

THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHEAST ASIA



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COMMON ACRONYMS

ADB	Asian Development Bank	IT	Information Technology
ANDE	Aspen Network of Development Entrepreneurs	LGBT	Lesbian, Gay, Bisexual, and Transgender
ANGIN	Angel Investment Network Indonesia	LP	Limited Partner
ASEAN	Association of Southeast Asian Nations	MFI	Microfinance Institution
AVPN	Asian Venture Philanthropy Network	NGO	Non-Governmental Organisation
BKPM	Badan Koordinasi Penanaman Modal (Government of Indonesia's Investment Agency)	OPIC	Overseas Private Investment Corporation
BPO	Business Process Outsourcing	PDR	People's Democratic Republic
CSR	Corporate Social Responsibility	PE	Private Equity
DFI	Development Finance Institution	PHP	Philippine Peso
Edtech	Education Technology	PII	Private Impact Investor
EoDB	Ease of Doing Business	PMA	Perusahaan Penanaman Modal Asing
ESG	Environmental, Social, and Governance	PPP	Purchasing Power Parity
EU	European Union	PRESENT	Poverty Reduction Through Social Enterprise
F&B	Food and Beverage	R&D	Research and Development
FDI	Foreign Direct Investment	S&P	Standard & Poor's
Fintech	Financial Technology	SDG	Sustainable Development Goals
FTA	Free Trade Agreement	SEAF	Small Enterprises Assistance Fund
GDP	Gross Domestic Product	SEDS	Socio-Economic Development Strategy
GDP (PPP)	Gross Domestic Product at Purchasing Power Parity	SME	Small and Medium-Sized Enterprise
GIIRS	Global Impact Investing Rating System	SROI	Social Return on Investment
GLI	Gender Lens Investing	SVLK	Sistem Verifikasi Legalitas Kayu (A certification for legally harvested timber and timber products)
GNI	Gross National Income	TA	Technical Assistance
GP	General Partner	UN	United Nations
HCMC	Ho Chi Minh City	UNDP	United Nations Development Programme
HDI	Human Development Index	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
HNWI	High-Net-Worth Individuals	USAID	United States Agency for International Development
ICT	Information and Communications Technology	USD	United States Dollar
IDR	Indonesian Rupiah	VAT	Value Added Tax
IFC	International Finance Corporation	VC	Venture Capital
IRIS	Impact Reporting & Investment Standards	VND	Vietnamese Dong
		WASH	Water, Sanitation, and Hygiene

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A stylized map of Southeast Asia is shown in the background. The landmasses are depicted in a dark teal color, while the surrounding water is a lighter, muted teal. A prominent red overlay is applied to the Indonesian archipelago, including Sumatra, Java, and the islands to the east. The text 'EXECUTIVE SUMMARY' is positioned in the lower-left quadrant of the image, rendered in a bold, white, sans-serif font.

EXECUTIVE SUMMARY

Southeast Asia: An Introduction to the Impact Investing Landscape (2007-2017)

USD 904 MILLION

Impact capital deployed by
PRIVATE IMPACT INVESTORS (PIIs)

USD 11.2 BILLION

Impact capital deployed by
DEVELOPMENT FINANCE INSTITUTIONS (DFIs)



INTRODUCTION, REPORT STRUCTURE, AND METHODOLOGY

Introduction and motivation for the study

Impact investing is a growing practice defined by its intent to generate positive social and environmental impact alongside a financial return. Impact investments are made across the globe, and developing economies provide ample opportunities for market-based solutions and investment capital to address social and environmental challenges. Southeast Asia is developing rapidly, but the region also faces social and environmental challenges that offer substantial potential for impact investments. Indeed, almost a third of impact investors invest in Southeast Asia, and 44% plan to grow their impact investing allocations to the region in the year ahead.¹ *The Landscape for Impact Investing in Southeast Asia* report provides much-needed information about the impact investing market in Southeast Asia to inform investors already allocating capital or considering investing in the region.

This report provides detailed information about the investing activity and trends in 11 countries: Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. It outlines challenges and opportunities for impact investors and analyzes political and economic factors that may inform investment decisions in each country.

Report structure

The report comprises five chapters: an executive summary, three chapters examining Indonesia, the Philippines, and Vietnam in detail, and an overview of the region's remaining countries.

The following is provided for each country:

- an overview of the country's **social and economic context**;
- the **activities of impact investors**, including the volume of investment activity;
- the **characteristics** of organizations and enterprises receiving impact investing capital;
- information on the **supporting ecosystem**, including the roles played by accelerators, incubators, networks, and policymakers;
- **gender lens investing** awareness and activity; and
- a discussion of key **challenges and opportunities** for growing the market.

Report scope

This report presents impact investing activity in Southeast Asia between 2007 and 2017. Building on existing research, the report uses deal-level data to provide first-of-its-kind quantitative analysis of the impact investing landscape in Southeast Asia. Findings are based on primary research conducted with over 100 stakeholders, a thorough review of existing research, and aggregate analysis of 514 impact

¹ Abhilash Mudaliar, Rachel Bass, and Hannah Dithrich, *2018 Annual Impact Investor Survey* (New York: Global Impact Investing Network, June 2018), <https://thegiin.org/research/publication/annualsurvey2018>.

deals between 2007 and 2017.² Only direct capital deployments made into enterprises or projects were included; indirect deployments were excluded to avoid double counting. Investors' capital commitments and liquid assets were also excluded.

Definitions

This report includes only impact investments that explicitly meet the following definitions.

IMPACT INVESTMENTS

Impact investments are defined as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”³ Impact investors must meet three definitional criteria:

1. The investor should have the intention to create positive social or environmental impact through their investments.
2. The investor should expect some financial return.
3. The investor should have a commitment to measure the social or environmental impact created through their investments.

The analysis in this report is separated into two broad investor categories: Private Impact Investors (PIIs) and Development Finance Institutions (DFIs).

PRIVATE IMPACT INVESTORS (PIIs)

Private Impact Investors (PIIs) encompass a range of investor types, including fund managers, family offices, foundations, banks, pension funds, and others that channel private capital into impact investments.

DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

Development Finance Institutions (DFIs) are government-backed financial institutions that provide finance to the private sector for investments promoting development. DFIs are important actors in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments, such as impact investment funds. Because of their large size and unique characteristics, this report analyzes DFI activity separately from the activity of other types of impact investors. Indirect investments by DFIs are excluded to avoid double counting. For the purposes of this report, bilateral or multilateral assistance provided directly to governments is not considered an impact investment.

2 The Research Team's efforts focused on creating an exhaustive database of direct impact deals made in the region from 2007 to 2017.

3 The Global Impact Investing Network, <http://www.thegiin.org/>.

GENDER LENS INVESTING

Gender lens investments are “investments made into companies, organizations, and funds with the explicit intent to create a positive impact on gender.”

GENDER LENS INVESTING COMPRISES TWO BROAD CATEGORIES

Investing with the intent to address gender issues or promote gender equity, including by:

- investing in women-owned or -led enterprises;
- investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along their supply chains); or
- investing in enterprises that offer products or services that substantially improve the lives of women and girls.

And/or investing using:

- a *process* that focuses on gender, from pre-investment activities (e.g., sourcing and due diligence) to post-deal monitoring (e.g., strategic advisory and exiting); or
- a *strategy* that examines and manages an investee in line with the investor’s mandate and intentions with respect to:
 1. their vision or mission to address gender issues;
 2. their organizational structure, culture, internal policies, and workplace environment;
 3. their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
 4. how their financial and human resources signify overall commitment to gender equality.

The Research Team used this definition to identify gender lens investors, inform conversations with them, and disaggregate investments across various strategies to gain further insight. Only investments that fulfill these criteria were included in the analysis of GLI.

Methodology

DATA COLLECTION

The Research Team relied on quantitative and qualitative data from both secondary and primary sources to map the landscape of impact investing in the region. Data collection included three principal methods. First, **desk research** was conducted to:

- evaluate existing research on impact investing in Southeast Asia and on gender lens investing strategies deployed in the region;
- gather data on various aspects of the region’s socio-economic environment, political landscape, and impact investing ecosystem; and

- compile a comprehensive database of 514 direct impact investing deals made into Southeast Asia's 11 countries between 2007 and 2017. This database includes all known direct impact investment deals as of the time of data collection in late 2017.

Sources of desk research included indicators that describe supply-side contexts by country, including economic growth trends, inflows and drivers of foreign direct investment (FDI), currency rate fluctuations, and inflation. To collect data for the impact investment deal database, the Research Team examined publicly available information, evaluated investor websites, and reviewed press releases. In addition, the Research Team collected anonymized deal information from a number of investors. For demand-side context, indicators included the prevalence of entrepreneurs, gaps in access to capital, and indicators of 'need' (e.g., literacy rate, poverty rate, and mortality rate). Existing work was cross-referenced with primary research to corroborate findings, identify opportunities to ask deeper questions during interviews, or both. Throughout the report, the Research Team incorporated highlights from their desk research to complement primary findings. Finally, the Research Team referred to country-level summaries of regulations and policies that facilitate or restrict impact investment.

Second, the Research Team conducted **primary interviews** with over 100 respondents, including local and international impact investors, social enterprises, players in the ecosystem, government officials, and others. Interviews took place both by phone and in person during country visits to Indonesia, Vietnam, the Philippines, and Singapore. The sample was carefully crafted to represent the market across various factors including organization type, year of founding, and country of focus. Appendix 1 presents a full list of interviewees.

Finally, the Research Team held two virtual **focus group discussions** to corroborate and refine findings. One convened 16 stakeholders representing supply side of capital and the other included seven demand-side stakeholders.

ANALYSIS

The Research Team used several analytic methods for this report.

Desk research: The various resources assembled during desk research were synthesized at the country and regional levels to identify drivers of investment activity, uncover gaps between the supply and demand sides of the market, and bolster primary research.

Deals database: The Research Team analyzed transaction-level data at both the country and regional levels, further segmented by investment characteristics when sample sizes were large enough to offer meaningful insights without compromising participants' anonymity. Analysis of the database was also segmented between PII and DFI, given the significant differences in their structures, mandates, and investment approaches. Analysis included:

- mean, median, and total investment activity;
- presence and influence of any outliers that could disproportionately skew findings; and
- capital deployed and number of deals by PII and DFI, segmented by various factors.

Interviews: The Research Team kept detailed notes for each interview and focus group discussion and evaluated the various points of contention or divergence. Some specific themes discussed in the interviews included:

- perceptions of opportunities for impact investors and other actors in the regional impact investing ecosystem;
- perceptions of key challenges facing impact investors in the region;

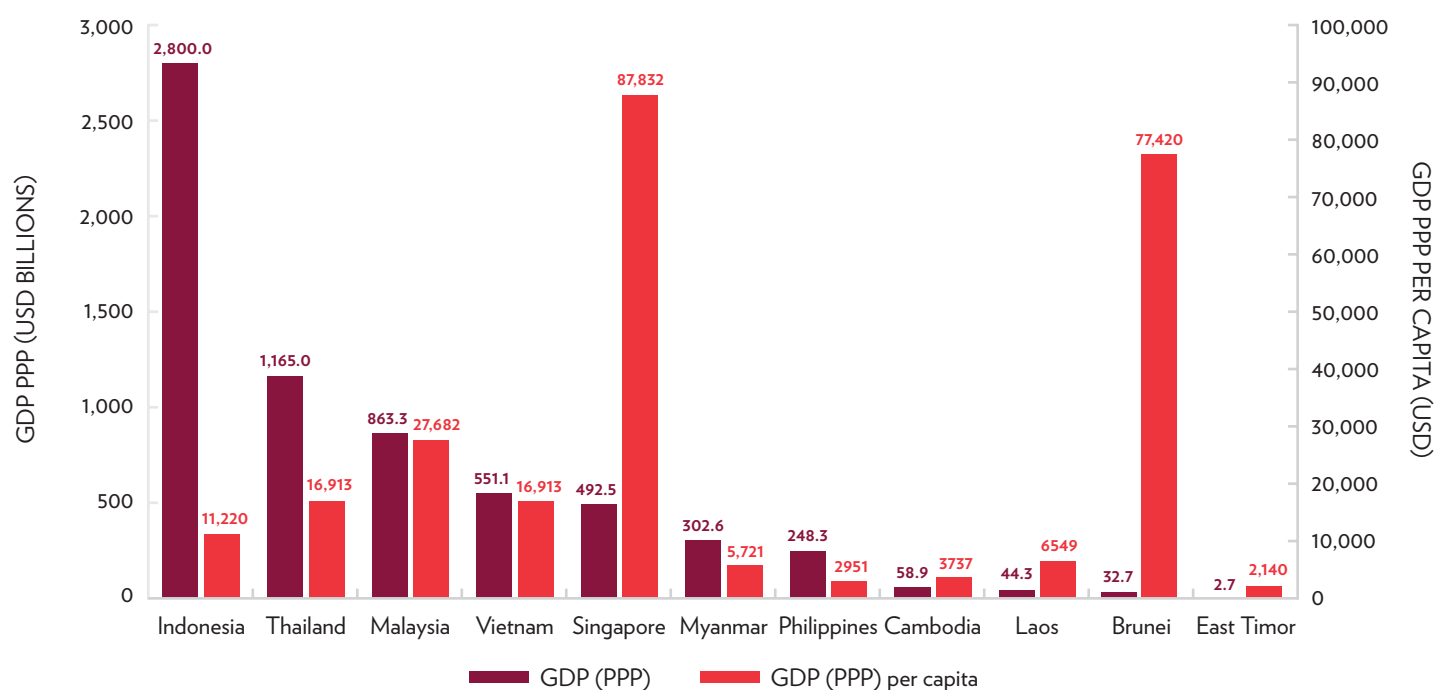
- perspectives on drivers of growth;
- awareness and use of various GLI strategies; and
- perspectives on the effectiveness of different types of players in the ecosystem, such as accelerators, consultants, and policymakers.

BACKGROUND ON THE SOUTHEAST ASIAN REGION

Southeast Asia is extremely diverse, with each of the 11 countries in the region at various stages of economic development and facing wide-ranging socio-economic challenges. The region is generally divided into “mainland” and “island” zones. Mainland countries—Myanmar, Thailand, Laos, Cambodia, and Vietnam—are an extension of the Asian continent, while island countries include Malaysia, Singapore, Indonesia, the Philippines, Brunei, and East Timor.

Southeast Asia covers a landmass of nearly 4.5 million km², or 3% of the earth’s total land area. Its total population, more than 650 million in 2018, is about 8.6% of the world’s population.⁴ Collectively, the region has a GDP (PPP) of USD 7.6 trillion (Figure 1), which accounts for nearly 6% of Gross World Product at PPP (2016) and is growing at roughly 5% per annum.⁵

FIGURE 1: GDP (PPP) AND GDP (PPP) PER CAPITA



Source: Intelicap Advisory Services analysis

4 Population, total, DataBank (Washington, DC: The World Bank), <https://data.worldbank.org/indicator/SP.POP.TOTL>.

5 “Economic indicators of Asia and Pacific countries,” Asian Development Bank, 2017, <https://www.adb.org/data/statistics>.

The region's economies are at various stages of development, with some led by agriculture and others based on industry and services. Agricultural production, both for domestic consumption and for export, underlaid economic growth in most parts of Southeast Asia in the second half of the nineteenth and the first half of the twentieth centuries. Local producers exported large quantities of traditional agricultural staples, including sugar, rice, coffee, tea, spices, hard fibers, and coconut oil. The cultivation of new crops, such as rubber and palm oil, also expanded rapidly during this period. In the latter half of the twentieth century, several of the region's economies began to transition away from agriculture. In the Philippines, Thailand, and Malaysia, for instance, non-agricultural sectors of the economy grew quickly after 1950, accounting for more than 60% of total GDP by 1970.⁶ During the 1980s, Thailand, Malaysia, Singapore, and Indonesia registered annual growth rates of 6% to 9% in GDP (PPP). Manufacturing output first exceeded agricultural output in Thailand in 1981, Malaysia in 1984, and Indonesia in 1991.⁷

Despite strong economic growth, Southeast Asia has experienced periods of economic crisis. In 1997, Thailand unpegged the baht from the U.S. dollar, setting off a series of currency devaluations and massive outflows of capital from the region. The economies most affected saw a collective drop in capital inflows that exceeded USD 100 billion in the first year of the crisis.⁸ This crisis however, led to improvements in the region's economic systems and initiated much-needed restructuring, such as the dissolution of non-viable financial institutions, improved banking supervision, and increased encouragement of private-sector investment, including from foreign institutions.

Over the past decade, entrepreneurship has gained momentum across most of Southeast Asia, in part due to increased government support for private-sector growth, integration with the global economy, a rising consumer base, and a young population. High FDI inflows, urbanization, and technological advances have reshaped the region. Government investments—to develop infrastructure, improve educational facilities, advance technology, and further social acceptance of entrepreneurship—have helped develop new industries, with an increasing number of new enterprises entering sectors such as e-commerce, financial technology, hospitality and agroprocessing. Southeast Asia's young population is also driving growth. According to the UN, by 2030, the median age in most Southeast Asian countries will be 30 years, considerably lower than in surrounding countries, such as Japan (>50 years).⁹ Many global companies are moving their manufacturing operations to Southeast Asia, taking advantage of the younger workforce.

6 World Development Indicators, DataBank (Washington, DC: The World Bank), <https://data.worldbank.org/indicator/>.

7 Deborah Bräutigam, "Local Entrepreneurship in Southeast Asia and Sub-Saharan Africa: Networks and Linkages to the Global Economy" (paper presented at the United Nations University/African Economic Research Consortium Conference on Asia and Africa in the Global Economy, Tokyo, Japan, August 3–4, 1998), http://archive.unu.edu/hq/academic/Pg_area4/Brautigam.html.

8 Walden Bello, *The Asian financial crisis: Causes, dynamics, prospects*, (Journal of the Asia Pacific Economy, 1999), 35, <https://www.tandfonline.com/doi/pdf/10.1080/13547869908724669>.

9 Population Division, World Population Prospects 2017, United Nations (UN), <https://esa.un.org/unpd/wpp/dataquery/>.

TABLE 1: ECONOMIC DEVELOPMENT INDICATORS

COUNTRY	GDP (PPP, 2016) USD BILLIONS	FDI NET INFLOWS (2016) USD MILLIONS	EASE OF DOING BUSINESS RANKING, 2018 (OUT OF 190)	GLOBAL COMPETITIVENESS INDEX 2017-2018 RANK (OUT OF 137)	AVERAGE INFLATION RATE (2007-2017) %
BRUNEI	32.7	-151	56	46	0.5
CAMBODIA	58.9	2,287	135	94	5.5
EAST TIMOR	2.7	6	178	—	6.3
INDONESIA	3,031.0	29,000	91	36	5.8
LAO PDR	44.3	997	141	98	4.3
MALAYSIA	863.3	13,515	24	23	2.4
MYANMAR	302.6	3,278	171	131	10.5
PHILIPPINES	806.3	7,900	113	56	3.7
SINGAPORE	492.5	61,596	2	3	2.4
THAILAND	1,165.0	3,063	26	32	2.0
VIETNAM	595.4	12,600	68	55	9.0

■ Top 2
 ■ Bottom 2
 — Data not available

Source: Compiled by Intelicap Advisory Services

TABLE 2: SOCIAL DEVELOPMENT INDICATORS

COUNTRY	POPULATION (THOUSANDS)	GDP (PPP) PER CAPITA (2016)	GINI COEFFICIENT	HUMAN DEVELOPMENT INDEX RANK (2016)	SDG INDEX RANK (2017)	GLOBAL GENDER GAP RANK
BRUNEI	423	77,420	—	30	—	102
CAMBODIA	15,762	3,737	37.9	143	114	99
EAST TIMOR	1,269	2,140	31.9	133	106	128
INDONESIA	261,116	11,220	39.0	113	100	84
LAOS	6,758	6,549	36.7	138	107	64
MALAYSIA	31,187	27,682	46.2	59	54	104
MYANMAR	52,885	5,721	—	145	110	83
PHILIPPINES	103,320	2,951	40.1	116	93	10
SINGAPORE	5,607	87,832	45.8	5	61	27
THAILAND	68,864	16,913	44.5	87	55	75
VIETNAM	94,569	5,838	37.6	115	68	69

Top 2 Bottom 2 — Data not available

Source: Compiled by Intelicap Advisory Services

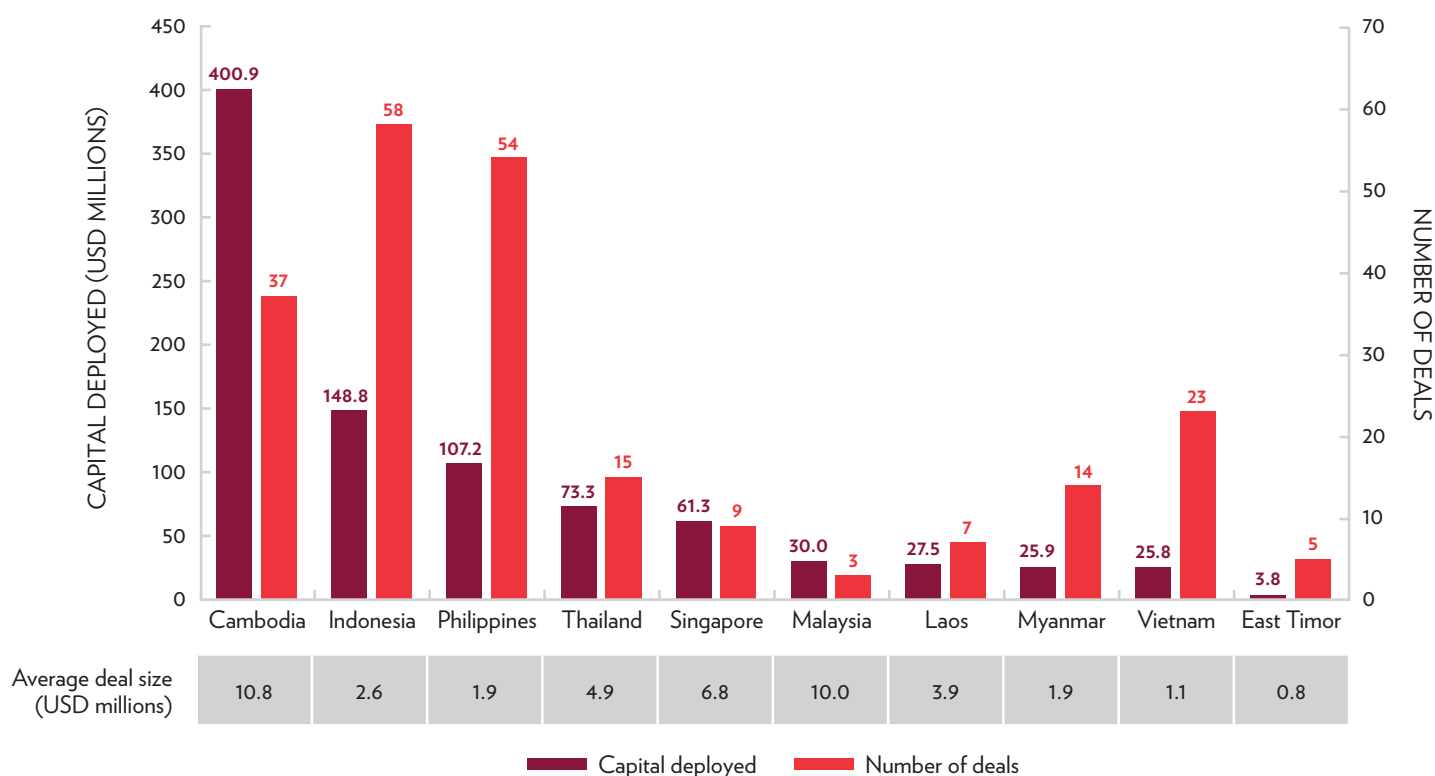
IMPACT INVESTING IN SOUTHEAST ASIA

Southeast Asia's impact investing ecosystem has developed significantly over the last decade.

Since 2007, PIIls have deployed around USD 904 million through 225 direct deals,¹⁰ and DFIls have deployed around USD 11.3 billion through 289 direct deals.¹¹ The amount of impact capital invested varies widely by country (Figures 2 and 3).

FIGURE 2: PII ACTIVITY BY COUNTRY

USD 904 MILLION IN 225 DEALS (2007–2017)

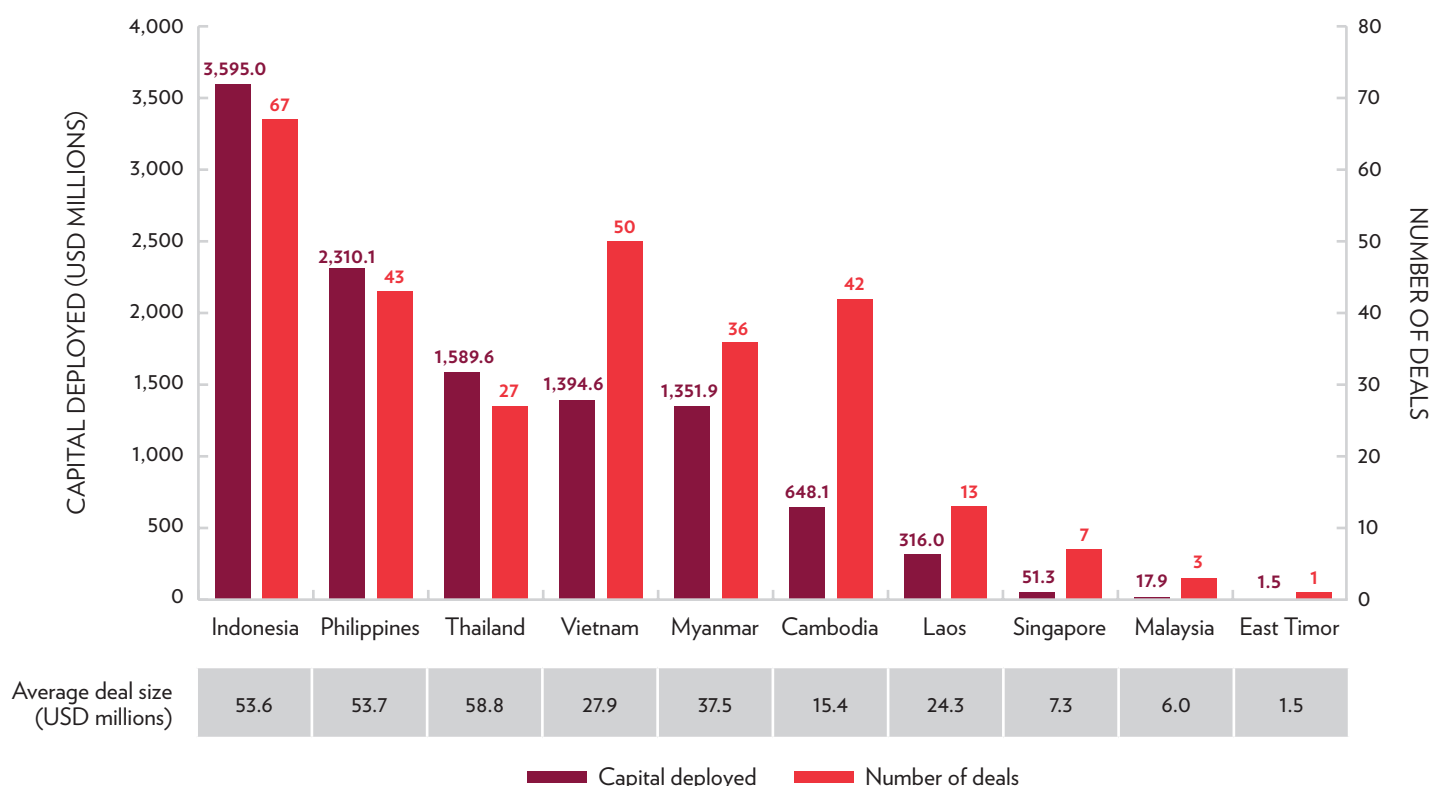


Source: Intelicap Advisory Services analysis

¹⁰ PIIls include investors, normally not government funded, that make investments into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.

¹¹ Analysis of DFI investments compared to the size of the invested economies indicates that the amounts of DFI investments in Southeast Asian countries are typically less than 0.01% of countries' GDPs.

FIGURE 3: DFI ACTIVITY BY COUNTRY
USD 11.3 BILLION IN 289 DEALS (2007–2017)



Source: Intelicap Advisory Services analysis

Despite overall regional growth, Southeast Asia’s impact investing market remains highly fragmented. Countries in the region are at vastly different stages of economic development and have entrepreneurial ecosystems with varying maturity levels facing context-specific challenges.

Political structures in the region vary widely—including democracies, military dictatorships, and communist governments—leading investors to develop country-specific impact investing strategies. Indonesia, the Philippines, and Vietnam each have comparatively mature impact investing ecosystems that have garnered increasing interest from PIs.¹² PIs have also taken advantage of opportunities in Cambodia’s relatively open, dollarized economy to catalyze the country’s microfinance sector. As a result, Cambodia has attracted nearly as much PI capital as Indonesia, the Philippines, and Vietnam combined. Laos, Myanmar, Thailand, Malaysia, and East Timor have all had comparatively less PI activity, and Singapore and Brunei are high-income countries with small populations that have sustained little PI activity to date. However, many regional enterprises that have received impact investment are headquartered in Singapore, as are many PIs that operate across the region.

12 Separate chapters offer deeper insight into impact investing activity in each of these three countries.

Availability and deployment of impact capital

DFIs have deployed most of the impact capital in Southeast Asia to date, while PIs have increased their activity and interest since 2013. DFIs invest in enterprises and projects that improve socio-economic outcomes and catalyze the flow of commercial capital to sectors that otherwise would not receive investment. The International Finance Corporation (IFC) is the largest DFI investing in the region, contributing to almost 70% of all deals and more than 65% of all capital deployed by DFIs in the region. Together, DFIs account for over 90% of all impact capital invested in Southeast Asia.

PI activity began slowly in the early 2000s and plateaued during the 2008 global financial crisis. Since 2013, investment activity has increased. This has been driven, in part, by the region's increased focus on entrepreneurship and the presence of a young, well-networked generation that seeks to leverage technology to create positive socio-economic or environmental impact. Southeast Asia also faces multiple socio-economic and environmental challenges, including large, underserved populations, high poverty, and generally poor indicators of human development. While some investors have opened local offices in the region, most operate remotely or through local partners. Challenges remain, such as limited focus on innovation and low financial literacy among entrepreneurs, a limited investee pipeline, concentration of seed-stage enterprises, and only a few records of exits. However, investors are generally positive and optimistic given the inherently large market opportunity and growing middle class they expect to spur further economic growth.

While some early-stage PIs are active in the region, major gaps in seed-stage impact capital remain. Deals below USD 500,000 in most countries are rare, with most impact investors investing in deals larger than USD 1 million. Since most investors have no local presence, the investment process is expensive, which leads investors to defray these sourcing costs by making larger, later-stage investments. Further compounding the lack of seed-stage capital, active impact-focused angel investor networks are scarce, except in Indonesia. While other angel networks exist at the regional level, all of them are impact agnostic. Without such networks, most enterprises raise seed-stage capital (ranging from USD 100,000 to USD 500,000) by accessing their own resources, turning to family and friends, relying on accelerators and incubators, or seeking grants from foundations, family offices, and other donor organizations.

Investors have primarily deployed capital to sectors that promote financial inclusion, expand access to basic services, and create livelihoods: financial services, energy, and manufacturing. Together, these three sectors account for 82% of total capital deployed in the region and 63% of total deals. DFIs have traditionally invested in sectors that create large-scale employment opportunities and support countries' national development priorities. DFIs also invest in PIs—typically impact fund managers—to drive impact in more targeted areas such as poverty alleviation, job creation, or women's empowerment.¹³ By investing through PIs, DFIs can target smaller enterprises than they otherwise could; this report excludes such indirect investment, however, to avoid double counting. DFI-driven mandates to invest in specific sectors or towards certain impact themes have helped build the impact investing ecosystem in Southeast Asia and channel impact capital to growing sectors like education, healthcare, and ICT.

¹³ To avoid duplicating figures, this report considers only direct DFI deals, not any DFI investment in PIs (e.g., in impact investing funds).

Having a local presence enables investors to connect with local networks and helps them invest more effectively in the region. Given the lack of investable enterprises and potential investees' need for sustained support, impact investors benefit significantly from having a local presence in their country of intended investment. While partnerships with in-country ecosystem enablers (such as accelerators, incubators, or financial advisors) can help investors source deals to some extent, investors with local offices are much more successful at sourcing and managing investments than are those operating remotely. For instance, in Indonesia, Philippines, and Vietnam, the average yearly number of deals made by investors with a local presence is almost twice that of investors without a local presence. Fund managers also require capacity-building support to better adapt to the contexts of their operating countries and more effectively assess deal pipelines. To address this, many investors based outside the region have begun to employ local talent or form partnerships with local funds, especially in Indonesia, Vietnam, and Myanmar.

Some investors apply a gender lens to their investments, but broader awareness of the concept remains limited. Five active PIs investing in the region have explicit gender lens investing (GLI) mandates. These impact investors have made more than 30 deals in Indonesia, the Philippines, and Vietnam using a gender lens, amounting to USD 40 million of capital deployed since 2007.¹⁴ Most other investors that consider gender impact do so only after investment, rather than using gender impact to inform investment decisions. Further, investors understand GLI to mean investing in women-owned or women-led enterprises. Other GLI strategies are not as well understood, such as investing in enterprises that provide goods or services directed primarily at improving the lives of women, girls, and the LGBT community, or investing in enterprises that promote workplace gender-equity. Gender lens investors that are active in the region should share their success stories to highlight their positive impact on gender equity and offer insight for other investors that may wish to apply a gender lens. The efforts of entities like Investing in Women, an initiative of the Australian government, continue to help bring GLI into the mainstream investment discourse.

Investors have reported few exits from equity investments, which may reflect limited transparency around exits, insufficient exit options, and the nascent market's limited track record. Most PIs that make equity investments seek market-rate returns, expecting to exit by selling to larger, either impact or impact-agnostic investors. As awareness of the concept of responsible investing grows, many formerly impact-agnostic investors are seeding impact-focused funds or are beginning to consider social and environmental impact as part of their investment philosophies. Increased activity by such investors, who are potential buyers on the secondary market, is driving optimism regarding exits and somewhat galvanizing the impact investing market. However, disclosed records of exits in recent years are limited only to a few countries like Singapore, Thailand, and Indonesia. Growth-stage investors expect to exit through public markets. Meanwhile, the performance of DFIs' debt portfolios may offer insights into the commercial potential of debt impact investments. Communication about the performance of DFI debt investments could increase awareness, reduce perceived risk, and attract more impact investing capital to the region. Further, as the industry evolves, more exits are likely to occur.

14 This report provides analysis of GLI only for these three countries.

The broader ecosystem

Over the past few years, new intermediaries have begun to provide enterprises with much-needed mentorship and support. However, only a few have an impact focus, and demand for such support far outweighs its availability. Many investors do not have local presences in every country in which they invest, thus depending heavily on intermediaries to source deals and get enterprises ‘investment-ready.’ Additionally, incubators and accelerators often bring together impact investors and enterprises unfamiliar with the concept of impact investing. Although many of these intermediaries are impact-agnostic, they can be effective partners for investors to source potential investees and promote innovation. Business-service providers can also help investors source investees seeking larger ticket sizes.

Social enterprises have an especially critical need for early-stage support, given that the ecosystem for social entrepreneurship is fairly nascent and mostly clustered in major cities—such as metropolitan Manila in the Philippines, Ho Chi Minh City and Hanoi in Vietnam, and Jakarta in Indonesia. This geographic concentration can keep impact-focused enterprises in rural areas from accessing critical support services.

Few policy provisions encourage impact investments in the region. Most policies related to impact investing indirectly stimulate the field through demand, for example by making it easier to register small and medium-sized enterprises (SMEs) and access government support or finance. Some countries have attempted to establish regulatory frameworks under which social entrepreneurs can register and receive benefits such as tax incentives or government-led buy-back agreements.¹⁵ However, some policies that seek to encourage ‘social entrepreneurship’ can be counterproductive; for instance, the requirement in Vietnam that social enterprises reinvest profits has discouraged many businesses from registering as social enterprises. Further, enterprises may be wary of being labeled as social enterprises due to concerns that the market may perceive them as less-serious businesses.

Investors use a variety of often-customized impact measurement tools and reporting mechanisms. Vastly different country contexts and impact theses lead impact investors to take relatively bespoke and fragmented approaches to impact measurement. Most investors use their own impact measurement frameworks, which may be based on globally accepted taxonomies, such as IRIS.¹⁶ Greater collaboration of impact measurement approaches could help increase transparency and better standardize expectations of impact performance.

15 Such policies have been passed in Thailand, Malaysia, and Vietnam, and the Philippines is considering the introduction of such a bill.

16 IRIS is the catalog of generally accepted performance metrics, managed by the GIIN. <http://www.iris.thegiin.org/>.

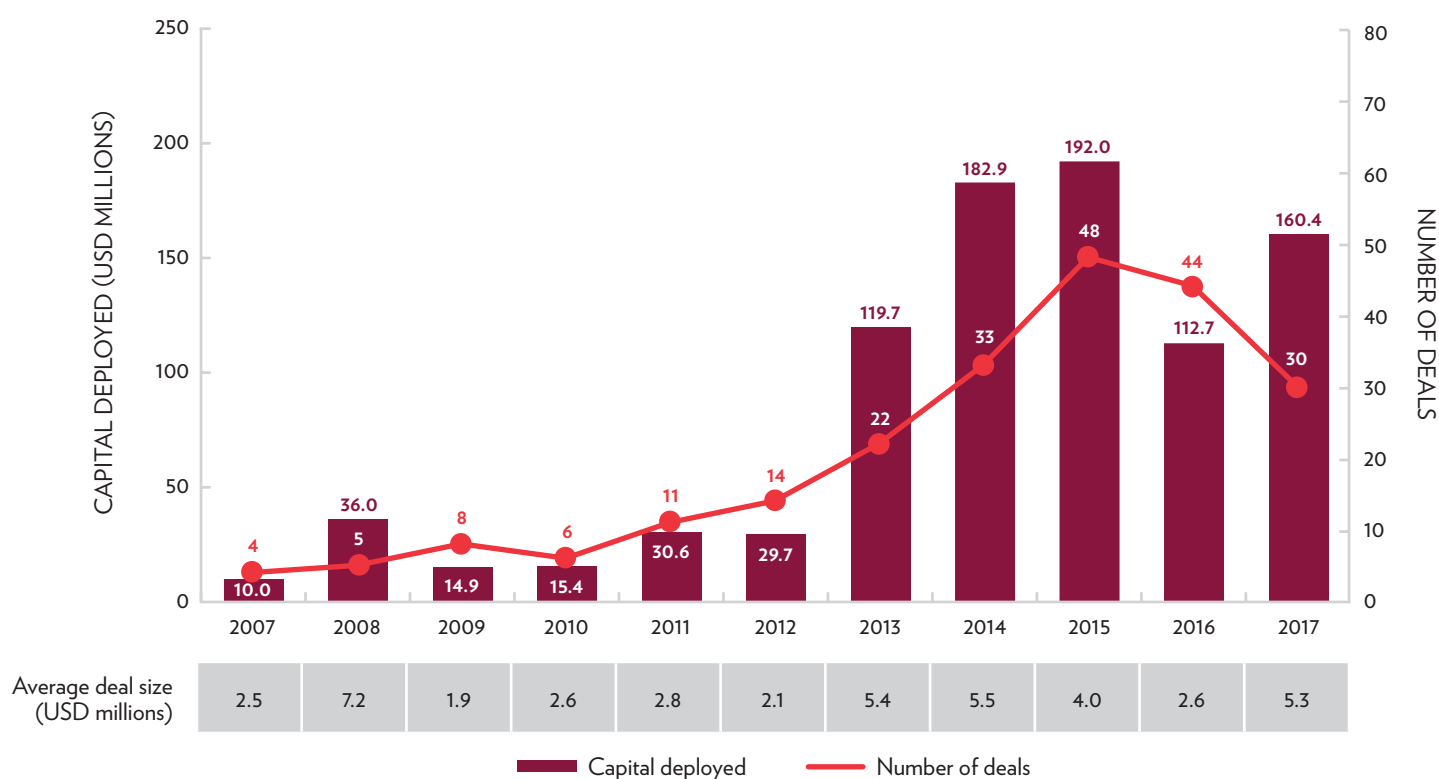
THE SUPPLY OF IMPACT CAPITAL IN SOUTHEAST ASIA

Between 2007 and 2017, at least 60 different PIIs have invested USD 904 million in 225 deals and almost a dozen DFIs have invested USD 11.3 billion in 289 deals in Southeast Asia. Indonesia and the Philippines have seen the most impact investment activity, and Vietnam, Myanmar, and Cambodia are seeing increasing investor interest.

Private impact investors

At least 60 different private impact investors have invested roughly USD 904 million into over 225 deals in Southeast Asia since 2007.¹⁷ Cambodia received roughly 45% of all PII capital deployed (principally in microfinance), while Indonesia and the Philippines together account for another 30% of PII capital. Most deals have been individual transactions rather than co-investments.

FIGURE 4: IMPACT CAPITAL DEPLOYED BY PIIs, BY YEAR
USD 904 MILLION IN 225 DEALS (2007–2017)



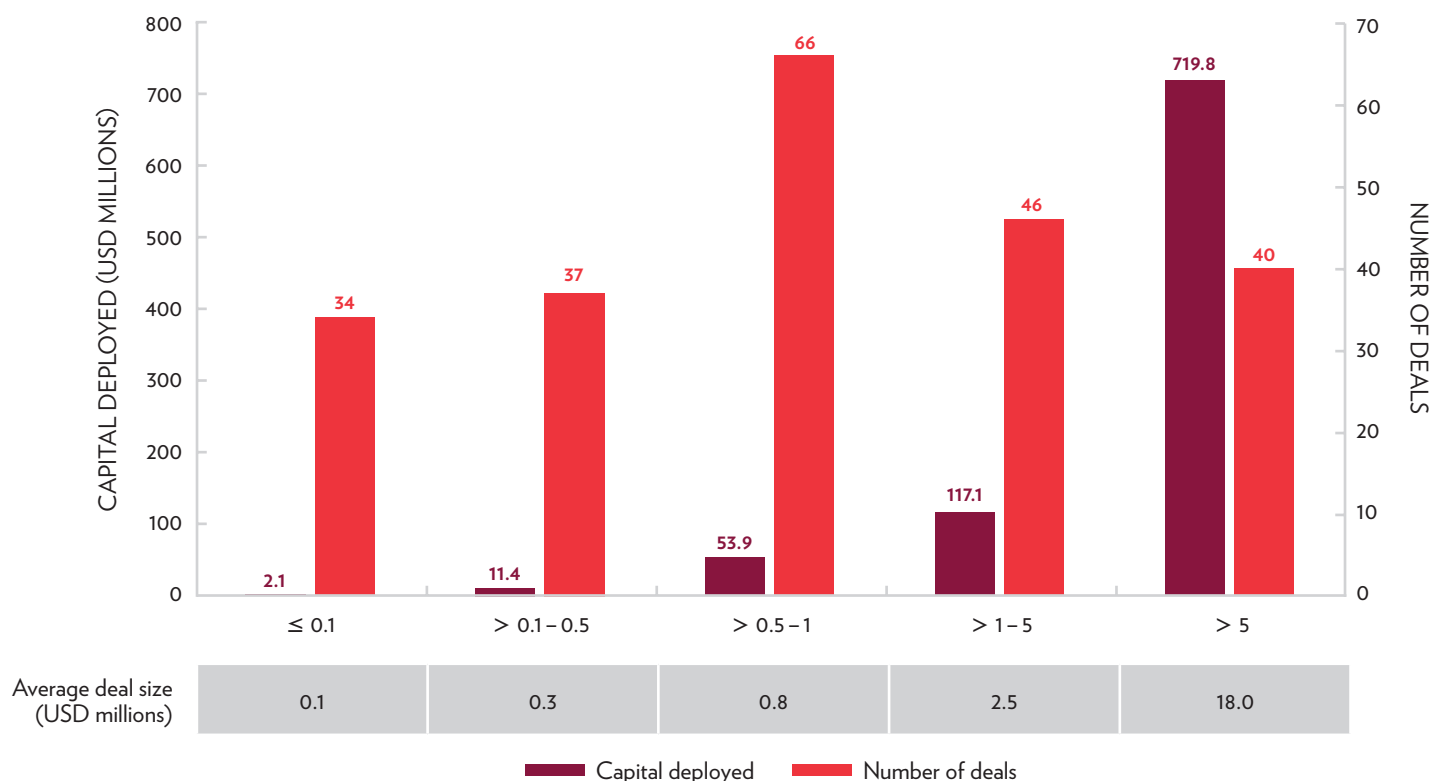
Source: Intelicap Advisory Services analysis

17 Some of these PIIs may no longer be active in the region.

Investment activity has increased over time, with more than 75% of deals and 80% of capital deployed since 2013. Multiple factors contributed to this surge in activity: the economic recovery after the global financial crisis, an increased local presence of investors in Southeast Asia, and several large investments in microfinance institutions in Cambodia. Impact investments in Myanmar also increased after 2013, as the country transitioned to a democracy and opened to more private-sector investment.

FIGURE 5: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE

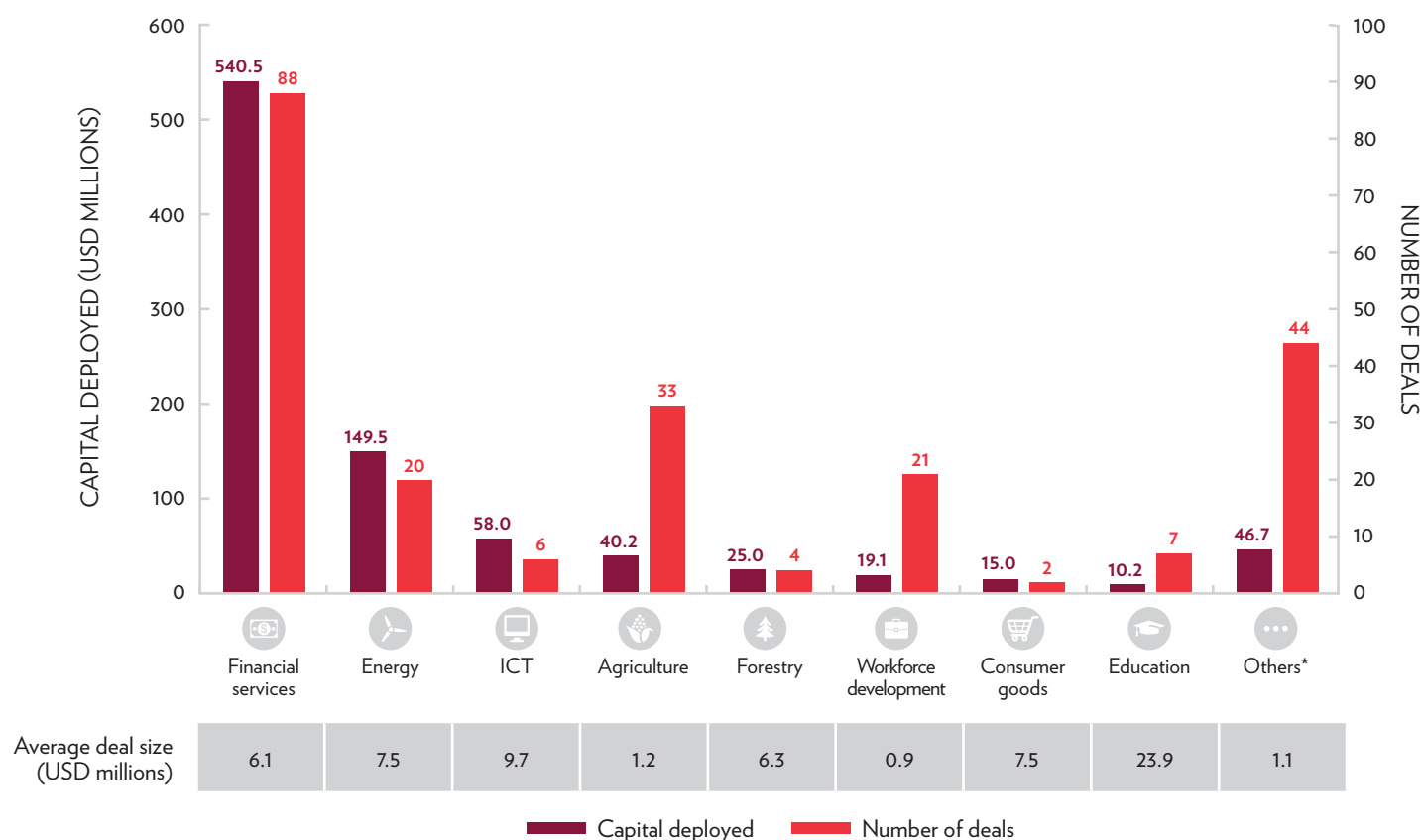
USD 904 MILLION IN 225 DEALS (2007–2017)



Source: Intelicap Advisory Services analysis

Stakeholders expect investment activity to continue to increase. A growing group of experienced PIIs are active in the region across diversifying sectors, evolving local ecosystems and increasing support for social enterprises. Demand for impact capital comes primarily from a growing number of startups and SMEs raising capital for the first time. A comparatively smaller pipeline of growth- and mature-stage enterprises can absorb larger Series B and C rounds of capital. The average ticket size of PII investors is around USD 3.9 million while the median is around USD 0.7 million.

FIGURE 6: IMPACT CAPITAL DEPLOYED BY PIIs, BY SECTOR
USD 904 MILLION IN 225 DEALS (2007–2017)



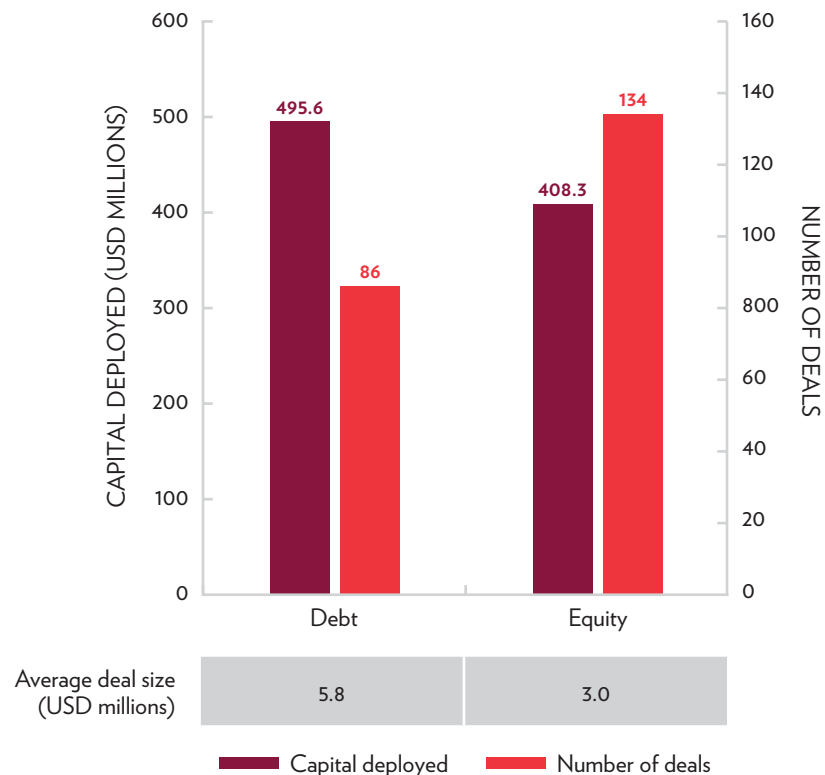
Note: Others include fisheries, media, and big data.
Source: Intelicap Advisory Services analysis

The top sectors of investment in the region have been financial services, clean energy, and ICT. The financial services sector has received the most impact capital, accounting for roughly 60% of all PII capital deployed. Microfinance institutions account for over 80% of the capital deployed in financial services, while insurance and commercial banking for SMEs have also attracted impact capital. Eighteen percent of capital has been deployed into clean energy, especially solar energy in the Philippines and Thailand. ICT accounts for the next-largest volume of capital deployed, with a concentration of activity in Singapore and Vietnam. Agriculture accounts for 15% of deals at small average ticket sizes ranging from USD 500,000 to USD 1 million. Variations in sectors of investment by country are further detailed in Table 3.

TABLE 3: OVERVIEW OF KEY IMPACT INVESTING SECTORS FOR PIIs, BY COUNTRY

COUNTRY	KEY SECTORS
CAMBODIA	The financial services sector—specifically microfinance—accounts for almost all PII impact deals and capital deployed in Cambodia, most made since 2013. Other sectors (such as energy, agriculture, and services) have received limited investment.
EAST TIMOR	All impact investments in East Timor have been in microfinance.
INDONESIA	Agriculture and financial services have seen the highest number of deals. Workforce development, fisheries, education, and healthcare are promising sectors, with a growing number of deals in recent years.
LAOS	Over 80% of capital deployed and almost 60% of all deals in Laos have been in clean energy. The remainder has supported the tourism and financial services sectors.
MALAYSIA	Only consumer goods and financial services have received impact investment.
MYANMAR	Like Cambodia, microfinance has received the most private impact investment in Myanmar (over 80% of capital deployed). Education, tourism, and ICT have also received some investment.
PHILIPPINES	Clean energy and financial services have had the highest number of deals and greatest share of impact capital disbursed. Workforce development and agriculture are promising sectors, with many deals in recent years.
SINGAPORE	The ICT sector is the single largest recipient of PII capital in Singapore, accounting for almost 80% of capital invested and 33% of deals. Healthcare and financial services have also attracted investment.
THAILAND	Energy is the most-invested sector in Thailand both in terms of the number of deals and capital deployed. Besides energy, the financial services sector has also attracted investment, primarily into insurance providers.
VIETNAM	Most investment, both in terms of the number of deals and capital deployed, has flowed into the ICT sector, most commonly into healthcare and banking-related products. Although microfinance has attracted some investment, that sector is largely government-controlled in Vietnam. Education and healthcare are up-and-coming sectors.

FIGURE 7: IMPACT CAPITAL DEPLOYED BY PIIs, BY INSTRUMENT
USD 904 MILLION IN 225 DEALS (2007–2017)



*Note: Instruments for five deals which deployed USD 0.4 million are unknown.
Source: Intelicap Advisory Services analysis*

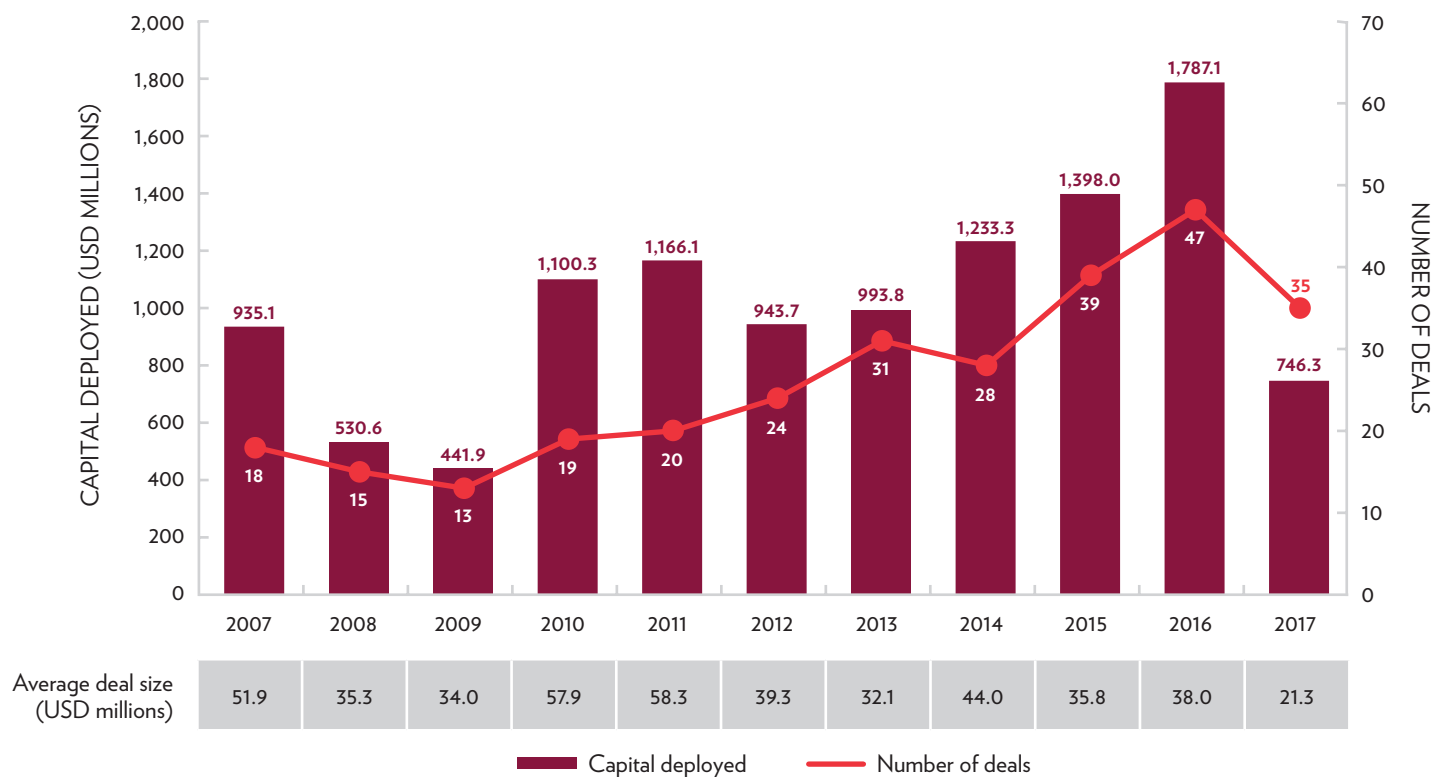
PIIs have made a gradually increasing number of equity deals over the years. Between 2007 and 2010, almost 65% of deals used debt, concentrated in the financial inclusion and agricultural sectors. However, since 2010, the balance has shifted considerably, with debt only accounting for roughly one third of deals. Driving this shift, in part, has been increased awareness among enterprises of equity as an instrument, increased appreciation among enterprises of the benefits that accompany equity investors (such as high-touch support, sector expertise, and access to global markets and networks), and an increased number of investors with a local presence, which allows them to better assess seed- and growth-stage enterprises suitable for equity investment.

Development finance institutions

Almost a dozen DFIs have invested about **USD 11.3 billion into 289 deals in Southeast Asia since 2007**. These DFIs also invest in private funds active in the region. The numbers captured in this report, however, reflect only DFIs' direct investments into enterprises or projects to avoid double-counting investments already reported within PII activity.

FIGURE 8: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR

USD 11.3 BILLION IN 289 DEALS (2007–2007)

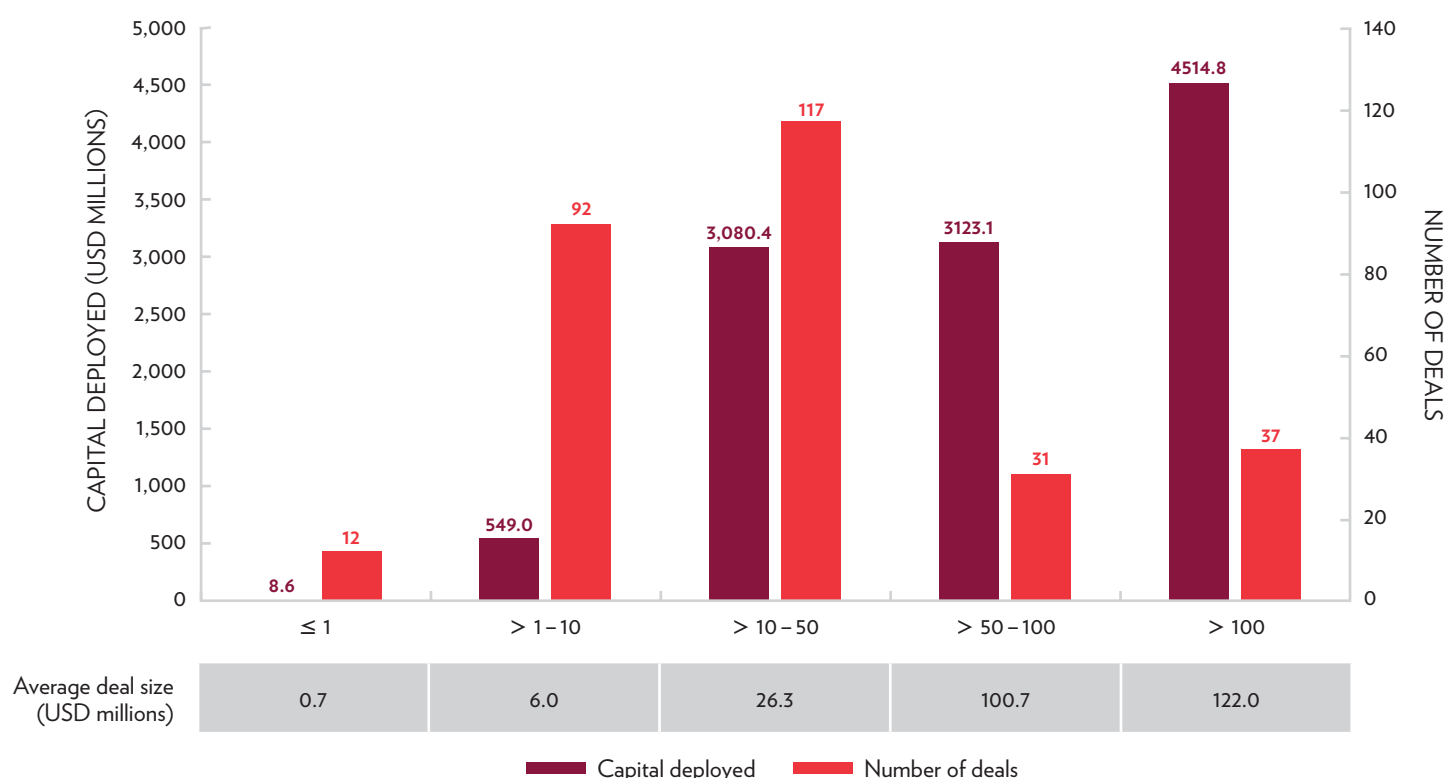


Source: Intelicap Advisory Services analysis

DFIs have long been active in Southeast Asia. Investment activity declined slightly in 2008 and 2009 during the financial crisis but has since trended upward.¹⁸ Traditionally, Indonesia, the Philippines, and Thailand have been large markets for DFIs, but Myanmar and Cambodia have also attracted significant amounts of capital since 2013. 2016 was a landmark year for DFI activity in the region, with over USD 1 billion deployed through 12 deals in the energy sector alone—mostly in Indonesia and the Philippines.

FIGURE 9: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE

USD 11.3 BILLION IN 289 DEALS (2007–2017)

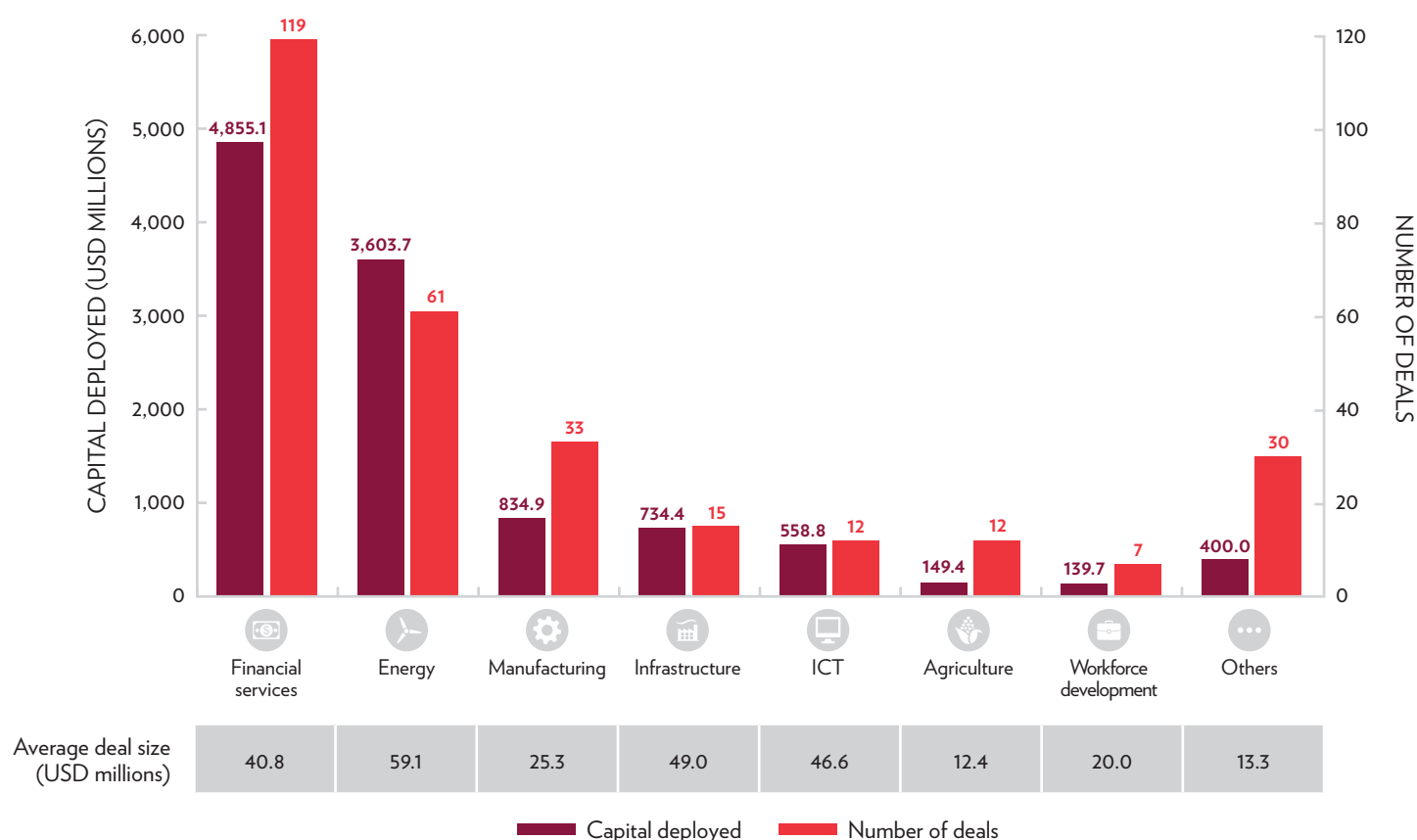


Source: Intilecap Advisory Services analysis.

As of 2017, DFIs' average deal size in Southeast Asia was around USD 40 million, while the median was around USD 8 million. As those figures suggest, DFIs have made investments across a wide range of deal sizes. Around 90% of the deals above USD 100 million have been in the financial services or energy sector, and deals below USD 100 million see representation across diverse sectors including ICT, manufacturing, agriculture, and water and sanitation.

¹⁸ The Research Team relied on public disclosures for information on DFI deals, which may not have been exhaustive for 2017.

FIGURE 10: IMPACT CAPITAL DEPLOYED BY DFIs, BY SECTOR
USD 11.3 BILLION IN 289 DEALS (2007–2017)



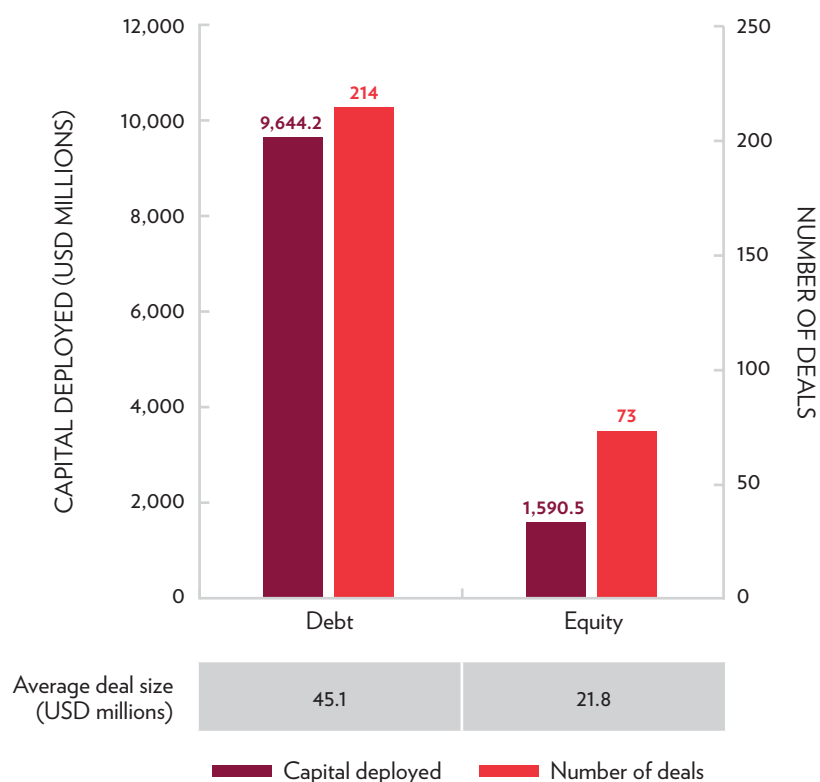
Source: Intelicap Advisory Services analysis

DFIs have traditionally been attracted to investments in the financial services sector, particularly microfinance, because of its potential to significantly expand the financial inclusion of marginalized communities and women. Other sectors, such as ICT and education, have also recently attracted DFI capital. Within manufacturing and infrastructure, DFIs have invested primarily in large-scale projects that seek to create jobs and improve livelihoods. Many economies are positioning themselves as attractive manufacturing alternatives to China, and manufacturers seek to increase their competitiveness by investing in high-capacity projects and reducing production costs. DFIs, working in tandem with national governments, have invested over USD 800 million in the region's manufacturing sector. Investments have also flowed to infrastructure projects in Vietnam, Laos, and Myanmar. ICT has received substantial investment, largely in Myanmar's telecommunications sub-sector. Agriculture and healthcare are emerging sectors of interest for DFIs in the region. In the agriculture sector, most DFI investments are in enterprises that operate at scale across the value chain (from production to processing to distribution) to create sustainable livelihoods for smallholder farmers. In the healthcare sector, DFIs have financed hospital expansion. Table 4 overviews DFI activity by country.

TABLE 4: OVERVIEW OF KEY IMPACT INVESTING SECTORS FOR DFIs, BY COUNTRY

COUNTRY	KEY SECTORS
CAMBODIA	The financial services sector—specifically microfinance—accounts for almost all PII impact deals and capital deployed in Cambodia, most made since 2013. Other sectors (such as energy, agriculture, and services) have received limited investment.
EAST TIMOR	All impact investments in East Timor have been in microfinance.
INDONESIA	Agriculture and financial services have seen the highest number of deals. Workforce development, fisheries, education, and healthcare are promising sectors, with a growing number of deals in recent years.
LAOS	Over 80% of capital deployed and almost 60% of all deals in Laos have been in clean energy. The remainder has supported the tourism and financial services sectors.
MALAYSIA	Only consumer goods and financial services have received impact investment.
MYANMAR	Like Cambodia, microfinance has received the most private impact investment in Myanmar (over 80% of capital deployed). Education, tourism, and ICT have also received some investment.
PHILIPPINES	Clean energy and financial services have had the highest number of deals and greatest share of impact capital disbursed. Workforce development and agriculture are promising sectors, with many deals in recent years.
SINGAPORE	The ICT sector is the single largest recipient of PII capital in Singapore, accounting for almost 80% of capital invested and 33% of deals. Healthcare and financial services have also attracted investment.
THAILAND	Energy is the most-invested sector in Thailand both in terms of the number of deals and capital deployed. Besides energy, the financial services sector has also attracted investment, primarily into insurance providers.
VIETNAM	Most investment, both in terms of the number of deals and capital deployed, has flowed into the ICT sector, most commonly into healthcare and banking-related products. Although microfinance has attracted some investment, that sector is largely government-controlled in Vietnam. Education and healthcare are up-and-coming sectors.

FIGURE 11: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT
USD 11.3 BILLION IN 289 DEALS (2007–2017)



*Note: Instruments for 2 deals which deployed USD 43.2 million are unknown.
Source: Intelicap Advisory Services analysis*

About 85% of DFI investments have been made through debt. DFIs increasingly make equity investments, which are typically much smaller deals, at an average ticket size less than half that of debt investments. DFIs have invested equity in many different sectors in the Philippines, Vietnam, and Indonesia, indicating that DFIs’ approach to the development of the region is expanding beyond the traditionally common sectors of financial services and energy.

Gender lens investing in Indonesia, the Philippines, and Vietnam

Interest in GLI is increasing in Southeast Asia, largely due to targeted, market-building activities by ecosystem builders, donors, and bilateral and multilateral development agencies. Since 2007, five PII, in Indonesia, the Philippines, and Vietnam, have deployed USD 40 million in more than 30 deals using an explicit gender lens.¹⁹ These investments have overwhelmingly (more than 95%) used debt. Additionally, the Impact Investment Exchange has designed a listed social impact bond which is used to channel microfinance toward women borrowers.

While only a few PII operated with a gender lens prior to 2013, in the past year more investors have begun to scout the region using a gender lens. Donors and bi-lateral or multi-lateral aid agencies have funded initiatives, such as Investing in Women, the Sasakawa Peace Foundation’s Asian Women Impact

¹⁹ This report analyses GLI only for the three countries considered in detail: Indonesia, the Philippines, and Vietnam.

Fund, and OPIC's recent 2X Women's Initiative, that are encouraging GLI in the region. Some of these initiatives have been launched recently and are likely to see more traction in the future. Although DFIs' impact theses have long included women's empowerment by implication, it rarely informs their criteria for due diligence or investment selection.

Almost 90% of capital invested using a gender lens has targeted microfinance institutions, and investments which promote women's financial inclusion, because microfinance institutions largely serve female customers.²⁰ GLI capital has also flowed to the agricultural, healthcare, and services sectors.

Persistent challenges have kept GLI from scaling in the region. Many investors reported finding it difficult to source investable enterprises that are owned or led by women amid an already sparse pipeline, adding to sourcing costs. Moreover, metrics to measure gender impact have not yet been fully defined, making it more difficult for investors to measure and report such impact.

Many investors interpret GLI to mean investing in women-owned or women-led enterprises, demonstrating limited awareness of other GLI strategies. Table 5 details the prevalence of various GLI strategies in Indonesia, the Philippines, and Vietnam specifically.

TABLE 5: STRATEGIES USED FOR GENDER LENS INVESTING IN SOUTHEAST ASIA

GLI STRATEGY	INVESTMENT ACTIVITY	USE IN INDONESIA, THE PHILIPPINES, AND VIETNAM
Investing in women-owned or women-led enterprises	USD 3.6 million into 8 deals	Though most investors understand this strategy, it accounts for less than 10% of GLI investments, as investors reported finding it difficult to source qualified investees. However, a few investors have launched funds to invest exclusively in women-owned or -led businesses.
Investing in enterprises that offer products and services that significantly improve the lives of women and girls	USD 39.7 million into 25 deals	Most gender lens investments, specifically those in microfinance, use this strategy. Microfinance typically improves the financial inclusion of women and girls, and gender lens investors perceive the sector to be a direct fit for this strategy.
Investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along the supply chain)	USD 25.5 million into 4 deals	This strategy requires significant due diligence, which consequently increases sourcing costs. Many investors adopt this as a secondary strategy, with a primary focus on women's ownership or leadership and on investing in enterprises that offer products and services that improve the lives of women and girls.

Note: Some investments may target multiple GLI strategies, and thus be double counted in this table.

Source: Intelicap Advisory Services analysis

Gender lens investors and those who are aware of GLI offered a few key success factors for future practice:

- **Growing awareness of GLI is critical**, as most investors offered only a high-level understanding of the subject. Though many investors generate unintentional positive gender impact, by investing in sectors such as microfinance, encouraging such investors to adopt explicit GLI strategies could help further their impact on gender equity.

²⁰ Many other impact investments have been made into microfinance institutions without an explicit gender lens. Usually, DFIs and PIs invest in microfinance to promote financial inclusion broadly, rather than among women specifically. While such investments have a positive impact on gender equity, this analysis includes only investments with explicit gender-based intent.

- **Celebrating GLI success stories** can demonstrate the viability of GLI as an investment strategy. Anecdotal evidence from GLI investors suggests that women more diligently make loan repayments. However, while a positive business case has been made for gender-diverse enterprises globally,²¹ gender diversity has not been studied or assessed for Southeast Asia specifically. Documenting and disseminating success stories of women-led businesses and women-focused enterprises can help establish the business case for GLI in the region.
- **Encouraging women-focused intermediaries** can help more women to start and build investable enterprises. The World Economic Forum's Global Gender Gap report suggests that all countries in Southeast Asia have some degree of gender inequality, with only the Philippines and Singapore reaching the top 50 globally with respect to bridging the gender gap.²² Inherent inequality causes female entrepreneurs to face specific challenges intermediaries could address, such as limited social support, lack of confidence, and limited access to financial networks.

CHALLENGES AND OPPORTUNITIES

Impact investors, entrepreneurs, and ecosystem enablers alike expressed optimism about the Southeast Asian market because of its size, economic growth, and demographic trends. In addition, these stakeholders identified several notable challenges and opportunities.

Supply-side challenges

- **Lack of investable pipeline:** Given the nascent stage of social entrepreneurship in the region, most investors highlighted the lack of an investable pipeline as a key hurdle to deploying capital. In addition, interviewed equity investors perceived the region as having weak standards for corporate governance.
- **High costs of sourcing and due diligence leading to an early-stage funding gap:** In most of the region, for-profit social entrepreneurship is a relatively novel concept. Consequently, many social enterprises are at the seed and early stages, requiring small investments. However, only a few investors provide such investments. Instead, most prefer ticket sizes larger than USD 1 million because the relative costs of screening, due diligence, and other pre-investment needs are very high for smaller investments. As a result, many countries face substantial early-stage funding gaps.
- **Limited local presence of investors:** Several investors cited local presence as a key success factor, but only a handful have local offices in their countries of operations. This limits their operations in several ways: (1) it increases the time required for decision making and due diligence, (2) it increases the perceived risks associated with investing in the region, (3) it increases the time required to source deals, and (4) it limits investors' ability to provide high-touch support to their investees.

21 Published work has already suggested that a gender-diverse workforce or senior management team positively impacts business performance. Rama Ramaswami and Andrea Mackiewicz, eds., *Scaling Up: Why Women-Owned Businesses Can Recharge the Global Economy* (London: Ernst & Young, 2009); and Anna Snider and Jackie Vanderbrug, *Through a Gender Lens: Investing for Impact and Opportunity* (Global Wealth & Investment Management, Chief Investment Office Impact Investing Council, U.S. Trust, April 2017).

22 The Global Gender Gap Report (Geneva: WEF, 2017), 0-24, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

- **Reliance on foreign pools of capital:** Much of the impact capital deployed in the region has come from foreign investors. Impact investing has yet to take hold as a concept among local investors, who typically use philanthropy as their preferred tool to achieve social and environmental goals.
- **Lack of demonstrated success:** Although several exits have been disclosed since 2017, the industry needs more examples of success. While many stakeholders have discussed expected returns, the region lacks evidence of realized returns. The lack of success stories inflates the perception of risk in the region, which often deters new investors from entering the market.

Supply-side opportunities

- **High demand from seed- and early-stage enterprises:** One impact-focused angel network—the only one in the region—is active in Indonesia. This network has helped to fill the early-stage funding gap in Indonesia, and similar networks could be established in other countries or at a regional level.
- **Large local pools of dormant capital:** In many countries in the region, especially Indonesia, the Philippines, and Thailand, high-net-worth individuals and family offices are increasingly expressing interest in impact investing. Many are currently involved in grant-making and want to improve the accountability and sustainability of their philanthropy. Such capital could be leveraged either directly for impact investing or by designing hybrid capital models to increase the risk appetite of PIs already active in the region.
- **Diversification of investments into new impact sectors:** Within Southeast Asia, economies span the spectrum of development. Consequently, the region offers impact investing opportunities across many sectors. For instance, more-developed countries like Singapore, Brunei, and Malaysia have distinct challenges, such as high greenhouse gas emissions, high reliance on foreign workers, and rapidly aging populations. Investments to solve such challenges—although different from ‘typical’ sectors for impact investing in emerging markets—offer great potential to create positive social and environmental impact while generating financial returns.
- **Creating an evidence base regarding performance:** To overcome the limited evidence of successful investments, investors in the region could share data on realized returns and impact performance with some chosen degree of confidentiality. This market transparency could provide critical intelligence to new investors considering making impact investments in the region.
- **Targeting excluded impact enterprises:** Currently a large proportion of supply side players and support providers are concentrated in urban areas, whereas in countries like Indonesia, Philippines, Thailand, and Myanmar, potential investees may operate outside of major cities. There is opportunity to invest in enterprises ignored due to logistical limitations. Additionally, many potential investees are excluded given the vintage of their operations and inability to generate market rate returns. Fund managers have an opportunity to raise funds from LPs that seek to bridge the seed and early-stage funding gap by providing concessionary capital.

Demand-side challenges

- **Reliance on grant capital:** Recently, the number of competitions and awards for social entrepreneurship has surged in the region. While this has enabled many enterprises to raise much-needed seed capital, some entrepreneurs consider philanthropic capital and grants to be a source of revenue or a long-run mechanism of financing. This keeps them from focusing on independent financial sustainability.

- **Lack of familiarity with impact investors:** While the impact investing industry in the region has recently grown, many entrepreneurs still have only limited awareness of impact investing. In addition, besides several incubators and accelerators that facilitate pitch sessions, most entrepreneurs lack the networks needed to interact with impact investors. Consequently, several well-connected enterprises have raised multiple rounds of funding, even while others struggle to access capital.
- **Inability to pay for support services:** Since a large proportion of potential investees are early-stage, many cannot pay incubators or accelerators for support services, which often prevents them from developing the expertise required to scale.

Demand-side opportunities

- **Investing in inclusive SMEs:** In a bid to overcome limited investment pipelines, many impact investors in the region have begun to screen for SMEs that could generate positive impact with minor modifications to their business models. Such modifications might include, for example, sourcing raw materials from marginalized communities or employing youth from underserved communities. Following investment into such SMEs, investors provide high-touch support focused on increasing the enterprises' value chains and measuring and monitoring the created impact.
- **Leveraging changing trends in development aid:** Grant flows across the region are evolving with increasing socio-economic development and more capital is being channeled as investment. In response, a number of non-profit organizations have started to transition to for-profit structures in order to access new sources of capital. This gradual transformation will likely expand the pool of potential high-impact investments.

Ecosystem challenges

- **Risk that ecosystem facilitators are financially unsustainable:** Impact-focused intermediaries, including incubators and accelerators, transaction advisors, and consultants, have limited bases of customers and corresponding revenue. Consequently, many such intermediaries have started to target mainstream businesses, drifting away from their social missions. In addition, expertise and mentorship relevant to high-impact sectors are expensive in the region, further reducing intermediaries' sustainability.
- **Concentration of ecosystem intermediaries in urban areas:** Ecosystem intermediaries in most countries are concentrated in urban areas. For instance, in the Philippines, most intermediaries are located in metropolitan Manila; in Indonesia, most intermediaries are located in either Jakarta or Bandung. This limits the ability of social enterprises from rural areas to receive required support.
- **Limited availability of capacity-building support for fund managers:** While support services are offered on the demand side, capacity-building services for fund managers are limited. Since the region is highly diverse, fund managers require a certain degree of education in local contexts before they can develop and design their instruments for effective capital deployment.
- **Roadblocks caused by infrastructure and policy:** Only five of 11 countries in the region rank in the global top 100 on the Ease of Doing Business rankings. This highlights the many deterrents to investing across the region in terms of gaps in infrastructure and policy.

Ecosystem opportunities

- **Positive recognition of the role of social enterprises in development:** Several economies in the region, including Thailand, Malaysia, Singapore, and the Philippines, have either established regulations and policies to support the growth of social enterprises, such as incentives and buy-back arrangement, or are planning to do so. If these policies are well-implemented, they can help address investor perceptions of limited investment pipeline.
- **Introducing intermediaries that connect philanthropic and impact capital:** Much of the capital used to finance development in the region comes from philanthropic sources. Several grant-makers highlighted difficulties in tracking the efficiency of such deployments and ensuring their long-run sustainability. Intermediaries that can connect philanthropic stakeholders with entities providing impact capital could greatly accelerate impact investing in the region by (1) providing support to transition philanthropic actors to impact investing and (2) designing hybrid investment instruments.

RECOMMENDATIONS FOR FURTHER RESEARCH

From this assessment of the landscape of the impact investing industry in Southeast Asia, the Research Team identified certain topics that require further investigation to continue to stimulate the impact investing industry in the region:

- **The impact investing industry in Cambodia:** This report analyzes three countries in depth: Indonesia, the Philippines, and Vietnam. However, because of the sheer scale of its microfinance sector, Cambodia should also be studied in more detail. Cambodia's consolidation of impact investments in one sector is unusual; though it has allowed investors to scale rapidly, it also presents concentration risk.
- **Assessment of demand for and success of gender lens investments:** GLI is a relatively new concept, with most studies evaluating the supply of GLI capital. However, little existing research describes the preferences, needs, or objectives of prospective recipients of gender lens capital, whether they be women-led or -owned enterprises, enterprises with large proportions of female staff, or enterprises that serve female customers. In addition, building a case for GLI will require conducting detailed analysis of the financial and social performance of gender lens investments.
- **Evaluation of investment performance:** Little evidence exists to date on the financial or impact performance of investments in the region. Such analysis could help investors better benchmark their own results, refine their investment strategies, and advocate for policies that promote impact investments.
- **Evaluation of policies to support social entrepreneurship:** Several countries in the region have designed policies to support social entrepreneurship, but whether each of these policies are optimally designed and whether any have unintended negative consequences remain unclear.²³ Assessment of the on-the-ground impact of such policies would provide valuable intelligence to market participants.

23 Some of the countries where regulations have been passed include Thailand, Malaysia, and Vietnam, whereas Philippines is considering the introduction of a bill for the same.

APPENDIX 1: LIST OF INTERVIEWEES

We extend our sincerest thanks to the following organizations, who contributed their time and expertise for this report:

Aavishkaar Frontier Fund	Garden Impact	Patamar Capital Indonesia
Accion Venture Lab	German Investment Corporation (DEG)	Patamar Capital Vietnam
Angel Investment Network Indonesia	German Investment Corporation (DEG) Vietnam Team	Peace & Equity Foundation
Anthem Asia	Global Innovation Fund	Philippine Women's Economic Network
Aqua-Spark	Hatch! Ventures	Planet 9
ASEAN Women Entrepreneur Networks	Impact Hub, Jakarta	PT Mekar Investama Sampoerna
Asian Development Bank	Impact Investment Exchange Asia (IIX) / Shujog	Resonance
Asian Venture Philanthropy Network	Incofin Investment Management	responsAbility
Aspen Network of Development Entrepreneurs, Southeast Asia Chapter	Innotek	Rockstart Impact
Aspen Network of Development Entrepreneurs, Southeast Asia, Global Chapter	Insitor Impact Asia Fund	Root Capital
BASIX	Institute of Social Entrepreneurship in Asia	SEAF Women's Opportunity Fund
BPI Foundation	International Finance Corporation (IFC)	Small Enterprise Assistance Funds (SEAF)
Bridge	Investing in Women	Sovereign Capital
Capital 4 Development Partners	Jungle Ventures	Tau Investment
Capria Ventures LLC	KfW	The Singapore Centre for Social Enterprise
Catalyst at Large	Kickstart Ventures	Thrive
Center for Social Initiatives Promotion (CSIP)	LGT Venture Philanthropy	Tondo Foundation
Change Ventures	MainStreet Partners	Triodos Bank
Department of Foreign Affairs and Trade (DFAT) Vietnam Team	Mercy Corps	Triple Jump
Developing World Markets	National University of Singapore	UNDP SDG Impact Fund
Emerging Markets Impact Investment Fund (DFAT)	Netherlands Development Finance Company (FMO) Debt Team	United Nations Capital Development Fund
Emerging Markets	Netherlands Development Finance Company (FMO) Equity Team	United Nations Development Programme
Endeavour	NewForests	United States Agency for International Development
ENGIE Rassembleurs d'Energies	Oikocredit	Usaha Social
Epic Foundation	Osiris Group	Village Capital
EY	Overseas Private Investment Corporation	Villgro
Evergreen Labs	Oxfam	Winrock International
GandengTangan	Palladium	Women Organizing for Change in Agriculture and Natural Resource Management (WOCAN)
		Xchange



REGIONAL OVERVIEW

SOUTHEAST ASIA

Southeast Asia is home to both sophisticated economies and developing markets. Consequently, addressing the wide range of socio-economic challenges in the region requires broad input across the impact investing ecosystem.

The Landscape for Impact Investing in Southeast Asia report provides detailed information on three major regional markets for impact investing: Indonesia, the Philippines, and Vietnam. This chapter covers impact investing activity across the region's other eight countries: Brunei, Cambodia, East Timor, Laos, Malaysia, Myanmar, Singapore, and Thailand.

Economic overview

Southeast Asia's diversity is reflected in the varying sizes of its economies and individual countries' performance across economic development indicators like the Ease of Doing Business (EoDB) ranking and Global Competitiveness Index (Table 1).¹ For instance, for more than a decade, Singapore held the top position globally on the EoDB ranking. By contrast, some countries, like East Timor and Myanmar, have only recently begun to open their economies; many are intentionally creating an enabling environment for business.

TABLE 1: ECONOMIC DEVELOPMENT INDICATORS

COUNTRY	GDP (PPP; 2016) USD BILLIONS	FDI NET INFLOWS (2016) USD MILLIONS	EASE OF DOING BUSINESS RANKING, 2018 (OUT OF 190)	GLOBAL COMPETITIVENESS INDEX 2017-2018 RANK (OUT OF 137)	AVERAGE INFLATION RATE (2007-2017) %
BRUNEI	32.7	-151	56	46	0.5
CAMBODIA	58.9	2,287	135	94	5.5
EAST TIMOR	2.7	6	178	—	6.3
INDONESIA	3,031.0	29,000	91	36	5.8
LAO PDR	44.3	997	141	98	4.3
MALAYSIA	863.3	13,515	24	23	2.4
MYANMAR	302.6	3,278	171	131	10.5
PHILIPPINES	806.3	7,900	113	56	3.7
SINGAPORE	492.5	61,596	2	3	2.4
THAILAND	1,165.0	3,063	26	32	2.0
VIETNAM	595.4	12,600	68	55	9.0

■ Top 2 ■ Bottom 2 — Data not available

Source: Compiled by Intelicap Advisory Services

1 The most recent Global Competitiveness Index for Myanmar was calculated for 2016–2017.

Social overview

As with economic development, Southeast Asia exhibits diversity across social development indicators (Table 2). For example, Singapore tops the Human Development Index (HDI) among its regional peers, ranking fifth globally. On the other hand, Myanmar and Cambodia rank among the bottom 50 countries globally. While each country faces its own set of challenges, economic, social, and gender inequalities pervade throughout the region. Income gaps are much higher in wealthier countries, while gender and social inequalities are higher in the region's lower-income countries.

TABLE 2: SOCIAL DEVELOPMENT INDICATORS

COUNTRY	POPULATION (THOUSANDS)	GDP (PPP) PER CAPITA (2016)	GINI COEFFICIENT	HUMAN DEVELOPMENT INDEX RANK (2016)	SDG INDEX RANK (2017)	GLOBAL GENDER GAP RANK
BRUNEI	423	77,420	—	30	—	102
CAMBODIA	15,762	3,737	37.9	143	114	99
EAST TIMOR	1,269	2,140	31.9	133	106	128
INDONESIA	261,116	11,220	39.0	113	100	84
LAOS	6,758	6,549	36.7	138	107	64
MALAYSIA	31,187	27,682	46.2	59	54	104
MYANMAR	52,885	5,721	—	145	110	83
PHILIPPINES	103,320	2,951	40.1	116	93	10
SINGAPORE	5,607	87,832	45.8	5	61	27
THAILAND	68,864	16,913	44.5	87	55	75
VIETNAM	94,569	5,838	37.6	115	68	69

Top 2 Bottom 2 — Data not available

Source: Compiled by Intellect Advisory Services

This chapter discusses the supply of impact capital in eight countries in the region,² followed by more detailed context for each country.

² Excluding Indonesia, the Philippines, and Vietnam which are discussed in separate chapters.

SOUTHEAST ASIA: AN INTRODUCTION TO THE IMPACT INVESTING LANDSCAPE

Overview of the Southeast Asian impact investing landscape

From 2007 to 2017, Private Impact Investors (PIIs) deployed more than USD 904 million through 226 deals in Southeast Asia. Indonesia, the Philippines, and Vietnam, analyzed separately for the purposes of this report, were the major countries for investment, receiving over 30% of all impact capital deployed (more than USD 281 million) through 135 deals.³ Combined, the rest of the region—Brunei, Cambodia, East Timor, Laos, Malaysia, Myanmar, Singapore, and Thailand—attracted nearly USD 622.5 million through 90 deals. Both the number of deals and the capital deployed by PIIs in these eight countries have increased significantly since 2013, which primarily reflects increased investment in Cambodia’s financial services sector. Overall, in terms of sector, most PII investments have flowed to financial services, energy, information and communications technology (ICT), agriculture, and consumer goods. There is a high prevalence of large debt investments, with the average ticket size for debt investments four times that of equity investments. Instruments vary by country, with a higher use of equity in more developed economies like Singapore and Malaysia than in economies such as East Timor, Cambodia, and Laos.

DFIs, on the other hand, have been consistently active over the last decade, cumulatively deploying more than USD 11.2 billion in impact capital through 298 deals in the region. DFI investments in Indonesia, the Philippines, and Vietnam accounted for nearly USD 7.3 billion in 160 deals, and DFIs deployed more than USD 4.0 billion in 129 deals across the other eight countries. Across the region, DFI investments were concentrated in the energy and financial services sectors.

In total, since 2007, the impact capital deployed by both PIIs and DFIs in Southeast Asia amounts to nearly USD 12.2 billion in 514 deals. Indonesia, the Philippines, and Vietnam together accounted for nearly USD 7.6 billion of this capital in 295 deals (62% of all capital deployed and 56% of deals), while the rest of the region saw nearly USD 4.6 billion deployed in 219 deals.

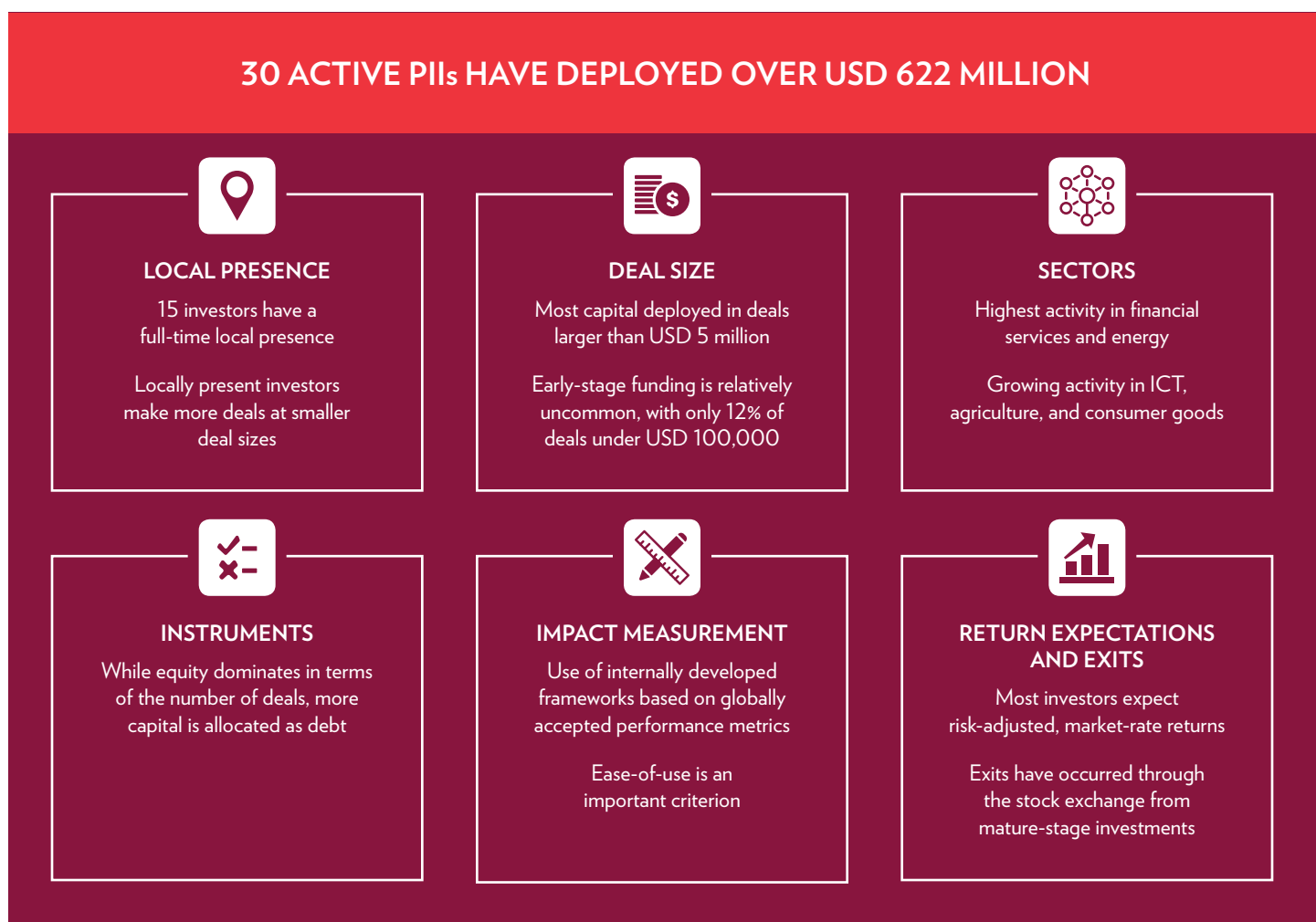
³ Indonesia, the Philippines, and Vietnam are discussed in detailed, independent chapters, so these countries are not covered in the analysis presented in this chapter.

Private impact investors

OVERVIEW

Private impact investing has grown over the last decade across the region, with 30 PIIs responding to widespread opportunity (Figure 1). While fund managers have made most investments, incubators and accelerators have also begun to invest in the enterprises they support.

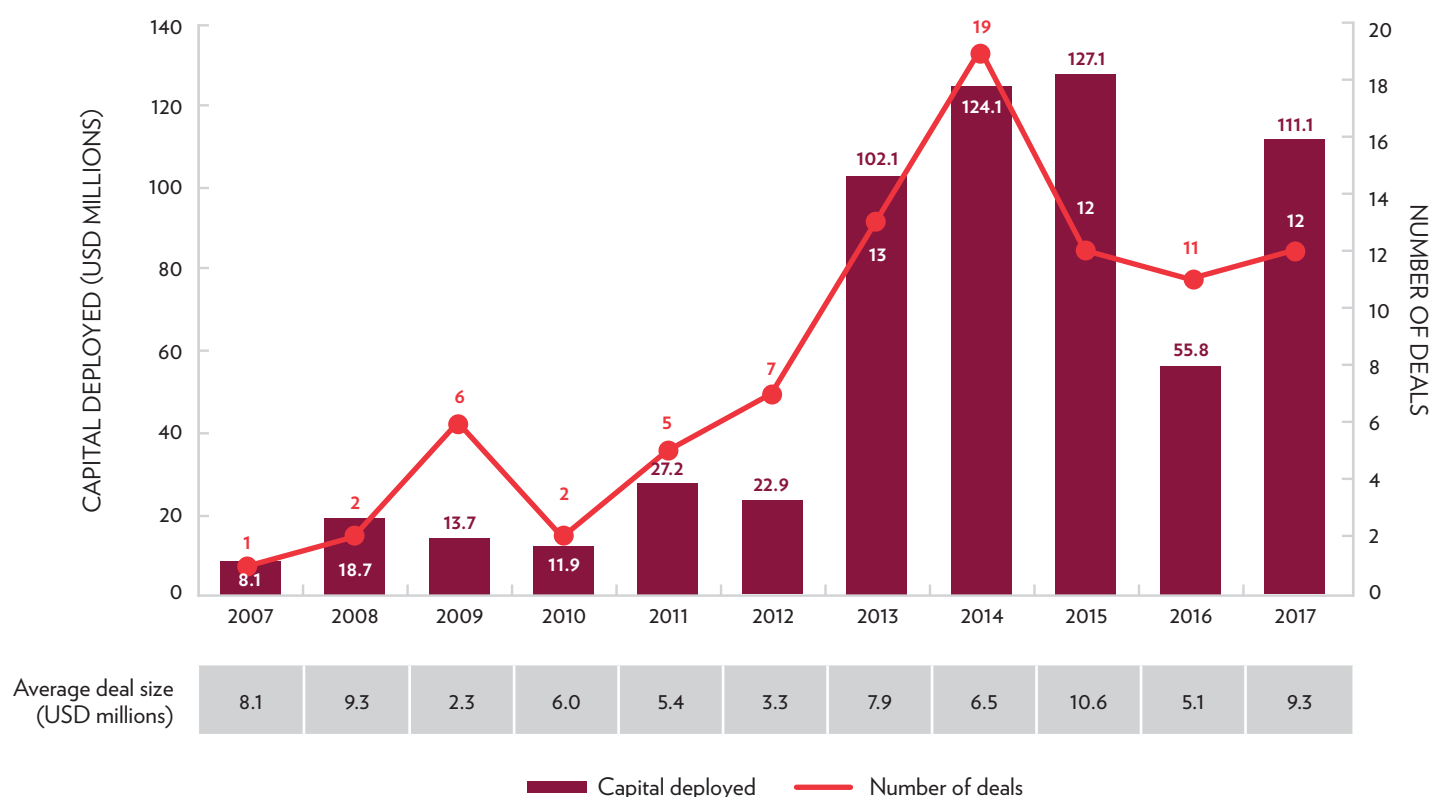
FIGURE 1: OVERVIEW OF PII ACTIVITY IN THE EIGHT COUNTRIES



Source: Intelicap Advisory Services analysis

The average deal size in these eight markets has been USD 6.9 million, larger than the average deal size in Indonesia (USD 2.6 million), the Philippines (USD 2 million), or Vietnam (USD 1.1 million). This high average can be attributed to a few large investments in microfinance in Cambodia and in renewable energy projects in Thailand. Excluding these deals, the average falls to USD 2.6 million for the eight markets.

FIGURE 2: IMPACT CAPITAL DEPLOYED BY PIIs, BY YEAR (2007-2017)
USD 622.5 MILLION IN 90 DEALS



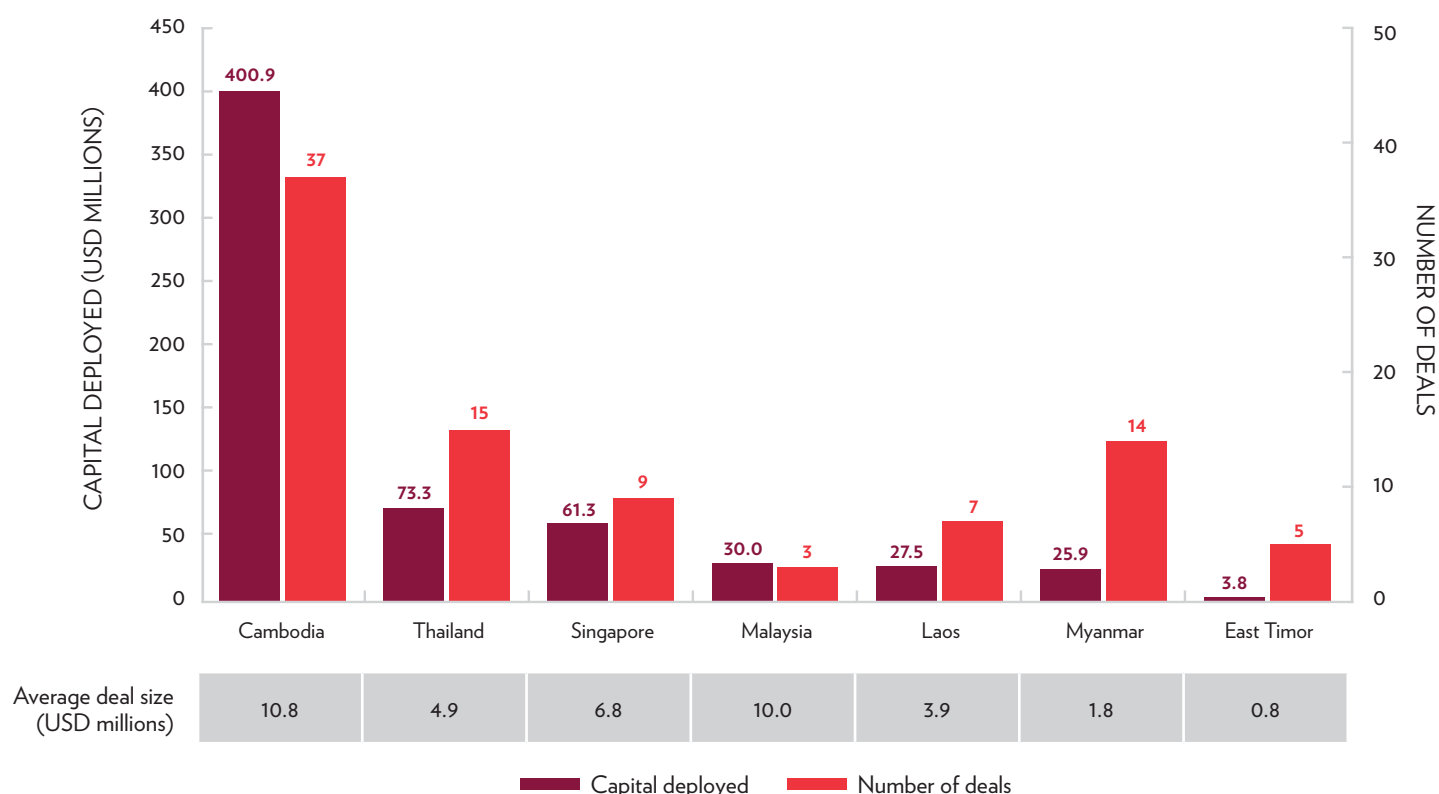
Source: Intelicap Advisory Services analysis

Private impact investing activity increased after 2013 as the effects of the global financial crisis began to recede (Figure 2). About 75% of all deals in the eight countries were made since 2013, averaging 14 deals per year compared to four deals per year prior to 2013. The average ticket size for investments in the region gradually rose from USD 3.3 million in 2012 to USD 9.3 million in 2017, though ticket sizes varied widely across countries (Figure 3). For instance, the average ticket size is below USD 2.0 million in East Timor and Myanmar but larger than USD 5.0 million in the more developed economies of Singapore and Malaysia. Cambodia has an even higher average ticket size of USD 10.8 million because of a few large deals in the microfinance sector.

In terms of number of deals, activity was the highest in Cambodia, while East Timor and Brunei attracted the fewest deals.⁴ Cambodia also accounted for more than 60% of all capital deployed in the eight countries, mostly due to its steadily growing flow of debt investments into the microfinance sector.

⁴ Data related to impact deals in Brunei were unavailable and hence were not included.

FIGURE 3: IMPACT CAPITAL DEPLOYED BY PIIs, BY COUNTRY (2007–2017)
USD 622.5 MILLION IN 90 DEALS



*Note: Impact deals data in Brunei were unavailable and hence were not included.
Source: Intelicap Advisory Services analysis*

At 15 each, Myanmar and Thailand both saw the second-highest number of impact deals among the countries, although Thailand received much more capital (12% of all deployed to the eight countries, or USD 73.3 million); Myanmar has so far received just 4% (USD 25.9 million), reflecting a much-lower average deal size.

LOCAL PRESENCE

Half of PIIs in the eight countries have a local presence (15 PIIs). A local office is key to an efficient investment process. Although most investors are not headquartered in their countries of investment, many are present in the region, often headquartered in Singapore. Investors with a local presence in the country of investment have deployed over 75% of all impact capital in the region (USD 481.5 million) in 61.5% of all deals (56 deals; Figure 4). Investors with local presence have increased their activity since 2014, primarily in Cambodia and Singapore.

Investors with a local presence can better source relevant deals and manage their pipelines. Compared to non-local investors, they are more aware of local conditions and able to more effectively mentor and advise investees. To source deals, investors based elsewhere generally partner with ecosystem enablers, including incubators and accelerators. Such investors also organize competitions in conjunction with ecosystem enablers to scout for potential investments.

FIGURE 4: PII's WITH AND WITHOUT A LOCAL PRESENCE

	PII's WITH A LOCAL PRESENCE	PII's WITHOUT A LOCAL PRESENCE
NUMBER OF INVESTORS	15	15
PERCENT OF DEALS	60%	40%
PERCENT OF CAPITAL DEPLOYED	76.5%	23.5%
AVERAGE DEAL SIZE (USD MILLIONS)	8.6	3.9
AVERAGE NUMBER OF DEALS	3.6	2.4

Source: Intelicap Advisory Services analysis

For investors without a local presence, energy and financial services have been the top investment sectors, and most of their investments have been in Thailand. Almost 90% of capital from investors without a local presence in the country of investment has been deployed through equity.

DEAL SIZE

Over 40% of deals were smaller than USD 500,000 (Figure 5). Most of these were equity investments in agriculture, financial services, energy, and education, and a majority were in Cambodia and Thailand. A similar number of deals have been in the USD 500,000 to USD 1 million range. On the other end of the spectrum, roughly 30% of deals deployed more than USD 5 million each. More than half of all deals larger than USD 5 million were made in Cambodia's microfinance sector. The dollarization of Cambodia's economy has helped spur larger deals by greatly reducing investors' hedging risks.

FIGURE 5: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE
USD 622.5 MILLION IN 90 DEALS



Source: Intelicap Advisory Services analysis

Figure 6 summarizes trends by sector and ticket size. **Larger ticket sizes more commonly use debt**, with more than 70% of capital in deals larger than USD 5 million invested through debt. Given the limited exit opportunities for equity investments at larger ticket sizes, investors prefer debt's fixed, predictable repayment schedules. Most debt deals were made by PIIs with a local presence in the region.

Three-quarters of deals between USD 500,000 and USD 1 million were in the financial services sector, primarily microfinance. All of these deals were made in Cambodia, Myanmar, or East Timor. Sixty percent of all capital in this deal category was deployed as equity in this deal size.

Roughly 10% of PII deals were smaller than USD 100,000, more than 90% of which were equity investments made primarily by investors have a presence in the region, though not necessarily in the country of investment. All of these deals have taken place in Cambodia and Thailand. The relatively low proportion of deals smaller than USD 100,000 demonstrates a funding gap for seed- and early-stage enterprises in the eight countries.

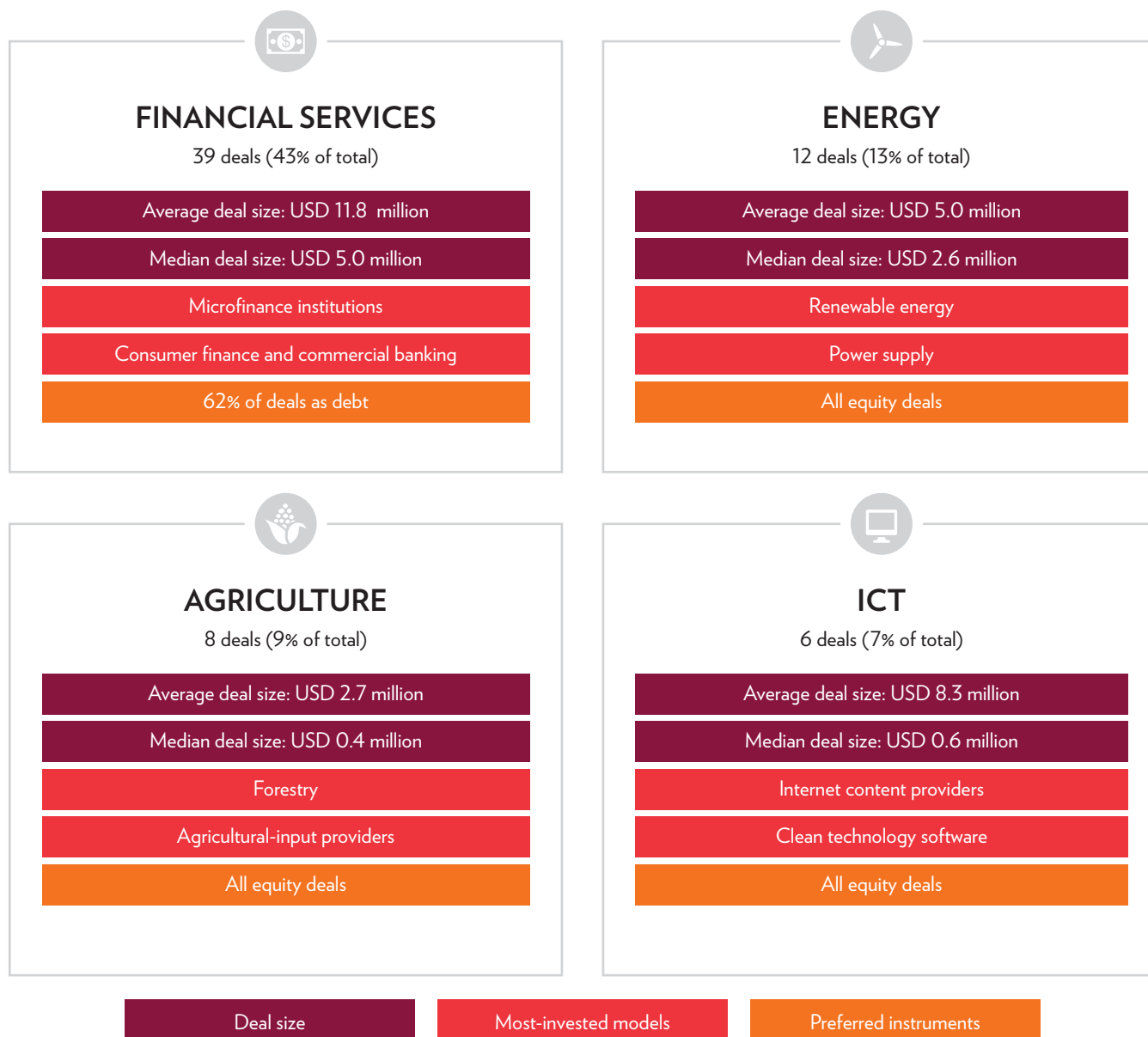
FIGURE 6: INVESTMENT SECTORS AND TRENDS BY DEAL SIZE

DEAL SIZE (USD MILLIONS)	≤ 0.1	> 0.1–0.5	> 0.5–1	> 1–5	> 5
COMMON SECTORS	Agriculture and energy	Financial services, education, agriculture, and ICT	Financial services	Financial services and energy	Financial services and energy
TRENDS	Mostly equity investments from seed investors	Investments mostly through incubators that provide seed capital	Investment categories dominated by investors headquartered outside the regions of investment		Investments mostly in microfinance enterprises

Source: Intellectcap Advisory Services analysis

SECTORS

FIGURE 7: PII DEALS IN KEY SECTORS

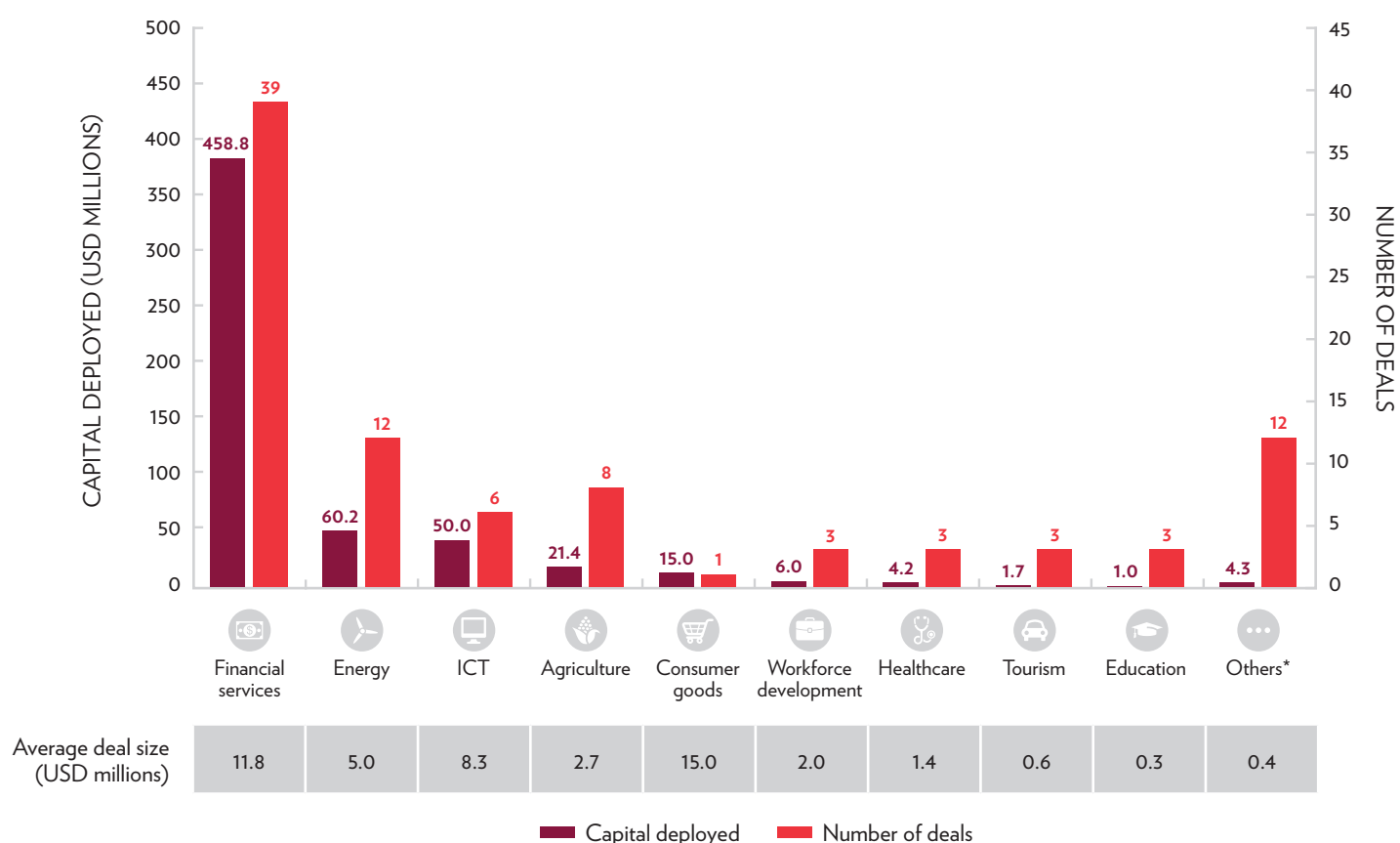


Source: Intelicap Advisory Services analysis

Over 40% of PII deals have been in the financial services sector, accounting for almost 75% of all impact capital deployed by PIIs (Figures 7 and 8). The financial services sector has primarily seen two types of investment:

- **Investments in microfinance institutions:** More than 75% of deals and 85% of capital in the financial services sector have been into microfinance institutions, mostly debt investments made by investors based in Europe.
- **Investments into consumer finance and commercial banking:** More than 10% of deals in financial services have been into consumer finance and commercial banking opportunities. Most of these deals were structured as equity investments of less than USD 5 million each. Almost all have been made by investors based outside the region.

FIGURE 8: IMPACT CAPITAL DEPLOYED BY PIIs, BY SECTOR
USD 622.5 MILLION IN 90 DEALS



Note: Others include investments related to healthcare, education, and recycling.

Source: Intelicap Advisory Services analysis

Energy is the second-largest sector of investment for PIIs, and investments in renewable energy constitute over 75% of energy investments. Most energy investments were made in Thailand, and most renewable energy deals—primarily investments in solar power plants—were made in Cambodia, Thailand, and Laos by investors who do not have a local presence.

Table 3 summarizes key sectors for PII by country.

TABLE 3: OVERVIEW OF KEY IMPACT INVESTING SECTORS FOR PIIs, BY COUNTRY

COUNTRY	KEY SECTORS
CAMBODIA	The financial services sector—specifically microfinance—accounts for almost all capital PII have deployed in Cambodia. Most of these deals have been made since 2013. Other sectors, such as energy, agriculture, and workforce development, have received limited investment, with no investments in education, healthcare, consumer goods, or ICT.
EAST TIMOR	All impact investments in East Timor have been in microfinance.
LAOS	In Laos, over half of both deals and capital have been deployed in clean energy, with the remainder in tourism and financial services.
MALAYSIA	Only consumer goods and financial services have received impact investment.
MYANMAR	Like Cambodia, microfinance has received most of the impact capital in the country (over 80%). Education, tourism, and ICT have also received investment.
SINGAPORE	ICT is the single largest recipient of PII impact capital in Singapore, accounting for almost 80% of capital deployed. The healthcare and services sectors have also attracted investment.
THAILAND	Investors have made multiple equity investments in clean energy in Thailand, mostly in solar energy projects. The financial services sector has also attracted investment, particularly in insurance providers. Other sectors, like healthcare, education, and ICT, have received minimal investment.

Note: No impact investments are known to have been made in Brunei during between 2007 and 2017.

Source: Intellect Advisory Services analysis

Other key sectors of investment in the region include agriculture and ICT. In the agriculture sector, apart from a couple of deals of over USD 5 million, most of the deals have been under USD 500,000, with an overall median ticket size under USD 400,000. ICT has attracted more recent interest, with all investments occurring since 2014. Most have occurred in Singapore, with capital directed to enterprises that provide software to energy and financial services enterprises, and in Myanmar, where investments have supported content providers and digital marketing firms.

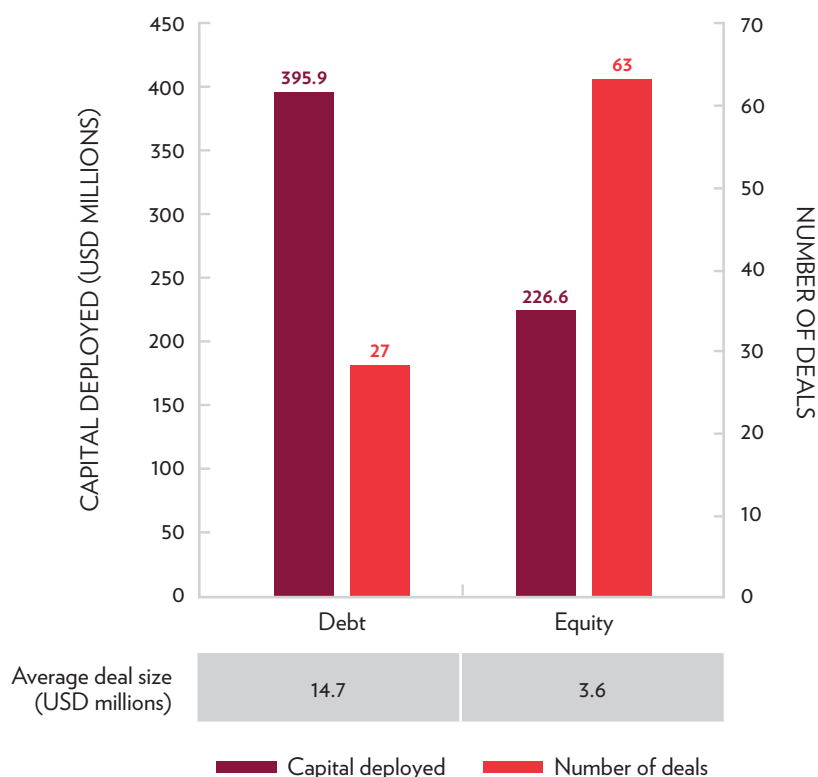
INSTRUMENTS

Fewer than 30% of PII deals have been made through debt, yet debt comprises more than 60% of all capital deployed in the eight countries (Figure 9). Most of the increased capital deployed to the region since 2010 has been in the form of debt. More than 95% of debt deals have been in the financial services sector, nearly all in microfinance; indeed, more than 90% of all debt capital has been invested in Cambodia in the microfinance sector. These investments in microfinance primarily capitalize on-lending and are supported by private investors with operating offices in Cambodia.

Since most of Southeast Asia lacks strong laws to protect equity investors, many larger investments are structured as debt; more than 80% of debt transactions exceeded USD 5 million. Relatively more developed countries, such as Thailand and Singapore, have seen comparatively more capital invested through equity due to their strong laws protecting minority investors. Developing economies, on the other hand, such as those of Cambodia and East Timor, have seen more debt investments, as investors perceive higher risks there. Some less developed countries, such as Laos and Myanmar, have seen more equity investments, typically made by local investors with a deep understanding of the market.

FIGURE 9: IMPACT CAPITAL DEPLOYED BY PIIs, BY INSTRUMENT

USD 622.5 MILLION IN 90 DEALS



Source: Intelicap Advisory Services analysis

Debt investments have been almost entirely concentrated in financial services and consumer goods, whereas equity deals are somewhat more diversified by sector. Almost all deals in energy, agriculture, and ICT have been through equity. Equity investors are also allocating capital to healthcare, tourism, and services.

IMPACT MEASUREMENT

While some PIIs use widely accepted impact measurement tools, such as GIIRS, most use their own tools based on globally accepted impact metrics and frameworks like IRIS and social return on investment (SROI). Most measure their impact to report to their limited partners (LPs) and to showcase to the public the impact their investments have created. However, data collection, integrity, and handling remain challenges. To help surmount these challenges, many PIIs require investee enterprises to capture and store data at regular intervals. PIIs rarely use detailed impact assessments by third-party evaluators because of their associated costs.

RETURN EXPECTATIONS AND EXITS

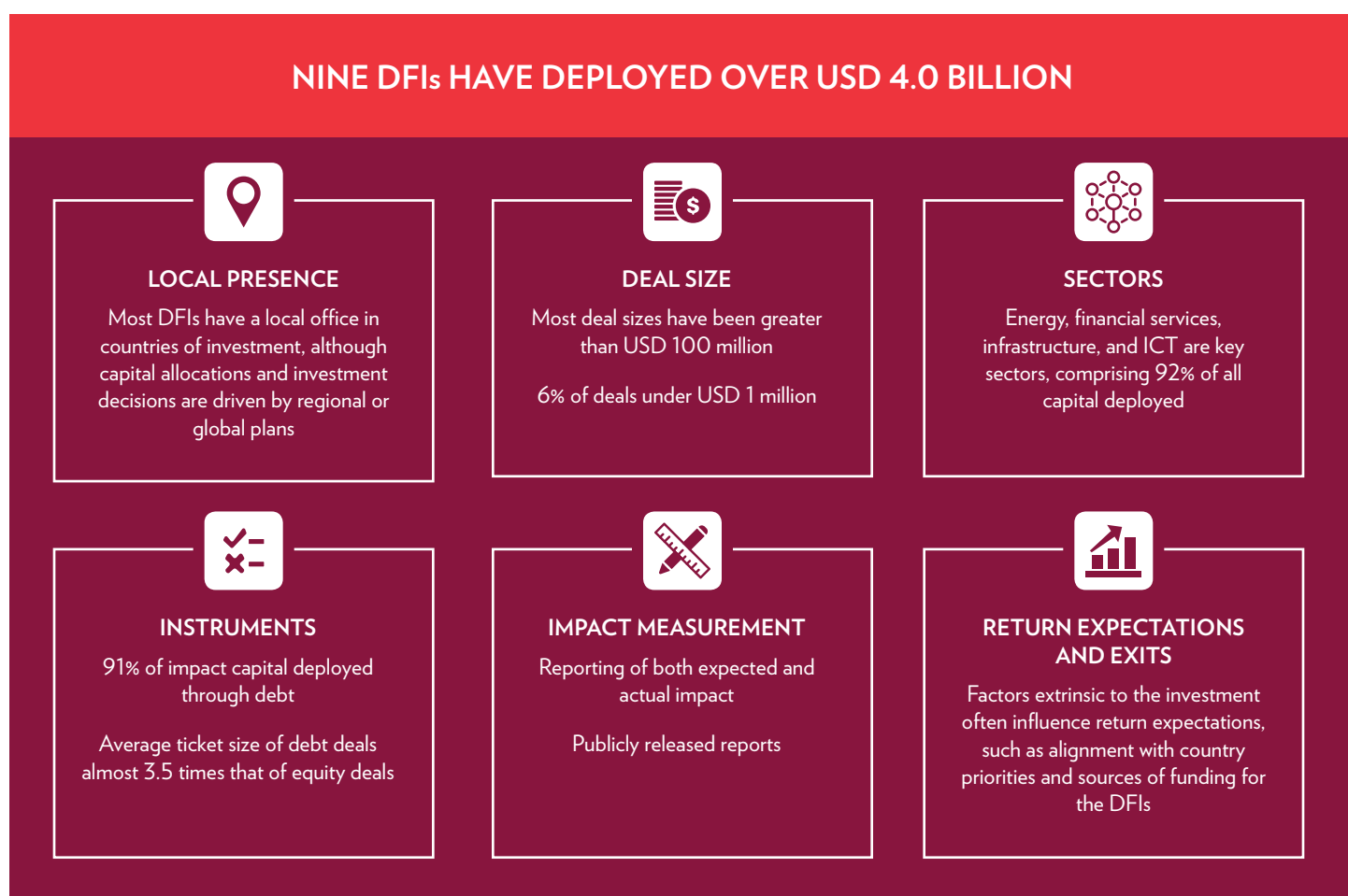
Most investors in the region seek risk-adjusted, market-rate returns, though some will accept lower financial returns in cases with high potential social impact. Exits from impact investments to date have been few, since the market is at a nascent stage. One notable exit was made in renewable energy in Thailand by Armstrong Asset Management and the Mekong Brahmaputra Clean Development Fund when they sold Symbior Elements to Padaeng Industry Pcl (PDI) in 2017.

Development finance institutions

OVERVIEW

DFIs, long active in the region, play a critical role in supporting economic and social development. DFI investments have also supported the evolution of an enabling ecosystem to spur further impact investment by private investors.

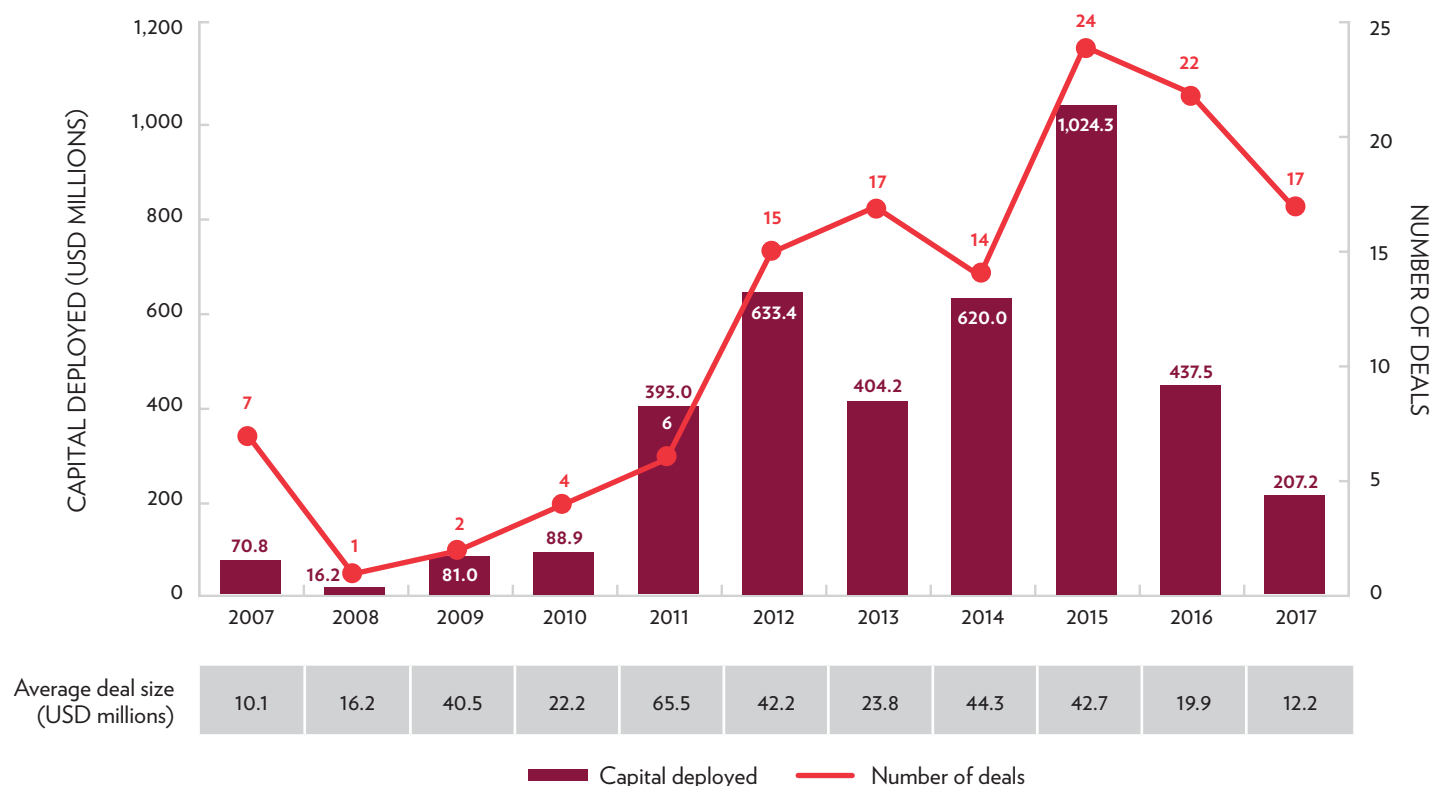
FIGURE 10: OVERVIEW OF DFI IMPACT INVESTING ACTIVITY IN THE EIGHT COUNTRIES



Source: Intelicap Advisory Services analysis

Nine DFIs have invested **USD 4.0 billion** in impact capital through **129 deals** (Figure 11). The International Finance Corporation (IFC) alone has deployed USD 1.9 billion in 75 deals, while the Asian Development Bank (ADB) has deployed over USD 1.7 billion in 22 deals, together representing 90% of all impact capital deployed by DFIs in the eight countries.

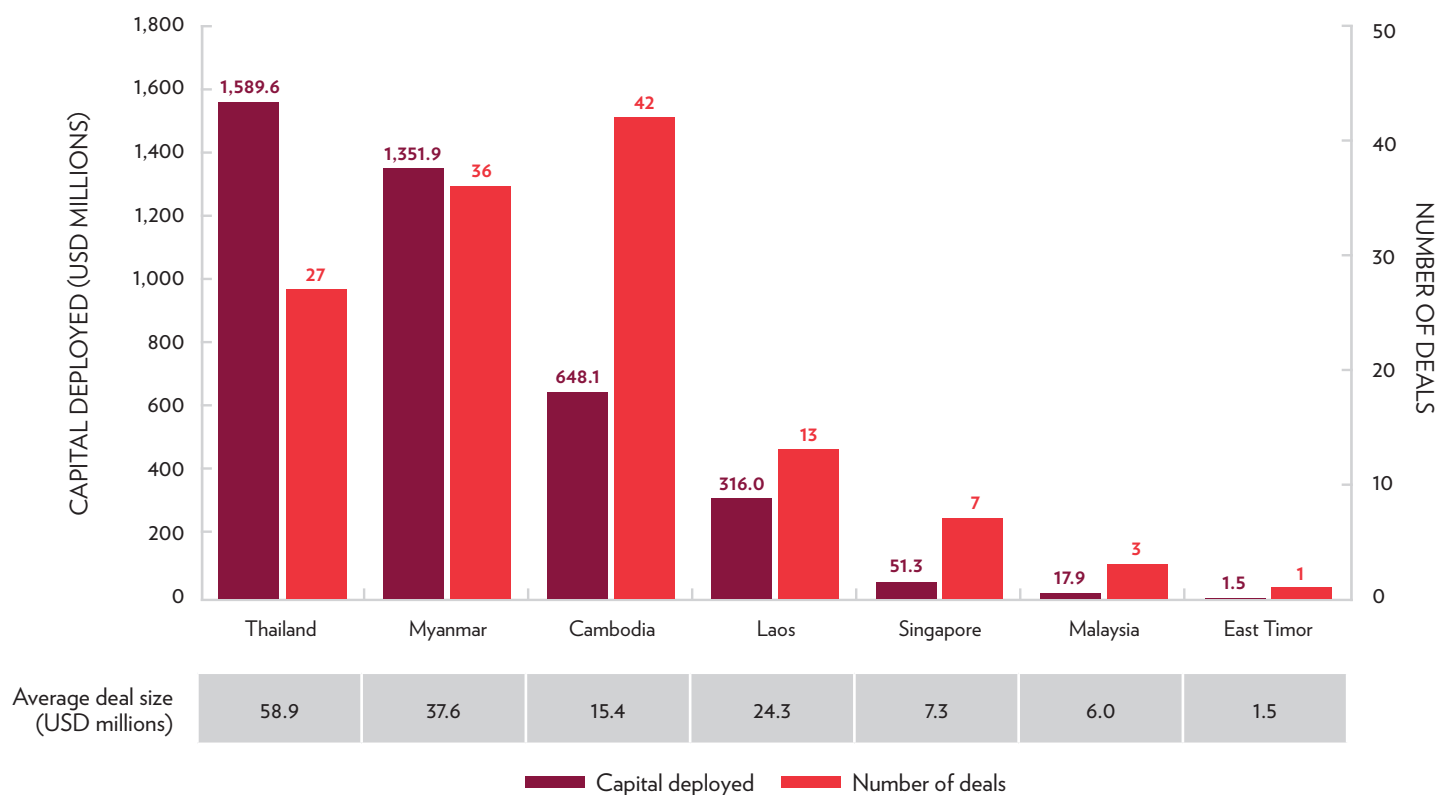
FIGURE 11: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR (2007-2017)
USD 4.0 BILLION IN 129 DEALS



Source: Intelicap Advisory Services analysis

DFIs have focused on relatively less developed economies (Figure 12). From 2008 to 2016, deployments into Singapore, Malaysia, and Brunei—the three most developed markets—accounted for less than 2% of all DFI capital deployed.

FIGURE 12: IMPACT CAPITAL DEPLOYED BY DFIS, BY COUNTRY (2007–2017)
USD 4.0 BILLION IN 129 DEALS



Note: Impact deals data in Brunei were unavailable and hence were not included.
Source: Intelicap Advisory Services analysis

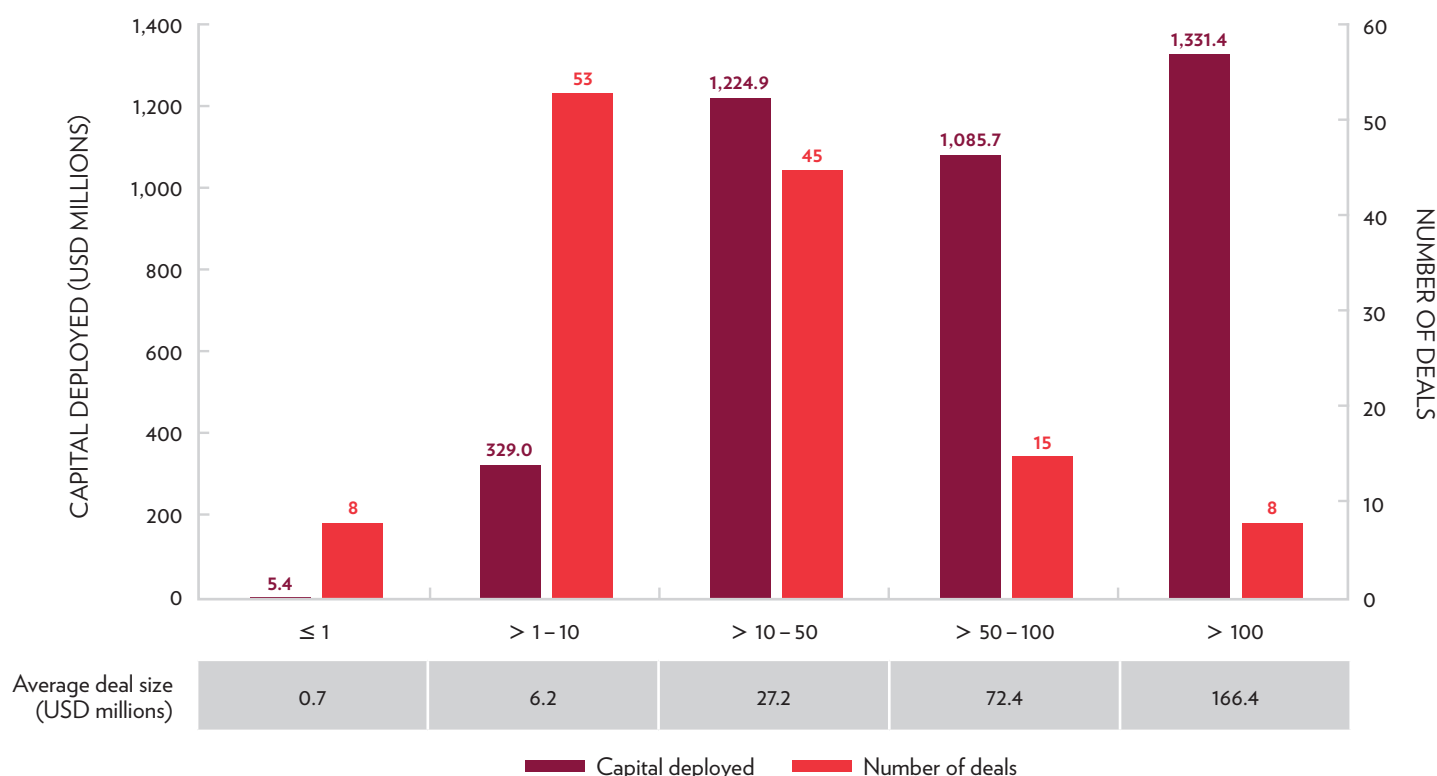
The number of DFI deals has generally risen since 2008. Over 85% of DFI capital has been deployed through deals larger than USD 15 million, primarily in the energy and telecommunications sectors.

DEAL SIZE

Though more than 40% of deals have been between USD 1 million and USD 10 million, these account for less than 10% of all capital deployed (Figure 13). By contrast, just eight debt deals larger than USD 100 million made by the IFC and ADB account for over a third of the total deployment by DFIs in the region. Over 60% of large DFI investments have been in the energy sector, with the rest supporting enterprises in financial services or ICT.

FIGURE 13: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE

USD 4.0 BILLION IN 129 DEALS



Source: Intelicap Advisory Services analysis

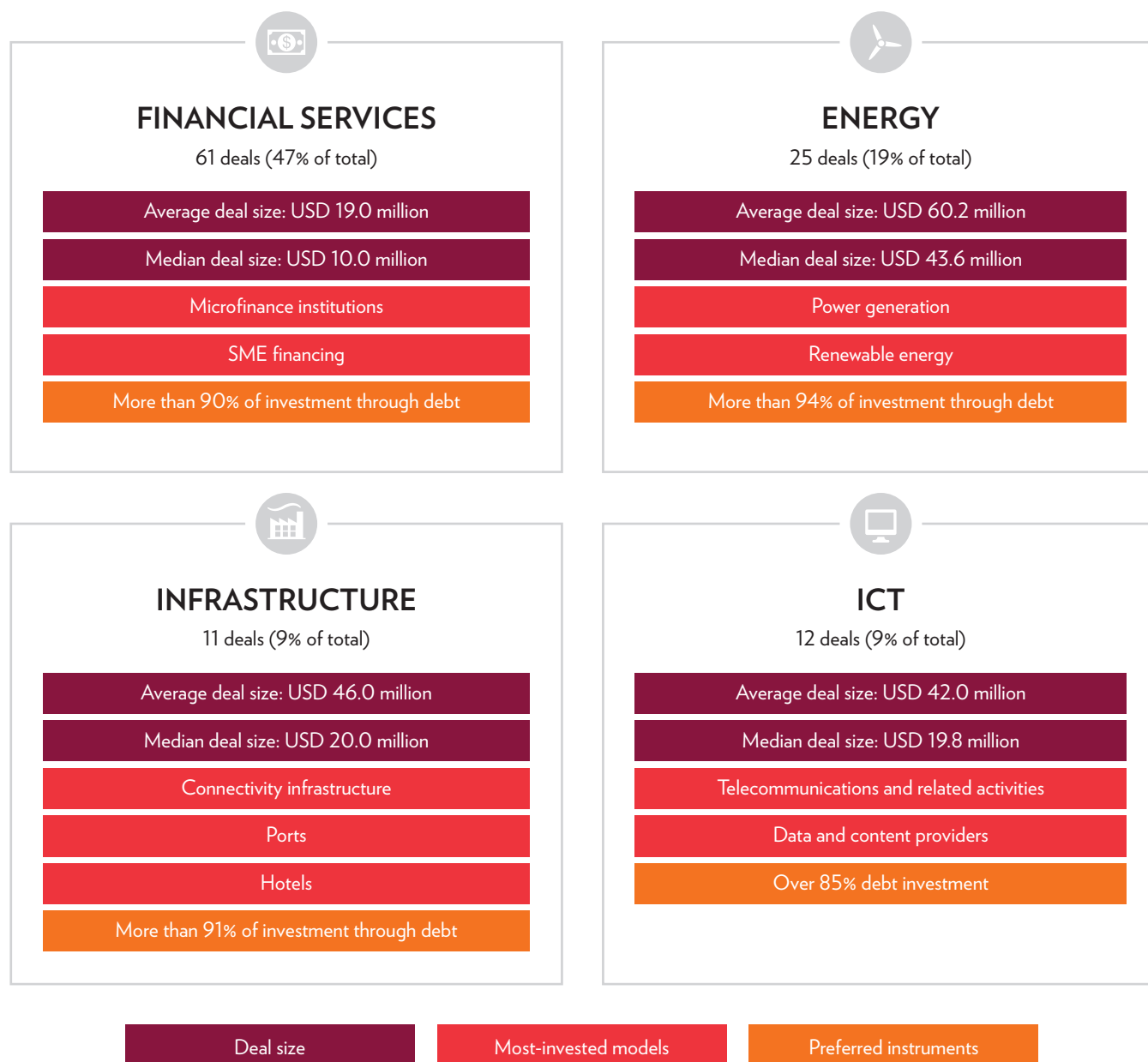
Like those eight larger investments, most investments between USD 50 million and USD 100 million were made in the financial services, energy, and infrastructure sectors. More than 80% were made in Thailand or Myanmar.

More than 90% of deals between USD 10 million and USD 50 million were made in Thailand, Myanmar, or Cambodia. Energy and financial services are major sectors in Thailand at this deal size, together accounting for more than 70% of deals in the country. All energy deals were made as debt in solar power plants. Infrastructure and ICT are the major sectors at this size range in Myanmar, with all deals in the infrastructure sector funded by the IFC or the ADB. Most ICT deals in Myanmar were in the telecommunications sector. More than 90% of capital invested in Cambodia at this deal size were in the financial services sector, almost entirely by the IFC, the Netherlands Development Finance Company (FMO), or Norfund.

Over 70% of deals between USD 1 million and USD 10 million were made by the IFC or the ADB, mostly (70%) in energy or financial services. In the financial sector at this size, over 65% of investments were in Cambodia, and more than 55% of all investments in the energy sector at this size were made in Thailand.

SECTORS

FIGURE 14: DFI DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

In terms of sector, more than 90% of DFI capital deployed and nearly 90% of deals were in financial services, energy, infrastructure, or ICT (Figures 14 and 15). DFIs deployed USD 1.1 billion through 61 deals in the financial services sector, with the IFC contributing more than 80%. Roughly half the investment in the sector targeted improved access to finance for small and medium-sized enterprises (SMEs), while the other half was invested in microfinance, commercial banking, consumer finance, or mortgage services. These investments could catalyze the flow of credit to enterprises that otherwise would not receive it given their lack of credit histories or collateral to support traditional bank loans. Most deals in SME financing have been made to commercial banks that on-lend to SMEs in Cambodia, Thailand, or Laos.

Table 4 summarizes key sectors for DFI investment in Southeast East by country.

TABLE 4: OVERVIEW OF KEY IMPACT INVESTING SECTORS FOR DFIs, BY COUNTRY

COUNTRY	KEY SECTORS
CAMBODIA	The financial services sector in Cambodia—including microfinance and SME finance—has seen the most DFI activity, in terms of both capital deployed and number of deals. Other sectors of investment include agriculture, education, energy, and ICT.
EAST TIMOR	Financial services, and microfinance specifically, is the only sector in East Timor to have received DFI capital.
LAOS	Almost 80% of DFI investment in Laos have been in the energy sector. Financial services and manufacturing have also attracted some investment.
MALAYSIA	Financial services and manufacturing are the only two sectors to have received DFI impact investment.
MYANMAR	Infrastructure and ICT (telecommunications infrastructure) account for over 70% of capital invested by DFIs into Myanmar. The energy sector has also received substantial investment.
SINGAPORE	Most capital deployed by DFIs in Singapore has supported energy and healthcare.
THAILAND	Since 2007, DFIs have invested almost USD 1 billion in the energy sector in Thailand. They have also invested in financial services and manufacturing.

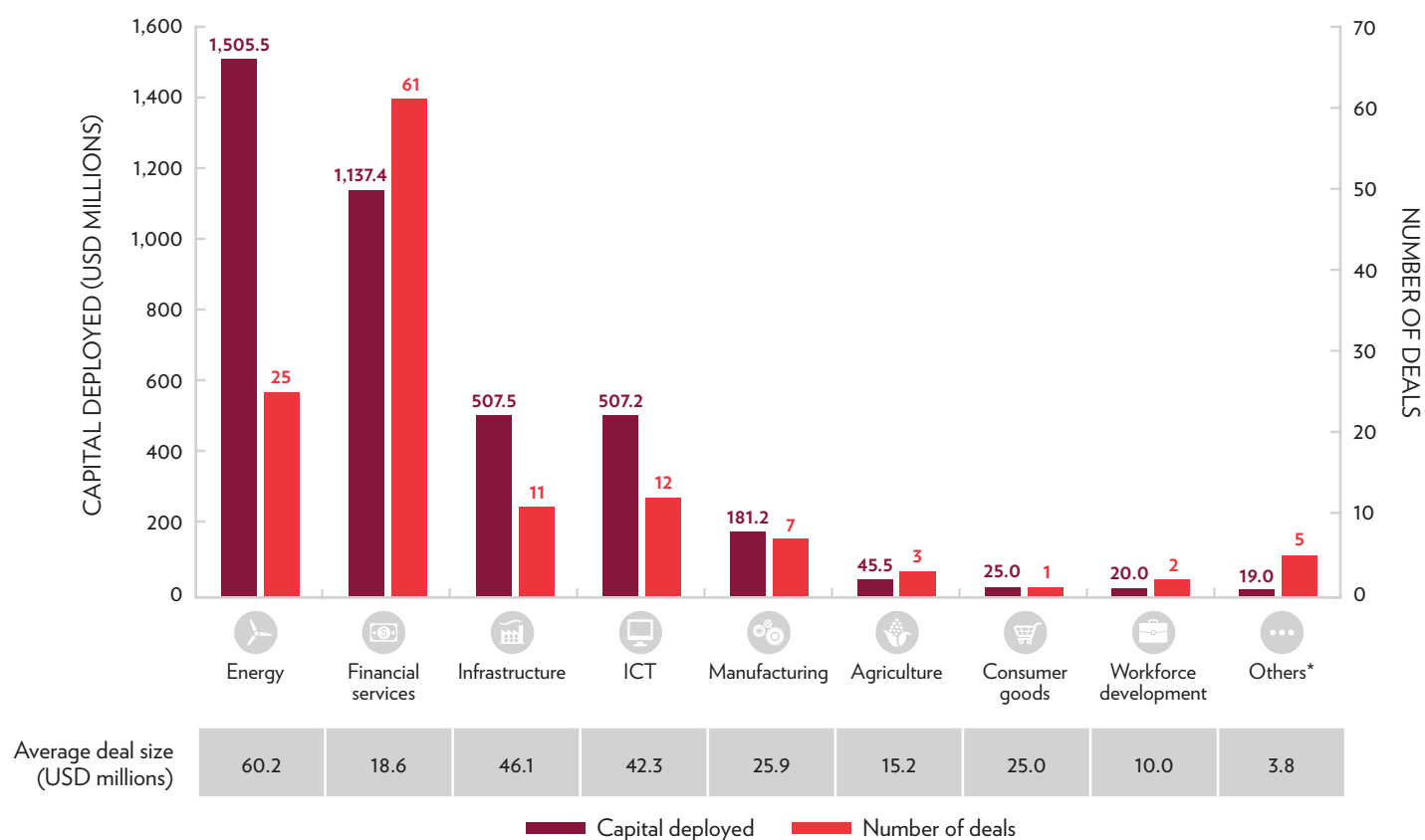
Note: No impact investments are known to have been made in Brunei during between 2007 and 2017.

Source: Intelicap Advisory Services analysis

Most capital deployed in the energy sector (more than 65%) has been in Thailand, mostly in natural gas and solar power plants. Infrastructure is also an important sector for DFIs, particularly in Myanmar, which accounts for 98% of capital deployed to this sector. DFIs typically consult with national governments to invest in infrastructure projects.

In the ICT sector, over 95% of capital has been deployed to Myanmar, nearly all disbursed since 2014. In late 2013, Myanmar had one of the lowest telecommunications penetration rates in the region in terms of both wireless and fixed-line access, with only 4.4 million mobile subscribers representing less than 10% of total population. After DFIs' ICT investments in Myanmar, the country added more mobile subscribers in 2015 than any other country in the world besides India and China.

FIGURE 15: IMPACT CAPITAL DEPLOYED BY DFIs, BY SECTOR
USD 4.0 BILLION IN 127 DEALS



Notes: Others include investments related to healthcare, education, and recycling. Two deals are excluded because their sectors are unknown.
Source: Intelicap Advisory Services analysis

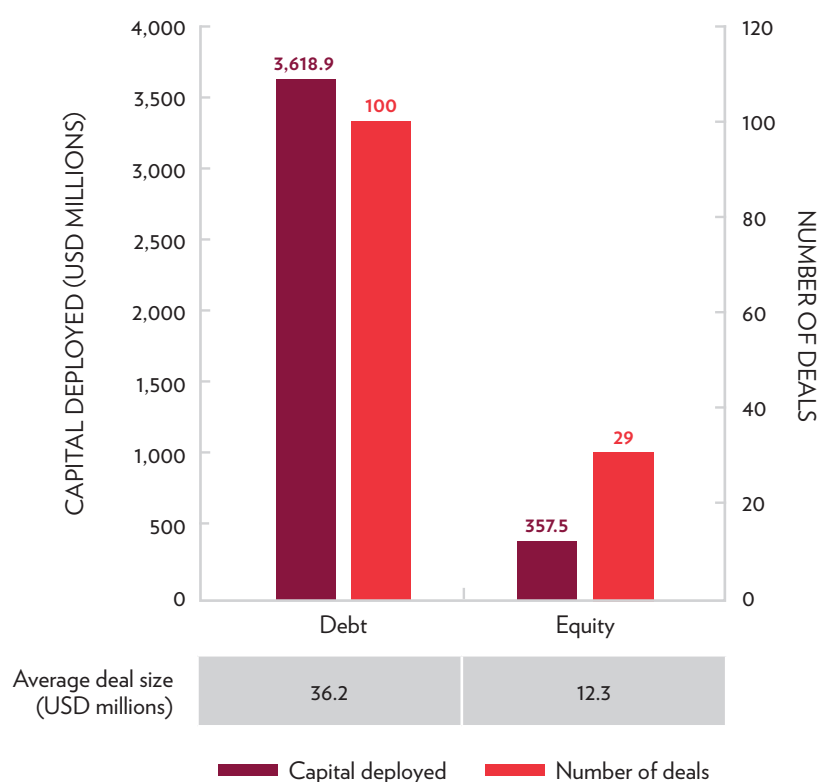
DFIs have made very few direct investments in any other sector, including consumer goods, services, healthcare, or education. Of eight manufacturing deals by DFIs, five were in Thailand. The remaining three manufacturing deals were made in Malaysia, Laos, and Myanmar in cement manufacturing, chemicals, and automotive ancillaries, respectively.

INSTRUMENTS

Seventy-four percent of DFI deals and 91% of DFI capital were deployed as debt (Figure 16). Most debt investments (73%) were in Thailand and Myanmar, followed by Cambodia and Laos. DFIs provide debt at lower rates than the region's commercial banks.

Equity investments have become more common since 2015. Notably, ICT is the only sector that has seen more deals using equity than debt.

FIGURE 16: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT
USD 4.0 BILLION IN 129 DEALS



Source: Intelicap Advisory Services analysis

IMPACT MEASUREMENT

DFIs use their own frameworks for measuring impact across the region (including in Indonesia, the Philippines, and Vietnam). Most DFIs focus on specific areas outlined in their impact theses, such as job creation, poverty alleviation, or women's empowerment. Since they operate across multiple countries and often make large investments, DFIs find it both financially and operationally feasible to tailor their own impact measurement tools or frameworks.

While some DFIs, such as FMO, use indicators from the UN Sustainable Development Goals (SDGs) as a way to measure impact, others, such as the IFC, use financial, economic, environmental, and social performance indicators, among others, to evaluate the impact of their investments.

RETURN EXPECTATIONS AND EXITS

DFIs set specific return expectations for each individual investment. Expected returns can vary by sector within the same country and by region within a country. Sometimes, DFIs charge below-market interest rates when mandated to stimulate a certain sector based on its potential social impact and alignment with the DFI's impact thesis.

CHALLENGES AND OPPORTUNITIES

The region's diversity in economic and social development means impact investors face different challenges and opportunities in each country. For example, more developed economies like Singapore or Brunei face different socio-economic challenges than do less developed economies like Laos, Myanmar, or East Timor. Similarly, the ease of investing, degree of protection offered to investors, and available exit mechanisms differ vastly from country to country. Addressing certain regional challenges (Figure 17) can help grow impact investing practice and support more impactful enterprises over the long term.

FIGURE 17: CHALLENGES FOR IMPACT INVESTING IN THE EIGHT COUNTRIES

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> • Concentration of investments in a few sectors • Fragmented pools of domestic capital • Seed- and early-stage funding gaps 	<ul style="list-style-type: none"> • Limited pipeline of investable opportunities • Poor corporate governance • Preference for nonprofit models 	<ul style="list-style-type: none"> • Nascent impact-focused ecosystem • Infrastructure and business environment

Source: Intelicap Advisory Services analysis

Supply-side challenges

- **Concentration of investment in a few sectors:** Because impact investing is concentrated in financial services and energy, the risk for investors and entrepreneurs is also concentrated. For example, policy changes such as interest-rate caps can adversely affect both the performance of existing microfinance investments and the pipeline of investable opportunities. In low-income countries, especially, the political environment can be more susceptible to sudden changes.
- **Fragmented pools of domestic capital:** Impact investments have primarily been made by foreign investors. Some countries, like Myanmar, Laos, and East Timor, have only small pools of domestic capital. Other countries, like Malaysia, Thailand, and Singapore, have significant pools of local capital that are currently utilized only for philanthropic giving. While grants are necessary and help fill the seed- and early-stage funding gaps, few efforts are seeking to integrate philanthropy with impact investing across the enterprise growth cycle.
- **Seed- and early-stage funding gaps:** The average ticket sizes for PIIIs in Laos, Myanmar, and East Timor are USD 2.9 million, USD 1.7 million, and USD 750,000, respectively. Yet few enterprises in these countries are at a sufficiently advanced stage to absorb such sums of capital. The absence of seed- and early-stage funding, a challenge further aggravated by the lack of impact-focused angel networks, prevents the impact investing industry in most countries from achieving scale.

Demand-side challenges

- **Limited pipeline of investable opportunities:** Besides a few countries, like Thailand and Malaysia, interviewed investors reported a limited pipeline of high-impact enterprises, for reasons specific to countries' individual socio-economic contexts. For example, opportunity for social entrepreneurship is limited in Singapore and Brunei, where the government already provides access to many critical goods and services. Much less-developed economies, meanwhile, have nascent startup ecosystems, with very few investment-ready, impactful enterprises.
- **Poor corporate governance:** Investors cited inadequate corporate governance standards as a key factor limiting the flow of capital to impactful enterprises. Many social enterprises have no board of directors to oversee management operations. Investors also suggested that, in most countries, entrepreneurs' families are deeply involved in business decision-making, thus limiting the guidance and inputs sought from professional investors.
- **Preference for nonprofit models:** In many Southeast Asian countries, entrepreneurs working with a social or environmental mission, including in developed countries like Singapore and in emerging economies like Laos and East Timor, often prefer to register as nonprofit rather than for-profit organizations. Nonprofit enterprises find it easier to access grant capital in the form of development assistance (in the less-developed economies) or corporate grants (in the more-developed economies). A strong preference for grant capital limits the growth of the impact investing industry in the region.

Ecosystem challenges

- **Nascent impact-focused ecosystem:** All countries besides Thailand and Malaysia have few impact-focused providers of business support. In wealthier countries, a limited perceived need for social impact reduces the demand for such service providers, while the startup ecosystem in poorer countries mostly comprises early-stage enterprises that cannot pay for these services. Impact-focused providers of business support are needed to produce the robust pipeline of investable opportunities required for scaling the impact investing industry.
- **Infrastructure and business environment:** Four countries—Myanmar, Cambodia, Laos, and East Timor—ranked lower than 130 on the EoDB rankings,⁵ which are based on a diverse set of parameters, including the procedures, time, and cost needed to set up a new business; protection of investors; and efficiency of legal systems in enforcing contracts. Poor rankings increase the perceived risk of investing in these economies.

5 The Ease of Doing Business rankings range from 1 to 190. Doing Business (Washington, DC: The World Bank, 2018), <http://www.doingbusiness.org/rankings..>

While challenges remain, the markets in these eight countries also offer large opportunities for impact investors interested in Southeast Asia to diversify their portfolios (Figure 18).

FIGURE 18: OPPORTUNITIES FOR IMPACT INVESTING IN THE EIGHT COUNTRIES

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> Investing in impactful sectors of more-developed economies Debt investments at small ticket sizes Gender lens investing 	<ul style="list-style-type: none"> Investments in agriculture Investments in MSMEs Positive perception of social enterprises 	<ul style="list-style-type: none"> Use of HNWI capital for regional angel investing DFI capital to catalyze private investment Building of fund manager capacity

Source: Intelicap Advisory Services analysis

Supply-driven opportunities

- **Investing in impactful sectors of more-developed economies:** Relatively developed economies in the region like Singapore, Malaysia, and Brunei face development challenges such as increased greenhouse emissions, reliance on foreign workers, and a rapidly aging population. Channeling investments into enterprises working to address these challenges offers immense potential; impact investment in the region need not be restricted only to enterprises addressing emerging-market-oriented impact themes like financial inclusion, healthcare, or access to energy.
- **Debt investments at small ticket sizes:** The nascent entrepreneurial culture in several countries means many entrepreneurs in the region prefer debt to other instruments. Venture debt instruments could see potential use in some economies, especially East Timor, Myanmar, and Laos. Across the region, entrepreneurs who are not comfortable with the concept of equity or dilution of ownership could be funded instead through innovative debt instruments, especially those where repayments are tied to investees' revenue cycles.
- **Gender lens investing (GLI):** Gender inequality persists across all countries in the region. Except for the Philippines, no country in Southeast Asia makes it to the top 50 globally in the Global Gender Gap Index. In all other countries in the region, high gender inequality signifies a development gap which can be bridged through GLI.

Demand-driven opportunities

- **Investment in agriculture:** Agriculture offers a diverse set of opportunities across the region. More developed countries, such as Singapore and Brunei, heavily rely on food imports, offering opportunities to invest in hydroponics and related technologies to increase local food production. In poorer countries, agriculture is characterized by underemployment and low wages; investments that allow farmers to move up the agricultural value chain, like near-farm processing and packaging, offer substantial opportunities.
- **Investment in MSMEs:** Micro, small, and medium-sized enterprises (MSMEs) across the region face a cumulative funding gap exceeding USD 70 billion. Interviewed investors often cited identifying a pipeline of social enterprises as a challenge, yet there is substantial opportunity in the

region to invest in MSMEs that have established track records. Investors have already begun to do so in Indonesia and Vietnam by investing in MSMEs that have some social or environmental impact and then providing the capacity-building support required to help them scale that impact.

- **Positive perception of social enterprises:** The governments of Thailand, Malaysia, and Singapore have begun to promote the growth of social enterprise through multiple channels, by introducing social enterprise blueprints or by establishing advocacy bodies for social enterprise. In addition, several non-governmental organizations (NGOs) in Cambodia and Myanmar have transformed themselves into for-profit models. With time, increasing awareness of social enterprise forms and their contributions to development could encourage a robust pipeline of impact investing opportunities to develop.

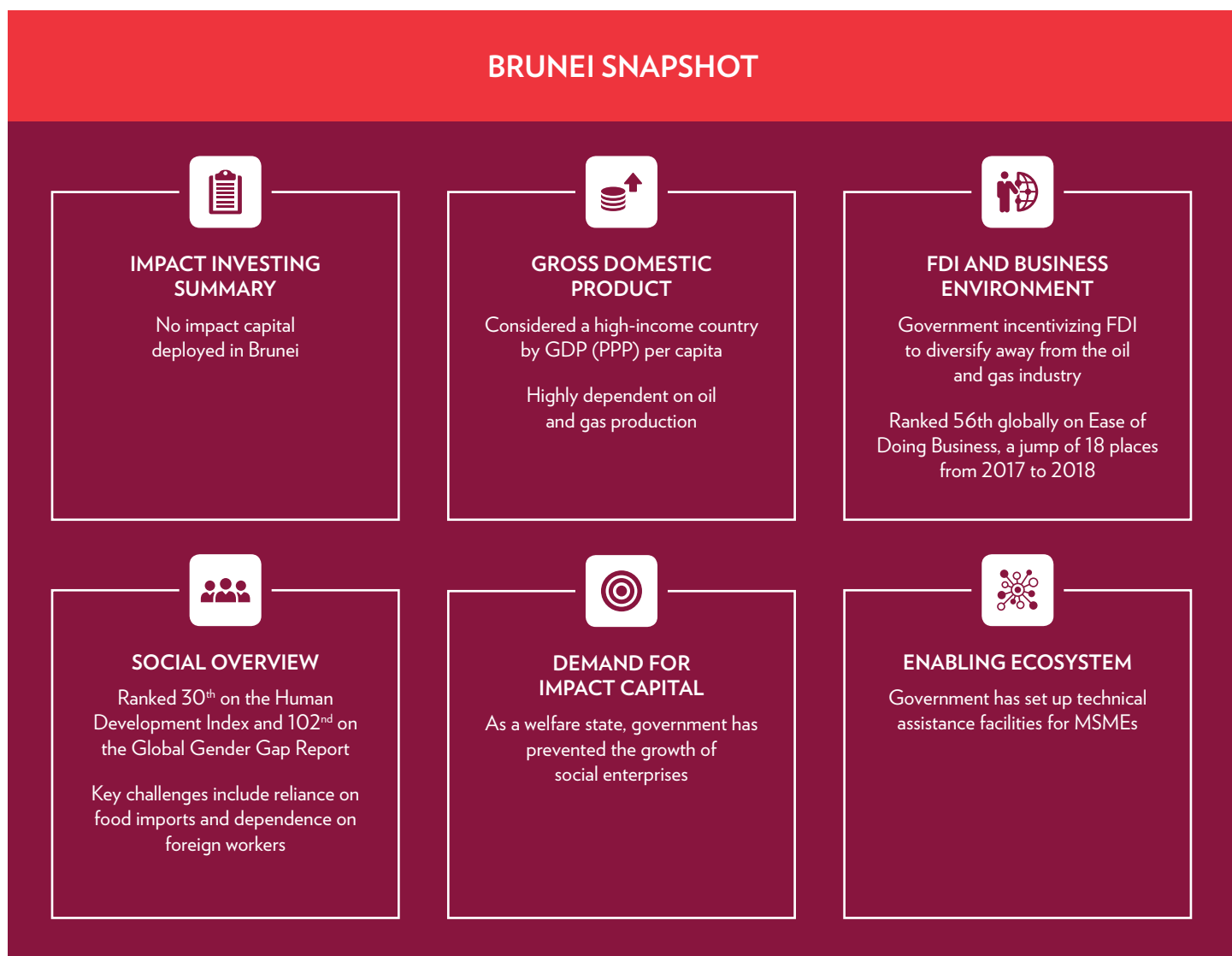
Ecosystem-driven opportunities

- **Use of HNWI capital for regional angel investing:** Countries such as Singapore and Malaysia have many high-net-worth individuals (HNWIs) involved in philanthropic giving. Yet, while HNWIs are interested in impact investing, they often lack the time to provide high-touch support to their investees. Further, HNWIs often believe philanthropy is an easier means to give back to society than impact investing. A regional angel network could help match HNWIs with potential investees while also providing the required pre-investment and post-investment support. Of course, more HNWIs are based in wealthier countries in the region, while more impact investing opportunities exist in poorer countries.
- **Leverage DFI capital to catalyze private investment:** Countries such as Laos, Myanmar, East Timor, and Cambodia rank extremely low on the EoDB rankings, which can deter private investment. Until the PII landscape matures, DFIs can help catalyze private capital into foundational economic sectors like infrastructure, financial services, and energy. In addition, DFIs across the region can share their track records of successful investment in order to seed optimism among investors seeking to explore less-invested markets.
- **Build fund manager capacity:** Many regional investors require capacity-building support, which is rarely available. Few organizations have the expertise to build the capacities of supply-side stakeholders; donors, governments, and DFIs could help seed such service providers.

COUNTRY CONTEXTS

Brunei

FIGURE 19: BRUNEI'S SOCIAL AND ECONOMIC CONTEXT

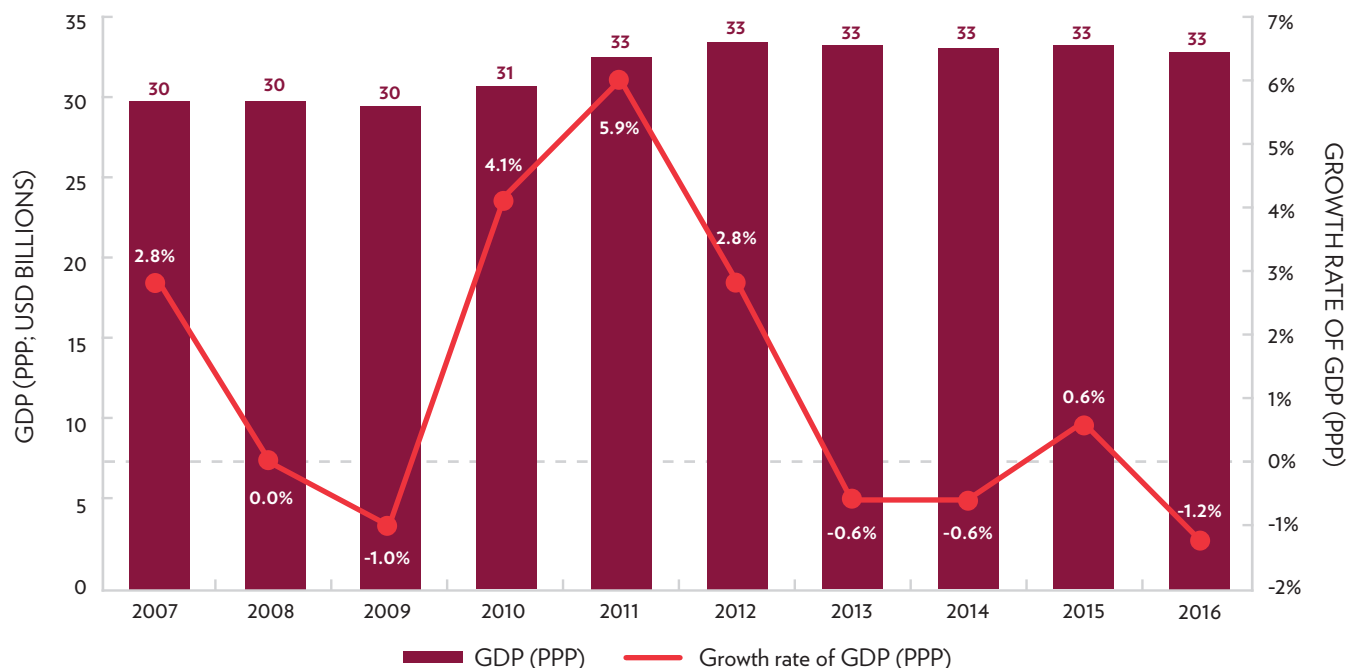


Source: Intelicap Advisory Services analysis

GROSS DOMESTIC PRODUCT

Brunei has a relatively developed economy. It is home to the second-highest per capita Gross Domestic Product (GDP) at Purchasing Power Parity (PPP) in Southeast Asia (Figure 20); crude oil and natural gas production contribute around 65% of the country's GDP and 95% of the country's exports.⁶ Unlike other economies in the region, industry is the largest sector in Brunei, contributing 56.5% of the country's GDP and employing 63% of the country's labor force. Services, the second-largest sector, contributes 42.3% of GDP and employs 33% of the country's labor force. The contribution of the agriculture sector is small, representing just 1.2% of GDP and 4% of the labor force.⁷

FIGURE 20: BRUNEI, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

In 2008, the Government of Brunei launched a long-term development plan, termed Wawasan 2035 (Vision 2035), under which it seeks to transition Brunei into a dynamic, sustainable economy with quality-of-life and per-capita income that rank among the highest in the world.⁸ To achieve these objectives, the government identified eight strategies, including an educational strategy to increase competitiveness and improve human capital, an economic strategy to promote both foreign and domestic investment, a local business-development strategy to promote SMEs, and an infrastructure development strategy that encourages public-private partnerships.⁹ Since the introduction of Vision 2035, all five-year plans in Brunei have aligned to achieve the vision's objectives.

6 "Brunei," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/bx.html>.

7 "Brunei," The World Factbook.

8 "Brunei Vision 2035 - Wawasan 2035," Embassy of Brunei Darussalam to the United States of America, <http://www.bruneiembassy.org/brunei-vision-2035.html>.

9 "Brunei Vision 2035," Embassy of Brunei to the United States.

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

In line with Vision 2035, the government has established several incentives for foreign investors through the Brunei Economic Development Board (BEDB), which works closely with the FDI Action and Support Center (FAST) to fast-track investment approvals, especially for high-value projects. The government offers several incentives for investments in pioneer industries, such as fertilizers and pesticides, construction, chemicals, food processing, ICT, and media and entertainment. Incentives include a five-year corporate tax exemption for businesses with fixed capital expenditures between USD 356,000 and USD 1.8 million and an eight-year exemption for businesses with fixed capital expenditures exceeding USD 1.8 million. In addition, businesses located within designated industrial parks enjoy up to 11 years of tax exemption. Businesses are also exempt from certain import duties.¹⁰ In 2016, the government also formed the FDI and Downstream Industry Committee, which is responsible for reforms to improve Brunei's competitiveness in the global market.

Brunei ranks 56th in the world and 4th in the ASEAN on the EoDB index. In the 2018 rankings, Brunei jumped up 16 places from 72, one of the largest improvements in the index; in fact, it improved its ranking from 105th in 2014. Regarding certain parameters, like access to credit, Brunei ranks above Singapore, the leader in Southeast Asia in the EoDB rankings.¹¹ Brunei's targeted approach to economic development has also helped it improve its standing on the Global Competitiveness Index: in 2017, Brunei jumped 12 places to rank 46th globally.¹²

SOCIAL OVERVIEW

With a score of 0.87, Brunei ranks 30th on the HDI and is categorized as a high development country. The government, as a welfare state, has proactively addressed the country's socio-economic challenges, which means such opportunities are limited for private-sector engagement. However, Brunei ranks 102nd on the Global Gender Gap report. Besides a high degree of gender inequality, Brunei faces various other development challenges.

Key developmental challenges in Brunei:

- **Reliance on food imports:** The Government of Brunei has initiated reforms to support the domestic agricultural sector, but the country still imports more than 80% of its food requirements.
- **Dependence on oil and gas for livelihoods:** Oil and gas exports account for around 95% of the Brunei's exports. With the increasing volatility of oil prices, the Government of Brunei seeks to diversify its economy.

10 Oxford Business Group, "Brunei Darussalam Reforms Regulations to Attract Foreign Investment in Key Industries," *The Report: Brunei Darussalam* (London: Oxford Business Group, 2016), <https://oxfordbusinessgroup.com/overview/targeted-approach-regulator-reforms-are-under-way-attract-foreign-investment-key-industries-while>.

11 "The Ease of Doing Business," businessBN Portal (Government of Brunei), updated May 29, 2018, <http://business.gov.bn/SitePages/The%20Ease%20of%20Doing%20Business.aspx>.

12 Klaus Schwab, ed., *The Global Competitiveness Report 2015–2016*, (Geneva: World Economic Forum, 2015), http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

- **High unemployment:** In 2017, Brunei had an unemployment rate of 6.4%; however, unemployment was much higher among youth (24%).¹³ Despite its high rate of youth unemployment, Brunei has the highest concentration of migrant workers in Southeast Asia. Almost half of the country's workforce comprises foreign nationals.¹⁴

DEMAND FOR IMPACT CAPITAL

Social enterprises have very limited presence in Brunei, with little awareness of their characteristics. However, the government's move to diversify the economy and enable private sector growth has led the country's MSME sector to grow as well. SMEs account for 98.5% of registered enterprises in Brunei, employing around 60% of the private-sector workforce.¹⁵ A few of these SMEs seek to target the country's development challenges through their business models. Most SMEs in Brunei are in the wholesale and trading sector, followed by construction, mining, and manufacturing.¹⁶ SMEs face several challenges to scale, such as limited access to markets (attributed to the small domestic market), access to finance, limited human resources, and inconsistent supply of raw materials.¹⁷

ENABLING ECOSYSTEM

While the Government of Brunei has increased its support of SMEs, the ecosystem for impact investing and social enterprises remains nascent. The government established both an Entrepreneurial Development Centre and Darussalam Enterprise (DARe), which provide incubation support and technical assistance to SMEs. Other government initiatives to support startups in the country include iCentre, Future Fund, and Accel X. In addition, the Women's Business Council of Brunei provides services to train unemployed youth in business services. Some private-sector initiatives to support startups in Brunei include Startup Hub, Founder Institute, and Tru Synergy. Brunei also has a number of co-working spaces, such as Entrepreneurship at Campus based at the University of Brunei Darussalam, Entrepreneurship Village, Google Developer Group, and Incofom Federation.¹⁸

13 "Unemployment, Youth Total (modeled ILO estimate)," Databank (Washington, DC: The World Bank, November 2017), <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>.

14 Peter Teo, "Migrant Worker Recruitment Costs" (Singapore: Transient Workers Count Too, April 2017), <http://twc2.org.sg/wp-content/uploads/2017/05/Brunei-Recruitment-Fees.pdf>.

15 "The Reports Towards Inclusive and Sustainable Growth in the ASEAN Economic Community" (ASEAN Advisory Business Council, Oxfam, ASEAN CSR Network, Asian Venture Philanthropy Network, September 2017), http://www.asean-csr-network.org/c/images/The_Report_Towards_Inclusive_and_Sustainable_Growth_in_the_ASEAN_Economic_Community_6thSeptember_2017.pdf.

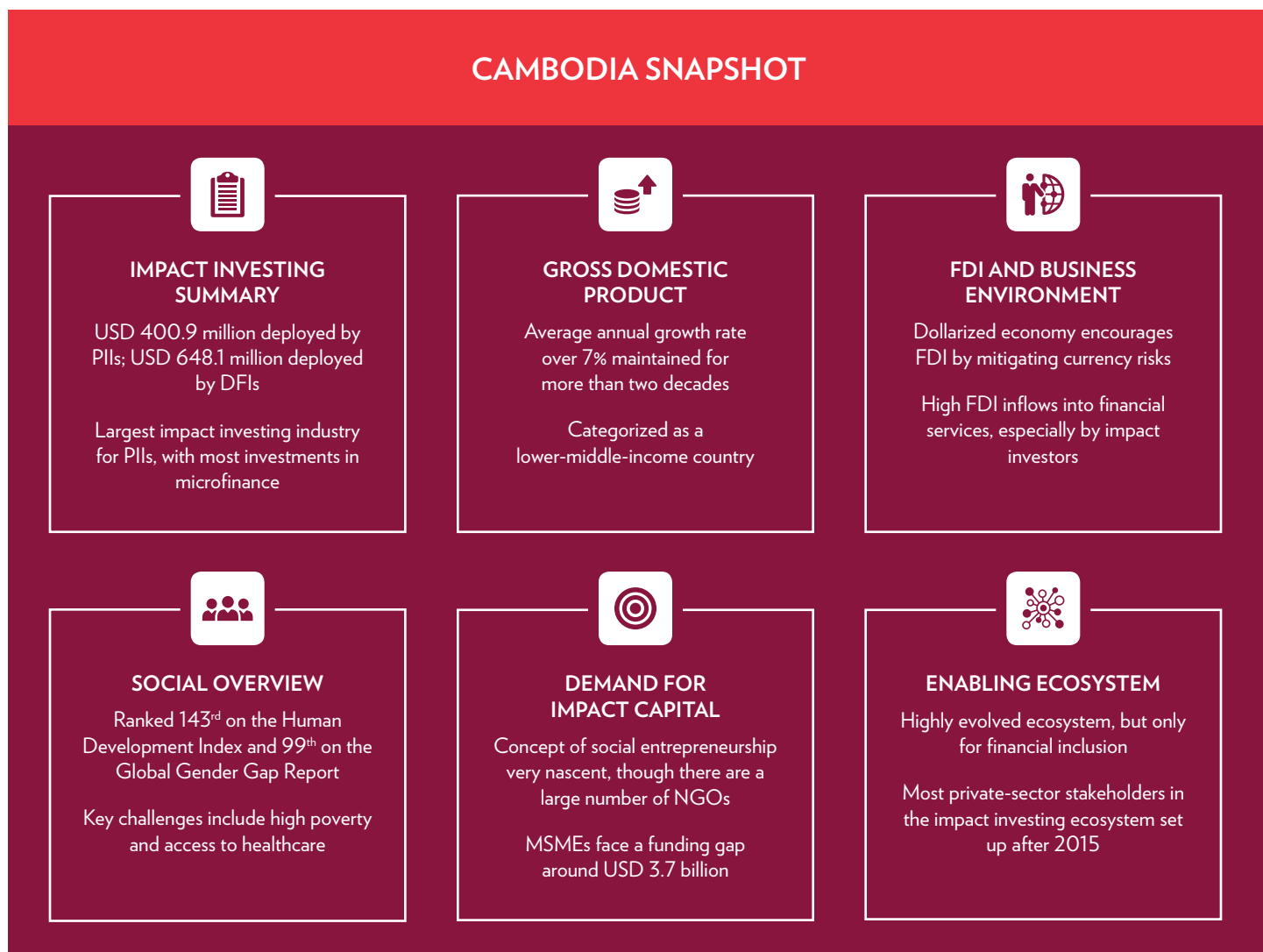
16 Dr. Pussadee Polsaram et al., "A Survey Research Project on 'Small and Medium Enterprises Development Policies of 4 ASEAN Countries': Brunei Darussalam, Cambodia, Lao PDR, Myanmar" (Japan Overseas Development Corporation, March 2011), <http://www.asean.org/storage/images/documents/SME%20Policies%20in%204%20ASEAN%20Countries%20-%20Brunei%20Darussalam.pdf>.

17 Polsaram et al., "Small and Medium Enterprises Development Policies."

18 "Brunei Darussalam: Government Initiatives," ASEAN Centre of Entrepreneurship, <https://ace.mymagic.my/en/asean/brunei/>.

Cambodia

FIGURE 21: CAMBODIA'S SOCIAL AND ECONOMIC CONTEXT



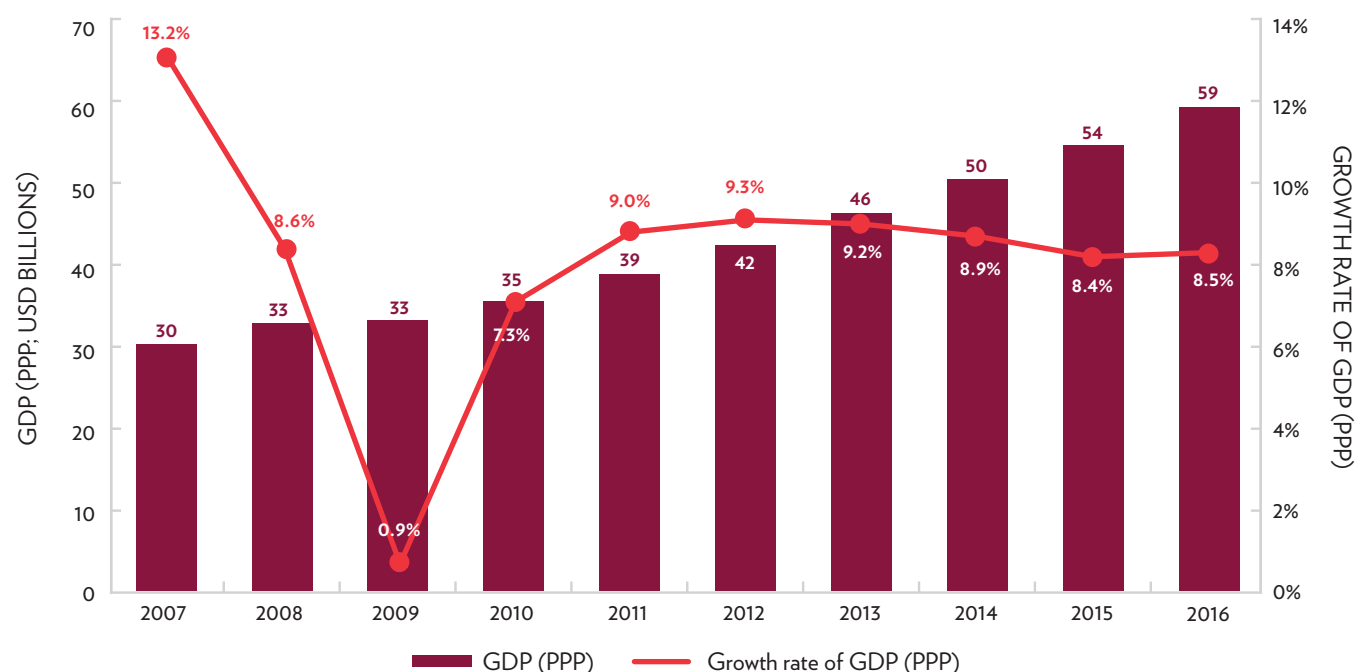
Source: Intelicap Advisory Services analysis

GROSS DOMESTIC PRODUCT

The Cambodian economy has grown steadily, maintaining over 7% average annual growth for more than two decades. This growth has been driven mostly by the tourism, garment, construction, real estate, and agricultural sectors.¹⁹ As of 2017, the services sector contributed 41.9% of Cambodia's GDP and employed almost one-third of its labor force. Industry, the second-largest sector, contributed 32.8% to GDP and employed around 20% of the labor force. Agriculture contributed the least yet employed almost half of Cambodia's labor force.

19 "Cambodia," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

FIGURE 22: CAMBODIA, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

In 2013, the Cambodian government introduced its Rectangular Strategy Phase III, stating the objective to reach upper-middle-income country status by 2030 and high-income country status by 2050. The strategy has four key objectives: (1) maintain average economic growth of 7%, while ensuring this growth is sustainable, inclusive, equitable, and resilient to market shocks; (2) create more jobs for the country's youth and improve Cambodia's competitiveness in attracting domestic and foreign investment; (3) annually achieve more than one percentage point reduction in poverty; and (4) strengthen the institutional capacity of government at both the national and sub-national levels. After introducing the strategy, in 2015, Cambodia achieved lower-middle-income status.

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

The Cambodian government has proactively fostered an environment that incentivizes FDI inflows. For instance, foreign investors are allowed full ownership in any business, in any industry, receiving the same treatment as local investors. The Council for the Development of Cambodia is the statutory body that reviews and approves investment decisions. The government also provides certain assurances to foreign investors, such as promising non-discriminatory treatment except for ownership of land,²⁰ a guarantee not to impose price controls on products or services, and permission to purchase foreign currencies through the banking system and remit those currencies abroad.²¹ Additionally, Cambodia has over 20 SEZs to which the government encourages investment. Between 2006 and 2013, Cambodian SEZs received total investment of over USD 1.6 billion.²²

20 Land ownership for business activities is restricted to Cambodian citizens or to businesses in which at least 51% of equity is held by Cambodian citizens.

21 Cambodia Investment Law, August 4, 1994, <http://siteresources.worldbank.org/INTCOMPLEGALDB/Resources/Cambodiainvestmentlaw.pdf>.

22 Cambodia Special Economic Zones Attract USD 1.65 billion USD since Inception, (Global Times, October 2013), <https://opendevelopmentcambodia.net/news/cambodias-special-economic-zones-attract-1-65-bln-usd-investment-since-inception/>.

A large proportion of the FDI into Cambodia has been channeled toward microfinance. The loan-to-GDP ratio in Cambodia is 16%, the highest in Asia; Vietnam's ratio, the second-highest, is only 3.8%.²³ However, in 2017, the government imposed an interest-rate cap of 18% on microfinance lending in Cambodia, which may influence FDI into the sector.

Investments in specific industries—including tech, tourism, agri-business, physical infrastructure and energy, provincial and rural development, and environmental protection—enjoy further incentives in the form of reduced tax rates, tax holidays, exemption from export taxes, and approval to employ foreign nationals.²⁴ Acceptance of the US dollar as a currency for business and day-to-day transactions has further facilitated investment into the country by mitigating associated currency risks. In 2011, the International Monetary Fund estimated that the US dollar comprised around 80% of Cambodia's money supply.

However, the business environment in Cambodia could be improved, as reflected in the country's EoDB and Global Competitiveness Index rankings: 135th and 94th, respectively. Cambodia faces challenges in its business environment, including poor institutional capacity and inefficient legal frameworks. In addition, general elections are scheduled in July 2018, for which the ruling party has adopted an authoritarian approach, dissolving the main opposition party and restricting independent media. The prolonged adoption of such an approach can create reputational risks for current and prospective investors in Cambodia.²⁵

SOCIAL OVERVIEW

Cambodia ranks 143rd globally on the Human Development Index with a score of 0.56, the second-lowest in Southeast Asia. Consequently, the country presents unmet opportunity for impact investing. Cambodia has made remarkable progress reducing poverty; however, development challenges remain, especially regarding unequal access to critical goods and services. The country has high gender inequality, ranking 99th on the Global Gender Gap Index. Cambodia also ranks the lowest (114th) among Southeast Asian countries with respect to achievement of the SDGs. While extreme poverty in Cambodia has drastically diminished over the past two decades, the rural population still faces challenges in accessing critical goods and services.

Key developmental challenges in Cambodia:²⁶

- **High poverty:** In 2011, 34% of Cambodians lived on less than USD 1.90 per day.²⁷ Cambodia has substantially reduced poverty, yet, in 2014, 14% of the population still lived below the national poverty line.
- **Poor healthcare and sanitation infrastructure:** Cambodia reports poor statistics concerning health. Life expectancy at birth is a low 58.1 years, while the maternal mortality rate is high at 161

23 *Microfinance in Asia: A Mosaic Future Outlook*, (Micro Finance Institutions Network and PwC, October 2017), <https://www.pwc.in/assets/pdfs/publications/2017/microfinance-in-asia-a-mosaic-future-outlook.pdf>.

24 Cambodia Investment Law.

25 Eli Meixler, "Cambodia Is Becoming 'Openly Authoritarian' in Its Crackdown on Opposition," *Time*, October 30, 2017, <http://time.com/4999905/cambodia-hun-sen-election-crackdown/>.

26 Jeffrey Sachs et al., *SDG Index and Dashboards Report 2017* (New York: Bertelsmann Stiftung and Sustainable Development Solutions Network, 2017), <http://www.sdgindex.org/assets/files/2017/2017-SDG-Index-and-Dashboards-Report--full.pdf>.

27 "Poverty in Cambodia," Data Library, Asian Development Bank, <https://www.adb.org/countries/cambodia/poverty>.

deaths per 100,000 live births. Cambodia also has high adolescent fertility rates,²⁸ with 52.2 births per 1,000 women aged between 15 years to 19 years. Only 42.4% of the country's population has access to improved sanitation facilities.

- **Limited skilled workforce and low participation in education:** Cambodia reports 97% enrollment in primary education, but enrollments in secondary and tertiary education are just 27.7% and 20%, respectively. Government expenditures on education are only 2.6% of GDP.²⁹
- **Limited access to critical services:** Electricity is accessible to only 56.2% of the population, and just 19% use the internet. In addition, 22% of the population older than 15 years have an account with a formal financial institution, and 13% of the population have an account with a mobile money service provider.³⁰

DEMAND FOR IMPACT CAPITAL

The Cambodian economy has traditionally relied on donor funding, with foreign aid accounting for over 90% of government expenditures between 2002 and 2010.³¹ Consequently, the country is home to 3,600 NGOs, the highest concentration in the region. However, as international aid to NGOs has declined over time, NGOs have tried to transform themselves into social enterprises, to diversify their revenue streams, and to achieve social objectives on a financially sustainable basis.³² Some key areas of business in which social enterprises now operate include vocational training, energy, environment, workforce development, health, and rural development. In addition to social enterprises, Cambodia also has around 375,000 formally registered MSMEs. While these MSMEs have raised USD 571 million in financing, a financing gap of over USD 3.7 billion remains.³³

ENABLING ECOSYSTEM

Since 2015, Cambodia has become increasingly interested in social entrepreneurship; as a result, several impact-focused business support providers have launched recently. Some of these include Impact Hub Phnom Penh (which also started Social Enterprise Cambodia), Xlconsulting, EPIC, and SHE Investments (a women-focused support provider). In addition, some impact-agnostic business services providers often house social enterprises, including Smallworld Cambodia, Geeks in Cambodia, KOTRA Incubator, BDLink, and CoLab. The regional Mekong Innovative Startup Tourism also has two accelerators for enterprises in the tourism sector.

28 The adolescent fertility rate is defined as the number of births per 1,000 women aged 15 to 19. Having children this early in life exposes adolescent women to unnecessary risks. Population Reference Bureau, <http://www.prb.org/>.

29 "Key Issues Affecting Youth in Cambodia," OECD, <http://www.oecd.org/dev/inclusivesocietiesanddevelopment/youth-issues-in-cambodia.htm>.

30 "Cambodia," Financial Inclusion Data (Washington, DC: The World Bank, 2014), <http://datatopics.worldbank.org/financialinclusion/country/cambodia>.

31 Sophal Ear, *Aid Dependence in Cambodia: How Foreign Assistance Undermines Democracy*, (New York, Colombia University Press, 2013), <http://www.jstor.org/stable/10.7312/ear-16112>.

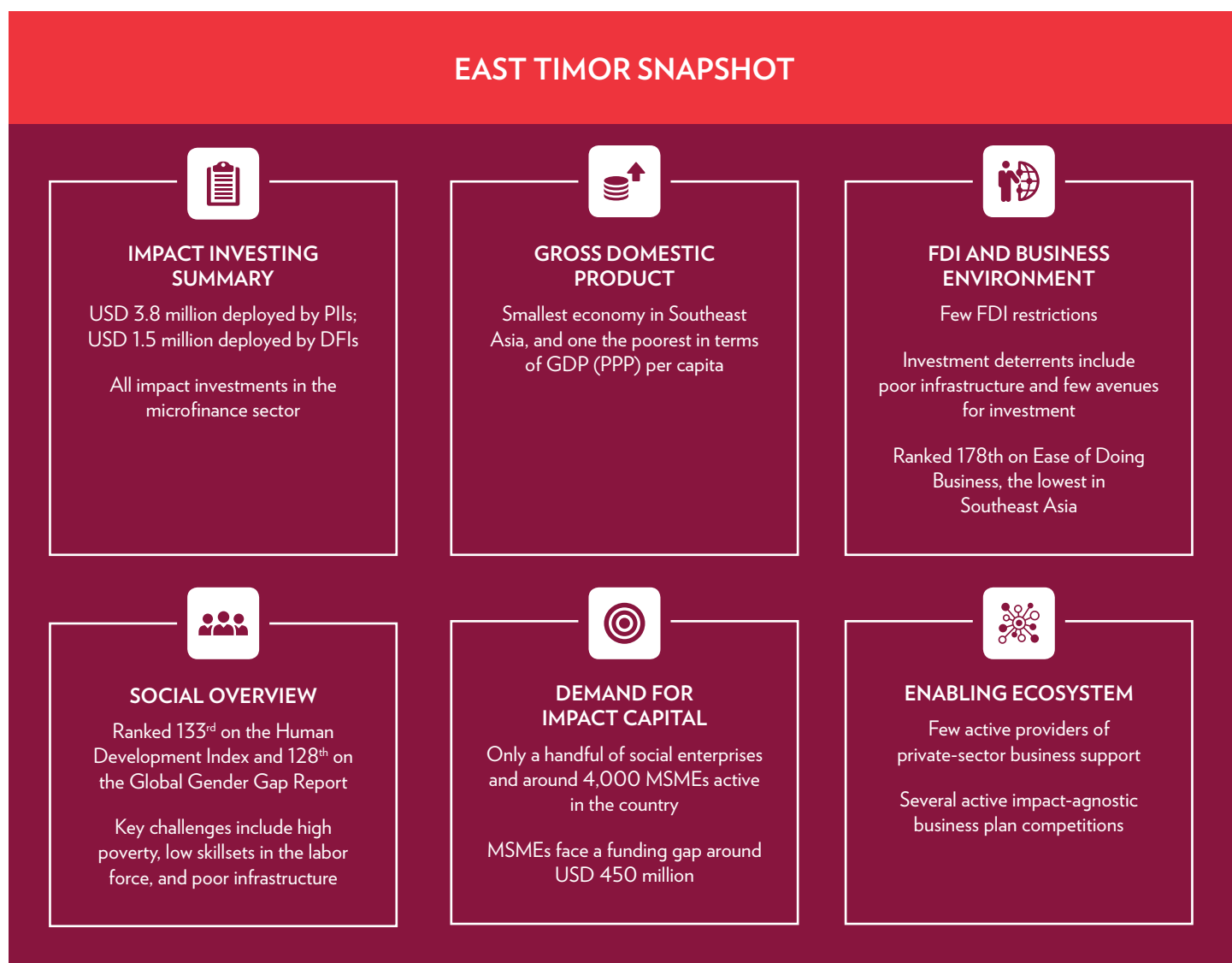
32 Issac Lyne, Sothy Kheing, and Chanrith Ngin, "Social Enterprise in Cambodia: An Overview," ICSEM Working Paper No. 5 (Belgium: International Comparative Social Enterprise Models, 2015), <https://www.iap-socent.be/sites/default/files/Cambodia%20-%20Lyne%20et%20al.pdf>.

33 "MSME Finance Gap," SME Finance Forum (IFC, 2018), <http://www.smefinanceforum.org/data-sites/msme-finance-gap>.

Microfinance in Cambodia has attracted large amounts of capital from PIIIs, but government-imposed rate caps threaten to deter further investment and reduce return expectations. By the end of May 2016, Cambodians had outstanding credit of over USD 2.9 billion from MFIs, and impact investors contributed much of this. In April 2017, the Government of Cambodia ordered the microfinance industry to cap interest rates at 18% on both new and re-financed loans.

East Timor

FIGURE 23: EAST TIMOR'S SOCIAL AND ECONOMIC CONTEXT

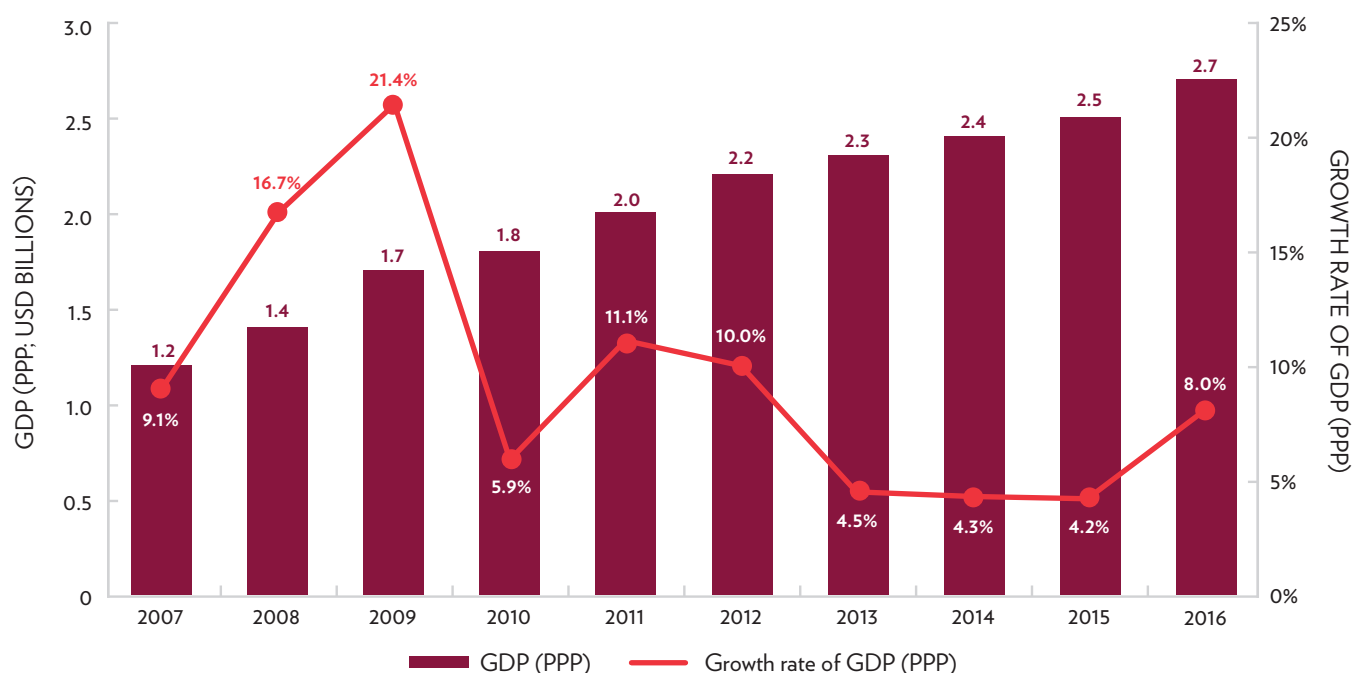


Source: Intelicap Advisory Services analysis

GROSS DOMESTIC PRODUCT

East Timor is the poorest country in Southeast Asia in terms of both GDP (PPP) and GDP (PPP) per capita (Figure 24). In 2002, after years of civil war, East Timor became the first new sovereign state of the twenty-first century and the 11th member of ASEAN. Industry contributes the highest share of East Timor's GDP (57.8%) and employs 10% of its labor force, while the services sector contributes 31.3% to GDP and employs 26% of the labor force.³⁴ The economy is highly dependent on petroleum exports, which represent 99% of export earnings, 80% of GDP, and 93% of total government revenue. Agriculture contributes less than 10% to GDP yet employs around 64% of the county's labor force. The country also depends on large volumes of foreign aid for its development.³⁵

FIGURE 24: EAST TIMOR, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

East Timor has received little FDI, with a net inflow of only USD 5 million in 2016. TradelInvest, which the government formed in 2005, is East Timor's Investment and Export Promotion Agency. Foreign investors can invest in most sectors, except for those specifically reserved for the state, including postal services, public communications, protected natural areas, and weapons production and distribution. Despite efforts the government has made to diversify FDI inflows, the oil and gas sector receives the most FDI.³⁶

34 "East Timor," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/bx.html>.

35 Joao dos Santos, "Timor-Leste Manages the Shock from Falling Oil Prices," *East Asia & Pacific on the Rise* (World Bank blog), May 3, 2015, blogs.worldbank.org/eastasiapacific/timor-leste-manages-shock-falling-oil-prices.

36 Shawn Baxter, *Timor-Leste, 2014 Investment Climate Statements* (Washington, DC: U.S. Department of State, June 2014), <https://www.state.gov/e/eb/rls/othr/ics/2014/227292.htm>.

Key challenges restricting FDI inflows into East Timor include limited infrastructure, bureaucratic inefficiency, inefficient laws and legal systems, lack of skilled human resources, and high corruption. The country's EoDB ranking reflects these challenges, as East Timor ranks 178th out of 190 countries.

SOCIAL OVERVIEW

East Timor faces a plethora of social and developmental challenges attributed to years of violence and instability. With its score of 0.61, East Timor ranks 133rd on the HDI and is categorized as a middle human development country; however, its human development is highly unequal. Discounting its HDI for inequality, the score falls by 31% to 0.42, which is one of the highest differences in the region. Gender inequality is also high in East Timor, with an HDI score for women of 0.56 compared to 0.65 for men and a ranking of 128th on the Global Gender Gap Index (the lowest in Southeast Asia). East Timor also ranks 106th globally with respect to progress made towards the SDGs.

Key developmental challenges in East Timor:

- **High poverty:** In East Timor, 41.8% of the population lives below the national poverty line, the highest poverty rate in Southeast Asia,³⁷ and 16% of the population lives on less than USD 1.90 per day.³⁸
- **Unskilled workforce:** With a median age of 18.9 years, East Timor is the youngest country in the region. Most local labor in East Timor, however, is unskilled.
- **High undernourishment and malnutrition:** More than half of children younger than five demonstrate stunted growth. Twenty-seven percent of the population is undernourished.³⁹
- **Poor healthcare:** Maternal mortality is extremely high at 215 per 100,000 live births. Under-five mortality is 52.6 per 1,000 live births. In addition, less than 30% of births are attended by skilled professionals.
- **Limited access to critical services:** Less than half of the population in East Timor has access to electricity. In addition, because of poor banking infrastructure, a very small proportion of the population has access to formal banking.

DEMAND FOR IMPACT CAPITAL

Social enterprises have ample opportunity to address developmental challenges in East Timor, yet the field remains small. Social enterprises are engaged in handicrafts, training, or community development, registered primarily as non-profits. Some challenges that have prevented the social enterprise movement from growing include a lack of skilled labor, limited access to critical infrastructure, and lack of a local market for products and services. However, in addition to social enterprises, more than 4,000 MSMEs are formally registered in East Timor in construction, food processing, agriculture, and fisheries.⁴⁰ These enterprises cumulatively face a funding gap around USD 450 million; more than 70% of business owners used their own funds to start their enterprises. A

37 "Poverty in East Timor," Data Library, Asian Development Bank, <https://www.adb.org/countries/timor-leste/poverty>.

38 Sachs et al., SDG Index and Dashboards Report.

39 Sachs et al., SDG Index and Dashboards Report.

40 Silvia Wronka, *Mobilizing Business to Accelerate MDGs Achievement in Timor-Leste* (United Nations Development Programme, 2015), http://www.tl.undp.org/content/dam/timorleste/docs/reports/MDGs/Social%20Business%20Project_%20Access%20to%20Finance%20Report.pdf.

survey of potential entrepreneurs in East Timor highlighted access to finance as their biggest challenge, followed by a limited availability of materials and equipment and access to human resources.⁴¹

ENABLING ECOSYSTEM

East Timor's startup supporting ecosystem remains weak, with minimal focus on social enterprises. Most NGOs and private-sector social enterprises are financed through grants. East Timor has two business-plan competitions: the IADE Innovative Business Plan Competition and the CCI-TL Innovative Business Idea Competition. In addition, the United Nations offers the Oecusse Business Incubator to support agri-businesses.⁴² From the private sector, Project Everest provides technical assistance to social enterprises operating in the country.

Laos

FIGURE 25: LAOS' SOCIAL AND ECONOMIC CONTEXT



Source: Intelicap Advisory Services analysis

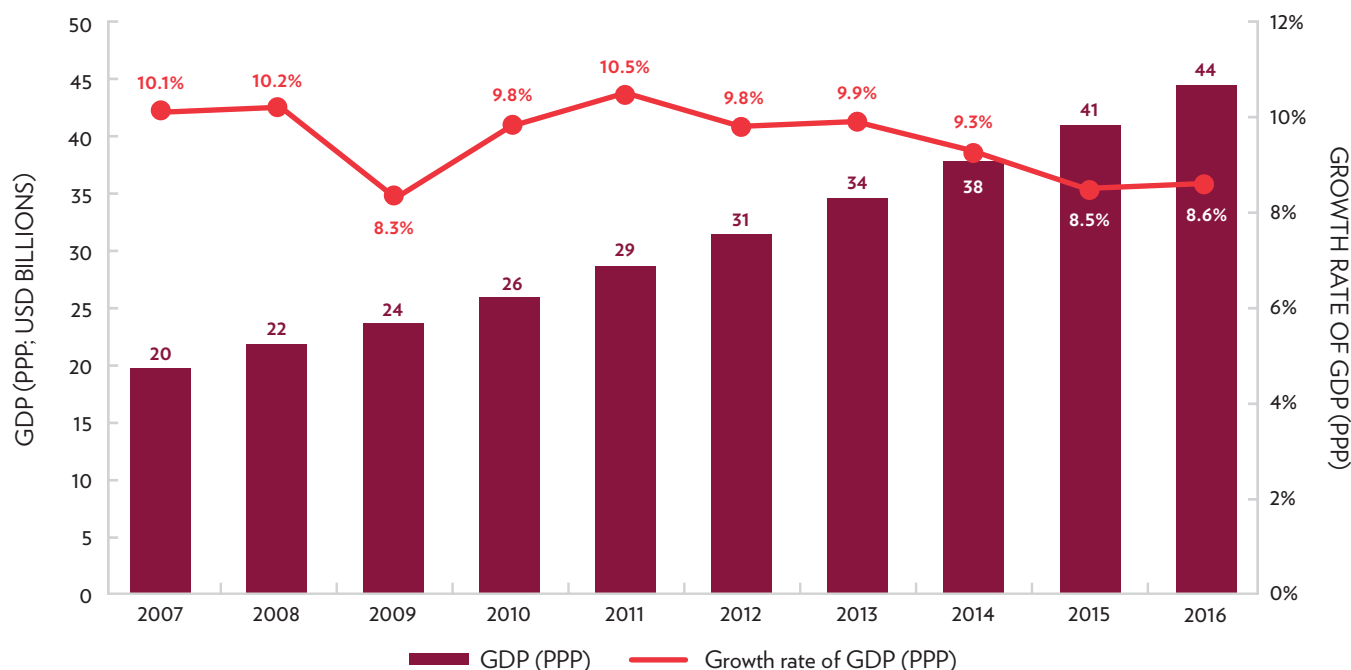
41 Wronka, *Mobilizing Business in Timor-Leste*.

42 "United Nations and Youth in Timor-Leste," newsletter, April–July 2017, <http://timor-leste.unfpa.org/sites/default/files/pub-pdf/UN%20and%20Youth%20Newsletter-%20English%20%281%29.pdf>.

GROSS DOMESTIC PRODUCT

In 1986, the Government of Laos began to decentralize power and encourage private-sector economic activity. **Laos now has a small, but fast-growing economy, with compound annual growth rate in GDP (PPP) over 9.4% since 2007 (Figure 26),** making it one of the fastest-growing countries in Asia. In 2017, the services sector contributed 39.1% of GDP, followed by industry at 33.2% and agriculture at 20.9%.⁴³ However, the agricultural sector employs more than 73% of the country's population. Services employ over 20% of the labor force, while industry employs just over 6% of the labor force.

FIGURE 26: LAOS, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

The government, through the Foreign Investment Management Committee (FIMC), manages, protects, and promotes foreign investment into Laos.⁴⁴ Foreign investors may invest through either a joint venture or a wholly-owned foreign enterprise. For the former, the foreign investor must contribute a minimum 30% of the total equity investment in the enterprise. Investments are generally evaluated on a case-by-case basis; the Laotian government allows foreign nationals to invest in all sectors, prohibiting investments that can impact national security, culture, environment, or public health.⁴⁵ The minimum capital requirement for investing in Laos is USD 120,000. The government

43 "Laos," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/bx.html>.

44 "Foreign Investment Laws," Bank of the Lao PDR, <https://www.bol.gov.la/english/investmentlaws.html>.

45 Pemasiri J. Gunawardana and Sommala Sisombat, "An Overview of Foreign Investment Laws and Regulations of Lao PDR," *International Journal of Business and Management* 3, No. 5 (May 2008): 31–43, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.665.7888&rep=rep1&type=pdf>.

provides many incentives to encourage investment, such as exemptions from taxes on corporate profits and exemptions from import and export duties in select sectors.⁴⁶ Education and healthcare are two key sectors the government is promoting; however, electricity generation, mining, and agriculture currently receive the most FDI. Vietnam, Thailand, and China account for the highest FDI inflows into Laos, making Laos one of the few economies that receives investments from other countries in Southeast Asia.

Notwithstanding steps taken to encourage FDI, Laos ranks poorly on the EoDB (141st) and Global Competitiveness (98th) rankings. Its rank on the latter is the second-lowest in the region. Investors cited poor infrastructure, weak enforcement of contracts, limited protection of the interests of minority investors, and bureaucratic inefficiencies as key challenges to increased investment in the country.

SOCIAL OVERVIEW

While economic growth rates offer optimism, Laos faces several social developmental challenges. Its HDI score of 0.59 places it 138th globally with respect to human development. The HDI score is lower for women (0.56) than for men (0.61), demonstrating the country's gender inequality, which is also substantially higher in rural areas.⁴⁷ In terms of progress towards achieving the SDGs, Laos ranks 107th globally.

Key developmental challenges in Laos:⁴⁸

- **High poverty:** Poverty is common in Laos, especially in rural areas; the overall poverty rate is 23%, second-highest in the region. Even 59.4% of the employed population earned below USD 1.90 (PPP) per day.⁴⁹
- **Low skillsets and productivity:** Laos has one of the youngest populations in Southeast Asia, with a median age of 23. However, much of the population is engaged in vulnerable employment, in part due to a lack of skills development. Around one-third of its population earn insufficient income to lift themselves out of poverty.
- **Food security:** Although the agricultural sector employs more than 70% of the country's population, malnutrition and undernourishment are widespread. One-fifth of the country's population consumes less than the minimum dietary requirements.⁵⁰
- **Poor healthcare:** Laos has high under-five and infant mortality rates of 86 and 57 per 1000 live births, respectively, the highest among the ASEAN countries. Similarly, the maternal mortality rate in Laos is also the highest within the ASEAN.⁵¹
- **Natural-resource dependent growth:** Extractive industries, including timber, mining, and hydropower, drive most of Laos's growth. This could reduce the long-run sustainability of the country's economic growth and harm Laos's environment.

46 Phonethavong Singhalath, *Current Investment Regime of the Lao PDR* (Vientiane: Ministry of Planning and Investment, March 2012), <http://www.oecd.org/investment/investmentfordevelopment/50075285.pdf>.

47 Asian Development Bank and The International Bank for Reconstruction and Development/The World Bank, *Country Gender Assessment for LAO PDR* (United States: Asian Development Bank, 2012), <https://www.adb.org/sites/default/files/institutional-document/33755/files/cag-lao-pdr.pdf>.

48 Sachs et al., *SDG Index and Dashboards Report 2017*.

49 "Poverty in Lao PDR," Data Library, Asian Development Bank, <https://www.adb.org/countries/lao-pdr/poverty>.

50 "Poverty in Lao PDR," Asian Development Bank.

51 The ASEAN Secretariat, *ASEAN Statistical Report on Millennium Development Goals 2017* (Jakarta: Association of Southeast Asian Nations, August 2017), http://asean.org/storage/2012/05/ASEAN_MDG_2017.pdf.

DEMAND FOR IMPACT CAPITAL

Only a few enterprises in Laos operate with social or environmental missions; there is no formal recognition of social enterprises. Most social enterprises in Laos are active in the textiles, agricultural, or skills-development and training sectors. Besides social enterprises, around 130,000 formally registered MSMEs in Laos cumulatively employ more than 340,000 people.⁵² Forty-one percent of these enterprises are engaged in wholesale and retail trade, followed by 17.6% in manufacturing, 16.6% in accommodation and food service, and 6% in construction. Limited access to finance inhibits scale; only 31.8% of the MSMEs have received bank loans. Women own 41% of all MSMEs.⁵³ MSMEs face a cumulative financing gap of USD 2.6 billion, along with additional challenges including human resource limitations, marketing challenges, and the use of capital-light production techniques.⁵⁴

ENABLING ECOSYSTEM

Laos currently has no ecosystem dedicated to impact investing or social enterprises. However, enterprises from Laos are eligible for incubation and acceleration services provided by select regional players, including Sea Ventures (based in Cambodia), the Mekong Business Initiative (headquartered in Vietnam, with branches across Cambodia, Laos, Myanmar, and Vietnam), and Mekong Innovative Startup Tourism (based in Vietnam). Some locally present impact-agnostic providers of business services include Toh Lao, the first co-working space in Laos, founded in 2014, Asiastar, Ecorner, and the Laos IT Business Incubation Center. Active networks include the Global Shapers Community Vientiane and Young Entrepreneurs Association of Laos. The government provides technical assistance and capacity-building services through its SME Promotion Fund and the Chamber of Commerce and Industry.

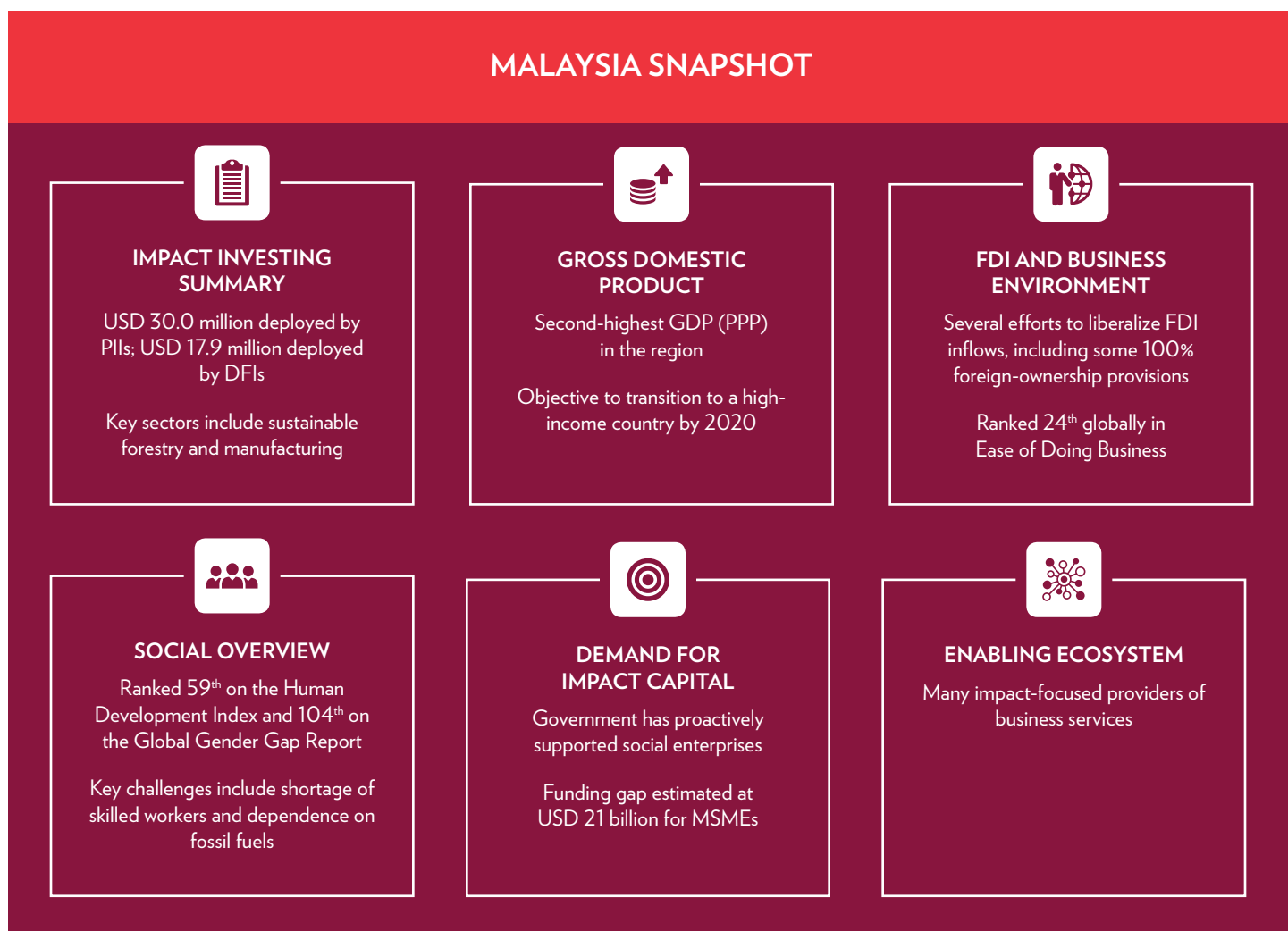
52 “MSME Finance Gap,” SME Finance Forum.

53 Association of Southeast Asian Nations (ASEAN), *Small & Medium Enterprises Development Policies in Laos* (Jakarta: ASEAN), <http://www.asean.org/storage/images/archive/documents/SME%20Development%20Policies%20in%204%20ASEAN%20Countries%20-%20Lao%20PDR.pdf>.

54 ASEAN, *Enterprises Development Policies in Laos*.

Malaysia

FIGURE 27: MALAYSIA'S SOCIAL AND ECONOMIC CONTEXT

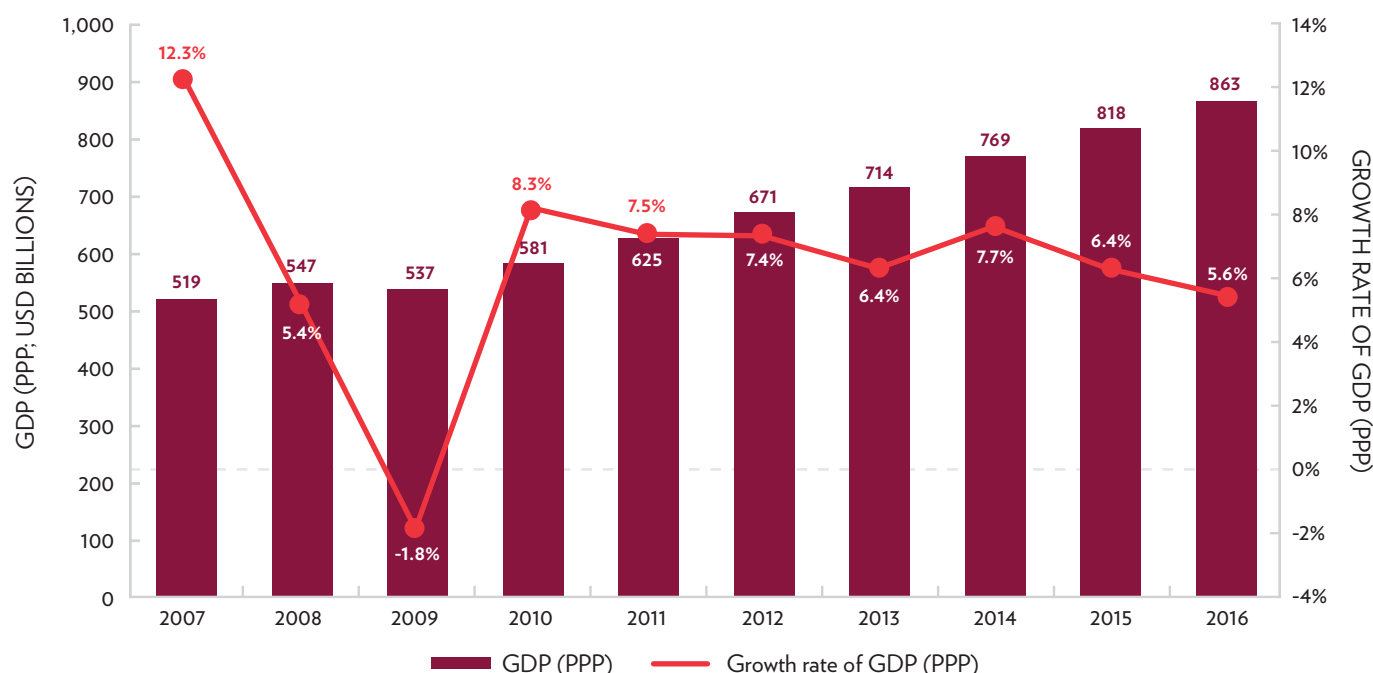


Source: Intelicap Advisory Services analysis

GROSS DOMESTIC PRODUCT

Malaysia's economy, the third-largest in Southeast Asia (Figure 28), has gradually transitioned from being highly dependent on natural resources to highly industrial. Until the 1960s, agriculture was the key sector in Malaysia, employing more than 60% of the country's population. By 2017, agriculture comprised only 11% of total employment and contributed less than 10% to GDP. In addition, the export of natural resources was a key contributor to Malaysia's GDP and government revenue until 2012. Government efforts to strengthen industries and services have grown both sectors considerably over time. Services contribute 54.7% of Malaysian GDP and employ more than half of the Malaysian workforce, while industry contributes 37% of Malaysian GDP and employs 36% of the labor force. Interestingly, the Malaysian economy is one of few in which a sector's contribution to GDP nearly corresponds to its share of overall employment. Malaysia hopes to transition to a high-income country by 2020 under its Vision 2020 strategic plan.

FIGURE 28: MALAYSIA, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

With increased recognition of private capital as a means to achieve Vision 2020, the Government of Malaysia has introduced several reforms and incentives to welcome foreign investors. For instance, in 2009, the government reduced the role of the Foreign Investment Committee (FIC) in reviewing investments and relaxed requirements for foreign companies to receive FIC approvals for mergers and acquisitions.⁵⁵ From 2011 onward, the government also liberalized investment into 17 services sub-sectors by allowing 100% foreign ownership, including some high-impact sub-sectors like private hospital services, vocational schools, skills-training centers, international schools, and vocational schools for special needs. Consequently, net FDI inflows in Malaysia increased from USD 114 million in 2009 to over USD 13 billion in 2016, the second-highest among Southeast Asia. The services sector received more than half of total FDI, particularly from investors based in Singapore, Japan, and Netherlands.

Malaysia ranks second in Southeast Asia and 24th globally on the EoDB rankings. On the Global Competitiveness Index, Malaysia gained two places to reach a rank of 23rd globally in 2017.⁵⁶ According to the index, key strengths in Malaysia's economy include investor protection (ranking fourth globally in protecting the rights of minority investors),⁵⁷ level of government regulation, and

55 Bureau of Economic and Business Affairs, *Malaysia*, 2013 Investment Climate Statements (Washington, DC: U.S. Department of State, March 2013), <https://www.state.gov/e/eb/rls/othr/ics/2013/204686.htm>.

56 Klaus Schwab, ed., *The Global Competitiveness Report 2015–2016*, (Geneva: World Economic Forum, 2015), http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

57 "Malaysia Takes Further Steps to Improve Business Climate, Says Latest Doing Business Report," news release, The World Bank, October 31, 2017, <http://www.worldbank.org/en/news/press-release/2017/10/31/malaysia-takes-further-steps-to-improve-business-climate>.

efficiency of government spending. Weaknesses, on the other hand, include access to finance and foreign currency regulations: Malaysia prohibits offshore trading of the Malaysian ringgit or any of its derivatives.

SOCIAL OVERVIEW

Malaysia, with a score of 0.79, ranks 59th globally on the HDI and is classified in the high human development category, but inequality, especially with respect to gender persists. Women lag men on several parameters, like completion of secondary education and labor force participation. Perhaps unsurprisingly, Malaysia ranks poorly on the Global Gender Gap Index (104th), behind many other countries in the region like Singapore, Thailand, Brunei, Myanmar, Cambodia, and Laos.⁵⁸ Conversely, Malaysia outperforms countries in Southeast Asia in terms of progress towards the SDGs.⁵⁹ Additional socio-economic challenges are summarized below.

Key developmental challenges in Malaysia:

- **Shortage of skilled workers:** As of 2016, skilled workers constituted 28% of the total workforce, a share which the government wants to increase to 35% by 2020. The shortage of skilled workers has led to high dependence on foreign workers. Repeated efforts have sought to cap the number of foreign workers in the economy.
- **Dependence on fossil fuels for energy:** Malaysia is the world's third-largest producer of photovoltaic cells, yet more than 90% of its energy needs are met by fossil fuels. This dependence can cause economic volatility given that the country's petroleum reserves are expected to be spent by 2020, natural gas reserves by 2058, and coal by 2066.⁶⁰ The country's energy requirements will also likely increase in the future.
- **Dependence on oil as a key contributor to GDP:** Though reduced, oil and gas still contribute over 20% to Malaysian GDP.⁶¹ Fluctuations in global oil prices have led to large layoffs in the Malaysian oil and gas industry. The economy and its underlying livelihoods will thus need more diversification.

58 Klaus Schwab, ed., *Global Gender Gap Report* (Geneva: World Economic Forum, 2017), <https://www.weforum.org/reports/the-global-gender-gap-report-2017>.

59 Sachs et al., *SDG Index and Dashboards Report 2017*.

60 Nora Muda and Tej Jin Pin, On Prediction of Depreciation Time of Fossil Fuel in Malaysia, (*Journal of Mathematics and Statistics* 9, 2012), <http://thescipub.com/pdf/10.3844/jmssp.2012.136.143>.

61 "The Malaysian Oil & Gas Industry: Challenging Times, but Fundamentals Intact," PwC, May 2016, <https://www.pwc.com/my/en/assets/publications/2016-msian-oil-n-gas-industry.pdf>.

DEMAND FOR IMPACT CAPITAL

In 2015, the Government of Malaysia, through the Malaysian Global Innovation and Creativity Center (MaGIC), introduced a three-year blueprint for social enterprises to build a sustainable and equitable society.⁶² Like other countries in the region, social entrepreneurship in Malaysia is relatively new; more than three-fourths of social enterprises operating in Malaysia launched after 2009 and around a quarter were established after 2014. As of 2015, MaGIC estimated that there were 1,928 social enterprises in Malaysia, of which 43% were owned by women.⁶³

In terms of sector of operations, 41%, 36%, and 20% of social enterprises, respectively, generate revenue from retail trading, training services, and consulting services. Other key areas of operations include food and beverages, healthcare, and arts and culture. Sixty-one percent of social enterprises generate revenues from commercial sales, and the remaining 39% leverage non-commercial income, such as donations, grants, corporate sponsorships, and crowd funding.⁶⁴

Social enterprises have highlighted access to finance as a key challenge, with 44% citing a lack of funding and financial support even when business models are commercially viable.⁶⁵ Other key challenges include a lack of understanding among the public of social enterprises' value proposition, a lack of business acumen regarding how to run enterprises viably and sustainably, and a lack of access to quality talent. Notwithstanding these challenges, 96% of social enterprises had a positive outlook on their growth potential.⁶⁶ In addition, Malaysia has around 650,000 formally registered MSMEs, which face a cumulative funding gap over USD 21 billion.⁶⁷

ENABLING ECOSYSTEM

The Government of Malaysia has greatly facilitated the ecosystem for impact investing and social enterprises. The establishment of MaGIC was a landmark step, followed by the launch of a USD 690,000 pay-for-performance fund. The government also supports social entrepreneurship through its universities. In addition to these governmental organizations, other incubators and accelerators include Unltd Malaysia and Impact Hub Kuala Lumpur. Regional enablers such as IIX, the British Council, the Aspen Network of Development Entrepreneurs (ANDE), and the Asian Venture Philanthropy Network (AVPN) have also been active in Malaysia. IIX, in partnership with Agensi Inovasi Malaysia, has been an especially critical partner, designing a Social Finance Roadmap for the Government of Malaysia.⁶⁸

62 Malaysian Global Innovation and Creativity Centre (MaGIC), *Unleashing the Potential of Social Entrepreneurship: Malaysian Social Enterprise Blueprint, 2015–2018* (Cyberjaya, Malaysia: MaGIC, May 2015), <https://mymagic-misc.s3.amazonaws.com/SE%20BLUEPRINT.pdf>.

63 MaGIC, *Malaysian Social Enterprise Blueprint*.

64 Malaysian Global Innovation and Creativity Centre (MaGIC), *State of Social Enterprise in Malaysia 2014–2015* (Cyberjaya, Malaysia: MaGIC, 2015), https://docs.google.com/forms/d/e/1FAIpQLSeEsbzUdoiQrdzvm-3dFzOpqNFZOpDjB_JQmqSXX8abH4DxAA/viewform?c=0&w=1.

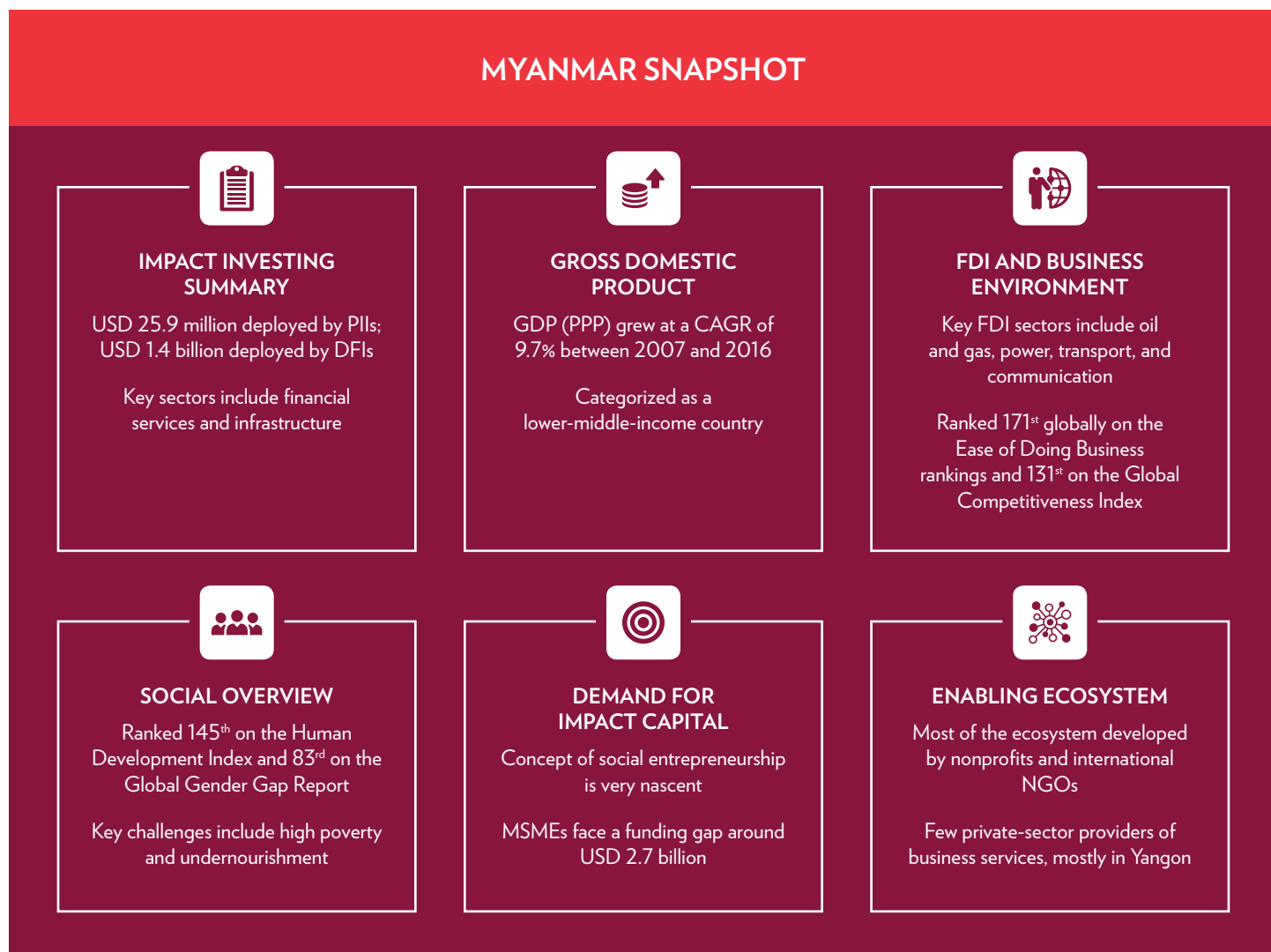
65 MaGIC, *State of Social Enterprise in Malaysia*.

66 MaGIC, *State of Social Enterprise in Malaysia*.

67 "MSME Finance Gap," SME Finance Forum.

68 Impact Investment Exchange (IIX) Asia, *Social Finance Roadmap for Malaysia, 2016–2020* (Singapore: IIX, 2016), <https://eddierazak.files.wordpress.com/2017/07/aim-social-finance-roadmap-print-version.pdf>.

FIGURE 29: MYANMAR'S SOCIAL AND ECONOMIC CONTEXT

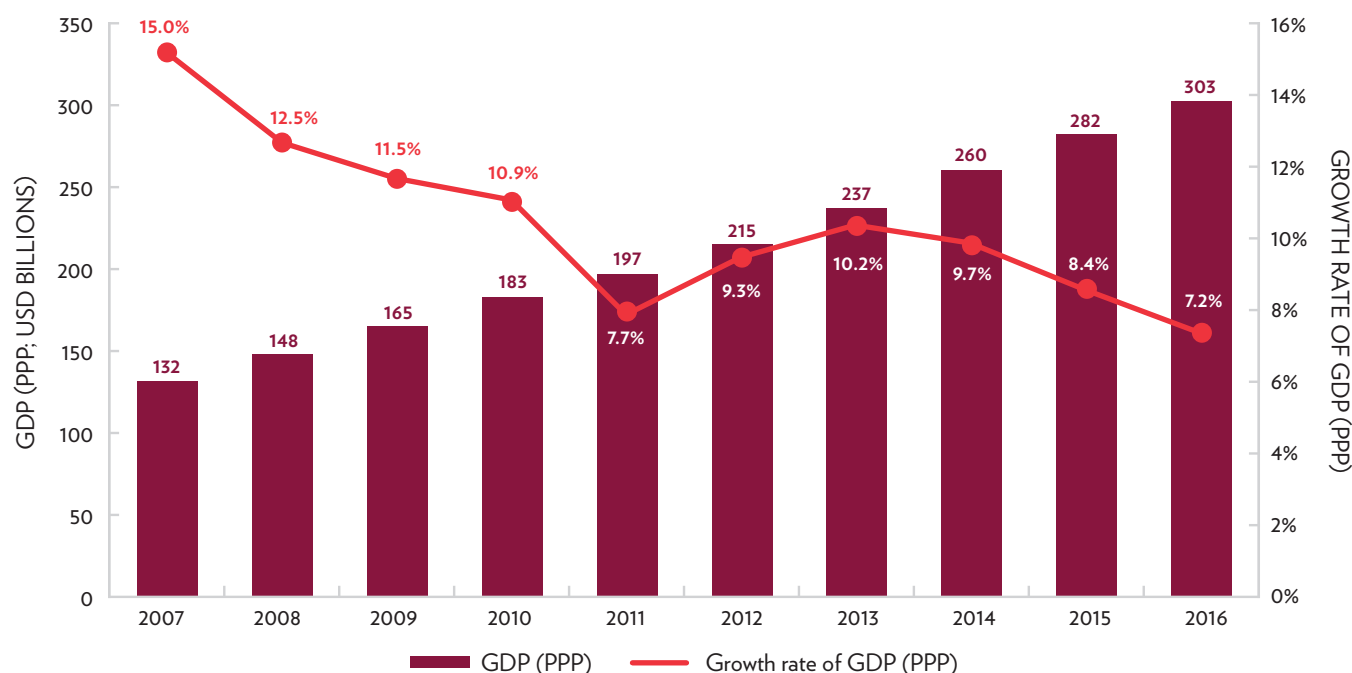


Source: Intellect Advisory Services analysis

GROSS DOMESTIC PRODUCT

Since the 2011 elections, the Myanmar government has made considerable efforts to achieve rapid economic growth while catalyzing the private sector. Myanmar grew at an annual compound rate of 9.7% from 2007 to 2016 (Figure 30), making it one of the fastest-growing countries in the world. The country's GDP has been driven by services, industry, and agriculture alike, but more than half the labor force is engaged in agriculture for employment. The services sector contributes around 40% of GDP and employs 31.5% of the population, while industry contributes 35.4% of GDP and employs 17% of the labor force.

FIGURE 30: MYANMAR, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

In 2016, the government introduced a 12-point economic policy. Objectives highlighted in the policy include sustainable resource mobilization and allocation across states, support of competition and private-sector growth, development of capital markets, development of infrastructure, incentivization of FDI, development of skills across the workforce (especially for manufacturing and services), and enhancement of SMEs. The proposed policy centers on inclusive development, indicating the government's intent to promote businesses that benefit low-income communities and investors that support such businesses.

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

Net FDI inflows into Myanmar have grown substantially since 2007 at a compound annual growth rate of 18.5%. Most of this growth has occurred since the introduction of the Foreign Investment Law in 2012.⁶⁹ The law simplified the process for investment applications and provided a wide range of investment incentives. For example, the law guaranteed no nationalization and no suspension of investments, which was previously a risk in Myanmar. The government also restructured the Myanmar Investment Commission (MIC) over the last five years. It is now the statutory body for approving new investments and has discretionary authority to decide minimal capital requirements for different investments on a case-by-case basis. One of the MIC's key objectives is to emphasize social impact during the investment screening and approval processes.⁷⁰ Investors registered with the MIC enjoy both tax and non-tax incentives, which are also determined at the MIC's discretion.

69 "Foreign Investment," Directorate of Investment and Company Administration, The Republic of the Union of Myanmar, <https://www.dica.gov.mm/en/data-and-statistics>.

70 "Information on the Myanmar Investment Commission (MIC)," Directorate of Investment and Company Administration, The Republic of the Union of Myanmar, <https://www.dica.gov.mm/en/information-myanmar-investment-commission-MIC>.

In 2016, Myanmar received net FDI inflows of USD 3.3 billion. Most investors into Myanmar are based in Singapore, China, Hong Kong, or Vietnam, and FDI has gone primarily to the oil and gas, power, and transport and communication sectors. Despite Myanmar's recent efforts to simplify the foreign investment process and incentivize FDI inflows, its low performance on the EoDB rankings and Global Competitiveness Index, at 171st and 131st, respectively, indicate need for improvement.

SOCIAL OVERVIEW

Myanmar faces multiple developmental challenges. With an HDI score of 0.56, Myanmar ranks 145th on the Human Development Index, the lowest in the region. In terms of progress made towards the SDGs, Myanmar ranks 110th, the second-lowest in the region. Myanmar also faces a large gender gap, reflected by its Global Gender Gap rank of 83rd. However, while such development challenges offer large opportunities to deploy impact capital, Myanmar has experienced severe ethnic tensions and clashes that have deterred investment into the country. For example, the Rohingya crisis, which came to international attention in August 2017, has deterred many western investors from investing in Myanmar due to the associated reputational risks.⁷¹

Key developmental challenges in Myanmar:

- **High poverty:** Myanmar has a high rate of poverty, with 13% of its population living on less than USD 1.9 per day. By 2030, the UN Sustainable Development Solutions Network expects Myanmar to reduce the share of its population living in poverty to 4.7%.⁷²
- **Malnutrition and undernourishment:** More than 35% of Myanmar's children younger than five demonstrate stunted growth. Almost 15% of the population is undernourished.⁷³
- **Poor maternal healthcare:** Access to healthcare is a grave challenge in Myanmar, especially in rural areas. Only 70.6% of births are attended by skilled healthcare professionals. Life expectancy at birth is low at 59.1 years, while the maternal mortality rate is high at 178 per 100,000 live births.⁷⁴
- **Limited access to critical infrastructure:** Only around half of Myanmar's population has access to electricity. Under a third of Myanmar's adult population has access to financial services. The IFC estimates the demand for microcredit at USD 1 billion, of which only 10% is now being serviced.⁷⁵ A large proportion of agricultural credit is channeled through the Myanmar Agriculture Development Bank, the largest bank in rural areas. This bank provides loans at highly subsidized rates, a practice which is unsustainable, according to the World Bank.⁷⁶

71 "IMF Sees Stronger Growth in Myanmar, but Rohingya Crisis May Hurt Investment," *Reuters*, November 17, 2017, <https://in.reuters.com/article/us-myanmar-economy-imf/imf-sees-stronger-growth-in-myanmar-but-rohingya-crisis-may-hurt-investment-idINKBN1DH1C5>.

72 Sachs et al., *SDG Index and Dashboards Report 2017*.

73 Sachs et al., *SDG Index and Dashboards Report 2017*.

74 Sachs et al., *SDG Index and Dashboards Report 2017*.

75 Eric Duflos et al., *Microfinance in Myanmar Sector Assessment* (Washington, DC: Consultative Group to Assist the Poor, January 2013), <https://www.cgap.org/sites/default/files/Microfinance%20in%20Myanmar%20Sector%20Assessment.pdf>.

76 The World Bank, *Myanmar Agricultural Development Bank: Initial Assessment and Restructuring Options* (Bangkok: The World Bank, 2014), https://www.lift-fund.org/files/publication/LIFT-WB_MADB_Initial_Assessment_Final_O.pdf.

DEMAND FOR IMPACT CAPITAL

A number of enterprises have raised capital from impact investors, though entrepreneurship overall is still nascent in Myanmar. Enterprises operating with a social or environmental mission in Myanmar are registered as NGOs, cooperatives, associations, private companies, and foundations.⁷⁷ Social enterprises in Myanmar operate in a handful of sectors, with relatively more enterprises in fast-moving consumer goods (FMCG) and retail, microfinance, and education. Other sectors include agriculture, services, and handicrafts.⁷⁸ However, access to funding is a key constraint to scale, with most social enterprises depending on grant funding in their seed and early stages.⁷⁹ Other challenges that prevent social enterprises from scaling include a lack of human capital, a common perception that social enterprises should not earn profits, lack of basic physical infrastructure, and a limited supply of raw materials (mostly imported goods).⁸⁰ However, the country has seen the fifth-highest number of impact deals in Southeast Asia, with 50 deals made from 2007 to 2017.

In addition to social enterprises, around 130,000 SMEs are formally registered in Myanmar. While these SMEs have cumulatively raised USD 2.7 billion of capital, they face a remaining funding gap of almost USD 14 billion.⁸¹

ENABLING ECOSYSTEM

Impact investing in Myanmar is constrained from growth due to challenges related to regulation, political instability, and lack of infrastructure. Since 2012, a number of international foundations and international NGOs have started operations in Myanmar, many working to improve the country's infrastructure. Business-service providers with an impact focus have also emerged over the last five years, mostly in Yangon. Project Hub Yangon, the first incubator, also had a strong focus on female entrepreneurs, running an incubation program for female entrepreneurs called Project W. Other key incubators and accelerators in the country include Phandeeyar and Impact Hub Yangon.

77 British Council, *Social Enterprise Landscape in Myanmar* (Rangoon: British Council, September 2013), https://iixglobal.com/wp-content/uploads/2013/09/2013_SE-Landscape-in-Myanmar_British-Council.compressed.pdf.

78 Adrien Couton et al., *The Landscape for Impact Investing in South Asia* (New York: Global Impact Investing Network, April 2015), <https://thegiin.org/research/publication/the-landscape-for-impact-investing-in-south-asia>.

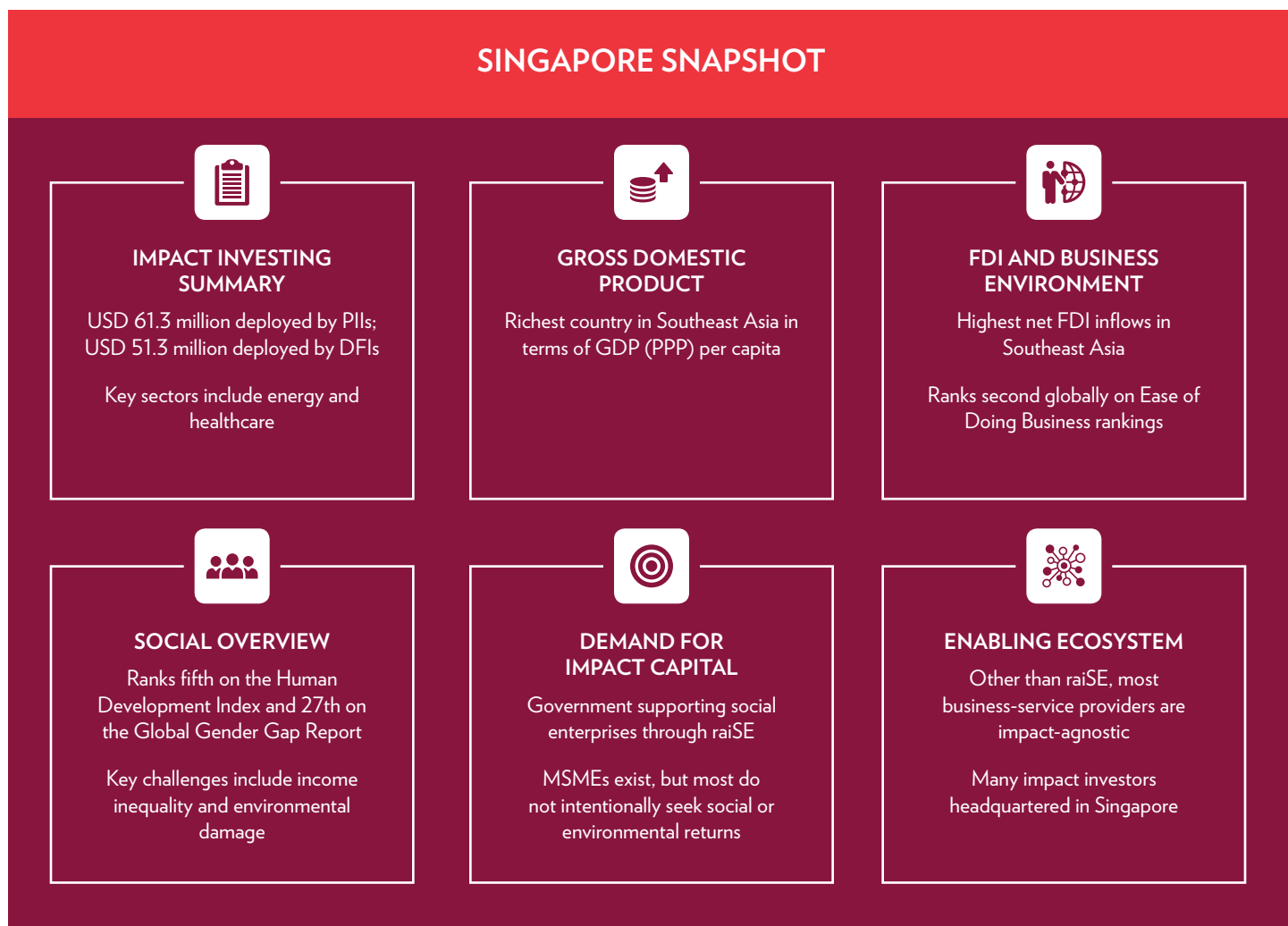
79 British Council, *Social Enterprise Landscape in Myanmar*.

80 British Council, *Social Enterprise Landscape in Myanmar*.

81 "MSME Finance Gap," SME Finance Forum.

Singapore

FIGURE 31: SINGAPORE'S SOCIAL AND ECONOMIC CONTEXT



Source: Intelicap Advisory Services analysis

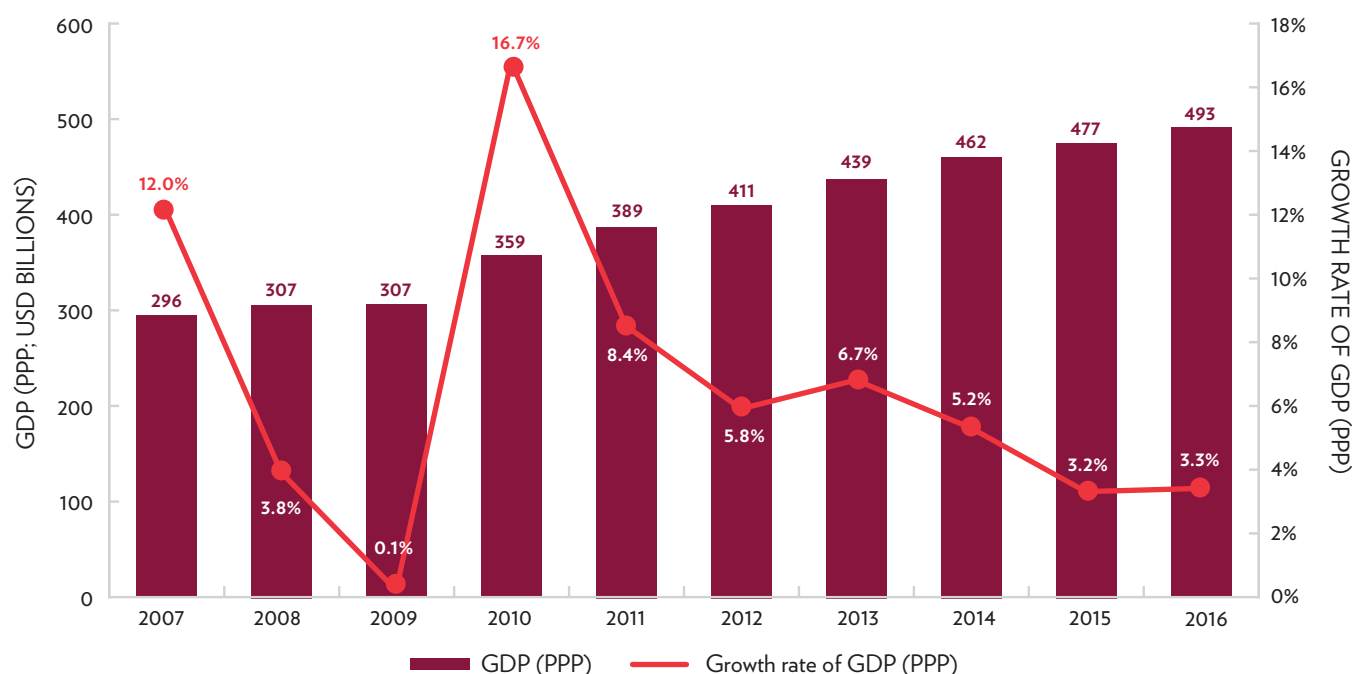
GROSS DOMESTIC PRODUCT

Since its 1965 independence from Malaysia, Singapore has gradually become the business center of Southeast Asia. It is now a developed, free-market economy (Figure 32), acknowledged as one of the most pro-business in the world. The services sector in Singapore contributes 76% of GDP, followed by the industrial sector, which contributes 24%. The contribution of the agricultural sector is minimal (less than 1%). The services sector is also the largest employer (85%). The Singaporean economy is highly reliant on exports, with key exports being machinery and equipment, pharmaceuticals and other chemicals, refined petroleum, and food and beverages.⁸² Singapore's trade-to-GDP ratio is the highest in the world.⁸³

82 "Singapore," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/sn.html>.

83 Trade-to-GDP ratio is the aggregate value of imports and exports over a period of time divided by GDP during that same period.

FIGURE 32: SINGAPORE, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

A key driver of economic growth in Singapore has been the government's efforts to attract foreign investment. The government has taken several steps over time to improve the business environment and encourage FDI inflows into Singapore. Some key incentives include a low corporate tax rate (17%), no restrictions on re-investment or repatriation of investment earnings, avoidance of double-taxation with many countries, and general encouragement of a free-market economy. Currently, Singapore receives the highest FDI in Southeast Asia, with net FDI inflow of USD 61.6 billion in 2016. According to the United Nations Conference on Trade and Development (UNCTAD), Singapore had the eighth-highest FDI inflows in the world in 2017.⁸⁴

Singapore ranked first on the EoDB rankings from the launch of the index until 2017, when it ranked second. Singapore is considered pro-business for its ease of registering and starting a business, accessibility of permits, and efficient process to resolve commercial disputes. Singapore also leads in the Global Competitiveness Index, ranking third globally and first in Southeast Asia. Key strengths of Singapore's economy include a well-developed financial sector, advanced transport infrastructure, and an efficient labor market. Limitations include unstable prices, deflationary trends, and low innovation.⁸⁵

The ease of doing business and congenial regulatory environment in Singapore has led many regional impact investors to establish their headquarters in Singapore. Singapore offers more regulatory, economic, and political stability compared to many of its Southeast Asian neighbors. Interviews with investors also suggested that domiciling an equity fund in Singapore is easier compared

84 "Global FDI Flows Slipped Further in 2017," *Investment Trends Monitor* (Geneva: United Nations Conference on Trade and Development), No. 28 (January 2018), http://unctad.org/en/PublicationsLibrary/diaeia2018d1_en.pdf.

85 Klaus Schwab, ed., *The Global Competitiveness Report 2015–2016*, (Geneva: World Economic Forum, 2015), http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

to other impact investing hubs in the region, such as Indonesia and the Philippines. In addition, Singapore offers investors better legal security than other countries in the region. Investors with headquarters in Singapore often partner with ecosystem intermediaries from other countries to source deals across the region. However, with the emergence of low-cost airlines in Asia, many investors have started using a fly-in, fly-out model to source deals, build relationships with their investees, and provide required support.

SOCIAL OVERVIEW

With an HDI score of 0.93, Singapore is classified as a very high human development country, ranking fifth globally. Additionally, Singapore performs well on many gender parameters, such as maternal mortality rate and enrollment of women in education, but it ranks 65th in the Global Gender Gap Index. By contrast to most of Southeast Asia, Singapore faces challenges related to income inequality, an aging population, dependence on fossil fuels, and environmental damage.

Key developmental challenges in Singapore:

- **High income inequality:** Among developed economies, Singapore has very high income inequality. Its GINI coefficient of 45.8 is the highest in Southeast Asia. Interviewed stakeholders suggested that while the salaries of skilled workers have increased substantially over the last few years, the salaries of unskilled and semi-skilled workers have been stagnant. Singapore also has a very high level of relative poverty, defined by the percentage of people whose income is less than half the median wage. More than 20% of the Singaporean population is below this poverty threshold.⁸⁶
- **Aging population:** Alongside modest population growth (less than 1%), the population of elderly people has increased and will continue to increase. Estimates suggest that the number of individuals older than 65 years will triple between 2006 and 2030.⁸⁷ In 2016, 12.6% of Singapore's population was 65 years or older.⁸⁸
- **Dependence on imports of critical goods and services:** In order to provide energy at competitive prices, Singapore relies heavily on energy imports.⁸⁹ In 2011, Singapore imported 97% of its energy. Less than 3% of the energy produced by Singapore was from renewable sources. Similarly, due to limited availability of land, Singapore imports more than 90% of its food.⁹⁰
- **Environmental challenges:** With development, Singapore has lost more than 90% of its forest cover, 67% of its bird species, and 40% of mammalian species.⁹¹

86 John A. Donaldson et al., "Measuring Poverty in Singapore: Frameworks for Consideration," *Social Space* (Lien Centre for Social Innovation), No. 6 (2013): 58–66, http://ink.library.smu.edu.sg/lien_research/110/.

87 Committee on Ageing Issues, *Report on the Ageing Population* (Singapore: Cabinet of Singapore, February 2006), <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN024041.pdf>.

88 "Population and Vital Statistics," Ministry of Health Singapore, https://www.moh.gov.sg/content/moh_web/home/statistics/Health_Facts_Singapore/Population_And_Vital_Statistics.html.

89 Bernard Nee et al., *Singapore Energy Statistics 2016* (Singapore: Energy Market Authority, June 2016), https://www.ema.gov.sg/cmsmedia/Publications_and_Statistics/Publications/SES%202016/Publication_Singapore_Energy_Statistics_2016.pdf.

90 "The Food We Eat," Agri-Food & Veterinary Authority of Singapore, <https://www.ava.gov.sg/explore-by-sections/food/singapore-food-supply/the-food-we-eat>.

91 Navjot S. Sodhi et al., "Conserving Southeast Asian Forest Biodiversity in Human-Modified Landscapes," *Biological Conservation* 143 (2010): 2375–84, http://www.dbs.nus.edu.sg/lab/cons-lab/documents/Sodhi_et_al_Biol_Cons_2010a.pdf.

DEMAND FOR IMPACT CAPITAL

The social enterprise movement in Singapore has grown rapidly: in 2017 alone, the number of social enterprises increased by 32%.⁹² The movement has been led by several organizations, such as the Singapore Center for Social Enterprise (raiSE) and the Asia Center for Social Entrepreneurship and Planning (ACSEP), which is situated at the National University of Singapore. Of more than 400 social enterprises currently in Singapore, most relatively new, around two-thirds are in the seed and early stages, while another third are growth-stage and mature companies. Key sectors include education (18%), training (17%), and health and wellness (12%).⁹³

Since Singapore is a developed country, the beneficiaries that social enterprises target differ from those in other ASEAN countries. Around 34% of social enterprises target disadvantaged youth, 28% target persons with disabilities, and 22% target low-income families or individuals.⁹⁴ Forty-six percent of these enterprises provide employment to their beneficiaries, 21% provide education, and 19% provide skill development. Social enterprises in Singapore have relatively small operations, with 74% earning annual revenues less than USD 250,000, and only 14% earned over USD 500,000 in 2016.⁹⁵

Social enterprises struggle to access finance; 60% are self-funded. The remainder of social enterprises raised debt (14%) and equity (26%). Barriers to raising external funding include the lengthy application process to raise capital, strict funding criteria, and limited resources to undertake lengthy, complicated procedures to acquire funding. Besides access to finance, other challenges include improving business models, customer acquisition, networking and forming partnerships, and recruiting and retaining talent.⁹⁶

Overall, interviews with ecosystem stakeholders suggested that while Singapore's economy greatly depends on SMEs, few have a social impact focus.

ENABLING ECOSYSTEM

Since Singapore is a preferred location for many regional impact investors and social enterprises, the ecosystem for impact investing has gained considerable traction. There are a number of providers of business support, including incubators and accelerators such as Impact Hub Singapore, raiSE, BOP Hub, Singtel Future Makers, and NUS Enterprise. The IIX is headquartered in Singapore and also operates an impact-focused accelerator with an emphasis on enterprises across Southeast Asia. Several impact-agnostic, technology-focused providers of business services have also housed impactful enterprises. Networks like AVPN, ANDE, and Transformational Business Network Asia are active in Singapore, and Singapore houses several research organizations, such as the Lien Center for Social Innovation, British Council Singapore, Singapore University of Social Sciences, and Asia Centre for Social Entrepreneurship and Philanthropy.

92 Singapore Centre for Social Enterprise (raiSE), *The State of Social Enterprise in Singapore* (Singapore: raiSE, May 2017), <https://www.raise.sg/images/resources/pdf-files/raiSE---State-of-Social-Enterprise-in-Singapore-2017-Report.pdf>.

93 raiSE, *Social Enterprise in Singapore*.

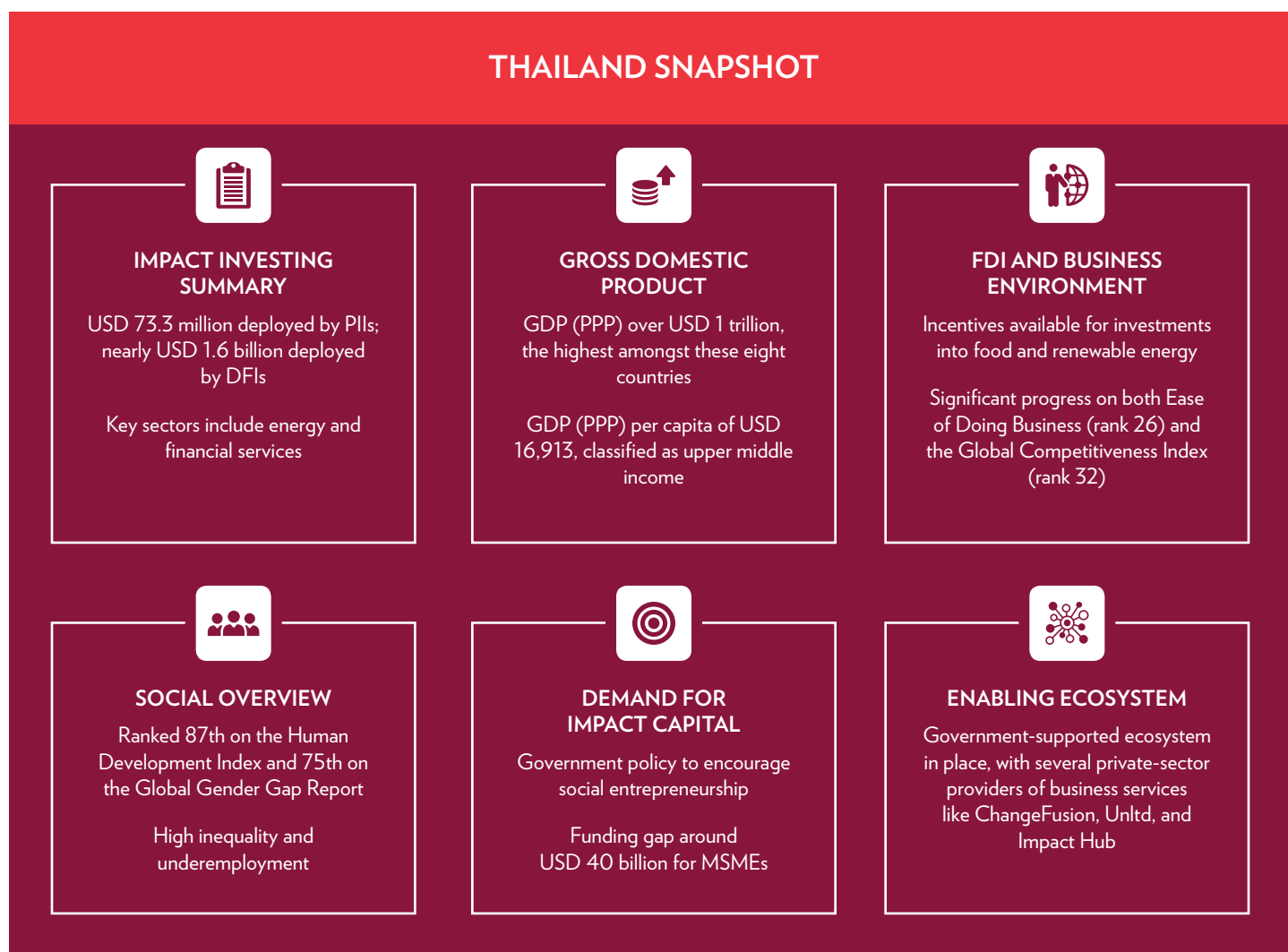
94 raiSE, *Social Enterprise in Singapore*.

95 raiSE, *Social Enterprise in Singapore*.

96 raiSE, *Social Enterprise in Singapore*.

Thailand

FIGURE 33: THAILAND'S SOCIAL AND ECONOMIC CONTEXT



Source: Intellect Advisory Services analysis

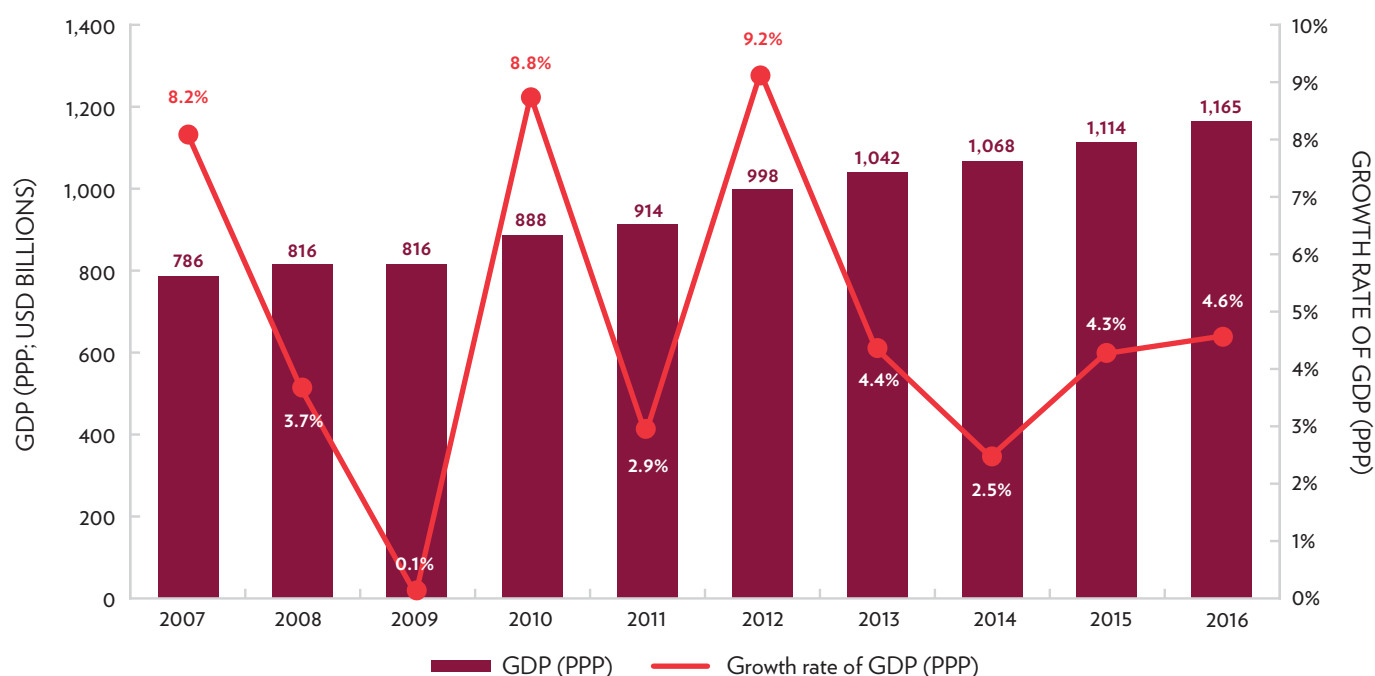
GROSS DOMESTIC PRODUCT

Following Indonesia, Thailand has the largest economy in the region, with GDP (PPP) over USD 1 trillion (Figure 34).⁹⁷ Since 1985, the services sector has contributed more than half of Thailand's GDP. The share of agriculture to overall GDP has reduced over time, but much of the population still depends on the sector for employment; in 2016, though agriculture contributed less than 10% of GDP, it employed almost one-third of the Thai workforce.⁹⁸ Thailand's economy is also highly oriented towards exports, which account for over two-thirds of its GDP. Important exports include electronics, agricultural commodities, automobiles and automotive parts, and processed food.

97 "Thailand," Databank (Washington, DC: The World Bank), <https://data.worldbank.org/country/thailand>.

98 "Thailand," The World Factbook (Langley, VA: Central Intelligence Agency, May 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/th.html>.

FIGURE 34: THAILAND, GDP (PPP) AND GROWTH RATE



Source: World Development Indicators

In 2016, the Government of Thailand introduced the Thailand 4.0 strategy, attempting to set clear economic objectives. The strategy aims to prevent Thailand from falling into a “middle income trap”⁹⁹ and to aid the country’s transition to a high-income country by:

- creating a value-based economy based on knowledge, innovation, and technology, increasing expenditures on R&D to 4% of GDP;
- increasing per-capita income to transition to a high-income country by 2032;
- creating an inclusive society by reducing the GINI coefficient to 36 by 2032 and by increasing per capita farmer income to more than USD 12,500 by 2036;
- ensuring that at least five Thai universities are ranked among the world’s top 100 universities; and
- enabling Thailand to develop a competitive advantage in 10 industries through innovation, knowledge development, and technology transfers.¹⁰⁰

99 “Thailand 4.0,” Royal Thai Embassy, Washington, D.C., <http://thaiembdc.org/thailand-4-0-2/>.

100 These 10 industries are: (1) Next-Generation Automotive; (2) Smart Electronics; (3) Affluent, Medical, and Wellness Tourism; (4) Agricultural and Biotechnology; (5) Food for the Future; (6) Robotics; (7) Aviation and Logistics; (8) Biofuels & Biochemical; (9) Digital; and (10) Medical Hub.

FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT

The Thai Board of Investment introduced its **2015–2021 Investment Promotion Strategy, which seeks to enhance Thailand's global competitiveness as an investment destination.**¹⁰¹ Thailand incentivizes investments into six key sectors, including those of interest to impact investors like food and agriculture and renewable and alternative energies. However, despite government efforts to catalyze FDI, political instability has led to fluctuating inflows.

Thailand has made great progress towards improving its business environment. Among Southeast Asian countries, it ranks third on both the 2018 EoDB rankings (26th globally) and the 2017–2018 Global Competitiveness Index (32nd globally). The country improved its EoDB ranking from 46 to 26 in 2018, one of the largest jumps for any country, and it advanced two places in the Global Competitiveness Index in 2017. Key improvements included the abolishment of certain requirements to start a business, the reduction in the rate of the property transfer tax, the introduction of legislation to broaden the scope of assets that can be used as collateral, and the use of geographic information systems to enhance access to electricity.¹⁰²

SOCIAL OVERVIEW

With a score of 0.74, Thailand ranks 87th on the Human Development Index and is classified as a high human development country. Thailand has also made considerable progress towards achieving the SDGs, ranking second in the region and 55th globally. Thailand ranks 75th in the Global Gender Gap Index. Labor force participation for women is low at 62.9%, compared to 80.2% of men. Women hold only 6.1% of seats in the legislature. Besides gender inequality, the country faces various additional developmental challenges.

Key developmental challenges in Thailand:

- **High income inequality:** At 44.5, Thailand has one of the highest GINI coefficients in the region, signifying higher inequality than many of its neighbors, such as the Philippines, Indonesia, and Vietnam.
- **High disguised unemployment and underemployment:** While Thailand reports a low unemployment rate,¹⁰³ its economy is characterized by underemployment and disguised unemployment,¹⁰⁴ especially in agriculture.
- **Aging population:** Thailand achieved 100% Universal Health Coverage in 2002.¹⁰⁵ However, by 2040, more than a quarter of the Thai population will be older than 65, requiring increased access to preventive healthcare solutions.¹⁰⁶

101 Ajarin Pattanapanchai, "Thailand's Investment Policies Update". Thailand Board of Investment, http://www.boi.go.th/upload/content/Amcham_Investment_Policies_Update_9Aug16_22623.pdf.

102 "Thailand Moves Up in Global Doing Business Ranks," news release, The World Bank, November 1, 2017, <http://www.worldbank.org/en/news/press-release/2017/11/01/thailand-moves-up-in-global-doing-business-ranks>.

103 "Thailand," Databank.

104 Disguised unemployment refers to a situation where there are more workers engaged in a particular activity than the required amount, hence making the contributions of some workers redundant.

105 Health Insurance System Research Office, *Thailand's Universal Coverage Scheme: Achievements and Challenges* (Nonthaburi, Thailand: Health Insurance System Research Office, May 2012), <http://www.jointlearningnetwork.org/uploads/files/resources/book018.pdf>.

106 "Thailand Economic Monitor - June 2016: Aging Society and Economy," The World Bank, <http://www.worldbank.org/en/country/thailand/publication/thailand-economic-monitor-june-2016-aging-society-and-economy>.

- **High reliance on energy imports:** Thailand reports that 100% of its population has access to energy; however, it greatly depends on fossil fuels and energy imports. Its energy security causes concern, since Thailand is already the second-largest consumer of energy in Southeast Asia, and the International Energy Agency expects its energy consumption to triple by 2035.¹⁰⁷

DEMAND FOR IMPACT CAPITAL

The Government of Thailand has recognized that social enterprises can foster development. In 2010, it introduced the Thai Social Enterprise Office (TSEO) to support and promote their growth.¹⁰⁸ TSEO has been critical to stimulating the social enterprise ecosystem in the country.¹⁰⁹ In 2016, the government also passed the Royal Decree on Tax Exemption, which provides tax benefits to social enterprises and even to investors in such enterprises. To qualify for corporate income tax exemptions, the organization must certify as a social enterprise, re-invest 100% of its profits into the business or for the benefit of the marginalized, and include the words “social enterprise” in the name of the organization.¹¹⁰

In Thailand, around three million registered MSMEs and a number of other organizations operate with a social mission.¹¹¹ Social enterprises operate in various sectors including health, education, workforce development, agriculture, and tourism.¹¹² Both social enterprises and MSMEs face a substantial financing gap. For instance, a 2013 survey highlighted that 54% of social enterprises in Thailand were self-funded, and only 17% received bank loans.¹¹³ The IFC estimates that formally registered MSMEs in Thailand face a financing gap over USD 40 billion.¹¹⁴ Besides financing, MSMEs in Thailand face additional challenges including the lack of human capital outside urban areas, high cost of doing business in cities, and limited access to innovation or research and development.

107 International Energy Agency (IEA) Secretariat, Thailand Electricity Security Assessment 2016 (Paris: OECD and IEA, 2016), https://www.iea.org/publications/freepublications/publication/Partner_Country_Series_Thailand_Electricity_Security_2016_.pdf.

108 According to stakeholders in Thailand, however, the TSEO is currently inactive and will likely be restructured. Bob Doherty and Ada Chirapaisarnkul, “Social Enterprise Is Set to Take Off in Thailand,” British Council (news), <https://www.britishcouncil.org/society/social-enterprise/news-events/news-social-enterprise-set-to-take-off-in-thailand>.

109 Aarti Mohan et al., *Social Investment Landscape in Asia: Insights from Southeast Asia* (Asian Venture Philanthropy Network, May 2017), <https://avpn.asia/insights/social-investment-landscape-asia/>.

110 Kowit Samwaiya, “Corporate Income Tax Exemption for Social Enterprises,” Law Plus, <https://www.lawplusltd.com/2016/10/corporate-income-tax-exemption-social-enterprises/>.

111 The Thai government estimates that around 120,000 organizations are working with a social mission, and around 400 social enterprises are registered.

112 Mohan et al., *Social Investment Landscape in Asia*.

113 Mohan et al., *Social Investment Landscape in Asia*.

114 “MSME Finance Gap,” SME Finance Forum.

ENABLING ECOSYSTEM

Much of the ecosystem for impact investing has been developed by the Thai government, though there are a few private-sector incubators and accelerators. Recognizing social enterprises as drivers of development, the government has proactively created an enabling environment by offering a range of tax exemptions to both social enterprises and their investors.

Several private-sector stakeholders provide a wide array of financial and non-financial support services to social enterprises, non-profits, and impact investors in Thailand. For instance, BKind, a USD 300 million equity fund which invests in socially responsible businesses, has a mandate to donate, at least once a year, up to 0.8% of the fund's net asset value to non-profit organizations benefiting Thai society.¹¹⁵ Incubators and accelerators are also present in Thailand, such as ChangeFusion and UnLtd Thailand. ChangeFusion, which has considerable tenure in Thailand, provides high-touch support to social entrepreneurs. It also has a venture capital arm, known as ChangeVentures, which channels capital from HNWI's towards ChangeFusion incubatees. UnLtd, another key provider of enterprise support with roots in the United Kingdom, has been in Thailand since 2010. Several competitions are available to social enterprises, such as the Social Enterprise Investment Awards (operated by the Stock Exchange of Thailand), the DBS-NUS Social Venture challenge (organized by the DBS Foundation and the National University of Singapore, or NUS), and BanPu Champions for Change. Networks such as ANDE, AVPN, Thai Young Philanthropists Network, and the Network of Impact Social Enterprise are highly active in Thailand. Other global development organizations with an active presence in Thailand include Oxfam, the United Nations Economic and Social Council for Asia and the Pacific (UNESCAP), and the United Nations Capital Development Fund (UNCDF).

115 "ChangeFusion: Mutually Building the Mutual Fund," Case Studies, Asian Venture Philanthropy Network, April 2015, https://avpn.asia/case-study/changefusion-mutually-building-the-mutual-fund/#_edn11.

A stylized map of Southeast Asia is shown in the background. The landmasses are depicted in a dark teal color, while the surrounding water bodies are a lighter, muted teal. Indonesia is highlighted in a vibrant red color, making it stand out from the rest of the region. The map includes major islands such as Sumatra, Java, Borneo, and Sulawesi, as well as the Philippines and parts of Malaysia and Vietnam.

INDONESIA: AN INTRODUCTION TO THE IMPACT INVESTING LANDSCAPE

Impact Investing in Indonesia (2007–2017)

USD 148.8 MILLION

Impact capital deployed by
PRIVATE IMPACT INVESTORS (PIIs)

24

ACTIVE PIIs

58

DEALS

USD 3.6 BILLION

Impact capital deployed by
DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

6

ACTIVE DFIs*

67

DEALS*

*Includes only direct DFI investments.

KEY CHARACTERISTICS OF PII AND DFI IMPACT INVESTING ACTIVITY

MARKET OVERVIEW

Largest impact investing market in Southeast Asia, by both capital deployed and number of deals

Impact investing activity has significantly expanded since 2013

Vibrant ecosystem for impact investing, with many impact-focused business support providers



DEAL SIZE

PIIs: Local investors prefer to make deals below USD 500,000, while global investors operate between USD 1 and 5 million

DFIs: Most deals between USD 10 and 50 million



SECTORS

PIIs: Active across diverse sectors, with most deployments in financial services, agriculture, and services

DFIs: Mostly financial services, energy, and manufacturing



INSTRUMENTS

PIIs: 60% of all deals and 53% of all capital deployed as equity

DFIs: 76% of all deals and 92% of all capital deployed as debt



IMPACT MEASUREMENT AND MANAGEMENT

PIIs: Metrics based on globally accepted frameworks

DFIs: Use proprietary frameworks that reflect individual impact theses and sector strategies



GENDER LENS INVESTING

PIIs: USD 27.6 million deployed into five investments using a gender lens; other investors are scouting for opportunities

DFIs: Common to measure gender impacts across investments though intentional gender lens investing has not been explicitly employed to date

COUNTRY SUMMARY

Indonesia is the largest market for impact investing in the region in terms of the number of active investors, amount of impact capital deployed, and number of impact deals between 2007 and 2017. Private Impact Investors (PIIs), including at least 22 fund managers, several family offices, and one impact-focused angel network, have deployed USD 148.8 million across 58 deals, and six Development Finance Institutions (DFIs) have deployed over USD 3.6 billion in impact capital through 67 direct deals. Indonesia's steady improvement in the World Bank's Ease of Doing Business rankings and the World Economic Forum's Global Competitiveness Index has reinforced investors' strong expectations.

Considered in two phases, 2007 to 2013 and after 2013, the activity of PIIs in Indonesia has evolved substantially.

- **Between 2007 and 2013, PIIs had limited activity** with most investments flowing to enterprises in financial services and agriculture. This period also exhibited a substantial early-stage funding gap.
- **Since 2013, PIIs' activity has drastically increased**, averaging over 13 impact deals per year, the highest for any country in the region. The funding gap for small investments at early stages has been partially filled by the formation and subsequent growth of an angel investment network and several incubators providing seed capital. Also since 2013, PIIs have invested in enterprises in non-traditional sectors, such as services, fisheries, and sustainable forestry.
- As of the end of 2017, Indonesia had also seen increased interest in Gender Lens Investing (GLI), with at least five PIIs applying a gender lens. Some have deployed capital, while others are actively scouting opportunities.

DFI activity has been more consistent since 2007, with a primary focus on three sectors: financial services, energy, and manufacturing. DFIs' objectives for investing in Indonesia fall into three categories:

1. To support the creation of infrastructure to increase access to critical goods and services while creating large-scale employment.
2. To catalyze private capital through co-investments. Research suggests that each dollar of allocated DFI capital leverages around three dollars of private capital.
3. To pursue developmental outcomes in more remote areas, outside the more developed regions of Java and Sumatra where investment has been largely centered.

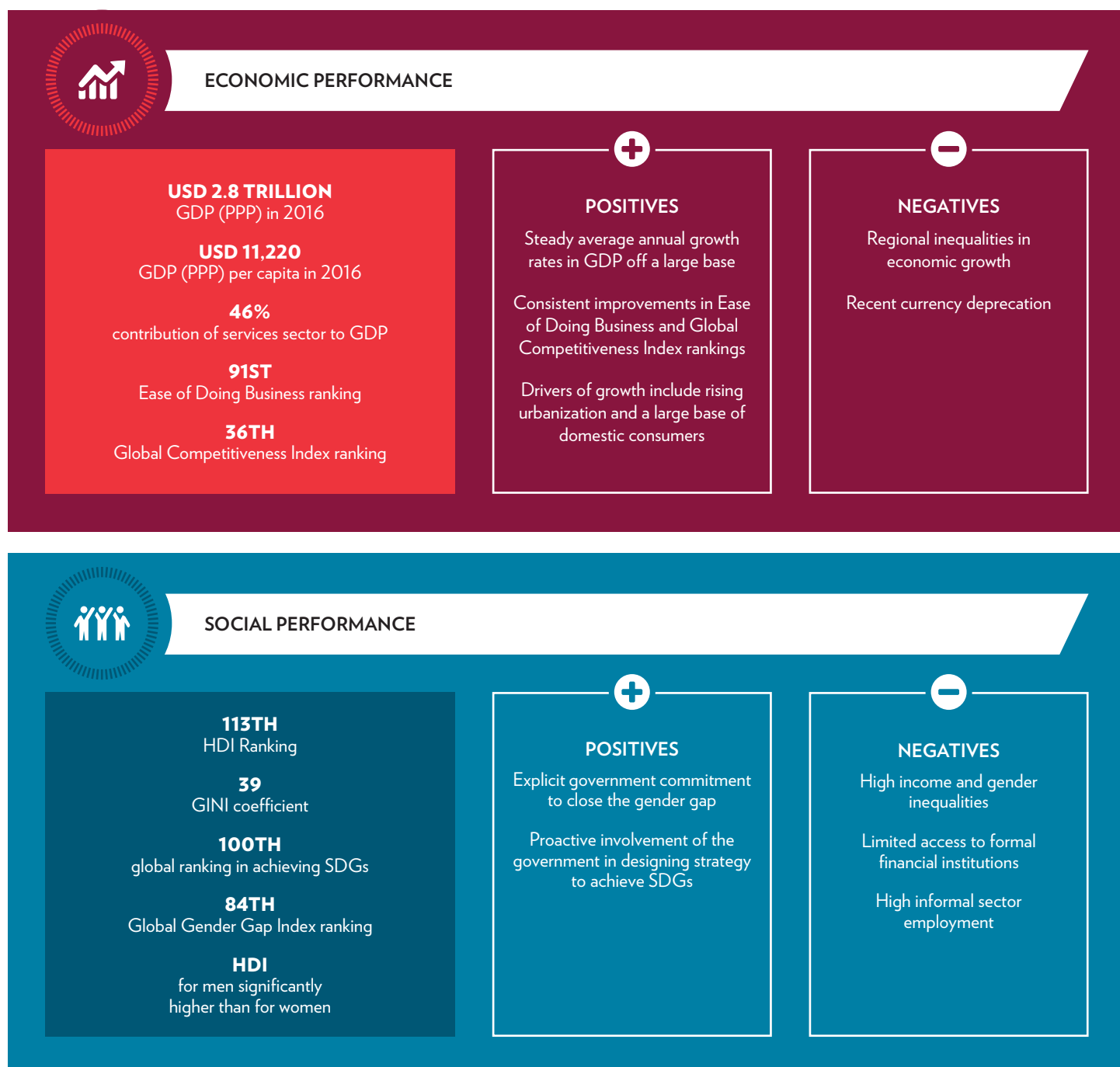
The ecosystem supporting impact investing has also evolved, leading to growing awareness of the field. The country now has many impact-focused providers of business support, and relevant industry associations and networks are also active in Indonesia, including the Aspen Network of Development Entrepreneurs (ANDE) and the Asian Venture Philanthropy Network (AVPN).

Catalyzing the growth of impact investing in Indonesia further will require overcoming at least two significant challenges. First, impact investing depends on foreign capital because local investors and investing capabilities are missing. The market needs an ecosystem that builds the capabilities of local fund managers. Second, foreign investors should build local presence in the country to improve the effectiveness of sourcing and investing. Notwithstanding these challenges, the outlook for impact investing in Indonesia is positive, and many investors interviewed for this report expect to make impact deals in the near future. Investors in Indonesia have also been able to generate exits, validating the potential of investments in the country to offer both financial and social or environmental returns.

COUNTRY CONTEXT

Snapshot

FIGURE 1: SNAPSHOT OF INDONESIA'S ECONOMIC AND SOCIAL INDICATORS

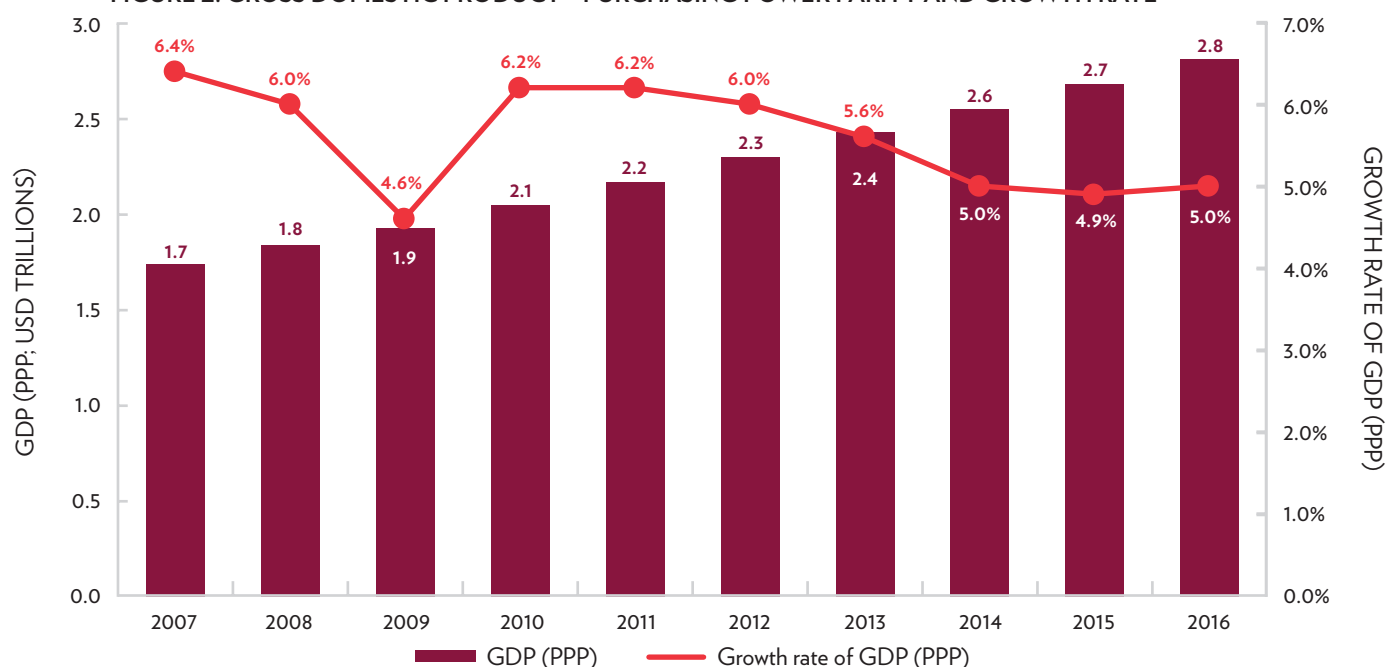


Economic overview

GDP AND ECONOMIC GROWTH

Abundant in natural resources, Indonesia is the largest economy in Southeast Asia in terms of its **Gross Domestic Product (GDP) at purchasing power parity (PPP)**. At USD 2.8 trillion, Indonesia is the eighth-largest economy in the world (Figure 2). In nominal terms, the IMF projects Indonesia will overtake many developed economies,¹ and the Asian Development Bank forecasts that Indonesia will maintain a growth rate around 5% in 2018. Most economic growth in the country has, however, been concentrated in two regions: Java (58% of GDP) and Sumatra (20%).²

FIGURE 2: GROSS DOMESTIC PRODUCT—PURCHASING POWER PARITY AND GROWTH RATE



Source: World Development Indicators

The services and industrial sectors are critical to the Indonesian economy, contributing **45.9% and 40.3%, respectively to its GDP**.³ The services sector also represents the largest share of employment in Indonesia.⁴ Its contribution to the country's economy should only continue to expand, especially given the government's commitment to increasing competitiveness in the sector in its 2015–2019 plan.⁵ Notable growth in the services sector can be attributed to the information and communication

1 International Monetary Fund, *World Economic Outlook* (April 2017), <http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>.

2 Data released by Statistics Indonesia, a government agency. "Indonesia's Most Populous Island Java Continues to Dominate the Economy," *Indonesia Investments*, August 3, 2013, <https://www.indonesia-investments.com/news/todays-headlines/indonesias-most-populous-island-of-java-continues-to-dominate-the-economy/item972>.

3 "Indonesia," *The World Factbook* (Langley, VA: Central Intelligence Agency, 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>.

4 "Indonesia," *The World Factbook*.

5 Yose Rizal Damuri, "Services Sector Development in Indonesia and the Implementation of AEC Measures in Services," *Centre for Strategic and International Studies (CSIS) Working Paper Series* (03–2016, November 2016), https://www.csis.or.id/uploaded_file/publications/services_sector_development_in_indonesia_and_the_implementation_of_aec_measures_in_services.pdf.

technologies (ICT) 2.7% contribution to Indonesia's overall GDP in 2015. According to a market intelligence report, Indonesia's ICT sub-sector is expected to grow at a CAGR of 12.2% between 2014 and 2018.⁶ The government wants to increase the contribution to GDP of travel and tourism, also important to recent growth, from 6.2% in 2016 to 8% by 2019.⁷

The industrial sector contributes 21.0% of Indonesian employment, with manufacturing contributing 18.1% of Indonesia's GDP. A third of this 18.1% can be attributed to the food and beverages industry, followed by metal goods, electronics and electronic equipment, transport equipment and chemicals, pharmaceuticals, and traditional medicines.⁸ The contributions of oil and gas, mining, agriculture, and other commodities to the Indonesian economy have declined due to low commodity prices.

Agriculture contributes 14% of Indonesia's GDP and 32% of its workforce.⁹ Indonesia is the world's largest producer of palm oil, cloves, and cinnamon, and it is the world's second-largest producer of nutmeg, natural rubber, cassava, vanilla, and coconut oil. Many Indonesian communities have recently shifted from traditional agriculture to palm oil production, following global demand for the product. However, this increase not only threatens food security but also hastens the loss of Indonesian forest coverage and exacerbates land disputes. To counteract this, the Indonesian government is promoting the production of other crops. According to the Indonesian Ministry of Agriculture's Strategic Plan for 2015 to 2019, the government intends to focus on improving the productivity of crops such as rice, soybean, sugar, chili, and onion, while also developing rural agro-industry.¹⁰

FOREIGN DIRECT INVESTMENT AND EASE OF DOING BUSINESS

Foreign Direct Investment (FDI) into Indonesia has gradually increased over the last decade (Figure 3), a trend that will likely continue given the government's commitment to improving its business environment. FDI inflows into Indonesia reached USD 29.3 billion in 2015, with the metal, machinery, electronics, and pharmaceutical sectors attracting the greatest investment. Singapore was the largest foreign investor into Indonesia, followed by Japan and China. As the economic center, Java received more than 50% of all FDI flowing into Indonesia.

6 Technavio, *IT Market in Indonesia 2014–2018* (London: Technavio, June 2014), <https://www.technavio.com/report/it-market-in-indonesia-2014-2018>.

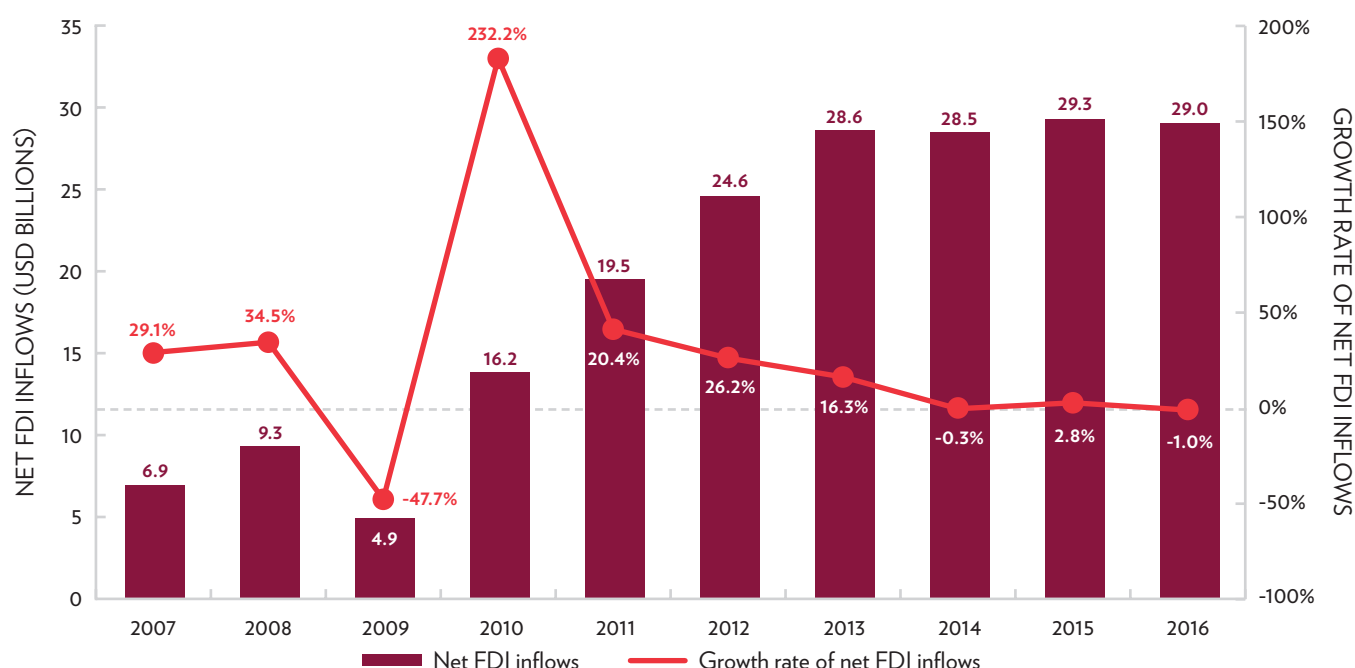
7 According to the Travel and Tourism Council.

8 "Tourism Industry Indonesia," *Indonesia Investments*, updated December 16, 2016, <https://www.indonesia-investments.com/business/industries-sectors/tourism/item6051>.

9 "Manufacturing Industry Indonesia Contributes 18.1% to GDP," *Indonesia Investments*, February 23, 2016, <https://www.indonesia-investments.com/news/todays-headlines/manufacturing-industry-indonesia-contributes-18.1-to-gdp/item6527>.

10 Iqbal Rafani, *Strategic Plan of Indonesian Ministry of Agriculture: 2015–2019* (Bogor, Indonesia: Indonesian Center for Agriculture Socio-Economic and Policy Studies, April 2015), http://ap.fftc.agnet.org/ap_db.php?id=416.

FIGURE 3: NET FDI INFLOWS AND GROWTH RATE



Source: World Development Indicators and BKPM

Key drivers of FDI in Indonesia include the following:

- Stable macro-economic environment and a favorable investment climate:** In 2017, both S&P Global and Fitch raised Indonesia's credit rating from BB+ to BBB-, an added endorsement for foreign investors of Indonesian fiscal stability. Initiatives by the Investment Coordination Board, BKPM, may also increase future foreign investment. One barrier to foreign investment, however, is the time required to register as a Perusahaan Penanaman Modal Asing (PMA), or a foreign investment limited liability company, the legal entity through which foreign investors can conduct commercial activities in Indonesia. In 2016, to reduce the time required to complete the registration process, the BKPM set up a single window for the establishment of PMAs. The registration process is further expedited for investments exceeding USD 8 million or employing more than 1,000 local workers.
- Large population and suitable demographics:** Indonesia's 260 million people form a large consumer base, which, coupled with steady economic growth, has encouraged many foreign investors and corporations to consider expansion into Indonesia. With a median age of 30 years, Indonesia also has the advantage of a young workforce.¹¹
- Urbanization and rising consumption expenditures:** Rapid urbanization and a growing middle class in Indonesia have corresponded to increasing consumption expenditures. Twenty years ago, two-thirds of the country's population resided in rural areas, while today more than half reside in urban areas. By 2050, the United Nations expects just one-third of Indonesians to reside in rural areas. Consumer spending has been a critical driver of the country's growth, contributing 55.5% of Indonesia's 2016 GDP.¹²

11 "Population of Indonesia," *Indonesia Investments*, updated September 5, 2017, <https://www.indonesia-investments.com/culture/population/item67>.

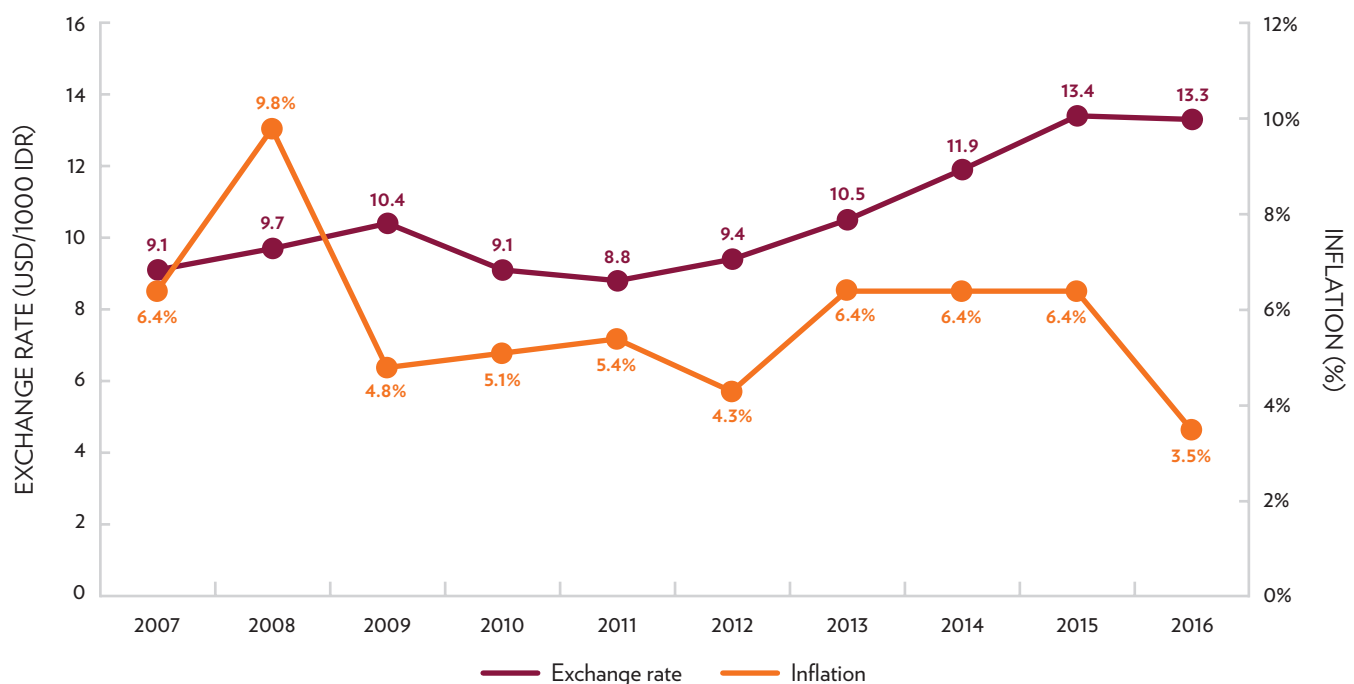
12 "Population of Indonesia," *Indonesia Investments*.

- **Continuous improvement in Ease of Doing Business ranking:** Indonesia has steadily improved its position in the Ease of Doing Business index, jumping 19 places from 91 to 72 in 2018 after climbing 15 places the year prior. Indonesia still lags behind many neighbors, including Singapore, Malaysia, Thailand, Brunei, and Vietnam, yet its improvement suffices to keep the difficulty of the business environment from impairing FDI.

INFLATION AND CURRENCY RISKS

In comparison to many of its peers, Indonesian inflation has been both volatile and high over the past decade (Figure 4). Reduced subsidies on fuel, which have a multiplier effect on the prices of different goods in the economy, are one reason for high inflation in Indonesia. The Indonesian economy had long relied on high fuel subsidies. From 2010 to 2015, meanwhile, the Indonesian Rupiah (IDR) also depreciated more than 30% against USD. It has since stabilized.

FIGURE 4: INFLATION AND EXCHANGE RATE



Source: World Development Indicators

Social overview

HDI AND INCOME INEQUALITY

TABLE 1: SOCIAL DEVELOPMENT INDICATORS

PARAMETER	INDONESIA
LIFE EXPECTANCY AT BIRTH	69.1
EXPECTED YEARS OF SCHOOLING	12.9
MEAN YEARS OF SCHOOLING	7.9
GNI PER CAPITA (PPP)	USD 11,220
<i>Life expectancy at birth and GNI per capita (PPP) sourced from World Development Indicators. Expected years of schooling and mean years of schooling sourced from the Human Development Report.</i>	

Although Indonesia's nominal GDP is highest in the region, it still falls in the medium human development category, with a Human Development Index (HDI) rank of 113th out of 188 countries and HDI score of 0.68, slightly lower than the 0.72 average for East Asia and the Pacific (Table 1: Social development indicators). The country scores below the regional average with respect to life expectancy at birth, expected years of schooling, and Gross National Income (GNI) per capita (PPP).

According to the World Bank, rising income inequality is a key social challenge in Indonesia; its GINI coefficient worsened from 30 in 2000 to 39 in 2016.¹³ When adjusted for inequality, Indonesia's HDI score falls to 0.56.¹⁴

GENDER EQUALITY STATUS

Gender inequality persists in Indonesia, which ranks 84th of 144 countries on the Gender Development Index.¹⁵ While the HDI value for men in Indonesia is 0.71, women's HDI is lower at 0.66. This value is also lower than the regional average in East Asia and Pacific for women (0.70).¹⁶ A poor ranking for Indonesia in the Global Gender Gap Index derives primarily from inequalities in economic participation, opportunity, and educational attainment;¹⁷ ADB estimates the raw wage gap between male and female employees in Indonesia is 31%.¹⁸ The estimate is higher still for women working in low income brackets compared to those in high income brackets. In addition to inequality in economic opportunity, three to four million women in Indonesia face violence each year.¹⁹

13 Vivi Alatas and Matthew Wai-Poi, *Indonesia's Rising Divide* (Jakarta: World Bank and Australian Aid, March 2016), <http://pubdocs.worldbank.org/en/16261460705088179/Indonesias-Rising-Divide-English.pdf>.

14 United Nations Development Programme (UNDP), "Indonesia," *Human Development Report 2016* (New York: UNDP, 2016), http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-Indonesia_Country%20Explanatory%20Note_HDR2016.pdf.

15 UNDP, "Indonesia," *Human Development Report*.

16 UNDP, "Indonesia," *Human Development Report*.

17 World Economic Forum (WEF), *The Global Gender Gap Report* (Geneva: WEF, 2017), 10–15, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

18 Kiyoshi Taniguchi, "Discrimination Driving Gender Wage Gap in Indonesia," *Asian Development Blog*, June 20, 2014, <https://blogs.adb.org/blog/discrimination-driving-gender-wage-gap-indonesia>.

19 "Ir. H. Joko Widodo, Gender Equality Champion," *HeForShe* (UN Women initiative), <http://www.heforshe.org/en/impact/joko-widodo>.

In partnership with agencies such as UN Women, the Indonesian government is working to close the gender gap and has made three impact commitments: (1) reach at least 30% representation of women in Parliament and improve women's representation in other decision-making processes; (2) reduce maternal mortality and improve vital access to reproductive health services; and (3) end violence against women and girls.²⁰

KEY DEVELOPMENT CHALLENGES AND PERFORMANCE ON THE SDGs

Indonesia lags many of its regional peers, including Vietnam, Malaysia, the Philippines, Thailand, and Singapore, in achieving the SDGs; worldwide, it currently ranks 100th of 157 countries.

According to the SDG Index, Indonesia is 62.9% of its way to achieving the best possible outcomes across the 17 goals. Indonesia's low ranking indicates a holistic approach is needed, with several key areas for accelerating progress (Figure 5).²¹ Although the government has made concrete plans to achieve the SDGs, the existing development challenges suggest there is need for private impact capital.²²

FIGURE 5: INDONESIA'S ACHIEVEMENT OF THE SDGs



²⁰ "Ir. H. Joko Widodo," *HeForShe*.

²¹ SDG Scores in the figure represent the distance Indonesia has covered in achieving the best possible outcomes with respect to each possible SDG. The statistics across parameters and the associated calculations have been derived from the SDG report. Jeffrey Sachs et al., *SDG Index and Dashboards Report 2017* (New York: Bertelsmann Stiftung and Sustainable Development Solutions Network, 2017), 218–19, <http://www.sdgindex.org/assets/files/2017/2017-SDG-Index-and-Dashboards-Report--full.pdf>.

²² Minister of National Planning, "Indonesia's SDGs Voluntary National Review 2017 (presentation to the High-Level Political Forum on Sustainable Development 2017, United Nations, New York, July 17, 2017), https://sustainabledevelopment.un.org/content/documents/25469INDONESIA_VNR_PPT.pdf.

THE SUPPLY OF IMPACT CAPITAL IN INDONESIA

Overview

Indonesia's impact investing ecosystem is the most mature in the region, with PIs deploying USD 148.8 million across 58 deals over the past decade. Both capital deployed by PIs and the number of deals have increased since 2013, before which a gap in early-stage funding limited activity. Sectors attracting the most PI interest have included financial services, agriculture, workforce development, and fisheries.

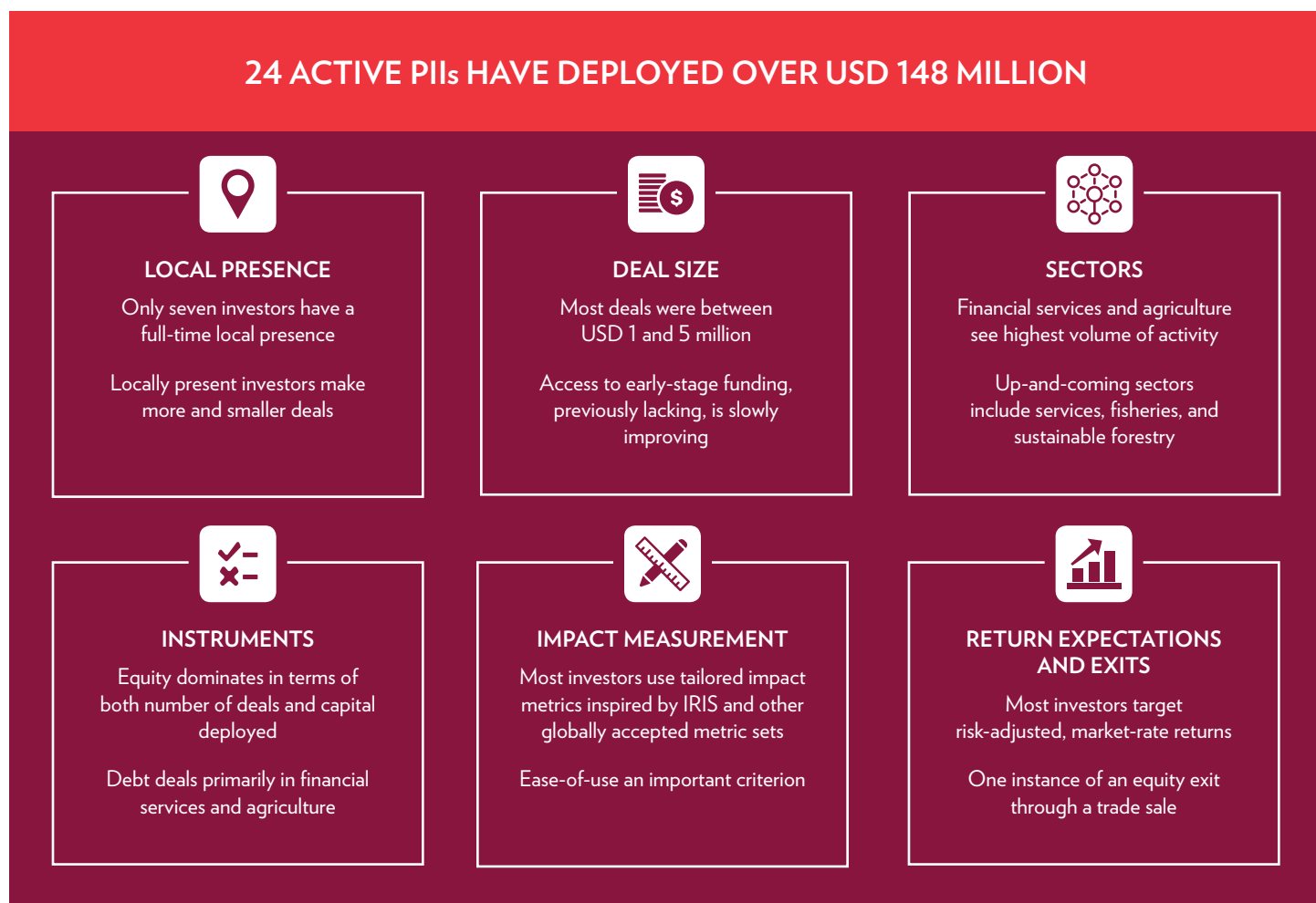
DFIs have been consistently active in Indonesia over the last decade, cumulatively deploying more than USD 3.6 billion in impact capital through 67 deals. Most DFI investments have been concentrated in three sectors: financial services, energy, and manufacturing. DFIs have primarily invested through debt investments that can create large-scale employment while also catalyzing private, co-invested, impact-agnostic capital.

Private impact investors

OVERVIEW

Indonesia is the most mature market for impact investing in Southeast Asia, with a wide, active range of local, regional, and global PII's (Figure 6).

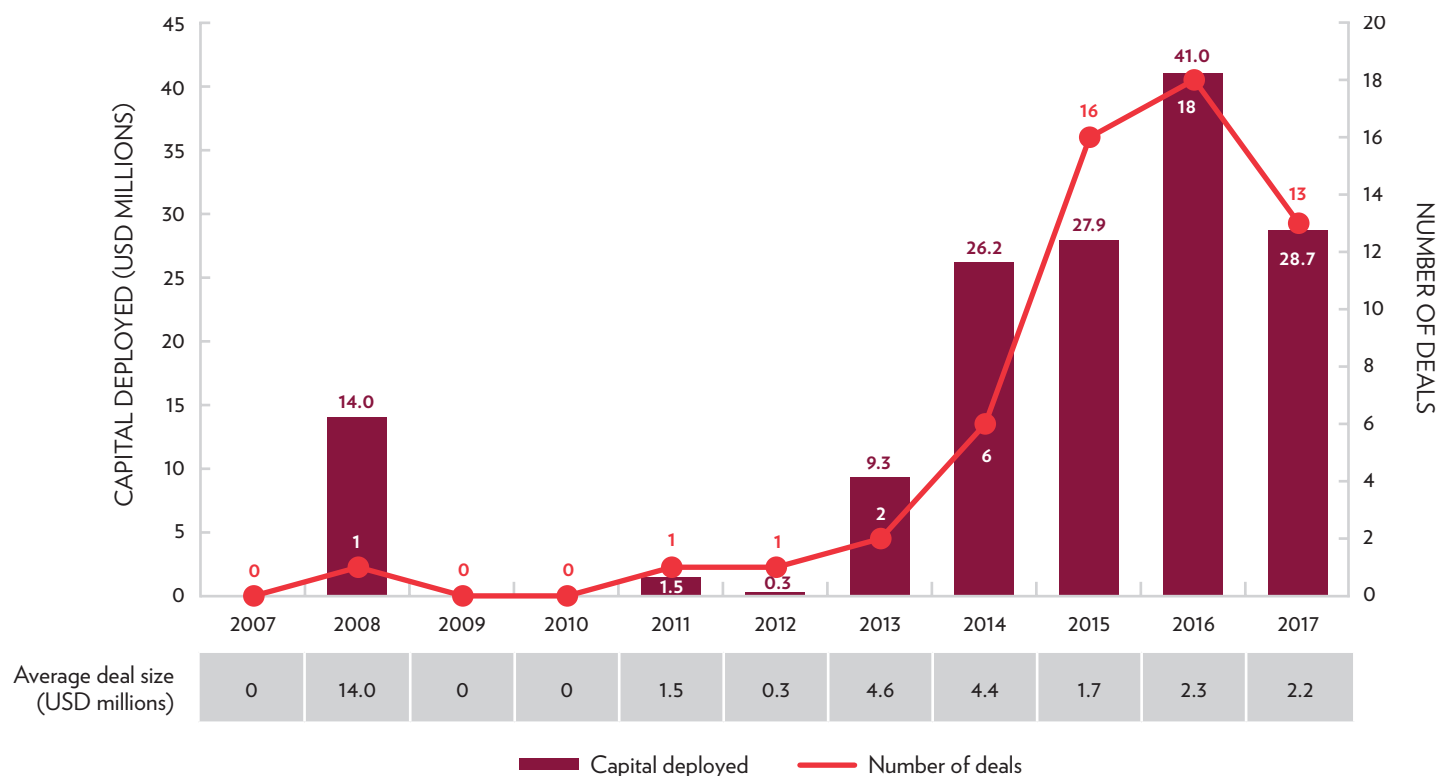
FIGURE 6: OVERVIEW OF PII's IN INDONESIA



Source: Intelicap Advisory Services analysis

At least 22 fund managers, several family offices, and one impact-focused angel network have actively deployed impact capital into the country. A number of other PII's are scouting the country for investment. Organizations such as transaction advisors and a few incubators and accelerators help channel PII investments into high-impact sectors.

FIGURE 7: IMPACT CAPITAL DEPLOYED BY PIIs, BY YEAR
USD 148.8 MILLION IN 58 DEALS



Source: Intelicap Advisory Services analysis

Over 90% of PII deals in Indonesia have been made since 2013 (Figure 7), with an average of 13 impact deals per year. Two primary factors contributed to this expanding deal activity: (1) from 2013 onward, Indonesia’s impact-focused angel network intensified its activity and (2) from 2014 onward, global PIIs displayed increasing interest in investing in Indonesia because of its growing consumer base and range of social challenges.

Like other countries in the region, Indonesia has also seen a gradual transition from debt deals in the financial services and agricultural sectors to equity investments in a more diverse range of sectors, including sustainable forestry and manufacturing. Prior to 2014, all deals in Indonesia were in the financial services and agricultural sectors, and about 60% were made through debt. However, from 2014 onwards, PIIs in Indonesia have invested in a wider range of sectors—including manufacturing, fisheries, sustainable forestry, and financial services—that lend themselves to equity investments.

LOCAL PRESENCE

Although having a local presence greatly enables the investment process, only seven of 24 active PIIIs in Indonesia have a local presence (Figure 8). Most impact capital deployed in Indonesia by PIIIs without a local presence has come from the United States, the Netherlands, Singapore, and Belgium. Investors often this approach due to the relative costs of having a full-time presence to the volume of deals. Several investors based in Singapore typically use a fly-in, fly-out model during their investment process to build relationships with their investees and provide required support.²³

Without a local presence, investors source investees through business plan competitions, incubators, accelerators, and personal networks. Relative to the Philippines and Vietnam, Indonesia's mature impact investing ecosystem mitigates the limitations derived from lacking a local presence. The strength of ecosystem actors in Indonesia leads many global investors to feel comfortable sourcing their deals without a local presence. However, as many of these ecosystem players are concentrated in urban areas, this approach could potentially limit pipeline breadth.

Investors with a local presence in Indonesia express more confidence about sourcing deals and potential pipeline. Having a local presence reduces the costs of due diligence and shortens the investment process. Many investors without a local presence, on the other hand, co-invest with local partners to provide post-investment support, especially in sectors that require high-touch support.²⁴

FIGURE 8: INVESTORS WITH AND WITHOUT A LOCAL PRESENCE

	PIIs WITH A LOCAL PRESENCE	PIIs WITHOUT A LOCAL PRESENCE
NUMBER OF INVESTORS	7	16
PERCENT OF DEALS	38%	62%
PERCENT OF CAPITAL DEPLOYED	15%	85%
AVERAGE DEAL SIZE (USD MILLIONS)	1.1	1.6
MEDIAN DEAL SIZE (USD MILLIONS)	1.1	1.5
AVERAGE NUMBER OF DEALS	3	2

Source: Intelicap Advisory Services analysis

23 Given the emergence of low-cost airline service in Southeast Asia, many regional investors fly into Indonesia from their headquarters throughout the investment process, including when sourcing pre-investment and when providing high-touch support post-investment.

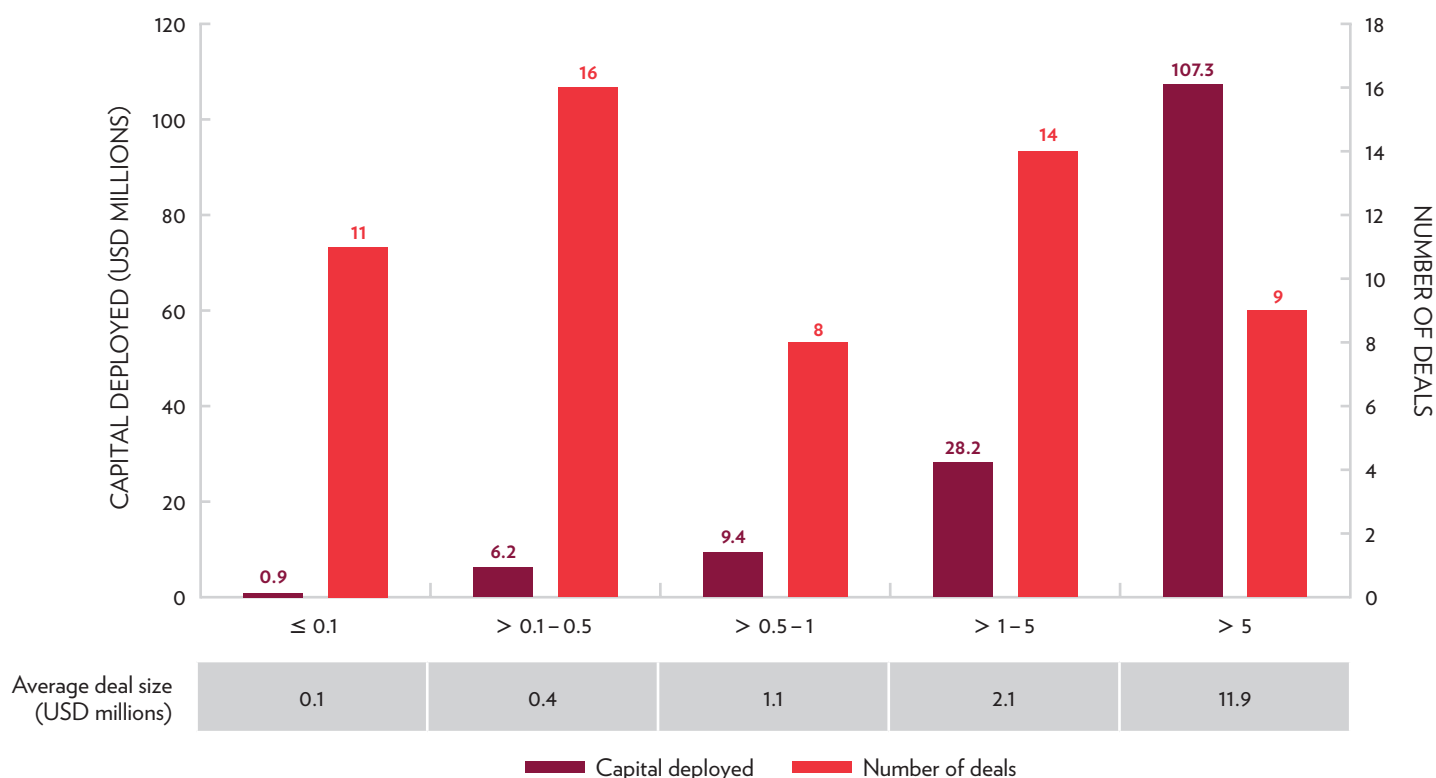
24 For instance, in 2015, Aqua-Spark, a fund based in the Netherlands, co-invested with Ideosource in an aquaculture company. Similarly, Aavishkaar, a PII with a local presence, co-invested with the RaboBank Rural Fund, a Dutch social impact fund without a full-time local presence, in P.T Bali Sea Food.

DEAL SIZE

Impact investors in Indonesia are active across a wide range of deal sizes (Figure 9). Unlike other countries in the region, Indonesia has made some progress in closing the early-stage funding gap. Over 80% of the deals under USD 500,000 have been made since 2014.

FIGURE 9: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE

USD 148.8 MILLION IN 58 DEALS



Source: Intelicap Advisory Services analysis

A few seed and early-stage investors, including the impact-focused Angel Investment Network Indonesia (ANGIN), have closed the vast majority of deals smaller than USD 500,000 in Indonesia (Figure 10). ANGIN has mostly invested in enterprises led by local Indonesian entrepreneurs. Meanwhile, several incubators have set up venture capital arms to provide seed capital to selected enterprises from their cohorts. All investors in this range of ticket size also provide their investees with high-touch, non-financial support in areas including business planning, access to networks, advice on governance, and mentoring of management.

All PIIs making deals in Indonesia between USD 500,000 and 5 million (accounting for 40% of transactions) are headquartered outside the country. Such investors attributed their preference for larger investments to the relatively high sourcing, due diligence, and transaction costs associated with smaller deals compared to larger ones. In terms of sector, two-thirds of these deals have been in either in agriculture or financial services.

FIGURE 10: PII INVESTMENT SECTORS AND TRENDS, BY DEAL SIZE

DEAL SIZE (USD MILLIONS)	≤ 0.1	> 0.1–0.5	> 0.5–1	> 1–5	> 5
COMMON SECTORS	Diversified sectors	Agriculture and financial services	Agriculture	Agriculture and financial services	Financial services and sustainable forestry
TRENDS	Investments mostly by HNWIs	Most common ticket size because of high number of early- stage enterprises	Almost all investments made by investors without a local presence	Equal mix of debt and equity deals, with more than 90% made since 2015	Investments primarily in mature enterprises

Source: Intelicap Advisory Services analysis

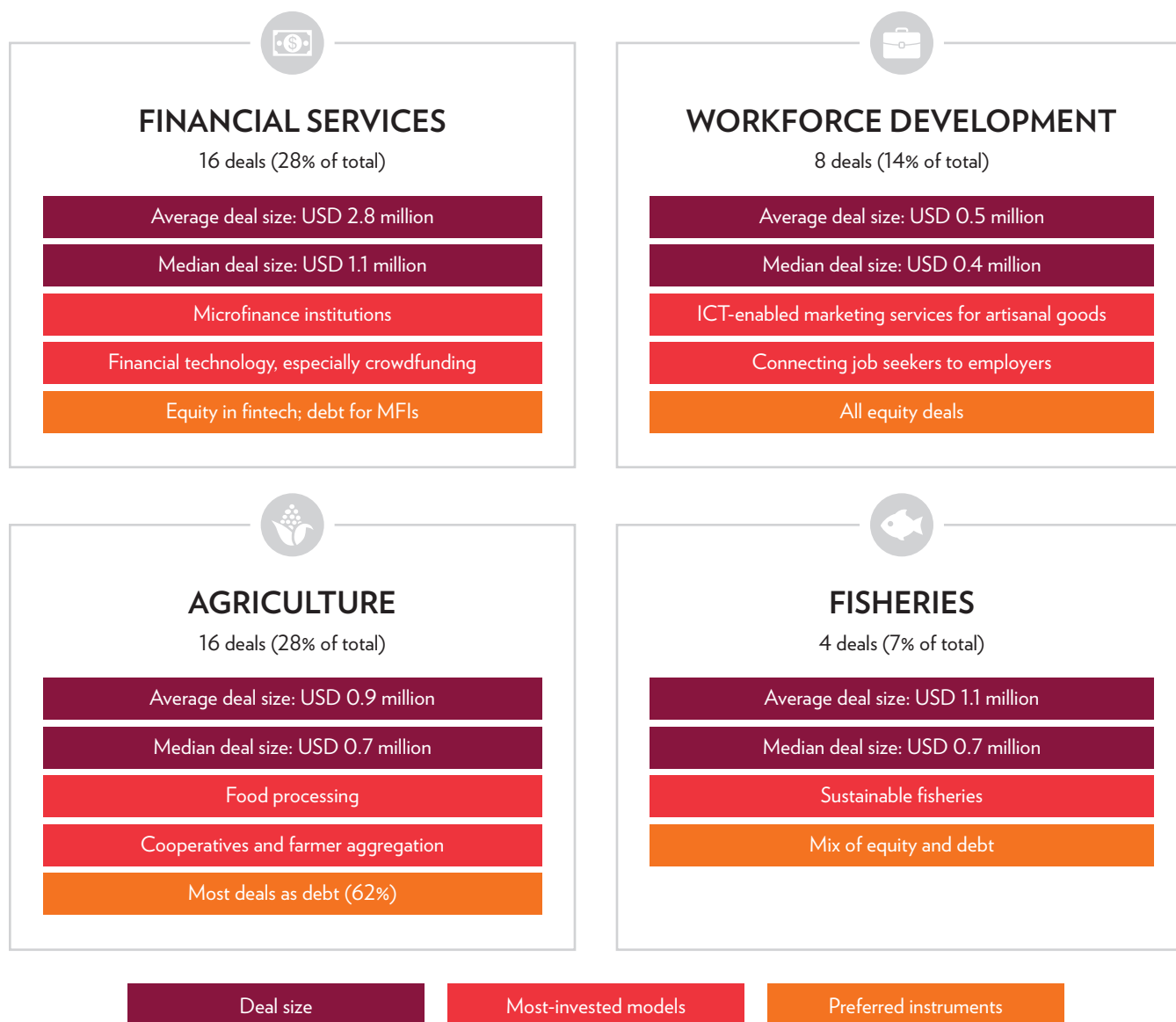
Among deals larger than USD 5 million, the greatest amount of capital deployed towards **environmental impact**, in sectors such as sustainable fisheries and forestry. While comparatively new for impact investors in Indonesia, investors see large potential in the forestry sector given the country's dependence on timber and other forest products and growing awareness of the need to adopt sustainable forest harvesting practices.²⁵ This growing awareness has also translated to a national certification system referred to as the SVLK (Sistem Verifikasi Legalitas Kayu) which verifies the legality of timber products. This certification is recognized by the European Union to allow Indonesia to export over USD 1 billion of timber products without requiring importers to conduct further due-diligence.²⁶

25 "South East Asia Haze: What is Slash-and-Burn?," *BBC News*, June 24, 2013, <http://www.bbc.com/news/business-23026219>.

26 "Opportunities for Indonesia's SVLK Certified Wood & Timber Exporters," *Indonesia Investments*, December 4, 2017, <https://www.indonesia-investments.com/news/todays-headlines/opportunities-for-indonesia-s-svlk-certified-wood-timber-exporters/item8396>.

SECTORS

FIGURE 11: NUMBER OF PII DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

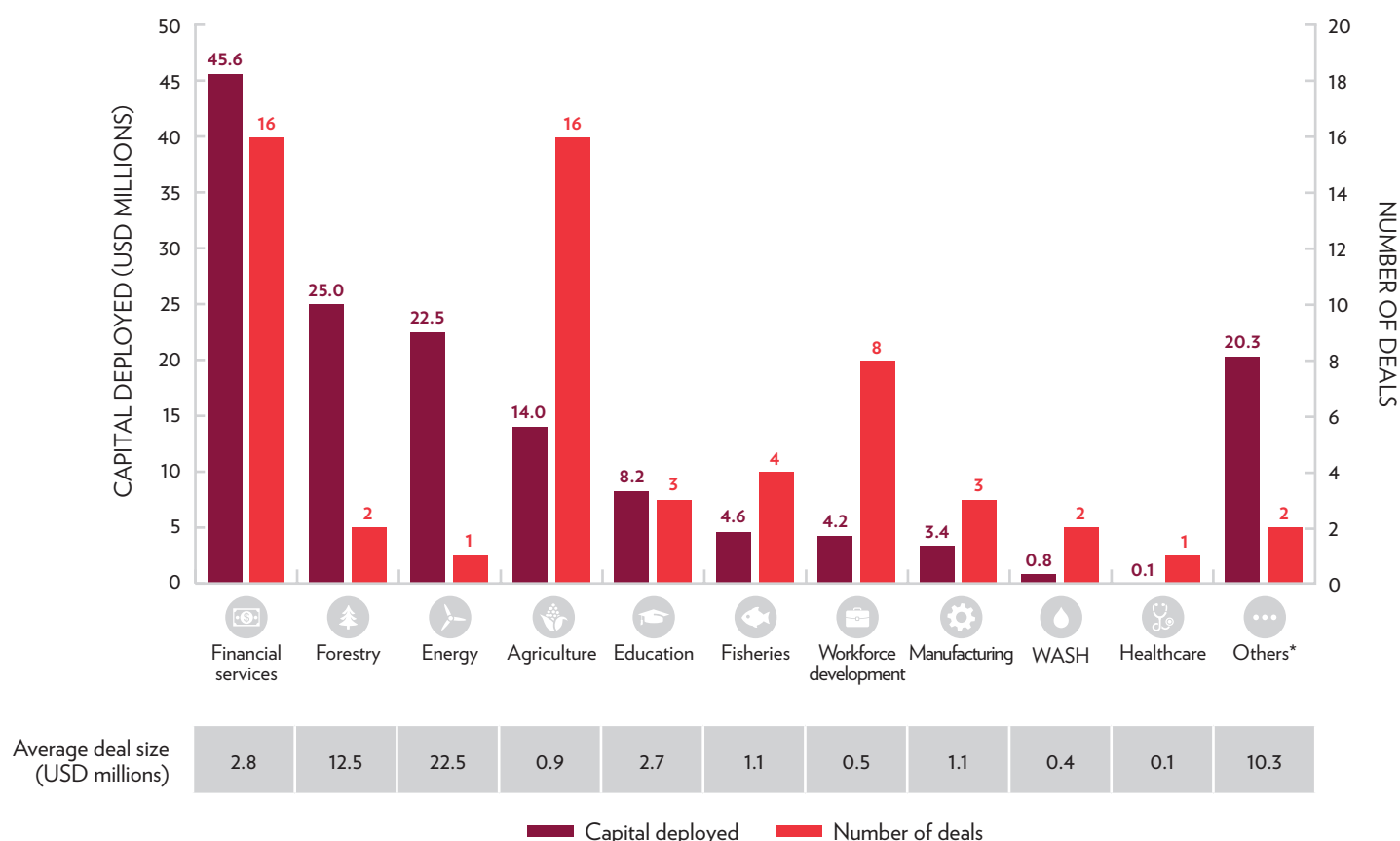
PIIs in Indonesia have deployed the most impact capital and made the most deals in the financial services sector (Figures 11 and 12), dominated by two types of investments:

- **Investments into microfinance and SME-lending institutions:** Microfinance has long been an active sector within the Indonesian impact investing ecosystem. Deals in this sector, which seek to grow investees' lending portfolios, have mostly been made by European investors through debt. Most of this capital has been invested in microfinance institutions (MFIs) and SME-lending institutions with substantial track records.

- **Investments into financial technology:** Almost 40% of deals in the financial services sector have been directed towards fintech enterprises, especially crowdfunding platforms. Investments have been made across multiple growth stages, with investees raising between USD 100,000 and USD 1.5 million. Almost all of these deals were made as equity investments, with a majority occurring in 2015 and 2016.

Agriculture has also been a consistent sector of focus for PIs, comprising 27% of all deals and 10% of all impact capital deployed in Indonesia. Deals in agriculture have targeted key Indonesian products, such as coffee and cacao. Most debt investments in agriculture have targeted cooperatives, whereas equity deals have targeted enterprises that work closely with farmers to provide them end-to-end support, including processing and market linkages.

FIGURE 12: IMPACT CAPITAL DEPLOYED BY PIs, BY SECTOR
USD 148.8 MILLION IN 58 DEALS



*Note: Others include infrastructure-related investments.
Source: Intelicap Advisory Services analysis*

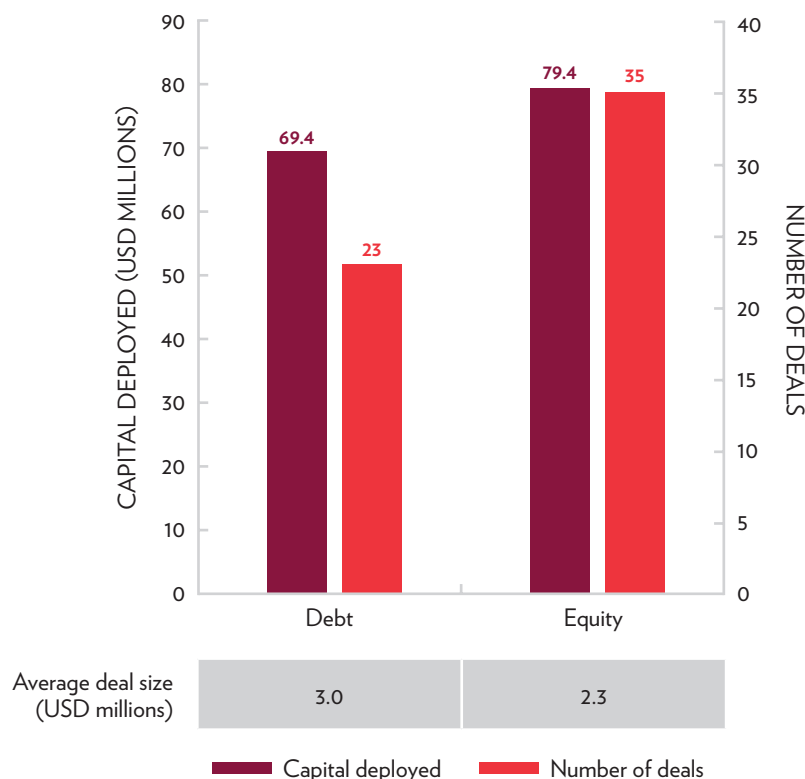
Emerging sectors in Indonesia include sustainable fisheries, workforce development, and education. Investments in fisheries and aquaculture gained some momentum, with investments in 2015 and 2016. Workforce development and education had the most deals in 2016 and 2017. Social entrepreneurs in the workforce development sector typically provide market linkages to marginalized artisans and handicrafts producers or create employment opportunities for marginalized individuals by including them in their supply chains. Many such business models use ICT for service delivery and thus could scale rapidly. All investments in education have been in ed-tech business models.

INSTRUMENTS

Debt accounts for 40% of all deals and 47% of all capital deployed by PIIs (Figure 13). Almost three-quarters of debt deals were in the agriculture or financial services sectors, providing working capital for cooperatives or increasing the portfolios of MFIs and other financial institutions. More than 95% of debt deals were made by investors without a local presence, as these investors see debt as mitigating the perceived risks of investing in emerging markets remotely. By contrast, investors with a local presence express having more ability to take risks and therefore leverage equity.

FIGURE 13: IMPACT CAPITAL DEPLOYED BY PIIs, BY INSTRUMENT

USD 148.8 MILLION IN 58 DEALS



Source: Intelicap Advisory Services analysis

Equity deals, which account for 53% of impact capital deployed in Indonesia, have been predominantly concentrated in scalable sectors such as fintech, workforce development, and education technology. Most of these business models are asset-light, using ICT to enable service delivery. Some PIIs have also invested equity in agricultural and energy enterprises. Notably, most equity deals have been made since 2015, as investor confidence has grown due to the introduction of a one-stop service for foreign investors and the government's explicit commitment to enhance the country's infrastructure.²⁷ Despite this, the government frequently revises the negative foreign investment list, thus maintaining some investor skepticism of its long-term applicability across sectors.

27 The one-stop service has been created to smooth and simplify licensing procedures for investment projects. Investors need not visit various ministries or government agencies to obtain necessary permits, simply turning instead to BKPM's one-stop service center. "Indonesia's One-Stop Investment Licensing Service at BKPM Launched," *Indonesia Investments*, January 27, 2015, <https://www.indonesia-investments.com/news/todays-headlines/indonesia-s-one-stop-investment-licensing-service-at-bkpm-launched/item5256>.

IMPACT MEASUREMENT

PIIs in Indonesia, in collaboration with their Limited Partners (LPs), have designed customized frameworks for impact measurement. Most PIIs use IRIS to identify appropriate metrics for impact reporting, while others use other globally accepted metrics and tools, such as GIIRS and SROI. ANGIN and the Mercy Corps Social Venture Fund, for example, have developed thorough log frameworks through which their investees report impact.²⁸

However, investors explained that their investees often require support in impact reporting. Citing cost, few undertake detailed impact assessments through third-party evaluators.

RETURN EXPECTATIONS AND EXITS

Most impact investors in Indonesia expect market-rate returns from their investments. Very few indicated willingness to compromise on financial returns, even in cases with substantial potential for increased social impact. Those few investors that are willing to take lower financial returns for substantial social impact have channeled capital from individuals and have no institutional LPs.

Prior to 2016, no impact investors had disclosed exits.²⁹ The January 2018 exit of Patamar, a local fund manager from MAPAN (previously known as Ruma), was therefore a landmark event for Indonesia's impact investing ecosystem. MAPAN, acquired from Patamar by Go-Jek, Indonesia's largest food delivery business, leading digital wallet provider, and transport provider, offers microfinance services to clients from low-income communities and helps its customers develop financial literacy.³⁰ While this was the first disclosed exit in Indonesia, investors expressed optimism about exit potential, mostly through strategic sales to larger corporations operating in the same sectors as their investees. Early-stage investors are also optimistic about secondary sales to larger PIIs.

28 A log framework-based impact assessment model illustrates an investee's operations in a simple, logical, linear flow, illustrating the impact and outcome objectives and the activities that will lead to this desired impact. Besides allowing assessment of impact created, it also allows an investee to analyze and improve efficiencies across its work streams. Angel Investment Network Indonesia (ANGIN), *Social Finance and Social Enterprises, A New Frontier for Development in Indonesia* (Jakarta: UNDP, 2016), 29–38, <http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-SF%20Report2%20ANGIN.PDF>.

29 ANGIN, *Social Finance and Social Enterprises*.

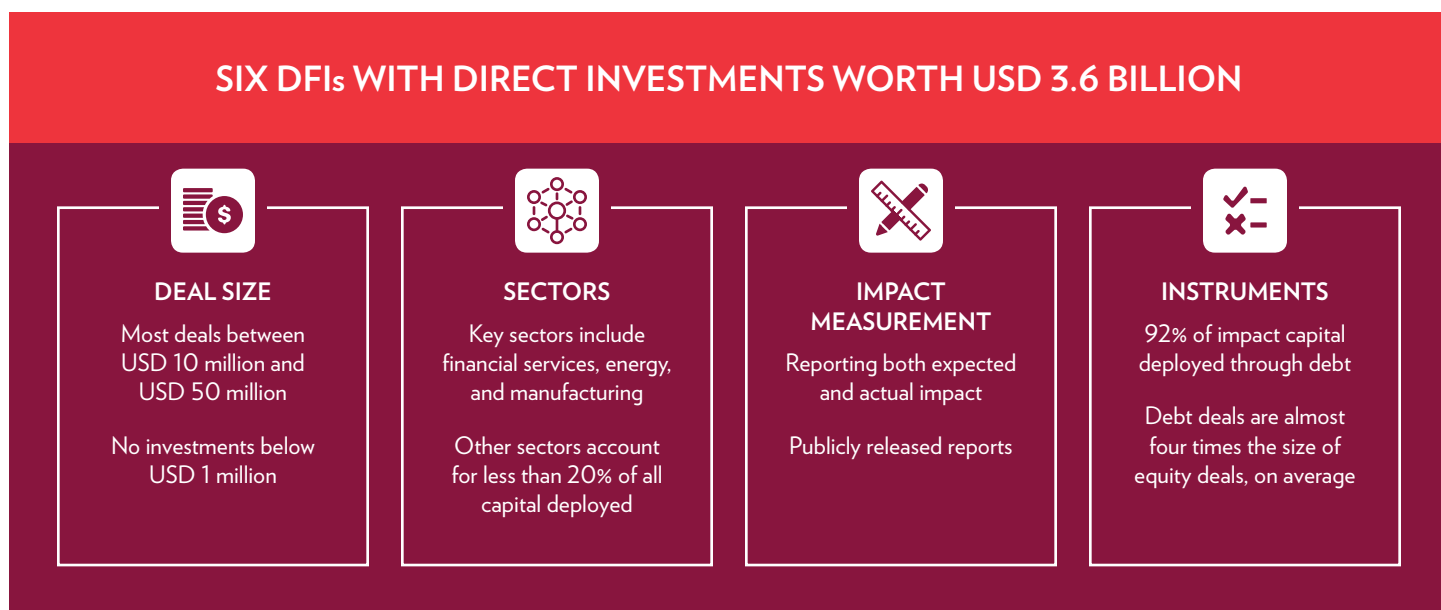
30 Patamar Capital, "Patamar Capital Portfolio Company Mapan (Formerly PT Ruma) Approves Sale to Go-Jek," news release, January 24, 2018, <http://patamar.com/patamar-capital-exits-mapan-investment-sale-go-jek/>.

Development finance institutions

OVERVIEW

Over the past decade, Indonesia has seen more deals and impact capital deployed by DFIs than any other country in the region. DFIs have catalyzed impact investment in Indonesia, laying the groundwork for PIs to invest and support early-stage investments.

FIGURE 14: OVERVIEW OF DFIs IN INDONESIA

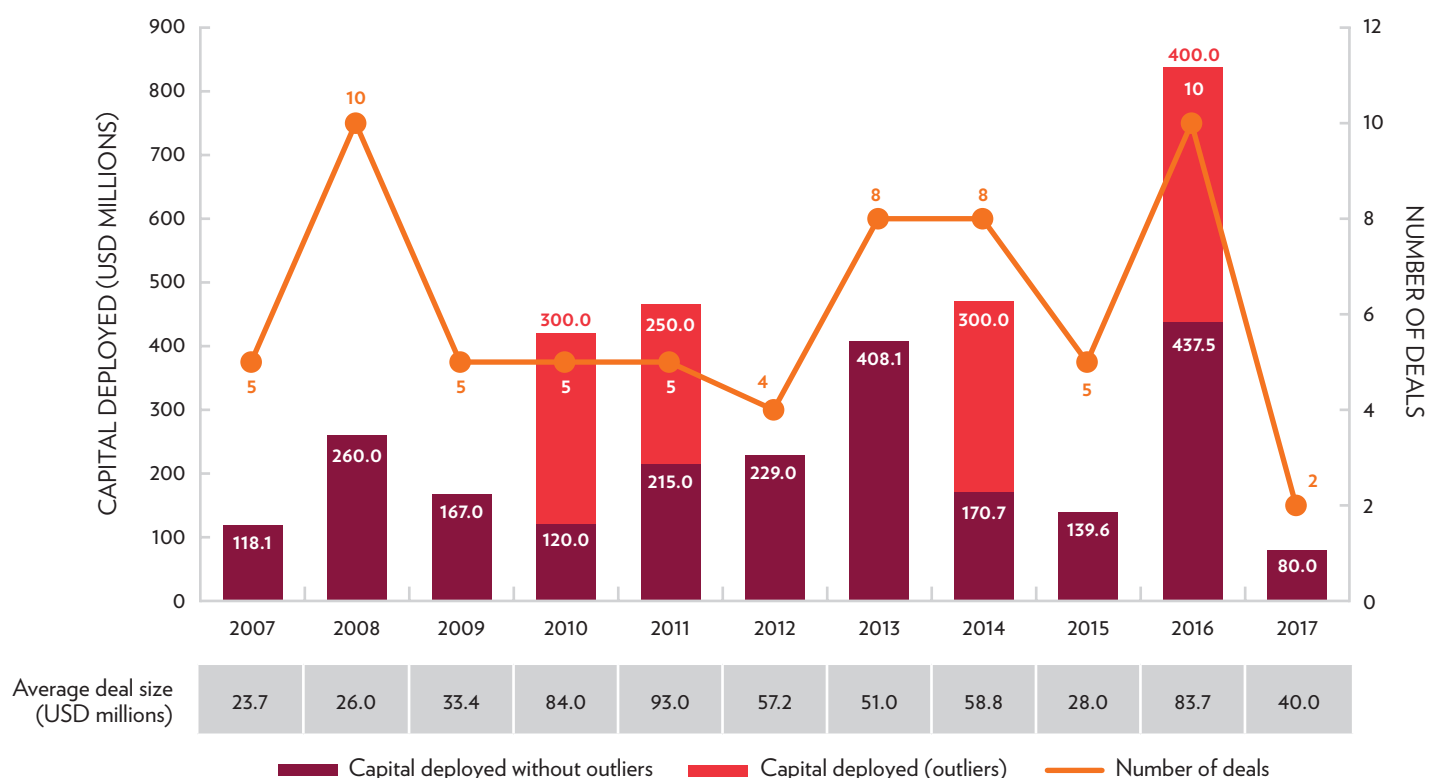


Source: Intellect Advisory Services analysis

Since 2007, six DFIs have invested over USD 3.6 billion in impact capital through 67 direct deals (Figures 14 and 15);³¹ around 68% was deployed by the International Finance Corporation (IFC) alone.

31 This analysis has been restricted to direct deals, although many DFIs in Indonesia channel impact capital through indirect deals (mostly through fund managers).

FIGURE 15: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR
USD 3.6 BILLION IN 67 DEALS



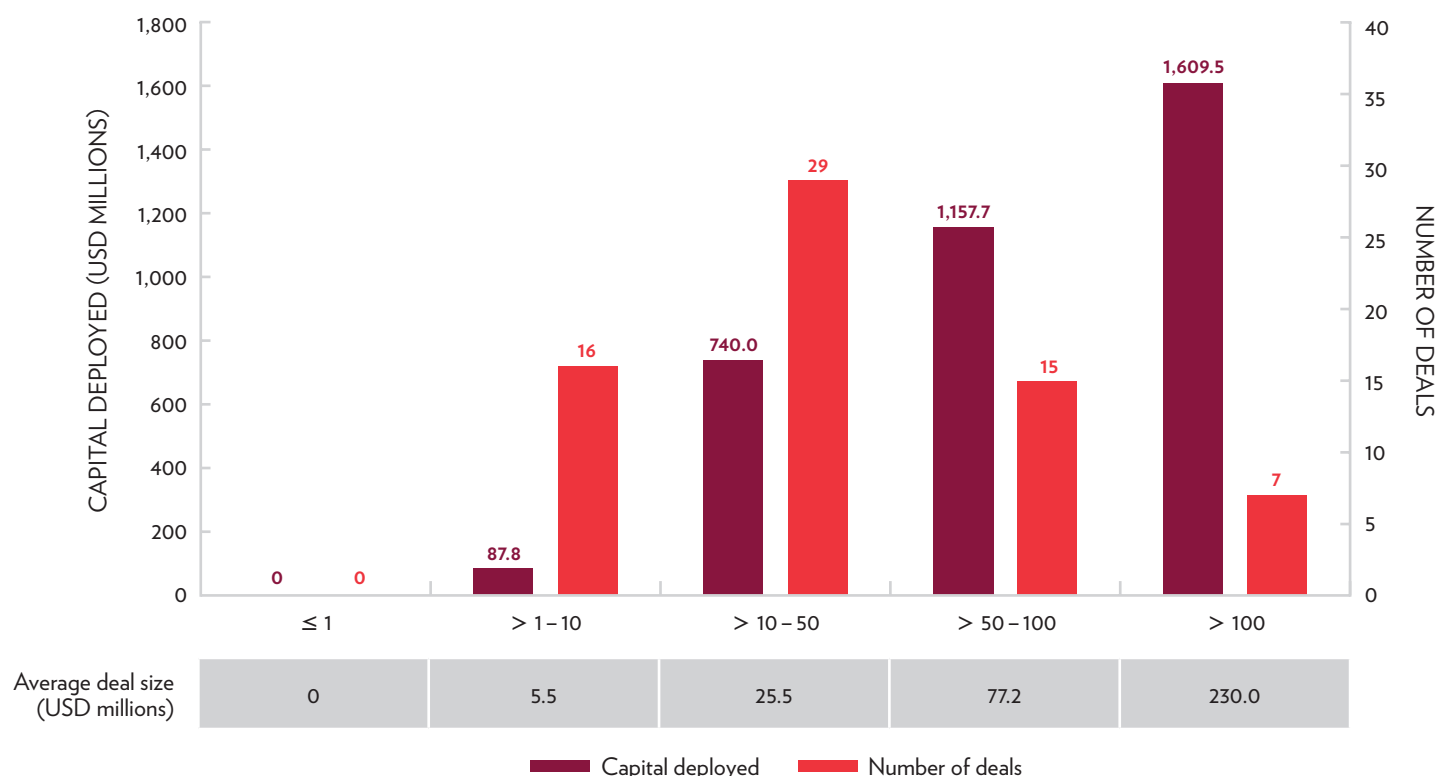
Note: Outliers include four deals above USD 250 million.
Source: Intelicap Advisory Services analysis

DEAL SIZE

Over 40% of DFI investments have been between USD 10 and 50 million (Figure 16). Of investments in this range, over 60% have been in either the manufacturing or financial services sectors by number and value. The average deal size for DFI investments in Indonesia is USD 33 million without outliers and USD 49 million including outliers.³²

³² Outliers include DFI deals of sizes greater than USD 250 million.

FIGURE 16: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE
USD 3.6 BILLION IN 67 DEALS



Source: Intelicap Advisory Services analysis

Unlike in Vietnam and the Philippines, DFIs have made no investments in Indonesia smaller than USD 1 million. Moreover, seven large DFI deals have exceeded USD 100 million; these are primarily in financial services or renewable energy, including geothermal and wind energy. All seven were debt investments made by the IFC, the Overseas Private Investment Corporation (OPIC), or the Asian Development Bank.

FIGURE 17: DFI INVESTMENT SECTORS AND TRENDS, BY DEAL SIZE

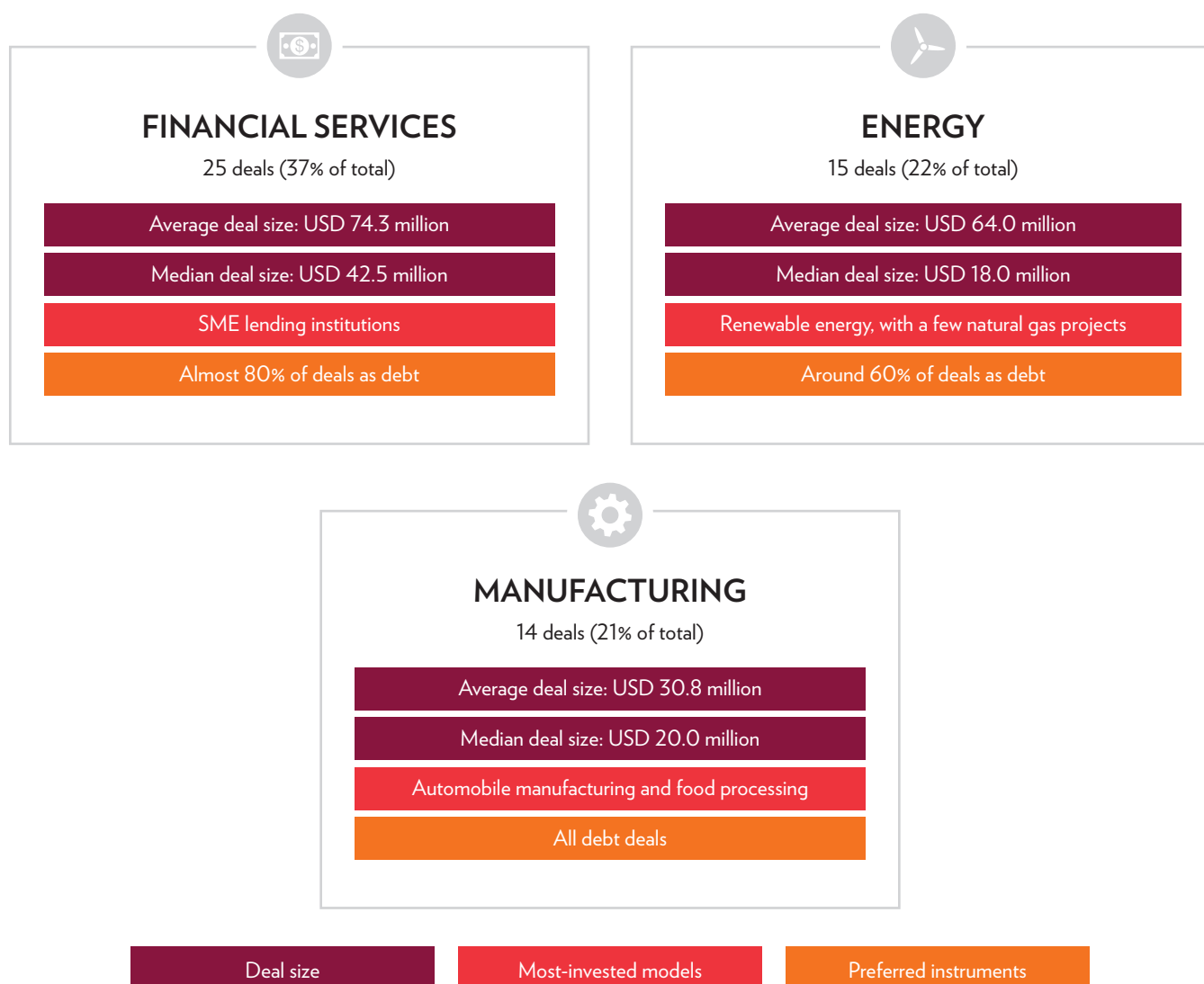
DEAL SIZE (USD MILLIONS)	≤ 1	> 1-10	> 10-50	> 50-100	> 100
COMMON SECTORS	No deployments	Equal mix of diverse sectors	Energy, manufacturing, and financial services	Financial services and mostly for SME on-lending	Financial services and energy
TRENDS	No deployments	Roughly equal mix of both debt and equity investments	Most deployments in this investment size	Deployments by two DFIs with more than 90% investments in debt	All debt investments

Source: Intelicap Advisory Services analysis

SECTORS

More than 80% of all DFI investments in Indonesia have been in the financial services, energy, and manufacturing sectors (Figure 17), mostly channeled into two types of projects: (1) those with capital requirements that private impact investors may be unable to meet and (2) investments that have an expected multiplier effect on Indonesia's economic development. Given the importance of increasing access to finance for micro, small, and medium-sized Enterprises (MSMEs), DFIs have channeled a large share of their total deployed impact capital to financial institutions catering specifically to this segment. Investments in energy have focused on large renewable energy projects. Investments in the manufacturing sector have focused on two sub-sectors: automobile manufacturing and food processing.

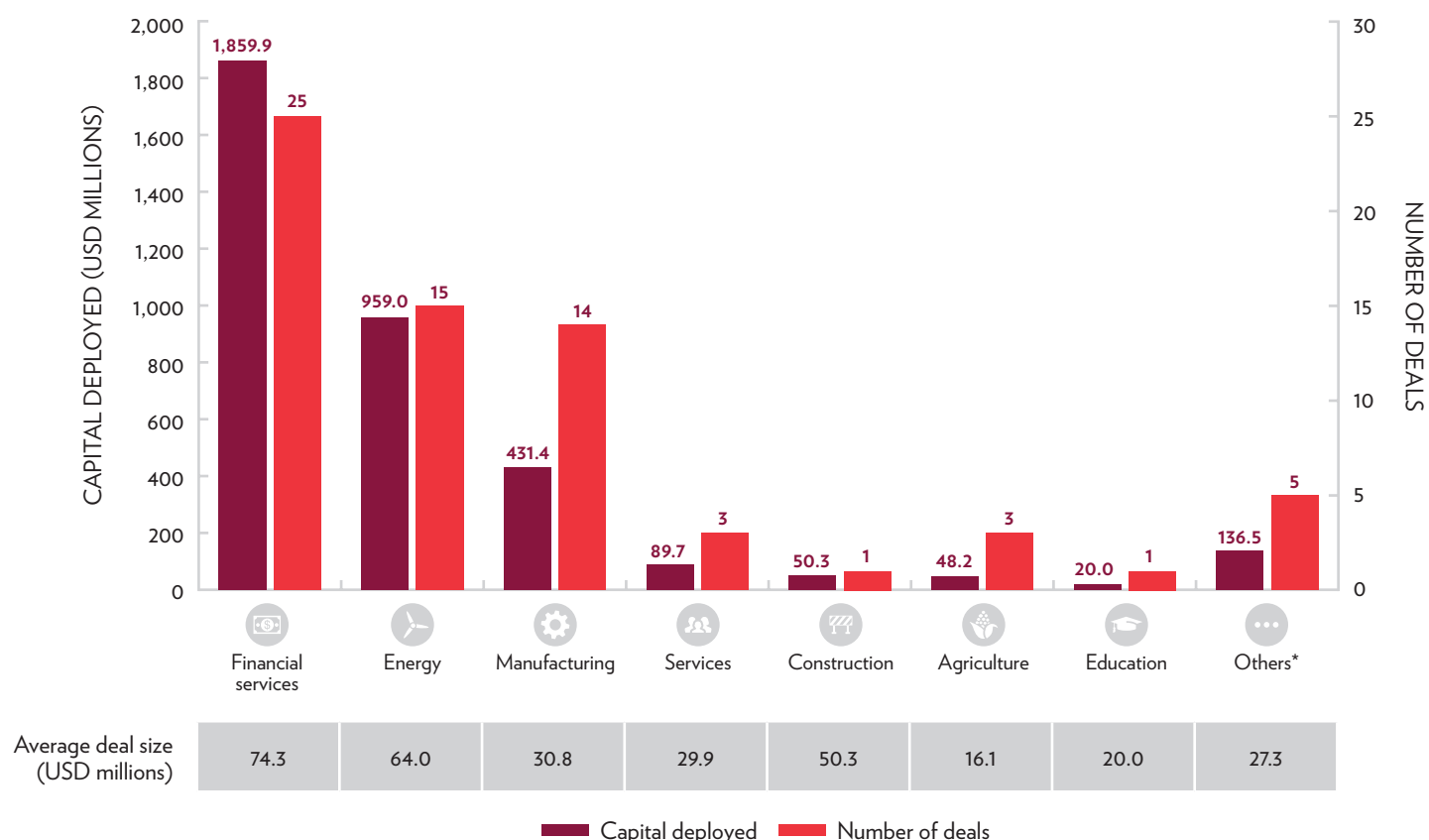
FIGURE 18: NUMBER OF DFI DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

DFIs have made very few direct investments in sectors other than financial services, energy, and manufacturing (Figure 18), with just three deals into workforce development and agriculture (including farmer aggregation and near-farm processing models), respectively.

FIGURE 19: IMPACT CAPITAL DEPLOYED BY DFIs, BY SECTOR
USD 3.6 BILLION IN 67 DEALS



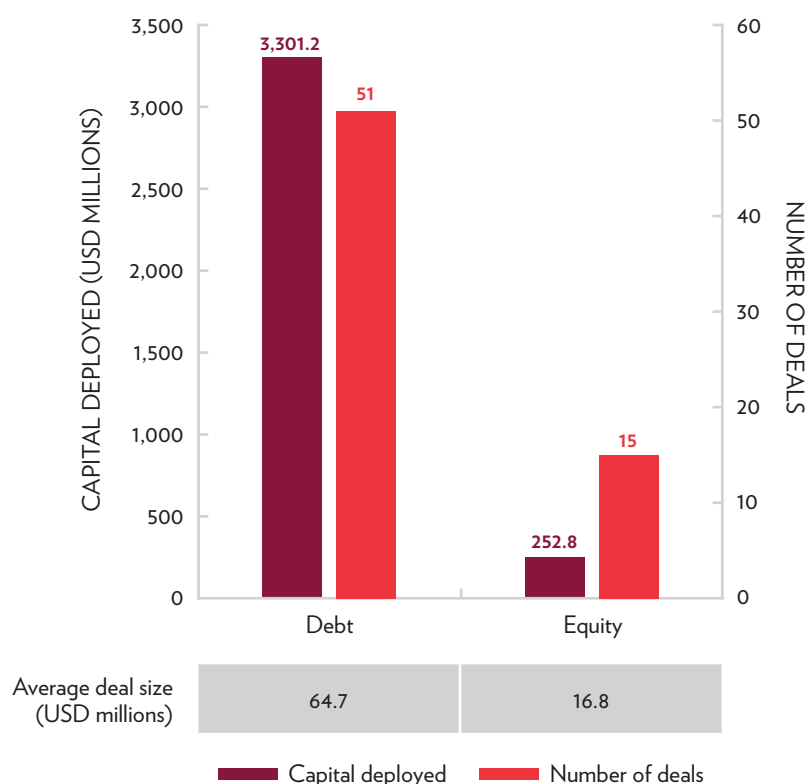
Note: Others include investments in sustainable forestry, ICT, and water and sanitation.
Source: Intelicap Advisory Services analysis

INSTRUMENTS

Three-quarters of DFI deals and over 90% of DFI capital have been deployed as loans to enterprises. These investments catalyze private capital—both impact and impact-agnostic—to flow into sectors that contribute to economic growth and which have seen historically low levels of investment. This happens in two ways: (1) DFIs’ willingness to extend financing sends a positive signal to other investors, helping investees raise additional capital, and (2) many DFIs only invest in a project if other, private-sector financial institutions commit to making a certain portion of the investment. In addition, many DFIs also channel capital indirectly, mostly through fund managers; this capital has been excluded from the analysis to avoid double counting.

DFIs tend to structure larger investments as debt, since most of these projects offer the promise of steady returns but present limited opportunities to scale. Consequently, the average ticket size of debt deals is almost four times higher than that of equity deals (Figure 19).

FIGURE 20: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT
USD 3.6 BILLION IN 67 DEALS



*Note: One deal of USD 41 million was made with an unknown instrument.
Source: Intelicap Advisory Services analysis*

IMPACT MEASUREMENT

Most DFIs operating in Indonesia use the same customized standards and frameworks to assess **impact** that they use across their countries of operation. DFIs prefer to align these frameworks with their impact theses and the characteristics of particular investments, often using globally accepted performance metrics like IRIS and GIIRS. Example frameworks used by DFIs active in Indonesia include the following:

- **Corporate Policy Project Rating:** Developed by DEG, this rating captures profitability, development impact, and the DFI's strategic role using indicators such as profit, employment generated, government revenue, net currency effects, and additional value-added benefits to communities.
- **Development Outcome Tracking System:** Developed by the IFC across countries, this system captures an investment's financial, social, economic, and environmental performance. It includes detailed quantitative metrics, such as the number of patients treated and the number of households obtaining electricity due to an investment.

RETURN EXPECTATIONS AND EXITS

DFIs' return expectations vary based on a combination of factors including risk, impact potential, and alignment with their priorities. Both financial and social return expectations reflect a DFI's mandate and its impact thesis, and both can vary from sector to sector within the same country, depending on several factors besides risk. Consequently, high-risk investments may not necessarily have high expected returns. In Indonesia, DFIs have pursued below-market returns even in high-risk projects, when mandated to stimulate a certain sector based on impact potential and alignment with the DFI's impact thesis. Return expectations also depend on negotiations with the investee, the source of capital, and, in some cases, the program under which the DFI is investing.

Gender lens investing

OVERVIEW

Indonesia has the most gender lens investors of any country in the region. Among at least five investors committed to Gender Lens Investing (GLI), as of the end of 2017, three have deployed USD 27.6 million into nine deals using a gender lens, and the others are scouting for opportunities (Figure 20).

LP intent is key in directing capital with a gender lens. In some cases, PIs have launched funds specifically to align with LP intent to invest with a gender lens. Some local LPs have also joined together to channel capital using a gender lens. For instance, the ANGIN Women Fund was established by 15 Indonesian women HNWIs to support and invest in businesses led or owned by female entrepreneurs or that have business models that positively impact women. PIs have deployed all GLI deals made to date.

GENDER LENS INVESTING COMPRISES TWO BROAD CATEGORIES

Investing with the intent to address gender issues or promote gender equity, including by:

- investing in women-owned or -led enterprises;
- investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along their supply chains); or
- investing in enterprises that offer products or services that substantially improve the lives of women and girls.

And/or investing using:

- a *process* that focuses on gender, from pre-investment activities (e.g., sourcing and due diligence) to post-deal monitoring (e.g., strategic advisory and exiting); or
- a *strategy* that examines and manages an investee in line with the investor's mandate and intentions with respect to:
 1. their vision or mission to address gender issues;
 2. their organizational structure, culture, internal policies, and workplace environment;
 3. their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
 4. how their financial and human resources signify overall commitment to gender equality.

ACTIVITIES OF GENDER LENS INVESTORS IN INDONESIA

In Indonesia, the financial services, agricultural, and workforce development sectors have seen GLI activity. Deals in financial services seek to increase MFIs' reach to female borrowers, while agricultural deals target coffee cooperatives that primarily employ female workers. Investments in the workforce development sector target women-led or -owned businesses.

TABLE 2: GENDER LENS INVESTING IN INDONESIA

♀ KEY STRATEGIES USED					
STRATEGY	NUMBER OF INVESTORS	NUMBER OF DEALS*	CAPITAL DEPLOYED (USD MILLIONS)	INSTRUMENT	DESCRIPTION
Investing in women-led or women-owned businesses	2	6	3.4	Debt and equity	These investments have been into women-owned enterprises, including women-owned coffee cooperatives.
Investing in enterprises that promote workplace equity	2	4	17.1	Debt	All these investments have been in financial institutions that have women in senior management.
Investing in enterprises that provide women with access to critical goods and services	2	4	24.3	Debt	These investees have a specific focus on providing women from rural areas with access to finance.

*Note: Since some deals promote gender equality through a mix of strategies, the number of deals above sums to more than nine.
Source: Intellecap Advisory Services analysis*

Ticket sizes and instruments vary according to the sector of investment, with the largest deals in financial services. The average ticket sizes for investments in financial services, agriculture, and workforce development have been USD 8 million, USD 1 million, and USD 100,000, respectively. While both financial services and agriculture have seen only debt GLI, investments in workforce development have been structured as equity.

The most common strategies used by gender lens investors in Indonesia include providing critical goods and services to women and supporting women-led and -owned businesses. Investors following the first strategy have invested primarily in the financial services and agricultural sectors, while the second strategy encompasses a wide range of sectors. To track gender impact, gender lens investors typically use a variety of data points, such as number of female customers, retention rate of female employees, and number of women employed from disadvantaged backgrounds.

Besides capital, gender lens investors provide particularly proactive support and mentorship to help their investees scale. For example, the ANGIN Women Fund has provided training to more than 100 women-led businesses. Similarly, Patamar Capital, with support from Investing in Women, an initiative of the Australian government, and in partnership with Kinara Indonesia, started an accelerator program in 2017 for women-led businesses that address food security.

CHALLENGES AND WAY FORWARD

Investors in Indonesia highlighted some critical barriers to their adoption of a gender lens, including the following:

- **Lack of awareness:** Most investors who do not use a gender lens perceive GLI as involving either intentionally or unintentionally positively impacting women. Such investors are neither aware of the centrality of intent to GLI frameworks nor of the value of gender data collection in both pre-investment due diligence and post-investment monitoring.
- **Perception of a limited pipeline:** Since most PIs in Indonesia operate without a local presence, they depend on third-party players to identify opportunities in the ecosystem. Few intermediaries specifically support female entrepreneurs or enterprises working towards addressing gender issues, so investors perceive the pipeline of potential investees as limited.
- **High perceived risk and limited incentives to adopt a gender lens:** The lack of exits from enterprises that benefit women and limited availability of performance data has resulted in higher perceived risk regarding GLI. While lack of evidence hampers the entire impact investing industry, GLI further limits the universe of potential deals, which aggravates the problem. Some investors hence expressed belief that donors or the government could build the required evidence base by supporting GLI through blended finance mechanisms or first-loss guarantees.

These barriers notwithstanding, GLI is gaining traction in Indonesia. In January 2018, Patamar Capital made its first investment, estimated in the range of USD 200,000 to USD 300,000 through its exclusively gender-focused fund.³³ Patamar attracted co-investment from other investors, namely Insignia Ventures and local HNWI's,³⁴ and the fund anticipates making another six to eight such investments by July 2019. The SEAF Women's Opportunity Fund and global initiatives, such as OPIC's 2X, also support GLI in Indonesia.³⁵

UNINTENTIONAL GENDER IMPACT IN INDONESIA

Although GLI is a comparatively new concept for investors in Indonesia, other more traditional impact investments in the country inherently benefit women and girls in various ways, which highlights the potential pipeline for gender lens investors. For instance, although DFIs typically have no explicit gender-related impact mandate, much DFI capital in Indonesia has been channeled toward manufacturing, especially textiles and food processing. Through these investments, DFIs help create jobs for women. Similarly, DFI investments in microfinance have provided many women with access to finance, although such investments have generally had a broader impact thesis than female empowerment.

Even if not using a gender lens during the investment process, many PIs consider gender impact after investment, with some including gender-disaggregated data in impact reports. Mercy Corps Social Venture Fund, for example, which has investments in Indonesia, reports impact on women in its broader report.

33 Aastha Maheshwari, "Impact Investor Patamar Makes First Investment from Women-Focused Fund in SayurBox," *DealStreetAsia*, January 22, 2018, <https://www.dealstreetasia.com/stories/exclusive-patamar-capital-strikes-maiden-investment-in-indonesias-sayurbox-90748/>.

34 Maheshwari, "Patamar Makes Investment in SayurBox."

35 Mercy Corps Social Venture Fund, *Annual Impact Report 2017*, https://www.mercycorps.org/sites/default/files/SVF%202017%20Impact%20Report_FINAL_Digital.pdf.

THE LANDSCAPE OF DEMAND FOR IMPACT CAPITAL

A vibrant range of stakeholders in Indonesia address socio-economic and environmental challenges, including social enterprises, NGOs, cooperatives, and select small and medium-sized enterprises (SMEs). Entrepreneurship aiming to address social and environmental challenges is evolving to take advantage of market opportunities, especially given the large consumer base and rising social and income inequality. Recently, the increased availability of ancillary support and demonstrated exits have further increased the popularity of mission-driven entrepreneurship, which suggests growing demand for impact capital. Concerning the broader ecosystem of SMEs beyond social enterprises, the IFC estimates that 700,000 SMEs in Indonesia cumulatively contribute 22% of the country's GDP and employ around 90% of its population, thus offering great potential to drive development.³⁶ In addition to SMEs and social enterprises, there are an estimated 3,000 NGOs active in Indonesia.

Overview

Although social entrepreneurship in Indonesia dates to the early 2000s, it has greatly increased over the last decade, with more than 80% of social enterprises in Indonesia established since 2012.³⁷ After political changes in 1998,³⁸ Indonesia entered a phase of reform to decentralize power and enable more private sector activity. During this transition, many MSMEs began to build inclusive supply chains, which slowly started to employ most of the country's population. Eventually, many enterprises would perceive marginalized communities as potential consumers for a diverse range of critical goods and services, such as access to finance.

Since 2012, social entrepreneurs in Indonesia have demonstrated interest in a wide range of sectors, most commonly agriculture. While estimates of the number of active social enterprises may differ, about 55% are in the agricultural sector,³⁹ operating mostly in yield enhancement, supply-chain management, and food processing. Given the large extent of financial exclusion in the country, the financial services sector presents another substantial market opportunity. Around 20% of social enterprises operate in the financial services sector, with several newer enterprises delivering technology solutions. Other key sectors include healthcare (10%), education (10%), and fisheries and aquaculture (5%).⁴⁰ Since most social enterprises have been formed within the past five years, an estimated 70% are at the seed stage.⁴¹

Notwithstanding Indonesia's large gender gap,⁴² women are integral to Indonesia's development. A quarter of social enterprises have a female founder, and women own 51% percent of small

36 Rubin Japhta et al., *Women-Owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions* (Jakarta: IFC, March 2016), <https://www.ifc.org/wps/wcm/connect/b3b5756e-708a-49fc-afe3-df26cff517f1/SME+Indonesia+Final.pdf?MOD=AJPERES>.

37 Social Finance and Social Enterprises: A New Frontier for Development in Indonesia, (UNDP and ANGIN, 2016), <http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-SF%20Report2%20ANGIN.PDF>.

38 The resignation of President Suharto.

39 ANGIN, *Social Finance and Social Enterprises*.

40 ANGIN, *Social Finance and Social Enterprises*.

41 ANGIN, *Social Finance and Social Enterprises*.

42 WEF, *Global Gender Gap Report*.

enterprises and 34% of medium-sized enterprises in Indonesia. Several women-led social enterprises in Indonesia have successfully scaled, including Krakakoa, Vox, Burgreens, and Javara. Moreover, 16% of women-led MSMEs reported profitability, compared to 12% of men-led MSMEs.⁴³

Access to capital

According to ANGIN, just 10% of social enterprises in Indonesia are investment-ready. Many started as NGOs and are now looking to transition into for-profit social enterprises. Twenty percent of social enterprises will be able to absorb capital if they receive some form of capacity-building support. Another 70% are not expected to become fundable.

Most MSMEs in Indonesia rely on retained earnings or personal income for finance; only 3% of entrepreneurs have raised capital from private investors. Twenty-eight percent of MSMEs identified lack of capital as the biggest constraint on their growth.⁴⁴ In the absence of sufficient retained earnings, entrepreneurs rely on personal savings and bank loans, which are typically only available to those enterprises that can provide collateral. Just 1% of SME loans in Indonesia are collateral-free at higher interest rates. Another key barrier to raising capital from commercial banks is a complicated loan application process, that involves supporting documentation such as project reports and future financials, as well as requisite legal documents.⁴⁵ Interestingly, 40% of female borrowers cite complicated procedures as a hindrance to accessing capital, compared to 28% of male borrowers. According to IFC estimates, women-owned SMEs in Indonesia face a cumulative funding gap of USD 6 billion.⁴⁶

Challenges to growth

In addition to lack of access to finance, various challenges hinder early-stage social enterprises in Indonesia from scale, including:

- **High logistics costs and limited access to markets:** Indonesia's dispersed geography requires expensive transportation and deters growth, especially for enterprises in manufacturing or agriculture.
- **High cost of labor:** Entrepreneurs with social or environmental missions often find limited availability of skillsets, particularly for middle-management positions. When available, skilled human resources are expensive.⁴⁷
- **Limited access to raw materials:** Nineteen percent of MSMEs in Indonesia find that access to raw materials—due to poor resource quality, volatile prices, unavailability in local markets, or high transport and fuel costs—is a challenge to their growth.⁴⁸ This challenge is particularly acute in the food processing industry, where volatility in the quality and price of raw fruits and vegetables is high.

⁴³ Japhta et al., *Women-Owned SMEs in Indonesia*.

⁴⁴ Nicholas Burger et al., *Reforming Policies for Small and Medium-Sized Enterprises in Indonesia* (Jakarta: RAND Corporation, May 2015), <http://www.tnp2k.go.id/images/uploads/downloads/Commisioned%20Report%20-%20REFORMING%20POLICIES%20FOR%20SMALL%20AND%20MEDIUM-SIZED%20ENTERPRISES%20IN%20INDONESIA%20%20May%202015-1.pdf>.

⁴⁵ Japhta et al., *Women-Owned SMEs in Indonesia*.

⁴⁶ Japhta et al., *Women-Owned SMEs in Indonesia*.

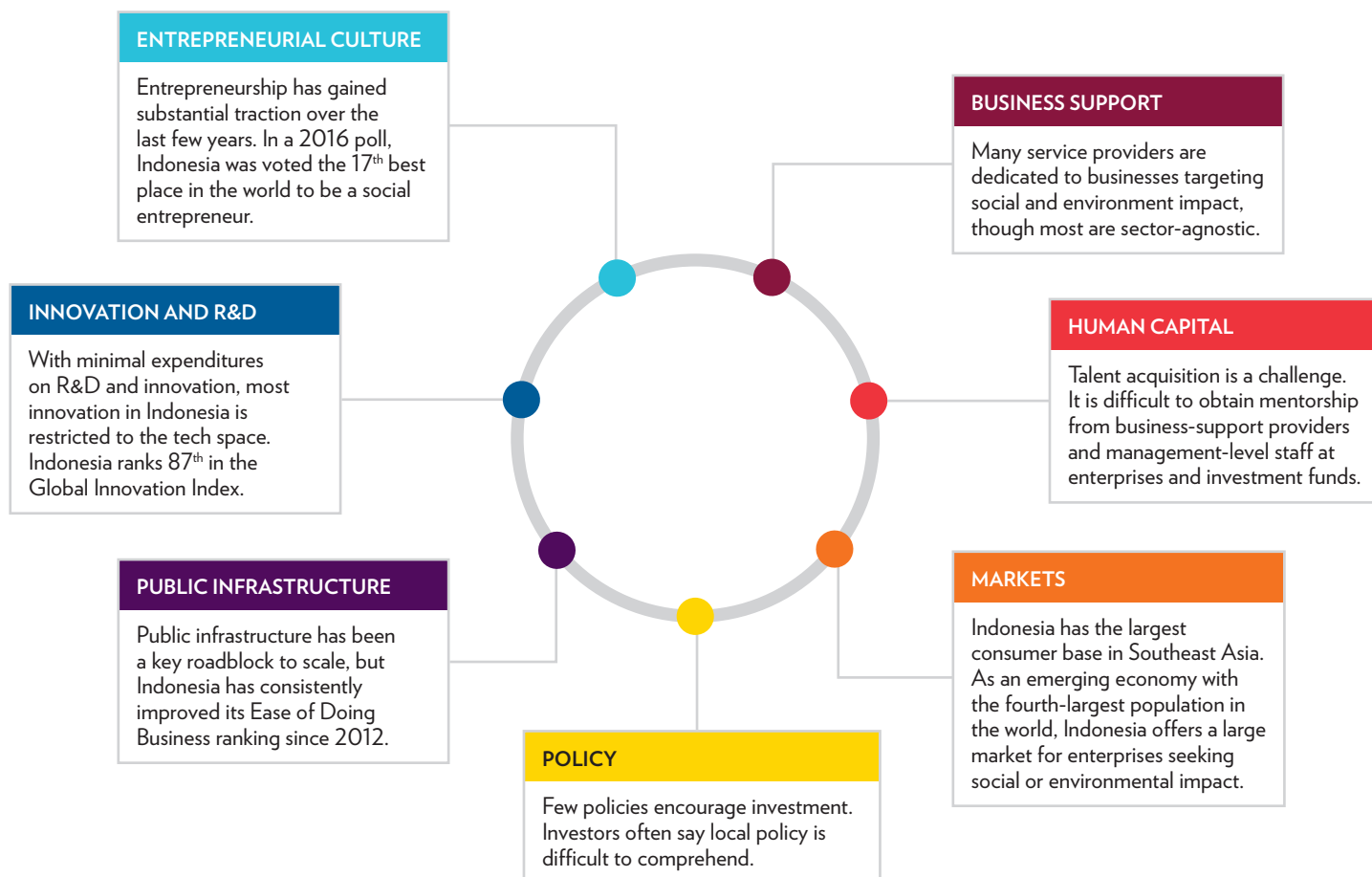
⁴⁷ Burger et al., *Reforming Policies for Enterprises in Indonesia*.

⁴⁸ Burger et al., *Reforming Policies for Enterprises in Indonesia*.

THE ENABLING ECOSYSTEM

A range of factors can together enable a supportive environment for impact investing activity. Indonesia has a well-developed ecosystem for impact investing (Figure 21), with many established ecosystem actors bridging the gap between impact investors and potential investees. The overall enabling ecosystem has gained substantial traction since 2012. Notably, Ashoka has actively offered training and a diverse range of support services for social entrepreneurs in Indonesia since 1983. Besides business-support providers, the government encourages foreign capital to flow into the country, but Indonesia lacks skilled human capital and spends little on innovation or research and development (R&D).

FIGURE 21: IMPACT INVESTING ECOSYSTEM OF INDONESIA



*Note: This framework uses the ANDE entrepreneurial ecosystem diagnostic toolkit.
Source: Intelicap Advisory Services analysis*

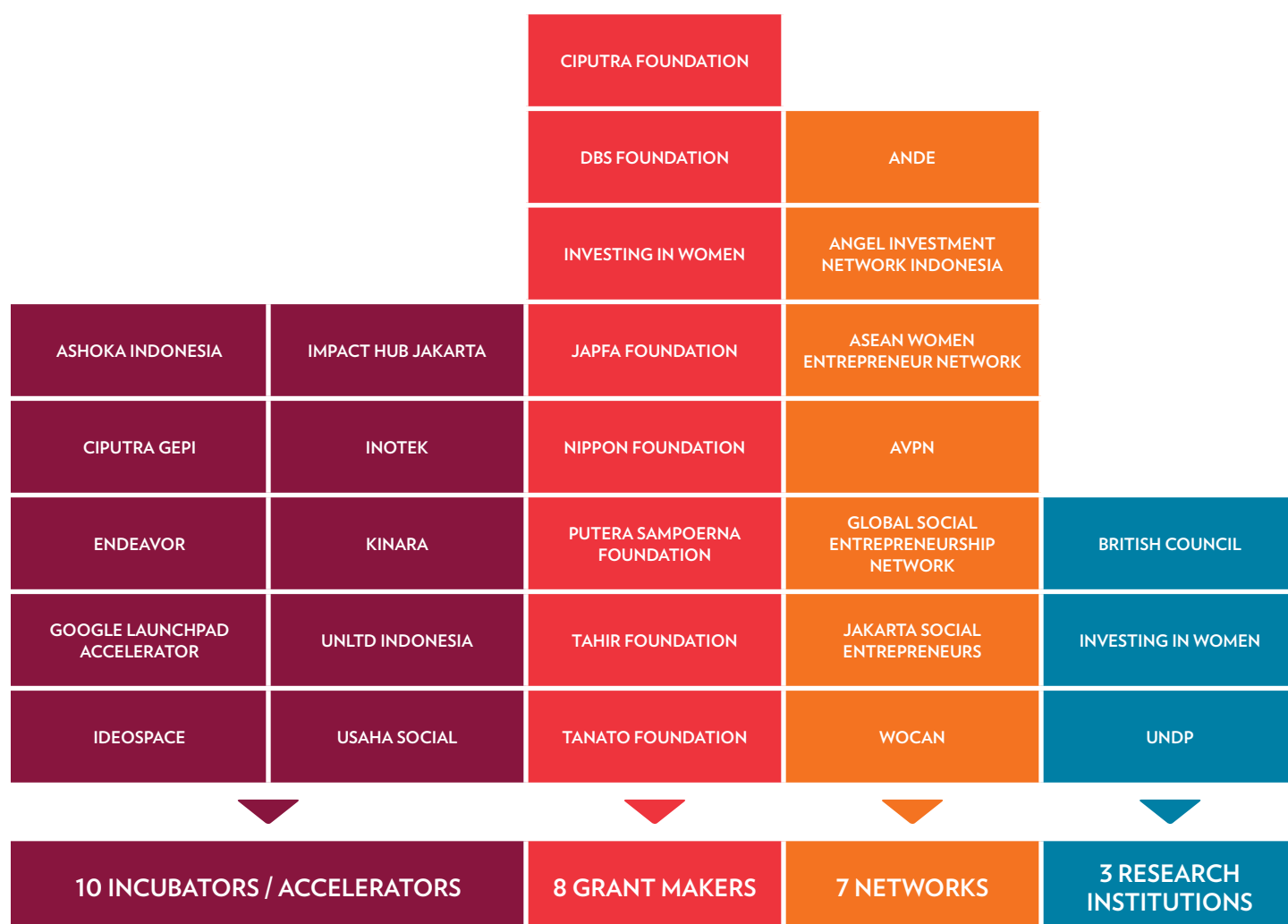
BUSINESS SUPPORT

Many incubators and accelerators in Indonesia focus on early-stage enterprises (Figure 22), including some exclusively focusing on impact businesses. While most are concentrated in Jakarta, Bandung has also emerged as a hub for support providers to tech-focused businesses; outside of Java, incubators and accelerators have limited presence. Incubators are critical to impact investors' deal-sourcing strategies, especially for those without a local presence. Many incubators also help enterprises pitch HNWLs, who may or may not be impact-focused. Incubators also offer regular mentorship, access to technical workshops, and networking opportunities. In Indonesia, some also provide grant capital to seed-stage enterprises.

Few incubators and accelerators in Indonesia are sector-specific. Accelerators like Kinara Indonesia are critical parts of the Indonesian impact investing ecosystem because of their specific focus on sectors that can create livelihoods for marginalized communities. By the end of 2017, Kinara had assisted 11 early-stage businesses in the workforce development sector, with many raising capital from regional impact investors. In 2017, in partnership with Patamar and Investing in Women, Kinara introduced an accelerator program for women-led businesses. The program provides four months of training to 12 women-led businesses, awarding USD 25,000 of seed capital to the top four businesses. Similarly, some incubators and accelerators, including Batavia, Indigo, and Ideosource, have a strong tech focus, supporting startups that may or may not seek impact. While sector-agnostic training on business planning, pitching, and marketing helps impact-seeking businesses, the lack of sector-specific capacity building represents an opportunity for improvement. Capacity building is critical in sectors where investees interact directly with marginalized communities, so knowledge of local context is essential.

ANGIN, a highly active, impact-focused angel network, is unique in Indonesia compared to the lack of such angel networks elsewhere in the region. Formed in 2012, ANGIN has become the largest angel network in Indonesia, with 66 members. ANGIN has been instrumental in developing Indonesia's impact investing ecosystem, supporting enterprises overlooked by banks or private equity and venture capital funds by providing seed-stage capital and impact measurement support. ANGIN also helps match impact investors and enterprises. It introduced the first GLI fund in Indonesia, the ANGIN Women Fund, which has made five investments to date that range from USD 25,000 to USD 150,000. The Impact Investment Exchange, an enabler based in Singapore, has also been crucial in channeling capital from HNWLs and family offices into impact investments in Indonesia.

FIGURE 22: ECOSYSTEM OF SUPPORT PROVIDERS



Source: Intellect Advisory Services analysis

In addition to direct business support, a number of competitions including some focused exclusively in Southeast Asia, award grant funding and mentorship to social enterprises in Indonesia. For instance, the DBS-NUS Social Venture Challenge attracts many applications from Indonesia; past Indonesian winners include Crowde, a web platform connecting small-scale farmers to buyers, and Temu, a tech platform connecting employers with skilled workers. Since 2010, the British Council, in partnership with the Arthur Guinness Fund, has sponsored a community entrepreneurs' challenge to provide support and funding to community-based enterprises in Indonesia. The Danone Young Social Entrepreneur challenge also has roots in Indonesia.

Despite these developments, little research on impact investing, social finance, or impact enterprises in Indonesia is available. Publicly available research and market intelligence reports in Indonesia have been produced by ANGIN, the Asian Venture Philanthropy Network (AVPN), the United Nations Development Program (UNDP), and the United State Agency for International Development (USAID). Investing in Women has also supported research efforts. The Southeast Asia chapter of the Aspen Network of Development Entrepreneurs (ANDE) frequently hosts webinars that discuss developments in the regional ecosystem.

HUMAN CAPITAL

Limited access to professionals with practical experience restricts the growth of both social enterprises and ecosystem enablers in Indonesia. Most mentors associated with impact incubators and accelerators in Indonesia have a nonprofit or NGO background, lacking the requisite business experience to operate social enterprises.⁴⁹ In addition, the lack of sectoral or contextual knowledge specific to Indonesia can keep both enterprises and ecosystem enablers from scale.

MARKETS

Indonesia's large, socially diverse population and its rising consumption expenditures offer impact enterprises and their investors a substantial market. Representing the largest consumer market in Southeast Asia, Indonesia's population has just left poverty and has increased ability to pay for basic goods and services. Given the country's population base and inequality, consumption expenditures will likely increase in the future. Further, Indonesia's trade agreements as a part of the Association of Southeast Nations (ASEAN) and with other countries allow easy access to export markets.

POLICY

Indonesia's corporate tax rate of 25% is slightly higher than ASEAN's 23% regional average. Non-resident taxpayers operating without a permanent establishment in the country are subject to a 20% withholding tax on gross income. Though interviewed investors did not perceive tax rates as a substantial deterrent, several other policy-level challenges deter investors:

- **Complicated procedures:** Multiple investors indicated that setting up investment vehicles domiciled in Indonesia is very complicated. Even for equity investors that do not operate through a locally established investment vehicle, ownership is restricted to businesses registered as PT Penanaman Modal Asing (PMA). The procedures for such registration can be time-consuming. Interviewed investors also perceived complications in the approval process for foreign companies and in commencing operations in Indonesia.
- **High minimum capital requirement:** For a PMA, the minimum capital requirement is USD 700,000, with minimum, paid-up capital of USD 175,000. This high requirement may deter investors from smaller ticket sizes.

The Indonesian government offers certain incentives to encourage investment, including the following:

- **Tax incentives:** The Indonesian government offers five to 15 years' tax exemption for investments over USD 80 million in various sectors, including agro-processing and manufacturing established in special economic zones.⁵⁰ In addition, income that venture-capital firms earn from their investments in the form of profit-sharing is tax-exempt, provided their investees are MSMEs in select sectors.⁵¹ Certain goods entering or delivered to companies' operations in free trade zones are exempt from payment of VAT or import duty.

49 ANGIN, *Social Finance and Social Enterprises*.

50 "Investment Incentives," Indonesia Investment Coordinating Board (BKPM), <http://www.bkpm.go.id/en/investment-procedures/investment-incentives>.

51 "Indonesia Corporate Tax Credits and Incentives," PwC, updated November 23, 2017, <http://taxsummaries.pwc.com/ID/Indonesia-Corporate-Tax-credits-and-incentives>.

- **Reduced restrictions on foreign ownership:** The Indonesian government's 2016 Negative Investment List relaxed restrictions on foreign ownership in 141 fields of business.⁵² For instance, the cap on foreign ownership in work training, telecommunications services, travel agencies, and medical equipment testing facilities, among other fields, increased from 49% to 67%. Full, 100% foreign ownership is now allowed in certain sectors, such as cold storage (formerly 33% maximum foreign ownership), restaurants and hospital management (formerly 51%), and clinical laboratories and medical clinics (formerly 67%).⁵³
- **Three-hour investment licensing facility:** Indonesia has introduced a quick, three-hour licensing facility for investments over USD 8 million equivalent and/or employing at least 1,000 local workers. As of July 2017, more than 260 companies have made investments through this facility.⁵⁴

INFRASTRUCTURE

As an archipelago of over 18,000 islands, Indonesia faces large challenges with infrastructure.

Although the country has made consistent progress in its Ease of Doing Business and Global Competitiveness Index rankings, infrastructure remains a key roadblock to investing in the country, deterring impact investing in terms of both demand and supply by respectively hindering enterprises from scaling within Indonesia and restricting the geography from which impact investors can source deals. According to the Global Competitiveness Index, inadequate infrastructure is the fourth-most problematic factor for doing business, following corruption, government bureaucracy, and access to financing.⁵⁵ In 2013, Indonesia Infrastructure Finance, a non-bank financial institution under the Indonesian Ministry of Finance, estimated that the country would require around USD 353 billion in investment to bridge its infrastructure gap.⁵⁶ Consequently, the current government has identified the development of infrastructure as an important priority.

ENTREPRENEURIAL CULTURE

Indonesia ranks 94th globally on the Global Entrepreneurship Index.⁵⁷ Though ranking marginally behind peers such as the Philippines and Vietnam, the Indonesian government is taking focused steps to support entrepreneurship. Currently, at least four universities in Indonesia offer courses in social entrepreneurship (Universitas Indonesia, Institut Teknologi Bandung, Universitas Brawijaya, and Universitas Trisakti). A 2016 Thomson Reuters Foundation poll ranked Indonesia the 17th best place in the world to be a social entrepreneur, above other countries in the region such as Thailand and

52 "Presidential Regulation of the Republic of Indonesia Number 44 Year 2016 Concerning Lists of Business Fields that Are Closed to and Business Fields that Are Open with Conditions to Investment," <https://www.indonesia-investments.com/upload/documents/Negative-Investment-List-May-2016-Indonesia-Investments.pdf>.

53 Natalia Ratna Kentjana, *Opportunities for Foreign Direct Investment in Indonesia* (presentation on behalf of BKPM to the Thailand Overseas Investment Forum 2017), http://www.boi.go.th/upload/BKPM_Updated_84830.pdf.

54 Kentjana, *Opportunities for Foreign Direct Investment*.

55 Klaus Schwab, ed., *The Global Competitiveness Report 2017–2018* (Geneva: World Economic Forum, 2017), <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>.

56 Richard Michael, "Financing Infrastructure Projects in Indonesia: Current Availability and Issues," (presentation to the EU-Indonesia Business Dialogue Stakeholders' Briefing, October 22, 2013), <https://www.eibd-conference.com/assets/files/Infrastructure%202013/Infrastructure%20-%20Richard%20Michael.pdf>.

57 Global Entrepreneurship Development Institute, *2018 Global Entrepreneurship Development Index*, <http://thegedi.org/global-entrepreneurship-and-development-index/>.

the Philippines.⁵⁸ On the poll, Indonesia scored well with respect to current momentum for social entrepreneurship, the presence of favorable conditions for starting businesses, and the ease with which social entrepreneurs can sell their goods and services to the public. However, Indonesia scored poorly on parameters such as access to investment for social entrepreneurs and perception of the government as a critical buyer of social entrepreneurs' goods and services.⁵⁹

CHALLENGES AND OPPORTUNITIES

Indonesia has the largest impact investing industry in the region yet faces several challenges (Figure 23). Addressing these challenges can accelerate advancement of the impact investing industry in the country.

FIGURE 23: CHALLENGES FOR IMPACT INVESTING IN INDONESIA

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> • Reliance on foreign pools of capital • Limited local presence of investors • Lack of evidence regarding exits or realized returns 	<ul style="list-style-type: none"> • Reliance on grant capital • Nascent entrepreneurial culture • Limited awareness of impact investors 	<ul style="list-style-type: none"> • Lack of sector-specific expertise • Limited sustainability of matchmakers • Low awareness of GII among incubators and accelerators • Currency risks

Source: Intelicap Advisory Services analysis

Supply-side challenges

- **Reliance on foreign pools of capital:** Most of the impact capital deployed in Indonesia has been channeled from investors headquartered outside Southeast Asia. Unlike Singapore, Korea, Japan, or Australia, Indonesia offers few pools of capital that can be accessed for impact investing. Most domestic capital has concentrated in mainstream private equity, sovereign debt, or philanthropy. Interviewed impact investors based in the Global North noted difficulties in raising capital from potential Indonesian LPs.
- **Limited local presence of investors:** Very few investors in Indonesia have a full-time local presence, which can lengthen pre-investment processes, increase costs associated with sourcing deals, and raise the perceived risks of investing in Indonesia. Some regional investors using a fly-in, fly-out model still have only limited interactions with potential investees and cannot always provide the type of mentorship required.

58 The poll was conducted of 45 countries. "Indonesia," The Best Place to be a Social Entrepreneur 2016," Thomson Reuters Foundation, <http://poll2016.trust.org/country/?id=indonesia>.

59 Thomson Reuters Foundation, "Indonesia."

- **Lack of evidence regarding exits or realized returns:** Except for one disclosed deal, there are no records of exits from impact investments in Indonesia. Data on returns remain limited, even for investments through debt. Neither DFIs nor PIs publicly disclose information on exits or realized returns.

Demand-side challenges

- **Reliance on grant capital:** Several competitions and incubators in Indonesia provide grant capital to social enterprises. As a result, some enterprises perceive grants as a source of revenue or ongoing mechanism of financing. This has limited enterprises' focus on independent financial sustainability.
- **Nascent entrepreneurial culture:** Though entrepreneurship is booming in Indonesia, the culture is relatively new. Enterprises in Indonesia face challenges with respect to reporting financial and impact performance. A lack of historical records also inhibits new companies in raising capital from mainstream financial institutions.
- **Limited awareness of impact investors:** Expatriates and foreign-educated social entrepreneurs have better access to the global pool of impact investors. Local entrepreneurs are less familiar with the concept of impact investing and with specific impact investors that are active in Indonesia, therefore also finding it more difficult to raise capital.

Ecosystem challenges

- **Lack of sector-specific expertise:** Most business support providers assist enterprises with sector-agnostic skills. While such skillsets are essential, few business support providers offer skills training or guidance specific to a given sector of operations. The lack of sector-specific expertise also limits the human capital available to enterprises that demand capital.
- **Limited sustainability of matchmakers:** Several enablers provide matchmaking services for investors and investees using a success fee model. However, small deal sizes, especially from local or angel capital, command small success fees. Such success fee business models can therefore only be sustainable if the volume of impact investments or capital deployed increases. In addition, seed-stage social enterprises are often unable to pay business services providers, prompting the latter to rely on grants to offer incubation and acceleration services.
- **Low awareness of GII among incubators and accelerators:** While GII has gained momentum in Indonesia, awareness remains limited, especially among ecosystem enablers. Even most impact-focused incubators and accelerators are unaware of the practice of GII and the investors who apply it.
- **Currency risks:** The Indonesian Rupiah is relatively unstable, which escalates currency risks, particularly for the global investors who comprise the bulk of impact investors in Indonesia.

Despite these challenges, the impact investing industry in Indonesia has grown substantially, providing many opportunities (Figure 24).

FIGURE 24: OPPORTUNITIES FOR IMPACT INVESTING IN INDONESIA

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> • Potential to mobilize local capital • Early-stage funding opportunities • Potential to explore hybrid capital models 	<ul style="list-style-type: none"> • Knowledge transfer from other geographies • Design of first-loss capital arrangements • Investments in healthcare 	<ul style="list-style-type: none"> • Capacity-building support for fund managers • Establishment of a national body for the impact investing industry

Source: Intelicap Advisory Services analysis

Supply-driven opportunities

- **Potential to mobilize local capital:** Pools of local capital are available but fragmented. Local family offices and foundations accustomed to philanthropic giving could be encouraged to venture into impact investing based on the practice's higher accountability and transparency in the use of funds. For instance, since 2016, a number of grant-makers and foundations in the Philippines have ventured into impact investing after years of purely philanthropic giving. Additionally, since such organizations do not have LP expectations to meet, they can more easily relax return expectations in cases which might offer greater social impact.
- **Early-stage funding opportunities:** Few investors besides HNWI provide early-stage funding, yet most enterprises in Indonesia are in the seed or early stages. Institutional investors could target early-stage deployments less than USD 500,000.
- **Potential to explore hybrid capital models:** While many donors offer grant funding in Indonesia, few investors are using blended finance mechanisms to catalyze impact investing. Investing in Women uses blended finance instruments in Indonesia, yet demand for further catalytic capital remains.

Demand-driven opportunities

- **Knowledge transfer from other geographies:** Most investors in Indonesia have global portfolio allocations, offering opportunities for them to transfer knowledge among their investees. While ICT has evolved in Indonesia, many companies still refrain from tech enabled, pay-as-you-go models that could make their products more affordable. The use of data analytics is also limited compared to fintech and clean energy enterprises in other emerging markets, such as East Africa. Investors could transfer lessons learned from other geographies to assist their investees in Indonesia.
- **Design of first-loss capital arrangements:** Since most enterprises in Indonesia are young, first-loss capital offered by DFIs can catalyze early-stage investments by reducing their risk.⁶⁰
- **Investments in healthcare:** Indonesia performs poorly on a number of healthcare-related parameters, and its healthcare workforce has limited skills. However, very few impact investments have been made in the healthcare sector, suggesting significant potential remains to strengthen the

60 ANGIN, *Social Finance and Social Enterprises*.

country's infrastructure for affordable healthcare. Further highlighting the opportunities to expand healthcare infrastructure, a universal healthcare program launched in 2014 covered 70% of the Indonesian population by 2017.⁶¹

Ecosystem-driven opportunities

- **Capacity building of fund managers:** Despite being the largest market for impact investing in the region, Indonesia has few providers of capacity-building support for fund managers who are adept in the local, Indonesian context. As the sector grows, such interventions will only become increasingly necessary.
- **Establishment of a national impact investing industry body:** The landscape of impact investing in Indonesia could be further strengthened and stimulated by introducing an industry advocacy body or national advisory board to support policy, collect data on deals and information on realized returns, increase transparency and reduce perceived risks, and offer contextual support for a growing base of industry stakeholders.

61 "70% of the Indonesian Population Joins Universal Healthcare Program," *Indonesia Investments*, September 18, 2017, <https://www.indonesia-investments.com/news/todays-headlines/70-of-the-indonesian-population-joins-universal-healthcare-program/item8209>.

A map of Southeast Asia with the Philippines highlighted in red. The map shows the outlines of the region, including the Malay Peninsula, Sumatra, Java, and the Indonesian archipelago. The Philippines is located in the northern part of the region, east of the Malay Peninsula.

PHILIPPINES: AN INTRODUCTION TO THE IMPACT INVESTING LANDSCAPE

Impact Investing in the Philippines (2007–2017)

USD 107.2 MILLION

Impact capital deployed by
PRIVATE IMPACT INVESTORS (PIIs)

23

ACTIVE PIIs

54

DEALS

USD 2.3 BILLION

Impact capital deployed by
DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

6

ACTIVE DFIs*

43

DEALS*

*Includes only direct investments.

KEY CHARACTERISTICS OF PII AND DFI IMPACT INVESTING ACTIVITY

MARKET OVERVIEW

The second-largest impact investing market in Southeast Asia by amount of capital deployed

Increased impact investing activity since 2014

Growing ecosystem with an increasing number of business support providers with an impact focus



DEAL SIZE

PIIs: Most deals between USD 500,000 and USD 1 million, with significant gap in funding below USD 500,000

DFIs: Most deals between USD 10 million and USD 50 million



SECTORS

PIIs: Active in many sectors, primarily financial services, energy, and agriculture

DFIs: Most active in financial services and energy



INSTRUMENTS

PIIs: Three times as much capital deployed through equity as through debt

DFIs: Over 70% of capital deployed as debt



IMPACT MEASUREMENT

PIIs: Metrics based on globally accepted frameworks

DFIs: Proprietary frameworks align to long-term impact objectives



GENDER LENS INVESTING

PIIs: USD 12.4 million deployed into 20 investments using a gender lens, particularly into enterprises providing women with access to critical goods and services

DFIs: Common to measure gender impacts across investments though intentional gender lens investing has not been explicitly employed to date

COUNTRY SUMMARY

The Philippines is the second-largest impact investing market in Southeast Asia in terms of both amount of impact capital disbursed and number of impact deals completed between 2007 and 2017. During that time, at least 23 Private Impact Investors (or PIIs, comprising 19 fund managers, three family offices/foundations, and one impact-focused high-net-worth individual) deployed USD 107.2 million into 54 deals. Six development finance institutions (DFIs) cumulatively deployed over USD 2.3 billion in impact capital through 43 direct deals over the same period.

In the past decade, impact investing in the Philippines has diversified in scope and approach.

The practice of impact investing in the Philippines began a few years before 2007, with most active investors deploying debt capital from outside the region into microfinance institutions. Over time, investment has been channeled toward an increasingly diverse range of sectors, including workforce development, energy, and agriculture. The number and size of PII impact deals in the Philippines have recently increased, and PIIs have diversified to include equity investments in addition to debt capital. The concept of Gender Lens Investing (GLI) has started to gain traction, with at least three fund managers scouting the country for investment opportunities that positively impact women. While PII activity has increased over time, the role of DFIs has remained consistent since 2007, with investments in two core sectors: energy and financial services.

Alongside macroeconomic stability, a conducive regulatory environment, and a rise in domestic consumption expenditure, a growing recognition of social enterprises as drivers of development has increased impact investing activity. Most social enterprises in the Philippines were launched over the last decade, a reflection of the growing recognition by the government, donors, DFIs and entrepreneurs themselves of their role as change agents.¹ The social enterprise landscape in the country has evolved from concentrating in cooperatives and community-based models to including more asset-light, tech-enabled, and inclusive business models. Several impact-focused incubators and accelerators also serve the market.

A few specific challenges arise alongside the evolution of the impact investing market in the Philippines. First, a lack of seed-stage capital derives from the absence of an impact-focused angel investor network, the preference of global PIIs to invest through larger deals,² and a banking system primarily focused on the needs of large corporations.³ Second, most PII capital in the country has been deployed by investors based elsewhere, who source deals opportunistically. Such an approach substantially increases both the cost of sourcing deals and their perceived risk. Third, though PIIs increasingly prefer to make equity investments, many enterprises prefer debt thus yielding a mismatch in capital supply and demand preferences.

1 A report commissioned by the British Council estimates that there are at least 164,000 social enterprises in the Philippines. Philippine Social Enterprise Network (PhilSEN), *Reaching the Farthest First: The State of Social Enterprise in the Philippines* (British Council, 2017), 13, https://www.britishcouncil.org/sites/default/files/the_state_of_social_enterprise_in_the_philippines_british_council_singlepage_web.pdf.

2 Global investors have a preference for larger deal sizes because of their associated economies of scale, which further aggravates the seed-stage funding gap.

3 Notably, banks in the Philippines are mandated by the Magna Carta for SMEs (RA 9501 of May 23, 2008) to allocate at least 8% of their loan portfolios to micro and small enterprises. See Arellano Law Foundation, The Lawphil Project, https://www.lawphil.net/statutes/repacts/ra2008/ra_9501_2008.html.

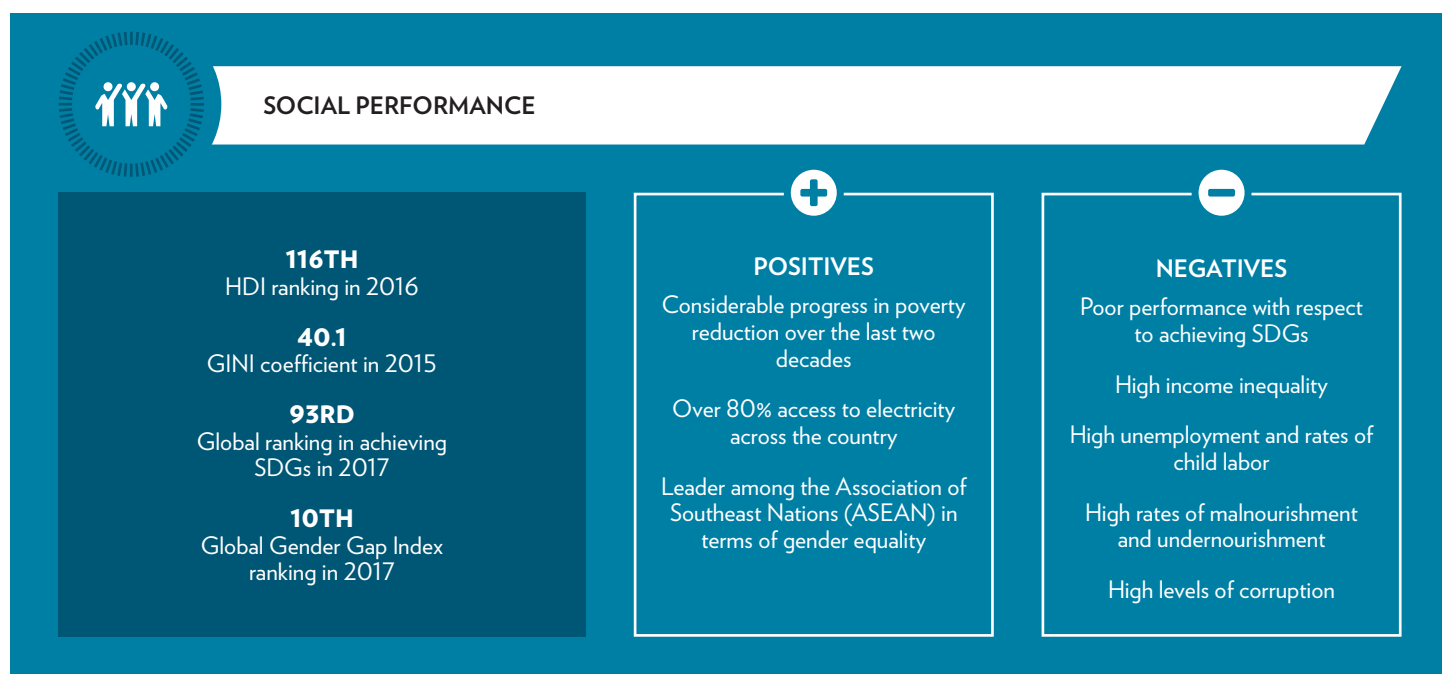
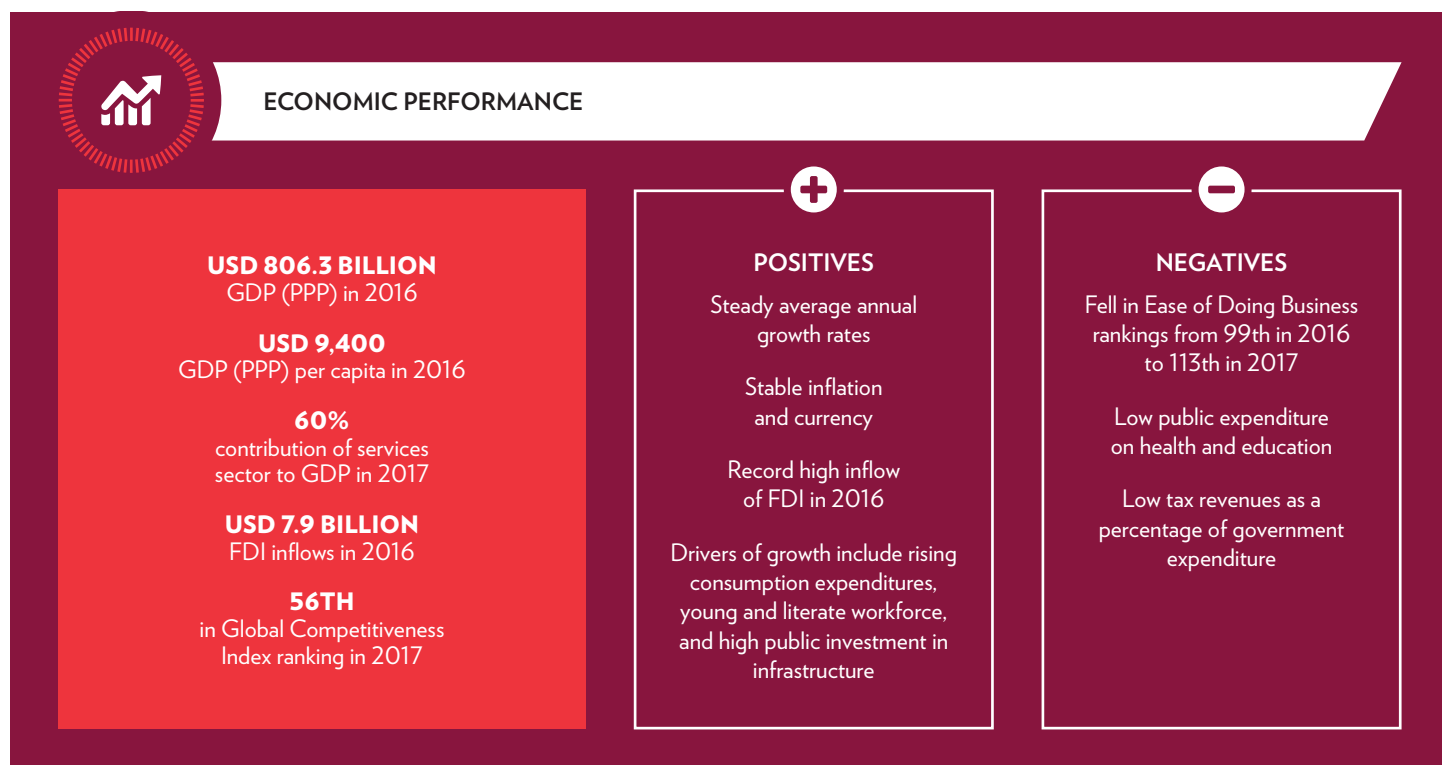
Still, given the economy's expected growth trajectory and the government's commitment to meeting the UN Sustainable Development Goals (SDGs),⁴ the Philippines will likely see increased interest from global and regional impact investors. Its economy benefits from a young workforce, high literacy rate, rising consumption expenditure by the middle class, and recent government investments in infrastructure. In addition, a stable currency and benign outlook for inflation make the Philippines attractive to foreign investors.

4 Republic of the Philippines, National Economic and Development Authority, "Ph Reaffirms Commitments on Poverty Reduction, SDGs, and Migrant Rights at UN General Assembly" (news release), September 30, 2016, <http://www.neda.gov.ph/2016/09/30/ph-reaffirms-commitments-on-poverty-reduction-sdgs-and-migrant-rights-at-un-general-assembly/>.

COUNTRY CONTEXT

Snapshot

FIGURE 1: SNAPSHOT OF THE PHILIPPINES' ECONOMIC AND SOCIAL INDICATORS

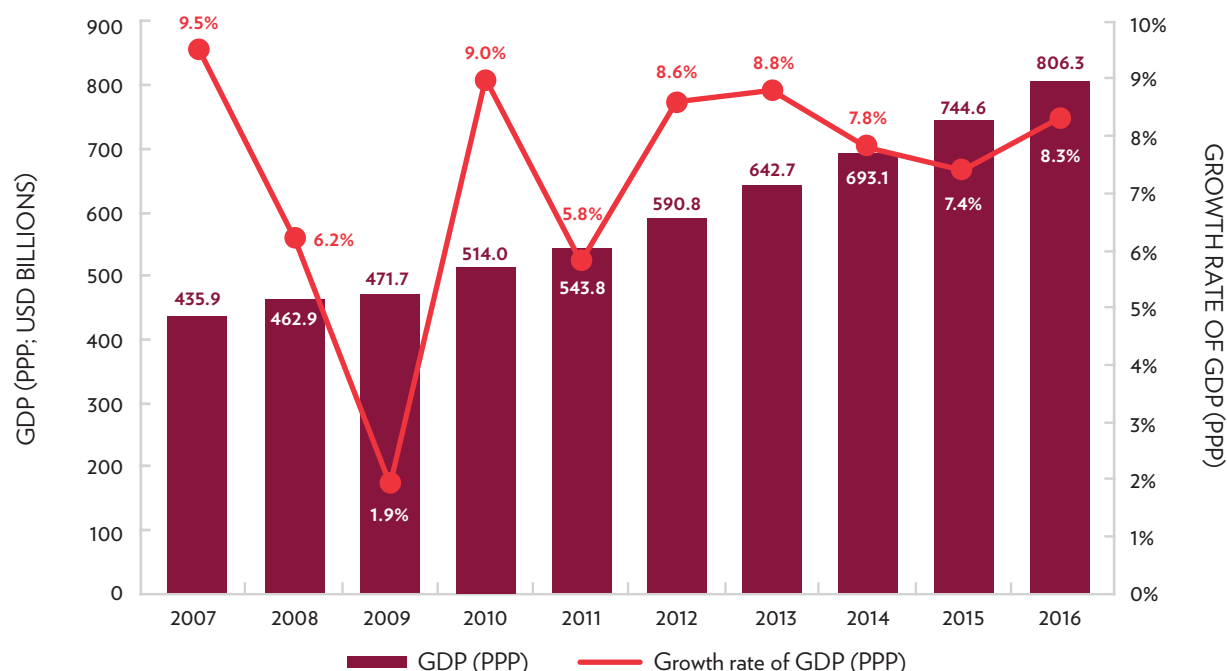


Economic overview

GDP AND ECONOMIC GROWTH

As of 2016, the Philippines was the third largest country in Southeast Asia by nominal Gross Domestic Product (GDP) and the 34th largest globally. An HSBC study predicts the Philippines will become the 16th largest economy in the world by 2050.⁵ Since 2007, the country has recorded an average growth rate of 7.3% (Figure 2),⁶ but growth has varied drastically by region.

FIGURE 2: GROSS DOMESTIC PRODUCT—PURCHASING POWER PARITY AND GROWTH RATE



Source: World Development Indicators

The services sector contributes almost 60% to the country's GDP and should remain an important driver of the Philippine economy.⁷ Driving this sector is a strong business process outsourcing (BPO) industry, which has benefited from historical government support and a skilled and literate workforce and which caters to backend operations outsourced from developed markets.

The Philippine government designed a strategic plan for the growth of the services sector through 2025. From 2014 to 2017, the plan focused on improving competitiveness in tourism, accelerating infrastructure investment, and moving up the IT Business Process Management value chain. From 2018 to 2021, the focus will shift to attracting more investment into human resource development, research and development (R&D), finance, infrastructure, and services linked to manufacturing and industry. From 2021 to 2025, the government plans to continue enhancing the competitiveness

5 Karen Ward, *The World in 2050: From the Top 30 to the Top 100* (London: HSBC, January 2012), 2, https://www.hsbc.com.mx/1/PA_esf-ca-app-content/content/home/empresas/archivos/world_2050.pdf.

6 "Philippines," World Development Indicators, DataBank (Washington, DC: The World Bank), <https://data.worldbank.org/country/Philippines>.

7 "Philippines," *The World Factbook* (Langley, VA: Central Intelligence Agency, 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/rp.html>.

of the services sector for sustained job creation and economic growth, in part by relaxing foreign ownership restrictions on service companies.⁸

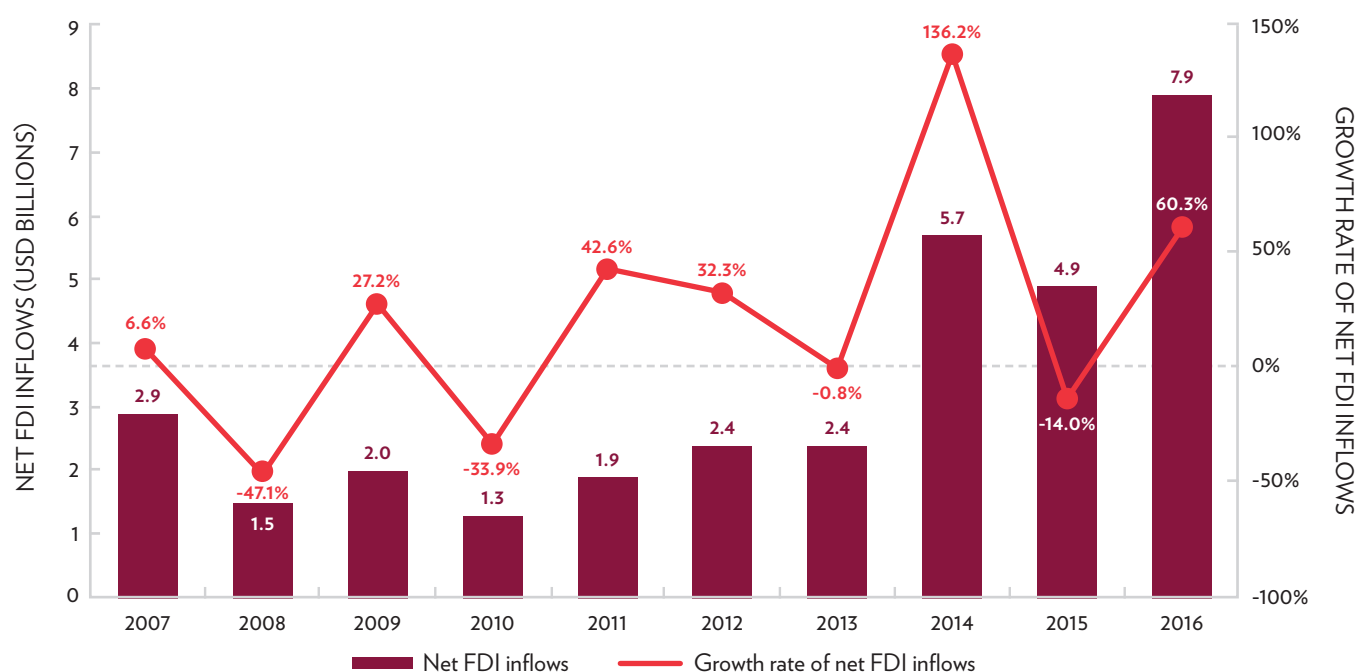
The industrial sector is the second-largest contributor to the Philippine economy, accounting for just over 30% of the country's GDP. Within the industrial sector, manufacturing is the largest sub-sector, contributing around a quarter of GDP. As of 2014, manufacturing comprised 8% of all Philippine employment, and the government is committed to increasing this to 15%.⁹ Other key components of the industrial sector include construction and ship building.

Meanwhile, while the agricultural sector has declined from around 25% of GDP in 1980 to 9.4% at present,¹⁰ it still employs around 30% of the country's labor force and is often characterized by high rates of disguised unemployment and underemployment.¹¹

FOREIGN DIRECT INVESTMENT AND EASE OF DOING BUSINESS

The Philippine Government has proactively eased regulations on Foreign Direct Investment (FDI). This has resulted in record-high FDI inflows in 2016 (Figure 3). In 2016, the highest proportion of FDI flowed into energy (including electricity, gas, and air conditioning supply; 31.5%), followed by real estate (20.9%), manufacturing (19.9%), and transport and storage (15%).

FIGURE 3: NET FDI INFLOWS AND GROWTH RATE



Source: World Development Indicators

8 Government of the Philippines, "Securing the Future of Philippine Industry," <http://industry.gov.ph/category/services/>.

9 Government of the Philippines, "Securing the Future of Industry."

10 "Philippines," *The World Factbook*.

11 Andrzej Kwiecieński, Piret Hein, and Ada Ignaciuk, *Agriculture Policies in the Philippines*, Organisation for Economic Co-operation and Development (OECD) Food and Agricultural Reviews (Paris: OECD, 2017), 44–54, <http://dx.doi.org/10.1787/9789264269088-en>.

Key drivers of FDI in the Philippines include the following:

- **Favorable investment policies:** Through the Board of Investment and the Philippine Economic Zone Authority, the government offers a wide range of fiscal incentives to stimulate FDI into the country, including four-to-six-year tax holidays; tax credits for investing in semi-manufactured products, raw materials, and supplies; and payable tax reductions for labor and infrastructure development expenses. Furthermore, enterprises operating in designated economic zones enjoy additional exemptions on income tax and duty, and a well-established regulatory framework guarantees repatriation of foreign investment and earnings.
- **Rapid urbanization and increase in domestic consumption expenditure:** Around 45% of Filipinos reside in urban areas, and the World Bank expects the urban population to more than double by 2050.¹² The urban transition has resulted in higher demand for housing and other basic services, transportation, and employment.¹³ Simultaneously, domestic consumption has increased 6–7% per year since 2012,¹⁴ which is driven, in part, by remittances from Filipinos living abroad. The Philippine economy receives the largest inflow of remittances in Southeast Asia and the third-highest in the world, after India and China.¹⁵
- **Suitable demographics and availability of an educated workforce:** The Philippines has the second-highest literacy rate in the Association of Southeast Asian Nations (ASEAN)—a regional intergovernmental organization—at 96.3%. The country’s median age is 23.5 years. The advantage of this young, educated workforce is further complemented by low labor costs.

Although FDI in the Philippines reached a record level in 2016, its latest Ease of Doing Business (EoDB) ranking fell considerably. In the 2018 *Doing Business* report, published by the World Bank, the Philippines fell 14 places in rank from 99th to 113th. The country’s distance to frontier score of 58.7 is below the 62.7 regional average of East Asia and Pacific.¹⁶ According to most investors, the delayed settlement of legal disputes in the Philippines deters investment. The country also scores lower than the regional average with respect to protecting minority investors.¹⁷ Together, these factors may impact FDI in the near future, given the high level of correlation between Ease of Doing Business and FDI.¹⁸

Still, favorable investment incentives, growing consumption expenditure, and suitable demographics will likely continue to drive FDI inflows into the Philippines despite its fall in EoDB rankings.

12 Judy Baker et al., *Philippines Urbanization Review: Fostering Competitive, Sustainable, and Inclusive Cities* (Washington, DC: The World Bank, 2017), 3–6, <https://openknowledge.worldbank.org/bitstream/handle/10986/27667/114088-REVISED-v1-Philippines-Urbanization-Review-Full-Report-6mb.pdf>.

13 Baker et al., *Philippines Urbanization Review*, 58–62.

14 “Philippines,” World Development Indicators.

15 Dilip Ratha, Sonia Plaza, and Ervin Dervisevic, *Migration and Remittances Factbook 2016*, Global Knowledge Partnership on Migration and Development (KNOMAD), (Washington, DC: The World Bank, 2016), <https://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/4549025-1450455807487/Factbookpart1.pdf>.

16 The distance to frontier (DTF) measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy’s DTF is calculated on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The Ease of Doing Business rankings range from 1 to 190.

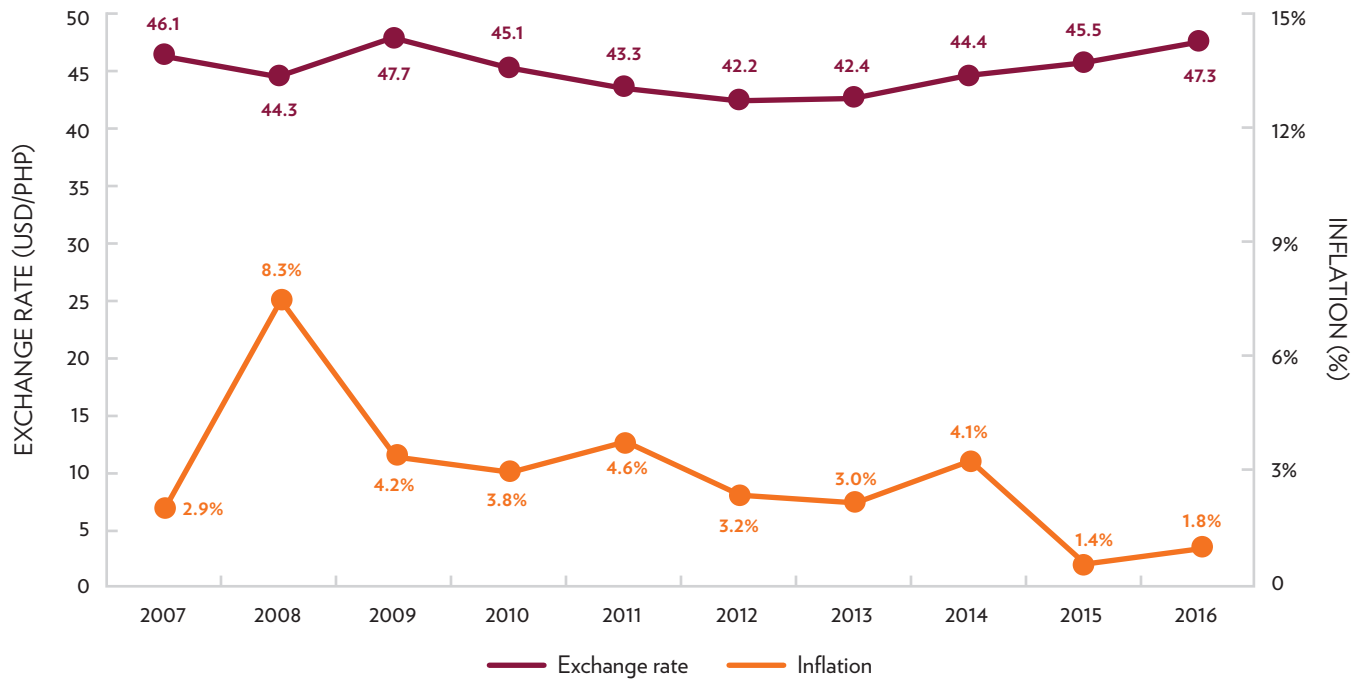
17 “Philippines,” *Doing Business* (Washington, DC: The World Bank, 2018), <http://www.doingbusiness.org/data/exploreeconomies/philippines>.

18 The World Bank, “Does *Doing Business* Matter for Foreign Direct Investment?,” *Doing Business 2013* (Washington, DC: The World Bank, 2013), 48–51, <http://www.doingbusiness.org/-/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB13-Chapters/DB13-CS-Doing-Business-matter-for-FDI.pdf>.

INFLATION AND CURRENCY RISKS

The inflation rate in the Philippines has declined since the 2008 economic crisis. Since 2014, inflation has reduced dramatically, signaling economic stability and instilling investor confidence. The Philippine Peso (PHP) appreciated between 2009 and 2012, after which it depreciated through 2016 (Figure 4).

FIGURE 4: INFLATION AND EXCHANGE RATE



Source: World Development Indicators

Social overview

HDI AND INCOME INEQUALITY

TABLE 1: SOCIAL DEVELOPMENT INDICATORS

PARAMETER	PHILIPPINES
LIFE EXPECTANCY AT BIRTH	69
EXPECTED YEARS OF SCHOOLING	11.7
MEAN YEARS OF SCHOOLING	9.3
GNI PER CAPITA (PPP)	USD 9,400
<i>Life expectancy at birth and GNI per capita (PPP) sourced from World Development Indicators. Expected years of schooling and mean years of schooling sourced from the Human Development Report.</i>	

The Philippines is classified as a medium development country according to the Human Development Index (HDI), ranking 116th out of 188 countries and territories.¹⁹ The Philippines has an HDI score of 0.68, slightly lower than the regional average of 0.72 for East Asia and Pacific. The country fares below average in terms of life expectancy at birth and expected years of schooling (Table 1). Its Gross National Income (GNI) per capita (PPP) is USD 9,400, the sixth highest in ASEAN. The Philippines also has

high income inequality, reflected by a GINI coefficient of 40.1. Consequently, its HDI score falls to 0.56 when discounted for inequality. The ratio of the income of the richest 20% to the poorest 20% is 9.3, lower than only Singapore and Malaysia in Southeast Asia.

GENDER EQUALITY STATUS

The Philippines remains the top performer in terms of gender equality among Southeast Asian countries. It was ranked 10th in the 2017 Global Gender Gap Report, one of two countries in Southeast Asia to reach the global top 50.²⁰ It is also the region's only country where the female literacy rate exceeds the male literacy rate. Women in the Philippines have also performed better than men on other education-related indicators, such as basic arithmetic skills, the gender parity index, enrollment in primary and secondary education, and net completion rates.²¹ As of 2010, 63.7% of all licensed Filipino professionals were women.²² The Philippines also fares very well on cultural indicators of women's empowerment. Nearly all Filipino women have decision-making power with regard to spending, healthcare, and other household choices.²³

The government's proactive recognition, protection, and promotion of women's rights, especially of women from marginalized sections of society, contributes significantly to the Philippine's favorable gender equality. In addition, the 2011–2016 Philippine Development Plan included several gender-related targets.

19 United Nations Development Programme (UNDP), "The Philippines," *Human Development Report 2016* (New York: UNDP, 2016), 2–6, http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PHL.pdf.

20 Singapore ranked 27th. World Economic Forum (WEF), *The Global Gender Gap Report* (Geneva: WEF, 2017), 9–24, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

21 Philippine Commission on Women, "Statistics on Filipino Women and Men's Education," May 13, 2014, <http://www.pcw.gov.ph/statistics/201405/statistics-filipino-women-and-mens-education>.

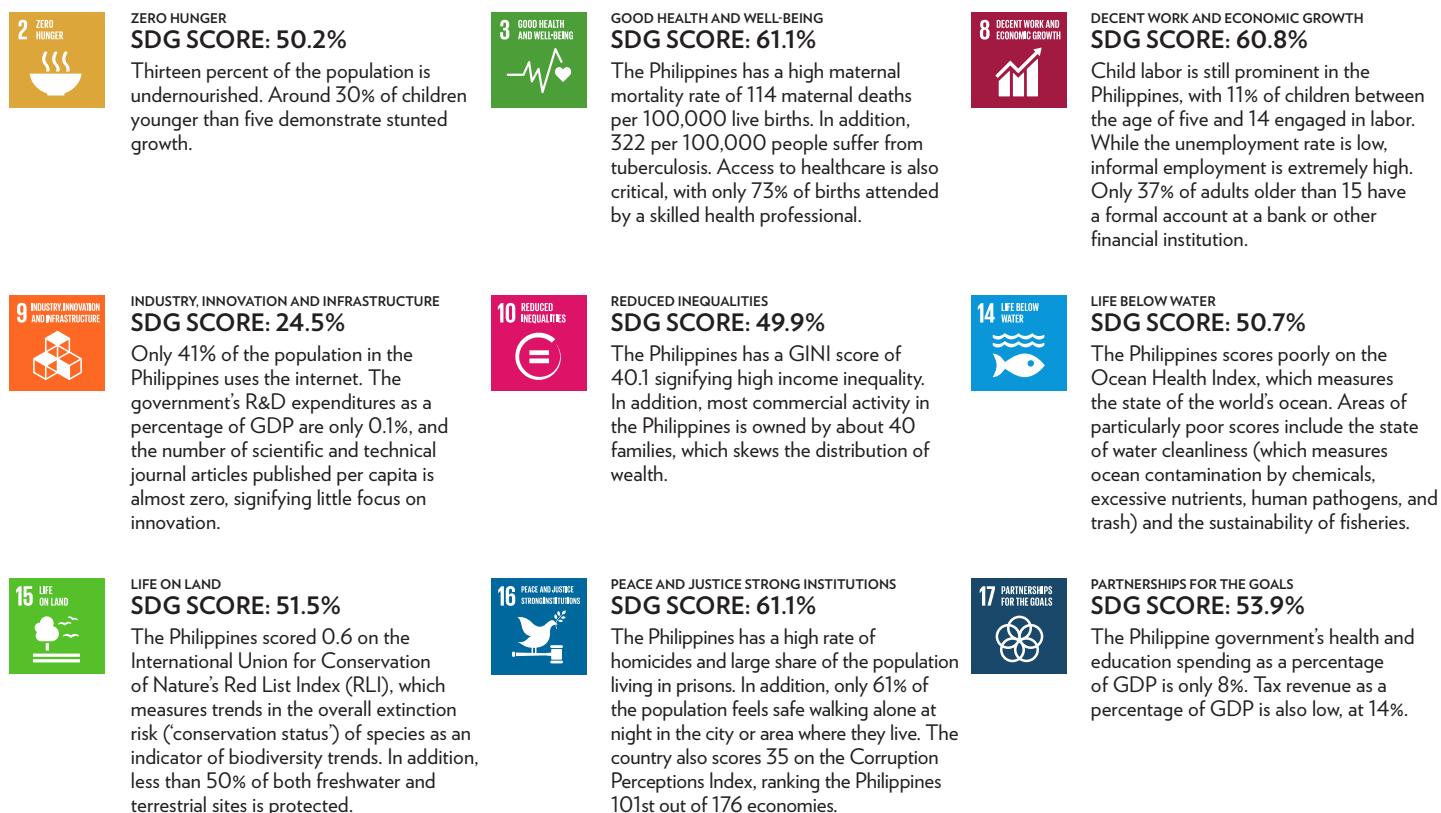
22 Philippine Commission on Women.

23 Philippine Commission on Women.

KEY DEVELOPMENT CHALLENGES AND PERFORMANCE ON THE SDGs

In contrast to its strong economic growth, the Philippines ranks poorly—93rd of 157—with respect to achievement of the SDGs.²⁴ With a score of 64.3, the Philippines is behind many other countries in the region, including Malaysia, Thailand, Singapore, and Vietnam.²⁵ According to the Sustainable Development Solutions Network,²⁶ an organization under the United Nations Secretary General, the country should achieve SDG 1 (“No Poverty”) by 2030 but greatly lags its targets for a number of other SDGs (Figure 5).²⁷

FIGURE 5: PHILIPPINES’ ACHIEVEMENT OF THE SDGs



These gaps, along with the country’s low HDI ranking, indicate substantial potential for development, as well as a need and opportunity for large-scale impact capital.

- 24 Jeffrey Sachs, Guido Schmidt-Traub, Christian Kroll, David Durand-Delacre, and Katerina Teksoz, *SDG Index and Dashboards Report 2017* (New York: Bertelsmann Stiftung and Sustainable Development Solutions Network, 2017), 218–19, <http://www.sdgindex.org/assets/files/2017/2017-SDG-Index-and-Dashboards-Report--full.pdf>.
- 25 The score of 64.3 indicates that the Philippines is on average 64.3% of the way to the best possible outcome across the 17 SDGs. This score is calculated based on the country’s performance on different metrics underlying the 17 SDGs.
- 26 Sachs et al., *SDG Index and Dashboards 2017*, 218–19.
- 27 SDG Scores in the figure represent the distance the Philippines has covered toward achieving the best possible outcomes with respect to each possible SDG. The statistics across parameters and associated calculations have been derived from Sachs et al., *SDG Index and Dashboards 2017*.

THE SUPPLY OF IMPACT CAPITAL IN THE PHILIPPINES

Overview

Since 2007, the impact investing sector has grown substantially in the Philippines. Private Impact Investors (PIIs) have deployed USD 107.2 million in 54 deals in a wide range of sectors, including financial services, agriculture, workforce development, and energy. Equity has been the most widely used instrument among PIIs. Non-banking financial institutions also provide some capital, as well as business development sources. As of 2017, there were no disclosed records of exits.

Development Finance Institutions (DFIs) have cumulatively deployed around USD 2.3 billion in 43 deals. Most of these investments were directed towards large-scale microfinance, infrastructure, and energy projects with potential multiplier effects on development and economic growth in the country.

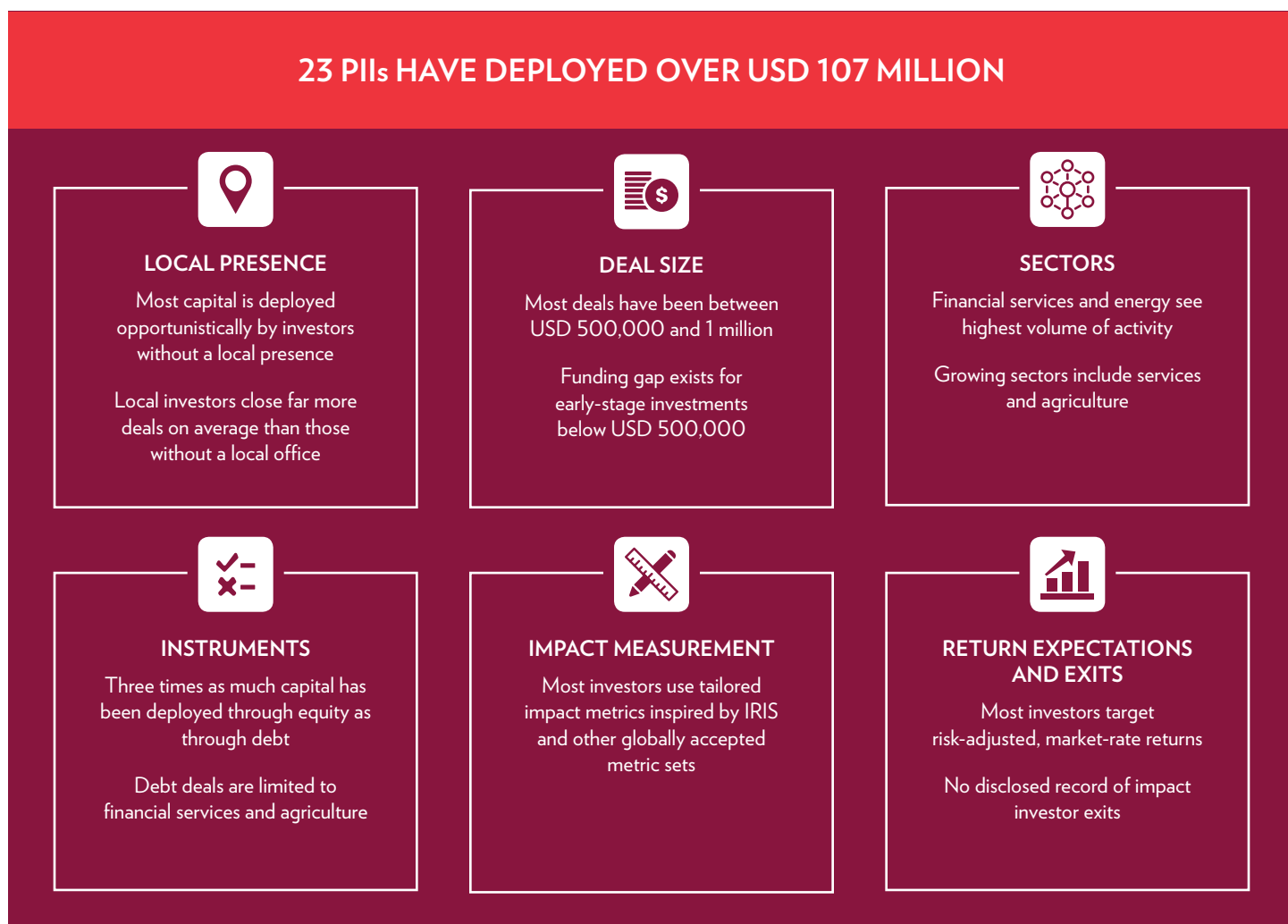
In total, USD 2.4 billion in impact capital has been deployed through 97 deals in the Philippines since 2007, making it the second-largest recipient of impact capital in the region. The following sections detail the landscape of both PIIs and DFI investors.

Private impact investors

OVERVIEW

Most direct deployments by PIIs were made by fund managers, followed by a few family offices and foundations (Figure 6).

FIGURE 6: OVERVIEW OF PIIs IN THE PHILIPPINES



Source: Intelicap Advisory Services analysis

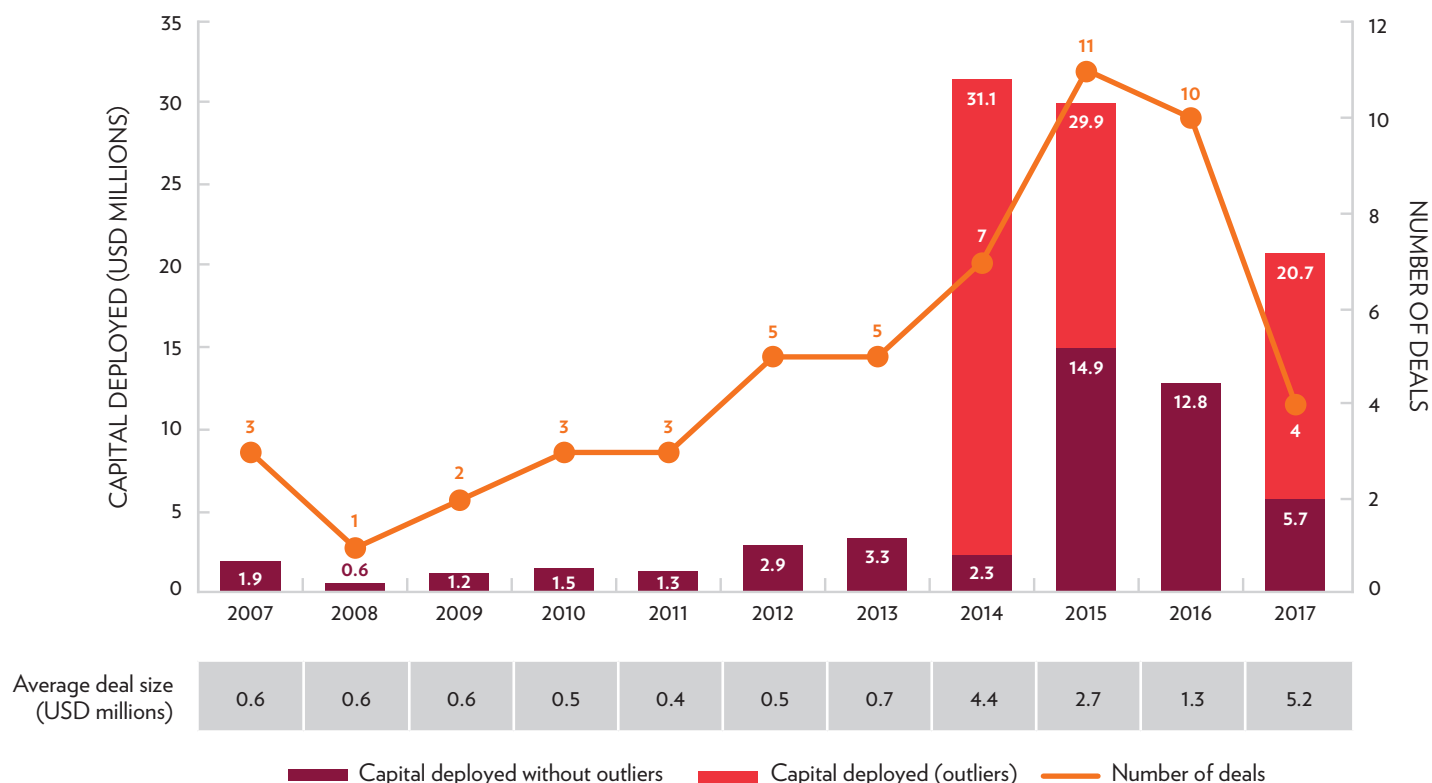
At least 19 fund managers, three family offices or foundations, and one impact-focused high-net-worth individual (HNWI) are involved in making direct deployments in the Philippines. These investors deployed at least USD 107.2 million in 54 deals from 2007 to 2017. While many other family offices or foundations are considering impact investing in the country, only a few have deployed capital to date, and most do not yet have a clear impact investing strategy. In addition, some PIIs make indirect deployments through fund managers.²⁸ The Philippines lacks an impact-focused angel network; moreover, impact-agnostic networks are less active than elsewhere in Southeast Asia. Still, impact

28 Commitments by these funds of funds have been excluded to avoid double counting.

investing has gained some traction in the country in recent years (Figure 7), with growing recognition that the Philippines could be the next hub for impact investing in the region, after Indonesia.

FIGURE 7: IMPACT CAPITAL DEPLOYED BY PIIs, BY YEAR

USD 107.2 MILLION IN 54 DEALS



Note: Outliers include three deals above USD 15 million.

Source: Intelicap Advisory Services analysis

The Philippines has seen growing participation from both global and regional PIIs since 2014, substantially increasing impact investing activity in the country. Before 2014, most deals were concentrated in the financial services sector and led by investors with a local office. Since 2014, workforce development and energy have also emerged as attractive sectors, mostly led by investors that are active globally or regionally and that do not necessarily have a local office.

PIIs made 10 or more impact investing deals in both 2015 and 2016, cumulatively accounting for nearly 40% of all PII deals in the Philippines since 2007. Growth in both activity and average ticket size may be attributed to the increase in the number of global and regional PIIs deploying capital in the country. Global and regional investors tend to invest larger ticket sizes compared to locally present investors because smaller investments face higher relative costs (including sourcing, due diligence, and transaction costs). Both of these years also had increased investment in ICT-enabled services and fintech.

Since 2016, a few philanthropic institutions have ventured into impact investing, and others are considering doing so in the near future. The Philippines has many family offices and foundations that make grants; these institutions present an opportunity to mobilize impact capital from within the region and reduce perceived risk among global investors.

LOCAL PRESENCE

FIGURE 8: PII's WITH AND WITHOUT A LOCAL PRESENCE

	PII's WITH A LOCAL PRESENCE	PII's WITHOUT A LOCAL PRESENCE
NUMBER OF INVESTORS	7	16
PERCENT OF DEALS	61%	39%
AVERAGE DEAL SIZE (USD MILLIONS)	0.5	3.9
MEDIAN DEAL SIZE (USD MILLIONS)	1.0	1.5
AVERAGE NUMBER OF DEALS	5.0	1.5

Source: Intelicap Advisory Services analysis

Just seven of the 23 PII's that have deployed capital in the Philippines have local offices (Figure 8).

A lack of local presence makes it difficult to invest effectively in the country, since many investees require high-touch support. Most impact capital is sourced from foreign investors from countries including the Netherlands, the United States, and Belgium. Further, local impact investors face some skill gaps that restrict their ability to effectively manage global capital.

The absence of a local team also inhibits regular monitoring of the entrepreneurial ecosystem, making it difficult to source investment-ready enterprises. Consequently, the perceived risk of a potential investment is often higher than *actual* risk; a few, select enterprises raise multiple rounds of capital, while others struggle to raise at all. Relatedly, the due diligence and deal deployment processes are comparatively long. While investors without a local team often point to the lack of deal flow as a key challenge in the Philippines, locally present investors take a more positive view. In fact, local investors make more than three times as many deals, on average. To find deals, investors without a local office rely on business plan competitions, incubators, accelerators, and referrals from their networks.

To cope with the challenges associated with not having a local office, impact investors apply partnership and co-investment strategies. In several instances, impact investors have partnered with local players for services that have helped them deploy impact capital. Such partnerships can be broadly classified into two models:

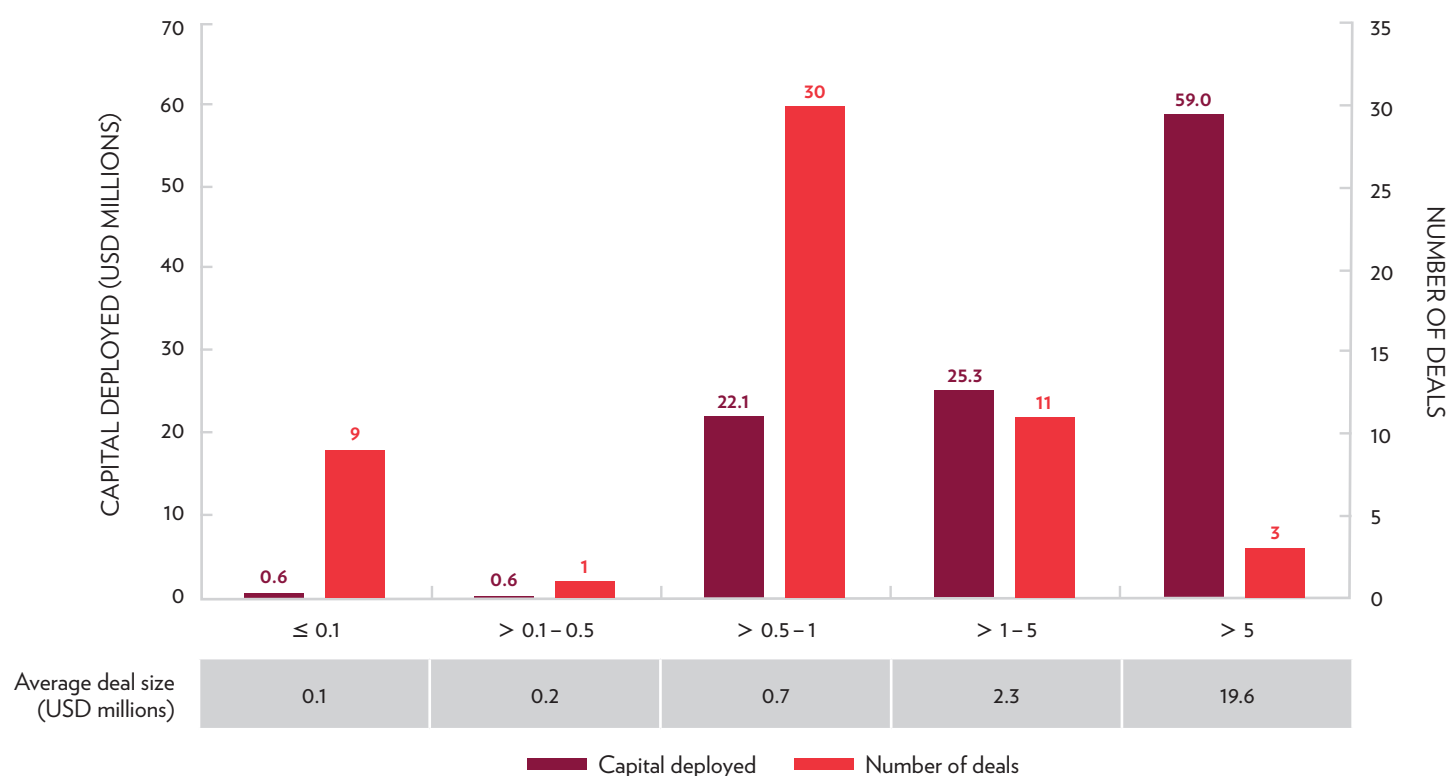
- **Partnerships for sourcing and investment readiness:** Impact investors often partner with incubators and accelerators to build a potential pipeline of investments. Some key incubators for sourcing social enterprises in the Philippines are Xchange, Endeavor, and Villgro Philippines. Such entities primarily provide non-financial support to early-stage enterprises with a few also providing seed capital. However, the lack of ecosystem support for growth-stage enterprises creates challenges in sourcing beyond a certain ticket size. In addition to partnering with incubators and accelerators, overseas investors also engage a well-developed ecosystem of financial advisors, which includes consultants, investment bankers, and transaction advisors. Though most of these financial advisors are not impact-focused, they may work with SME models that interest PII's. Larger deals are often sourced through impact-agnostic accelerators or business-support providers.

- **Partnerships for co-investing:** Quite a few deals in the Philippines have been co-investments between global impact investors and local investors who may or may not seek impact. Within this framework, investors can provide high-touch support for their investees through their local, co-investing partner. For instance, in 2016, Series A investors into Singapore-headquartered mClinica included Patamar Capital, MDI Ventures, and Global Innovation Fund. Endeavor Catalyst, a vehicle that supports entrepreneurs working with the Endeavor Group, also acted as a co-investment partner. Of these four investors, only Endeavor has a full-time local presence in the Philippines.²⁹

DEAL SIZE

FIGURE 9: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE

USD 107.2 MILLION IN 54 DEALS



Source: Intelicap Advisory Services analysis

Given the absence of an impact-focused angel investment network and global investors' preference for larger deals, very few impact investments of less than USD 500,000 have closed in the Philippines. Of the 23 PIIs present in the Philippines, only a few evaluated and deployed capital in deals smaller than USD 500,000 (Figure 9). Moreover, the bulk of this activity occurred at USD 100,000 and below, since the USD 100,000 to USD 500,000 range presents ticket sizes that are too big for angel investors or incubators and too small for global PIIs. While there is more activity below USD 500,000 than in neighboring countries like Vietnam, a large seed-stage funding gap remains.

29 Patamar Capital, "mClinica Raises \$6.3 Million to Transform Global Health Data" (news release), February 15, 2017, <http://patamar.com/mclinica-raises-6-3-million-transform-global-health-data/>.

The high costs associated with deal sourcing and due diligence deter global investors from investing in small ticket sizes, compounding the early-stage funding gap. The relative costs for small investments, including costs for sourcing, due diligence, and deploying capital, are especially high for foreign investors that lack a permanent local presence. Investors have indicated that for some seed and early-stage investments, the costs incurred through the investment process exceed the amount of capital deployed. This has further widened the early-stage funding gap, as most demand-side players in the country have limited capacity to absorb capital given their median annual turnover of USD 24,000.³⁰

FIGURE 10: PII INVESTMENT SECTORS AND TRENDS BY TICKET SIZE

DEAL SIZE (USD MILLIONS)	≤ 0.1	> 0.1 – 0.5	> 0.5 – 1	> 1 – 5	> 5
COMMON SECTORS	Livelihoods and agriculture	Livelihoods	Financial services	Diversified sectors	Energy
TRENDS	Investments mostly from HNWI's associated with incubators	Too big for HNWI's or incubators and too small for global PIs	90% in debt, to increase financial institutions' exposure	Many deals have received co-investments	Primarily infrastructure projects for energy production

Source: Intelicap Advisory Services analysis

Fifty-six percent of impact deals in the Philippines to date have been between USD 500,000 and USD 1 million with a concentration in financial services (Figure 10). The comparatively large number of investments at this ticket size reflects investors' preference to consider enterprises with consistent revenue streams. Almost 80% of deals at this ticket size have been made through debt.

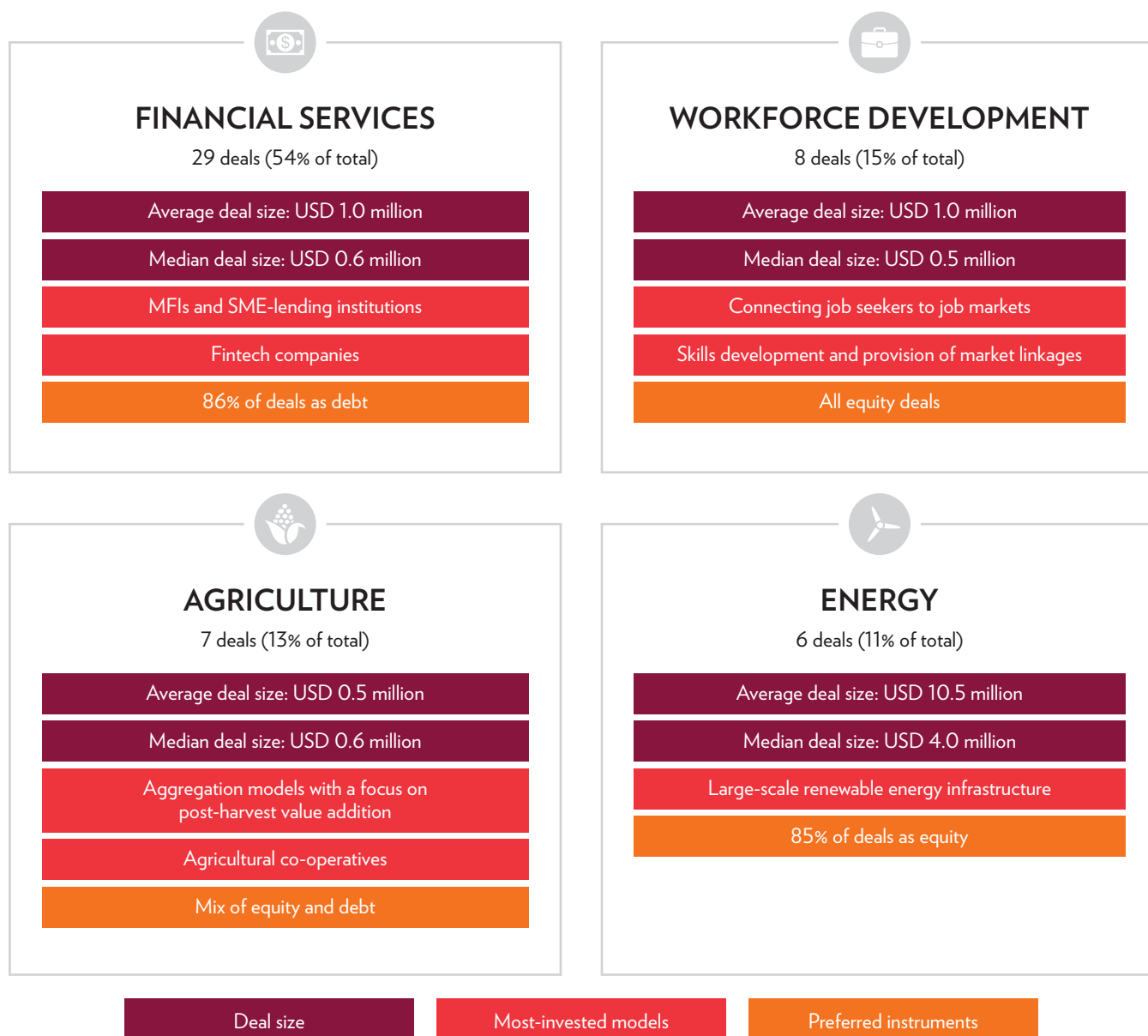
Eighteen percent of investments have been in the USD 1 million to USD 5 million range, most of which have supported a handful of well-known social enterprises. Several of these enterprises have raised multiple rounds of investment. A typical enterprise in this group leverages ICT and mobile technologies to scale their activities, for instance by virtually connecting job seekers to employers or using mobile tech for peer-to-peer lending. In many instances, a co-investing partner—often a local investor or intermediary—helps the leading investors provide high-touch support to the investees.

A few PII investments greater than USD 5 million have been made in the clean energy sector. All of these deals, made by a single investor, involve projects in large-scale, asset-heavy renewable energy infrastructure.

³⁰ PhilSEN, *Reaching the Farthest First*, 12.

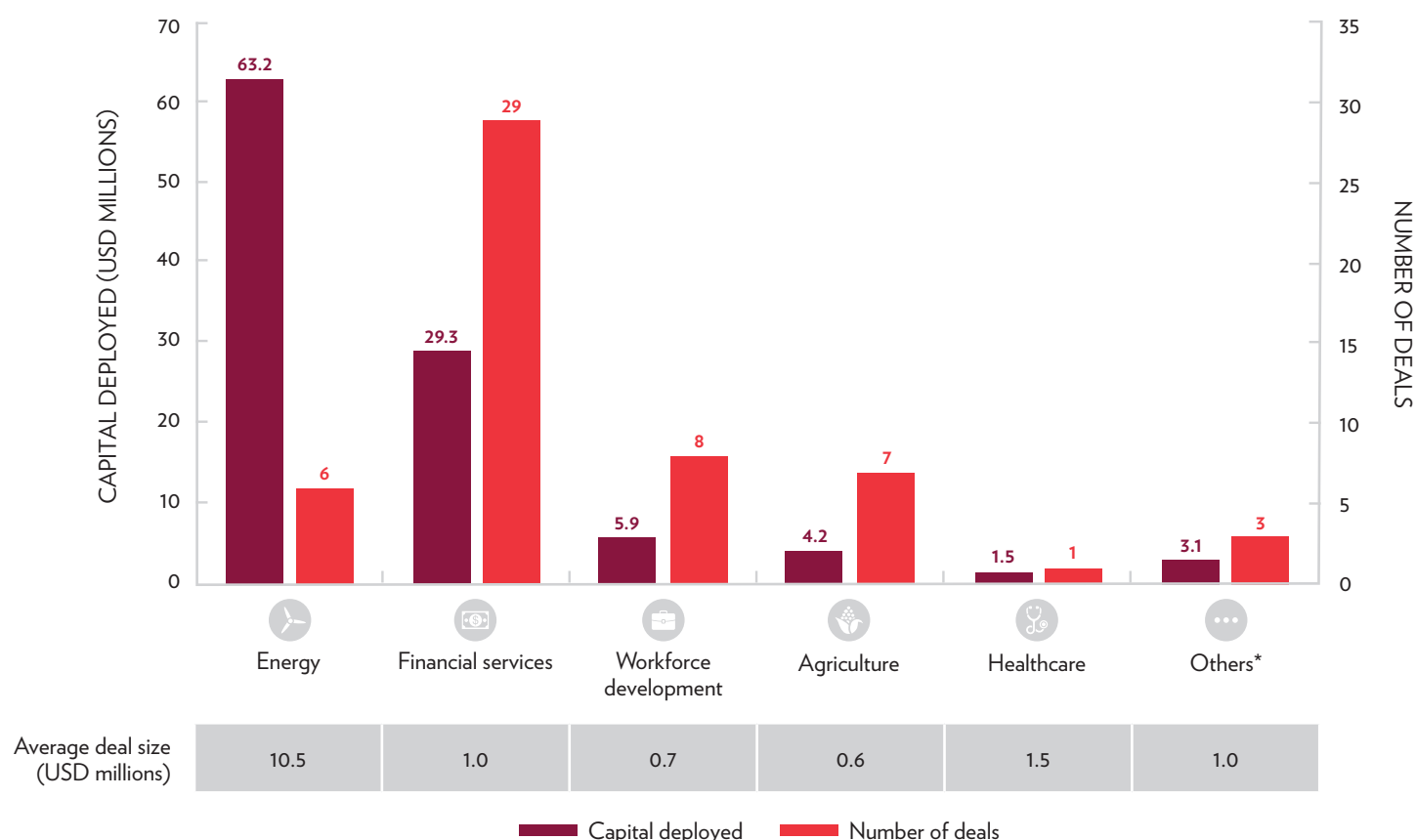
SECTORS

FIGURE 11: NUMBER OF PII DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

FIGURE 12: IMPACT CAPITAL DEPLOYED BY PIIs, BY SECTOR
USD 107.2 MILLION IN 54 DEALS



*Note: Others include fisheries, media, and big data.
Source: Intelicap Advisory Services analysis*

Most deals (29 of 54) have been in the financial services sector (Figures 11 and 12), typically to increase MFIs' exposure or, in a few instances, to support fintech companies. Together, USD 29.3 million has been deployed in this sector. Though there have been fewer fintech deals (4 of the 29), the average deal size has been much higher, at around USD 2.4 million compared to around USD 800,000 for investments in MFIs or SME financing organizations. MFIs and SME financing organizations receive lower ticket sizes in part due to the competitive rates at which they can raise collateralized loans from mainstream commercial banks. Most investments into lending institutions were made as debt, but more scalable fintech models have also received equity infusions.

The workforce development sector has seen the second-highest number of deals, in part because business models that cater to the country's young population are highly scalable. A total of USD 5.9 million has been deployed as equity into eight deals in this sector, with an average deal size of USD 740,000 and a median of USD 470,000. Most deals involved enterprises that connect job seekers to potential employers, organizations that are engaged in youth skills development, or organizations that promote micro-entrepreneurship by providing end-to-end support services to youth from marginalized communities.

The energy sector has the highest average ticket size, as most of its investment has sought to develop large-scale infrastructure. In total, USD 63 million of impact capital has been channeled to four large-scale deals in the energy sector to develop Philippine renewable energy capacity, specifically

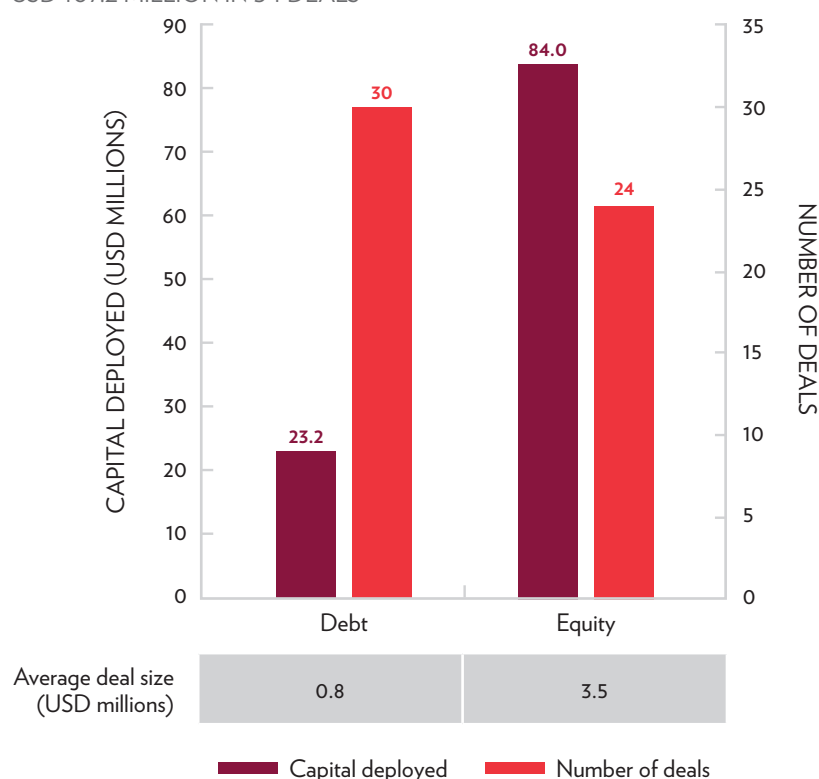
geo-thermal and solar energy. Around USD 200,000 has been deployed through three deals into smaller, clean energy projects involving electronic vehicles or micro-grids.

Almost 20% of social enterprises in the Philippines operate in the agricultural sector, which has received just 3% of PII capital. Seven deals have channeled around USD 4.2 million in impact capital through both debt and equity instruments in an average deal size of USD 600,000. The debt deals have provided working capital, whereas most of the equity deals have supported business models that aggregate farmers and their produce, either as cooperatives or without a formalized legal structure, and provide end-to-end support for the value chain.

INSTRUMENTS

FIGURE 13: IMPACT CAPITAL DEPLOYED BY PIIs, BY INSTRUMENT

USD 107.2 MILLION IN 54 DEALS



Source: Intelicap Advisory Services analysis

Fewer equity investments have been made than debt investments, but nearly triple the amount of capital has been deployed through equity compared to debt (Figure 13). The average ticket size for equity investments was USD 3.5 million, compared to USD 780,000 for debt investments. Notably, many equity investments are operationally structured as convertible debt, with the goal of later converting the investment into equity. Equity's relatively high ticket size is driven by investments into the livelihoods, fintech, and energy sectors. The workforce development and energy sectors have seen only equity deals due to their asset-light nature and perceived scalability.

Higher ticket sizes also reflect global investors' preferences for larger equity investments given their associated economies of scale. Due to the Philippine's still nascent impact investing ecosystem and limited availability of impact-specific expertise, the relative costs of sourcing and due diligence are high for smaller deals.

Of the 30 debt impact deals in the Philippines, 29 were channeled towards agriculture and financial services. These sectors attract debt for several reasons. First, the agricultural sector in the Philippines largely comprises cooperatives that are prohibited from raising institutional equity capital. Second, with the irregular cash flows common in these sectors, debt is often preferred to link repayments to investees' revenue cycles. Additionally, in traditional financial services, the competitive rates of capital that mainstream banks provide for onward lending often deter entrepreneurs from raising equity capital.

IMPACT MEASUREMENT

All PIIIs use their own frameworks, inspired by globally accepted performance metrics such as IRIS, to measure social or environmental performance, or both.³¹ Typically, assessment parameters are modified to the sector of operations and context of the investee. PIIIs typically use a limited set of impact metrics to ensure ease of investee reporting. In addition, several PIIIs suggested that thorough impact assessments require frequent monitoring and increase overhead costs. Consequently, most use output and outcome metrics, which investees can more easily capture. For instance, when the outcome of an investment is job creation, most investors focus on two parameters: number of jobs created and average increase in beneficiaries' incomes. Similarly, when an investment seeks to impact women, these parameters are further segregated by number of jobs created for women and average income increase.

RETURN EXPECTATIONS AND EXITS

Almost all PIIIs target risk-adjusted, market-rate returns. There were no instances of PIIIs providing debt at below-market rates. In a few equity investments, investors relaxed financial return expectations to achieve their desired social or environmental returns. In these cases, however, GPs primarily used their own funds, thus avoiding return obligations to their LPs.

There have been no disclosed exits by PIIIs in the Philippines. Investors, however, highlighted recent exits in Indonesia and Thailand as fueling optimism. Other growth drivers in the Philippines include rising consumption expenditures, increasing FDI, and a growing workforce. Investors expect exits to occur through strategic sales to global corporations looking to enter the Philippine market. In some cases, DFIs could also provide exit avenues for PIIIs.

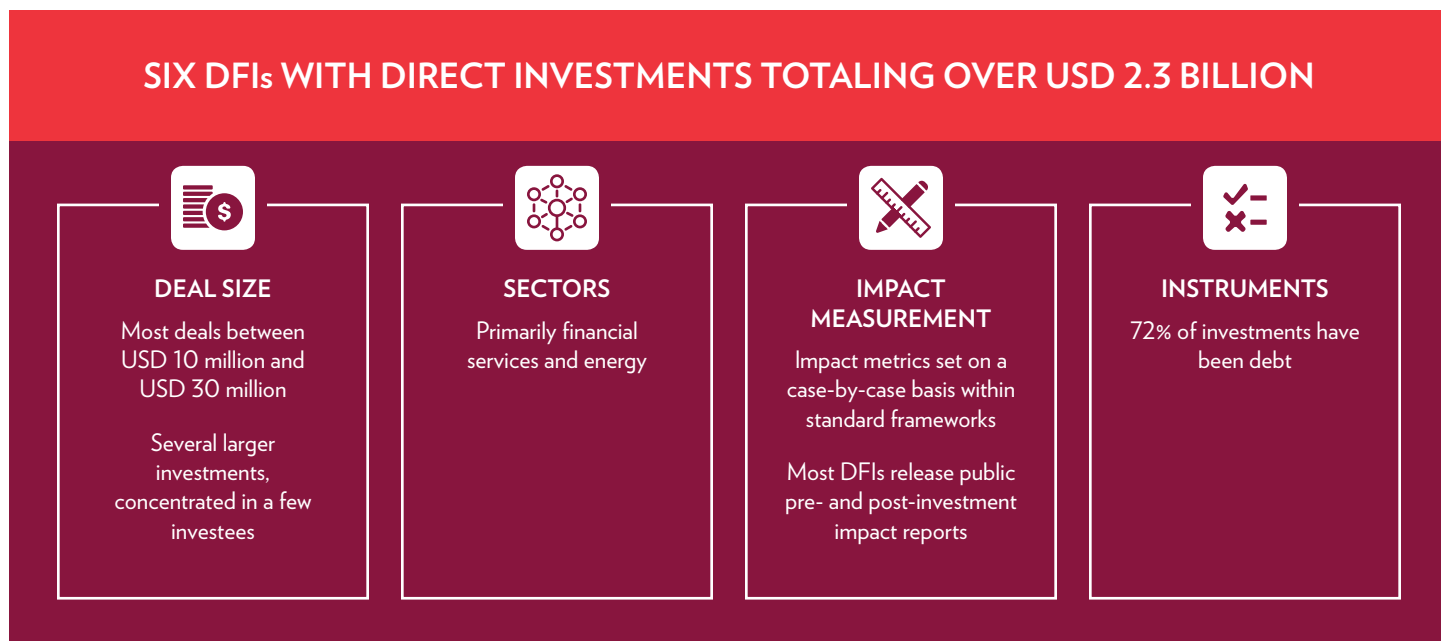
31 IRIS is the catalog of generally accepted performance metrics, managed by the GIIN (see <http://iris.thegiin.org/>). Since some standard frameworks and assessments, such as GIIRS, are built using IRIS metrics, the proportion of respondents using IRIS metrics in some form may be even higher than is reflected here.

Development finance institutions

OVERVIEW

Development Finance Institutions (DFIs) have long histories stimulating development in the Philippines by disbursing large amounts of capital and encouraging market-building activities.

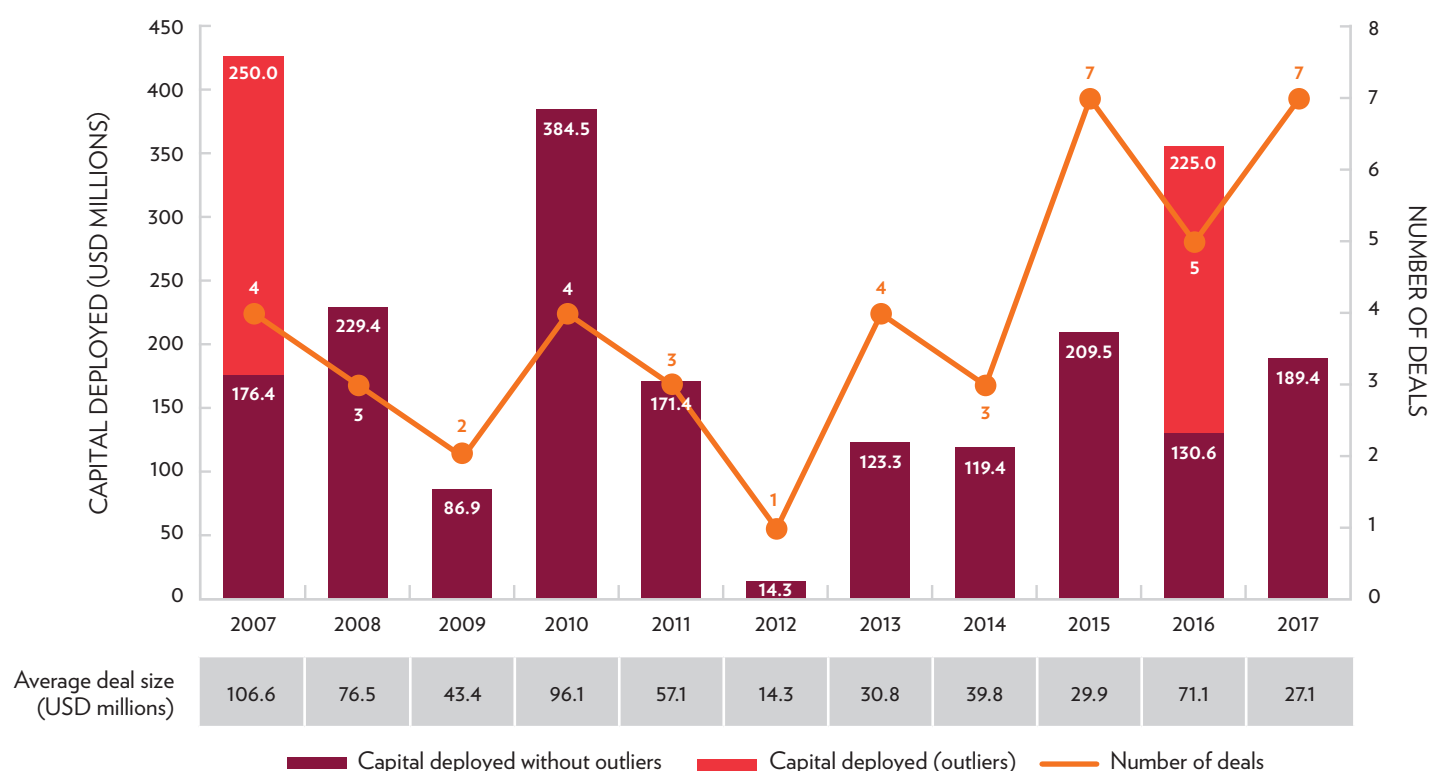
FIGURE 14: OVERVIEW OF DFIs IN THE PHILIPPINES



Source: Intelicap Advisory Services analysis

Through 43 direct deals, six DFIs have deployed around USD 2.3 billion in impact capital (Figure 14), of which the International Finance Corporation (IFC) has deployed more than 70%.

FIGURE 15: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR
USD 2.3 BILLION IN 43 DEALS



Note: Outliers two deals above USD 200 million.

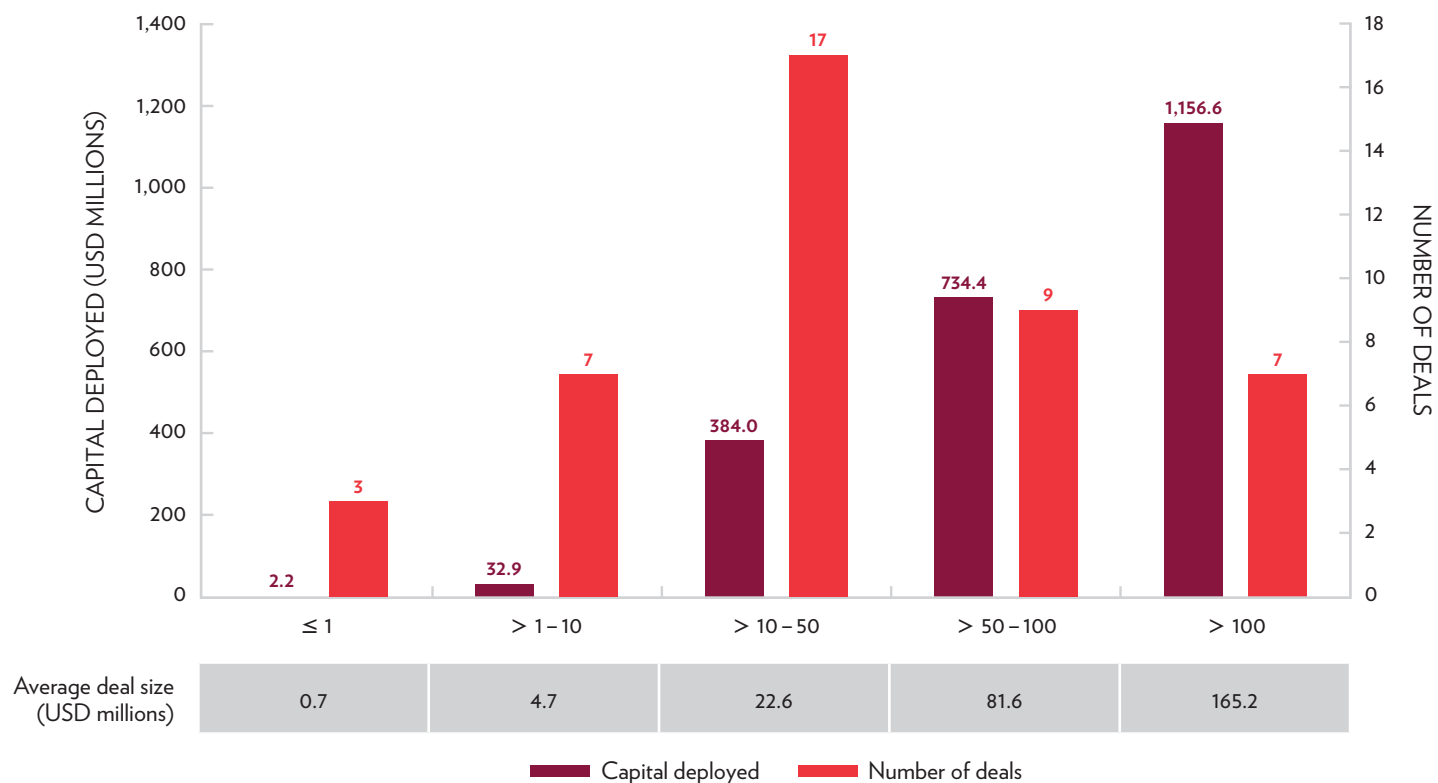
Source: Intelicap Advisory Services analysis

DFIs have been active in the Philippines for over a decade (Figure 15). Until 2012, the average deal size was around USD 75 million. Since then, the average ticket size has been around USD 35 million. This fall can be attributed to a shift in DFIs' focus away from the Philippines and toward frontier economies in the region, such as Cambodia and Myanmar. DFIs tend to focus on sectors that have the potential to generate large-scale employment such as infrastructure, energy production, and extractive industries. Combined, these sectors account for 68% of DFI impact capital disbursed since 2007.³² In addition, almost a quarter of DFI investments have been into standalone private sector projects, a large proportion of which are investments in renewable energy projects.

³² Besides using equity and debt, DFIs have sometimes used guarantees to mobilize private capital within the country.

DEAL SIZE

FIGURE 16: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE
USD 2.3 BILLION IN 43 DEALS



Source: Intelicap Advisory Services analysis

DFIs tend to invest in growth- and mature-stage investments through larger deals, many in excess of USD 100 million (Figure 16). Thirty-two percent of DFI deals have been between USD 10 million and USD 50 million, and 20% have been between USD 50 million and USD 100 million. More than half of these deals have been credit lines to MFIs and banks to expand their exposure to marginalized communities or offer SME financing. Other deals within these size ranges have occurred in healthcare, tourism, manufacturing, and education (Figure 17). A few DFI deals smaller than USD 3 million have primarily funded pilot innovations in sector-specific lending, particularly in microfinance. The average ticket size for DFI deals in the Philippines is USD 52 million.

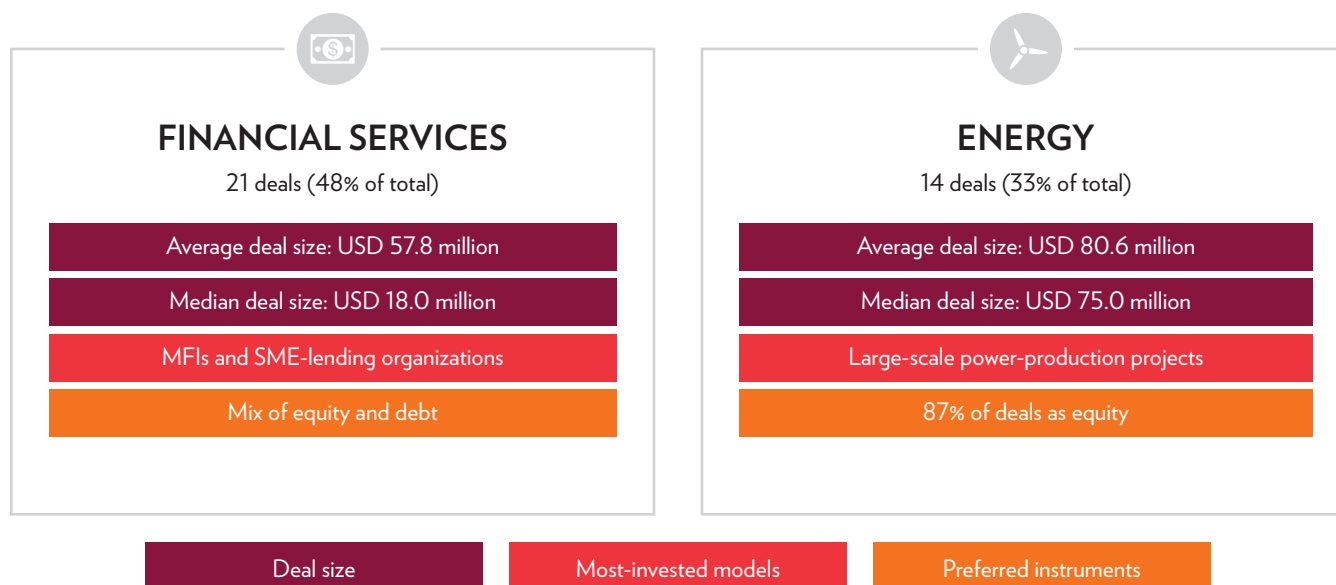
FIGURE 17: DFI INVESTMENT SECTORS AND TRENDS, BY DEAL SIZE

DEAL SIZE (USD MILLIONS)	≤ 1	> 1–10	> 10–50	> 50–100	> 100
COMMON SECTORS	Financial services, particularly microfinance	Diversified sectors	Financial services, particularly SME credit	Energy and financial services	Energy
TRENDS	Least common deal size	Deals made by range of regional and global DFIs	Most common deal size	Multiple investments into a few select enterprises	Primarily infrastructure projects for energy production

Source: Intelicap Advisory Services analysis

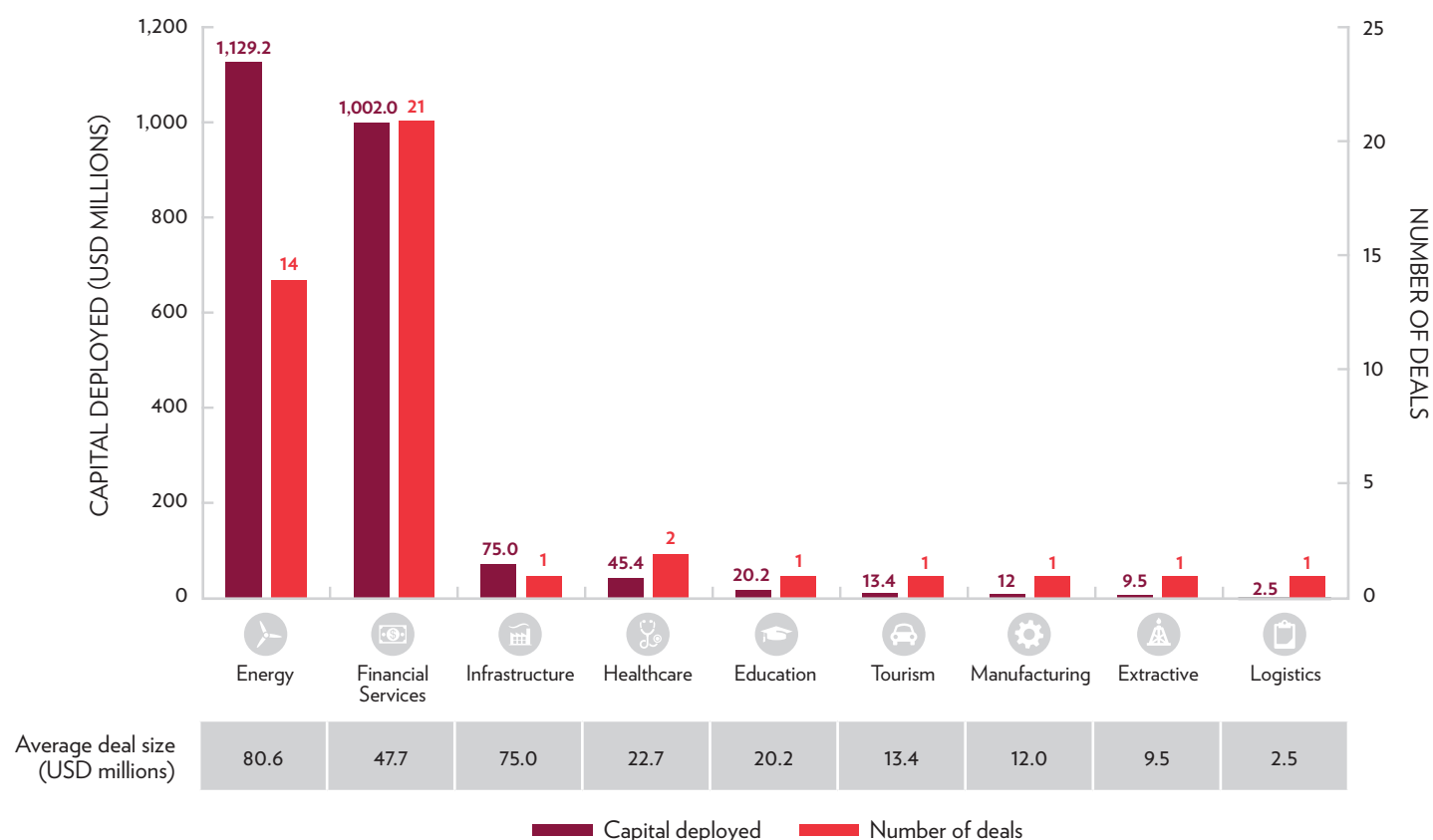
SECTORS

FIGURE 18: NUMBER OF DFI DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

FIGURE 19: IMPACT CAPITAL DEPLOYED BY DFIs, BY SECTOR
USD 2.3 BILLION IN 43 DEALS



Source: Intelicap Advisory Services analysis

Nearly all DFI investments have been in the energy and financial services sectors, which meet DFI investment size requirements and catalyze private capital (Figures 18 and 19). Often, DFIs mandate co-investment from private investors, including impact-agnostic PE or VC funds and commercial banks.

Over 85% of investments in the energy sector have been debt, including multiple loans from the IFC and the Asian Development Bank (ADB) to a few select enterprises. Such investments aim to allow investees either to scale their power generation capacity or to establish power plants in new geographies within the Philippines. Enterprises that have raised multiple rounds of investment from DFIs are mostly mature and have substantial institutional histories (between 20 and 50 years).

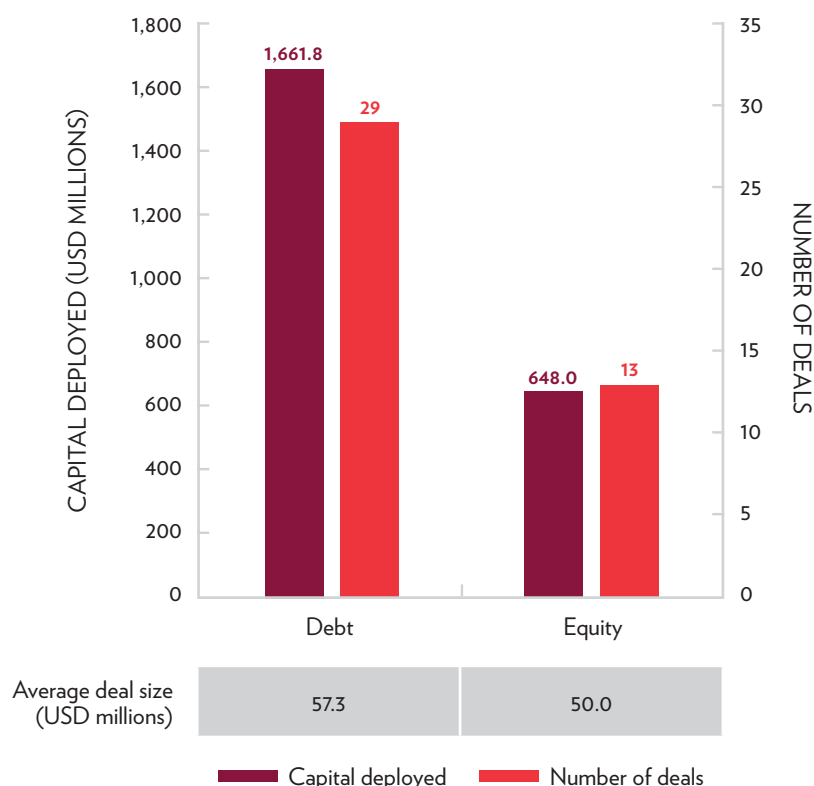
Financial services, another key sector for DFIs, has seen deals by the IFC, ADB, FMO, KfW, and the Overseas Private Investment Corporation (OPIC), among others. The average deal size in this sector is USD 57.8 million, and most deals have sought to increase exposure to SMEs or grow microfinance portfolios. Unlike in the energy sector, the financial services sector has seen an equal mix of equity and debt deals.

Infrastructure is the third-largest sector in terms of impact capital deployed, and healthcare is the fourth largest. In the Philippines, infrastructure projects have been financed to bridge logistical gaps due to the country's geography. Due to their scale, infrastructure projects also often create jobs that stimulate the local economy. Several healthcare deals, meanwhile, have funded private healthcare infrastructure. In all of these investments, DFIs have co-invested with impact-agnostic private investors.

The only deal that involved a DFI in the agricultural sector was led by a PII investor, and is thus considered in the PII analysis.

INSTRUMENTS

FIGURE 20: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT
USD 2.3 BILLION IN 43 DEALS



Note: One USD 300,000 deal of unknown instrument was excluded.

Source: Intelicap Advisory Services analysis

Over 70% of DFI capital has been deployed as debt, in an average ticket size of USD 57.3 million compared to USD 50 million for equity (Figure 20). In addition, DFIs often provide guarantees to commercial banks to encourage them to extend their credit lines.³³ For instance, in order to mobilize private sector capital toward lending to SMEs, ADB set up a first-loss guarantee fund in the Philippines. Similarly, given the frequency of natural disasters, the IFC, in partnership with CARD Microfinance, designed the country's first private-sector led crop insurance product.³⁴

³³ However, since guarantees are not capital that is deployed, they have been excluded from this analysis.

³⁴ International Finance Corporation, "Philippines' Crop Insurance Helps Farmers When Typhoon Strikes" (news release), https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/philippines+crop+insurance+helps+farmers+when+typhoon+strikes.

IMPACT MEASUREMENT

DFIs operating in the Philippines use globally accepted performance metrics in their own frameworks for impact measurement. All DFIs that have made direct deployments in the Philippines use proprietary frameworks for impact measurement in an effort to align the impact of their investments to their development goals and to calibrate the assessment to their development objectives for a particular geography or sector.

Additionally, when DFIs make investments through specific programs or credit facilities, they may integrate additional sets of programmatic metrics with their original frameworks. Some DFIs report multiple aspects of their investments, including private capital mobilized, social impact, and ESG performance. Most DFIs report the forecasted impact of investments to their investment committees to gain buy-in. Post-investment, they typically release publicly available impact reports.

RETURN EXPECTATIONS AND EXITS

DFIs' return expectations vary based on a thorough evaluation of the forecasted impact of an investment, its geography, and the role played by the private sector. For instance, contrary to the usual risk–return paradigm, some DFIs set low financial return expectations in high-risk investments, especially in a sector with limited private-sector activity. In addition, factors extrinsic to the investment often influence return expectations, such as negotiations with host governments and sources of funding for the DFIs themselves. Different programs under the same DFI can set different return expectations. In cases of equity investments, however, the lack of disclosed records in the Philippines restricts analysis of realized returns.

Gender lens investing

OVERVIEW

Gender Lens Investing (GLI), a concept gaining recognition and interest among PII in the Philippines, is the practice of assessing and managing investments that seek to create positive impact on women. As of 2017, only one PII had deployed capital in the Philippines using an explicit gender lens, amounting to USD 12.5 million into 20 deals. However, several more are scouting GLI opportunities and will likely deploy capital soon.

GENDER LENS INVESTING COMPRISES TWO BROAD CATEGORIES

Investing with the intent to address gender issues or promote gender equity, including by:

- investing in women-owned or -led enterprises;
- investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along their supply chains); or
- investing in enterprises that offer products or services that substantially improve the lives of women and girls.

And/or investing using:


- a *process* that focuses on gender, from pre-investment activities (e.g., sourcing and due diligence) to post-deal monitoring (e.g., strategic advisory and exiting); or
- a *strategy* that examines and manages an investee in line with the investor's mandate and intentions with respect to:
 1. their vision or mission to address gender issues;
 2. their organizational structure, culture, internal policies, and workplace environment;
 3. their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
 4. how their financial and human resources signify overall commitment to gender equality.

ACTIVITIES OF GENDER LENS INVESTORS IN THE PHILIPPINES

One investor has made gender lens investments in the Philippines into financial services enterprises—particularly microfinance—that provide women access to critical services (Table 2).

These enterprises seek to provide women access to finance and to support micro-entrepreneurship or other livelihood-enhancing activities. This gender lens investor reports outreach to women in its social performance assessments. The investor also evaluates whether potential investees have women in senior management. Though the investor is headquartered outside the Philippines, it has co-invested with partners that have a local presence, which has improved their ability to regularly source potential investees and to provide the high-touch support required post-investment.

TABLE 2: GENDER LENS INVESTING IN THE PHILIPPINES

 KEY STRATEGY USED					
STRATEGY	NUMBER OF INVESTORS	NUMBER OF DEALS	CAPITAL DEPLOYED (USD MILLIONS)	INSTRUMENT	DESCRIPTION
Investing in enterprises that provide women access to critical goods and services	1	20	12.4	Debt	All of these investments target women's empowerment by providing them access to finance through MFIs. The deals were facilitated after conscious analysis of the number of women that would benefit from the investments. The investor has tracked the impact of each investment on female beneficiaries.

Source: Intelicap Advisory Services analysis

CHALLENGES AND WAY FORWARD

Impact investors who do not use an explicit gender lens identified several key challenges that could limit the growth of gender lens investing in the Philippines:

- **Limited awareness of GLI and lack of success stories:** Even within the investor community, awareness of GLI is very limited. Investors often highlight the lack of quantitative evidence on the performance of gender lens investments as a roadblock to scaling the practice.
- **Perception of a lack of investable pipeline:** Many investors from the Philippines perceive GLI to mean only investing in women-owned or -led businesses. Consequently, while a few investors expressed interest in applying a gender lens, generally investors believed that their pipeline would be still further limited if they pursued only investments that are owned or led by women. While the Philippines has many female entrepreneurs, interviews with sector experts highlighted that most of these entrepreneurs operate microenterprises that are not perceived as financially viable investments.
- **Lack of blended finance mechanisms or concessionary funds for investors:** Due to limited awareness and higher perceived risks of investing with a gender lens, investors posited that a lack of incentives to support GLI deters its growth. Several institutions and donors have recently stepped forward to promote the use of GLI, which will likely catalyze the ecosystem once they demonstrate sufficient evidence of GLI performance. Investing in Women, an initiative of the Australian government, provides seed funding to support blended finance structures to de-risk investments and address financing gaps facing women-led SMEs, but there remains demand for more blended capital. Without evidence on performance, incentives such as subsidized return concessions from LPs or first-loss guarantees and other de-risking mechanisms will be critical to stimulating GLI.

Notwithstanding barriers to scale, GLI has recently gained some traction in the Philippines and across Southeast Asia. Three investors using an explicit gender lens are scouting the country for potential investees and will likely deploy capital soon. With support from donors active in the region, such as Investing in Women, Sasakawa Peace Foundation, and OPIC, several impact funds dedicated to GLI were established in 2016 and 2017. Successful investments by fund managers using a gender lens will likely further stimulate the GLI ecosystem in the Philippines.

UNINTENTIONAL GENDER IMPACT IN THE PHILIPPINES

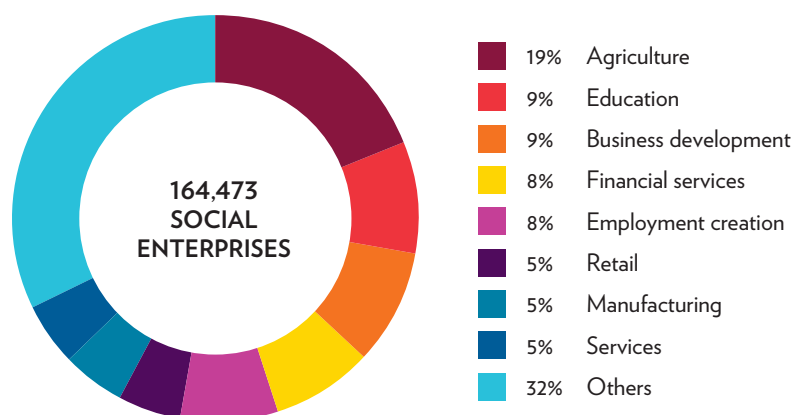
Even though the amount of capital deployed with an explicit gender lens remains small, a number of other impact investments have likely benefited women and girls in various ways, highlighting the potential pipeline for gender lens investors. For instance, although DFI's don't typically have an explicit gender-related impact mandate, a significant volume of DFI capital in the Philippines has been channeled toward investments that inherently benefit women and girls by providing them access to finance. In most cases, these investments are made based on perceived market opportunity, with specific impact on women being unintentional.

Similarly, many investments have been made in women-owned or -led businesses without the investor's explicit, gender-based intent. Post-investment impact measurement has provided evidence for significant impact on women, and many investors who do not identify as GLIs still report such impact. For instance, while LGT Impact Ventures does not identify as a gender lens investor, it nevertheless reports how its investments are expected to impact women.³⁵

THE LANDSCAPE OF DEMAND FOR IMPACT CAPITAL

The Philippines has recently experienced an entrepreneurship boom, with many entrepreneurs pursuing social missions. Traditionally, most impact investees were cooperatives and community-based organizations. Since 2012, many social enterprises, registered as for-profit stock companies, have successfully raised impact capital. Demand for impact capital in the country now comes from a wide range of players, including cooperatives, community-based organizations, and for-profit social enterprises.

FIGURE 21: PERCENTAGE OF SOCIAL ENTERPRISES BY SECTOR



Source: British Council

35 LGT Venture Philanthropy, *Portfolio Overview Q2 2013*, <https://finanzblog.lgt.com/wp-content/uploads/2013/06/ba7f5d4f-43fc-45b6-af5d-ad76766651c9.pdf>.

Overview

The concept of ‘social entrepreneurship’ first emerged in the Philippines in the 1990s. Since then, the landscape has gradually shifted from individual-based, social cooperative models to for-profit social enterprises. As of 2013, more than 23,000 cooperatives, with a member base of more than 4.5 million people, were registered in the Philippines. Since most of these cooperatives comprise and serve the poor, they offer huge potential for social impact and hence account for a large portion of the demand for impact capital in the country. However, as entrepreneurship has become more accepted in the Philippines, a segment of individual-run, institutional social enterprises have emerged. Unlike cooperatives, such enterprises can accept equity investment because of their legal structure.

The improving tech landscape in the Philippines has also facilitated the establishment of many incubators and accelerators that host and support early-stage social enterprises. As a few social enterprises have successfully demonstrated their capacity to drive positive change, the government has begun to recognize their potential to contribute to sustainable development. This recognition has also been supported by the advocacy efforts of institutions such as the Institute for Social Entrepreneurship in Asia and the British Council. The number of social enterprises in the Philippines has tripled since 2006.³⁶ Social enterprises in the country have no unique legal designation; currently, 31% are registered as non-profit or non-stock companies, 21% are registered as cooperatives, and 17% are registered as stock, for-profit corporations. The remainder are unregistered enterprises, and operate as partnerships; or are government associations.³⁷

According to a British Council estimate, there are more than 160,000 social enterprises in the Philippines. The most common sector for social enterprises is agriculture (19% of total; Figure 22), followed by education (9%).³⁸ However, most impact investments have been made in financial services, energy, and workforce development.

The top four target beneficiary groups for social enterprises include local communities, other organizations, women, and employees of their own organizations. These enterprises employed more than 17,000 people full-time in 2016, and 75% of existing social enterprises expect their full-time staff to grow in the near future.³⁹

Women are a critical part of the social enterprise ecosystem in the Philippines. Forty-four percent of social enterprises in the Philippines are led by women. The Philippines was also ranked fourth of 80 countries in terms of the proportion of female managers.⁴⁰

³⁶ PhilSEN, *Reaching the Farthest First*, 12.

³⁷ PhilSEN, *Reaching the Farthest First*, 43.

³⁸ PhilSEN, 47.

³⁹ PhilSEN, 52.

⁴⁰ International Labour Office, *Women in Business and Management: Gaining Momentum* (Geneva: International Labor Organization, 2015), 14, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_316450.pdf.

Access to capital

Most seed-stage social enterprises rely on donations from family and friends or grants from foundations and corporations to fund their operations. Since most social enterprises have traditionally seen grants as a source of funding, they find it challenging to raise capital from both mainstream and impact investors. For most social enterprises, limited access to capital—including grants, debt, and equity—is the biggest self-reported barrier to growth. Only 17% of social enterprises have raised equity, while 12% have accessed debt at market rates. Several factors make it challenging to raise capital:

- **Absence of funding at low ticket sizes:** Social enterprises in the Philippines have median annual turnover of USD 24,000, limiting their capacity to absorb the preferred ticket sizes of most global and regional impact investors.
- **Limited access to investors:** According to entrepreneurs in the Philippines, few social enterprises are familiar with the concept of impact investing, and most remain unfamiliar with key impact investors active in the country. Hence, most entrepreneurs who have raised capital from impact investors are expats or foreign-educated Filipinos with access to a network of investors. Especially for Filipino entrepreneurs, the absence of networks proactively connecting entrepreneurs and impact investors limits capital raising.
- **High return expectations:** Stakeholders also highlighted that it is difficult for social enterprises to meet investors' expectations of returns, both financial and social. Moreover, most institutional social enterprises are too young to have the track record needed to raise capital.
- **Collateral expectations:** Most mainstream commercial banks provide only secured debt. Access to such funding is hence restricted to a limited segment of entrepreneurs.

Challenges to growth

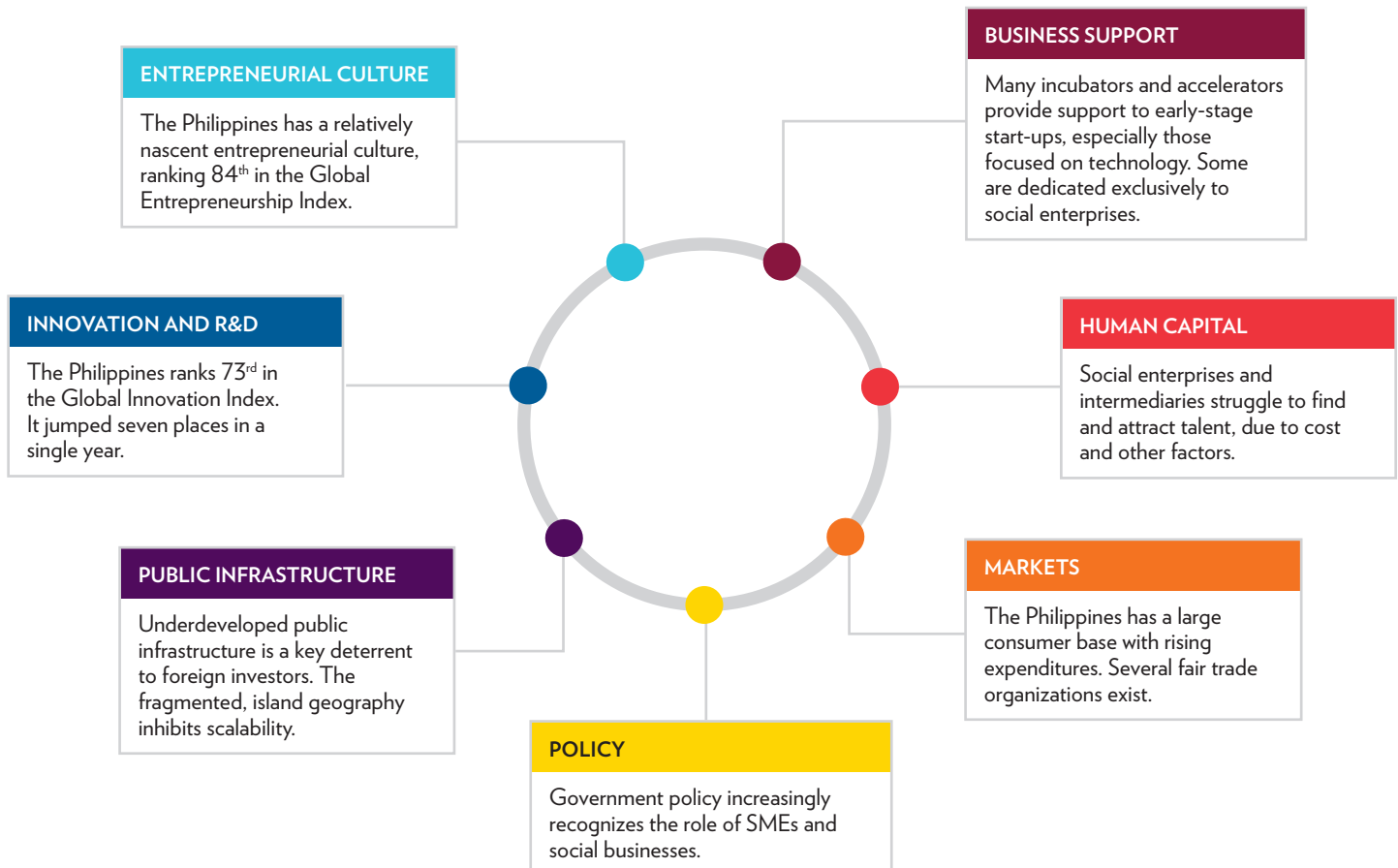
In addition to access to capital, other critical barriers to growth include the following:

- **Access to skilled professionals:** Social entrepreneurs in the Philippines often find it difficult to access talent and skilled professionals, especially those equipped to meet the needs of impact sectors. Specifically, social entrepreneurs have indicated challenges in employing and retaining technical, finance, and HR professionals based in rural or semi-urban locations.
- **Perception of social enterprises:** Investors often view social entrepreneurs in the Philippines as having little focus on financial sustainability, which distorts the perceived return expectations and risks associated with investing in social enterprises.
- **Lack of support for growth-stage ventures:** Though there are a number of incubators and accelerators for seed- and early-stage enterprises, growth-stage enterprises have limited support. Expanding operations within the same region or into new regions requires expertise that impact-focused business support providers currently cannot provide.

THE ENABLING ECOSYSTEM

A range of factors can together enable a supportive environment for impact investing activity. Though the ecosystem for impact investing in the Philippines has grown considerably over the last few years (Figure 22), a lack of human capital and limited infrastructure continue to constrain impact investing activity.

FIGURE 22: IMPACT INVESTING ECOSYSTEM OF THE PHILIPPINES



Note: This framework uses the ANDE entrepreneurial ecosystem diagnostic toolkit.

Source: Intelicap Advisory Services analysis

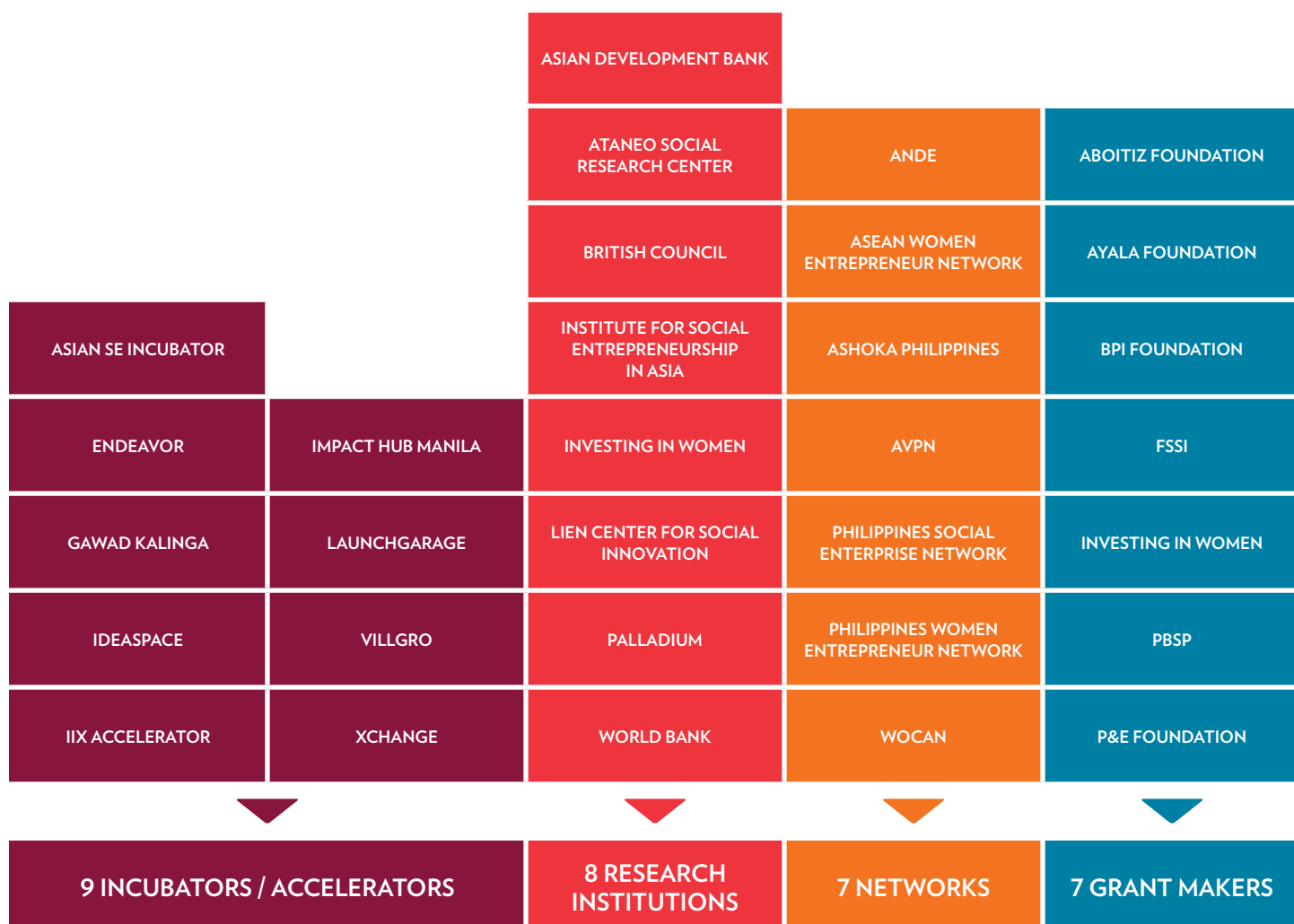
BUSINESS SUPPORT

The Philippine startup ecosystem has recently strengthened, with a surge of impact-agnostic incubators and accelerators (Figure 23). The Philippines, particularly metro Manila, has a large number of tech-focused incubators, some backed by family offices and corporations. While these incubators may not have a core impact focus, many have supported scalable, tech-based impact business models, such as Kalibrr, Bagosphere, and Coins.ph. A few incubators, such as Xchange, Endeavor, and Villgro, are dedicated exclusively to impact or social enterprises. The Impact Investment Exchange, an ecosystem enabler based out of Singapore, also ran a round of the Impact Accelerator in the Philippines, an ad hoc program designed to foster mentorship and strengthen business strategy.

Supply-side stakeholders without a local presence highly value local incubators and accelerators for their understanding of the local context and ability to have regular contact with relevant enterprises. Investors thus tend to partner with these local programs to improve investment readiness. In addition, a few incubators are well connected with HNWLs who may co-invest in early-stage enterprises. Corporations, mostly from the telecom sector, have also set up incubators to seed and scale enterprises for later acquisition into their supply chains. Such support, however, is restricted to seed- and early-stage startups.

Besides incubation support, several family offices organize their own social enterprise business plan competitions and provide grant capital. Both local and regional investors identify these competitions as a key source for deals. In addition, many corporate foundations provide grant capital to social enterprises.

FIGURE 23: ECOSYSTEM OF SUPPORT PROVIDERS



Source: Intelicap Advisory Services analysis

The Philippines has a growing network of impact-agnostic financial advisors who help impact investors source larger deals. This network of financial advisors partially bridges the gap in later-stage support in the Philippines. Although they may lack an impact focus, these advisors still evaluate SMEs, often working with impact investors to help source larger-sized investment opportunities through a success-fee revenue model.

Though research on impact investing in the Philippines is limited, a few organizations have studied social enterprises and other inclusive businesses. The Asian Venture Philanthropy Network, Palladium, the Lien Center for Social innovation, and the ADB have studied the social finance landscape, which involves a broad spectrum of financing options, including impact investing, grants, crowdfunding, socially responsible investing, and CSR. The Institute for Social Entrepreneurship in Asia, the British Council's CSO-SEED program, and the Philippine Social Enterprise Network lead research and advocacy efforts on social entrepreneurship and inclusive business. Key funders of such research include Investing in Women, the ADB, and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

ACCESS TO HUMAN CAPITAL

Lack of access to human capital hinders the growth of both social enterprises and business support providers in the Philippines. More than 20% of social enterprises in the Philippines consider access to human capital a key barrier to growth.⁴¹ Business support providers often cite the high cost of social sector experts and limited availability of mentors as constraints on their financial sustainability.

MARKETS

Increasing domestic consumption in the Philippines drives the country's GDP growth. In order to ensure their sustainability, social enterprises in the Philippines often target the lower-middle-income population and not the poorest of the poor. With increasing urban incomes and domestic consumption, around 90% of social enterprises are confident they can obtain adequate market demand for their goods and services.⁴² These enterprises work with marginalized or small producers to establish supplier partnerships and offer them fair prices for their produce (along with ancillary support services). The Philippines also has a large presence of Fair Trade Organizations, Trading Development Organizations, and non-governmental development organizations that engage in the production of goods, the trading or marketing of goods, or the provision of economic services.⁴³

41 PhilSEN, *Reaching the Farthest First*, 52–54.

42 PhilSEN, *Reaching the Farthest First*.

43 Marie Lisa Dacanay, *Social Enterprise in the Philippines: Social Enterprises with the Poor as Primary Stakeholders*, International Comparative Social Enterprise Models (ICSEM) Working Paper No. 49 (Belgium: ICSEM, 2017), <https://www.iap-socent.be/sites/default/files/The%20Philippines%20-%20Dacanay.pdf>.

POLICY

A high rate of taxation disincentivizes investment in the Philippines. At 30%, the Philippine corporate tax rate exceeds the ASEAN average of 23%. In addition to a high corporate tax, the Philippines also has the highest VAT, at 12%—imposed on tangible and intangible goods, with certain exceptions—of all ASEAN countries.⁴⁴ The country also applies a 30% withholding tax on dividend payments to non-residents.⁴⁵

The government has, however, introduced several policy measures that can encourage impact investing and will likely introduce further measures in the future:

- **Attractive fiscal incentives for investors:** The Philippine government offers income tax holidays for a maximum of eight years, which is still lower than the 10-year income tax holidays provided by Indonesia and the PDR or the nine-year tax holiday provided by Cambodia. In addition to income tax holidays, the government has special tax reduction schemes for enterprises registered with the Philippine Economic Zone Authority and operating in specific economic zones.
- **Relaxed restrictions on foreign ownership:** The government recently relaxed foreign ownership restrictions, allowing 100% foreign ownership in many sectors. Foreign investors can establish businesses as sole proprietorships, partnerships, or corporations. Partnerships with more than USD 141,000 in capital must register with the Philippine Securities and Exchange Commission, and corporations must have minimum paid-up capital of USD 235,000.⁴⁶ In 2015, the government amended the list of sectors prohibited from foreign investment to include only those that are defense-related or that may impact public health and morale.
- **Favorable regulation for SMEs:** The Go Negosyo Act, which took effect in 2015, intends to foster national development by promoting the establishment and operations of MSMEs. It includes provisions to foster access to business support services for MSMEs, establishes a business registry, launches a start-up fund for MSME financing, and strengthens the MSME Development Council.⁴⁷ A second piece of legislation, the Barangay Micro Business Enterprise (BMBE) Law, grants SMEs certain benefits, including some income tax exemptions and reductions and priority to access a special credit window.⁴⁸
- **Increasingly formal recognition of social enterprises as agents of positive change:** As of 2017, the Poverty Reduction through Social Entrepreneurship (PRESENT) Coalition is lobbying for the Philippine Congress to pass the PRESENT bill to spur the growth of social enterprises as a means for development in the country. If the bill passes, qualified social enterprises will receive a wide range of support services, including access to non-collateralized loans, insurance against climate change and natural calamities, access to market development programs, and sector-specific R&D support. Under the proposed bill, social enterprises primarily benefiting the poor will receive additional support in the form of tax exemptions, tax breaks, and preferential treatment in government procurement. Those employing people with disabilities will also be eligible for cash

44 The Philippine tax code offers various VAT exemptions. Tax and Accounting Center Philippines, “Value Added Tax Exemptions in the Philippines,” <http://taxacctgcenter.org/value-added-tax-exemptions-in-the-philippines/>.

45 Walter Abela Jr. and Seren Quizon, *International Tax: Philippines Highlights* (Deloitte, 2017), <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-philippines-int-tax-en-2017.pdf>.

46 R.G. Manabat & Co., *Philippine Consumer Market Report: 2017 Investment Guide* (Manila: KPMG, 2017), 58, <https://home.kpmg.com/content/dam/kpmg/ph/pdf/InvestmentGuide/KPMGPHPhilippineConsumerMarketReport.pdf>.

47 Government of the Philippines, “Go Negosyo Act,” <https://www.dti.gov.ph/programs-projects/negosyo-center/go-negosyo-act>.

48 “The Solopreneur’s Guide to Starting a Microbusiness in the Philippines,” *Full Suite* (blog), September 4, 2015, <http://www.full-suite.com/blog/solopreneurs-guide-starting-microbusiness-philippines/>.

incentives equivalent to at least 25% of the minimum wage.⁴⁹ These incentives would stimulate the growth of social enterprises, increasing the potential pipeline of early-stage opportunities for impact investors operating in the region.

INFRASTRUCTURE

Although the Philippine government has undertaken several initiatives to develop the country's infrastructure, the country still lacks the infrastructure required for global competitiveness.⁵⁰

Among ASEAN countries considered,⁵¹ the Philippines overall ranks ahead of only Cambodia and Lao PDR.⁵² Though the Philippines performed relatively well with respect to its macroeconomic environment, ranking 22nd globally, and market size, ranking 27th globally, the country ranked poorly on other indicators in the index, including infrastructure (97th), goods market efficiency (103rd), and institutions (94th). Sub-components of these three low-performing indicators for the Philippines include poor intellectual property protections, irregular payments and bribes, favoritism in government decision-making, inefficiency of legal regulations for solving disputes, lack of protection of minority shareholders' interests, weak investor protections, low quality of transport infrastructure, taxation disincentives to investment, and burdensome customs procedures. Stakeholders consulted for this report also revealed that corruption and bureaucracy hinder the investing process. The country's performance on the Ease of Doing Business rankings, falling 14 places from 99th to 113th in the 2018 report, also signifies room for improvement.⁵³

INNOVATION AND R&D

The Philippines ranked 73rd on the 2017 Global Innovation Index. Although it ranks behind a number of its neighbors, it gained seven places year-on-year. Innovation and R&D in the Philippines are mostly driven by businesses seeking to optimize their supply chains. The Philippines still fares poorly in terms of the number of patents filed and cumulative expenditure on R&D. However, the Intellectual Property Office is currently crafting a National Intellectual Property Strategy, which will harness local talent and creativity to accelerate innovation in the country.

ENTREPRENEURIAL CULTURE

The Philippines has a relatively nascent entrepreneurial culture, ranking 84th in the Global Entrepreneurship Development Index.⁵⁴ Some of the challenges preventing the growth of entrepreneurship in the Philippines include the low availability of risk-tolerant capital and a historical lack of cultural support for entrepreneurial activity.

49 Dacanay, *Social Enterprise in the Philippines*.

50 The Philippines ranks 56th of 137 economies in the Global Competitiveness Index. Klaus Schwab, ed., *The Global Competitiveness Report 2017-2018* (Geneva: World Economic Forum, 2017), <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017-2018.pdf>.

51 Myanmar and Timor Leste excluded.

52 The index calculates the competitiveness of an economy to ensure economic prosperity on the basis of 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

53 "Philippines," Doing Business.

54 Global Entrepreneurship Development Institute, *2018 Global Entrepreneurship Index*, <http://thegedi.org/global-entrepreneurship-and-development-index/>.

CHALLENGES AND OPPORTUNITIES

The Philippine impact investing industry has drawn much attention from both global and regional investors since 2014, but a variety of challenges (Figure 24) signify new opportunities for investors and other players in the ecosystem.

FIGURE 24: CHALLENGES FOR IMPACT INVESTING IN THE PHILIPPINES

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> Limited supply of local impact investing capital Limited supply of debt capital Few global funds with local presence Lack of reported exits Absence of an impact-focused angel network 	<ul style="list-style-type: none"> Lack of inherently entrepreneurial culture Limited investable pipeline Challenges in scalability 	<ul style="list-style-type: none"> Risk that ecosystem facilitators are financially unsustainable Unfavorable equity terms from early-stage, tech-focused incubators and accelerators Not enough capacity-building support for fund managers

Source: Intelicap Advisory Services analysis

Supply-side challenges

- **Limited supply of local impact investing capital:** Most impact capital deployed in the Philippines originates from developed markets. HNWLs, corporate foundations, and family offices manage local pools of capital primarily for philanthropic giving. Consequently, several fund managers suggested that it is easier for them to raise capital from outside the region than to raise funds from family offices or foundations in the Philippines.
- **Limited supply of debt capital:** Formal financial institutions and other debt providers in the Philippines lend only to larger, more established financial institutions. In cases where incubators and accelerators successfully connect HNWLs to investable opportunities, the resulting deals typically take the form of equity. However, many company founders resist selling stakes to investors.
- **Few global funds with local presence:** Fewer than a third of PIs active in the Philippines have a full-time local presence in the country, which constrains investors' ability to source deals, mentor entrepreneurs, and deploy impact capital. Consequently, a handful of enterprises that have previously received investment continue to raise capital, while other sustainable and scalable business models are overlooked across many deal sizes and stages of growth.
- **Lack of reported exits:** The lack of exits in the Philippine impact investing sector deters its growth, discouraging especially global investors, who thus perceive high risk.
- **Absence of an impact-focused angel network:** The Philippines has a significant gap in funding below USD 500,000, yet most social enterprises are early-stage and require small amounts of capital. As described previously, foreign investors often avoid making investments in this range. Meanwhile, Philippine HNWLs are often risk-averse, with a strong Philippine cultural preference to save for subsequent generations rather than invest.

Demand-side challenges

- **Lack of inherently entrepreneurial culture:** As previously mentioned, the Philippines ranks 84th in the Global Entrepreneurship Index.⁵⁵ Country experts highlighted that the Philippine culture values work for corporations over risky startups. Besides limiting the number of risk-taking entrepreneurs in the economy, this preference limits the availability of human resources for startups, especially for social enterprises, which may enter riskier market segments.
- **Limited investable pipeline:** According to impact investors, the pipeline of investments fulfilling their financial, social, and environmental return expectations is limited. The social enterprise ecosystem is relatively nascent, and the absence of local impact investor offices often makes it more difficult for them to source quality, investable enterprises. In addition, social enterprises have the capacity to absorb only small investments, which are often unviable for regional and global impact investors.
- **Challenges in scalability:** Some ICT-based solutions in the country have scaled successfully. However, given the Philippines's geography—with over 1,000 islands and limited infrastructure—asset-heavy business models often struggle to scale between islands.

Ecosystem challenges

- **Risk that ecosystem facilitators are financially unsustainable:** Ecosystem facilitators that focus solely on social businesses and the impact sector generate too little revenue to achieve financial sustainability. As a result, many such players, including co-working spaces and incubators, have drifted away from their social missions to target more mainstream businesses and investors. Moreover, since the concept of social enterprise is relatively new in the Philippines and there are very few sector experts, tailored mentorship remains very expensive, further threatening the financial sustainability of impact-focused intermediaries.
- **Unfavorable equity terms from early-stage, tech-focused incubators and accelerators:** Many social enterprises believe that incubators and accelerators in the Philippines can be predatory, especially when their support is traded for equity in such a way as to dilute founders' ownership. Many entrepreneurs therefore prefer collateralized debt over equity.
- **Insufficient capacity-building support for fund managers:** Local funds face skills gaps in their ability to manage global capital. Stakeholders indicate that mentorship and technical assistance facilities are available for demand-side players, but infrastructure for local investment vehicles is very limited. Consequently, few local fund managers can effectively manage global capital.

Notwithstanding these challenges, the Philippine socio-economic environment presents a number of opportunities for impact investors (Figure 25).

55 Global Entrepreneurship Development Institute, 2018 *Global Entrepreneurship Index*.

FIGURE 25: OPPORTUNITIES FOR IMPACT INVESTING IN THE PHILIPPINES

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> • Mobilizing domestic pools of capital for impact investing • Tapping into remittances for impact investing 	<ul style="list-style-type: none"> • Potential to increase gender lens investing • Debt investments in agriculture • Investments in innovative fintech • Technical assistance for investees 	<ul style="list-style-type: none"> • Increasing government support of social entrepreneurship • Partnerships with impact-agnostic incubators and accelerators

Source: Intelicap Advisory Services analysis

Supply-driven opportunities

- **Mobilizing domestic pools of capital for impact investing:** Like other countries in Southeast Asia, such as Thailand and Indonesia, the Philippines has many family offices currently involved in philanthropic giving. These offices could offer a domestic pool of capital to allocate toward impact investing.⁵⁶ Family offices and corporations are interested in diverging from grant to equity funding but lack the knowledge required to do so. Impact investors could encourage this shift by co-investing with family foundations. In addition, to address the high costs of deal sourcing and due diligence in the social enterprise sector—especially for early-stage enterprises—impact investors could collaborate with philanthropic organizations, using their grant capital to subsidize due diligence and technical assistance.
- **Tapping into remittances for impact investing:** The Philippines is the third-largest recipient of remittances in the world. Many Filipinos working abroad want to channel capital towards philanthropic ends, so remittance inflows could be leveraged for impact investing, perhaps through an impact-focused angel investor network.

Demand-driven opportunities

- **Potential to increase gender lens investing:** The average ticket size of a PII investment into a male owned or led enterprise in the Philippines is currently much higher than that into a female owned or led enterprise. However, the Philippines has a strong enabling environment for female social entrepreneurs and staff. This provides immense opportunities for gender lens investors to invest in women-led enterprises or in enterprises that promote gender equity.
- **Debt investments in agriculture:** Most social enterprises are in the agricultural sector, which has nevertheless had few impact investments to date. This is partly because many social enterprises in agriculture are registered as cooperatives that cannot, by law, raise equity. However, these enterprises represent unmet potential for debt financing, especially revenue-based repayment models.

56 Arra B. Francia, “Family-Run Firms Still Dominate Philippine Business,” *BusinessWorld*, November 4, 2017, <http://bworldonline.com/family-run-firms-still-dominate-philippine-business/>.

- **Investments in innovative fintech:** Access to finance is still a critical challenge in the Philippines, presenting significant opportunities for private sector activity. Fintech service providers have grown rapidly in recent years. Payment and remittance solutions offer substantial market potential in the Philippines and could generate both social and financial returns.
- **Technical assistance for investees:** Social entrepreneurship is increasingly recognized as an instrument to drive development in the Philippines. However, demand-side players indicate that the lack of skilled professionals limits their growth. This gap presents an opportunity for DFIs and grant makers to set up technical assistance facilities in the country. However, given that most of the social enterprises, barring cooperatives and community-based organizations, are at a very nascent stage, they have limited capacity to pay for such services.

Ecosystem-driven opportunities

- **Increasing government support of social entrepreneurship:** The Philippine government could approve the PRESENT bill to grow the number of social enterprises in the country. This bill focuses mostly on social enterprises that engage with the poor as partners or supply-chain players, and it includes provisions for the public procurement of goods produced by social enterprises. If the government provides such stimulus, investors may find it easier to source deals with satisfactory financial, social, and environmental performance.
- **Partnerships with impact-agnostic incubators and accelerators:** Investors without a local presence often struggle to source deals and provide high-touch support. Global investors could thus partner with local incubators and accelerators that have good track records to source more deals and monitor and manage investees across growth stages.

A map of Southeast Asia with Vietnam highlighted in red. The map shows the outlines of various countries in the region, including China to the north, Laos and Cambodia to the west, and the Philippines, Malaysia, and Indonesia to the east and south. Vietnam's elongated shape is clearly visible in the north-central part of the map.

VIETNAM: AN INTRODUCTION TO THE IMPACT INVESTING LANDSCAPE

Impact Investing in Vietnam (2007–2017)

USD 25.8 MILLION

Impact capital deployed by
PRIVATE IMPACT INVESTORS (PIIs)



USD 1.4 BILLION

Impact capital deployed by
DEVELOPMENT FINANCE INSTITUTIONS (DFIs)



*Includes only direct investments.

KEY CHARACTERISTICS OF PII AND DFI IMPACT INVESTING ACTIVITY

MARKET OVERVIEW

Increasing interest in impact investment, with almost half of deals made since 2015

Significant limitation in seed-stage impact capital

Few impact-focused intermediaries, and challenges sourcing investable deals



DEAL SIZE

PIIs: Most deals between USD 1 and 5 million, with very few under USD 100,000

DFIs: Most deals between USD 10 and 50 million



SECTORS

PIIs: ICT and financial services; up-and-coming sectors include education and healthcare

DFIs: Financial services and manufacturing



INSTRUMENTS

PIIs: More than twice as much capital deployed as equity than as debt

DFIs: Almost 75% of the investments structured as debt deals



IMPACT MEASUREMENT

PIIs: Metrics based on globally accepted frameworks

DFIs: Proprietary frameworks based on their impact theses and context of investment



GENDER LENS INVESTING

PIIs: Three investors have used a gender lens to deploy USD 3.3 million into 4 investments, and are actively sourcing additional deals

DFIs: Common to measure gender impacts across investments, though intentional gender lens investing has not been explicitly employed to date



COUNTRY SUMMARY

Vietnam, one of the fastest-growing economies in the region, has witnessed increasing impact investing activity in the last few years. At least 10 private impact investors (PIIs), mostly fund managers, have deployed more than USD 25 million through 23 deals since 2007. Six Development Finance Institutions (DFIs) have cumulatively deployed more than USD 1.4 billion in impact capital through 50 deals over the same time period.

More than 65% of all deals in Vietnam over the past decade have been made since 2015. Many PIIs in Vietnam also have local offices, a relatively recent trend that further demonstrates interest in the country. Overall, most private impact investments in the country have been in financial services and ICT, though education, healthcare, and agriculture are emerging sectors. Most PII capital has been deployed through deals larger than USD 1 million; unmet demand for smaller investments is substantial, with few impact angels or seed-stage impact investors.

DFIs, active in Vietnam for over a decade, have recently accelerated their investment efforts.

As in most other countries in the region, the greatest share of impact capital has flowed to the financial services sector. However, unlike other countries in the region, this capital has flowed not to microfinance institutions (MFIs) but to commercial banks, which then lend to small and medium-sized enterprises (SMEs). Projects in manufacturing and infrastructure have also received debt from DFIs, following their investment thesis to create livelihoods and aligning with Vietnam's national priorities. Generally, DFIs have shifted from making large investments (over USD 50 million) in a few sectors to making smaller investments across multiple sectors in order to more holistically serve their impact thesis. Stakeholders perceive energy and tourism as promising sectors for DFI investment, though few investments have been made in these sectors to date.

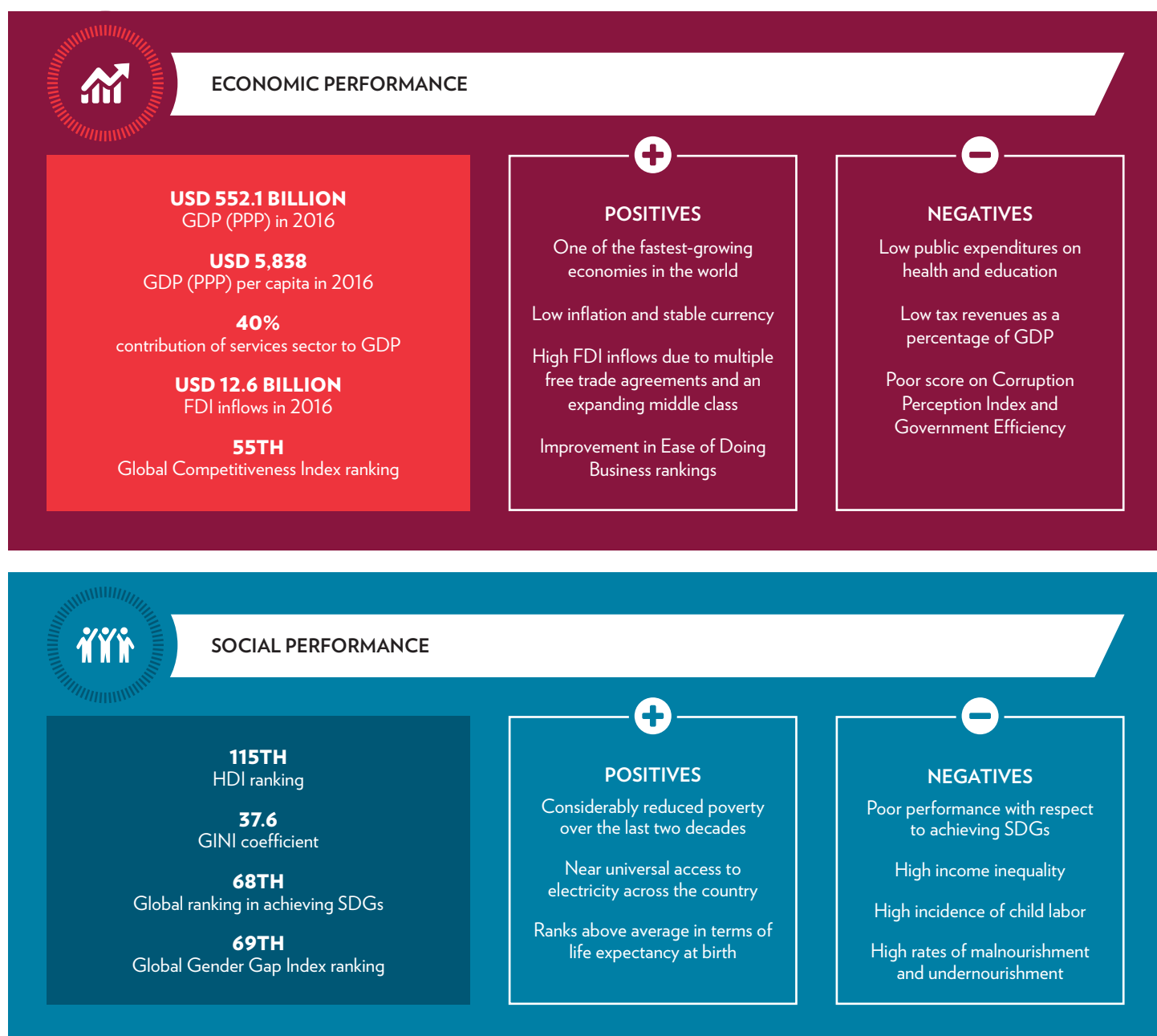
The Government of Vietnam has accorded special recognition to social enterprises through its Enterprise Law of 2014 and subsequent Decree 96, which provide tax incentives to enterprises with a stated objective to resolve social or environmental issues. However, few organizations thus far have registered as social enterprises under this law, in part due to a mandate that registered companies reinvest 51% of their profits into the company's stated social mission. Beyond policy, there remains opportunity to further strengthen the supporting ecosystem. There is limited effective mentorship for social entrepreneurs. The few active, impact-focused incubators and accelerators are clustered in large cities, and demand for their services far outweighs their capacity. Additionally, there is no impact-focused angel network in Vietnam. Combined with most investors' preference for ticket sizes over USD 1 million, demand for seed-stage capital remains unmet.

Despite these challenges, the outlook for impact investment in Vietnam remains positive. The government has a clear focus on improving infrastructure and promoting manufacturing, presenting opportunities for DFIs to invest and create employment opportunities that can have a multiplier effect on the country's economic development. A growing middle class willing to spend more on education and healthcare offers opportunities for PIIs to support social enterprises in these sectors. An increasing number of investors are looking to strengthen their local networks through either local offices or strategic partnerships, and several gender lens investors are also active in the country. Generally, investors have demonstrated a positive sentiment about the future of impact investing in the country.

COUNTRY CONTEXT

Snapshot

FIGURE 1: SNAPSHOT OF VIETNAM'S ECONOMIC AND SOCIAL PERFORMANCE

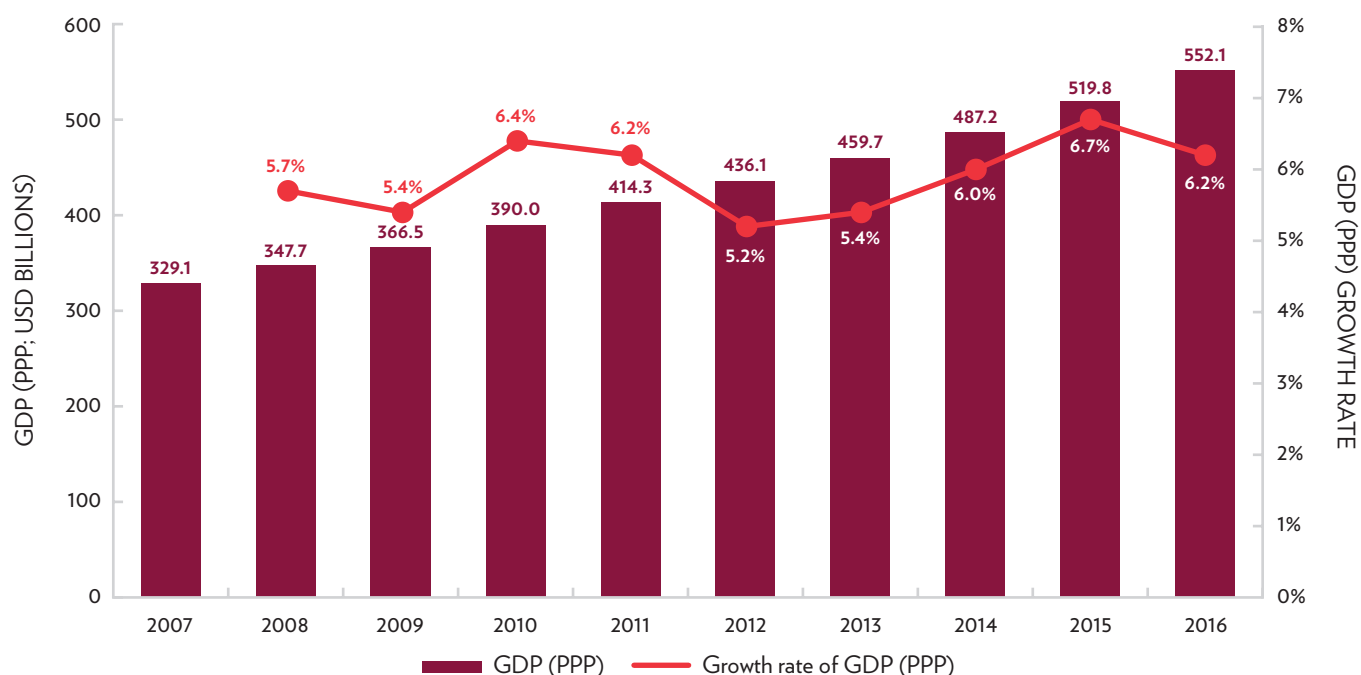


Economic overview

GDP AND ECONOMIC GROWTH

By 2050, PwC projects Vietnam will break into the top 20 economies globally, surpassing now-larger regional economies like Thailand and Malaysia.¹ Its GDP has recorded compound annual growth of almost 6% since 2010 (Figure 2), driven largely by export-oriented manufacturing and increasing domestic consumption. The Doi Moi Policy of economic and political reforms, launched in 1986 to create a market economy, has helped Vietnam transition over the past three decades from a historically agrarian economy to one dominated by services and industry. This transition has helped drastically reduce the country's poverty rate to less than 10% of the population.²

FIGURE 2: GROSS DOMESTIC PRODUCT—PURCHASING POWER PARITY AND GROWTH RATE



Source: World Development Indicators

The services sector, especially activity in education and training, administrative services, and entertainment, contributes over 40% of the country's GDP.³ A growing number of companies in this sector are registered as limited or joint-stock companies, which signals increasing formalization that will help sustain future growth. In addition, investments to develop the country's tourism infrastructure have helped the tourism and real estate industries grow.

1 "Shift of Global Economic Power to Emerging Economies Set to Continue in Long Run, with India, Indonesia and Vietnam among Star Performers," news release, PwC, February 7, 2017, <https://www.pwc.com/jp/en/press-room/world-in-2050-170213.html>.

2 Vietnam's General Statistics Office (GSO) defines the poverty line as per capita monthly income of VND 570,000 (approximately USD 25) in rural areas and VND 810,000 (approximately USD 35) in urban areas. Valerie Kozel et al., *Well Begun, Not Yet Done: Vietnam's Remarkable Progress on Poverty Reduction and the Emerging Challenges* (Hanoi: The World Bank, January 2012), <http://hdl.handle.net/10986/12326>.

3 General Statistics Office of Vietnam, https://www.gso.gov.vn/Default_en.aspx?tabid=491.

The large size and growth of the services sector has led 40% of businesses to concentrate in two geographies, Ho Chi Minh City (HCMC) and Hanoi. While this has led to large geographic disparity, Da Nang, Bac Ninh, and Binh Duong, among other geographies, are catching up with larger urban areas.

The industrial sector is the second-largest contributor to the economy, accounting for roughly one-third of GDP. Large state-owned groups dominate this sector, with major sub-sectors including mining, coal, steel, and manufacturing (including textiles, food processing, and footwear). Along with low labor costs, investment in this area has helped fulfill growing domestic demand and increased exports of manufactured goods like textiles and footwear.

While the agricultural sector's contribution to GDP has more than halved over the past 30 years, from 35% in the 1980s to 16% today,⁴ the sector employs almost half of the country's labor force.⁵

The Government of Vietnam's 2011–2020 Socio-Economic Development Strategy (SEDS) highlights three areas of support for the economy: (1) promoting skills development, particularly for modern industry and innovation; (2) improving market institutions; and (3) furthering the development of infrastructure. Stable growth and the government's commitment to structural reforms have made Vietnam one of the most attractive destinations in the region for foreign direct investment (FDI). Increasing FDI, low-wage labor, and government support should further strengthen Vietnam's services and industrial sectors.

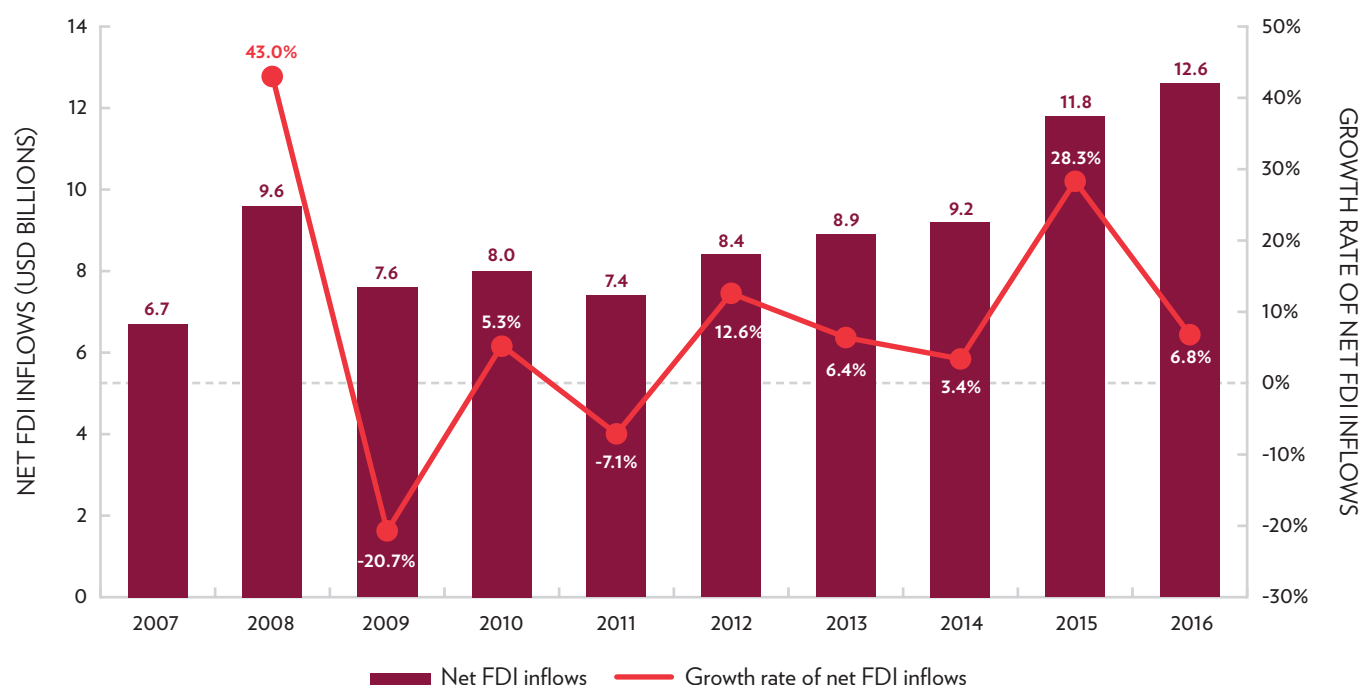
FOREIGN DIRECT INVESTMENT AND EASE OF DOING BUSINESS

FDI into Vietnam rose dramatically after the country joined the World Trade Organization (WTO) in 2007 (Figure 3), an upward trend that has continued over the past decade to exceed an expected USD 15 billion in 2017. The manufacturing and processing sectors attract over 80% of FDI, with real estate trading and construction attracting much of the remainder. Most FDI flows from Hong Kong, Japan, South Korea, China, and the United States.

4 "Vietnam," *The World Factbook* (Langley, VA: Central Intelligence Agency, 2018), <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>.

5 Brian McCaig and Nina Pavcnik, "Moving Out of Agriculture: Structural Change in Vietnam," (working paper, National Bureau of Economic Research No. 19616, October 2013), https://www.dartmouth.edu/~npavcnik/docs/Vietnam_structural_change_October_2013.pdf; and "Vietnam," *The World Factbook*.

FIGURE 3: NET FDI INFLOWS AND GROWTH RATE



Source: World Development Indicators

Key drivers of FDI in Vietnam include the following:

- **Favorable investment policies and multiple free trade agreements:** The Government of Vietnam has initiated various pro-business efforts, such as providing tax breaks to certain sectors, reducing corporate taxes, and offering businesses multiple support packages. The government has adopted a flexible fiscal policy with a daily-adjusted exchange rate and has reduced limits on foreign ownership. Together, this increased transparency has stimulated interest among foreign investors. Additionally, Vietnam is part of multiple bilateral and collective free trade agreements, the latter as part of the Association of Southeast Nations (ASEAN), which help promote FDI in the country. The impending operationalization of the Vietnam–EU FTA should further bolster investment.
- **A stable, growing economy and cost-competitive base of production:** Vietnam has a dynamic economy. As factory production gradually shifts from China to Southeast Asia, Vietnam’s manufacturing and processing industries have emerged as an attractive destination for FDI. For example, the presence of factories to produce modern technology for companies like Samsung, Nokia, and LG have demonstrated Vietnam’s potential for investment. Its competitive labor costs also make the country an ideal base of production for companies diversifying out of China.
- **Expanding middle class and increasing domestic expenditures:** According to the Boston Consulting Group, the middle and affluent classes in Vietnam will grow to 33 million people by 2020, dispersing beyond the urban centers of Hanoi and HCMC.⁶ This young demographic (60% of the population is younger than 30) offers a growing market for domestic consumption.

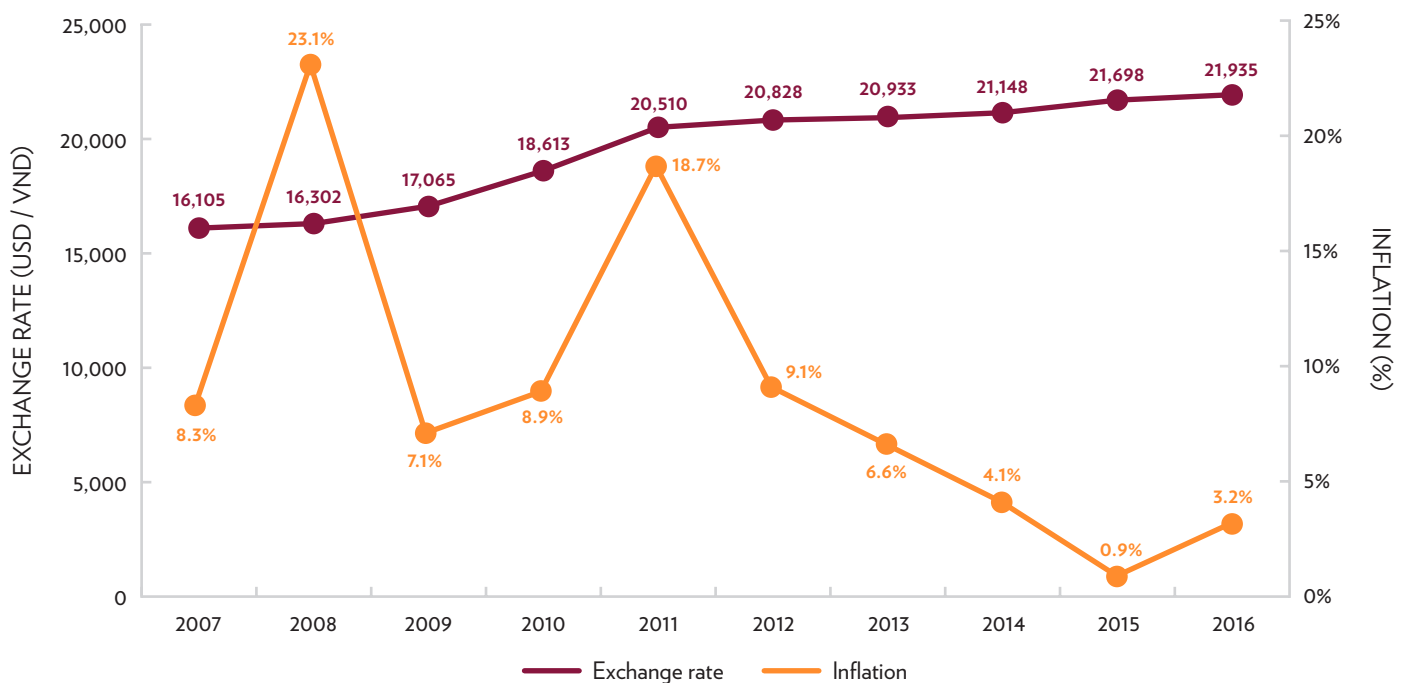
⁶ The middle and affluent class in Vietnam is defined as individuals who have a monthly income greater than USD 190. Aparna Bharadwaj, *Vietnam and Myanmar: Southeast Asia’s New Growth Frontiers* (Singapore: Boston Consulting Group, December 2013), <https://www.bcg.com/publications/2013/globalization-vietnam-myanmar-southeast-asia-new-growth-frontiers.aspx>.

Alongside increasing FDI, Vietnam has greatly improved its Ease of Doing Business ranking, jumping 14 places in 2018 (from 82 to 68) and nine places in 2017. The country's Distance to Frontier score, 67.9, exceeds the 62.7 regional average of East Asia and Pacific.⁷ In the 2018 *Doing Business* report, published by the World Bank, Vietnam scores particularly well with regard to access to credit through targeted SME development funds and credit guarantees, taxes, trade across borders, and contract enforcement. Consequently, Vietnam's stable socio-economic system, committed government, favorable demographic and geographic conditions, and deepening ties with global networks, in part through FTAs, offer an attractive business environment.

INFLATION AND CURRENCY RISKS

The inflation rate in Vietnam, which has markedly subsided over the last five years, is now below 4% (Figure 4). Though inflation was volatile until 2012, recent, cautious monetary policies aim to keep inflation below 4%, even at the risk of impeding economic growth. Recently, the Vietnamese dong has been relatively stable against the U.S. dollar. The Vietnamese Central Bank applies a daily-adjusted currency exchange rate which enables the rate to move in line with U.S. dollar supply and demand both in the country and with global market developments. This control helps the Central Bank execute monetary policy, while adjustments of the rate to market discourage enterprises and residents from hoarding U.S. dollars.

FIGURE 4: INFLATION AND EXCHANGE RATE



Source: World Development Indicators

7 The distance to frontier (DTF) measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's DTF is calculated on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The Ease of Doing Business rankings range from 1 to 190.

Social overview

HDI AND INCOME INEQUALITY

TABLE 1: SOCIAL DEVELOPMENT INDICATORS

PARAMETER	VIETNAM
LIFE EXPECTANCY AT BIRTH	75.9
EXPECTED YEARS OF SCHOOLING	12.6
MEAN YEARS OF SCHOOLING	8.0
GNI PER CAPITA (PPP)	USD 5,335
<i>Life expectancy at birth and GNI per capita (PPP) sourced from World Development Indicators. Expected years of schooling and mean years of schooling sourced from the Human Development Report.</i>	

Vietnam is classified as a medium development category country according to the Human Development Index (HDI), ranking 115th out of 188 countries and territories, just above the Philippines.⁸ Vietnam has an HDI score of 0.68, slightly lower than the regional average of 0.72 for East Asia and the Pacific. The country fares above average in terms of life expectancy at birth but below average in terms of expected years of schooling (Table 1: Social

development indicators). Vietnam's 2016 GDP per capita (PPP) of USD 5,838 reflects a 50% increase over the prior decade. Vietnam has high income inequality, with a GINI coefficient of 34.8; consequently, its HDI score falls to 0.58 (a drop of 17.8%) when discounted for inequality.

GENDER EQUALITY STATUS

Vietnam ranked 69th of 144 on the Global Gender Gap Index in 2017, a drop of four places since 2016.⁹ In 2006, Vietnam adopted a national strategy to promote gender equality by raising public awareness, protecting women's rights, and fighting discrimination against women. Through the program, Vietnam made substantial progress in promoting gender equality and empowering women, achieving parity in educational enrollments among boys and girls at all levels and boosting women's labor force participation.

However, sustained implementation of the policy has been challenging, with a recent report by UN Women stressing the need to improve opportunities for women to obtain decent work and reduce their roles in unpaid care and domestic work. Women earn less than men across sectors, but particularly in the informal sector, where they make 20% to 50% less than their male counterparts despite no significant difference in education or working hours. Further, women are underrepresented in government. Vietnam also has a high rate of sex-selective, female abortion, which has skewed the sex ratio at birth to 112 males per 100 females.

8 United Nations Development Programme (UNDP), "Vietnam," *Human Development Report 2016* (New York: UNDP, 2016), 2–6, http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/VNM.pdf.

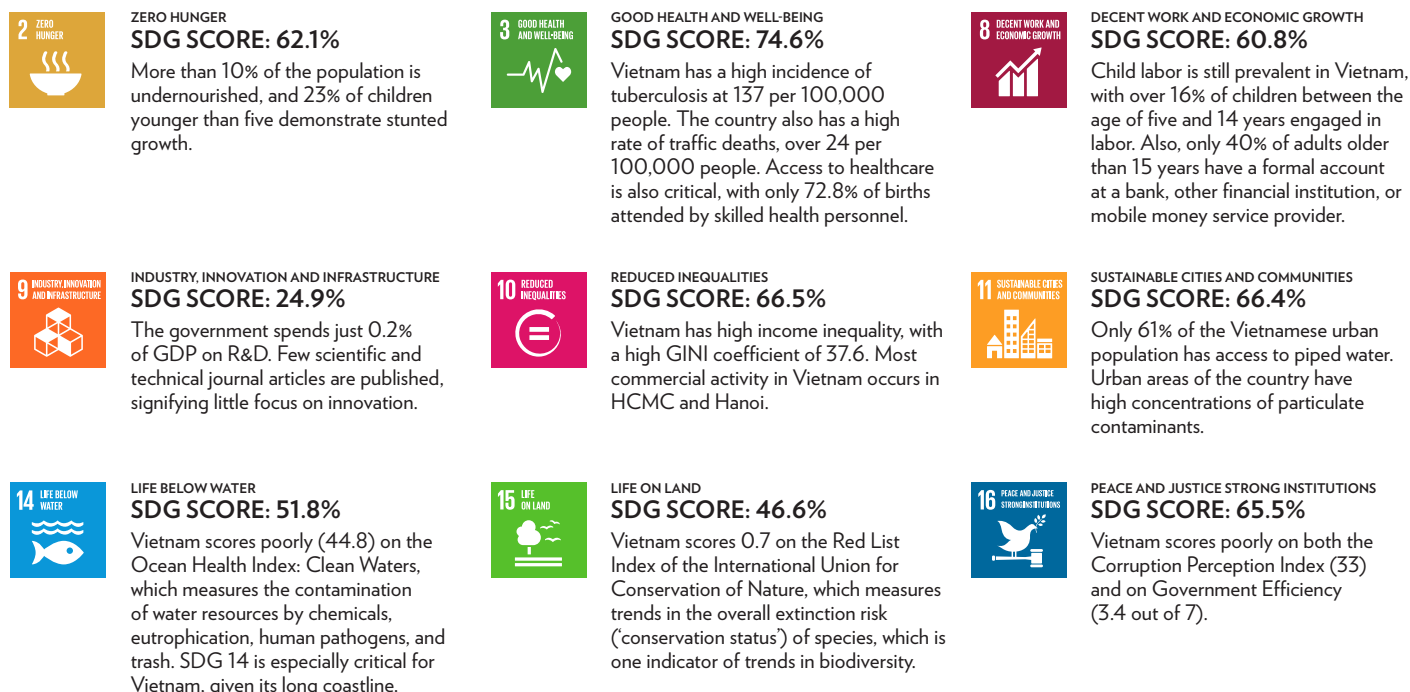
9 World Economic Forum (WEF), *The Global Gender Gap Report* (Geneva: WEF, 2017), 9–24, http://www3.weforum.org/docs/WEF_GGGR_2017.pdf.

KEY DEVELOPMENT CHALLENGES AND PERFORMANCE ON THE SDGs

Although Vietnam has made enormous economic progress, the country ranks 68th of 157 countries with respect to achievement of the UN Sustainable Development Goals (SDGs).¹⁰

Vietnam is still far from achieving the best possible outcomes across all 17 SDGs, fulfilling only 67.9% of SDG targets to date. Vietnam has made significant progress on SDG 1 (No Poverty), but attention to the other SDGs, especially the nine shown in Figure 5: Vietnam's Achievement of the SDGs, is needed.¹¹

FIGURE 5: VIETNAM'S ACHIEVEMENT OF THE SDGs



10 Jeffrey Sachs et al., *SDG Index and Dashboards Report 2017* (New York: Bertelsmann Stiftung and Sustainable Development Solutions Network, 2017), 228–29, <http://www.sdgindex.org/assets/files/2017/2017-SDG-Index-and-Dashboards-Report--full.pdf>.

11 SDG Scores in the figure represent the distance Vietnam has covered toward achieving the best possible outcomes with respect to each possible SDG. The statistics across parameters and associated calculations have been derived from Sachs et al., *SDG Index and Dashboards Report*.

THE SUPPLY OF IMPACT CAPITAL IN VIETNAM

Overview

The number of Private Impact Investors (PIIs) investing in Vietnam has increased over the last few years. Since 2007, at least 10 PIIs have deployed over USD 25 million in 23 deals. Investments have been made in a range of sectors including ICT, energy, and financial services, with most PII capital deployed as equity (Figure 6: Overview of PIIs in Vietnam).

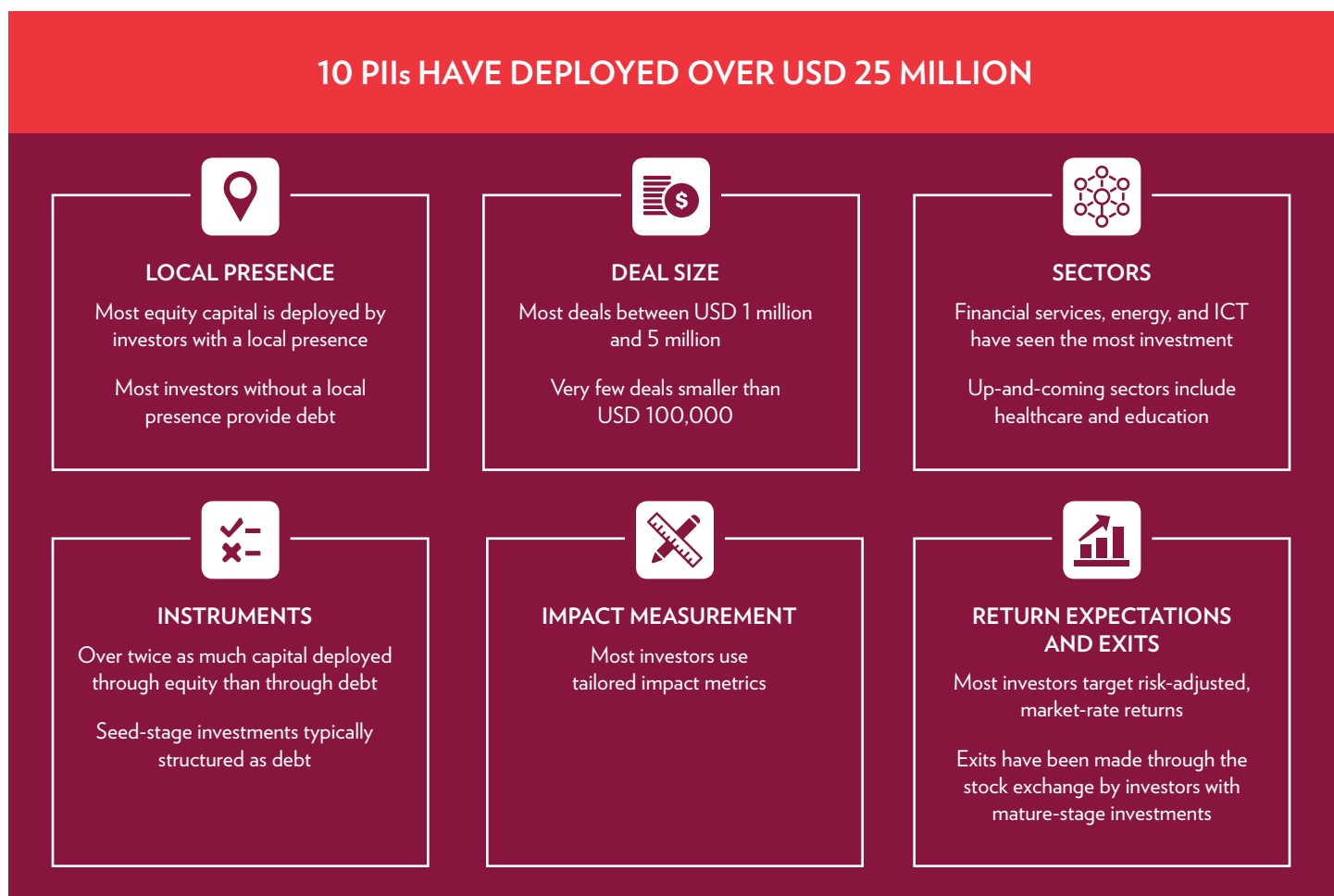
Development Finance Institutions (DFIs) have cumulatively deployed USD 1.4 billion in 50 deals, directed mostly towards manufacturing and financial services, including large-scale manufacturing (such as cement and automobiles) and commercial banks. The sizable investment in manufacturing is driven by DFIs' intent to create employment and livelihood opportunities for the Vietnamese people.

Private impact investors

OVERVIEW

Most of the 10 PIIs that have deployed capital in Vietnam are fund managers. Some ecosystem enablers, such as incubators and accelerators, also offer financial support to enterprises, typically through small grants. In addition, a few foundations are active in the country, focusing on building awareness and developing capacity rather than placing capital. While several angel investors are active in Vietnam, they have no explicit impact focus.

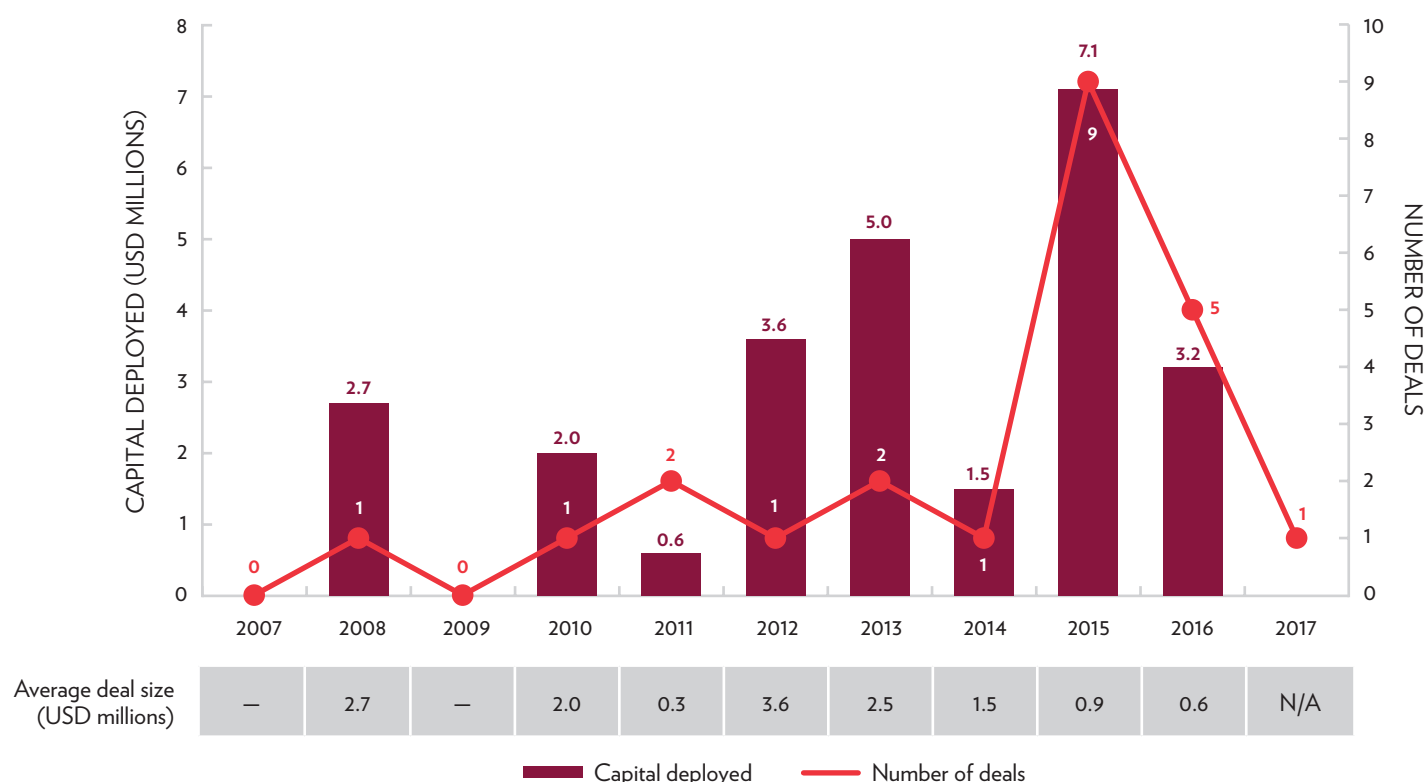
FIGURE 6: OVERVIEW OF PIIs IN VIETNAM



Source: Intelicap Advisory Services analysis

The pace of impact investment has been relatively slow (Figure 7), with an erratic pipeline caused by a nascent entrepreneurial ecosystem, limited awareness of impact investing, and scarcity of investable enterprises.

FIGURE 7: IMPACT CAPITAL DEPLOYED BY PIIs, BY YEAR
USD 25.8 MILLION IN 23 DEALS



Source: Intelicap Advisory Services analysis

Over 65% of deals in Vietnam were made within the last three years. This is due to increased activity by investors who have either set up local offices or forged partnerships with local ecosystem facilitators. Financial services and ICT have emerged as the most attractive sectors for investors, and interest has also grown in education, healthcare, and agriculture. The growing Vietnamese middle class increasingly demands quality educational products and services. Almost all interviewed investors in Vietnam indicated that they are actively seeking investees in the educational sector.

As partnerships between investors and ecosystem enablers have strengthened in and beyond the metropolitan regions of Hanoi and HCMC, both expect a more stable pipeline of investees in the years ahead. While many investees are currently sourced through inefficient, one-off sourcing channels like word-of-mouth, players in the ecosystem expect partnerships to change this dynamic. Realized partnerships have already begun to bear fruit; Vietnam witnessed a marked increase in impact investing activity in 2015 and 2016, with 14 deals in these two years alone (or 61% of all deals in the past decade). Locations like Da Nang have also been added to impact investors' maps through such partnerships. Key stakeholders hope the ecosystem can cultivate a network of angel investors, currently operating discreetly,¹² to spur additional investment in seed-stage social enterprises.

¹² Angel investors in Vietnam are typically discreet, as they do not wish to draw attention to themselves as wealthy individuals in a historically communist country.

LOCAL PRESENCE

Investors increasingly appreciate the value of having local offices to invest effectively in Vietnam.

Of the 10 PIIIs that have invested in the country, five have a local office, facilitating active participation in local networks and quick action as opportunities arise. Investors also believe they must provide high-touch support, which is better delivered out of a local office, to make potential investees investment-ready. Finally, a local presence allows investors to view and assess risk differently; local investors closed a disproportionate share of equity deals. The ticket sizes of investors with a local presence were also higher than those without (Figure 8: PIIIs with and without a local presence).

A lack of financial literacy among entrepreneurs creates challenges when communicating with investors. Local entrepreneurs are often unaware of common investment terms and concepts, and gaps in communication can be magnified by language barriers between entrepreneurs and foreign investors. Therefore, investees and investors often require multiple interactions—for due diligence and to reach agreement—with periodic travel to Vietnam further increasing costs. However, an increasing number of foreign-born or -educated Vietnamese entrepreneurs have access to wider networks and possess better communication skills. Such entrepreneurs are better placed to attract investment, provided investors consider their business models investable.

FIGURE 8: PIIIs WITH AND WITHOUT A LOCAL PRESENCE

	PIIIs WITH A LOCAL PRESENCE	PIIIs WITHOUT A LOCAL PRESENCE
NUMBER OF INVESTORS	5	5
PERCENT OF DEALS	57%	43%
AVERAGE DEAL SIZE (USD MILLIONS)	1.7	0.6
MEDIAN DEAL SIZE (USD MILLIONS)	1.5	0.1
AVERAGE NUMBER OF DEALS	2	2
COMMON INSTRUMENTS	EQUITY	DEBT

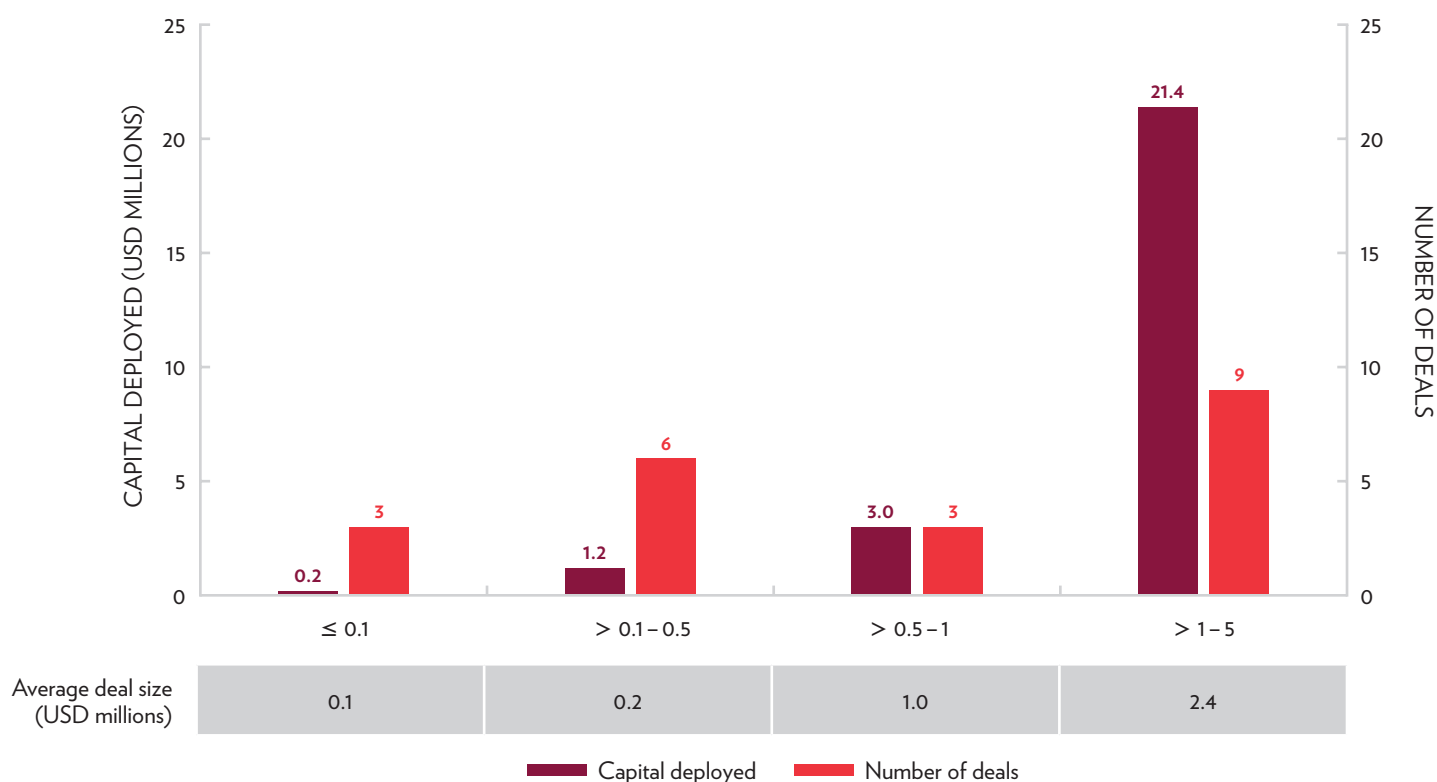
Source: Intelicap Advisory Services analysis

Whether they have a local presence or not, investors forge partnerships—with ecosystem enablers like incubators, accelerators, and educational institutions—to source investable enterprises. This can streamline the deal-sourcing process and build investment readiness among enterprises; incubators and accelerators benefit, too, as they often invest a token amount as equity to obtain leverage on the commitment of the enterprise. Partnerships and their associated investments increase the appeal of ecosystem enablers among enterprises. Almost all investors attach high importance to the role played by ecosystem enablers, stressing the need to support them in order to build a robust pipeline. Investors typically form partnerships with multiple ecosystem enablers, especially across geographic locations.

DEAL SIZE

As in other countries in the region, such as the Philippines, few impact investments in Vietnam have been smaller than USD 100,000 (Figure 9). Organizations that support early-stage social enterprises typically provide grants. For financial support in the early stages, social enterprises also depend on friends and family and prize money from entrepreneurship competitions. Since most fund managers invest substantial time, money, and effort in sourcing deals, they prefer to invest larger amounts to amortize these costs. As a result, only four of the 10 PIs active in Vietnam have participated in deals less than USD 500,000.

FIGURE 9: IMPACT CAPITAL DEPLOYED BY PIIs, BY DEAL SIZE
USD 25.8 MILLION IN 21 DEALS



Note: Others include manufacturing, consumer goods, and water, sanitation, and hygiene (WASH). Two deals are excluded because their amounts are unknown.

Source: Intelicap Advisory Services analysis

Investors often mentor and prepare enterprises to the stage at which they can absorb the capital that investors intend to invest. Given the nascent entrepreneurial ecosystem in Vietnam, multiple interviewed investors mentioned needing to provide enterprises with mentorship and capacity-building support. Foreign investors seeking larger deals often provide such support prior to investment, demonstrating a preference to invest time before money. Investors with a local presence in the country may offer support directly, while others partner with incubators or accelerators to provide these services. In some cases, investors may provide overseas experts to offer mentoring remotely, but this adds further costs. Though some investors increasingly recognize the need to invest in building pipeline, many position themselves as ‘Series A’ investors and are unwilling to directly support pipeline building through small deals.

Almost 40% of private impact deals in Vietnam have been between USD 1 million and USD 5 million across a range of sectors (Figure 10). Investors rarely demonstrate sector preferences, given the scarcity of pipeline, but many position themselves by target ticket size. Co-investments have been rare; given the time and effort investors typically spend sourcing deals in Vietnam, most prefer to invest alone and take larger stakes in an enterprise.

FIGURE 10: PII INVESTMENT SECTORS AND TRENDS BY TICKET SIZE

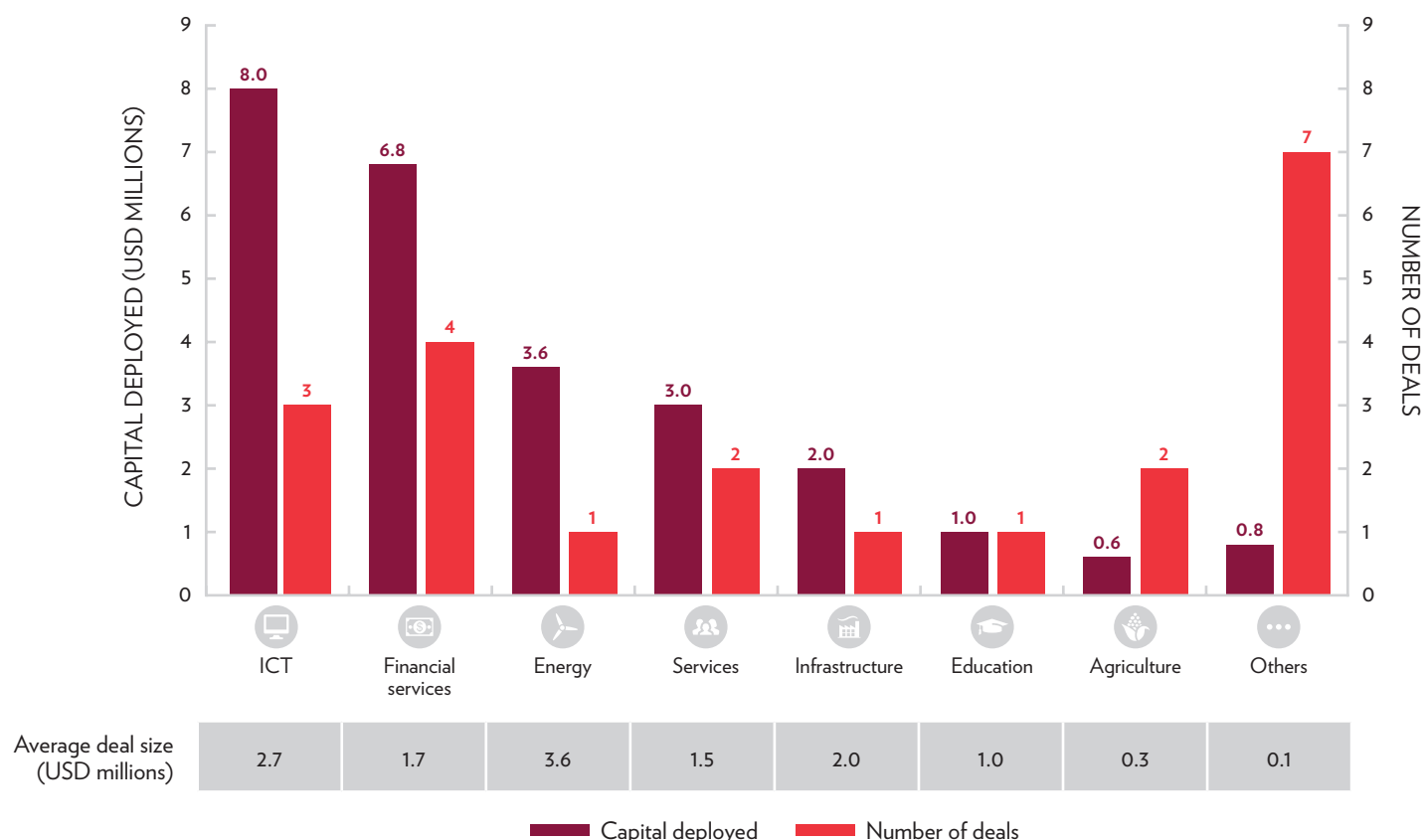
DEAL SIZE (USD MILLIONS)	≤ 0.1	> 0.1 – 0.5	> 0.5 – 1	> 1 – 5
COMMON SECTORS	Consumer goods and manufacturing	Agriculture and water, sanitation, and hygiene (WASH)	Education and financial services	Multiple sectors
TRENDS	Investments typically by venture philanthropy funds	Increasing activity in the last 3–4 years	Niche investment size, with very few active investors	Most common investment size for investors both with and without local presence

Source: Intelicap Advisory Services analysis

SECTORS

ICT and financial services together have attracted almost 60% of all capital deployed by PIIs in Vietnam, though they account for only 30% of the deals (Figure 11). Most investments have been equity at an average deal size of USD 2 million in enterprises providing computer software or technology platforms providing financial and non-financial services (Figure 11). Within the energy sector, solar and small-scale hydropower projects have received some investment. Trading enterprises—especially food and beverage businesses—have also attracted impact investments, typically at ticket sizes between USD 1 million and USD 3 million. Despite Vietnam’s historically agrarian economy, and despite still employing a large portion of the Vietnamese population, agriculture has received limited impact investment from PIIs due to a lack of innovation in this sector.

FIGURE 11: IMPACT CAPITAL DEPLOYED BY PIIs, BY SECTOR
USD 25.8 MILLION IN 21 DEALS

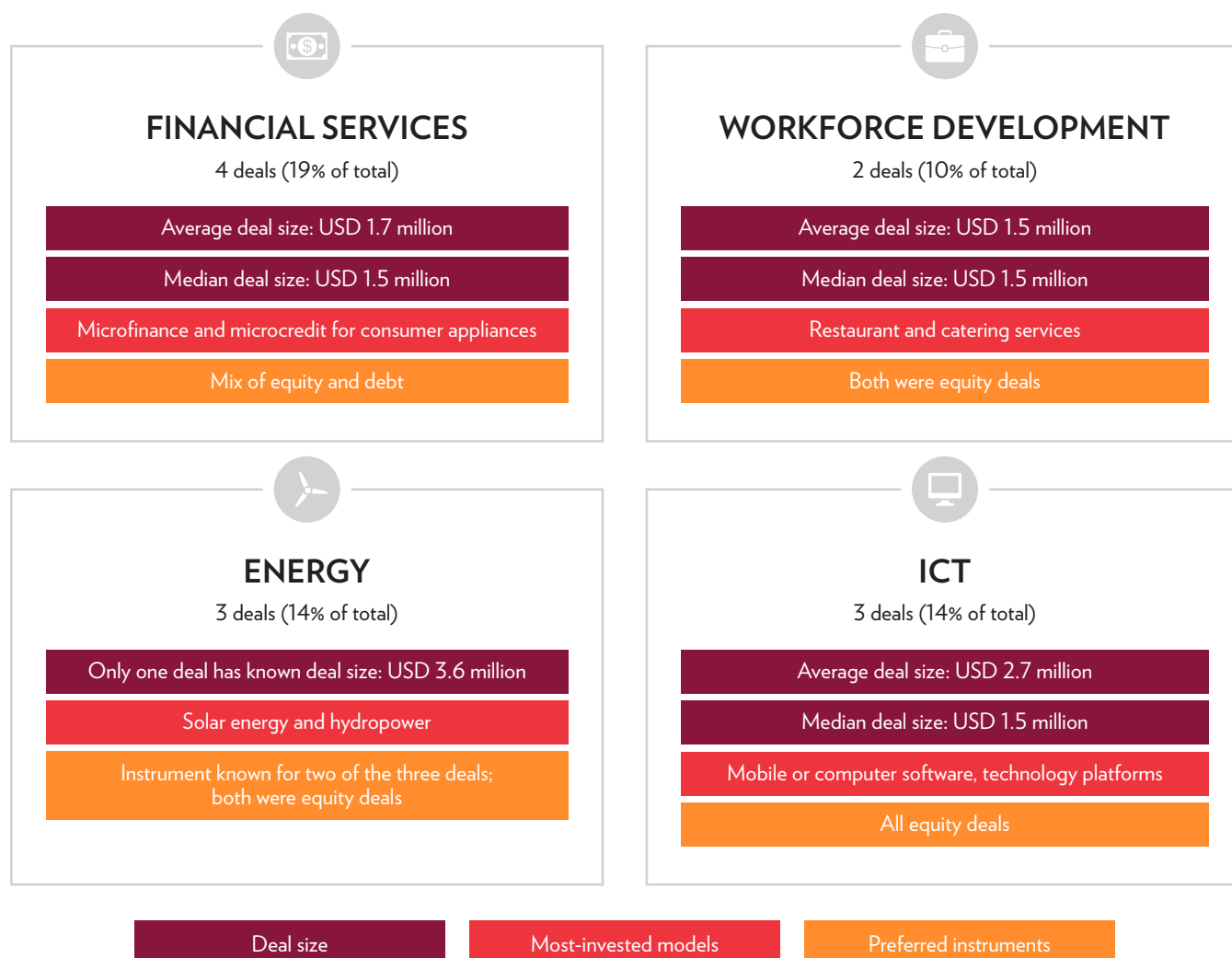


Note: Others include manufacturing, consumer goods, and water, sanitation, and hygiene (WASH). Two deals were excluded because their amounts are unknown.

Source: Intelicap Advisory Services analysis

Investors in Vietnam express optimism about the educational sector, although they have made few investments in this area to date. The perceived lack of quality education in Vietnam creates a large potential market for enterprises focused on educational technology and content, particularly those targeting the growing middle class due to the potential opportunity to scale. Investors perceive healthcare, too, as a promising sector, since the growing middle class is demonstrating an increased willingness to spend on products and services in this area.

FIGURE 12: NUMBER OF PII DEALS IN KEY SECTORS

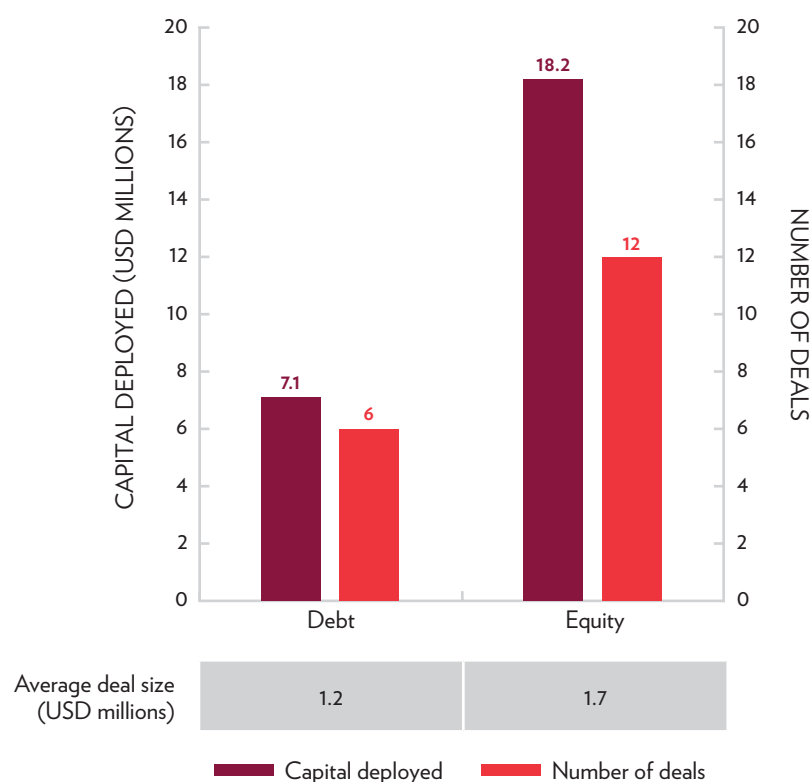


Source: Intelicap Advisory Services analysis

INSTRUMENTS

PIIs primarily use equity rather than debt, channeling more than twice as much capital through twice as many deals (Figure 13). The average ticket size for equity investments (USD 1.7 million) also exceeds that of debt (USD 1.2 million). PIIs, which often invest substantial time and effort mentoring investee enterprises, prefer to invest larger amounts of equity to amortize the costs of deal sourcing and due diligence. Often, equity investments are operationally structured with a component of debt or convertible debt. Notably few Vietnamese social entrepreneurs are familiar with equity, and many enterprises lack the corporate governance structures and financial and administrative best practices required to receive equity.

FIGURE 13: IMPACT CAPITAL DEPLOYED BY PIIs, BY INSTRUMENT
USD 25.3 MILLION IN 18 DEALS



Note: Five deals with unknown instruments are excluded.
Source: Intelicap Advisory Services analysis

Investors with a local presence have deployed over 90% of their investments as equity.

Conversely, investors without a local presence deploy a clear majority of their investments as debt, for three reasons: (1) purely foreign investors face regulatory and bureaucratic challenges launching equity funds in Vietnam; (2) local investors have a comparatively higher appetite for risk; (3) local investors are more aware of investee's day-to-day realities and can therefore more effectively provide the requisite mentorship. Additionally, investors with a local presence can overcome challenges posed by corporate governance through mentorship and support, either directly or through ecosystem partners.

Multiple investors have suggested using venture debt as an alternate instrument for impact investments in Vietnam, though no capital has been deployed in the Vietnamese context to date.

Global experience indicates that a venture debt ecosystem typically lags the equity ecosystem by about a decade.¹³ Although the Vietnamese market is very competitive for lending, with enterprises able to secure affordable loans from commercial banks, enterprises undergoing rapid growth need venture debt to inject short-term, non-collateralized working capital. In these cases, equity investors can provide venture debt while the enterprise prepares itself for an equity investment.

¹³ In developed economies, venture debt began in the mid-1990s and has now become a mature asset class, comprising around 10% of the venture capital ecosystem.

IMPACT MEASUREMENT

PIIs typically use tailored frameworks for measuring impact, reflecting their impact theses. Most PIIs have a specific impact thesis regarding livelihood creation, women's empowerment, promotion of better health and education, improved access to finance, or improved access to energy. Parameters for impact measurement are contextualized to the impact thesis and an investee's sector of operations. These frameworks and parameters are often tailored from metrics used in globally accepted frameworks, such as IRIS or GIIRS.¹⁴ Investors require their investees to capture data to feed their impact measurement process, and some investors actively train their investees for this process. Such metrics are captured regularly, often monthly. In addition, some investors in Vietnam engage external impact evaluators to do periodic impact assessments.

RETURN EXPECTATIONS AND EXITS

Almost all interviewed PIIs in Vietnam expect market-rate returns from their investments. In terms of liquidity, exit options for investors are limited, given the nascent ecosystem. Most enterprises that have received impact capital to date have not yet scaled to a point where investors can profitably exit. Also, few 'Series B' or 'Series C' impact investors operate in the country, limiting the scope of potential buyers for existing investors. However, investors anticipate strategic sales to larger investors eventually, as the ecosystem matures. Notably, such sales could also be made to non-impact investors.

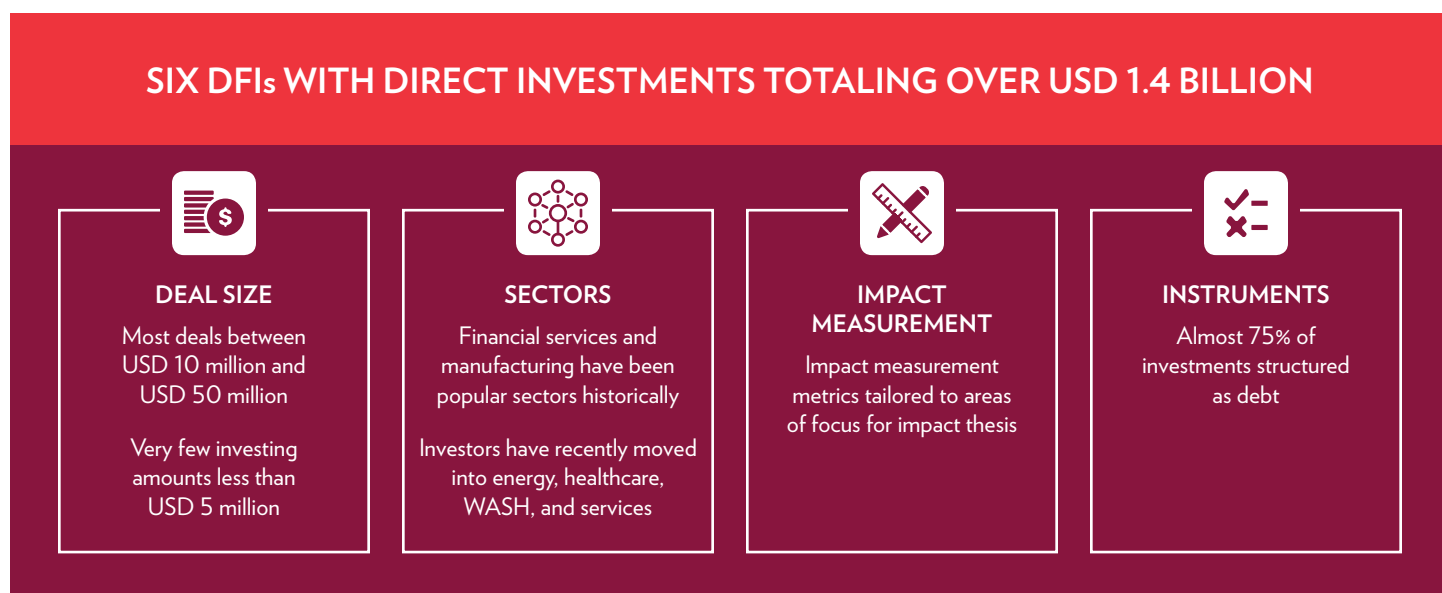
Development finance institutions

OVERVIEW

Development Finance Institutions (DFIs), especially global, multilateral institutions, have been active in Vietnam over the last decade. DFIs typically seek to drive broad-based socioeconomic development in emerging markets through investments that encourage commercial capital to flow into primarily large-scale projects. DFIs' impact theses include broad objectives, such as job creation, poverty alleviation, increased access to basic services for underserved communities, infrastructure development, and women's empowerment.

¹⁴ IRIS is the catalog of generally accepted performance metrics, managed by the GIIN, that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the sector's credibility. GIIRS is a ratings platform offered by B Analytics. See IRIS, <https://iris.thegiin.org/>; and "GIIRS Funds," B Analytics, <http://b-analytics.net/giirs-funds>.

FIGURE 14: OVERVIEW OF DFIs IN VIETNAM

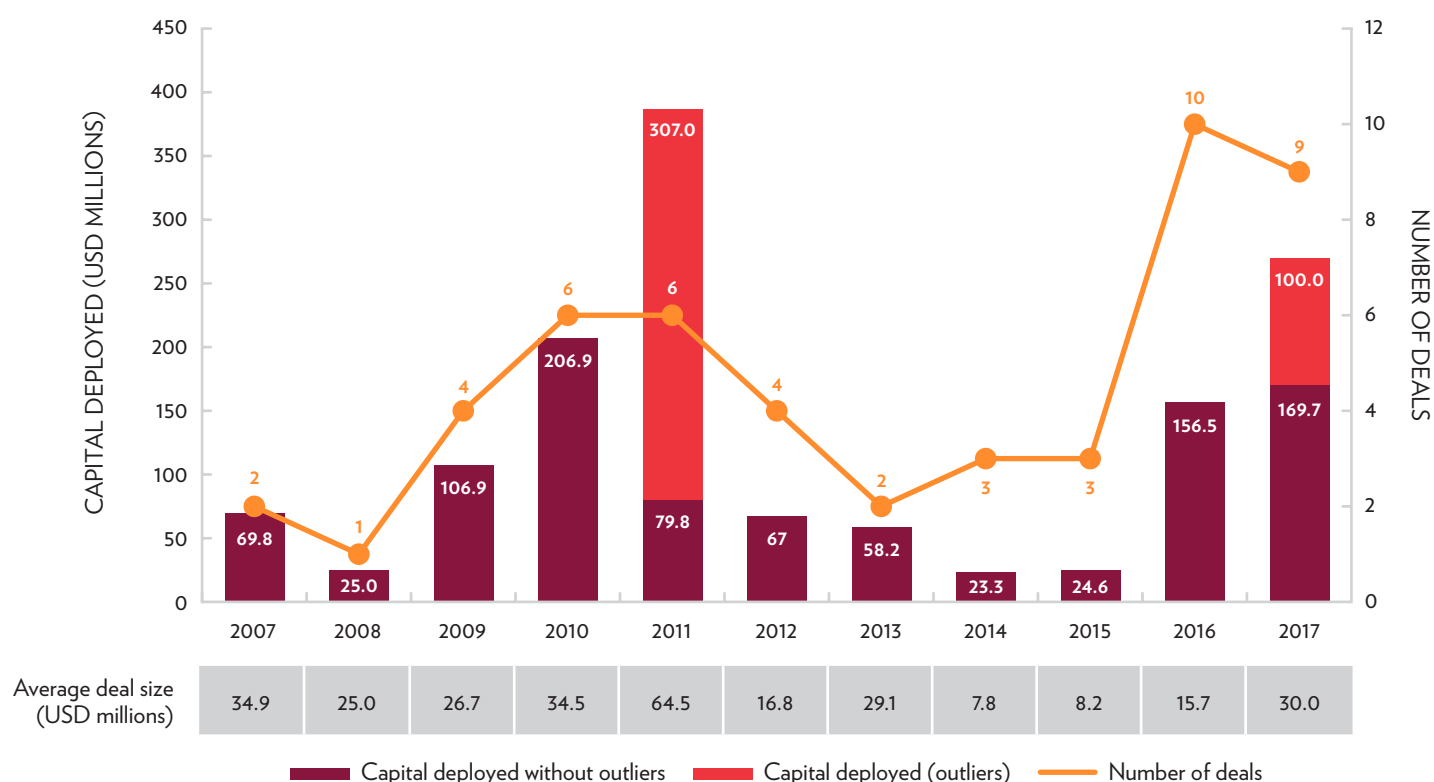


Source: Intelicap Advisory Services analysis

Over the past decade, six DFIs have deployed around USD 1.4 billion in impact capital through 50 deals in Vietnam (Figure 14). The largest DFI in the country by both number of deals and volume of capital deployed is the International Finance Corporation (IFC), which has accounted for over 80% of all capital deployed through more than 75% of all deals.

FIGURE 15: IMPACT CAPITAL DEPLOYED BY DFIs, BY YEAR

USD 1,395 MILLION IN 50 DEALS



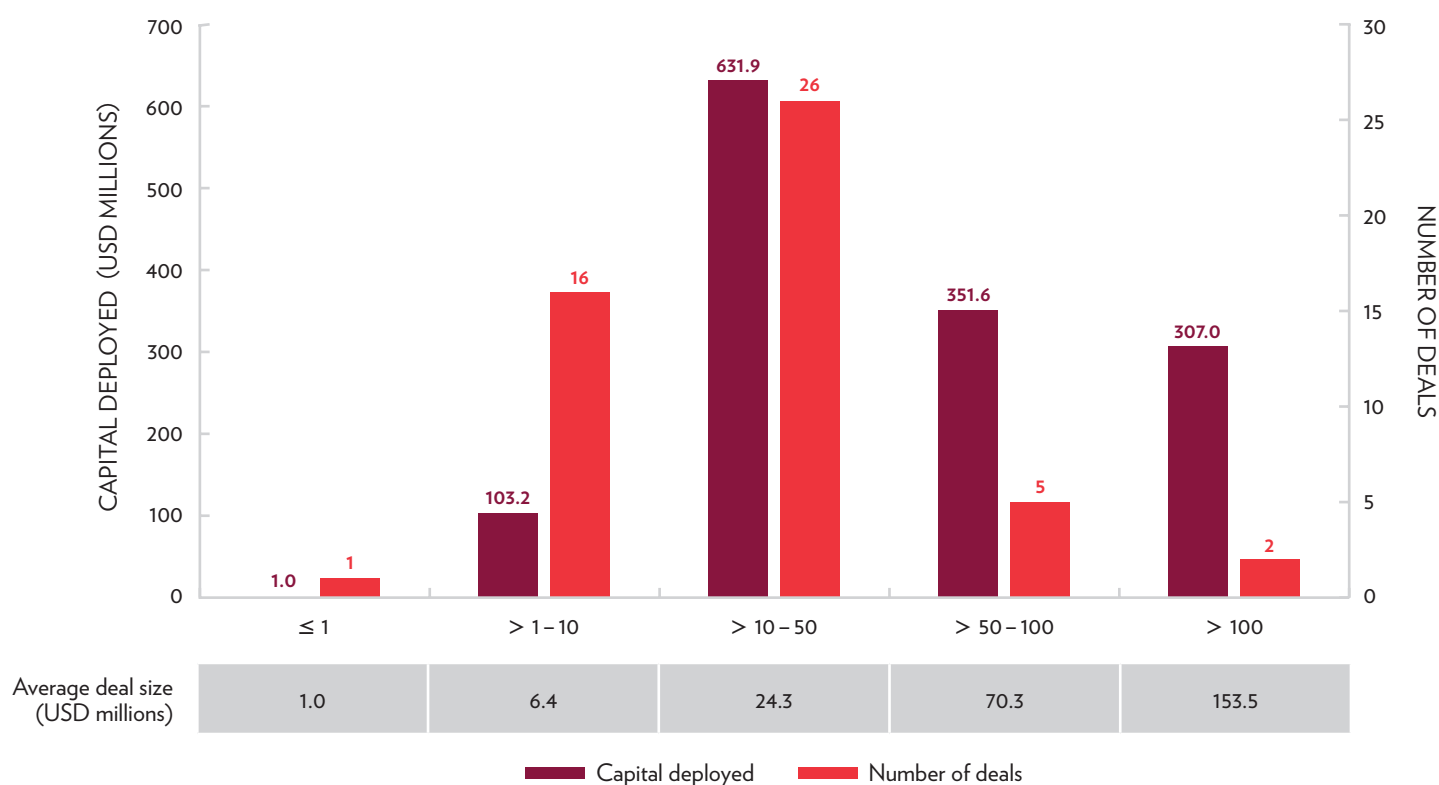
Source: Intelicap Advisory Services analysis

Although DFIs have invested across many sectors, about 80% of all DFI capital has been deployed to financial services and manufacturing. Over 75% of DFI investments were structured as debt, a tendency that is particularly apparent for larger deal sizes.

DEAL SIZE

More than half of DFI deals have been between USD 10 million and USD 50 million (Figure 16). Compared to other countries in the region, DFIs have made fewer investments larger than USD 100 million in Vietnam, focusing instead on investments with comparatively smaller ticket sizes in livelihood-generating sectors, such as manufacturing and infrastructure (Source: Intellect Advisory Services analysis).¹⁵ This matches the Government of Vietnam's priorities to attract FDI and promote the manufacturing sector. As suits their investment philosophy, DFIs typically invest in large projects that attract more commercial capital. DFIs sometimes invest below USD 10 million in instances with large opportunity to create impact and in sectors that might not lend themselves to absorption of large amounts of capital, such as fintech, manufacturing (for SMEs engaged in producing, for example, food and beverages, automobiles, or furniture), and workforce development (for SMEs offering educational services, for example).

FIGURE 16: IMPACT CAPITAL DEPLOYED BY DFIs, BY DEAL SIZE
USD 1,395 MILLION IN 50 DEALS



Source: Intellect Advisory Services analysis

¹⁵ The latest investments larger than USD 100 million in Vietnam were reported in 2011, when the IFC invested heavily in the country's financial services sector.

FIGURE 17: DFI INVESTMENT SECTORS AND TRENDS BY TICKET SIZE

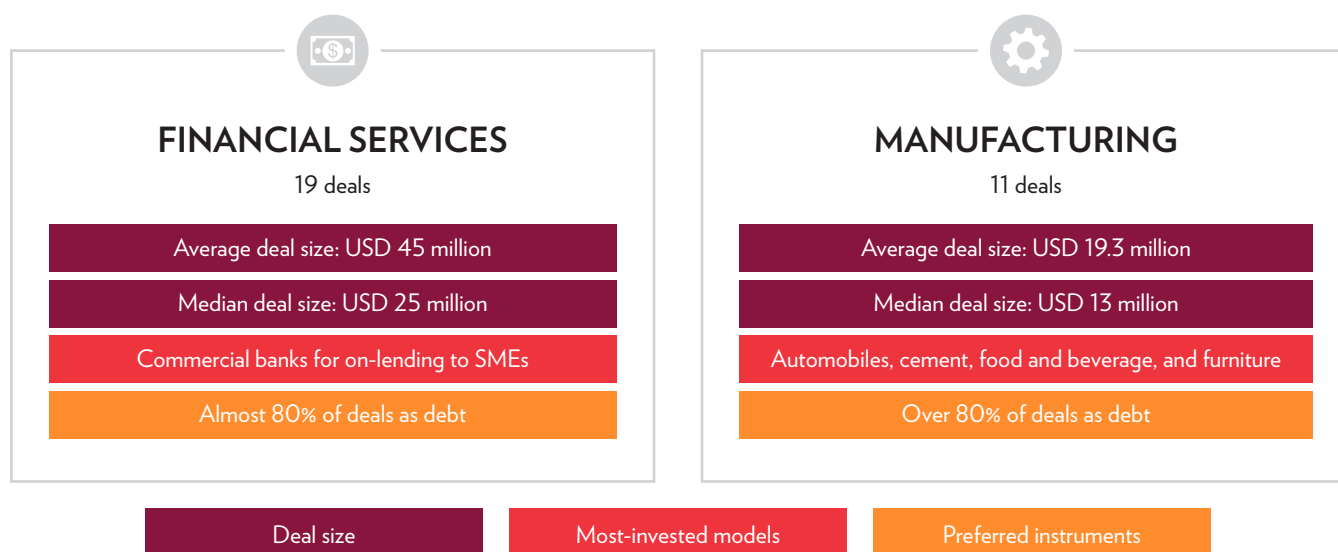
DEAL SIZE (USD MILLIONS)	≤ 1	> 1–10	> 10–50	> 50–100	> 100
COMMON SECTORS	Agriculture	Financial and non-financial services, manufacturing, energy	Diversified sectors	Financial services, manufacturing, and infrastructure	Financial services
TRENDS	Less common deal size: only one deal made since 2007	More equity deals made than debt deals	Most common investment size for many DFIs	Investments in commercial banks for on-lending and large livelihood-generating projects	No deals made since 2012

Source: Intelicap Advisory Services analysis

SECTORS

Almost 80% of DFI investments have been channeled to the financial services and manufacturing sectors (Figure 18: Number of DFI deals in key sectors and Figure 19). Unlike in other countries, where DFI investments in financial services have been channeled to MFIs, DFIs in Vietnam have primarily invested in commercial banks. This is in part because the government largely subsidizes MFIs in Vietnam and regulations around non-governmental MFIs are unclear. Commercial banks in Vietnam typically leverage such DFI investment to provide loans to SMEs. In the manufacturing sector, DFIs have invested in automotive and furniture manufacturers, investments that align with government priorities to create livelihoods for the large Vietnamese labor pool. Additionally, these DFI investments have made Vietnam an internationally recognized destination for manufacturing.

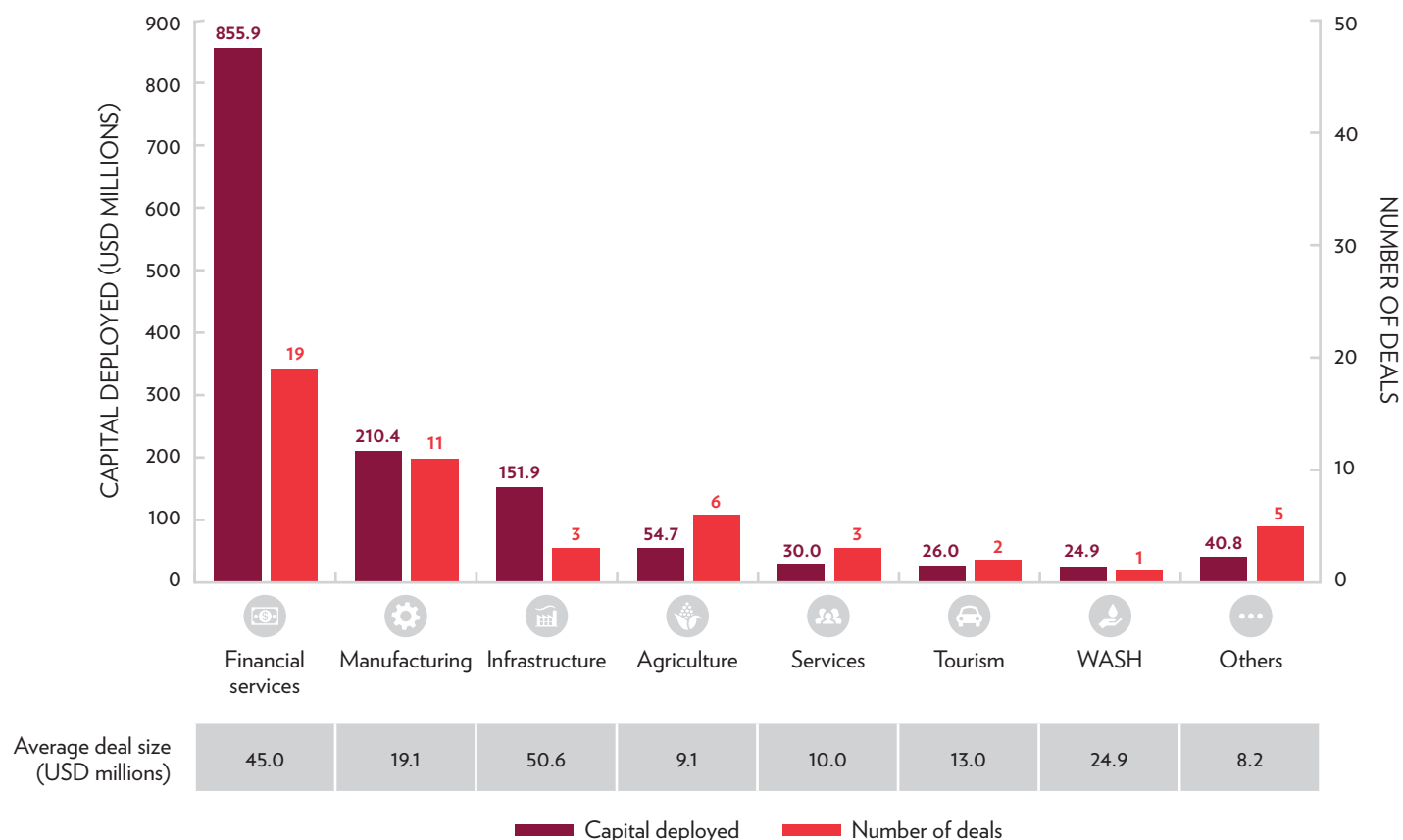
FIGURE 18: NUMBER OF DFI DEALS IN KEY SECTORS



Source: Intelicap Advisory Services analysis

Over the last few years, the agricultural sector has received regular investments from DFIs in smaller average deal sizes, around USD 10 million, and into enterprises operating in sub-sectors such as agricultural cold storage and animal feed. Agriculture remains a target sector for DFIs, as it employs nearly half of the country's labor force.

FIGURE 19: IMPACT CAPITAL DEPLOYED BY DFIs, BY SECTOR
USD 1,395 MILLION IN 50 DEALS



Source: Intelicap Advisory Services analysis

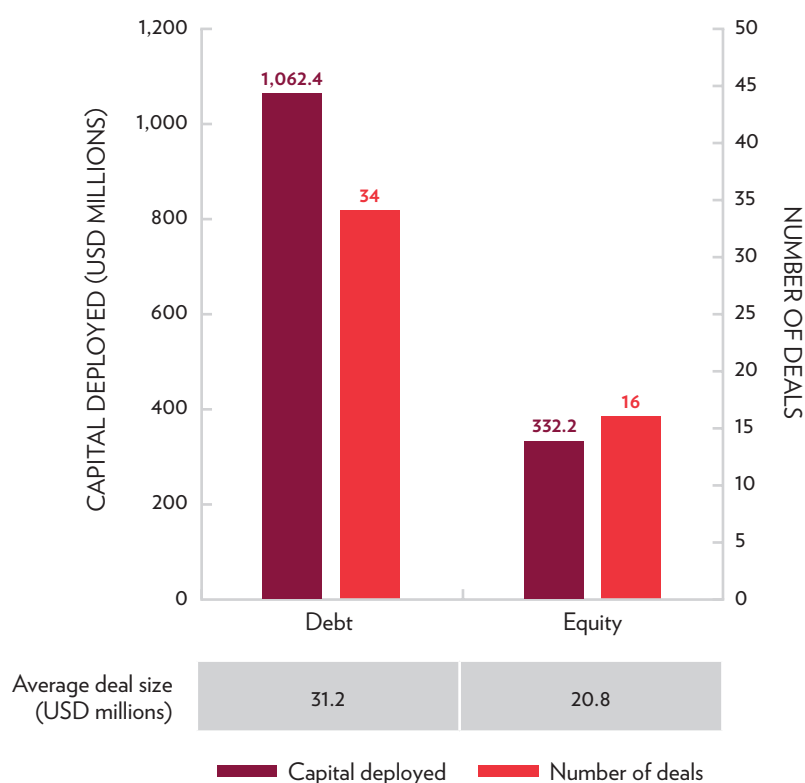
Tourism and education, considered promising sectors in Vietnam by interviewees, have recently attracted equity investments from DFIs. The government has actively developed tourism infrastructure across the country. DFI investments in tourism aim to promote Vietnam's tourism ecosystem and consequently to create livelihoods for Vietnamese citizens. Both DFIs and non-DFIs have expressed interest in education; however, since the capital requirements of enterprises in the educational sector are currently small, DFIs have had limited activity in this sector.

INSTRUMENTS

More DFI investments are structured as debt than as equity (Figure 20), especially for larger deals; more than 80% of deals larger than USD 10 million were structured as debt. The average deal size of DFI debt investments (USD 31.2 million) is much higher than that of equity investments (USD 20.8 million). DFIs typically invest in long-term, capital-intensive projects with limited potential for scale, projects which inherently cannot afford the cost of equity. These investments are designed to attract additional investment from local pools of capital. In some cases, later equity investment has been made in a company after an initial round of debt from a DFI.

Many DFI debt investments have been to Vietnamese commercial banks. DFIs have also made large debt investments in manufacturing, infrastructure, and tourism. In some instances, multiple DFIs have coordinated to invest in the same enterprise. DFI equity investments, meanwhile, have typically been directed towards asset-light businesses seeking capital beyond the current range of PIs active in Vietnam. Most DFI investments below USD 10 million have been equity in sectors such as fintech and education.

FIGURE 20: IMPACT CAPITAL DEPLOYED BY DFIs, BY INSTRUMENT
USD 1,395 MILLION IN 50 DEALS



Source: Intelicap Advisory Services analysis

IMPACT MEASUREMENT

An assessment of potential impact typically begins before investment. Most DFIs have specific areas of focus—such as job creation, poverty alleviation, and women’s empowerment—that form their impact theses. For instance, since many DFIs in Vietnam focus on job creation and SME development, they have invested in the manufacturing and financial services sectors. Since different investments may lend themselves to different metrics, DFIs typically tweak their impact measurement frameworks for each investment. Though most DFIs publicize their impact theses, their impact measurement frameworks are used as an internal tool, and the precise metrics and methodologies they use for impact measurement are rarely disclosed.

RETURN EXPECTATIONS AND EXITS

DFIs set varied return expectations based on factors such as the opportunity, extent, and kind of potential impact. While most SMEs in Vietnam face difficulties accessing debt from formal financial institutions, interest rates can be very competitive when loans are available.¹⁶ Large corporations can secure loans at still lower interest rates. DFIs therefore finance enterprises and projects that cannot access commercial loans; consequently, the loans that DFIs provide carry higher risk and are comparatively more expensive. In some cases, a DFIs' investment attracts commercial capital by reducing the risk of projects or enterprises. Since DFIs invest mostly through debt, their investments are usually designed to recover the principal and interest over time.

Gender lens investing

OVERVIEW

Awareness and interest in gender lens investing (GLI) has been increasing in Vietnam. In 2015 and 2016, three gender lens investors deployed USD 3.3 million in both debt and equity through four deals. Despite the small average deal size of about USD 800,000, these investments still comprise more than 30% of PII investment in Vietnam over these two years, representing a promising start for GLI in the country. Some LPs also have explicit mandates for GLI.

GENDER LENS INVESTING COMPRISES TWO BROAD CATEGORIES

Investing with the intent to address gender issues or promote gender equity, including by:

- investing in women-owned or -led enterprises;
- investing in enterprises that promote workplace equity (in staffing, management, boardroom representation, and along their supply chains); or
- investing in enterprises that offer products or services that substantially improve the lives of women and girls.

And/or investing using:

- a *process* that focuses on gender, from pre-investment activities (e.g., sourcing and due diligence) to post-deal monitoring (e.g., strategic advisory and exiting); or
- a *strategy* that examines and manages an investee in line with the investor's mandate and intentions with respect to:
 1. their vision or mission to address gender issues;
 2. their organizational structure, culture, internal policies, and workplace environment;
 3. their use of data and metrics for the gender-equitable management of performance and to incentivize behavioral change and accountability; and
 4. how their financial and human resources signify overall commitment to gender equality.

¹⁶ SMEs typically borrow at around 15%, however, rates vary widely based on each enterprise's relationship with financial institutions and availability of collateral.

ACTIVITIES OF GENDER LENS INVESTORS IN VIETNAM

Gender lens investors in Vietnam have invested in enterprises that provide microfinance to women and that provide access to affordable finance for household goods (Table 2). These investments have sought to grow women's access to financial services and to promote gender equality in the workplace. Non-microfinance business models, such as those that provide access to affordable consumer finance and employee benefits, are perceived as highly scalable, leading investors to invest equity in these early-stage enterprises.

All capital invested to date using a gender lens originated from outside Vietnam, but these investors have local offices to help them source the right investees. They are also relatively supported by the handful of ecosystem enablers with a gender focus.

Gender lens investors indicated that sourcing investees is especially difficult given the nascent ecosystem of GLI enablers in the country and the traditionally patriarchal nature of Vietnamese society. Although male and female educational enrollment is the same, most Vietnamese women do not enter the formal workforce. PIIIs, however, driven by LP mandates to invest with a gender lens, are committed to identifying and supporting entrepreneurs who can create positive gender impact through a range of gender lens strategies.

TABLE 2: GENDER LENS INVESTING IN VIETNAM

♀ KEY STRATEGIES USED					
STRATEGY	NUMBER OF INVESTORS	NUMBER OF DEALS	CAPITAL DEPLOYED (USD MILLIONS)	INSTRUMENT	DESCRIPTION
Investing in enterprises that provide women access to critical goods and services	1	2	0.2	Debt	Investments of approximately USD 100,000 made in women-owned enterprises.
Investing in enterprises that provide women with access to critical goods and services	2	2	3.1	Both debt and equity	Including a USD 1 million equity investment and a USD 2 million debt investment in enterprises that facilitate women's access to finance.

Source: Intelicap Advisory Services analysis

CHALLENGES AND WAY FORWARD

Investors and ecosystem enablers alike highlighted the following challenges that may inhibit the growth of GLI in Vietnam. Such challenges stem from both the societal aspects of gender relations in the country and from the state of the social enterprise ecosystem.

- **Limited awareness of GLI among investors and ecosystem enablers:** Many investors, including both DFIs and PIIIs, consider their investments' impact on gender. However, they typically use this information to assess impact after making an investment rather than to intentionally select investable enterprises. Gender lens investors often consider gender in response to public and policy discourse rather than based on a refined understanding of GLI, its opportunity, and its impact. The

lack of well-defined impact measurement metrics for GLI exacerbates the problem. Enterprise support providers, meanwhile, have developed services that target startups and social enterprises as a whole. These can be further refined to address the specific needs of women-led businesses, such as support structures to overcome socio-cultural barriers to entrepreneurship, access to knowledge and networks, and more sustained mentorship.

- **Higher perceived costs of deal sourcing:** Many investors expressed a belief that applying a gender lens will require them to spend extra time, money, and effort to source investees in a field that is already sparse in terms of the number of investable enterprises. This perception is driven, to some extent, from investor misunderstanding of GLI as investing in only women-owned or women-led enterprises.
- **Mismatch between amount of capital investors seek to deploy and the needs of enterprises that meet gender lens requirements:** Most women-owned or women-led enterprises are micro-enterprises that seek small amounts of capital. However, many investors are unwilling to invest such small amounts; consequently, these enterprises struggle to raise capital.

Despite these barriers, several GLI investors are actively scouting for deals in Vietnam. As awareness of the range of GLI strategies improves, the outlook for GLI in the country will be increasingly positive.

UNINTENTIONAL GENDER IMPACT IN VIETNAM

Although the overall scale of GLI in Vietnam remains relatively small, additional impact investing capital deployed in Vietnam over the past decade has likely created positive gender impact by supporting enterprises that distribute products or services to women or promote workforce equity. Almost all such investments have had large ticket sizes (average USD 26.4 million) and have been made by DFIs. These include investments in financial institutions that then lend specifically to women-owned SMEs and investments in the manufacturing and tourism sectors that create employment for women. Such unintentional impact indicates further opportunity for GLI in the country, including in sectors beyond financial services, such as manufacturing, consumer goods, and tourism. Since most DFIs do evaluate their investments' gender impact, such examples can encourage DFIs to apply a more explicit gender lens to their investments, building additional success stories for PIs to emulate.

THE LANDSCAPE OF DEMAND FOR IMPACT CAPITAL

A multitude of different types of enterprises—including SMEs, non-governmental organizations, charity organizations, cooperatives, limited liability companies, and social enterprises—demand impact capital in Vietnam. An estimated 600,000 SMEs in Vietnam contribute approximately 40% of the country's GDP and over half of its employment.¹⁷ Not all SMEs, however, are potential targets for impact investment; some may lack the positive impact on the society or environment that impact investors seek. Many SMEs lack access to capital, with 60% either unable to access formal finance or unable to access funding more broadly.¹⁸ Although 'social enterprises' have existed in Vietnam for decades, only recently have the Enterprise Law (2014) and subsequent Decree 96 (2015) formally defined them.

Overview

The State Bank of Vietnam considers SMEs a priority sector for lending, yet over 30% of SMEs cannot access formal finance. Access is even more limited for micro-enterprises, which typically cannot provide the collateral that financial institutions demand. Though specific programs promote access to finance for SMEs, such as the SME Development Fund and the Credit Guarantee Fund for SMEs, information asymmetries keep some SMEs from accessing these facilities. Moreover, non-banking financial institutions are relatively nascent in Vietnam; while there are MFIs and leasing companies, the former typically lend to individuals and micro-enterprises and the latter lend to large companies. The cash-starved SME sector, consequently, demands impact capital.

The Government of Vietnam has proactively encouraged enterprises, seeking to address social and environmental problems or serve public interests, to register as social enterprises and receive associated benefits, including tax exemptions. Provided that such enterprises reinvest at least 51% of their profits to serve their registered social and environmental purposes, the government offers initial tax exemptions,¹⁹ as well as other incentives, such as long-term leases at preferential rates for infrastructure and land and exemptions from various fees. The government also allows any social sponsorship establishment, social fund, or charitable fund to convert itself into a social enterprise. However, only about 50 enterprises have registered themselves as social enterprises, perhaps due to the mandate to reinvest their profits.

Social enterprises in Vietnam work in impact themes such as livelihood improvement, skills development, and education, operating largely by self-finance or on external grant support. Typical social enterprises are much smaller than impact-agnostic businesses. They have historically sourced capital from grants from the government or domestic charities, especially those assisting people with war-induced disabilities. The Enterprise Law also permits social enterprises to accept grant

17 Ken Atkinson, "Vietnamese Small and Medium Size Enterprises ('SMEs')," *Chairman's Insights*, Grant Thornton, March 5, 2017, <https://www.grantthornton.com.vn/insights/articles/chairmans-insights/030617-vietnamese-small-and-medium-size-enterprises-smes/>.

18 "Ministry of Planning and Investment," Government of Vietnam, <http://www.mpi.gov.vn/en/Pages/default.aspx>.

19 Social enterprises are exempt from paying tax for four years once they start generating taxable income, while their taxes are reduced by 50% for the subsequent five years.

support from foreign, non-government entities. Notably, not all social enterprises have business models that investors will consider ‘investable,’ because they often operate on a nonprofit basis. Consequently, social enterprises still primarily access grant and, in some cases, debt funding. The number of social enterprises in Vietnam is a small fraction of the overall spectrum of Vietnamese SMEs.²⁰

Challenges

Despite a supportive government and availability of specific types of ecosystem support, social enterprises in Vietnam continue to face various challenges:

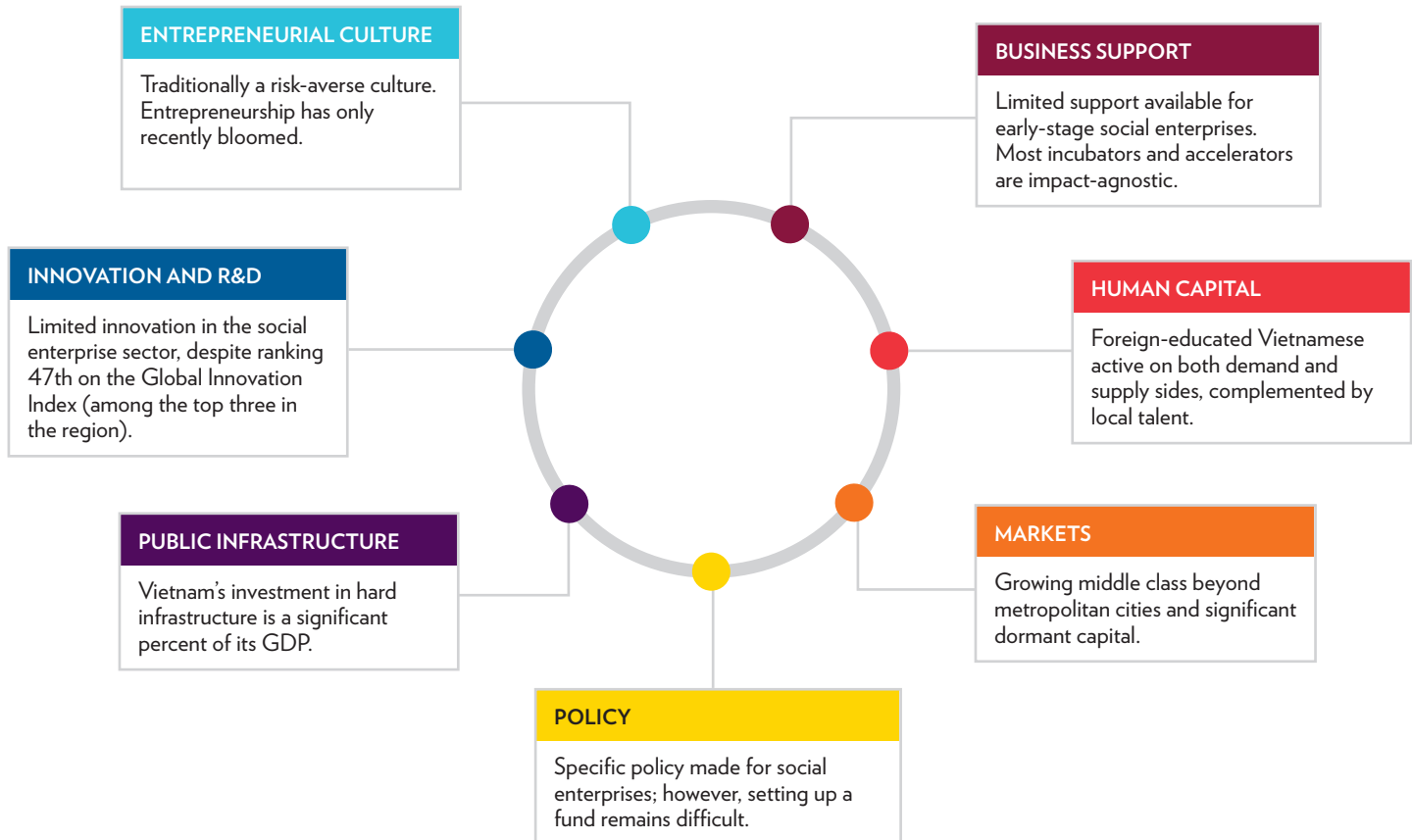
- **Lack of awareness:** The concept of a ‘social enterprise’ as defined by the Enterprise Law is still relatively poorly understood in Vietnam, including within government departments, despite widespread, general awareness of entities that work towards solving social challenges. This can prevent enterprises from taking advantage of the various incentives available to them.
- **Insufficient access to affordable capital:** Most social enterprises are small and cannot provide the collateral required to secure capital from mainstream sources. Additionally, given the lack of early-stage support, they often face a dilemma: unable to scale due to lack of capital, they cannot prove scalability and therefore further struggle to attract capital.
- **Dearth of networks and management capacity:** Most social enterprises in Vietnam are young businesses with little track record. Some newer social enterprises that leverage technology to reach underserved populations were founded by foreign-born or foreign-educated Vietnamese citizens. Entrepreneurs with these backgrounds have the access to investors and other private sources of low-ticket-size funding that most local social entrepreneurs lack.
- **Perception of inherent financial tradeoff:** Many in the Vietnamese business community perceive social enterprises as less serious, less profitable businesses. Many businesses prefer not to identify formally as ‘social enterprises’ for this very reason. The Enterprise Law mandate to re-invest 51% of profits into the company’s social mission further deters investors, who feel returns cannot be realized even if the enterprise does well.
- **Lack of sufficient early-stage support:** Support for early-stage businesses in Vietnam is largely located in the metropolitan centers of HCMC and Hanoi; the rest of the country is underserved.

20 Nguyen Dinh Cung et al., *Vietnam Social Enterprise Casebook* (Hanoi: British Council, 2016), <https://www.britishcouncil.vn/sites/default/files/vietnam-social-enterprise-casebook.pdf>.

THE ENABLING ECOSYSTEM

A range of factors can together enable a supportive environment for impact investing activity. The ecosystem for impact investing in Vietnam has grown considerably over the last few years. However, limited enterprise support, limited innovation, and a culture of risk aversion continue to constrain impact investing activity in the country (Figure 21).

FIGURE 21: IMPACT INVESTING ECOSYSTEM OF VIETNAM



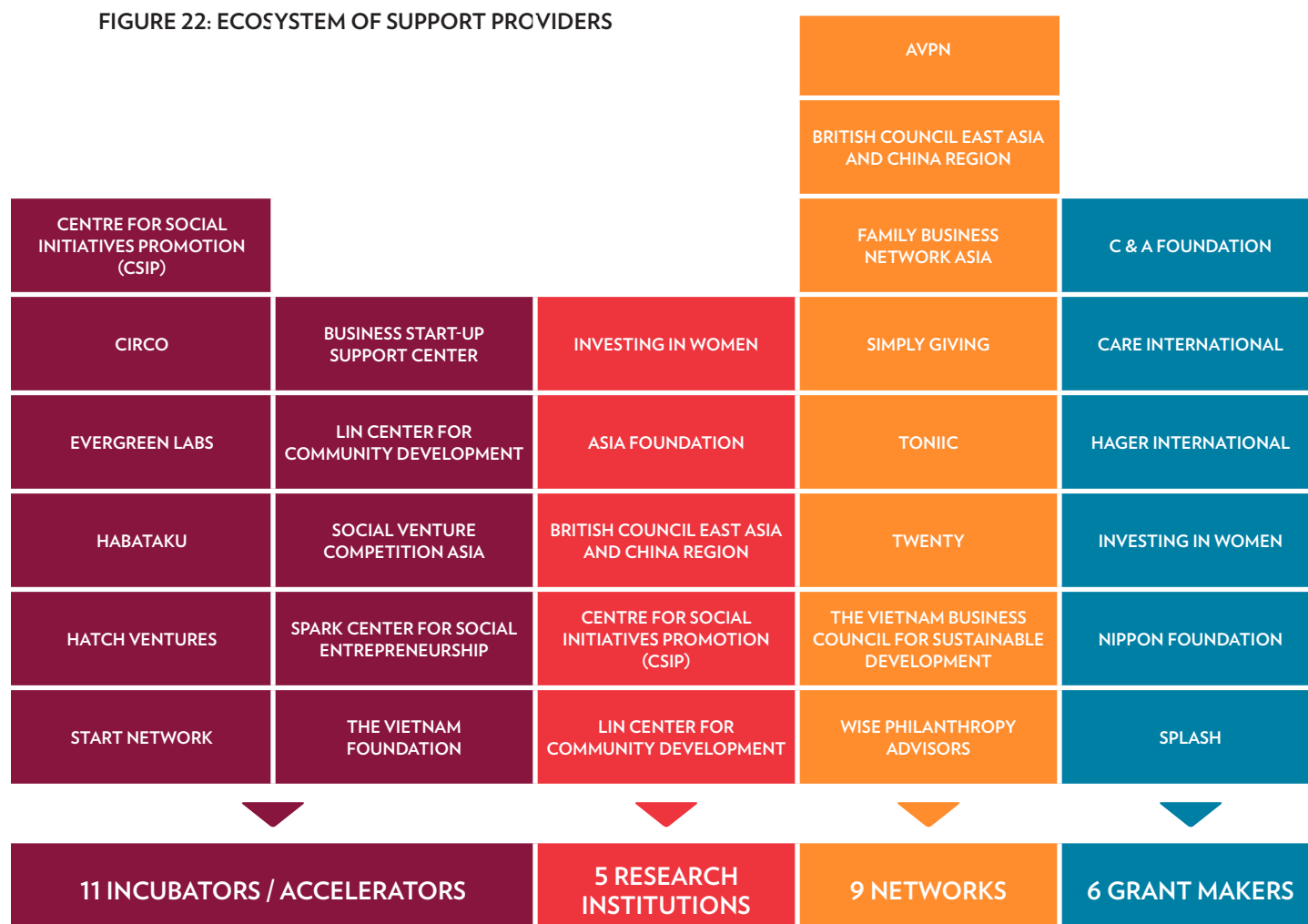
*Note: This framework uses the ANDE entrepreneurial ecosystem diagnostic toolkit.
Source: Intellecap Advisory Services analysis*

BUSINESS SUPPORT

Multiple incubators, accelerators, and co-working spaces operate in key cities in Vietnam (Figure 22), primarily HCMC and Hanoi, as well as the city of Da Nang. However, the need far outweighs their capacity, and little support exists for entrepreneurs—especially social entrepreneurs—outside of these locations. Additionally, most support entities are impact-agnostic, and many focus on tech startups. Fewer than five ecosystem actors have an explicit impact focus. On the other hand, interviewed investors agreed that business support is critical to developing an investable pipeline of social enterprises in Vietnam. Investors, especially those without a local presence, routinely struggle to obtain support for enterprises in their pipeline. Although partnerships with incubators and accelerators are common, investors often need to directly offer enterprises mentorship support. This is sometimes provided remotely by foreign nationals, with reduced effectiveness and higher costs compared to local support. The government offers only limited support to encourage more such ecosystem actors, and existing intermediaries are wary of engaging with the government due to the bureaucratic processes involved.

Additionally, the lack of specialized service providers and associations often requires that ecosystem enablers be involved in policy advocacy, network management, and the provision of any required non-business support to social entrepreneurs. While this indirectly furthers the cause of Vietnamese social enterprises, it takes intermediaries' focus away from their core offerings.

FIGURE 22: ECOSYSTEM OF SUPPORT PROVIDERS



Source: Intelicap Advisory Services analysis

There is no active angel network in Vietnam; because its economy is socialist, most angel investors keep a low profile, preferring their investments to have limited visibility. Moreover, angels typically cannot provide mentorship as a complement to capital. Consequently, often enterprises cannot effectively utilize angel capital to scale. Meanwhile, local family offices and foundations deploy significant capital as grants. Grant providers often collaborate with ecosystem enablers to conduct business plan competitions in order to identify enterprises to support, albeit predominantly through grants rather than through return-seeking investments.

ACCESS TO HUMAN CAPITAL

Impact investors—both DFIs and PIs—and intermediaries benefit from highly educated human resources. Social enterprises, however, have few quality resources available. Founders, representatives, or employees of most impact investor organizations in Vietnam tend to have Vietnamese origin, although they may be foreign-born or -educated, and add tremendous value to the impact investing ecosystem through their ability to easily navigate on-the-ground realities. Similarly, intermediaries can also attract high-quality local talent. For social enterprises, however, many leaders and employees, while devoted to the mission, may lack training in business skills. The ecosystem must therefore build sufficient support structures in the near term to provide business assistance to budding social entrepreneurs.

MARKETS

A government focus on infrastructure and a growing and aspirational population willing to spend on healthcare and education present large markets for impact-related stakeholders. The Vietnamese Government has made the development of infrastructure a national priority, which will serve to attract FDI, improve economic competitiveness, and promote tourism.²¹ Private enterprises aligned to these sectors can attract impact investments, and represent a promising potential market for social enterprises. In sectors such as healthcare and education, for example, consumers in a growing middle class, even beyond the metropolitan cities of HCMC and Hanoi, are finding existing public options unattractive.

POLICY

The Government of Vietnam has progressively reduced the corporate income tax rate from 25% to 20% over the last few years, offering additional tax incentives to social enterprises. Vietnam's corporate income tax rate, which is lower than the regional average, is part of a set of policy measures intended to stimulate the economy and attract more FDI. Other policy measures include the institutionalization of a daily-adjusted exchange rate, provision of tax breaks to specific sectors, and provision of support packages to small businesses. These measures, along with specific policy initiatives for social enterprises, should promote Vietnam's impact investing ecosystem.

- **Special recognition of social enterprises under the new Enterprise Law:** The Vietnamese government has defined social enterprises as a special category under the Enterprise Law of 2014. According to Article 10 of this law, three characteristics distinguish social enterprises:

21 *Spotlight on Viet Nam: The leading emerging market*, (PwC, 2017), 22, <https://www.pwc.com/vn/en/publications/2017/spotlight-on-vietnam.pdf>.

1. the enterprise is established under the Enterprise Law;
 2. the stated objective of the enterprise is to resolve social or environmental issues in the interest of the community; and
 3. at least 51% of its profits must be re-invested to accomplish the social and environmental objectives it has registered.
- **Incentives for social enterprises and particular sectors:** Social enterprises are entitled to receive benefits such as long-term leases at preferential rates on infrastructure and land, exemption from registration fees charged for the use of land, and other incentives directed towards high-opportunity sectors for social enterprise, such as education, healthcare, environmental protection, and renewable energy. Additionally, social enterprises are charged income tax at 10% (as opposed to the usual 20%), exempt from paying income tax for four years after they start generating taxable income (followed by a 50% reduction in income tax for the subsequent five years), entitled to preferential import and export taxes, and, in some cases, exempt from VAT.

Gradually institutionalizing a daily-adjusted exchange rate has helped trading partners and foreign investors better gauge Vietnam's competitiveness. This should encourage further investment into the country once recently finalized FTAs become operational. However, investors still face difficulties setting up funds in Vietnam due to unclear and lengthy bureaucratic processes.

INFRASTRUCTURE

Recognizing the need to create robust infrastructure to develop economically, increase manufacturing competitiveness, and attract FDI, Vietnam leads Southeast Asia in terms of infrastructure spending as a proportion of GDP.²² Vietnam has proven an attractive destination for FDI in the region, and better-developed infrastructure will further grow FDI flows. The private sector accounts for about 10% of infrastructure investment in the country, with considerable opportunity for more investment. After financial services and manufacturing, infrastructure has been the third-largest sector for impact capital from DFIs. Improved infrastructure should also help the tourism industry, which holds high potential to provide employment. Further, Vietnam is one of the fastest-growing smartphone markets in the world. With increasing internet penetration and government efforts to digitize systems, Vietnam has imported large quantities of IT hardware and software to create ICT infrastructure that will position the country well for the future.

INNOVATION AND R&D

Vietnam ranks among the top three countries in the region on the Global Innovation Index; however, innovation in the social enterprise sector is limited.²³ The government has made a conscious effort to attract Vietnamese expatriates back to the country. Returnees have helped developed a vibrant tech entrepreneurship scene to develop products and services for the country's young, tech-savvy population. Vietnam has thousands of new technology firms, making it one of the largest tech startup ecosystems in Asia. However, technological innovation has not yet fully permeated the social enterprise space.

22 *Spotlight on Viet Nam: The leading emerging market*, (PwC, 2017), 37, <https://www.pwc.com/vn/en/publications/2017/spotlight-on-vietnam.pdf>.

23 *The Global Innovation Index 2017: Innovation Feeding the World*, (Cornell University, INSEAD, World Intellectual Property Organization, 2017), xviii, <https://www.globalinnovationindex.org/gii-2017-report>.

ENTREPRENEURIAL CULTURE

Vietnam has traditionally been a risk-averse society with a relatively nascent entrepreneurial culture, and it ranks 87th on the Global Entrepreneurship Development Index.²⁴ Vietnam's traditional risk-aversion perhaps stems from years of socialist governance. Entrepreneurship in Vietnam is changing rapidly as young, tech-savvy Vietnamese—some of whom have studied or lived abroad—start their own businesses. The government, too, defined 2016 as the 'year of the startup,' promising support to an estimated 2,600 startups over a decade. Most young entrepreneurs are focused on tech, however; social enterprises typically receive less visibility and attention.

CHALLENGES AND OPPORTUNITIES

The impact investing industry in Vietnam has recently seen changing policy, ecosystem support, and investor interest. Some challenges in Vietnam are common to the impact investing industry across the wider Southeast Asian region, while others are more country-specific (Figure 23).

FIGURE 23: CHALLENGES FOR IMPACT INVESTING IN VIETNAM

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none">• Lack of demonstrated success• Dormant local capital• Complicated process to launch a fund	<ul style="list-style-type: none">• Nascent entrepreneurial culture and limited innovation• Mismatch between capital requirements and return expectations	<ul style="list-style-type: none">• Limited government support for intermediaries• Dependence on grants for operations• Much non-financial support and mentorship required

Source: Intelicap Advisory Services analysis

Supply-side challenges

- **Lack of demonstrated success:** The limited number of exits for impact investors discourages new entrants, especially PIs. Many potential investors are waiting and watching, wary of committing to the country. Notably, however, mainstream investors have seen successful exits in Vietnam.
- **Dormant local capital:** Family foundations oversee much of the capital in Vietnam, but they are more likely to deploy it as grants than as impact investments. There is no active angel network in the country, and most angels are impact-agnostic. Consequently, most impact capital currently being deployed in Vietnam, including that from PIs, originates from the Global North.
- **Complicated process to launch a fund:** PIs, especially fund managers, find it difficult to navigate the processes required to establish a fund in Vietnam. Most prefer to have headquarters elsewhere with a small local office; although half of PIs active in Vietnam have a local presence, this often takes the form of one- or two-person teams. Such a small team, however, is insufficient to effectively and quickly source investees, perform due diligence, and navigate Vietnam's bureaucratic processes.

24 Zoltan J. Acs, et al., *Global Entrepreneurship Index* (Global Entrepreneurship Development Institute, 2018), 37, <https://theledi.org/2018-global-entrepreneurship-index/>.

Demand-side challenges

- **Nascent entrepreneurial culture and limited innovation:** Vietnam has historically been a risk-averse society under socialist governance. Although entrepreneurship has accelerated over the last decade, it remains nascent. Would-be entrepreneurs need significant training to build scalable businesses.
- **Mismatch between capital requirements and return expectations:** Social enterprises in Vietnam tend to be small, with limited ability to absorb capital. Conversely, impact investors prefer to invest comparatively larger amounts to optimize their costs of sourcing and due diligence. This mismatch, combined with the scarcity of local impact angels, prevents social enterprises from accessing capital and consequently scaling. Also, not all Vietnamese social enterprises have business models that can generate market-rate returns, which deters investment in mission-driven startups. Further, few investors in Vietnam offer patient capital to develop social enterprises over a longer-term horizon. To encourage more patient capital, Investing in Women has provided blended finance in Vietnam, but demand for such capital continues to exceed its supply.

Ecosystem challenges

- **Limited government support for intermediaries:** The Enterprise Law defines ‘social enterprises’ and offers some benefits, but certain provisions (namely the 51% reinvestment mandate) may disincentivize registration. Generally, more government support is needed; policy could better support impact-focused ecosystem intermediaries to help them develop investable social enterprises. Any support currently available from the government comes with tedious reporting requirements, which makes it unattractive.
- **Dependence on grants for operations:** Most intermediaries find it difficult to sustain themselves financially, relying on unsustainable grant capital, from domestic and international donors and corporations, for their operations. This limits their ability to expand or to deepen their offerings, constraining the development of the impact investing ecosystem as a whole.
- **Much non-financial support and mentorship required:** Social entrepreneurs often lack strong business skills, including the language skills needed to interact with foreign investors. While large cities host several ecosystem enablers, more such organizations need to provide sustained, high-touch support through mentorship.

Notwithstanding these challenges, Vietnam’s socioeconomic environment in Vietnam offers impact investors many opportunities (Figure 24).

FIGURE 24: OPPORTUNITIES FOR IMPACT INVESTING IN VIETNAM

SUPPLY	DEMAND	ECOSYSTEM
<ul style="list-style-type: none"> • Recognition of key success factors for impact investing • Increasing interest from mainstream investors and increasing FDI 	<ul style="list-style-type: none"> • Targeted policy for social entrepreneurs • Young and increasingly aspirational population 	<ul style="list-style-type: none"> • Strong investor demand for intermediaries • Increasing entrepreneurial energy across Vietnam

Source: Intelicap Advisory Services analysis

Supply-driven opportunities

- **Recognition of key success factors for impact investing:** Most impact investors clearly recognize the key success factors needed for operating in Vietnam, such as having a local presence, building partnerships with local networks, and focusing on high-opportunity sectors like education, healthcare, agriculture, and tourism. Vietnam's rapidly developing entrepreneurial culture also offers promising opportunities to investors.
- **Increasing interest from mainstream investors and increasing FDI:** Increasing investment in Vietnam, particularly in high-impact sectors like manufacturing and education, should ripple through the social enterprise sector, with multiple large-scale projects likely to generate employment. These existing successes demonstrate the opportunity for DFIs and PIs alike to invest in Vietnam, which has already demonstrated macroeconomic stability, a conducive policy environment, and favorable demographics for such sectors to thrive.

Demand-driven opportunities

- **Targeted policy for social entrepreneurs:** The Enterprise Law, which provides various incentives to social businesses, offers new opportunities to social entrepreneurs. Entrepreneurs with scalable business models stand to gain by using this law to control costs and increase overall profitability. Although the requirement to reinvest 51% of profits has currently tempered enthusiasm to register, entrepreneurs stand to gain by registering as social enterprises in the long-run.
- **Young and increasingly aspirational population:** More than 60% of Vietnam's population is younger than 30, representing a large consumer market. As many Vietnamese seek to move into the middle class, they will spend more on education and healthcare, sectors with immense potential opportunity for social enterprises and impact investors alike.

Ecosystem-driven opportunities

- **Strong investor demand for intermediaries:** Given many investors' limited local presence, ecosystem enablers can establish themselves as strategic partners to provide deal sourcing and other support. Existing intermediaries using this model have tremendous opportunity to scale. By partnering with multiple supply-side entities and grantors, intermediaries can spread their risk and diversify their revenue streams.
- **Increasing entrepreneurial energy across Vietnam:** Most of the organized impact investing activity is concentrated in HCMC, Hanoi, and Da Nang. However, much entrepreneurial energy and opportunity exist beyond these cities, especially in the tourism and agriculture sectors. Targeted programs by intermediaries can tap into this momentum, which would also help intermediaries build sector-specific expertise and credibility among investors.

ABOUT THE GLOBAL IMPACT INVESTING NETWORK

This report is a publication of the Global Impact Investing Network (GIIN), the leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical market infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

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The GIIN conducts research to provide data and insights on the impact investing market and to highlight examples of effective practice.

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Roadmap for the Future of Impact Investing

Interested in helping to build the field of impact investing? The GIIN's *Roadmap for the Future of Impact Investing: Reshaping Financial Markets* presents a vision for more inclusive and sustainable financial markets and articulates a plan for impact investing to lead progress toward this future. To download the Roadmap and find more information about opportunities to get involved, visit roadmap.thegiin.org.

ADDITIONAL GIIN RESEARCH

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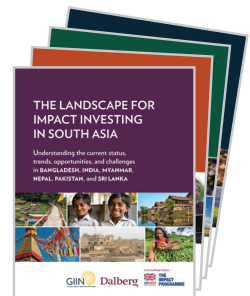
Lasting Impact: The Need for Responsible Exits outlines impact investors' approaches to preserving the positive impact of their investments after exit.



The Business Value of Impact Measurement demonstrates how investors and their investees use social and environmental performance data to improve their businesses.



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