

Impact Investing towards ASEAN Sustainable Development Goals (SDGs)

Dr. Aya Ono

Junior Programme Manager
Trade and Investment Cluster
ASEAN-Japan Centre



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Sustainable Development Goals



Decade of Action

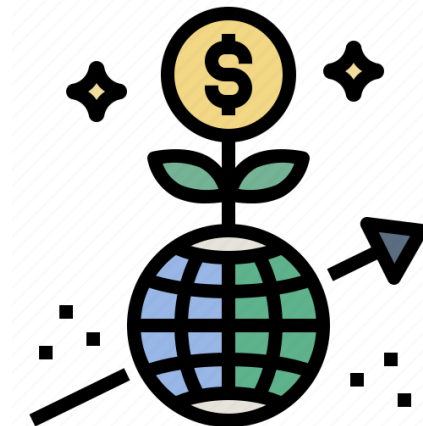
2021 - 2030

Concerted effort by ALL of us



SDGs funding gap

US\$3.3 to \$4.5 trillion



Economic recovery

from COVID-19 shock



What is impact investing?

Impact investment refers to **an investment approach that generates positive, measurable societal impact (social and environmental) alongside a financial return.** (GIIN 2020; IFC 2020)

Core characteristics include:

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

FDI vs impact investing???



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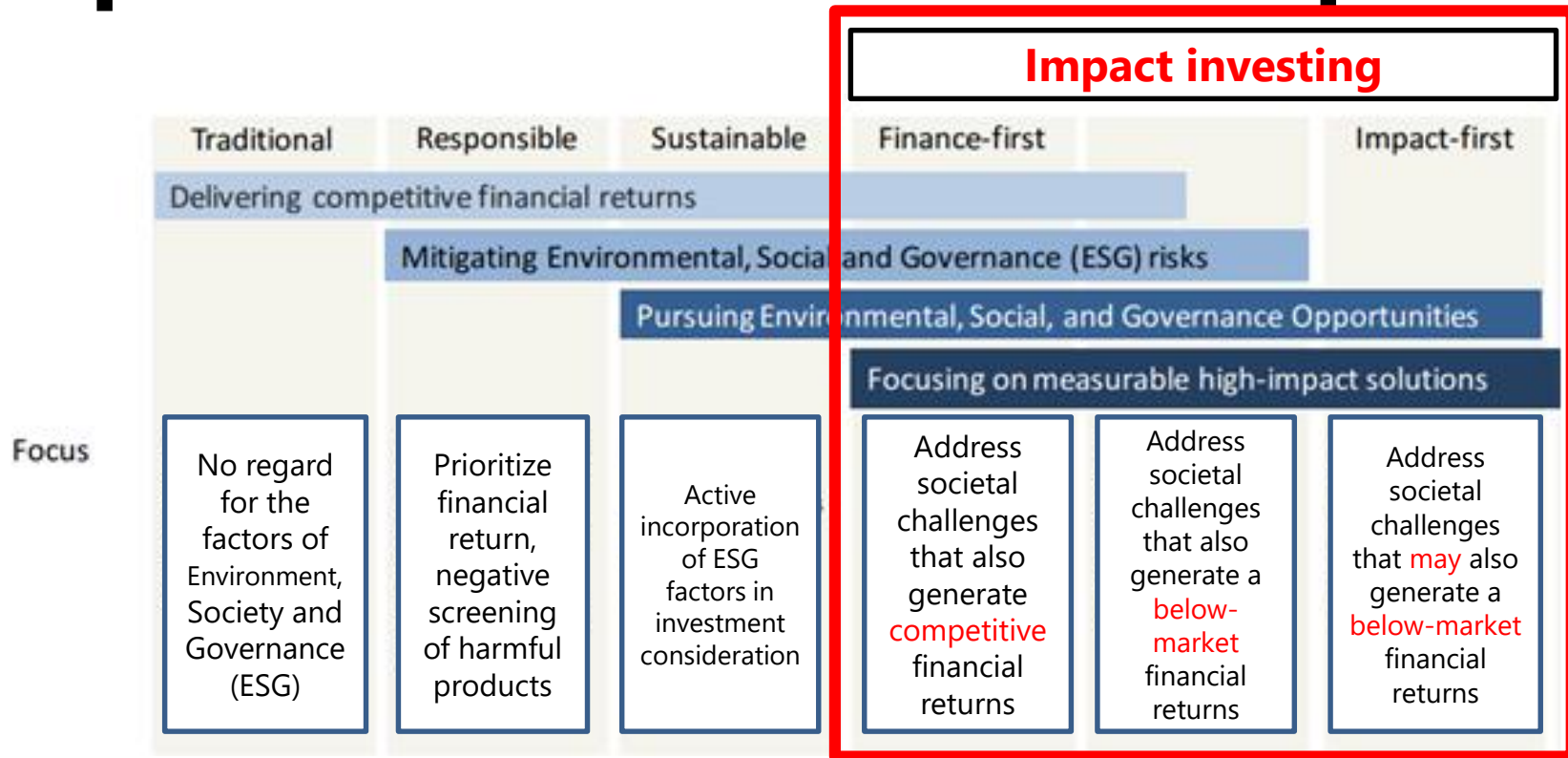
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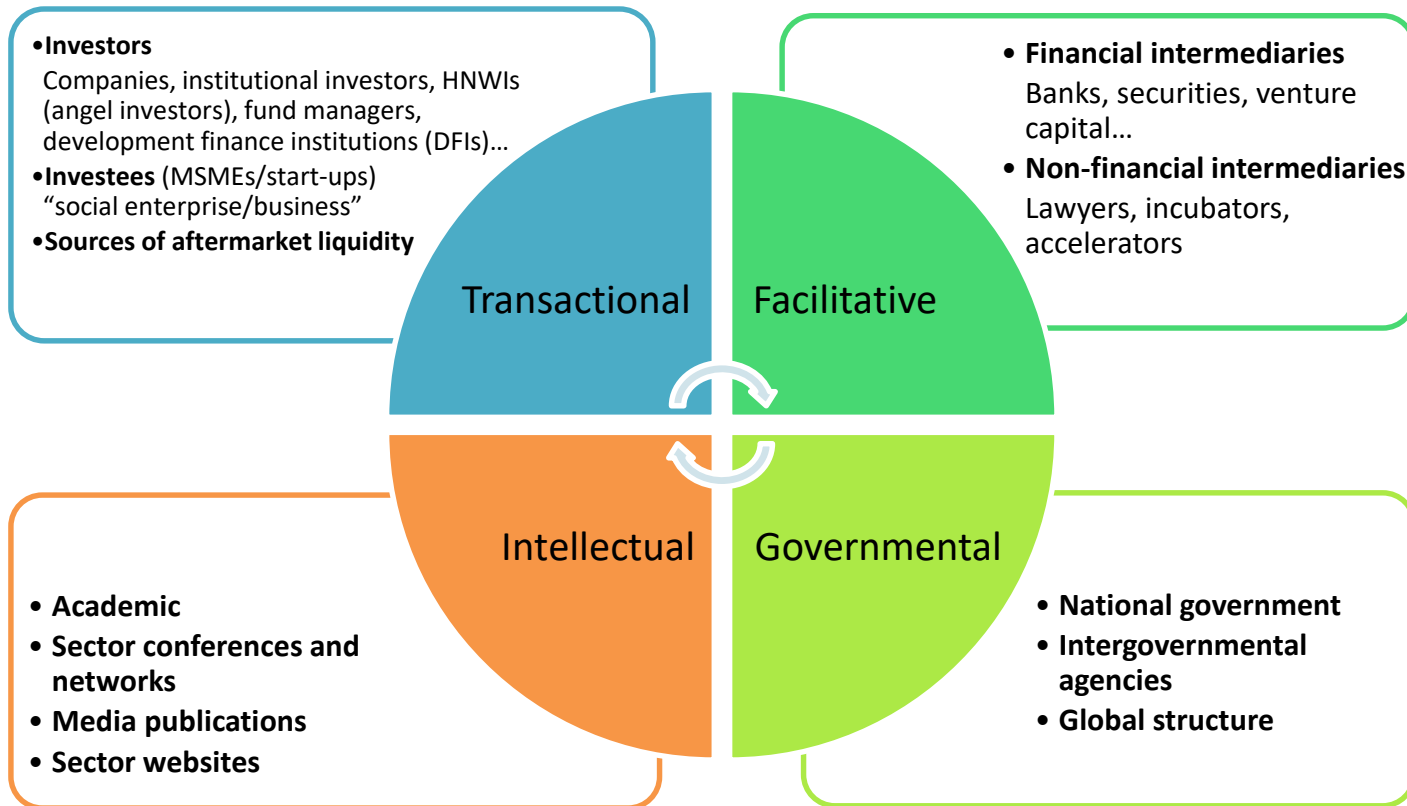
Impact investing can finance and measure initiatives for the SDGs

→ Particularly necessary for the SDGs progress and achievement in the Decade of Action.

Spectrum of investment capital



Characteristics of actors in the ecosystem



Major types of impact investment instruments

- Loans
- Debt
- Equity
- Debt-equity swap (Debt-for-SDG swap)
- **“Impact” bond:** pay-for-success, public-private-nonprofit partnership (Private investors invest in social purpose ventures to deliver financial return measured against the level of societal impact created)
 - Social impact bond (SIB)
 - Development impact bond (DIB) → a case in Cambodia

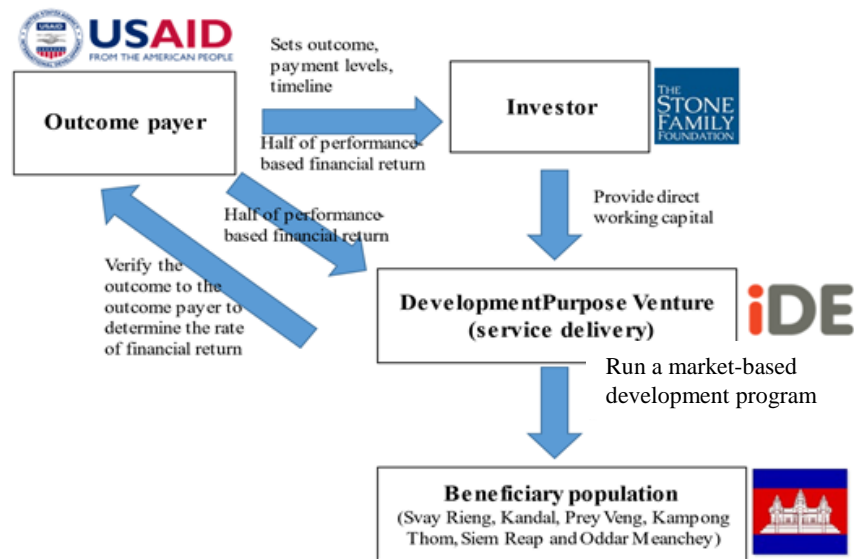


Development impact bond (DIB)

- Launched in Cambodia in 2019 as the **first DIB case in ASEAN**
- The world's first DIB in the water, sanitation and hygiene (WASH) field.
- "Outcome payer"** → commonly donors or philanthropic foundations that repay investors with interest according to the level of development performance, once the pre-agreed impact is verified.



Goal: reducing open defecation

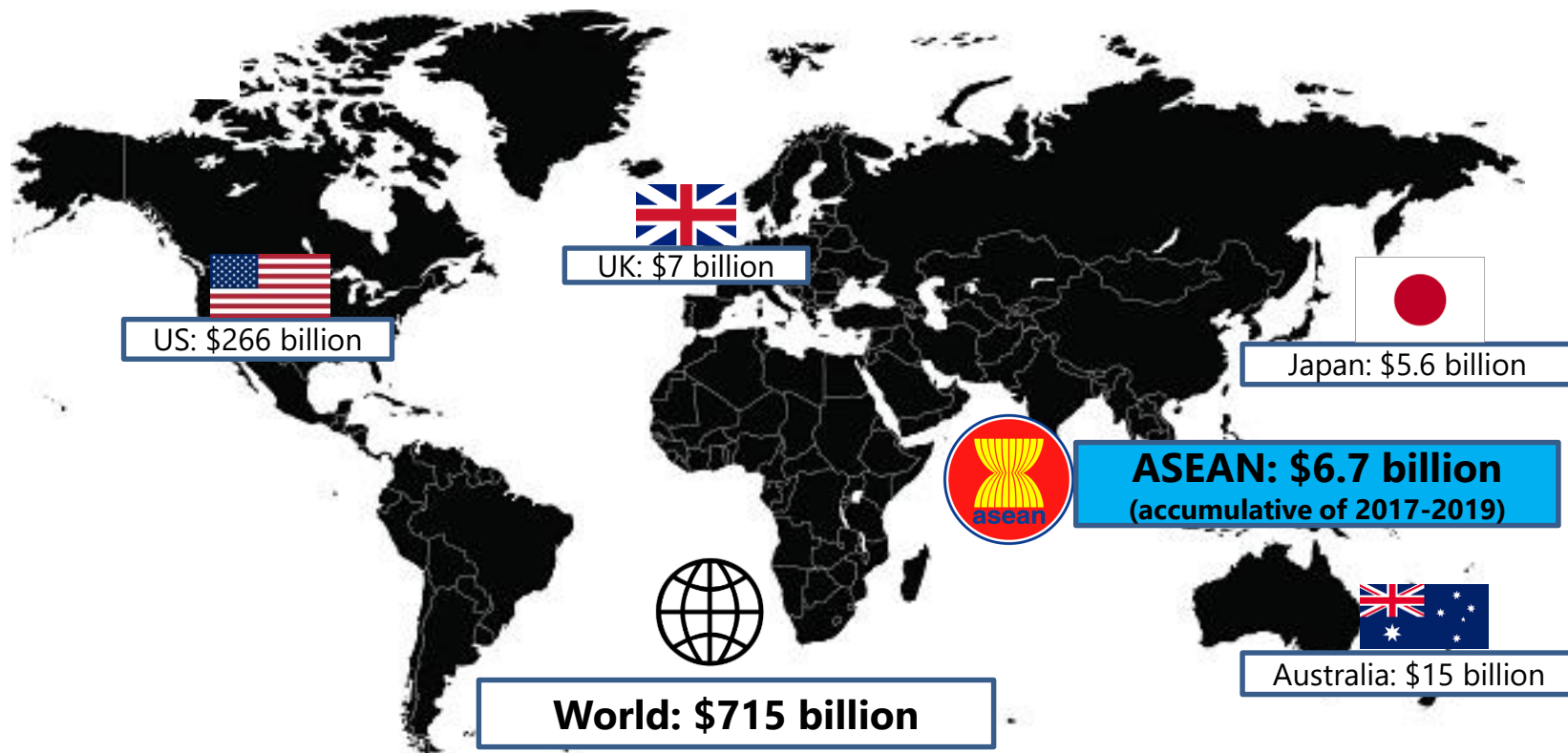


Key global initiatives

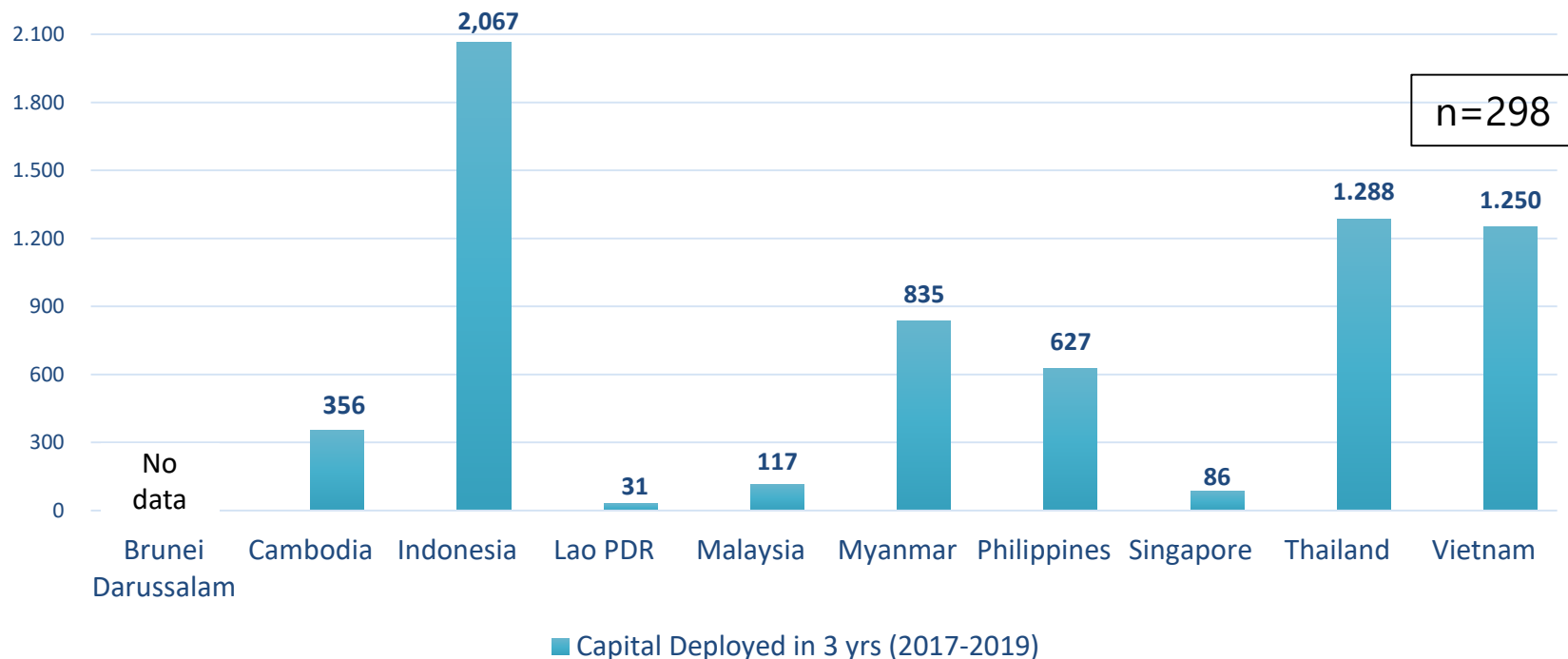
- Global Steering Group for Social Impact Investment (GSG)
→ 33 member countries (No ASEAN)
→ National Advisory Boards (NABs)
- Sustainable stock exchange initiatives
- B-Corp certification
- Global Impact Investment Network (GIIN)
and IRIS+ system for Impact Measurement
- Impact Management Project
- OECD Social Impact Investment Initiative



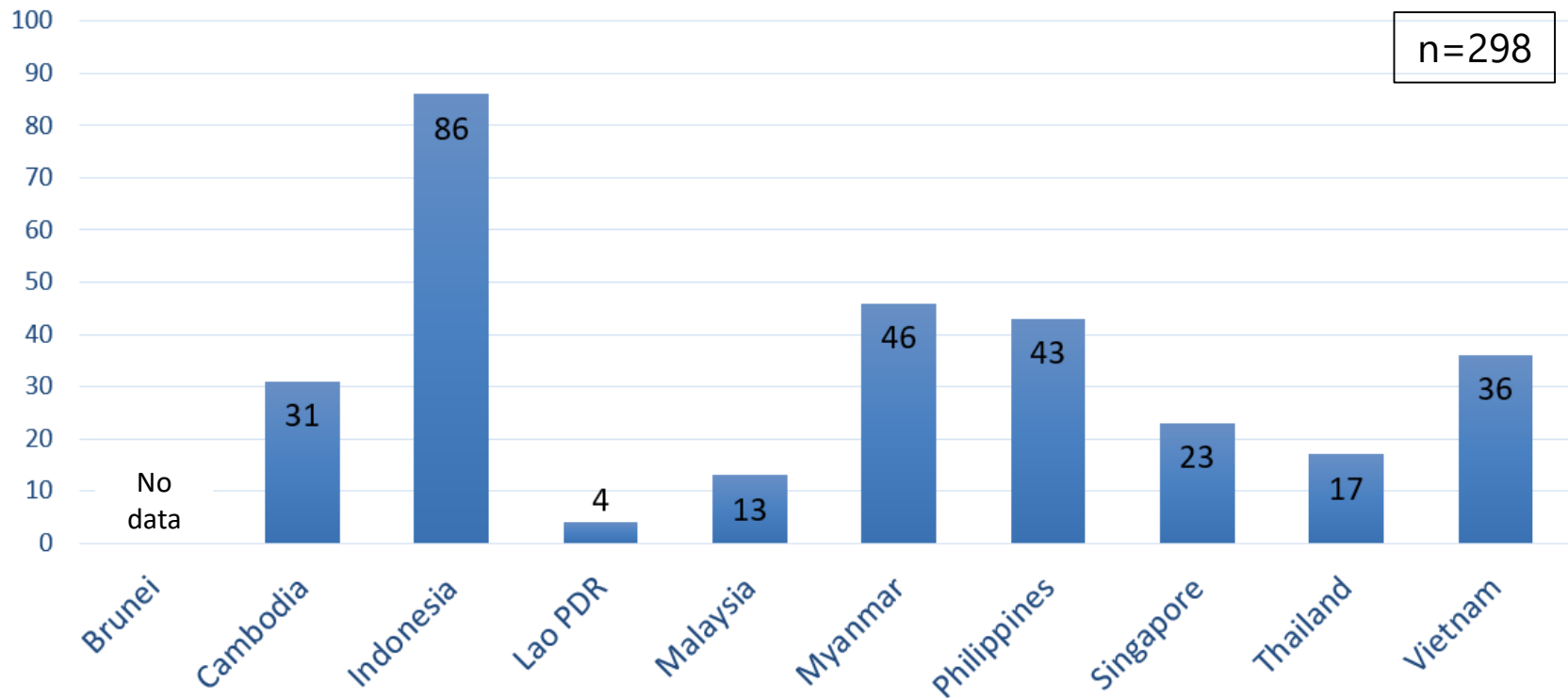
Global impact investing landscape



Impact investing capital in ASEAN



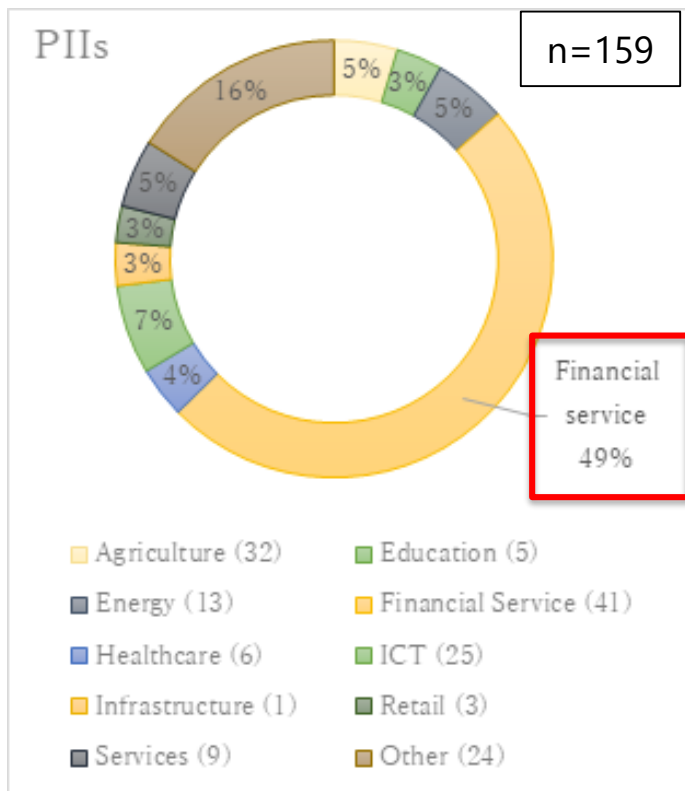
Number of deals in ASEAN



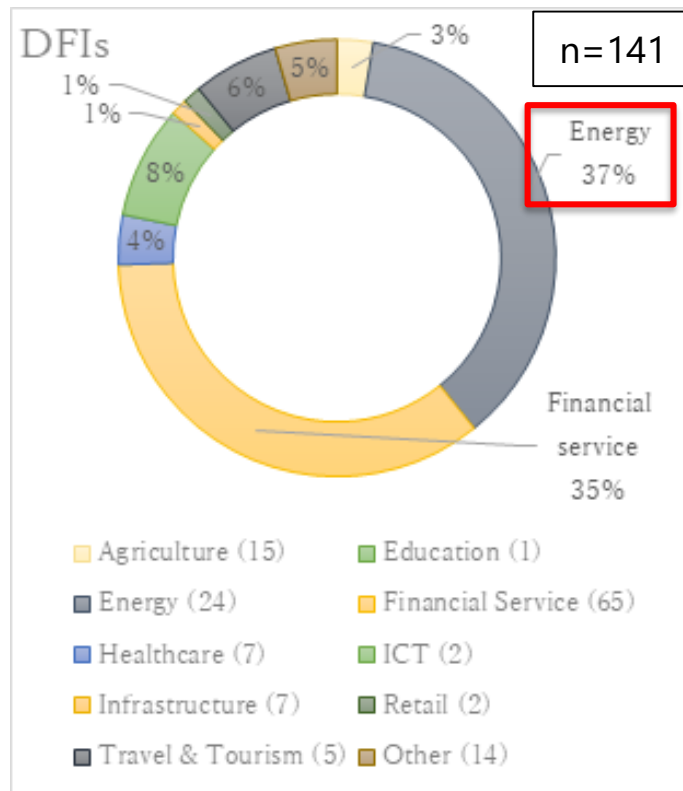
By capital and deals

Country	Private Impact Investors (PIIs) (n=159)		Development Finance Institutions (DFIs) (n=141)		Total amount of capital (\$ million)	Total number of deals
	Capital (\$ million)	Number of deals	Capital (\$ million)	Number of deals		
Cambodia	\$54.9	11	\$301.1	20	\$355.9	31
Indonesia	\$138.5	61	\$1,928.9	25	\$2,067.4	86
Lao PDR	\$10	1	\$21.1	3	\$31.1	4
Malaysia	\$45.5	10	\$71.2	3	\$116.7	13
Myanmar	\$18.6	15	\$816.3	31	\$834.9	46
Philippines	\$105.4	28	\$522.3	16	\$627.4	43
Singapore	\$45.1	19	\$40.4	4	\$85.5	23
Thailand	\$5.2	3	\$1,282.5	14	\$1,287.7	17
Vietnam	\$7.7	11	\$1,242.5	25	\$1,250.2	36
Total	\$430.9	159	\$6,226.3	141	\$6,657.2	300

Private Impact Investors by sector



Development Finance Institutions by sector



State of impact investing



- **Brunei** is among the least active on impact investing activities.
 - The private sector is active in CSR delivery.
 - Islamic finance (green *sukuk* or *zakat*-based microfinance) can be explored.



- **Cambodia** witnesses a rapid growth of impact investing.
 - The third highest PII capital in ASEAN (→ common use of US currency, many NGOs pursue diversification of income).
 - First DIB in ASEAN.
 - Further capacity building for investees' investment readiness



- **Indonesia** is the largest impact investing market in ASEAN
 - Abundant natural resources, presence of unicorns, and a workforce dominated by MSMEs, many of which are owned by women (Gender Lens Investing).
 - Accelerated digital transformation through Indonesian unicorns (Tokopedia & Bukalapak), invested by major companies (Microsoft, Google and Temasek).
 - There remains a \$54 billion financing gap of MSMEs doing activities pertinent to the SDGs (Thuard et al. 2019) → Unlocking capital for MSMEs through impact investing can be a key.

State of impact investing



- **Lao PDR** as one of the Least Developed Countries (LDCs) has the least capital and deals in ASEAN.
 - The majority of capital deployed in energy, financial services and manufacturing (The 8th NSEDP).
 - Driving the next NSEDP to align with the SDGs can create opportunities.



- **Malaysia** is one of the key leaders in socially responsible investing market in Asia.
 - The world's first ever green *sukuk* worth US\$58 million.
 - The Social Enterprise Accreditation system since 2019, driving businesses to turn social
→ Out of 122 Malaysian social enterprises, 55%: under 40 // 54%: run by women.

(British Council 2018)



- **Myanmar's** impact investing market showed signs of growth
 - One of only 2 countries in ASEAN that recorded positive growth during the COVID-19 shock.
 - Ranked 2nd in terms of the number of deals (majority from DFIs), followed by Indonesia.
 - Incubation and acceleration programs were on the rise.
 - With more central support and coordination in place, the impact investment market in Myanmar could be strengthened.

State of impact investing



Philippines is one of the most active impact investing markets in ASEAN.

- Ranked 3rd by number of deals made
- Key sector attracting impact investing include financial services (microfinance and SME financing institutions or fin-tech companies) as well as solar and renewable energy.
- Gender-lens investing has gained a remarkable traction, accelerating the achievement of SDGs.
- Further capacity building for investees' investment readiness



Singapore has strong leadership in ecosystem maturity.

- The only country in ASEAN that has larger PII capital and deals than DFIs despite the relatively smaller market size.
- Many PII funds and impact investing ventures are headquartered in Singapore (Asian Venture Philanthropy Network, Impact Investment Exchange, Aavishkar, BlueOrchard, Bamboo Finance among others)
- Further cross-sectoral collaboration is necessary for it to be an effective gateway to ASEAN impact investing market.

State of impact investing

Thailand enjoys relatively coordinated policy environment for the ecosystem.



- Ranked 2nd in ASEAN by capital deployed, followed by Indonesia.
- The National Taskforce on Social Impact Investment in 2016.
- The Social Enterprise Promotion Act in 2019 //141 social enterprise.
 1. Social Enterprise Promotion Committee
 2. The Office of Social Enterprise Promotion
 3. The Social Enterprise Promotion fund
- Finance gap for many social enterprises (investment readiness) remains a challenge.

(British Council 2020)

Viet Nam also has a legal framework to facilitate impact investment for societal impact.



- Ranked 3rd in ASEAN by capital value → DFIs dominate by capital value, but the PII deals outweigh.
- The Law of Enterprise 2015 legally recognizes social enterprise as business committed to drive social change.
- 20% of the total deals → primarily in the agriculture and financial service sectors.

Challenges & recommendations

Areas	Challenges	Recommendations
1. Transactional	Lack of investible impact investment products	Investors (finance mobilisers) must: <ul style="list-style-type: none"> Actively source information and strategies by learning from early adopters and innovators. Seek latest information e.g. AVPN
	Lack of track record of financial return	<ul style="list-style-type: none"> Accept differing degrees of investment readiness. Identify each role to play. (pre-seed, seed, early, later to initial public offering) → angel investors Combine grant and investment.
2. Facilitative	Coordination and sophistication of impact measurement and management approach	Investees must: <ul style="list-style-type: none"> Identify non-financial intermediaries (mainly incubator and accelerator programs) that builds investees' capacity in impact measurement & management. Gain better access to capital and mentoring programs
	Inadequate skills and expertise required in human capital	<ul style="list-style-type: none"> Increase legitimacy by actively joining competitive events and pitch opportunities. Intermediaries must: <ul style="list-style-type: none"> Implement, increase and promote opportunities for investees.
	Societal risk of impact investment	Policy makers must: <ul style="list-style-type: none"> Promote use of certification for legitimacy

Challenges & recommendations

Areas	Challenges	Recommendations
3. Intellectual	SDG-washing	All actors must: <ul style="list-style-type: none"> Demonstrate evidence and commitment to intentionality.
	Lack of research (understanding) of impact investing in ASEAN and beyond	Intellectual actors can: <ul style="list-style-type: none"> Seek grant capital for research & development activities (e.g. “social impact guarantee” in Singapore as an option).
4. Governmental	Fragmented policy development at different speeds	Relevant institutions must: <ul style="list-style-type: none"> Formulate engaged public policy to encourage transactional and facilitative actors (e.g. tax relief, certification, dormant account, stock exchange among others).
		Relevant institutions can: <ul style="list-style-type: none"> Consider joining the international frameworks (e.g. GSG) Establish the NAB under the GSG. Institutional effort for national and regional policy, regulatory and legal frameworks (certification).
		ASEAN can: <ul style="list-style-type: none"> Create an ASEAN Impact Investment Hub (tentative) to harness coordination of regional effort and build ecosystem. Coordinate with ODA donor countries to increase public-private initiatives (e.g. Australian Government’s EMIIF). Initiate to discuss the use of development impact bond.

Conclusion

- Impact investing is a significant financing driver to spur progress towards the SDGs in ASEAN.
- Impact investing measures both financial and societal performance → enables to keep track and accelerate the achievement of the SDGs.
- **DECADE OF ACTION:** Concerted effort for common goals requires a high degree of tolerance for change and trial and error.
- Journey of trailblazing, innovating and shaping the ASEAN market of high impact.



Thank you very much!

For questions, comments and potential collaboration,

Please email Aya at aono@asean.or.jp

<https://www.asean.or.jp/en/>