

BEYOND THE MARGIN

REDIRECTING ASIA'S CAPITALISM



Avantage Ventures
creating social change capital



Authors

Cynthia Chua, Abhinav Gupta, Vivian Hsu, Justin Jimenez, Yvonne Li

Editors

Sanjukta Mukherjee, Simon Cartledge

About Avantage Ventures

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

Suite 1201, 111 Leighton Road. Causeway Bay, Hong Kong

Suite 1005, Tower A, The Spaces International Center, 8 Dongdaqiao Road, Chaoyang District, Beijing, China, 100020

Email: info@avantageventures.com

www.avantageventures.com

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FOREWORD

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

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

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

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

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

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

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



“Impact investing” – the deployment of private capital to create positive impact that goes beyond financial returns alone.

EXECUTIVE SUMMARY

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

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

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

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

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

Impact Investing in Asia-Pacific

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

Our research has identified six key sectors that would particularly benefit from impact investing. We estimate that between now and 2020, the total amount of investment needs for social enterprises in these six sectors will be between USD44 billion and USD74 billion. If invested, that money could unlock a market demand of between USD52 billion and USD158 billion.

Sector	Market Demand Opportunity (USD billion per annum by 2020)		Expected Profit Margin		Expected Profit (USD billion per annum by 2020)		Invested Capital (USD billion)	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Affordable Housing	11	33	15%	22%	2	7	15	21
Water and Sanitation	6	17	10%	10%	1	2	5	5
Rural Energy	1	4	10%	20%	0	1	1	2
Rural and Elderly Health Care	16	50	5%	10%	1	5	7	15
Primary Education	17	50	10%	20%	2	10	15	30
Agri-business	1	4	5%	10%	0	0	1	1
Total	52	158			6	25	44	74

Currently, however, most social enterprises in these sectors suffer a lack of funding as they fall into the “Missing Middle” – a critical financing gap in the USD500,000 to USD3 million investment range that is deemed too large for philanthropy, too small for multilateral aid and too risky by financial institutions.

We believe that the necessary investment can be found from a particular segment of the investing world: Asian high net worth individuals (HNWIs). HNWI assets invested in the Asia-Pacific now stand at USD8.6 trillion, or 22% of total assets held by HNWIs globally. If Asian HNWIs were to redirect just 1% of all their investments to social enterprises, these businesses would have all the financial resources they need to grow.

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

Many challenges hinder the development of social enterprises in Asia. The most critical of these are weak social sector infrastructure, difficulty in identifying and evaluating social

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

Investing for a Sustainable Future

These challenges notwithstanding, there is no better time to invest in the social enterprises of Developing Asia than now. Despite the global financial crisis and continuing economic problems in the US and Europe, Asia’s leading economies have continued to perform strongly.

Asian private wealth is now uniquely positioned to catalyse change and create a new era of development in the region. If invested smartly in the needs of the future, a small amount of the total available capital can be deployed to help tackle the regions’ most pressing challenges.

It is in the interest of all stakeholders to understand that traditional short-term profit-maximisation and unbridled economic development will only result in continued environmental degradation and long-term social discord. Investments that seek to maximise social, environmental and financial returns instead provide an alternative, ethical approach that should be at the forefront of any Asian investment strategy.

Impact investments in Asian social enterprises have the potential to bring about a cascading effect of positive externalities. If social enterprises are nurtured, and their activities and investments allowed to grow both in scope and reach, societies are likely to change their views about how business and investment can be best used for the betterment of the entire population. In this way, investors in Asia can directly shape the course of progress in the region over the next few decades.

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



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Interview Participants

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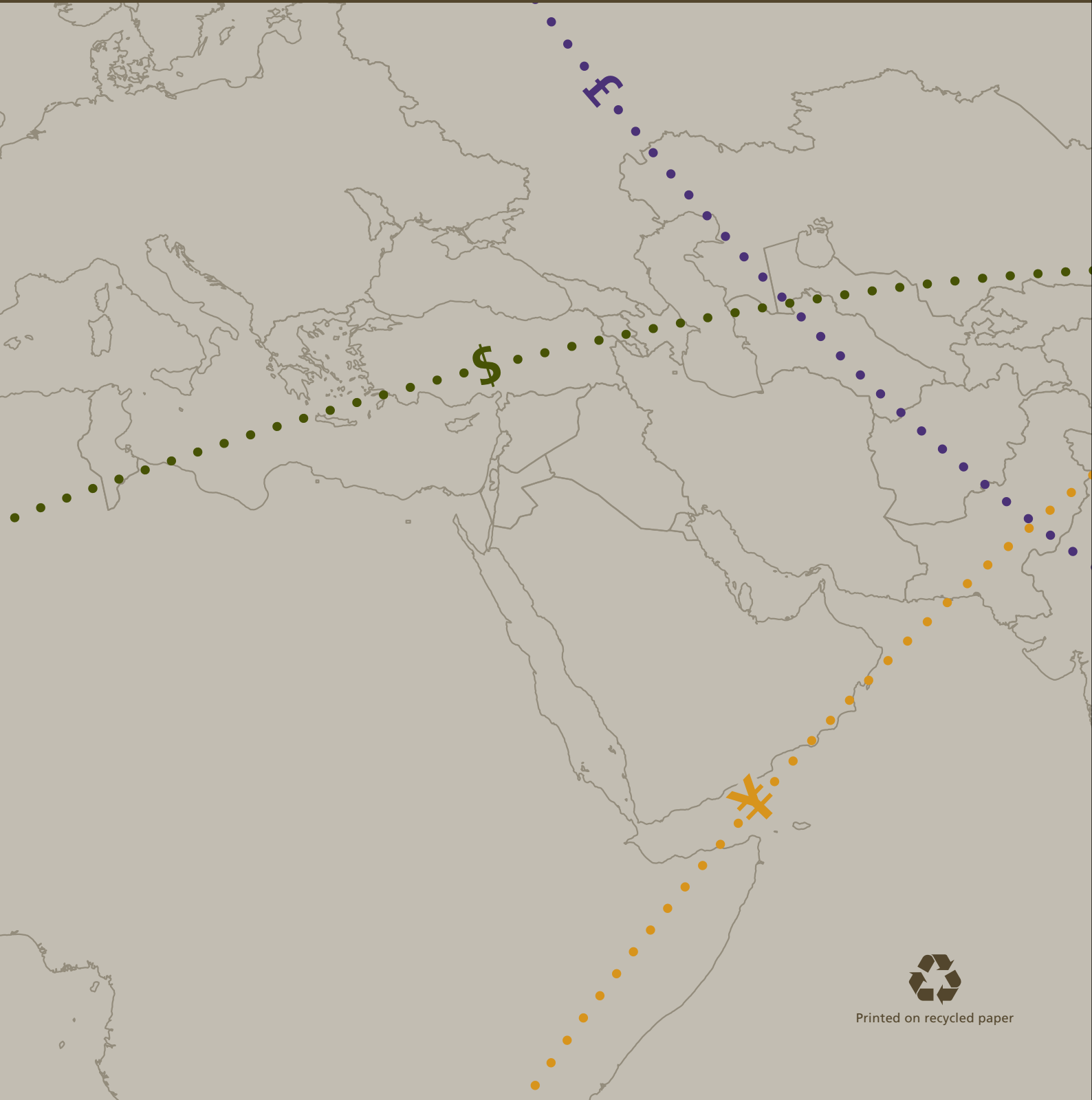
Survey Participants

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

Peer Reviewers

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



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