneurship through an alignment of **intention, actions,** and **measurements** to ensure that systems are self-sustaining. They use three measures for understanding and driving impact: **access, quality,** and **relevance.**
• Investor 1 views the **type of capital used** as a critical determinant of a project/investment's success. The capital structure used must match the kind of market in which the investment is operating, as further described below:
  ○ **Equity investments** are optimal in investments operating in growing markets with high expected returns.
  ○ **Debt investments** are optimal in slower-growing markets that cannot deliver PE-style returns but offer cash-oriented returns.
  ○ **Blended finance** is optimal for investments requiring fragility support, regardless of the kind of market they are operating in.
• The capital structure must also be adequate to achieve the impact goal targeted. For instance, achieving success for **access-oriented** investors necessitates deploying larger capital amounts, whereas the opposite holds true for **quality-oriented** investors.
• According to Investor 1, investments too large in quality-oriented portfolio companies can be detrimental to their success.

- **Comprehensive due diligence** is the most effective de-risking mechanism for an impact investor. Investor 1 has **improved their investment decision-making by integrating impact training and psychometric testing into the due diligence process**.
- In addition to aiming for high returns as part of its exit strategy, **Investor 1 conducts an impact assessment on the potential buyer and only exits if alignment and commitment to continuing impact value creation are present.**

What Does Not Work?

- **Mixing equity investments with concessionary capital**. Investor 1 noted that the gap between equity and concessionary capital is too significant to reconcile and that blended finance is only feasible with debt funding mechanisms.
- **Investing in sectors heavily influenced by government policies, where policy changes are unpredictable can potentially limit returns.**
- Investing in ventures seeking **one-way capital inflows** (restrictions to capital outflows).

What Is Missing?

- Investor 1 contends that **increased competition** within the industry would **facilitate the injection of much-needed capital to impact investments**. Simultaneously, **it would bolster market liquidity and streamline the process of exiting investments.**
- Investor 1 calls for governments across the region to **implement the following measures to scale impact investments,** including foreign direct investments (FDIs): **Creditors rights, enforcement of debt collection and property laws**, **capital repatriation and convertibility laws**, and **foreign capital investment regulations** that allow for fair tax and other withholding.

Investor 2 - Private Equity (PE) Firm with a focus in Asia

The second selected investor is a private equity firm targeting investments in Asia that have an existing profitable business model integrating sustainability factors for impact. Contrary to some impact investors that invest in businesses that create impact but less financial returns, Investor 2 searches for investments that are already profitable and looking for opportunities to scale up. In addition, to mitigate early-stage investment risks, Investor 2 is rarely the first investor to their portfolio companies, and they avoid investments primarily funded by grants. So the following are detailed characteristics of their portfolio strategy.

What Works?

- Investor 2 tends to target investments at the **early growth stage** (Pre-A or Series A).
- Investor 2 tends to be the **second investor**; for example, a DFI may invest after Investor 2 with a larger ticket size.

- Also looks for investments targeting both impact and financial return, **that have an impact value proposition built into its business model.**
  - Business Side: Sustainable business model that commercially has the potential to scale.
  - Impact side: Their products uplift low-income individuals' income potential.
- Investor 2's post-investment engagements to help scale investment include:
  - A seat on the **board of directors**
  - **Technical assistance** to strengthen internal capacity
  - **Strategic financial planning**
- Investor 2 maintains an **internal technical assistance team** to support & scale the internal operations of investments
- With respect to exit, Investor 2 looks for other investors that share the same impact goals to take over the companies, typically through **strategic acquisitions, later stage investments, or promoter acquisitions**

What Does Not Work?

- As their target investments primarily involve early-stage business ventures, they may lack robust accounting practices and sufficient financial data.
- Investor 2 typically look for long-term self-sufficiency, and are wary of investments that may depend on grants,
- Absence of collaboration with governments administrations and the UN agencies,

What Is Missing?

- Incentives or technical support to smaller local companies to maintain robust financial statements,
- Clear and enforced financial regulations, coupled with capacity building from regulators, can encourage companies to maintain accurate financial records.

Investor 3 - Global NGO with Impact Investment & Innovative Finance Arms

The third selected investor is a global non-profit that launched **its own strategic investing arm** to mobilize private capital toward achieving the non-profit's global impact goals. Investor 3 can best be described as an **"impact-first" investor** deploying direct equity investments, bespoke debt, and structured financing tools. Investor 3 investment goals are strategic impact-led but evaluates financial viability of businesses with equal rigor and invests alongside a mix of commercial and mission-driven investors globally. This investor benefits from deep technical expertise through its broad network of partners, and strong relationships with government. This expertise allows the investor to understand the underlying needs of the community and focus on the most effective solutions. It also enables vetted deal discovery, due diligence and the application of robust impact measurement and monitoring frameworks for the targeted impact and financial outcomes.

What Works?
• Investing in companies at the **early growth stage** (Series A-B) that have proven their solution and shown potential to deliver their product/service at scale. • **Co-investing** in rounds led by seasoned investors; tend to not lead investment rounds • **Transitioning from solely grant-based models** to establishing financing models incorporating elements of repayable capital. • Implementing **blended finance and deal-specific risk mitigation strategies** (through project funding) to de-risk specific business experimentation in new markets or unproven but high-impact potential products and draw private capital to impact projects..
What Does Not Work?
• **Pursuing above-market returns for high-risk blended finance projects** or taking short-term views may jeopardize building long-term impact and affordability for end beneficiaries.
What Is Missing?
• **Commercial investors, governments, corporate venture institutions gaining a nuanced understanding of the potential of impact investing** in addressing social challenges and taking proactive steps to incentivize the field in this direction. • Encouraging robust collaboration between governments, corporates, and investors to collectively address the financing needs for social challenges.

6. Looking Ahead

Enabling Framework to Scale-Up Impact Investments in Asia

Pillar	Key Actions and Strategies
Environment Enabling Conditions	• Support property rights and enforce the rule of law. • Promote market predictability and oversight to address anti-competitive practices. • Establish mechanisms to assist impact investors and maintain a low base lending rate. • Prioritize monitoring and evaluation of policies. • Embrace innovation, regulatory collaboration, and adaptive governance.
Capital Demand	• Enhance technical capacity to develop bankable SMEs with a focus on double or triple bottom lines. • Train entrepreneurs to manage triple bottom line businesses. • Provide technical assistance for SMEs to report impact and financial returns. • Reduce capital costs through grants and risk-sharing mechanisms. • Provide a framework for standardizing impact loan portfolios.
Capital Supply	• Create de-risking financial instruments like financial guarantees and insurance. • Crowd in capital toward investments with demonstrated SDG impacts. • Facilitate access to preferential-cost capital funding.
Private Led Financial Infrastructure	• Establish a self-regulatory organization to oversee impact investment firms. • Create a centralized loan servicing system to enhance loan portfolio performance.
Orchestration	• Coordinate with organizations like UN DESA and AVPN to promote impact investment fairs. • Foster collaborations and partnerships among investors, governments, and development finance institutions. • Promote National SDG prioritized investments and policies. • Develop private/public, digital and analog mechanisms to enhance matchmaking and deal closure.

In conclusion, our team has developed five pillars for UN DESA and its Member States, aimed at enhancing catalytic impact investments to bridge the investment gap. This research suggests that integration of these pillars will improve the effectiveness of emerging economies and frontier markets in Asia by unlocking the potential of blended finance capital for development. It draws inspiration from USAID's framework for financial transactions.

1. **Environment Enabling Conditions**: This pillar suggests that Member States offer information to potential stakeholders in impact investment, catalyze cooperation, establish connections, and allocate resources to strengthen the national ecosystem for impact investment and blended finance. The following are pre-conditions to improve domestic credit and equity markets driven towards impact investing:

    a. Support of property rights, enforce the rule of law and provide open capital flows related to greenfield and M&A impact investments.

    b. Promote market predictability and oversight to address anti-competitive practices, excessive market power concentration.

    c. Establish governmental mechanisms to assist impact investors in mitigating tail volatility within the domestic currency's sovereign yield curve, with the objective of maintaining a low base lending rate.

    d. Prioritize continuous monitoring and evaluation of domestic policies and interventions to ensure effectiveness and alignment with the evolving needs of their economies and societies. Moreover, fostering a culture of transparency, accountability, and stakeholder engagement will be crucial in maintaining investor confidence and fostering long-term partnerships for sustainable development.

    e. Embrace innovation, regulatory collaboration, and adaptive governance approaches.

    Nations can overcome logistical challenges and seize the opportunities presented by blended impact investing, ultimately driving progress towards achieving the SDGs and building a more resilient and equitable world for future generations.

2. **Capital Demand**: This pillar focuses on facilitating an impact investment pipeline for small and medium-sized enterprises, thereby anchoring investee firms' capacity for impact and their access to favorable lending terms. Member States can work with impact-oriented enterprises to:

    a. Enhance technical capacity to develop bankable small and medium-sized businesses/projects with a double or triple bottom line, aligning them with impact investors' funding strategies to form an impactful investment pipeline.

    b. Train and upskill entrepreneurs to manage triple bottom line businesses. Set impact norms and standards to record double/triple bottom line performance (social, environmental, and financial return).

    c. Provide technical assistance for small and medium-sized impact businesses to report impact and financial returns.

    d. Reduce capital cost leveraged on grants and cost/risk sharing mechanisms (blended financial instruments).

    e. Provide legal and regulatory framework enabling the standardization of impact loan portfolios including loan size, interest coupon, maturity date, and covenants, to facilitate at scale the securitization of impact loan portfolios. This conversion of relatively illiquid impact loans into tradable securities will diversify impact loan creditors' risk and increase the liquidity of funds available for issuing new loans.

3. **Capital Supply:** This pillar concentrates on creating conducive conditions from the supply-side of capital streams (including investors such as creditors and equity holders) to finance domestic impact investment project pipelines, facilitating access to preferential-cost capital funding. It involves mechanisms to cover initial and partial losses primarily for catalytic capital for investors. Member States can work with impact-oriented enterprises to:

    a. Create de-risking financial instruments e.g.: financial guarantees and insurance covering both initial and partial losses.

    b. Crowd in capital toward impact investments with demonstrated SDG impact performances including investment portfolio driven by investor's "Theory of Change" or Impact Mandate.

4. **Private Led Financial Infrastructure**: This pillar encompasses the establishment of financial infrastructure necessary to support and scale up impact investments, including blended financial transactions. Member States can:

    a. Create a self-regulatory organization authorized by national governments to oversee the operations of impact investment firms in their country to enforce rules that govern the activities of its member firms, ensuring compliance with these financial rules and regulations, and providing education and training to industry professionals. This organization could also settle disputes handling arbitration and mediation of between investors and impact investment firms. Thereby maintaining the integrity of the impact investments (preventing impact-washing) and protecting investors.

    b. Create a centralized loan servicing system to effectively manage and administer loans on behalf of lenders or investors to enhance the overall performance of loan portfolios, reduce default risk, and provide timely information to lenders or investors, thereby contributing to the accuracy and profitability of the lending operation.

5. **Orchestration**: In Asia, Member States can coordinate with impact investment enabling organization such as UN DESA and AVPN to promote the impact investment fairs at the national and regional levels, to foster connections and partnerships among investors, project developers, governments, and development finance institutions within the SDG investment ecosystem. For example, Member States can increase participation in existing opportunities such as the Annual UN DESA SDG Investment Fair, which links investors with sustainable projects in emerging markets, and the Annual AVPN Global Conference, which connects entities in the social investment sector in Asia. All players in the impact investment sphere can:

    a. Promote and advocate National SDG prioritized investments for development in the context of countries national development and decarbonization policies.

    b. Develop and incentivize private/public, digital and analog mechanisms to:

        i. Extend the collaboration momentum from SDG Investment Fairs using asynchronous channels to enhance matchmaking and deal closing outcomes.

ii. Foster inter-investor and intra-project collaboration and partnerships.

iii. Actively advertise and promote stakeholder engagement in regional and international SDG investment encounters and fairs.

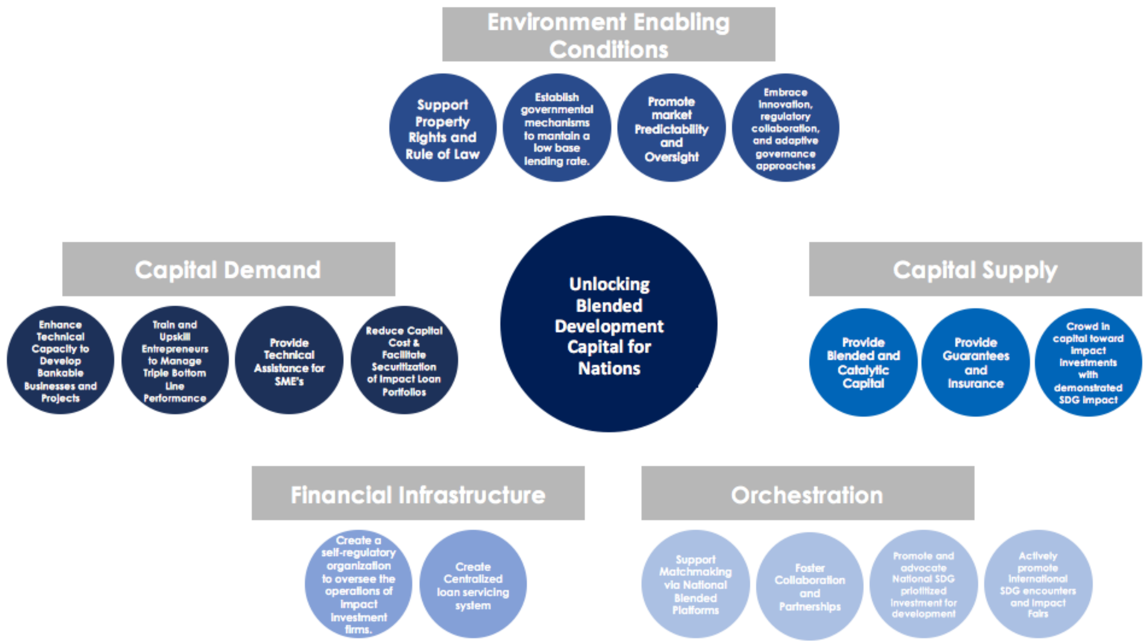

Figure 4: Key Pillars and Strategies to Scale-Up Catalytic Investments for Impact Investments in Asia

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8. Appendix

Appendix A: Impact Investor Questionnaire

Investor Questionnaire

Last updated: 2/9/24

Disclaimer: The following questions can be answered in writing or during the interview. SIPA researchers will use the answers provided exclusively for the purposes of the Capstone project study: "SDG Projects and Impact Investor Landscape in Asia – Roadmap for Innovative Financing." The list of questions provided below may not be exhaustive, and we welcome your insights and feedback to enhance this initiative.

Note: The questions listed below are divided into four sections: firm background information, impact investment decision-making, impact investing risk management, and recommendations for policymakers and other stakeholders (feel free to leave comments and skip questions that might not apply to your firm).

A. **Firm Background Information**

a1. Investment Preference

1. What percent (%) of the organization's resources are being delivered or projected to be mobilized toward impact investments?
2. Can you discuss the typical ticket size (USD), sector/stage preferences, and geographic focus of your investments?
3. How much has your firm worked in the regions of Indonesia, Pakistan, the Maldives, or Mauritius? Are there any projects you would like to mention?

a2. Partnership Experience

1. Does your organization have experience leveraging partnerships with other investors to mobilize catalytic capital, seed funding, guarantees and credit enhancements, technical assistance, and/or capacity building?

2. To date, how have you partnered with other entities in the impact-project space, such as governments, multilateral organizations, development banks, etc.?
3. What is your perspective on how international organizations and enabling government policies, alongside effective legal and regulatory frameworks, can boost impact investments in line with the Sustainable Development Goals (SDGs)?

a3. Insights on the Impact Investment Landscape in Asia

1. How would you describe the current impact investing landscape and its trends in Asia?
2. How do specific regional factors influence the landscape of impact investment in Asia? E.g., Government policies, natural resources, etc.
3. How do you foresee specific emerging technologies or policies influencing regional impact investing in Asia?

B. Impact Investment Decision-making

b1. Project Selection

1. What are your primary criteria for selecting impact-oriented investments?
2. Are there emerging sectors or new types of projects that you are particularly interested in?
3. Could you describe a successful impact-oriented project your firm has supported and why it was considered successful?
4. What are the top three drivers influencing your investment decision for a specific project or region?
5. Can you elaborate on how your investment criteria have evolved, especially regarding specific market trends or policy changes?
6. What are your main challenges when investing in impact projects in middle-income Asian countries?
7. How do you navigate the risks (economic, social, political) associated with these investments?
8. Regarding a project in a specific country or sector, how did you address the regulatory challenges encountered?

b2. Preferred Financing Mechanisms

1. What funding instruments do you typically use for these investments (e.g., grants, debt, equity, blended finance)?
2. What have been the most notable impacts on project outcomes using a specific funding instrument, could you name a few confirmed cases to share with us?

b3. Key Measurement of Success

1. How do you measure the success of an impact investment/SDG-related project?
2. How do you weigh impact against financial return?
3. What are the measures your firm is using to capture the materiality of your impact investments?

b4. Exit Strategy

1. What are your exit strategies for impact-oriented projects, and what are the key considerations? Below are some examples (may not be exhausted):
   - *Hold and receive dividends (financial return)*
   - *Hold and seek synergy (impact-related)*
   - *M&A opportunities (financial return)*
   - *Schedule to receive repayments of investment (financial return)*
2. You have so far invested in X projects and have taken a full exit in X projects. Can you elaborate on your exit strategy for these investments?

C. Impact Investing Risk Management

c1. Financial & Impact Returns Trade-offs

1. How do you assess the bankability of your projects?
2. What is your approach to balancing financial returns with social impact?
3. What are your long-term investment perspectives to secure, mobilize, and allocate capital in impact investments?

c2. Risk Mitigation Approaches

1. Within your portfolio strategy, which drivers determine the finance modalities and mechanisms in de-risking?
2. Within your portfolio strategy, which drivers determine the finance modalities and mechanisms in catalyzing impact investments?

3. What strategies does the organization undertake to mitigate risk while reconciling fiduciary responsibilities with impact investments?

c3. Blended Finance (if applicable)

1. Have you closed any deals using blended financing? Could you share an example and some takeaways?
2. In your experience, what drivers have contributed to the success of a project using blended finance?
3. In your experience, what constraints have you had to resolve due to using blended finance for a project?
4. Do you anticipate any future trends with respect to blended finance in the impact investment field?

c4. Other Innovative Financing Models (if applicable)

1. Are there specific innovative financing approaches or models that you find most effective?
2. How do you view the role of innovative financing models in advancing the SDGs?
3. Could you provide insights into how a specific innovative model has been effective in your recent projects?

D. Recommendations for Policymakers and Stakeholders

1. Could you substantiate/illustrate specific (tangible, actionable) policy changes that would most effectively enhance impact investments in Asia, particularly in Indonesia, Pakistan, the Maldives, or Mauritius?
2. Could you recommend prudential regulations fostering impact investment?
3. How can platforms like UN DESA's SDG Investment Fair be improved to facilitate connections between investors and projects better?

Appendix B: Analysis Tools

Tool A: Investor Profile Template

Used to organize and standardize desk research:

- Pre-Interview Research:
    - Firm Basic Information
    - Individual Profile of the Interviewee
    - Background and Experience of the Firm
    - Investment Strategy and Focus in Asia
    - SDG Alignment and Impact
    - Funding Instruments and Financials
    - Challenges and Achievements in Asia
    - Recent News and Developments
    - Additional Notes
    - Pre-Interview Analysis

Tool B: Investor Profiling Spreadsheet

Used to cross-compare collected information from desk research and interviews:

- Analyzing and Comparing Investors' Impact Investment Vehicles"
    - HQ Location
    - Key Contact Person
    - Target Investment Regions
    - Target Investment Sectors
    - (Impact) Portfolio / AUM
    - Average Ticket Size within Portfolio
    - Target Investment Stage

Appendix C: Taxonomy

Term	Description
ASEAN	Association of Southeast Asian Nations, a regional grouping that promotes economic, political, and security cooperation amongst its ten members.
AUM	Assets Under Management, indicating the total assets managed by a financial institution on behalf of investors.
Blended Finance	Blended Finance is defined as the strategic use of development finance for public and philanthropic funds to mobilize private capital flows towards achieving social, environmental, and economic impacts.
Carbon Credits	Carbon credits are permits that allow the holder to emit a certain amount of carbon dioxide or other greenhouse gases, and excess credits can be traded to incentivize overall emission reductions.
Catalytic Capital	Catalytic Capital is sourced to finance development projects that might be EBITDA-negative to stimulate private investments in sectors like healthcare, education, agriculture, off-grid energy, and climate resilience.
Concessional Capital	Concessional Capital involves more than half of the aggregated financing provided under concessional conditions, including concessional guarantees and risk insurance to de-risk investments, mobilizing investment capital in blended structures.
Corporate Social Responsibility (CSR)	Refers to a company's acknowledgment of its broader responsibilities to stakeholders—including employees, communities, and the environment—beyond just its shareholders.
DFIs	Development Finance Institutions, specialized institutions that provide finance to markets where commercial capital is scarce, particularly in developing countries.
ESG	Environmental, Social, and Governance criteria used to measure the sustainability and ethical impact of an investment in a company or business.
FSDO	Financing for Sustainable Development Office, a division within UN DESA that deals with issues related to financing sustainable development.
G20	Group of Twenty, an international forum for governments and central bank governors from 19 countries and the European Union.
GIIN	Global Impact Investing Network, a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing.
IMF	International Monetary Fund, an organization working to foster global monetary cooperation and financial stability.
Impact Investing	Impact Investing specifically targets investments to generate positive,

	measurable social and environmental impact alongside a financial return.
Impact Metrics	Quantitative and qualitative measures used to assess the social and environmental effects of investments.
Initial Public Offering (IPO)	Initial Public Offering, the process by which a private company can go public by sale of its stocks to the general public.
Internal Rate of Return (IRR)	Internal Rate of Return, a metric used in financial analysis to estimate the profitability of operations and investments.
Mergers and Acquisitions (M&A)	Mergers and acquisitions, the consolidation of companies, including their assets and debts, to achieve synergies and enhance value.
MDBs	Multilateral Development Banks, international financial institutions that provide financial support for economic and social development.
PE	Private equity involves acquisition or investment in private companies to improve their performance, and profit from the sale or public offering of those businesses.
PPP	A long-term contract between a private party and a government entity, for providing a public asset or service.
Return on Investment (ROI)	Return on Investment, a measure of the efficiency of an investment.
SDG-aligned investments	Investments made with the intention to directly support the achievement of Sustainable Development Goals alongside financial returns.
SDG Investment Fair	A platform for showcasing sustainable investment opportunities and fostering investor engagement with SDG-aligned projects.
SDGIF	SDG Investment Fair, an event organized to foster partnerships between investors and sustainable development projects.
SDGs	The Sustainable Development Goals, include 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all" to achieve the 2030 Agenda for Sustainable Development.
SMEs	Small and medium-sized enterprises are businesses that maintain revenues, assets, or employees below a certain level, with specific quantitative criteria varying across geographies.
Social Enterprise	Social Enterprise refers to organizations that apply commercial strategies to maximize improvements in financial, social, and environmental well-being—this may include maximizing social impact alongside profits.
UN DESA	United Nations Department of Economic and Social Affairs, responsible for promoting and supporting international cooperation to achieve development goals.
UNCTAD	United Nations Conference on Trade and Development is an organ of the

	United Nations General Assembly, established to promote trade, investment, and development in developing countries.
USAID	United States Agency for International Development, an American governmental agency responsible for administering civilian foreign aid and development assistance.
VC	Venture Capital, a form of private equity and financing that investors provide to startups and small businesses that are believed to have long-term growth potential.
Venture Philanthropy	Venture Philanthropy uses a high-engagement and long-term approach to philanthropy that involves financial and other support to scale solutions that address societal challenges.

Appendix D: Key Interviewees

Logo	Organisation	Website
BlueEarth CAPITAL	Blue Earth Capital	https://blueearth.capital/
BlueOrchard Impact Investment Managers Member of the Schroders Group	Blue Orchard Finance Ltd.	https://www.blueorchard.com/
Heritas Capital	Heritas Capital Management Pte. Ltd.	https://www.heritascapital.com/
Impact Ventures by J&J Foundation	Impact Ventures by J&J Foundation	https://impactventures.jnj.com/
INSITOR	Insitor Partners	https://www.insitorpartners.com/
Kaizenvest	Kaizenvest	https://www.kaizenvest.com/
KKR	KKR	https://www.kkr.com/
QUADRIA CAPITAL	Quadria Capital	https://quadriacapital.com/
responsAbility	responsAbility Investments AG	https://www.responsability.com/
Save the Children Global VENTURES Save the Children	Save the Children Save the Children Global Ventures	https://www.savethechildren.net/ https://scgv.org/
UOB Venture Management	UOB Venture Management Private Limited	https://www.uobvm.com.sg