BEYOND THE MARGIN

REDIRECTING ASIA’S CAPITALISM

Avantage Ventures
creating social change capital
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**About Avantage Ventures**
Avantage Ventures is an Asian-based social investment company with offices in Beijing and Hong Kong. Its mission is to support entrepreneurship and local economic development as prime drivers of poverty alleviation in the region. We have identified a gap for a new asset class – companies in need of what we call ‘missing market finance’. These are organisations that typically need investments of between USD0.5 to USD3 million and are committed to addressing social and environmental needs through innovative social businesses. We have identified education, healthcare, rural development and energy as key sectors in Asia which represent the most pressing issues and economic opportunities of our time. Our unique approach seeks to deliver a set of returns that balances social and/or environmental outcomes with financial performance. Avantage Ventures’ focus is to provide capital and management support to local entrepreneurs, as well as nurture their organisations as they work towards financial sustainability – with the ultimate goal of creating a sustainable future for poor and marginalized groups in Asia. Avantage Ventures was founded by Yvonne Li and Chandran Nair in 2008.

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FOREWORD

Asia is home to over half of the world’s population. Its economies have among the fastest growth rates in the world, but in many countries the vast majority still live below the poverty line. The area also hosts some of the most polluted environments. There are always two sides to every coin.

The Pacific Basin Economic Council (PBeC) was founded in 1967, as nations across the Pacific Basin faced such dual-sided dilemmas. While the region held vast untapped potential, problems such as soaring debt, internal conflicts, and protectionist economic policies left many countries in the region economically paralyzed. Moreover, despite being in dire need of investment to develop their burgeoning industries, no real framework existed to facilitate regional cooperation. PBeC was formed to address this need and stand as the voice of business in the region. Business leaders across the Pacific Basin banded together to advocate for free trade and investment, as well as to foster dialogue among business leaders—all based on the belief that such mutual interdependence would spur economic growth.

Now, over 40 years later, as wealth surges into Asia’s emerging markets, the region faces a new set of challenges. The rapid growth that has swept through the region, while uplifting many, has still left many others behind. Increasing levels of consumption threatens to push the region’s resources to the brink of disaster. Unbridled development and construction has more often than not led to environmental degradation.

If Asia is an economic powerhouse, then its businesses are its engines. In particular, its small and medium enterprises (SMEs) stand as crucial components, necessary to oil the wheels of Asia’s booming economies. They belong to a segment of businesses often referred to as the “Missing Middle”—one that has been relatively untapped by investors. This is an area that Avantage Ventures’ report, Beyond the Margin, highlights. This report reveals that not only do SMEs account for 90% of the Asia’s businesses and 60% of its employment, but they also provide critical services to underserved populations across the region. As investment in these socially responsible SMEs, or “impact investment”, takes off in the Asia Pacific, demonstrating its viability as both a financial and social opportunity, Beyond The Margin is pertinent for investors, policymakers, and civil society alike.

As we stand in the throes of Asia’s economic transformation, it is more important now, than ever before, for business leaders to build linkages that will propel the region’s growth forward both equitably and sustainably. It is essential for business leaders to interact among themselves and with others in order to secure the future development of private enterprises throughout the region.

PBeC strongly endorse Beyond The Margin to its members, and also calls on governments and policymakers throughout the Pacific Basin to join with the private sector in promoting and developing true public-private partnership structures that will support socially responsible investment. As the emerging economies of the Asia-Pacific region continue to grow, we seek to ensure that the two sides of Asia’s coin will become more balanced.

Warren Luke, Chairman, Pacific Basin Economic Council (PBeC)

ACKNOWLEDGEMENTS

Avantage Ventures would like to thank the generous individual and institutional supporters who made this report possible.

Interview Participants
A number of leading impact investment industry players contributed their invaluable time and expertise to this report. In particular, we are indebted to Margot Brandenburg, Agnes Daswicez, Anamitra Deb, Jed Emerson, J. Skyler Fernandes, Avishek Gupta, Wolfgang Hafenmayer, Nina Jatana, Randall Kempner, Scott Lawson, Patrick Maloney, Chandran Nair, Kevin Robbie and Peter Scheuch for the insight they provided for our report.

Survey Participants
To ensure the relevance and significance of our findings, Avantage Ventures surveyed a number of impact investing professionals, social entrepreneurs, professional services, investment intermediaries, non-governmental organisation professionals and international government organisations. We extend our sincerest gratitude to the Asian Development Bank, Amariann Advisory Ltd, Artha, Aureos Capital, Bamboo Finance, Blended Value Group, British Council China, East Meets West Foundation, FYse, Hong Kong Social Entrepreneurship Forum, Hong Kong Council of Social Services, Impact Investment Exchange Asia, Imprint Capital, Lien Centre for Social Innovation, Oikocredit, SA Capital Limited, Social Ventures Hong Kong, The Lemelson Foundation, Unitus Capital and Work Together Foundation and the 17 other organisations and individuals for sharing their knowledge with us.

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Special thanks go to Louis Bowen, Margot Brandenburg, Jed Emerson, Justina Lai, and Chandran Nair for contributing their reviews, revisions, and feedback—all of which have been instrumental in shaping this report.

Any errors or omissions are the sole responsibility of the authors.
EXECUTIVE SUMMARY

Asia's economic growth of the last few decades has lifted hundreds of millions of people out of poverty, and improved the lives of billions more. However, continuing down the path that has spurred economic development to date – driven by investment and profit-maximisation – can only end in environmental and social calamity. Persistent pollution and unfettered resource consumption, paired with growing income inequality and multi-dimensional poverty, will reverse the region's growth achievements and decrease social stability.

A key solution to the quandaries of stimulating development and creating sustainable livelihoods can be found in “impact investing” – the deployment of private capital to create positive impact that goes beyond financial returns alone.

This report explores the role that impact investing can play in the developing countries of the Asia-Pacific. It examines its potential market, as well as the challenges that must be overcome in order for its key benefits to be realised.

It is primarily aimed at three audiences. First, socially minded investors looking for new and better ways to channel their financial resources. Second, companies searching for emerging-market opportunities that offer them exposure to the social and environmental needs that underpin development in the Asia-Pacific. Lastly, it seeks to encourage existing and would-be impact investing practitioners to understand that there is no shortage of capital in Asia, but they will need to reach out to investors with attractive offerings.

This report also strives to raise awareness of a new breed of investors – one with the common objective of addressing Asia’s pressing needs, and which is willing to engage, exchange ideas and learn from one other.
Impact Investing in Asia-Pacific

Avantage Ventures believes that the principal target for investors looking for new business opportunities should be “social enterprises”, or small and medium-sized enterprises (SMEs) that have explicit social missions and development strategies.

Our research has identified six key sectors that would particularly benefit from impact investing. We estimate that between now and 2020, the total amount of investment needs for social enterprises in these six sectors will be between USD4.4 billion and USD7.4 billion. If invested, that money could unlock a market demand of between USD52 billion and USD158 billion.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Demand Opportunity (USD billion per annum by 2020)</th>
<th>Expected Profit Margin</th>
<th>Expected Profit (USD billion per annum by 2020)</th>
<th>Invested Capital (USD billion)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Lower Limit</td>
<td>Upper Limit</td>
<td>Lower Limit</td>
<td>Upper Limit</td>
</tr>
<tr>
<td>Affordable Housing</td>
<td>11</td>
<td>33</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>6</td>
<td>17</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Rural Energy</td>
<td>1</td>
<td>4</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Rural and Elderly Health Care</td>
<td>16</td>
<td>50</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Primary Education</td>
<td>17</td>
<td>50</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Agri-business</td>
<td>1</td>
<td>4</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>158</td>
<td>6</td>
<td>25</td>
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Currently, however, most social enterprises in these sectors suffer a lack of funding as they fall into the “Missing Middle” – a critical financing gap in the USD500,000 to USD3 million investment range that is deemed too large for philanthropy, too small for multilateral aid and too risky by financial institutions.

We believe that the necessary investment can be found from a particular segment of the investing world: Asian high net worth individuals (HNWIs). HNWIs invested in the Asia-Pacific now stand at USD8.6 trillion, or USD28% of total assets held by HNWIs globally. If Asian HNWIs were to redirect just 1% of all their investments to social enterprises, these businesses would have all the financial resources they need to grow.

At the same time, companies that have invested in or are looking to invest now in the Asia-Pacific cannot ignore the immense social and environmental trends in the region; instead, they must become more engaged. By investing in and supporting social enterprises, they can seize the opportunities within the region to move beyond traditional notions of giving and make a real difference. The amount of foreign direct investment (FDI) destined for Asia in 2010 stood at USD274.6 billion. If 1% of these total inflows – or USD2.75 billion – could be used towards impact investing in the Asia-Pacific, it would satisfy the investment need of social enterprises. In doing so, companies can build new local markets, attract new customers, align selected business strategies with the priorities of Asian governments, generate profits based on fair social and environmental costs, and simultaneously generate enormous positive social and environmental impacts.

Many challenges hinder the development of social enterprises in Asia. The most critical of these are weak social sector infrastructure, difficulty in identifying and evaluating social enterprises, and a lack of capability in overseeing post-investment management. Key to addressing these existing challenges will be the creation of an efficient capital marketplace. Bringing together investors, companies, practitioners and policy makers who understand the need to move beyond giving – as well as the risk and complexity of social finance – can facilitate much-needed social progress and economic development. This report acknowledges the reality of these challenges and provides initial recommendations for how social enterprises, practitioners, investors and companies might overcome them – both independently and in partnership with one another.

Investing for a Sustainable Future

These challenges notwithstanding, there is no better time to invest in the social enterprises of Developing Asia than now. Despite the global financial crisis and continuing economic problems in the US and Europe, Asia’s leading economies have continued to perform strongly. Asian private wealth is now uniquely positioned to catalyse change and create a new era of development in the region. If invested smartly in the needs of the future, a small amount of the total available capital can be deployed to help tackle the region’s most pressing challenges.

Companies that have invested in or are looking to invest now in the Asia-Pacific cannot ignore the immense social and environmental trends in the region; instead, they must become more engaged.

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While the rising tide of economic development in Asia has not lifted all boats and has arguably left many behind in harsher conditions, impact investment can provide a wide range of opportunities for enlightened investors to make a real difference to billions – and in the process create some of the future’s most valuable businesses.
Overview of the Asia-Pacific

Asia embraces some of the world’s greatest cultural, economic, and ecological diversity. Home to 3.6 billion people living everywhere from huge urban centres to remote rural villages, almost every country in the region is undergoing a profound socio-economic transformation.

But despite major improvements in average prosperity – including the emergence of large and growing middle classes in the region’s two giants, China and India – hundreds of millions of people still live in extreme poverty. Asia harbours 62% of the world’s hungry and more than 70% of its malnourished children. The number of impoverished people (those living on less than USD1.25 per day) in South-Asia is double that of Sub-Saharan Africa. Beyond the poor, other disadvantaged communities, such as the disabled or the geographically distant, also remain unable to access the benefits of global markets and fail to receive adequate attention from their governments or from the international community.

If growth continues as forecast, private and government consumption will have a major impact on the world’s natural resources. Asian countries will have to find an alternative to fossil fuels for their energy needs if they are to avoid exacerbating the effects of climate change in the region. Meanwhile, ongoing environmental degradation can only continue to erode the region’s natural ecosystems, depriving future generations – particularly large populations in rural communities – of a healthy environment, and possibly even of their livelihoods.

1 World Hunger Education Service (WHES) 2011 World Hunger and Poverty Facts and Statistics

ASIA AS AN IMPACT INVESTMENT DESTINATION

Home to 3.6 billion people, almost every country in the Asia-Pacific region is undergoing a profound socio-economic transformation.
Developing Asia

This report is focused on Developing Asia, which, as defined by the International Monetary Fund (IMF), consists of various countries in North-East Asia, South-East Asia, South-West Asia and the Pacific (see Chart 1.1).2

Bottom-of-the-Pyramid Population

The Asia-Pacific region has experienced strong economic growth for many years, successfully lifting 600 million people out of poverty since 1990. However, a significant proportion of Developing Asia’s population continues to lack access to basic social infrastructure and amenities. Often referred to as the “bottom of the pyramid” (BoP) population,3 this segment of society is most affected by income inequality and multi-dimensional poverty.

INCOME INEQUALITY

On an aggregate level, approximately 1 billion people in Developing Asia have access to less than USD1.25 per day.4 Chart 1.2 highlights the fact that 65% of India’s population and 50% of China’s population still live on less than USD1.25 a day. The gap between the poorest and the upper-middle and wealthy classes is only expected to grow larger in the future as the Gini coefficients5 in the majority of these economies trend upwards. It is imperative for governments, non-profits and private corporations alike to collaborate in finding measures to improve the livelihoods of these impoverished populations.

THE WEB OF ‘MULTIDIMENSIONAL POVERTY’

The United Nations Development Programme (UNDP) Multidimensional Poverty Index measures poverty beyond just inadequate income – couching it in terms of the three key parameters of health, education and living standards. About one-third of Developing Asia’s population suffers from multi-dimensional poverty. Chart 1.3 reflects the impact of income disparity on the poorest of the poor. More than 50% of the people in India, Bangladesh, and Pakistan suffer from multi-dimensional poverty, another 10% to 20% are at risk. Overall, about 1.1 billion people in Developing Asia suffer from multi-dimensional poverty, with 77% of these people in China and India alone as of 2008.

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3 Bottom of the Pyramid (BoP) refers to the 2.5 billion people who live on less than USD2 per day as defined by Professors C.K. Prahalad and Stuart K. Hart in their books The Fortune at the Base of the Pyramid and Capitalism at the Crossroads, respectively. The bottom of the pyramid (BoP) is the largest but poorest socio-economic group of an economy. The phrase bottom of the pyramid is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology.
4 By purchasing price parity (Asian Development Bank, 2009).
5 Gini-coefficient of inequality (GInI) was developed by the World Bank; it is the most commonly used measure of inequality. GInI varies between 0, which reflects complete equality and 1, which indicates complete inequality.
SLOWING GDP PER CAPITA GROWTH RATES

Over the past five years, countries in Developing Asia have reported high economic growth – and therefore high GDP per capita growth numbers. However, over the next five years, GDP per capita growth is projected to decelerate significantly. As population growth is expected to remain close to current levels, this will create an ever-growing low-income community. Chart 1.4 highlights this transition amongst the eight major Developing Asia economies.

Slower GDP per capita rates in the region will make it harder for marginalised populations in Developing Asia to catch up and make a transition from the bottom of the pyramid to emerging middle class.

Other Developmental Challenges

Beyond the factors affecting the BoP population, other externalities arising from rapid economic development will severely impact the livelihoods of Developing Asia. Key amongst these are, first, the emergence of middle classes in countries across the region, and second, the impact of unbridled economic development on the environment.

ASIA’S EMERGING MIDDLE CLASS

Regional growth is set to remain robust in the coming years, with China and India expected to continue as the region’s pace setters. Fuelled by years of strong economic performance, the emergence of Asia’s middle class and their growing appetite for energy, resources and goods will have major implications on development in the region and worldwide.

ACM Homes – Makati, Philippines

Long plagued by housing backlogs, the housing market in Philippines has been under immense stress, with only 1 million houses constructed per year compared to the growing demand for over 4 million. In addition, the oligopoly of large land holding families has rendered affordable housing scarce. The few affordable housing projects in existence largely focus on capturing the Overseas Filipino Worker (OFW) market, leaving many Filipinos marginalised. Recognising this need, ACM Housing (ACM) was founded in 1992 in hopes of resolving this issue.

In the past 19 years ACM has grown to carve out a niche in the Philippines, developing 15 affordable housing projects covering approximately 100 hectares in the provinces of Cavite and Batangas. ACM has gained the status as not only the leading real estate player in its segment, but also one that provides innovative homes with price points realistically matched to buyers’ income levels. ACM co-founder Antonette de Guzman explains that by focusing on this solid market for low and middle-income housing, ACM is able to help “officers and crew to fulfil their aspirations of having their own homes.”

ACM uses a unique strategy to go beyond just simply constructing houses but also designing the best ways to utilize the land to create thriving communities. Their past projects include many innovative wellness features such as community greenhouses growing pesticide-free fruits and vegetables, children’s reading rooms with regular storytelling sessions, free outdoor gyms, multi-purpose areas, and livelihood seminars for residents - all geared at helping them increase their income and self-sufficiency.

With revenues growing at 35% per annum from 2005 to 2009, it is clear that ACM has created a model that allows it to serve an unmet social need in a profitable way. Building on that momentum, ACM is currently seeking to expand beyond just the Southern Luzon area, increasing the number of homes - and the number of comfortable lives - in the Philippines.

Notes:

1) The size of the bubble indicates relative size of the GDP of these economies with reference to China using 2010 and 2015 as base years
2) CAGR has been calculated for the period 2005 to 2010 using 2010 as base year, and 2010 to 2015 using 2015 as base year

Source: IMF World Economic Outlook Database, October 2011; Modified by Avantage Ventures Analysis, 2011
Fuelled by years of strong economic performance, the emergence of Asia’s middle class and their growing appetite for energy, resources and goods will have major implications on development in the region and worldwide.

Those defined as middle class accounted for a mere 21% of Asia’s population in 1990, but increased to 56% by 2008. These people are demanding more of their governments, exerting pressure to improve social infrastructure and service delivery. They are seeking goods and services ranging from affordable housing to higher quality food to professional medical care to quality education. Where Asian governments fail to deliver these services to their middle classes, the private sector, non-government organisations (NGOs) and social enterprises will have to fill the gap.

CONSUMPTION CHALLENGE

The Asian Development Bank predicts that by 2030, Developing Asia’s annual consumption will reach USD32 trillion – amounting to nearly 43% of total global consumption. Increased adoption by Asia’s middle class of goods such as mobile phones, housing, cars and energy will help drive global economic growth and output. However, this will have profound effects on the world’s resources and the natural environment. As the book Consumptionomics warns, excessive consumption and unrestrained growth without accounting for finite resources will mean disaster for the planet.7

The World Wide Fund for Nature conducts a bi-annual scientific survey8 calculating the health of the earth and determining the ecological footprint of 150 countries. While Developing Asia is currently utilising fewer resources compared to its developed counterparts, its current “under-consumption” is not remotely sufficient to offset resources being consumed by other developing nations worldwide. Hong Kong, for example, is consuming the equivalent of one and a half times what is sustainable.9

If Developing Asia’s ever-growing population were to follow Western-style consumption-led economic growth, all the planet’s resources – such as food, commodities and fossil fuel – would be depleted.10 Yet, many Asian governments are racing to secure land to ensure food and natural resource security, while the pollution resulting from such human-led production and consumption continues to exert great pressure on the environment.

ENVIRONMENTAL CONCERNS

Fast-growing Asian cities currently suffer from a multitude of environmental problems, including increasing carbon emissions, air pollution, deforestation, and a limited supply of safe drinking water. While there is much talk of mitigating environmental pollution, as the countries of Developing Asia race towards economic prosperity and political stability, few concrete steps have been taken.

Air pollution is perhaps the most immediately visible problem. Most large cities in Asia – including Beijing, Hong Kong, Manila, Jakarta and Bangkok – are struggling to cope with this issue. Inhabitants of these cities have become more aware of the negative effects of airborne toxins on human health. Yet, while decisions related to combating environmental issues are intensely political, their impact is becoming increasingly difficult to deny. The Asian Development Bank noted in a 2002 assessment that environmental degradation was costing Asian economies as much as 8% of growth – primarily stemming from unsustainable natural resource use and damage to human health.

CLIMATE CHANGE CHALLENGE

The impact of climate change, especially rising sea levels and extreme weather, will particularly affect coastal countries and small island states in the Pacific. Acute weather changes will produce floods, droughts and even breed new diseases, threatening the survival and well-being of these countries. The possible long-term risks include a shift in arable land and the emergence of climate change refugees from island nations or low-lying areas as they become increasingly uninhabitable.

While governments are aware of these risks and have largely been supportive in discussions to protect their natural resources and the livelihoods of their large rural populations, there is still insufficient political will and popular outcry for more stringent measures to be taken. To date, only the Alliance of Small Island States – for whom climate change is already being acutely manifesting as coastal erosion, flooding, and extreme weather events – is rallying for global action.11

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7 (Asian Development Bank, 2010)
8 (Neat, 2015)
11 (Clean Ganga, 2002)
There is now a significant opportunity – as well as a tremendous humanitarian imperative – to fund socially oriented enterprises in the Asia-Pacific region.

Social Enterprises in Asia
To address the developmental and environmental issues that confront Asia, a rapidly growing number of socially oriented small and medium-sized enterprises (SMEs) – typically referred to as “social enterprises” – have sprung up across the region. Traditionally, fostering a dynamic SME sector has been seen as a priority for economic development in developed and emerging economies alike. SMEs contribute significantly to an economy’s growth, fuelling grassroots development, providing employment opportunities and furthering middle class expansion. According to the Asia-Pacific Economic Cooperation, SMEs account for 90% of the region’s businesses and 60% of its employment.

Over the last few decades, more and more Asian entrepreneurs have harnessed the power of SMEs to create socially and environmentally focused companies. These organisations seek to fill the void left by under-resourced governments ill equipped to meet their citizens’ demands. To address the needs of their fellow citizens, home-grown entrepreneurs are tapping local knowledge and networks to provide innovative market-based solutions. From providing treatment to dyslexic children in China to offering vocational training to street children in Vietnam to improving medical care to rural India, social enterprises are unlocking local markets and offering vital goods and services to underserved communities across Asia.

Beyond their social and environmental goals, social enterprises face the additional challenge of finding working capital to support and expand their endeavours. As a result, there is now a significant opportunity – as well as a tremendous humanitarian imperative – to fund such socially oriented enterprises in the region.

(Assia-Pacific Economic Cooperation)
SPECIAL NEEDS EDUCATION

Beijing LangLang Learning Potential Development Centre

In China, little attention has been paid to dyslexia, a learning disability that affects 10% of its children or roughly 15 million persons. Parents with dyslexic children at times blame schools for not teaching their children how to read and write properly. In response, teachers will often penalise children with additional homework, further exacerbating the problem. As a result, these children have a tendency to develop low self-esteem and lose the ability to fit in socially with their peers. While the Chinese government is conscious of this issue, treatment of dyslexia is presently not a high priority for the education sector.

Established in 2009 by Ms. Huang Lanzi, Beijing LangLang Learning Potential Development Centre (LangLang) has grown to become the largest education centre to address this learning disability amongst primary school students in Beijing. As a social enterprise, LangLang aims to develop the industry standard for treating dyslexia, as well as assist children and parents overcome the technical, social and psychological difficulties associated with the condition. LangLang’s professional training and special programs have proven to yield positive results for students in less than one year’s time, reducing reading and writing barriers, as well as boosting self-confidence and self-expression.

Furthermore, through helping parents and teachers develop a better understanding of the neurological condition, learn to recognize the symptoms, and administer proper treatment, LangLang has been able to increase public awareness of dyslexia. As a result, affected students are able to feel better understood and accepted by their peers and local community.

In three years of operation, LangLang has established one main office in the Beijing and employs 20 professional Trainers. Over 100 students have benefitted from the training courses in five schools, and have displayed significant improvement in their reading and writing skills. The company has also educated over 20,000 parents about dyslexia and how they create a better environment for their children with dyslexia.

Beyond The Margin Redirecting Asia’s Capitalism

Spectrum of Funding Sources

A broad spectrum of investment instruments exists for investors who seek to make an impact. On one end of the spectrum are commercial investments, typically purely profit-driven and without any social purpose. On the other end of the spectrum is pure philanthropic giving by individual donors and foundations, which, due to its lack of financial accountability, generally does not solve the root of social problems. Traditionally, these two extremes have been considered mutually exclusive norms of capital deployment. Currently, however, many businesses are shifting away from narrow, profit-driven models to those with a greater focus on environmental and social issues.

Corporate social responsibility, although not a new concept, is gaining traction in the mainstream marketplace as governments, consumers, and shareholders demand better products and conduct from companies. Interest in corporate social responsibility and its financial counterpart, socially responsible investing, have grown substantially. Socially Responsible Investment (SRI) and Environmental, Social, and Corporate Governance (ESG) funds focus on large corporations who, as good corporate citizens, have engaged in corporate philanthropy, employee volunteering, promoting diversity, striving for carbon neutrality and improving supply chains.

Philanthropy, on the other hand, has been moving away from its traditional form as altruistic donations with no expectation of financial sustainability. Venture philanthropy adopts venture capital business approaches to achieving philanthropic goals.

Source: Avantage Ventures Analysis 2011
Barefoot Power, Australia

It is difficult to imagine using kerosene lamps as your only source of light or walking long distances just to charge a mobile phone or battery, but this is the plight of an estimated 1.6 billion people around the globe who lack access to electricity.

Barefoot Power, founded in 2005, hopes to break the dependence on inefficient, expensive and harmful sources of energy amongst low-income populations. This global for-profit social enterprise designs, manufactures and distributes several lines of micro solar products. Its offering of solar-powered products ranges from small desk lamps intended for students to entire home lighting systems. These products, priced at between USD15 to USD200, come in kits especially designed to allow for ease of assembly and use. As well as supplying components, Barefoot Power also trains micro-entrepreneurs and supply chain partners (including importers, distributors, static retailers, mobile entrepreneurs and micro-finance organisations) on the use and impact of the lamps, as well as ways to reach the communities that need them most.

The efforts of Barefoot Power have not gone unnoticed. Recently, it was presented with awards from the Lighting Africa Program, hosted by the World Bank and the International Finance Corporation (IFC). Its products won first place in the categories of top performance, room lighting and best value for products that cost under USD40, and came in second in the category of task lighting. Such accolades reflect its achievements in developing safe and cost-effective off-grid lighting technology to communities in need.

As one of the earliest developers of affordable LED lamps and solar panels, Barefoot Power has already impacted an estimated 1 million lives in over 20 countries. It has ambitious goals to increase the scale of its impact in the near future, continuing to brighten the lives of the bottom of the pyramid.

PRI help charitable organisations or social enterprises gain access to capital, typically with favourable terms such as zero interest or below risk-adjusted market returns.

As investors and donors mature in their understanding of various social investment models, we have seen a gradual merging to the middle – from purely socially-driven activities or purely profit-driven investing towards impact investing. We define impact investments as private capital deployed to create positive impact beyond financial return. Impact investments aim to generate reasonable financial returns while solving social and environment problems.

A number of foundations have adopted impact investing strategies in line with their social mission – also called Mission-Related Investing (MRI) – to ensure the sustainability of their endowment. Chart 2.1 depicts the spectrum of various types of funding and investment instruments available to donors and investors.

J.P. Morgan, in its November 2010 report, Impact Investments: An emerging asset class, contended that impact investments should be classified separately as a unique asset class. They base this assessment upon four considerations: (i) the requirement of unique investment and risk management skills; (ii) distinct organizational structures to accommodate this skill set; (iii) service by industry organisations, associations, and education; and (iv) the development and adoption of standardized metrics, benchmarks and/or ratings. We concur with this analysis and believe that a distinct market for impact investing is also beginning to develop in the Asia-Pacific region.

PRI is a tool used only by US foundations to leverage their philanthropic dollars through investments in the form of bridging loans, loan guarantees, lines of credit, or equity investments. PRIs will often leverage co-investment to attract traditional financial players to the table.
Currently, the leading players in impact investing in the Asia-Pacific region are the numerous clean technology firms focused on investing in renewable energy development and related technologies. Investors committed USD771 million to Asian clean technology firms in 2010, up 18% from the previous year. These investments have been bolstered by the growing need for energy globally, as well as Asian governments’ imperatives to shift their dependency from traditional fossil fuels to cleaner energy sources. This report does not discuss the clean technology sub-sector of impact investing due to the extensive existing literature available and commercial dollars already being directed towards clean technology globally. Instead, our report focuses on specific environmental sub-sectors, as well as other social sub-sectors that were selected based on their potential for high social impact.

The Missing Middle

Many social enterprises unfortunately find themselves trapped in what the South African Chamber of Commerce has called the “Missing Middle”, a critical financing gap that exists between the USD500,000 to USD3 million investment range. Within this gap lies an untapped source of economic potential – small to medium-sized businesses equipped to fill the gaps in the region’s rapid, but unbalanced economic growth. Despite this potential, there are no stable sources of capital to invest in such businesses. Below this financing range lies the realm of angel investing and microfinance; above it, government aid and private equity, as depicted in Chart 2.3. While these instruments for economic development remain key methods for uplifting the BoP and other disadvantaged communities throughout the world, Developing Asia requires additional ground-breaking ideas and investments.

Chart 2.3: Missing Middle Financing (Illustrative)

<table>
<thead>
<tr>
<th>Source: Originated from International Finance Corporation; Modified by Avantage Ventures, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Finance</td>
</tr>
<tr>
<td>“Missing Middle” in social finance</td>
</tr>
<tr>
<td>Private Equity</td>
</tr>
<tr>
<td>Leasing</td>
</tr>
<tr>
<td>Trade Finance</td>
</tr>
<tr>
<td>SME Banking</td>
</tr>
<tr>
<td>Equipment Finance</td>
</tr>
<tr>
<td>Working Capital</td>
</tr>
<tr>
<td>Microfinance</td>
</tr>
<tr>
<td>Informal/Smaller</td>
</tr>
<tr>
<td>Formal/Larger</td>
</tr>
</tbody>
</table>

(Note: This chart is based upon the IFC’s map of the SME financing landscape. Leasing and Trade Finance tend to be difficult to obtain for SMEs because they lack proper collateral. SME Banking remains a limited industry that will need to grow to meet all the needs of the “Missing Middle”)

IFMR Ventures – Incubating scalable business models

IFMR Ventures is an asset management company that launched a private equity fund called the Network Enterprises Fund (NEF), aimed at addressing the lack of access to debt funds for small, medium and micro enterprises (SMEs) in remote rural India.

It is well recognised that attempting to infuse equity capital into individual remote rural SMEs is not a scalable model as compared to enabling their access to debt funding. IFMR Ventures is focused on reducing the external risks faced by these SMEs, to make them financeable by local banks or financial institutions.

Such external risks can take multiple forms: uncertainty of the demand and prices for the enterprise’s products or services; uncertainty of the supply and prices of raw materials; lack of advanced skills; lack of affordable access to advanced technology necessary for an enterprise’s viability; exposure to environmental risks; and catastrophic risk exposure. It is not possible to address these external risks through single point interventions; instead, constructing the proper solutions requires a complete supply chain approach.

In line with this understanding, IFMR Ventures is incubating sector-specific supply chain companies. Called Network Enterprises (NE), each company has adopted a supply chain perspective to address the problems faced by SMEs in a particular sector. Each NE team conducts extensive research in its selected industry and identifies key external risks that the SMEs are exposed to. Subsequently, the NE develops a solution to mitigate and manage the risks faced by the SMEs within a sector, as well as implements a pilot to validate a business model around the delivery of the solution. Once this has occurred, the NE is funded by the Network Enterprise Fund (NEF).

The NEs currently under incubation are in the agriculture, dairy, energy, potable water and rural tourism sectors. Rural tourism is addressed through the Rural Tourism Network Enterprise (RTNE). IFMR Ventures established RTNE in 2008 as a company that aggregates and distributes information about rural tourism sites via an online web platform, with the purpose of bridging supply chain gaps between rural tourism opportunities and property owners, travel agents, and customers.

Rural homestays or educational experiences where individuals immerse themselves in local rural culture, demonstrate one of the classic problems faced by SMEs. They face tremendous volatility in revenues due to an uncertain market. It is no wonder then that they have enormous challenges accessing debt – lenders dislike volatility and seek predictability of cash flows. As discussed above, there are two ways to go about addressing this: infuse equity or minimise the root cause of revenue volatility itself.

IFMR Ventures has broadly taken the second option. A company like RTNE reduces revenue uncertainty to tens of thousands of rural homestays by providing an information and accreditation facility to potential travellers. Through RTNE’s work, property owners have improved the quality of their establishments through a greater understanding of client requirements, as well as increased revenues from advanced bookings. This provides a steady base of travellers to qualified properties. In this manner, the revenue certainty and ability to leverage debt increases for each rural homestay accredited by RTNE.

Thus, with a small investment from the NEF into RTNE, IFMR Ventures can potentially unlock growth for millions of rural homestay providers, agents and other members of the rural tourism supply chain. RTNE has helped about 400 properties find tourists and has sold over 5,000 room nights since its inception.
Neurosynaptic, India
In India, rural access to healthcare is limited by inadequate human capital, a lack of physical infrastructure and poor financing. Even primary care centres suffer from a lack of trained staff, specialty and acute care institutions, even more so. According to PricewaterhouseCoopers, the number of doctors and nurses per 1,000 people in India stands at 0.7 and 0.9 respectively – far below the world average of 1.5 and 3.3. According to the India’s National Health Policy 2002, only 24% of rural villages had access to healthcare that year, as 80% of qualified physicians reside in urban centres. However, with the advent of video-conferencing and remote diagnostic kits, thousands of villagers are now able to inexpensively receive the same level of care as their city-dwelling counterparts.

To bridge the healthcare divide for rural areas affordably, Neurosynaptic supplies information- and communication-based products and technologies that help provide access to basic healthcare to the rural Indian population. It has developed inexpensive, enterprise telemedicine solutions with equipment called ReMeDi™. The Neurosynaptic hardware is patent protected, runs on two watts of power (powered by USB) and includes readings for ECG, blood pressure, stethoscope, temperature, pulse oximetry, heart rate and pulse rate with additional features under development. Due to its low bandwidth and power requirements, the equipment can be installed in rural areas, allowing physicians to connect with remotely located patients. In addition, diagnostic software and hardware is provided, allowing doctors to offer similar levels of care and detail when attending to patients. Visits are recorded in a central database to ensure continuity and improve care quality.

By creating such a comprehensive solution at low cost, Neurosynaptic significantly improves rural access to healthcare in India. In addition to extending quality healthcare to areas that previously were unable to afford it, the system is projected to lower the cost of rural healthcare in India by a third.12

12 http://www.neurosynaptic.com/newslinks/news-1.htm

Private foundations, venture philanthropists and angel investors have been the traditional sources of seed funding for social enterprises at the idea, research and development and incubation stages. However, once an entrepreneur moves into the growth stages, funding becomes severely limited. Without collateral, social enterprises cannot borrow from commercial banks. Nor do they attract interest from institutional investors such as private equity firms or multilateral organisations, as these financial institutions deem them too small and with high transaction costs.

In support of the Missing Middle Initiative, SACCA has put together a global list of 205 funds that invest in the Missing Middle. Categorised by region, there are a total of 22 Asia focused funds – 10 of which focus on investing for social and balanced returns. Focusing on South Africa, there are a total of 25 funds, with 8 funds looking to deliver both financial and social returns to their investors. A total of 74 funds are focused on investing in the Missing Middle in Africa, out of which 28 invest for social and balanced returns. We recognize that this list may not be exhaustive, but it represents the most comprehensive publicly available list of Missing Middle funds in emerging markets that invest between USD20,000 to USD3 million.

Why Fund the Missing Middle in Asia?
Compared to other developing regions throughout the globe, Developing Asia, because of its relatively strong economic performance in recent years, has received less international attention in terms of development assistance. Among developed countries, there has even been talk of suspending foreign aid to certain Asian countries due to their rapid economic growth.13

While certain Developing Asian countries have grown significantly over the past decade, poverty remains a serious issue in the region. Compared to Latin America, a higher percentage of Developing Asia’s population lives below USD1.25 a day, with even more under USD2 a day. In terms of foreign aid, however, Developing Asia receives a much lower amount per capita from developed countries than both Latin America and Sub-Saharan Africa. Although the region hosts almost half of the world’s population, it only receives 19% of total foreign aid coming from the developed world.

The ecosystem for social entrepreneurship in Developing Asia, however, is one of the most vibrant in the world. For example, Ashoka’s Asia programs have identified nearly 600 leading social entrepreneurs in Asia – compared to around 500 in Latin America – making it the largest region in the world for entrepreneurial activity (see Appendix II). Still, investments to finance the activities of these entrepreneurs are still lacking. In an economic environment where per capita GDP is projected to grow at an average of 9.8% over the next five years, investors who invest in Developing Asia have the opportunity to receive very attractive financial returns.

13 In early 2011, a number of British Members of Parliament protested against aid to India, arguing that the country was already economically strong enough to start its own space program. The debate has since spread, with all major publications and news channels picking up on the story and conducting a wide public debate.
Chapter 3

Market Supply and Demand for Impact Investment in Asia

Beyond the Margin

Redirecting Asia’s Capitalism

To estimate the potential market size for impact investing over the next 10 years, we selected six sectors in Developing Asia that would benefit most from impact investments – a hypothesis also supported by our survey of impact investing industry players. These sectors are:

- Water and sanitation facilities
- Affordable housing
- Primary education and special needs education
- Rural and elderly health care
- Rural energy
- Sustainable agriculture and agri-business

In contrast to previous reports, such as Impact Investments: An Emerging Asset Class and The Next 4 Billion, we do not limit investment opportunities to the BoP population, nor do we extrapolate market size based only on existing consumption trends. We believe SMEs with strong social missions that target consumers with incomes higher than the BoP population are also important; they also have the potential to affect positive social change.

Our methodology to estimate total opportunity for impact investors focuses on sizing the potential demand in 2020, and is summarised in Diagram 3.1.

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Demand Methodology

To estimate the potential market size for impact investing over the next 10 years, we selected six sectors in Developing Asia that would benefit most from impact investments – a hypothesis also supported by our survey of impact investing industry players. These sectors are:

- Water and sanitation facilities
- Affordable housing
- Primary education and special needs education
- Rural and elderly health care
- Rural energy
- Sustainable agriculture and agri-business

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Our methodology to estimate total opportunity for impact investors focuses on sizing the potential demand in 2020, and is summarised in Diagram 3.1.

---

19 Avantage Ventures surveyed 38 impact investing professionals, social entrepreneurs, professional services, investment intermediaries, NGO professionals and IGOs.
21 (World Resources Institute, 2007)
Sample of Demand Methodologies

This chapter highlights the water and sanitation sector. A detailed analysis of the other five sectors can be found in Appendix I.

**WATER AND SANITATION FACILITIES**

In the water and sanitation sector, we evaluated the percentage of the population without access to improved water sources and sanitation facilities based upon Asian Development Bank estimates. The results are highlighted below in Chart 3.2.

### TOTAL MARKET DEMAND BY SECTOR TO BE CAPTURED BY SOCIAL ENTERPRISES BACKED BY IMPACT INVESTORS

- **Identify current underserved population**
  - Leveraging World Bank, IMF, WHO and other databases - identify size of population without access to services, whether it is due to income, geography or infrastructure constraints

- **Estimate target per capita expenditure**
  - Multiply quantity by target per capita expenditure to be achieved in the next 10 years
  - Estimate based upon local and international benchmarks (except in the case of sustainable agribusinesses)

- **Estimate percentage of demand captured**
  - Estimate percent penetration by 2020 (e.g., 100% access to sanitation)
  - Estimate percent of demand captured by impact investing - typically 5-15% of total demand

Source: Key indicators for Asia and the Pacific 2010, Asian Development Bank, August 2010

### WATER AND SANITATION FACILITIES

Affordable Clean Water and Sanitation: PPP Model in Vietnam

Each year, more than 20,000 people die in Vietnam due to poor sanitation, water quality and hygiene. District hospitals throughout the country continuously face inadequate deliveries of clean water, hindering their ability to provide quality healthcare services to the local community. The lack of wastewater treatment facilities also places the local community under substantial health risks from the untreated waste-water discharged by hospitals. About 70% of district hospitals in Vietnam do not have access to potable water and 50% of district hospitals’ wastewater is not treated before being discharged into waterways. In 2008, 7 million diarrhea cases, 2.4 million cases of scabies, helminthes, hepatitis A and trachoma and 0.9 million malnutrition-related cases were reported. More than 9,000 deaths per year occur in Vietnam due to diarrhea-related diseases among women and children in rural areas - populations whose health is affected the most by poor sanitation.

To tackle these problems, the Vietnamese government has set a target for 85% of its rural population to have access to clean water. A Public-Private Partnership (PPP) model amongst civil society, government and private sectors has been proposed to build water and sanitation plants in Ha Nam and Nam Dinh provinces in order to provide clean water and water treatment for district-level hospitals. Under the PPP, provincial government agencies have key enabling roles, including providing favourable policies such as operating rights with rent-free land, allowing water extraction free of charge and tax reduction. Meanwhile, international NGOs will provide technical assistance, and even capital in some cases. Together with the private sector’s expertise in operations, the PPP model provides an avenue to meet a key component of Vietnam’s public health needs.

It is estimated that this model could bring extensive health, economic and social impact to communities by reducing child mortality rates and the incidence of water borne diseases, simultaneously decreasing health costs for communities and empowering women.
Our estimate for this sector’s market demand assumes that the proportion of the population in Developing Asia without access to improved water and sanitation facilities will be cut in half by 2020. In the original United Nations Millennium Development Goals (UNMDG) report, the target was to reduce the proportion of the population without access to improved water and sanitation facilities by half between 1996 and 2015. By 2008, nearly a third of the countries in Developing Asia had already reached that goal. We project that in the coming 10 years, a similar feat can be achieved with impact investment. Based on estimates from the UNMDG report, global per capita expenditure on water and sanitation each year is USD8 and USD28, respectively. Table 3.3 details our calculations of total demand for the top eight Developing Asia countries for the water and sanitation sector.

### Table 3.3: Market Size Estimations on Water and Sanitation Services, 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Population, 2020 (Millions)</th>
<th>% with Access to Improved Water</th>
<th>% with Access to Improved Sanitation</th>
<th>Total Demand at 50% Penetration (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>193</td>
<td>80%</td>
<td>53%</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>1,421</td>
<td>85%</td>
<td>55%</td>
<td>42</td>
</tr>
<tr>
<td>India</td>
<td>1,379</td>
<td>88%</td>
<td>31%</td>
<td>38</td>
</tr>
<tr>
<td>Indonesia</td>
<td>282</td>
<td>80%</td>
<td>57%</td>
<td>7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>208</td>
<td>92%</td>
<td>45%</td>
<td>6</td>
</tr>
<tr>
<td>Philippines</td>
<td>109</td>
<td>91%</td>
<td>76%</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>68</td>
<td>98%</td>
<td>96%</td>
<td>2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>100</td>
<td>94%</td>
<td>75%</td>
<td>3</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>562</td>
<td>74%</td>
<td>62%</td>
<td>113</td>
</tr>
<tr>
<td>Total</td>
<td>1,336</td>
<td></td>
<td></td>
<td>158</td>
</tr>
</tbody>
</table>


Assuming 5% to 15% of this demand will be met by social enterprises backed by the impact investing community, we estimate the total opportunity will lie between USD6 billion and USD17 billion in 2020.

### Summary of Market Demand by Sector

By determining the potential growth of each sector, and that 5% to 15% of each sector is ideally positioned for impact investments, we estimate the potential market size in Developing Asia that can be captured through impact investing will be between USD52 billion to USD158 billion by 2020. Table 3.4 summarises our findings, illustrating that affordable housing, primary and special needs education and rural and elderly healthcare are the top three sectors with the greatest market opportunity for impact investments.

**Methodology to Estimate the Supply of Invested Capital**

The demand potential of the six sectors highlighted in the previous section is only attractive if such demand can be profitably developed by entrepreneurs and funded by investors. In each of the sectors, there are sustainable models scattered throughout Asia — several of which we have highlighted in case studies throughout this report.

**Chart 3.5: Methodology for Estimating Invested Capital Required**

The methodology we use to calculate the invested capital required to satisfy the above market demand is depicted in Chart 3.5. We first multiply the total demand of a sector by the estimated profit margin of a model social enterprise from that sector. We then divide that figure by 10% to 20% return on equity (ROE) in the year 2020. Our calculated equity for 2020 is further discounted through the use of an average cost of capital of 13% to 18%.

Our calculations and assumptions are more conservative than current emerging markets ROE for average investments, such as those in Impact Investing: An Emerging Asset Class. We employ a higher cost of capital than traditional emerging market investments due to the riskier nature of many impact investments, typically comprised of early-stage and small enterprises with less sophisticated management capacity. Furthermore, we employed a case study methodology to estimate the average profit margins by sector in 2020. Case studies were selected based upon successful models with proven track records that have already been deployed in Asia.26

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23 For detailed information on individual sectors, see Appendix I.

24 In most cases, we have leveraged case studies from J.P. Morgan’s report, Impact Investments: An Emerging Asset Class.
Summary of Invested Capital by Sector
Table 3.6 summarises the invested capital required for each sub-sector based on the above formula. Based upon this methodology, we project the present value of required invested capital over the next 10 years to be between USD44 billion and USD74 billion, with the potential to generate an expected profit of between USD6 billion and USD25 billion per annum.

Table 3.6: Invested Capital and Expected Profit by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Demand Opportunity (USD billion per annum by 2020)</th>
<th>Expected Profit Margin</th>
<th>Expected Profit (USD billion per annum by 2020)</th>
<th>Invested Capital (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lower Limit</td>
<td>Upper Limit</td>
<td>Lower Limit</td>
<td>Upper Limit</td>
</tr>
<tr>
<td>Affordable Housing</td>
<td>11</td>
<td>33</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>6</td>
<td>17</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Rural Energy</td>
<td>1</td>
<td>4</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Rural and Elderly Health Care</td>
<td>16</td>
<td>50</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Primary &amp; Special Needs Education</td>
<td>17</td>
<td>50</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Agriculture and Agribusiness</td>
<td>1</td>
<td>4</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>158</td>
<td>6</td>
<td>25</td>
</tr>
</tbody>
</table>

Sources of Capital
As previously noted, the sources of funding for impact investments in Asian markets are limited, with few organisations targeting socially minded SMEs. To fully realise the potential of this market, private and corporate investors will need to step up and address the financing of investments in the Missing Middle. Such financing will help move early stage social enterprises beyond the concept incubation stage and into scalable organisations. We believe the required capital to accomplish these goals already exists in the marketplace. Here we focus on two categories of private investments: (1) high net worth individuals, and (2) strategic social investments.

Rationale for Private Investments
Private investment driven by high net worth individuals (HNWIs) is an investor segment that is ideally suited for social enterprises. HNWIs have the ability to quickly mobilise funds due to their high levels of investable wealth. The size of a typical “Missing Middle” finance deal is also suitable for this investor group. Moreover, while HNWIs are traditionally no strangers to philanthropy, they are also likely to be successful entrepreneurs or professionals who appreciate the financial sustainability of social enterprises.

According to the 2010 Capgemini/Merrill Lynch World Wealth report, the total financial wealth of HNWIs was USD39 trillion globally. Some 22% of that total is allocated to investments within the Asia-Pacific region, amounting to USD8.6 trillion.24 Assuming only 1% of HNWI investments in Asia-Pacific were directed towards impact investments in social enterprises, the total required invested capital of USD40 billion to USD75 billion for our six sectors.

Asian Family Office – Evolving Towards Impact Investing
Historically, Annie’s family office was managed like many others, with an investment arm to grow the assets and a philanthropic arm to make charitable grants. Annie, one of the principals of the family office, wanted to donate a larger portion of her wealth towards charitable causes and began attending philanthropic conferences to gain knowledge and ideas. In 2008, Annie learnt about impact investing at a social enterprise conference in Hong Kong. Seeing the potential of impact investing as a longer-lasting, sustainable solution to developmental problems, it became a defining moment for her. She felt as if she had finally found a way to “connect my heart with my head”.

Annie’s family office conducted extensive research and eventually obtained the services of a Zurich based SRI advisor in 2009. With the help of the advisor, they developed an asset allocation strategy and migrated her portfolio towards socially responsible investments across all asset classes. Annie also continues to make direct grants and supports various social entrepreneurship activities in Asia in parallel.

Annie has taken a proactive approach to realocating her resources and continues to seek investment opportunities and companies whose raison d’etre is to make a positive contribution to society, act in a socially and environmentally responsible manner, and try to do right by their stakeholders. Early in 2011, a US-based advisor joined the advisory team to develop a unifying strategy for both the philanthropic and investment components of the portfolio to achieve blended returns.

Annie’s goal is to ensure that her wealth will be invested to generate positive impact. She believes that impact investing allows her the opportunity to align her assets with her personal values.

Results / Impact of this Project
The family office has now completed the initial stage of re-allocating Annie’s portfolio and will continue to diversify across asset classes and geographies to produce a portfolio that delivers both financial and social returns. Return expectations have been determined for each asset class as well as at the portfolio level. ESG criteria have also been put in place, against which the performance of the portfolio will be measured.

While Annie’s approach is to engage the advisory services of experts and to leverage the experience of professionals, she has also navigated the impact investment field by working very closely with the people involved in the social enterprise sector. She believes in following her instincts and taking time to ensure that the people she chooses to work with are genuine and able to deliver the social impact and financial returns that she is seeking.
Profile

IMC Group – Emphasizing Community Engagement
IMC Group is a privately owned, Asia-focused company providing a full range of services for its clients. It has diversified interests in business areas such as shipping, shipyards, marine capital, logistics, offshore engineering, mining, energy, trading and lifestyle real estate.

Owned by the Tsao family, IMC Group has more than 9,000 employees representing some 18 nationalities worldwide. Headquartered in Singapore, it has a major presence in China, Thailand, Australia, Indonesia and Malaysia, as well as representative offices in Japan, Korea, Hong Kong, India, Philippines, USA, Middle East and South Africa.

As with most wholly owned private family businesses, the Tsao family is able to wield considerable influence over the culture, ethics and direction of IMC Group. Its current chairman, Frederick Tsao, believes that business sustainability requires major reforms. The Tsao family maintains that businesses are formed to fill gaps in society and meet the needs of the surrounding community. As such, they should serve these same communities. However, many companies today have become so focused on their bottom line that they no longer play the role for which they were originally founded.

In line with Mr Tsao’s convictions, the mission of IMC Group is “to serve human well-being and create wealth at the same time.” Business is an intrinsic part of society and cannot be separated. It is IMC’s belief that when a business invests in social needs, it can be equally, if not more, profitable than if it had not done so.

Underpinned by the Group’s vision to be a sustainable business, Mr Tsao established East West, an important unit within IMC, whose main role is to provide the research, learning, prototyping, and guidance required for business and leadership to build a sustainable company. In the area of leadership, it aims to rediscover business and personal relationships in the wider community and beyond. In the area of research and prototyping, the main focus is on social enterprise as the business model for sustainable development.

Results / Impact of this Exercise
This is a transformational exercise for the IMC Group, with the ultimate goal of changing its business model to ensure that the Group takes up its proper role in society. The enduring impact of this transformation will be new business leadership with a mindset conducive to leading a sustainable organisation. While any transformation will result in some turbulence in the short-run, in the long-run such growth will benefit not only the Group, but also the wider community and society.

CompanIeS

“Business is about serving community needs and having a return; it’s by people for people.”
– Mr. Frederick Tsao, Chairman of IMC Group

Simply put, the solution to Asia’s impact investment needs can be found within Asia itself.

RATIONALE FOR STRATEGIC SOCIAL INVESTMENTS
Inspired in part by The Fortune at the Bottom of the Pyramid by C.K. Prahalad, an increasing number of companies have taken note of the potential for products and services directed towards the world’s low-income citizens. In particular, companies seeking new markets and growth are increasingly looking for business models that can serve large rural populations. A notable example is Arogya Parivar, an Indian rural healthcare initiative established by Novartis in 2006. Commended for providing critical products to neglected populations, they were also able to significantly boost rural sales of their products. Novartis’s rural program improved healthcare awareness, diagnostic capabilities and treatments for a variety of diseases widespread in India by combining healthcare education with access to affordable medicines at local pharmacies. Other businesses that have successfully targeted BoP populations include Coca-Cola’s low cost powder-based beverage Vitingo and DuPont’s Solae soy protein.

26 (Kulkarni, 2011)
Companies can create a great deal of impact, tap new local markets, generate profits and align themselves with governments’ socio-economic strategies for relatively little cost.

Such trends were further explored in early 2010 by the Harvard Business Review in articles by Michael E. Porter and McKinsey’s Dominic Barton. Though not originators of these ideas, both businesses strategists highlighted businesses that “created shared value” and “maximised stakeholder and not just shareholder benefits.” They believe that such businesses not only possess a viable and competitive strategy, but also a profitable one. Examples include Toyota’s successful sales of the Prius hybrid vehicle, Starbucks’s and Nestle’s directly sourcing their coffee from farmers, and Monoprix’s supermarkets’ utilising barges to move their products. Continuous promotion of such practices in mainstream business is likely to influence other companies to move beyond CSR publicity stunts and become genuinely engaged community stakeholders who balance maximisation of profits with societal and environmental benefits.

From a purely financial standpoint, impact investing in Asia is a relatively low cost investment strategy. In 2010, the United Nations Conference on Trade and Development (UNCTAD) estimated that the total amount of foreign direct investment (FDI) destined for Asia stood at USD274.6 billion. Of this, FDI into China was estimated to be USD101 billion, or 37% of the region’s inflows. To put this into context, due to the size of the market no more than 1% of these total inflows – or USD27.45 billion – could be used for impact investing. As a whole, companies can create a great deal of impact, tap new local markets, generate profits and align themselves with governments’ socio-economic strategies for relatively little cost.

Differences in Methodology

The methodologies that this paper and its research utilize to estimate the market demand and the required supply of invested capital to capture this demand are different from those employed in two leading impact investing reports: J.P. Morgan’s Impact Investing: An Emerging Asset Class, discussed above, and Monitor Institute’s Investing for Social and Environmental Impact. J.P. Morgan takes year ten demand as a proxy for total invested capital over the ten-year period. Such an approach would put total annual market demand opportunity by 2020 in Developing Asia as 12% to 15% of the global opportunity. The Monitor Institute, estimates that 1% of all global assets under management in 2008 will be allocated to impact investing within the next five to ten years, equating to a USD500 billion opportunity. Monitor’s approach would result in an invested capital total for Developing Asia of 8% to 15% of the total investment opportunity. In contrast, we have adopted a more conservative estimate for Developing Asia of roughly 8% to 10% of total global investment opportunity.

26 (Porter, 2011). The idea of value consisting of financial, social and environmental components was first introduced by Jed Emerson in 2000 as “blended value.” Emerson has explored those ideas in numerous papers and articles over the past decade.
Overcoming the Challenges Facing Impact Investing in Asia

In evaluating the potential for impact investing in the Asia-Pacific, it is important to be aware of challenges that may increase deal costs and create additional risk for investors. This chapter highlights the key challenges hindering the impact investing industry, as well as basic recommendations and trends to help overcome these weaknesses. We have broadly classified these challenges into three categories: (1) weak social sector infrastructure, (2) obstacles in deal sourcing, and (3) difficulties in post-investment execution, all of which are summarised in Chart 4.0.1.

Weak social sector infrastructure, obstacles in deal sourcing and difficulties in post-investment execution are the main challenges hindering the impact investing industry.
Week Social Infrastructure

Across the Asia-Pacific region, the social sector is much less developed than in North America and Europe. A primary obstacle hindering its development is that without established regulations, robust information and investment intermediaries available to ease risks and facilitate impact investments, investors are unwilling to commit funds. Meanwhile, without genuine interest and funding from investors, policy makers are unlikely to change policies and intermediaries lack the revenues to operate sustainably. However, what is encouraging for the impact investing sector in the Asia-Pacific is the growing awareness of social enterprises and interest demonstrated by private investors, combined with an increasing number of intermediaries to promote their cause. Our recommendation is to target the following three major barriers that are preventing the development of a healthy social infrastructure in the region.

LACK OF SOCIAL ENGAGEMENT

Despite the growing number of high net worth individuals (HNWIs) in the Asia-Pacific region, social and environmental engagement still lags behind most Western societies. India and China are ranked just behind the US in terms of number of billionaires. Yet, by global standards, Asia’s record in charitable giving is small. Charitable giving by Asians directed towards their immediate communities and families is strongly entrenched in their cultures. However, few openly support public causes. According to the Hudson Institute’s research, current philanthropic giving – which we are taking as an indicator of social engagement – stands at about 0.1% of GDP in China, 0.6% in India, and 2.2% in the US.47 While it is common to see an outpouring of donations in response to natural disasters such as China’s Sichuan earthquake of 2008, the Southeast Asian tsunami of 2004, Pakistan’s floods of 2010, and most recently with Japan’s Fukushima earthquake, fewer dollars have been directed towards development projects addressing fundamental societal concerns.

Organisations actively seeking to engage public awareness towards philanthropic giving include China’s One Foundation, Singapore’s Lien Foundation and the US’s Bill and Melinda Gates Foundation. In late 2010 to early 2011, Bill Gates and Warren Buffet hosted exclusive dinners with some of the wealthiest individuals in China and India in a bid to influence Asian tycoons to donate their wealth. Despite a global road show and high expectations, many Chinese and Indian HNWIs declined the invitation. Among the reasons for the failure to raise philanthropic dollars in China were that many of the country’s rich would find it socially inappropriate to draw attention to their wealth, that they already had a long history of supporting their ancestral villages, and that they were opposed to the overt and public manner in which Americans donate.

Given the trend towards increased giving, and with it, increased professionalism, accountability of Asian philanthropic entities and monitoring of projects post donation, it is our hypothesis that a stronger social sector will develop in the region. This trend is further supported by an increasing awareness of philanthropy, elevating income levels and increasing interest from the Asian diaspora in giving back to their home countries. With time, this increased engagement will help the impact investing industry to flourish.

47 (Bain & Company, 2010, p. 2)
Social enterprises in Thailand have been around for quite some time. In fact, they have a strong presence in Thailand, with a recent survey indicating that over 116,000 social enterprises are currently operating throughout the country. Yet, an unclear definition of what constitutes a social enterprise allows many different kinds of organisations to be classified as such—from non-governmental organisations (NGOs) to community groups. This is further complicated by the nation’s regional segmentation, with social enterprises in different regions tackling different issues. For instance, social enterprises in and northeast Thailand have tended to focus more on food security and other agricultural issues, while those in the coastal south tend to address environmental and maritime matters. As a result, the social enterprise industry is disjointed, under-developed, and not well known among the greater public.

To address these issues, the Thai government established the National Social Enterprise Committee in 2010. This decision was spurred by a study of international models of social enterprise development conducted by the Thai social enterprise advisory firm, ChangeFusion. The study illustrated that, among several developed countries with strong social enterprise sectors, the role of government was central in systematically supporting and substantially investing in these sectors. In addition, the study also identified the need for a clear definition of social enterprises, the need for establishing intermediary organisations to promote social enterprises, the need for establishing intermediary organisations to promote social enterprises, and the need to address environmental and maritime matters. As a result, the social enterprise industry is disjointed, under-developed, and not well known among the greater public.

The Thai government has high hopes for the social enterprise sector, and it is optimistic that it will comprise at least one-third of total national income within a decade. By setting up a national social enterprise committee—and by developing a vibrant impact investment ecosystem to fund its enterprises—Thailand may be moving one step closer to fulfilling that aspiration.

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National Village and Urban Development Fund for investment, employment and income generation in the country. It has also established a National Social Enterprise Committee, chaired by the prime minister and dedicated to promoting sustainable development. In Singapore, the government supports Social Innovation Park Ltd, a not-for-profit organisation that incubates social entrepreneurs worldwide in order to bring positive innovations to both individual lives and societies.

In China, there is a lack of explicit policy support from the government for social enterprises. China has a relatively young civil society, and the government is carefully developing and controlling its social sector. However, Chinese authorities are serious about fostering stable and sustainable growth, as well as curbing environmental pollution. In its 12th Five Year Plan, released in March 2011, China aims for a far-reaching transformation of its fast-paced economic development model into a more sustainable one. There are also strong calls in the plan for innovation (which Premier Wen Jiabao admits is a weakness for China) and a broader distribution of wealth. To mitigate climate change, China plans to implement preferential tax policies aimed at cutting carbon emissions per unit of output by 17% by 2015. It is also looking to enforce new environmental taxes and encourage the development of a local carbon market.

While these Asian impact investing policy movements are encouraging, they are a far cry from the regulatory infrastructure that supports impact investing in Western countries. In Holland, for example, tax breaks for capital gains from environmentally beneficial investments were established more than 15 years ago. The UK government created a distinct corporate status for “Community interest Companies” in 2005, establishing a format for organisations that prefer not to be set up as either charities or ordinary companies. Similarly, in the US, the “Benefit Corporation” is a new form of corporate entity already available in Virginia, New Jersey, Maryland and Vermont. Having a distinct corporate status for social enterprises is beneficial in many ways including branding, continuity of purpose, reassurance to stakeholders and discounts for certain products or services. Without policy, one cannot have incentives, practice, and compliance. As a result, policy changes such as these are important to expanding the impact investing industry in Developing Asia. As governments become increasingly aware of the role social enterprises are playing in empowering disenfranchised communities—such as in the UK, US and Holland—there is hope that similar policies will evolve in Asia to strengthen the development of its social sector. Until then, we believe there is a strong need for industry associations, research institutions and other stakeholders to actively advocate for changes to existing policies.

**FRAGMENTATION OF PLAYERS**

Beyond policy, furthering the development of impact investing infrastructure in Developing Asia...
The level of awareness surrounding impact investing in Asia has remained largely uncoordinated, primarily due to the lack of a key Asian driver and motivator.

Asia requires the creation of well-coordinated industry associations and investment intermediaries. Currently, there are a number of organisations in the region committed to promoting impact investing as a way to spur social change.

Academic institutions in the region are breeding a new class of social entrepreneurs and helping them improve their skills. Ateneo de Manila University in the Philippines offers a module on social entrepreneurship and has spun off a social enterprise incubation centre. Similarly, Hong Kong University hosts the Hong Kong Social Enterprise Incubation Centre, and the National University of Singapore has established the Centre for Social Entrepreneurship. The British Council has a number of social entrepreneurship training and incubation centres throughout the region in China, Vietnam and Indonesia.

Other social entrepreneurship and environmental networks are facilitating future investable social enterprises by organizing social enterprise business plan competitions and mentorship programmes. Notable mentions include the Hong Kong Social Entrepreneurship Summit in Hong Kong, the World Resources Institute's New Ventures in Indonesia and India, and Thai Young Philanthropist Network's Social Enterprise Incubator in Thailand. Furthermore, there exists a collection of advisory intermediaries such as Intellecap, Unitus Capital, Virtue Ventures, Villagegreens, ChangeFusion and Avantage Ventures who focus on providing advisory services to social enterprises, as well as access to capital.

However, such activities that promote social entrepreneurship and impact investments are small when benchmarked against similar such efforts in the UK and US. Efforts by the Rockefeller Foundation to boost the global impact investing industry are commendable, as are its efforts to support and create common platforms where industry players can come together to foster interaction, learning and collaboration. However, the level of awareness surrounding impact investing in Asia has remained largely uncoordinated, primarily due to the lack of a key Asian driver and motivator. As in many newly developing industries, the fragmented nature of the impact investing marketplace has resulted in the duplication of efforts as various market players define their unique roles within the space. As impact investing gains critical mass in the region, there is reason to believe that industry coordinators will emerge to corral players into a more organised market structure.

**Difficulty in Deal Sourcing**

Beyond the political and cultural challenges facing the industry, impact investing requires the identification of investable targets in order to attract investors. However, there are several challenges hindering deal sourcing. These include an unclear definition of social enterprises, lack of data, language barriers and a disconnect between social enterprises and investors.

**UNCLEAR DEFINITION OF SOCIAL ENTERPRISES**

Currently, there is no universally recognised and standardised definition for social enterprises. For operational purposes, social enterprises targeted for impact investing should meet three critical criteria:

- Satisfy an existing market demand that is currently unmet by government, charities or business;
- Have an explicit social mission and provide measurable social or environmental impacts to society;
- Have the potential to be sustainable businesses and scale impact.

**British Council – Building the Future of Social Enterprise Leadership**

The British Council, founded in 1934, is the United Kingdom’s international organisation for educational opportunities and cultural relations. It is run as a charity and operates at arm’s length from the UK government. The British Council is present in over 100 countries worldwide and its activities can be classified into learning, arts, science and society.

“Skills for Social Entrepreneurs” is a large-scale global project initiated by the British Council. Due to run until 2012, it focuses on work in selected developing countries, including China, Indonesia, the Philippines, Vietnam, and Thailand. Its purpose is to equip NGO practitioners, community leaders, young people and potential or existing social entrepreneurs with the skills to adopt business approaches that meet social needs and strengthen local communities.

The project provides social enterprise training for people who are working to make a difference in their communities. They, in turn, will be able to set up businesses, or apply business practices to their organisations that can lead to new employment opportunities, more wealth and better social services for their communities.

**CHINA**

The “Skills for Social Entrepreneurs” project aims to train 600 existing or potential social entrepreneurs in China by 2012. The pilot phase of the project took place between June 2008 and March 2009, during which the British Council partnered with YouChange (China Social Entrepreneurship Foundation) to develop a pilot training for 50 participants from different parts of China. The training, which included an award scheme, was held in Beijing in March 2009. Eventually, seven organisations won a total of RMB500,000 sponsored by YouChange. Meanwhile, Non-Profit Incubator (NPI) will offer one-year incubation opportunities to two organisations based in Beijing. The project was formally launched in China in June 2009. In partnership with YouChange and Narada Foundation, the British Council delivered four training courses from September to November 2009 with nearly 120 participants. The training has been expanded to additional cities, including Shanghai, Chengdu and Shenzhen.

**INDONESIA**

AGF-BIC CEC is a competition organised by the British Council and the Arthur Guinness Fund in Indonesia. The competition invites community-based social entrepreneurs in Indonesia (both start-ups and semi-established) to compete for capacity building and networking opportunities, as well as grants worth a total of up to IDR600 million. The first competition was a big success, with over 500 community entrepreneurs participating. The AGF-BIC Community Entrepreneurs Challenge Wave II will be held this year.

**VIETNAM**

The British Council is partnering with the Centre for Social Initiatives Promotion and Social Enterprise in Vietnam to promote social entrepreneurship. Together, these organisations work to raise awareness of the benefits of social enterprises; support start-ups with information, advice, and matching funding needs; and provide learning and mentoring programmes in social enterprise development based on UK and international experiences.
The Rockefeller Foundation – Enabling Industry Development

Established in 1913, The Rockefeller Foundation has been working to expand opportunities and strengthen resilience to social, economic, health and environmental challenges within the United States and around the world. All the initiatives draw on the Foundation’s commitment to nurture innovation, pioneer new fields, expand access to and the distribution of resources, and, ultimately, generate sustainable impact on individuals, institutions, and communities.

Approach to Impact Investment

The Foundation recognises that it is going to take far more money than all the philanthropists, foundations and governments have to make a significant impact on improving the lives of all the poor and vulnerable people in the world. While impact investing could unlock substantial investment capital to address pressing social challenges, the basic systems and networks necessary to efficiently identify, vet and monitor investments are not yet in place. As such, the Foundation is supporting initiatives to establish this infrastructure and has formed a four-pronged strategy to:

- Build platforms for collective action that enable practitioners in the marketplace to promote the infrastructure, activities, education, research and collaboration needed for the growing industry.
- Support the development of scaled intermediation vehicles that might be able to direct the lion’s share of global capital.
- Support infrastructure development in reporting standards, deal-sharing databases, impact rating systems, and other public and private goods.
- Contribute to fundamental research and advocacy related to impact investing.

Key Learning Points/Progress to Date

The adoption of impact investing as a concept and term has exceeded the Foundation’s initial expectations.

- A number of institutions – ranging from family offices to large-scale financial institutions to governments – have established dedicated impact investing units. Many of them see themselves as leaders of a nascent industry, and they are increasingly collaborating through formal and informal channels.
- The basic market infrastructure required for an efficient and effective industry is being established.
- Larger and more diverse intermediaries exist to channel capital from investors to companies and organisations that deliver social and environmental benefit.

The challenge the Foundation now sees for the industry is to ensure that the term “impact investing” retains analytic value and does not become diluted. In addition, it is eager to support industry leadership and market infrastructure in regions outside the US and Europe. It also seeks to promote widespread use of the standards, rating systems, deal databases and other forms of infrastructure that have been seeded over the past three years.

There are numerous social enterprises spread across the globe, and a substantial number of them exist in the Asia-Pacific region. However, these organisations are not easy to identify. Many, if not most, do not categorise themselves specifically as social enterprises, and thus are not always captured within the network of contacts linking various social sector players. Others are often borne out of non-profit organisations and do not actively seek profit generating models despite the potential to become self-sustainable.

LACK OF DATA

Adding to the difficulty of identification is the challenge of obtaining verifiable data to help calculate the potential for the impact and growth of social enterprises. It also significantly increases the level of risk that investors must take when evaluating a potential social enterprise investee. Efforts to categorise and collect information about various social enterprises have begun to emerge through central repositories, such as the World Resources Institute’s centre for environmental entrepreneurship portfolio companies, B Lab’s Global Impact Investing Ratings System, companies within the Cleantech Group and the Asian Development Bank’s efforts in mapping the region’s social enterprise sector.

For the purpose of this report, we have leveraged data collected by the World Bank, IMF and other leading development organisations. However, to reduce the barriers to entry for impact investing in Developing Asia, as well as to foster greater investment in the sector, data collection must be strengthened with national metrics that track social enterprise performance, outcomes and impacts.

LANGUAGE BARRIERS

Language barriers in Asia hinder communication amongst social enterprises and investors. For many local entrepreneurs, especially outside of India, English is a second or third language. It is difficult for many Asian entrepreneurs to communicate details within their business plans and capture nuance in negotiations with investors. Impact investors need to be aware of the language and cultural differences when establishing trust for long-term partnerships with their non-English speaking Asian counterparts.

The most disenfranchised and impoverished populations typically communicate in their local dialects. For instance, there are 22 official languages and over 2,000 dialects in India, and there are more than 200 dialects in China. Not only is a grasp of a target country’s national language important for an investor to obtain the necessary market insights, but social enterprises themselves also need to develop multilingual capabilities in order to connect with target constituents as they scale up geographically. To cope with language difficulties, many social enterprises have focused efforts on educating and training local villagers to execute day-to-day operations. For example, the Indian telemedicine company Primal E-swasthya operates small clinics run out of community health workers’ homes. These health workers are usually local women who are both linguistically and culturally embedded in the fabric of the village they serve. This model allows for scalability while maintaining closeness to their target population.

DISCONNECT BETWEEN SOCIAL ENTERPRISE AND INVESTORS

Often coming from different educational, ethnic and professional training backgrounds, social entrepreneurs and investors may differ in their social mission, scale, impact and...
returns. Investors coming from traditional business and finance training may find it hard to assimilate or communicate with their investees. In our experience, social enterprises with well-thought-out commercial plans, detailed strategic plans for capital expenditures, and well-documented historical performance records are difficult to come by. The pre-investment “courting” process often requires significant resources expended on the part of the investor or investment intermediary. These are used to ensure the development of a viable business strategy, management of social entrepreneurs’ expectations, and clarity in investment negotiations. For example, many small enterprises in China not only lack adequate financial statements, but they also frequently do not understand the necessity in employing such detailed book-keeping. This complicates an investor’s due diligence process.

Long-term partnerships between investors and investees in the form of mentorship or continuous training would greatly benefit social enterprises. Investors acting as a soundingboard and even offering advice on development strategy, would greatly assist social enterprises. Capacity building of social enterprises via continuous training of key business skills would also be relevant to social entrepreneurs. There are a number of different intermediaries that offer such training at the early stage, but fewer offer them at the post-investment stage. Incubation of social enterprises by investors or intermediaries will ensure targets reach a level of professionalism that will instil confidence and attract new impact investors.

Challenges in Managing Portfolio Enterprises

When investing in social enterprises, or any organization for that matter, investors must be conscious of the challenges that growing organizations face during the post-investment stage. While the following issues in post-investment identified here are not exclusive to impact investments in Developing Asia, it is important to include them for completeness.

**Benchmarking Social and Environmental Impact**

A widely noted challenge in impact investment is the difficulty in appropriately measuring and valuing social impact. There is currently a lack of a common language and understanding of terminology. The Global Impact Investor Network (GIIN) in partnership with the Rockefeller Foundation, Acumen Fund and B Lab have been spearheading the Impact Reporting and Investment Standards (IRIS) project. IRIS is slowly becoming the unified standard behind which various industry stakeholders are measuring impact.

In preventing mission drift, investors and social enterprises will need to balance and manage the trade-offs between financial gain and social and environmental impact. While social enterprises are maximising their double and triple-bottom lines, assigning impact targets and comparable values to the impact created must be thoroughly discussed between the investee and investor. For example, in determining the strategic direction of a social enterprise, we must question how, for example, a BiP telemedicine enterprise determines its service price. Is it based solely on the cost of service provision or does it take into consideration the population’s “willingness-to-pay”? This potential for mission drift was publically vilified during recent controversies concerning microfinance institutions (MFIs) in India. Sparked in part by the July 2010 initial public offering

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31 Mission drift occurs when a non-profit or social enterprise finds that it has moved away from its core and/or original mission.
SVhk and Diamond Cab – Coaching an Enterprise for Excellence

Diamond Cab was founded in February 2010 to provide transportation for wheelchair-disabled individuals in Hong Kong. Operating as a for-profit enterprise and supported by Social Ventures Hong Kong (SVhk), Diamond Cab runs a fleet of five wheelchair-friendly cabs in Hong Kong. SVhk is a Hong Kong start-up venture philanthropy organisation dedicated to providing both financial and non-financial support to social enterprises.

Before establishing Diamond Cab, its CEO, Doris Leung, recognised the large market gap for wheelchair-friendly transportation when her mother became disabled. Upon learning of SVhk’s idea for disabled transportation in 2007, Doris worked with them to develop the idea of Diamond Cab. Diamond Cab was selected as a target project due to its innovative ability to create scalable social impact, high level of engagement with SVhk, financial viability, sound management and operations and compliance with business and legal regulations.

Diamond Cab received investments through SVhk’s Capital fund, which is financially supported by individual philanthropists, family foundations and corporate foundations. Diamond Cab has received pro-bono business consulting services from volunteers of the 30s Group, as well as from SVhk network through weekly working groups. Through the SVhk network, Diamond Cab established partnerships with taxi license owners to rent taxi licenses for operating the cabs. Funding was also obtained by opening the social enterprise to shareholders, which include taxi operators and elderly home groups.

Diamond Cab operates as a management agent liaising between the drivers and taxi license owners, generating most of its revenues from rent charged to the taxi drivers. Diamond Cab drivers currently charge fares starting at HKD70 for point-to-point service and HKD300 per hour for hourly rentals, with the drivers collecting the fares as income after paying for fuel and rent. While SVhk is focusing its resources on the financial and social viability of Diamond Cabs, it has also been building its social enterprise portfolio with three other organisations.

Challenges in Exiting Impact Investments

The nature of impact investing requires long-term capital, with underlying mechanisms similar to those of private equity or venture capital investment. However, unlike private equity investments, impact investments may require longer holding horizons, as the enterprises are often smaller in size, younger and take longer to mature due to the aforementioned challenges in managing social enterprises. As a result, it is quite unlikely that within two to three years social enterprises will be mature enough to deliver high exit returns.

Beyond the longer holding period, a more fundamental concern exists regarding proper venues for exiting impact investments. While some social enterprises may reach a stage of development at which a traditional initial public offering (IPO) would be appropriate, IPOs are still not a viable option for many – either due to the size of the enterprise or concerns regarding mission drift under strict shareholder protection guidelines. Here, the introduction of a social stock exchange, like the Impact Investment Exchange (IIX) to be launched in Singapore in 2012, may assist in generating liquidity for this asset class. In addition, a more developed understanding of the potential of blended value may result in greater merger activity as large corporations seek to acquire social enterprises in complementary strategic industries.

Beyond the impact investment market matures to a stage at which either of these solutions becomes viable, in order to realise returns, current impact investments are largely forced to source and identify larger investors who are willing to take over such an investment.

Beyond The Margin: Redirecting Asia’s Capitalism

Intermediaries and enterprises need to restore confidence in their ability to maintain loyal to core social and environmental missions, while employing transparent metrics to demonstrate their impact.
Espousing community inclusion, environmental stewardship and capitalist pluralism, social enterprises present a new paradigm of doing business while doing social good. A successful social enterprise has to achieve two primary objectives: impact and scale. Impact refers to the positive externalities the enterprise creates that benefit society and the environment, and scale refers to the size of that impact, multiplied through growth or replication. This can only be achieved through a sustainable business model and an impact-focused drive toward innovation.

Mankind has refined the simplest and easiest to develop business models – those that externalise their costs. Social enterprises are tackling the ultimate challenge in business innovation – developing businesses that externalise benefits and do so profitably. Social enterprises also offer examples to mainstream businesses of how reconfiguring supply chains can result in profitable enterprises, able to counter climate change, poverty and disease – for instance, by using recycled, carbon-neutral, organic or fair trade products to serve the impoverished. This formidable approach to business, and to development for that matter, is truly pioneering and should be systematically supported and encouraged by society.
In the aftermath of the global financial crisis, the impact investing movement is a particularly fitting way to redirect capitalism towards a focus on the public good. Investors in economies with a mature social sector are seeing the emergence of a new asset class, providing capital and management support to sophisticated and growing social enterprises. An efficient capital market, with investors who understand the need and potential – as well as the risk and complexity – of social finance, can facilitate innovation and development in the social enterprise sector. In turn, this sector offers investors and companies an opportunity to leverage their funds toward social good in an efficient, sustainable and scalable way, providing opportunities that were perhaps not even possible a decade ago.

Our report’s approach to quantifying market demand, invested capital and potential sources of capital is encouraging. It seems that solutions may be within reach if a small amount of the global private and commercial investment destined for the Asia-Pacific region was channelled towards impact investments. Our report is focused on targeting private investors and companies as sources of capital, due to their greater amount of resources. Moreover, impact investments by private investors, companies and existing impact investment funds can complement the financial and non-financial investments being made by Asian governments, multilateral organisations and foundations.

As we highlighted earlier in this report, 1% of the existing USD8.6 trillion that HNWIs and USD2.76 trillion that companies currently allocate to commercial investments in the Asia-Pacific region would meet the required capital of USD44 billion to USD74 billion needed to alleviate the issues pertaining to housing, water and sanitation, rural energy, healthcare, education and sustainable agri-business. However, we are also calling on foundations and corporations to redirect their investments towards those that generate positive social and/or environmental impact – be it by improving community relations, empowering disenfranchised groups or enhancing citizens’ livelihoods.

We are optimistic that the impact investing sector can grow rapidly over the next 10 years despite the challenges highlighted in the previous chapter. Overcoming those challenges will require concerted efforts by all stakeholders to improve the infrastructure and processes necessary for a vibrant impact investing ecosystem. However, corporations and individuals in Developing Asia are already banding together across cultural and geographic divides to solve common problems and share knowledge. In the process, they are originating a new form of economic development – one that can generate growth without excluding communities and depleting the environment.

Addressing the issues and recommendations highlighted in this paper will not eliminate all the existing challenges hindering impact investments in Asia. It is our hope, however, that collectively the impact investment industry in the region will take concrete steps towards reducing existing complexities and improving market transparency, and in doing so encourage more investment. This report aims to start conversations amongst those interested in the future well-being of the world’s most populous region.

For Asia to realise its potential beyond the 21st century, businesses of all sizes will have to take their impact on the world far more seriously than ever before. We at Avantage Ventures believe this is a positive challenge, and one we intend to help overcome, as we recognise it is a tremendous opportunity to invest whilst serving the greater long-term good of the region.

For Asia to realise its potential beyond the 21st century, businesses of all sizes will have to take their impact on the world far more seriously than ever before.
Appendix I

Market Demand and Potential Opportunity

According to Asian Development Bank (ADB) estimates, in Developing Asia’s two most populous nations, China and India, about 83% of the rural and 97% of the urban population have access to improved water sources.\(^\text{1}\) Chart Al.1 below provides a snapshot of the access to improved water and sanitation facilities in key Developing Asia economies. It is clear from the data that the majority of Asian countries still need much improvement. In the region, India has a total of 815 million people without access to improved sanitation facilities, with 54% of the urban population and 21% of the rural population affected.

Our estimates for this sector’s market demand is based upon halving the proportion of the population in Developing Asia without access to improved water and sanitation facilities from its current level by 2020. In the original UN Millennium Development Goals (UNMDG) report, the target was to reduce the proportion of the population without access to improved water and sanitation facilities by half between 1996 and 2015. By 2008, nearly a third of the countries in Developing Asia had already reached that goal. As such, we project that in the coming 10 years, with investment, a similar feat can be achieved from current levels. Based on estimates from the UNMDG report, global per capita expenditure on water and sanitation each year is USD8 and USD28 respectively. Table Al.2 below details our calculations of total demand for the top eight Developing Asia countries for the water and sanitation sector.

Access to Water and Improved Sanitation

According to Asian Development Bank (ADB) estimates, in Developing Asia’s two most populous nations, China and India, about 83% of the rural and 97% of the urban population have access to improved water sources.\(^\text{1}\) Chart Al.1 below provides a snapshot of the access to improved water and sanitation facilities in key Developing Asia economies. It is clear from the data that the majority of Asian countries still need much improvement. In the region, India has a total of 815 million people without access to improved sanitation facilities, with 54% of the urban population and 21% of the rural population affected.

Our estimates for this sector’s market demand is based upon halving the proportion of the population in Developing Asia without access to improved water and sanitation facilities from its current level by 2020. In the original UN Millennium Development Goals (UNMDG) report, the target was to reduce the proportion of the population without access to improved water and sanitation facilities by half between 1996 and 2015. By 2008, nearly a third of the countries in Developing Asia had already reached that goal. As such, we project that in the coming 10 years, with investment, a similar feat can be achieved from current levels. Based on estimates from the UNMDG report, global per capita expenditure on water and sanitation each year is USD8 and USD28 respectively. Table Al.2 below details our calculations of total demand for the top eight Developing Asia countries for the water and sanitation sector.

Table Al.2: Market Size Estimations for Water and Sanitation Services, 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Population, 2020 (Millions)</th>
<th>% with Access to Improved Water</th>
<th>% with Access to Improved Sanitation</th>
<th>Total Demand @ 100% Penetration (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>193</td>
<td>80%</td>
<td>53%</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>1,421</td>
<td>89%</td>
<td>55%</td>
<td>42</td>
</tr>
<tr>
<td>India</td>
<td>1,379</td>
<td>88%</td>
<td>31%</td>
<td>38</td>
</tr>
<tr>
<td>Indonesia</td>
<td>262</td>
<td>80%</td>
<td>53%</td>
<td>7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>208</td>
<td>90%</td>
<td>45%</td>
<td>6</td>
</tr>
<tr>
<td>Philippines</td>
<td>109</td>
<td>91%</td>
<td>76%</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>68</td>
<td>98%</td>
<td>96%</td>
<td>2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>100</td>
<td>94%</td>
<td>75%</td>
<td>3</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>222</td>
<td>74%</td>
<td>62%</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,962</strong></td>
<td><strong>113</strong></td>
<td><strong>113</strong></td>
<td><strong>113</strong></td>
</tr>
</tbody>
</table>

Source: World Energy Outlook Report; World Bank; IEA 2010; Advantage Ventures Analysis

Assuming 5% to 15% of this demand will be met by social enterprises backed by the impact investing community, the total opportunity is estimated to be between USD6 billion to USD17 billion in 2020.

Affordable Housing

Asia has among the poorest housing finance infrastructures in the world, with 505 million people still living in slums and an increasing urbanization rate.\(^\text{2}\) South-Asia has the worst conditions in the region as per Chart Al.3, with about 212.5 million people, or 14% of the region’s population, living in slums or in housing with high person per room density.\(^\text{3}\)

---

1. Availability of at least 20 litres of water/person/day from a source within 1 km of the dwelling, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources comprise vendors, tanker trucks, and unprotected wells and springs. (Asian Development Bank, 2006)

2. Slums are defined as dwellings in urban areas with at least one of the following characteristics: (i) lack of access to improved water supply, (ii) lack of access to improved sanitation, (iii) overcrowding (three or more persons per room), and (iv) dwellings made of nondurable material. (ADB, 2010)

3. (World Bank, 2010); (UN-Habitat, 2010)
Appendix I

Market Demand and Potential Opportunity

To provide affordable housing to all those living in slums, our market size estimate available to impact investors in this sector is as follows:

- Asia has about 121 million households (or 470 million individuals) living in slums;
- Based on case studies used in Impact Investments: An emerging asset class, the average cost of a house is about USD6,000;
- We estimate a potential 30% penetration by the year 2020;
- Hence, total market size for the affordable housing sector in developing Asia is about USD219 billion.

Table AI.4 above provides the details of the calculations and estimates for developing Asia.

Table AI.4: Market Size Estimations for the Affordable Housing Sector

<table>
<thead>
<tr>
<th>Region</th>
<th>Urban Population Living in Slums (Million)</th>
<th>Average Family Size</th>
<th>Number of Affordable Houses Required</th>
<th>Number of Households (Million)</th>
<th>Demand Funds for Housing at 30% Penetration (USD Billion)</th>
<th>(Average Price of USD6,000 per unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>89</td>
<td>3.5</td>
<td>25</td>
<td>25</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>East Asia</td>
<td>190</td>
<td>3.4</td>
<td>56</td>
<td>56</td>
<td>101</td>
<td>101</td>
</tr>
<tr>
<td>South Asia</td>
<td>191</td>
<td>4.7</td>
<td>40</td>
<td>40</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Total</td>
<td>470</td>
<td></td>
<td>121</td>
<td>121</td>
<td>219</td>
<td>219</td>
</tr>
</tbody>
</table>

Appendix II

Primary and Special Needs Education

Education is a sector that will greatly benefit from impact investments. Social enterprises can increase penetration to the underserved, provide intervention for those with special education needs and improve the overall quality of education. Though most Developing Asia economies have already made significant progress in the education sector—as shown through high literacy rates, for instance—several countries in the region still have yet to offer universal education for their citizens. In Pakistan, 66% of children enrol in primary education, but only 60% of those enrolled complete their course. Bangladesh has a higher enrolment rate, at 85%, but only a 54% completion rate. Chart AI.5 provides a snapshot of the net primary education enrolment rate and the high pupil-to-teacher ratio in key Developing Asia countries.

Table AI.6 details estimations and calculations for this sector:

- Projected 100% enrolment of primary school-aged children;
- Per capita spending per student on primary education will grow to 15.4% of total per capita GDP, assuming current expenditure levels are below 15.4%;
- For countries where current expenditure exceeded the global average, current percentages were adopted.9

For example, in the Philippines, per capita expenditure on primary education is about USD170 or roughly 9% of per capita GDP. We expect that amount to grow to 15.4% of projected per capita GDP in 2020, or about USD470. This creates a market demand in the Philippines of some USD7 billion.

9 World Development Indicators Database, World Bank 2008

8 Per capita GDP by country will grow as projected by the IMF’s World Economic Outlook Database, published in April 2010.
Appendix I

Market Demand and Potential Opportunity

Beyond The Margin
Redirecting Asia’s Capitalism

Only about half of all births are attended by skilled health professionals. In China, total government health expenditure is at 80% in urban areas, despite 55% of the population residing in rural areas. We believe per capita expenditure on healthcare in rural areas should grow to match overall national average per capita expenditures in the sector. Therefore, our estimation for market size is based upon three key assumptions, detailed below:

• Ratio of rural to urban per capita healthcare expenditure is 3.5 in China and 4.3 in India;
• We assume the rest of developing Asia will have a ratio of 3.9, the average of these two countries;
• We assume that rural per capita expenditure levels will grow from current levels to match that of current national average per capita expenditure levels within the next 10 years. In India, current average annual per capita expenditure on health care in rural regions is USD21.6; we expect this amount to rise to match the current national average of USD43 dollars per person, creating total market potential of USD39 billion by 2020.

Assuming 5% to 15% of this demand is captured by social enterprises backed by the impact investing community, the total opportunity in primary education sector is estimated to be between USD17 billion to USD50 billion in 2020.

Here we have not sized the additional market created by investments into special needs education, mainly due to the difficulty in obtaining consistent and accurate statistics on prevalence rates and relative expenditures. However, special needs education still warrants attention in Asia as there is a lack of available infrastructure and understanding of such children. In both China and India, dyslexia rates are estimated to affect 10% of students. While a number of NGOs and non-profit organizations provide services to support children with special needs learning, the supply is far from adequate. The special needs education market can greatly benefit from social enterprises that utilize early intervention teaching methods.

Rural and Elderly Healthcare

Access to quality healthcare is a key concern for rural and elderly populations in Developing Asia. In the majority of countries, less than 50% of healthcare costs are publicly funded, resulting in a high out-of-pocket burden for consumers. Particularly in rural areas, many countries struggle to attract physicians, obtain medicine and provide access to diagnostic tools. Table A1.7 summarizes the performance of Developing Asia countries on key health infrastructure indicators. India’s per capita healthcare expenditure is only one-eighth of the world average, largely explaining why 5% of all infants fail to reach the age of one and that

We believe per capita expenditure on healthcare in rural areas should grow to match overall national average per capita expenditures in the sector. Therefore, our estimation for market size is based upon three key assumptions, detailed below:

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• We assume the rest of Developing Asia will have a ratio of 3.9, the average of these two countries;
• We assume that rural per capita expenditure levels will grow from current levels to match that of current national average per capita expenditure levels within the next 10 years. In India, current average annual per capita expenditure on health care in rural regions is USD21.6;
• We expect this amount to rise to match the current national average of USD43 dollars per person, creating total market potential of USD39 billion by 2020.

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• We assume the rest of Developing Asia will have a ratio of 3.9, the average of these two countries;
• We assume that rural per capita expenditure levels will grow from current levels to match that of current national average per capita expenditure levels within the next 10 years. In India, current average annual per capita expenditure on health care in rural regions is USD21.6;
• We expect this amount to rise to match the current national average of USD43 dollars per person, creating total market potential of USD39 billion by 2020.

### Table A1.6: Market Size Estimations for Primary Education, 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Per Capita GDP Spent on Education Per Student, 2010</th>
<th>Per Capita Expenditure Per Student, 2010 (USD)</th>
<th>Per Capita Expenditure Per Student, 2020 (USD)</th>
<th>Number of Students, 2020 (Millions)</th>
<th>Total Demand at 100% Enrollment, 2020 (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>10%</td>
<td>65</td>
<td>166</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>15%</td>
<td>597</td>
<td>1,813</td>
<td>106</td>
<td>198</td>
</tr>
<tr>
<td>India</td>
<td>9%</td>
<td>100</td>
<td>387</td>
<td>140</td>
<td>61</td>
</tr>
<tr>
<td>Indonesia</td>
<td>16%</td>
<td>450</td>
<td>1,209</td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td>Pakistan</td>
<td>15%</td>
<td>159</td>
<td>268</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Philippines</td>
<td>9%</td>
<td>167</td>
<td>460</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Thailand</td>
<td>21%</td>
<td>944</td>
<td>1,763</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20%</td>
<td>230</td>
<td>621</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>17%</td>
<td>558</td>
<td>593</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>359</td>
</tr>
</tbody>
</table>

*Source: World Bank; World Economic Outlook Database, IWE; Adapted by Average Ventures 2017*

### Table A1.7: Key Healthcare Indicators 2007/2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Births Attended by Skilled Health Staff (% of total)</th>
<th>Health Expenditure Per Capita (International PPP$)</th>
<th>Hospital Beds (Per 10,000 People)</th>
<th>General Government Expenditure on Health (% of Total Health Expenditure)</th>
<th>Population Aged 65 and Above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>18%</td>
<td>42</td>
<td>4</td>
<td>3.6%</td>
<td>4%</td>
</tr>
<tr>
<td>China</td>
<td>98%</td>
<td>233</td>
<td>30</td>
<td>44.7%</td>
<td>8%</td>
</tr>
<tr>
<td>India</td>
<td>47%</td>
<td>109</td>
<td>9</td>
<td>26.2%</td>
<td>5%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>73%</td>
<td>81</td>
<td>6</td>
<td>54.5%</td>
<td>6%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>39%</td>
<td>64</td>
<td>6</td>
<td>30.0%</td>
<td>4%</td>
</tr>
<tr>
<td>Philippines</td>
<td>82%</td>
<td>130</td>
<td>5</td>
<td>34.7%</td>
<td>4%</td>
</tr>
<tr>
<td>Thailand</td>
<td>59%</td>
<td>286</td>
<td>22</td>
<td>73.2%</td>
<td>8%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>88%</td>
<td>183</td>
<td>28</td>
<td>39.3%</td>
<td>6%</td>
</tr>
<tr>
<td>Global</td>
<td>66%</td>
<td>863</td>
<td>27</td>
<td>59.6%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: World Bank Database; Global Health Facts Database, Kaiser Permanente*
Table Al.8 below details the key metrics used in calculating total rural health care potential in Developing Asia for the top eight countries in the region. Estimates on rural population in 2010 and 2020 are based upon the World Economic Database created by the IMF, which already into consideration population growth and urbanization trends.

Exerting added pressure on their already strained healthcare systems, rapidly aging populations are also of major concern to many countries in Developing Asia. In 1950, Asia including developed countries, contained just 44% of the world’s elderly. The elderly population in Asia is expected to reach 62% by 2050. China alone will contribute about 25% of the world’s elderly population, with forecasts that it will be home to 181 million people aged 65 and above in 2020.

To calculate the potential market size for elderly care in Developing Asia, we estimate the ratio of per capita expenditure on healthcare by the total population to per capita expenditure on elderly care. According to the US Bureau of Labour Statistics in 2008, an average elderly American person aged 65-years and above spends about USD4,600 annually on healthcare, compared to USD3,000 for all other US population age groups. Assuming a similar ratio of 1.5 times average healthcare spending, our estimates of the market size for elderly healthcare in Developing Asia are summarized in Table Al.9.

Assuming 5% to 15% of the combined demand for elderly and rural healthcare is captured by social enterprises backed by the impact investing community, the total opportunity in the rural and elderly healthcare sector is estimated to be between USD16 billion to USD50 billion in 2020.

### Rural Access to Energy

Energy poverty is prevalent in rural areas throughout the world, but it is particularly common in Developing Asia. Roughly 38% of the region’s rural population do not have access to electricity and about 60% of the population rely on traditional biomass for cooking and heating. Not only are rural families living in the dark at night, but their only source of energy at night is through the use of kerosene oil lamps. These are dangerous, harmful to human health and damaging to the environment. The situation is particularly dire in South Asia, where rural households spend an average of USD20 per year on kerosene oil. Chart Al.10 highlights South Asia’s lower electrification rate compared with China and East Asia. The overall rural electrification rate in Developing Asia is 62%.

### Table Al.8: Market Size Estimations for the Rural Healthcare Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>17</td>
<td>3.9</td>
<td>128</td>
<td>2</td>
</tr>
<tr>
<td>China</td>
<td>142</td>
<td>3.5</td>
<td>665</td>
<td>94</td>
</tr>
<tr>
<td>India</td>
<td>43</td>
<td>4.3</td>
<td>907</td>
<td>39</td>
</tr>
<tr>
<td>Indonesia</td>
<td>96</td>
<td>3.9</td>
<td>98</td>
<td>5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>24</td>
<td>3.9</td>
<td>119</td>
<td>3</td>
</tr>
<tr>
<td>Philippines</td>
<td>71</td>
<td>3.9</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Thailand</td>
<td>42</td>
<td>3.9</td>
<td>42</td>
<td>2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>599</td>
<td>3.9</td>
<td>66</td>
<td>38</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>356</td>
<td>3.9</td>
<td>128</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>2,193</td>
<td>224</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook Database, IMF, World Bank Database, Average Venture Analysis 2011

### Table Al.9: Market Size Estimations for Elderly Healthcare

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Persons over 65 years, 2010 (Millions)</th>
<th>Target Per Capita Expenditure of Elderly, 2020 (USD)</th>
<th>Total Estimated Elderly Healthcare Demand, 2020 (USD Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>6</td>
<td>98</td>
<td>0.4</td>
</tr>
<tr>
<td>China</td>
<td>109</td>
<td>293</td>
<td>46.0</td>
</tr>
<tr>
<td>India</td>
<td>59</td>
<td>92</td>
<td>8.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>14</td>
<td>94</td>
<td>2.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>7</td>
<td>51</td>
<td>0.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>4</td>
<td>135</td>
<td>0.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>5</td>
<td>89</td>
<td>0.7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6</td>
<td>137</td>
<td>11.0</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>9</td>
<td>418</td>
<td>14.0</td>
</tr>
<tr>
<td>Total</td>
<td>219</td>
<td>332</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: World Bank Database, World Economic Outlook Database, Average Venture Analysis 2011

---

10 (Asian Development Bank, 2009)

11 Estimate of average per capita health care expenditure is adjusted based upon increases in rural per capita spending by 2020 as per previous analysis

Using biomass as a source of energy for cooking also leads to poor health in rural villages. Moreover, it also leads to environmental pressure through degradation of nearby forests and community land. Over the last decade, multilateral institutions such as the World Bank have invested billions of dollars in projects aimed at improving the energy usage profile of rural populations in developing economies. Better energy availability will lead to greater productivity and better health and education, among other improvements in their standard of living. Approximately 1.9 billion people in developing Asia rely on biomass for cooking, with the majority residing in rural India and China (see Chart AI.11).

Our estimates of the total market size for rural electrification and clean fuel cooking is based upon raising current penetration levels to 95% by 2020. Globally, rural per household expenditure on kerosene and biomass is USD120 and USD24, respectively. Detailed calculations used to estimate total market size are listed in Table AI.12.

Assuming 5% to 15% of this demand is captured by social enterprises backed by the impact investing community, the total opportunity is estimated to be between USD1 billion and USD4 billion in 2020.
Appendix I

Beyond The Margin Redirecting Asia’s Capitalism

Over the last decade, developing economies have begun to focus their efforts on agribusiness, and not simply agriculture alone. In South Asia, agriculture accounts for 25% of GDP, whereas agribusiness activities contribute more than 50% of GDP.

Sustainable agribusiness can be defined as agricultural practices aimed at increasing rural job creation and farm profitability, done to benefit farming communities and without causing damage to the environment. Agribusiness activities include agricultural inputs, farm production, agro- and food processing, food and fibre distribution, and marketing. Sustainable agribusiness allows economies with strong agricultural sectors to move up the value chain and generate higher incomes in ways that do not further damage the environment.

The data needed to measure total demand for sustainable agricultural business would require evaluating total demand for food products, as well as for goods and services along the agricultural value chain – data which is not readily available for Asia. As a result, we have identified organic farming as a segment within sustainable agribusiness that has readily available data to facilitate our demand estimations. Organic farming raises crop values and generates additional income for rural populations, making this segment particularly suited for impact investments. In 2007, about 2.9 million hectares in Asia were under organic cultivation, farmed by some 200,000 producers. We believe that the international demand for organic agriculture and the potential for developing this sector in Asia is enormous.

Each hectare of land under organic cultivation is worth an average of USD1,400 according to 2007 market size estimates, suggesting that Asia’s total organic market potential is around USD4.1 billion. Experts at the International Federation of Organic Agriculture Movements estimate that the global organic agribusiness market will grow 10% to 20% annually, fuelled by strong demand from the West as well as increasing consumption within Developing Asia. Following this assumption of 10% to 20% annual growth in organically cultivated land across the Asia-Pacific region, total organically cultivated land could grow to 74 million to 177 million hectares (See Table AI.15).

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Table AI.14: Area Under Organic Cultivation and Number of Producers, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Land Under Organic Cultivation (Hectares)</th>
<th>Share of Total Land</th>
<th>Number of Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>NA</td>
<td>NA</td>
<td>852</td>
</tr>
<tr>
<td>China</td>
<td>1,553,000</td>
<td>0.30%</td>
<td>1,000</td>
</tr>
<tr>
<td>India</td>
<td>1,030,311</td>
<td>0.60%</td>
<td>195,741</td>
</tr>
<tr>
<td>Indonesia</td>
<td>66,184</td>
<td>0.10%</td>
<td>NA</td>
</tr>
<tr>
<td>Pakistan</td>
<td>25,001</td>
<td>0.09%</td>
<td>28</td>
</tr>
<tr>
<td>Philippines</td>
<td>15,344</td>
<td>0.10%</td>
<td>NA</td>
</tr>
<tr>
<td>Thailand</td>
<td>12,120</td>
<td>0.10%</td>
<td>3,924</td>
</tr>
<tr>
<td>Vietnam</td>
<td>14,320</td>
<td>0.10%</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>2,721,083</td>
<td>202,145</td>
<td></td>
</tr>
</tbody>
</table>


Table AI.15: Projections for Organically Cultivated Land, 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Current Value of Organic Land, 2010 (USD Millions)</th>
<th>Total Organic Cultivated Land @ 10% Growth Rate, 2020 (Hectares)</th>
<th>Total Estimated Value of Organic Land @ 10% Growth Rate, 2020 (USD Billions)</th>
<th>Total Estimated Value of Organic Land @ 20% Growth Rate, 2020 (USD Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>13</td>
<td>235</td>
<td>560</td>
<td>30</td>
</tr>
<tr>
<td>China</td>
<td>2,322</td>
<td>43,017</td>
<td>102,690</td>
<td>6,000</td>
</tr>
<tr>
<td>India</td>
<td>1,511</td>
<td>27,997</td>
<td>66,834</td>
<td>4,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>68</td>
<td>1,258</td>
<td>3,003</td>
<td>200</td>
</tr>
<tr>
<td>Pakistan</td>
<td>34</td>
<td>637</td>
<td>1,521</td>
<td>100</td>
</tr>
<tr>
<td>Philippines</td>
<td>16</td>
<td>298</td>
<td>712</td>
<td>40</td>
</tr>
<tr>
<td>Thailand</td>
<td>28</td>
<td>512</td>
<td>1,223</td>
<td>70</td>
</tr>
<tr>
<td>Vietnam</td>
<td>14</td>
<td>261</td>
<td>624</td>
<td>40</td>
</tr>
<tr>
<td>Rest of DA</td>
<td>1</td>
<td>15</td>
<td>35</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>4,007</td>
<td>74,230</td>
<td>177,202</td>
<td>10,780</td>
</tr>
</tbody>
</table>

Source: The World of Organic Agriculture, Statistics and Emerging Trends, 2009; Avantage Ventures Analysis

Based on 2007 prices and our assumed growth rate for the region, land under organic cultivation in Asia can generate a market value worth USD10 billion to USD25 billion by 2020. Assuming 5% to 15% of this demand is captured by social enterprises backed by the impact investing community, the total opportunity is estimated at between USD1 billion and USD4 billion in 2020.
### Regional Comparisons

#### Table AII.1: Percentage of Population at Bottom of the Pyramid

<table>
<thead>
<tr>
<th>Geography</th>
<th>Percentage below USD1.25 a day</th>
<th>Percentage below USD2 a day</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; Pacific</td>
<td>16.8</td>
<td>38.7</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>3.7</td>
<td>8.0</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>8.2</td>
<td>17.1</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>3.8</td>
<td>16.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>40.3</td>
<td>73.9</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>50.0</td>
<td>72.9</td>
</tr>
</tbody>
</table>

Source: World Bank

#### Chart AII.2: Foreign Aid Per Capita for Different Regions

Source: World Bank

#### Chart AII.3: Total Foreign Aid Deployed by Region

Source: World Bank

#### Table AII.4: Percentage of Population at Bottom of the Pyramid

<table>
<thead>
<tr>
<th>Geography</th>
<th>Percentage below USD1.25 a day</th>
<th>Percentage below USD2 a day</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>21</td>
<td>71</td>
</tr>
<tr>
<td>Latin America</td>
<td>33</td>
<td>68</td>
</tr>
<tr>
<td>Europe</td>
<td>13</td>
<td>29</td>
</tr>
<tr>
<td>Asia</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>Africa</td>
<td>40</td>
<td>65</td>
</tr>
</tbody>
</table>

Source: World Bank

#### Table AII.5: Percentage of Population at Bottom of the Pyramid

Notes: No217, does not include 3 funds with unknown investment regions. 9 funds investing in multiple regions are counted once for each region. Data includes funds launched and publicly known to be fundraising between 2008-2010.
GLOSSARY

ANGEL INVESTOR an affluent individual who provides seed capital for early-stage enterprises, usually in exchange for convertible debt or ownership equity.

BASE / BOTTOM OF THE PYRAMID the 2.5 billion people who live on less than USD2 per day, as defined by Professors C.K. Prahalad and Stuart L. Hart in their books The Fortune at the Base of the Pyramid and Capitalism at the Crossroads, respectively.

BENEFIT CORPORATION a new type of corporation legally recognised by most state governments in the US as using the power of business to solve social and environmental problems. They are afforded legal protection to consider employees, community and the environment in addition to shareholder value in making operating and investment decisions.

COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS (CDFIs) financial institutions that utilise a community banking model to provide credit and financial services to underserved markets and populations.

COMMUNITY INTEREST COMPANY (CIC) a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

DEVELOPMENT FINANCE INSTITUTIONS (DFIs) government-backed organisations that provide capital to the private sector in order to promote economic and human development.

DISENFRANCHISED POPULATIONS marginalised communities without access to key rights and services - whether due to income, geography or mental or physical disability.

DOUBLE / TRIPLE BOTTOM LINE refers to an organisation’s desire to maximise social and/or environmental returns, as well as financial returns.

ECOLOGICAL FOOTPRINT the sum of an individual’s or other entity’s impact on the environment, based on consumption and pollution.

ESG (Environmental, Social and Governance) a generic term used in capital markets and used by investors to evaluate corporate behaviour based on environmental, social and governance factors to determine the future financial performance of companies.

GINI-COEFFICIENT OF INEQUALITY the most commonly used numerical measure of inequality. Gini varies between 0, which reflects complete equality, and 1, which indicates complete inequality. It is mathematically defined as the area between the Lorenz Curve and the line of equality, divided by the total area under the line of equality.

HIGH NET WORTH INDIVIDUALS (HNWIs) persons with investable assets (financial assets not including primary residence) in excess of USD1 million.

IMPACT INVESTMENTS private capital deployed to enterprises that “create positive impact beyond financial return”.

MICROCREDIT / MICROLOAN the extension of small loans, usually ranging from a few hundred to a few thousand US dollars, to impoverished populations in order to spur entrepreneurship. Loans are typically provided to those without access to credit from traditional financial institutions, whether due to location or lack of collateral.

MISSING MIDDLE FINANCE a term coined by the South African Chamber of Commerce in America (SACCA) to describe the lack of capital available to small businesses that require between USD0.5 and USD3 million.

Mission-related investment (MRI) making investments from either endowment or income directly in pursuit of an organisation’s charitable objectives. The investments are expected to generate a financial return, although funding may or may not be provided on commercial terms.

MULTIDIMENSIONAL POVERTY a metric developed by the United Nations Development Programme (UNDP) to measure poverty in terms of three key parameters: health, education and living standards.

PROGRAM-RELATED INVESTING (PRI) a tool used by US foundations to leverage their philanthropic dollars through investments such as bridging loans, loan guarantees, lines of credit, or equity investments. Typically provides favourable terms to the charitable organisation of social enterprise, such as zero interest or below market returns.

SMALL AND MEDIUM ENTERPRISES (SMEs) typically defined by the number of employees in a firm, but various definitions are used depending on the country. For example, in China an SME is an enterprise with 1 to 3,000 employees, total assets from RMB40 to 400 million, and business revenues from RMB10 to 300 million depending on the industry. Meanwhile, the EU considers an SME to be an enterprise with up to 250 employees and turnover of no more than EUR50 million, or a total balance sheet of no more than EUR43 million.

SOCIAL ENTERPRISES a revenue generating business whose primary objective is promoting social and/or environmental good rather than just maximising profit.

SOCIALLY RESPONSIBLE INVESTING (SRI) an investment strategy that focuses on negative screening for investments that harm society or the environment.

VENTURE PHILANTHROPY donations given as seed capital with the expectation that an organisation will reach operational sustainability through mentoring; also called “philanthrocapitalism”.


Beyond The Margin: Redirecting Asia’s Capitalism
Appendix IV

Survey Participants

Listed in alphabetical order
- Asian Development Bank
- Amanah Advisory Ltd
- Artha
- Aureos Capital
- Bamboo Finance
- Blended Value Group
- British Council China
- East Meets West Foundation
- FYse
- Hong Kong Social Entrepreneurship Forum
- Hong Kong Council of Social Services
- Impact Investment Exchange, Asia
- Imprint Capital
- Lien Centre for Social Innovation
- Oikocredit
- SA Capital Limited
- SVhk
- The Lemberton Foundation
- Urusha Capital
- Work Together Foundation

Plus 17 other participants

Interviewees

Listed in alphabetical order
- Margot Brandenburg, Rockefeller Foundation
- Agnes Dasewicz, Grassroots Business Fund
- Anamitra Deb, Monir Group
- Jed Emerson, Blended Value
- J. Skyler Fernandes, South African Chamber of Commerce in America (SACCA)
- Avishhek Gupta, RMR Ventures
- Wolfgang Hafemayer, LGT Group
- Nina Jatana, Global Institute for Tomorrow
- Randall Kemper, Aspen Network of Development Entrepreneurs
- Scott Lawson, SOW Asia
- Patrick Maloney, Lemberton Foundation
- Chandran Nair, Global Institute for Tomorrow
- Kevin Robbie, Social Ventures Australia
- Peter Schuech, Ennoven

Appendix V

About Avantage Ventures

Avantage Ventures is an Asian-based social investment company that supports entrepreneurship and local economic development as prime drivers of poverty alleviation in the region. We have identified a gap for a new asset class, or what we refer to as ‘missing market finance’. These are organisations that need small investments between USD0.5 to USD3 million, and are committed to addressing social and environmental needs through innovative social businesses. We have identified education, healthcare, rural development and energy as key sectors in Asia that represent the most pressing issues and economic opportunities of our time. Our unique approach seeks to deliver a set of returns that balances social outcomes and financial performance.

Avantage Ventures provides capital and management support to local entrepreneurs, as well as nurturing their organisations so they can work towards financial sustainability as a means of pursuing their bigger agenda - to create a sustainable future for poor and marginalized groups in Asia. Avantage Ventures was founded by Yvonne Li and Chandran Nair in 2008.

As a full service investment and advisory firm, Avantage Ventures offers:

Strategic Consultation
Avantage Ventures provides a results-oriented consultancy service to high potential social enterprises in Asia by developing management capacity, shaping business strategy, assisting with financial modelling, advising on governance structures, introducing investors and recruiting influential board members when necessary. We seek long-term partnerships with our social enterprises and will provide on-going management support and mentoring throughout the life of the investment.

Investment Advisory Services
Avantage Ventures advises investors, foundations and corporations on their social investment and sustainability strategy. We review their portfolios and match them to viable social enterprises in Asia. We conduct due diligence, social audits and evaluations of social enterprises in line with their portfolio’s mission, strategic direction, personal preferences, risk profiles and expectations of financial returns. We also provide implementation support and the tools to measure financial performance and social impact.

Impact Investments
Avantage Ventures’ Impact Investor Circle is a private network of individual investors, family offices, foundations and other institutional investors who wish to invest for social impact in Asia. Avantage Ventures sources and aggregates meaningful social investment opportunities and provides the intelligence, due diligence and research required by these investors to assist in their evaluation process.

Knowledge Contribution
Avantage Ventures contributes to the social enterprise, investment, and development industries through our research, events, and forums. We conduct deep sector dives and analyse key trends in our research. We maintain dialogue on key Asian impact investing issues through participation at events of varying sizes and by hosting an annual social investment forum in different Asian cities.
BIBLIOGRAPHY


