

# REFRAMING IMPACT INVESTMENT FUNDS IN SOUTH-EAST ASIA AND CHINA

VOICES FROM THE MARKET





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# ABOUT GIVE2ASIA

Give2Asia serves as a world leader in donor-advised philanthropic investment in China. It operates as a Public Charity in the United States and a Section 88 Foundation in the Hong Kong Special Administrative Region (SAR) of China. With an expert team based in Beijing, Hong Kong SAR, Taipei and San Francisco, Give2Asia builds trusted relationships among funders and charitable organisations working across a broad range of issues, such as education, arts and culture, the environment, health and social services.

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# 1 INTRODUCTION

## 1.1 Purpose of the Research

This Report assesses the position of impact investment (II) and impact investment funds (IIFs) in South-East Asia and China (the Region), one-quarter of the way into the 21st century. It has two objectives: to reflect current market sentiment and to offer recommendations for how impact as a thematic area, and impact funds as investment vehicles, can be reframed to best serve the Region in the future. The Report was commissioned with a particular objective in mind. Rather than add to academic research or undertake another review of funds and investors in the market, we sought insights on the perceptions of II/IIFs based entirely on anecdotal evidence. We conducted interviews with 120 practitioners and stakeholders from across the Region and beyond in a wide range of disciplines. Further, Give2Asia deliberately selected practitioners, not industry observers, as part of this exercise. It is for this reason that we have called the Report, Reframing Impact Investment in South-East Asia and China: Voices from the Market. In listening to those active in the impact marketplace, or who could become so, the research team applied its extensive fund structuring, fundraising and II experience to identifying the bottlenecks impeding impact investment, and to crafting solutions to free up capital flows into IIFs. This also explains why we have kept the tone of the piece conversational.



## 1.2 Meaning of Impact Investment (II) and Impact Investment Funds (IIFs)

II is a fraught term. It covers investing in areas that have already experienced considerable swings of perception under different and sometimes emotive terms. These include diversity, equity and inclusion and environmental, social and government. II is more than a thematic area or a discipline. In the Region and beyond, it is a conversation, similar to that concerning sustainability. The term signals a set of perceptions, values, activities and ongoing polemics. These may be accurate or inaccurate, just or unjust.

However, it is vital to place IIFs in the same context of ongoing discussions as they have been with II. This debate, which is healthy—albeit to the frustration of some—even includes a vibrant argument that asks whether impact is even an investment activity or asset class in its own right. In simple terms, the question is often posed as “Is impact even a thing?”. We use the terms II and IIF to draw attention to the fact that impact funds, as investment vehicles, are to be seen not through the lens of a simple, standalone academic problem, but to be analysed and assessed against the background of this complex and evolving impact conversation.

The Report thus tries first to disentangle IIFs from sometimes acrimonious conversations and then to reintegrate them into the discussion in a more harmonious way.

The Report has two objectives. The first is to reflect current market sentiment and to offer recommendations as to how II as a theme in its own right, and impact funds as investment vehicles, may be reframed to best serve the Region in the future. The Report was produced with a particular goal in mind. Rather than add another paper to the accretion of academic research or undertake a further review of funds and investors in the market, it sought insights on perceptions of II and IIFs based entirely on anecdotal evidence.

The research team fulfilled this aim by interviewing 120 practitioners and stakeholders from across the Region and beyond and from a wide range of disciplines. They were chosen because they were practitioners, not industry observers. This informs the title of this Report. In listening to those active in the II marketplace—or who may become so in due course—we applied their extensive fund structuring, fundraising and II experience to identifying bottlenecks and to devise solutions that will divert capital flows into IIFs. We have thus tried to keep the tone of the Report conversational rather than academic.

## 1.3 Scope of the Report

Our research focused on IIFs. They form just one of many vectors of impact capital, including listed equities, direct investment, bank lending and fixed income products. We acknowledge that some segments considered by many to fall within the classification of II, such as solar and wind power, have attracted billions of dollars of direct and public-market investment. This has been a welcome development during the last 10 to 15 years. However, alongside bank lending, equity and debt funds are the readiest tools for channelling capital from a large number of investors into impact investment projects and programmes.

Other vehicles may yet be developed. However, at the moment, funds are the best channel we have identified. Furthermore, if II sectors are able to move from the fringes of the market to the mainstream, funds that give investors exposure to them will be among the most efficient ways of aggregating capital for impact investing.

# 2 METHODOLOGY

## 2.1 Sources

As set out above, this Report is based on 120 interviews with stakeholders in South-East Asia, China, Europe and North America. These included private equity and debt fund managers, high-net-worth individuals (HNWI) and ultra-high-net-worth individuals (UHNWI), family offices (FO), foundations, financial institutions (FI), pension funds, insurance companies, academics and industry and network associations. We compiled a list of sectors and key questions to be covered. This enabled us to ensure as far as possible that each interview was uniform and consistent.

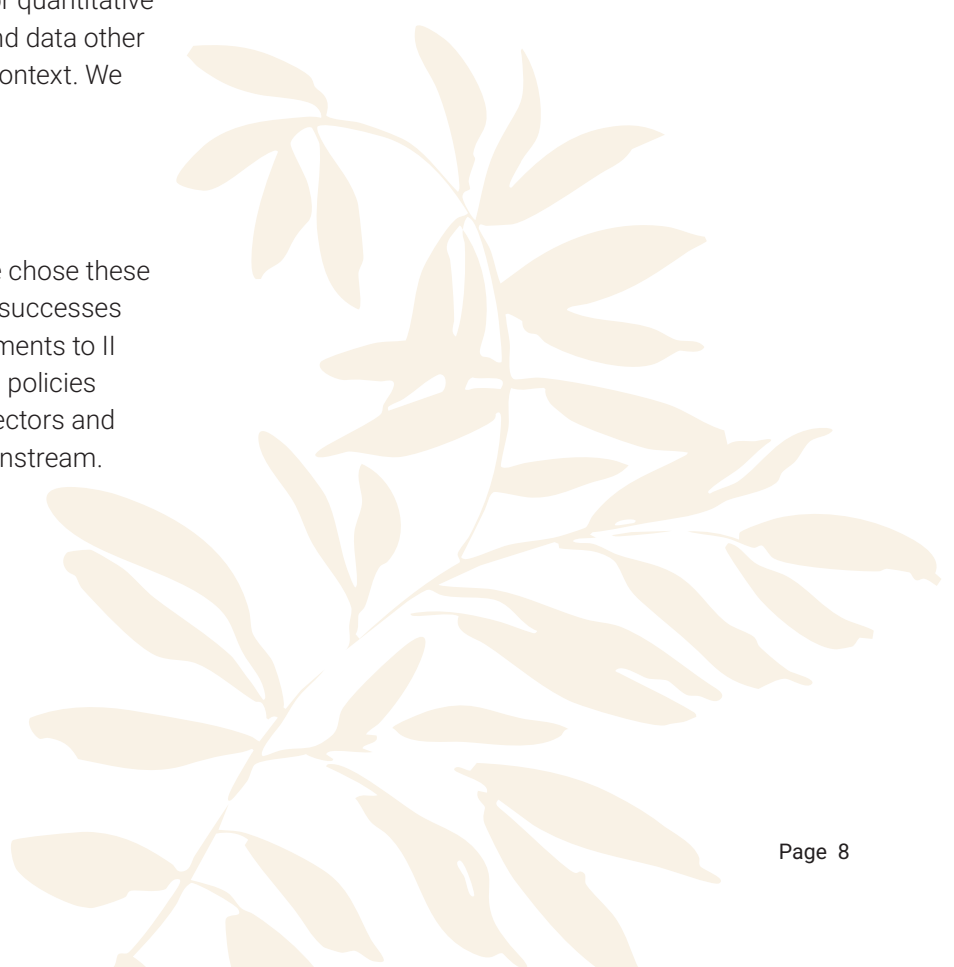
We sought to capture two particular dynamics. The first relates to the perceptions and misperceptions of II and IIFs in the Region. The second is what it will take to channel more capital into more impact funds to address the Region's social and environmental priorities. This also recognises the involvement of governments, the public sector and other partners, such as social enterprises and non-governmental organisations. Using a simple post-interview qualitative questionnaire, we have deliberately eschewed an academic or quantitative approach. We do not present market or fund data other than is necessary to put our findings into context. We received 51 questionnaire responses.

## 2.2 Case Studies

The Report includes four case studies. We chose these to illuminate specific issues or to highlight successes in the market. Such areas included impediments to II at the institutional level, innovative national policies coupled with funding to advance priority sectors and progress towards making II part of the mainstream.

## 2.3 Eleven hypotheses

The foundation of our methodology is our compilation at the beginning of the project of a list of hypotheses about the market's view of the state of II and IIFs in the Region. We believed it would be helpful to go back to such thoughts from time to time during the research. We were correct. As we completed more interviews, the hypotheses served as a helpful starting point. They helped us to evaluate our assumptions. Significant deviations between our initial positions and what we learned from the market would indicate that our working assumptions, even if based on our experiences as practitioners, were inaccurate or required modification. In the event, each of our 11 hypotheses has withstood re-evaluation throughout the research process. We have therefore made them the framework for our recommendations in Chapter 9.



# 3 LIST OF ABBREVIATIONS

AI	Artificial intelligence	MDB	Multilateral development bank
AC	Advisory Committee	MDG	Millenium Development Goals
ADB	Asian Development Bank	MFI	Microfinance institution
BoP	Base of the economic pyramid	MIF	Multilateral Investment Facility
BDS	Business development services	MSME	Micro-, small- and medium-sized enterprise
CAPS	Centre for Asian Philanthropy and Society	Nextgen	Next generation wealth-holder
CC	Climate change	NBFI	Non-Bank Financial Institution
CDC	Commonwealth Development Corporation	NGO	Non-governmental organisation
CFA	Chartered Financial Analyst	PE	Private equity
CSR	Corporate social responsibility	RM	Relationship manager
DFI	Development finance institution	SDG	Sustainable Development Goals
ESG	Environmental, social and governance	SDO	Social delivery organisation
FAO	Food and Agriculture Organization	SE	Social enterprise
FI	Financial institution	SEA/CH	South-East Asia and China
FO	Family office	SIDS	Small island developing states
G2A	Give2Asia	SME	Small- and medium-sized enterprise
GBA	Greater Bay Area of Guangdong, Hong Kong and Macao	SOE	State-owned enterprise
GIIN	Global Impact Investing Network	SPV	Special-purpose vehicle
GP	General partner	SRI	Socially responsible investment
HNWI	High-net-worth individual	TA	Technical assistance
IADB	Inter-American Development Bank	ToC	Theory of change
IB	Inclusive business	UHNWI	Ultra-high-net-worth individual
IBF	Inclusive business financing	UN	United Nations Organisation
IC	Investment committee	VC	Venture capital
II	Impact investment	WEF	World Economic Forum
IIF	Impact investment fund	WRI	World Resources Institute
II/IIFs	Impact investment and impact investment funds		
IPO	Initial public offering		
IRR	Internal rate of return		
LDC	Least developed country		
LP	Limited partner		

# 4 CONTEXT, CONCEPTS AND CONUNDRUMS IN THE REGION'S IMPACT MARKETPLACE

## 4.1 Background

Since the articulation of the Millennium Development Goals in 2000 and the Sustainable Development Goals in 2015, reducing poverty and inequality have become prominent policy goals in many countries. They have also become global objectives, broadly viewed as foundational for peace and economic stability. Over the same period, the evidence that human activity contributes to and accelerates climate change has moved from compelling to irrefutable. With few exceptions, there is consensus that ending poverty and achieving steep reductions in inequality are more than moral imperatives: they are prerequisites for mitigating and adapting to climate change. Meeting these prerequisites, however, is beset by a paradox that will not be easily resolved. This paradox is that the prerequisites must be met in a way that ends or modifies current modes of production, resource consumption and waste generation and disposal. These modes have enabled high levels of wealth accumulation and living standards in the developed world. Yet, lifting billions of people from poverty cannot occur in ways that perpetuate, indeed, in many cases, exacerbate these modalities. Our task now, in the context of longer life expectancy, overall population growth (if unevenly distributed) and challenging demographics, is not only to reverse unsustainable resource utilisation levels. It is, critically, to achieve unprecedented levels of resource restoration and replenishment. In other words, we have jeopardised and all but exhausted our natural, economic and financial capital, and have failed sufficiently to build our social capital just when we need it most.

## 4.2 Achieving Sustainable Development in the Region

The implications of this paradox are as daunting in the Region as they are in any other area. With South East Asia seeing a population of 686 million people in 2025, of whom 44% were classified as poor or low income, and China recording some 1.4 billion inhabitants, according to the World Population Review, profound economic, social and environmental change is needed. Without such change, our chances of limiting the global average temperature increase to 1.5 degrees Celsius, if still realistic at all, will be impossible. Such change requires the input of two key factors. The first is capital, trillions of dollars of investment. This far exceeds the resources of even the world's wealthiest governments. Administrations also lack the resources and dexterity of the private sector. Neither do public-sector institutions have the financial muscle and capacity to respond effectively. In some instances, they may even be part of the problem.

**“Trillions of dollars of investment will be required globally, including in impact investment, if we are to combat climate change in ways that are, at worst, resource-neutral, at best, resource-accretive. This is not just an investment opportunity; it is the investment opportunity of the future.”**

**Noah Beckwith, Senior Impact Adviser,  
Asia Impact Investment Funds I and II**

Public systems can be enablers and sources of catalytic investment, however. They can work to provide stable economic and political environments and effective ecosystems. However, the inevitable conclusion is that the private sector is an indispensable factor in meeting the challenges we face. This means we must mobilise from private sources the many multiples of public resources available. This requires attracting the funds of HNWIs, FIs, corporations, foundations and FOs, among others. The second requirement is intention. Whether the impetus is moral, existential, financial or a

<sup>1</sup> Europe Solidaire Sans Frontière: <https://www.europe-solidaire.org/spip.php?article76347>. Accessed 14 May 2026.

combination of those, deliberation and commitment to addressing climate change through innovation and the application of the latest technology and AI is needed. These two factors must be brought together in the form of II, particularly through IIFs. Well executed, II is a resource-deployment method that meets the needs of the moment. Indeed, IIFs are arguably indispensable tools in the change toolbox because they can readily aggregate billions of dollars of capital. Such resources may not otherwise be supported by the expertise nor the sectoral and operational knowledge to direct it to the business models that can drive change at scale. As such, we have to become far better at II in general, and IIF building and management in particular. We need to adapt it to far more socio-economic contexts, apply it to many more sectors and vastly increase the amount of money deployed. The Region could be at the forefront of this critical increase.

#### Asia's Socio-Environmental Challenges in Context

- China's share of global emissions has risen from 22% in 1990 to over half in 2025.
- A disproportionate percentage of Asia's nearly 5 billion people live in coastal or low-lying areas.
- Four-fifths of Vietnamese GDP is generated in coastal lowlands.
- 30% of Asian wealth comes from natural-resource exploitation

Source: Global Impact Investing Network.

### 4.3 The Region's present position

Although the GIIN correctly points out that "Asia has accounted for a mere 15% of the global II market on average since 2016", its subsequent statement is specious: "In fact, the impact capital currently deployed in South-East Asia is mostly from foreign investors." This embodies part of the problem and provides the rationale for this report. Significant volumes of impact investment in the Region are not captured in Western categories, structures and products. Private-equity and debt funds are no exception.

It is true that billions of dollars more of domestic and foreign capital are needed. However we should not be distracted by this misleading headline figure. We must understand the cultural mindsets and ways of doing business that explain why so much II is off the Western radar. Our task is to make products familiar to a global

audience, that is IIFs, attractive to capital pools in the Region seeking meaningful and profitable investment opportunities.

The research team's analyses show that billions of dollars of untapped wealth in the Region and beyond could be channelled more consistently and recognisably into II and IIFs. Indeed, II cannot afford to ignore the largest wealth transfer humanity has ever seen, from Baby Boomers to Nextgens. We also agree with the WEF, that IIFs are a "direct and actionable pathway for investors seeking to drive the transition to a sustainable future".

The purpose of this report, therefore, is twofold. The first is to re-examine the role that II, specifically IIFs, play in the Region to address environmental and social challenges. The second is to identify modifications, new strategies and tools that are able to deepen and broaden their reach and effectiveness.

Based on our interviews, this Report serves to provide the most up-to-date reflection of the true state of II and IIFs in the Region to counter whatever any headline statistics may imply; where and how II is taking place, and whose resources are being deployed and to what end. Our research also looks at where and why II is not being used to the full; which actors are not investing for impact or raising IIFs, and what changes are needed to significantly increase the number, value and efficacy of IIFs in the Region.



## 4.4 Addressing Misperceptions of Impact Investment Funds

The Report assesses the supply and demand sides of the II and IIF situation. Our research shows that it is the Region’s perception that needs changing. Investors seeking or possibly seeking in the future, that is the supply side, and fund managers vying for their capital, the demand side, often talk at cross-purposes. We find that the former are dissuaded or prohibited from considering impact allocations because the latter fail to take into account even their most basic requirements. We therefore paid particular attention to the demand side, diagnosing the weaknesses that prevent impact funds from reaching the ICs of mainstream investors. We identified a number of factors, including poor fund design and management skills, structural weaknesses and misplaced emphasis on impact measurement and management.

“Give2Asia undertook to research and write a practical report that captures the true state of impact investment in the Region. In this report, it is the market that is speaking directly to us, and we must heed its words.”

**Carol Yang,**  
Chief Executive Officer, Give2Asia

Our third case study sheds light on the effects of these shortcomings. It analyses the workings of an FI to demonstrate that the combination of IIF features and internal obstacles make it exceptionally difficult to unlock FI capital.



# 5 UNLOCKING CAPITAL

Equipped with an understanding of the shortcomings of II and IIFs as presently understood and misperceived in the Region, we offer our recommendations for advancing both the impact conversation and impact funds in particular. These include formulating a new investment vehicle to support existing impact managers and seed new ones. A centre of excellence should be set up, offering an internationally recognised certification in impact fund management as rigorous as that offered by the CFA qualification. Finally, we present a ToC for repositioning II and IIFs in the Region.

## 5.1 Redefining II and IIFs

No common definition of II exists in the Region. This affects how IIFs are viewed. This hinders consideration of what II and IIFs mean in the Region. The movement of II toward the mainstream is obstructed by varied cultural norms and misperceptions surrounding the term 'impact'. Another problem is that the term is used loosely and interchangeably to describe sustainability, responsible and ethical investment and ESG considerations in investment. We therefore work through these positions to ascertain what is required to reframe them. We strive to formulate a definition that positions financial, social and environmental objectives in such a way that it can accommodate all stakeholders in the impact conversation.



## 5.2 IIF Expectations, Positioning and Evaluation

We find that II and IIFs, positioned as they are on the fringes of the investment sector and far from fulfilling their potential in the region, are mostly viewed negatively. In some cases, their very reason for existence is rejected. The patchy track records of investment vehicles labelled by fund managers or the market as IIFs further reduces their credibility. IIFs are also hit by the credibility crisis surrounding sustainability, ESG and responsible investing. A better definition will lift this mood of gloom from II and IIFs. This will help IIFs manage reasonable expectations from investors. The understanding of the supply and demand sides of IIFs will then align.

Accurately positioning II and IIFs on the spectrum of acceptable investment offerings ensures that the supply and demand sides have a shared understanding. This will help in the creation of IIFs and their evaluation by prospective investors.

Impact conversation is poorly served by the Region's plethora of II and IIF definitions advanced mainly by global associations and networks. Reframing the definition will maximise the efficacy of IIFs in addressing the social and environmental challenges we wish them to address. This will enable them to align their returns, in the broadest sense, with what managers offer to wealth holders. Our ultimate goal is to see expectations clearly set and managed. Stakeholders will thus have confidence that any particular IIF, using financial and non-financial criteria, fulfils its requirement to be transparent. In other words, 'What you see is what you get'.

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<sup>2</sup> Where in the world do the poor live? It depends on how poverty is defined. Accessed 17 May 2026

## 5.3 Towards a more apt definition

A better definition of II for the Region results in improvements. It should end confusion in the marketplace; render actionable this Report's recommendations, and provide a counterbalance to other definitions. It is the differences in those diverse definitions that may help, at least in part, to explain the market's repugnance of II and IIFs.

A thorough analysis of the elements of our preferred definition must take into account the concepts of poverty, the BoP and inclusion. This is vital if IIFs are to become mainstream tools for reducing poverty and inequality and combating climate change. If it is agreed that the current rate of resource exploitation among the world's 4 billion poor is unsustainable, we require a shared understanding of the position of the poor relative to the resources and economic structures in question. Without this, it is impossible to intervene for positive change.



## 5.4 Impact investing

We define this as the deployment of capital by companies with the intention of generating positive social and environmental outcomes as a means of and alongside achieving positive financial returns. The latter is vital because investments whose commercial and financial performance is anchored in realising positive socio-environmental outcomes as opposed to those where such outcomes are mere incidentals, have a far greater chance of success. They also hew closer to the fundamental principles of investing familiar to those looking to put money into sound funding destinations.

### Impact Investing, ESG and SRI

Applying robust ESG standards to investment selection and management—sustainable resource usage, minimising environmental degradation, bringing portfolio companies into compliance with national or international standards—is a foundational element of impact investment. It does not, however, equate to impact investment. Hence, a fund management company that argues that it 'does impact' because it 'does ESG' reveals complete unfamiliarity with the terrain.

Related to this, socially responsible investment (SRI) is defined by the European Sustainable Investment Forum as "a long-term investment approach integrating ESG factors into investment processes to achieve competitive financial returns and positive societal impact".

### 5.4.1 Poverty and inequality

This Report adopts the World Bank's definition of poverty as "profound deprivation in well-being". The breadth of this definition is particularly helpful. It goes beyond the usual manifestations of poverty, such as malnutrition and starvation, to focus on a person's inability to meet some or all of their basic needs. It encompasses factors such as exclusion, insecurity, immobility and disempowerment. Because addressing these factors is key to reducing poverty and inequality and to recalibrating lower-income groups' relationship with the environment, we must bear in mind holistic, multidimensional concepts of poverty and inequality when considering IIFs.

The base of the economic pyramid, or BoP, refers to those toiling and consuming in the lowest socio-economic strata of the economic system. That is those living in poverty in the broadest sense. In September 2025, the World Bank revised its headline global

indicator for extreme poverty to those living on less than USD3.00 a day. Whereas the World Bank estimates only 1.9% of people were living in extreme poverty in East Asia and the Pacific in 2025, the figure jumps to 25.3% for those living in poverty, or on less than USD8.00 a day at 2021 purchasing power parity.

In assembling these building blocks of our definition to reframe the 'impact conversation' and to bring IIFs into the mainstream, we must remember that central to our objective is inclusion. This does not mean that only businesses targeting lower socio-economic strata merit investment. It is to remind us that many of the socio-environmental modifications we require lie at the BoP. We must therefore channel II and IIFs to this segment of the economic hierarchy as a matter of priority. We must build inclusive businesses (IB).

We define an IB as one whose model enables individuals, households, entrepreneurs and MSMEs to gain access to affordable goods and services that are vital to meeting basic needs; build secure, sustainable livelihoods, and engage effectively and equitably in supply and value chains in ways that endure.

Some of the most compelling IIFs pursue inclusion through inclusive business financing (IBF). IBF is the provision of capital by an investment vehicle, such as a private equity fund, or an FI or non-bank financial institution (NBFI) to an individual, entrepreneur or MSME to start or expand a business. Such enterprises pursue a commercial strategy enabling lower-income groups to mitigate or overcome exclusion; facilitating the inclusion of the recipient of capital in a supply or value chain as a producer, supplier, distributor or employee, and allowing the poor to increase production or to pursue economic opportunities that increase their incomes and security.

### 5.4.2 Aligning the Region's IIFs with a new definition of II

Our Hypothesis 3 posits that climate is the first matter that comes to mind when stakeholders are asked about impact investment. Half of the respondents to our survey indicated that climate and clean energy are

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<sup>3</sup> It is important to distinguish IB financing from financial inclusion. Financial inclusion denotes traditional access to finance; in other words, making available financial services, such as loans, bank accounts and insurance, to anyone excluded on the basis of geography, gender, religion, literacy, documentation, informality, lack of assets or any other exclusionary criterion or dynamic. It implies the establishment of a relationship where one previously did not exist between an individual and an FI, a microfinance institution (MFI) or an NBFI, such as a savings and credit co-operative (SACCO).

the most prominent issues when they think about II. It is welcome that 'climate', a catch-all term generally meaning clean and renewable energy investments, appears to have graduated to the investment mainstream. Costs have fallen steeply and it is now cheaper in many countries and regions to produce energy from clean and renewable sources than from fossil fuels. This evolution from expensive burden to attractive investment must now be replicated in many other sectors and economic segments. Simply threatening mainstream investors with the likelihood of ecological collapse, or making abstract appeals to intervene in the economic development-poverty, inequality-climate battles, will have little effect. Two

#### Impact Investing and the Externalities of Exclusion

Optimising IIFs in the Region must be a priority owing to their potential for reducing the externalities of exclusion—environmental degradation, political instability, social unrest, violence, conflict, migration. Exclusion perpetuates economic inefficiencies and structural asymmetries. Both have direct and externalised socioeconomic and environmental costs. Private investment is needed at scale in companies that recalibrate the relationship of the excluded with natural, economic, financial and social capital growth, and adverse demographic trends. Only then can we achieve production and service provision at scale in resource-neutral, restorative or accretive ways.

things need to happen. First, we must explain how exclusion imposes unsustainable costs on people and the planet. Second, we must increase the number and reputations of well-managed IIFs that profitably support inclusive business models. If those two factors are implemented, inclusion and natural resource preservation and accretion will be brought into a positive and reinforcing relationship.

A consideration of the socio-environmental aspect of our research is vital. This Report examines how all of us, but particularly lower-income groups and those at the BoP, have a relationship with the environment as consumers, producers, suppliers, distributors and employees. In the Region, this forces particular scrutiny of the MSME sector for two reasons. First, MSMEs generate a large proportion of its economic output. Second, MSMEs straddle the formal, semiformal and informal sectors. In so doing, they provide the connectivity vital to reducing poverty and inequality. Finance is essential to preserve and expand such links.

## 5.5 Other definitional requirements for optimal II

If finance is the foundation of II and IIFs, other matters contribute to the success of reframing their definitions. They include intention, or the 'why'. What does an II intend to achieve and what do investors believe will be the outcomes and impacts realised by investing in an impact fund? The 'why' incorporates tangible and intangible elements. The tangibles are the inputs, outputs and outcomes that an IIF and its portfolio companies achieve. The intangibles relate to the fund communicating to investors its vision about how investments will be used. This is a combination of intention, transparency and trust, enabled by clear lines of communication.

In other words, does the investment pass the 'What you see is what you get' test? Unforeseen events occur. Yet sincerity of intention, as proved by transaction selection, is fundamental to repositioning IIFs. This is particularly so in the Region, where trust is paramount.

Next is impact realisation, or the 'how'. This deals with the changes, the 'before and after' scenarios, the counterfactuals and the growth of IIF portfolio companies fuelled by the investment of the fund manager. This is not the same as impact management. It is a due diligence exercise undertaken as the fund is being put together and investors approached.

Persons, or the 'who' are vital. They include individuals, households, society, the market, competitors and governments. The environment is present as an all-encompassing abstract stakeholder. The environment must be thought of in this way because individuals and societies cannot have a positive, non-destructive relationship with it unless it features in IIF strategies. The 'who' also encompasses the companies in which fund managers invest. Failure to understand fully the profiles of these companies further undermines the credibility of II and IIFs.



## 5.6 Perceptions of II and IIFs in the Region

When reconfiguring the definition of impact investment, the main obstacles to unlocking more capital for II/IIFs in the Region are the entrenched perceptions of the nature of II and what may be expected of IIFs. These perceptions, usually wrong, shape every aspect of the impact landscape in the Region and affect all stakeholders. They influence which impact funds are created, how they are designed, what they invest in, who invests in them, whether they are successfully raised, whether their investment theses are viable or not and whether they will fulfil investors' expectations. Perceptions also play a role in whether subsequent funds can be raised.

The understanding of what impact investment means and what IIFs do, ranges from the common reaction of being reflexively negative and intransigent, through the cautiously inquisitive to the painfully small group of the all-embracing. This reflects the nascent nature of II and IIFs in the Region compared with South Asia, Africa and Latin America. In these regions, more of an impact common language has developed. The impact conversation has been going on far longer, and more stakeholders are fluent in fund structures, deal stages and sizes, risk-reward profiles and risk-mitigation tools. By contrast, the Region lacks a shared understanding of what counts as II and IIFs. Because the body of investment track records and case studies is far shallower and less well spread in the Region, many IIF practitioners and impact investors feel isolated. In the words of one impact investment team member of a Hong Kong-based family office, "We are out here on our own. Our community can fit in a tent. Traditional investors can fill a marquee...several! It is not clear that we are at all welcome in the marquee at this point." Indeed, there is little interaction between the two investor communities.

Our research shows that this comes from the misperceptions of traditional investors. They consider that II is values-based. It implies an intention, in the broadest sense, of socio-environmental responsibility, of 'doing the right thing'. It is thus something different to 'business as usual'. Most investors therefore expect an IIF to achieve some or all of the following objectives with regard to portfolio companies. They must stop, or at least minimise, harmful practices; they have to transition to improved practices, often expressed as meeting or exceeding local or international ESG standards, and they should introduce new modes



of production, provision of services, and supply or distribution that are more efficient and less wasteful, and thus regenerative or at least resource-neutral.

However, such focus areas and activities are perceived as distracting from or being burdensome to 'core' investing. As a result, IIFs start from the perceived position of being less than proper investment vehicles. It is assumed that they will underperform. The traditional view is that 'doing impact' always requires a trade-off, that being reduced or no financial returns. Such misperception holds that it is not possible to pursue positive socio-environmental impact without sacrificing returns. As one interviewee, a fund manager at an investment bank in Singapore says, "if I invest in impact funds, I am going to take a hit. I am not prepared to do that."

A common view is that Impact investment is charity by another name. Allocating funds to II means giving money away in the guise of investment. The expectation is that the capital will be lost. Impact investments are almost always early-stage and much higher risk than other investments. This view holds that impact funds are there to support new and early-stage businesses, which, unlike traditional businesses, are burdened with delivering on positive social or environmental impact objectives. The Singapore interviewee above, when pressed, added, "Isn't impact investment just a game of roulette, with start-ups for bullets? Guess what? It generally doesn't end well, but it makes some people feel good." The concept of supporting businesses is key to countering this view. This envisages carrying companies, compensating for their deficiencies and helping them. It is more than simply investing in them with the implied rigour of traditional investments.

Many general partners, that is fund managers, view impact as a niche, unscalable strategy making fundraising more difficult than it already is. They believe that too many potential limited partners, or investors, regard IIFs as marginal, with limited deal flows in a narrow range of relevant sectors. They consider that exit markets are shallow. GPs have come to accept that impact offerings stand little chance of reaching the requisite size for institutional fundraising. This is generally accepted as being a minimum of USD500 million or so.

Such perceptions are also found in other markets. However, they are particularly prevalent in the Region. Cultural attitudes to philanthropy explain much of this orientation. For example, all survey respondents concurred that there is unfamiliarity with using impact investment to pursue environmental and social objectives, with 75% considering that the belief is strongly or very strongly held in the Region. This freights II and IIFs with expectations that are often inaccurate and always unhelpful. These expectations include those that such funds are subsidised in one way or another, are not run along commercial lines and are unlikely to break even, much less turn a profit.

Experienced impact investors and practitioners we interviewed took a different view, and, refreshingly, more sceptics in their ranks were open to persuasion than those refusing to budge. Opening their minds usually involved shifting the centre of gravity towards economies of scale.

Sceptical interviewees were asked to consider a company manufacturing nutritional supplements for children in extreme poverty, an investment in which the author of this Report collaborated. The more supplements the company sold, the more affordable the price became and the wider the spread of the product in poor counties and across social segments. Increased profits enabled the creation of new products, such as those, for example, for pregnant women and elderly carers, usually grandparents. The relationship between impact, commercial performance and profitability was direct. Not every investment will have such a strong link between commercial trajectory, the realisation of impact objectives and the generation of profits. However, the study showed that mindsets can be changed if anchored in commercial logic rather than being led by an appealing impact narrative.

Anecdotally, it appears that some interviewees were unable to envisage a VC or PE fund portfolio that included only such investments. They explained

away the real life example by labelling it an outlier.

This implied that were there to be a PE fund making attractive returns by only investing in II it had to be an aberration. An explanation came from one foundation executive who told us that "There is still no consensus in Asia on what exactly impact is and how it works." The research team was able to analyse the components of this view because our interviewees so often resorted to it.

We found that interviewees had a number of common expectations. They believed that IIF portfolios mostly target early-stage and small investments. Impact funds engage in unfamiliar practices such as acting as catalysts and use unintelligible terms such as 'impact-first'. Because some IIFs benefitted from technical assistance, grants and blended-finance tools, all are subsidised.

## 5.7 Summary of present capital flow obstacles

A positive conclusion we draw is that all is not lost. II such as the nutritional supplement company example prove that if their commercial rationale and business model meet the criteria fund managers use for traditional investment, they will receive an audience. However if investments are presented using unfamiliar language, development speak, investors will ignore even good investing opportunities.

To attract investors and fund managers more diners to the impact restaurant, we need to overcome four conundrums. These are dealt with in the next chapter.



# 6 CONUNDRUMS HAMPERING II ACCEPTANCE

## 6.1 The social enterprise conundrum

The portfolios of many of the Region's IIF managers are heavily weighted towards social enterprises, or SE. However, it appears that numerous managers are unaware, when evaluating transactions, that they are in fact investing in SEs. They believe they are investing in early-stage companies with every chance of achieving exponential growth. Investors are frequently surprised to find portfolios full of SEs when they expect them to include commercial enterprises that may expand rapidly. These may be put down to ignorance in the one case and a failure to carry out due diligence on the other.

However, these appear to be situations that are indeed present and have to be factored in. The first issue is not knowing what a social enterprise actually is. The Corporate Finance Institute of the United Kingdom defines an SE as "a business with certain social objectives as its primary goal while using a commercial structure to run the organization. Social enterprises usually attempt to make a strong societal impact while maximizing their profit as well, which is then used to fund their social programmes." United Way, a non-governmental organisation (NGO) in the United States, defines an SE as, "a civic-driven business that generates income for causes like social and environmental issues". Finally, the government of Hong Kong defines an SE as, "a business to achieve specific social objectives such as providing the services (for example support service for the elderly) or products needed by the community, creating employment and training opportunities for the socially disadvantaged, protecting the environment and funding its other social services through the profits earned".

These are just a few of myriad definitions. Although they all begin with the enterprise as the base entity, they suggest that commercial drivers sit on a spectrum. This is not a compelling proposition, particularly for investors unfamiliar with the impact world. Such definitions suggest that the companies are being

supported. Second, they adumbrate that any profits may be allocated in numerous ways. Last, they put their particular social imperative as the main purpose of the SE. As with profits, the purpose itself is fungible. This is most simply expressed by the Hong Kong-based Centre for Asian Philanthropy and Society (CAPS): "It is not clear what a social enterprise is in Asia".

We do not adversely criticise SEs. They are essential to the Region, filling gaps that the private sector and governments cannot and possibly should not address. However, these definitions do not help IIFs comprising only or mostly SEs. Investors and fund managers look forward to growth and profitability that only commercially operated businesses can deliver. The problem is compounded by the fact that the priority of SEs, especially those newly established, is to secure funding. This may confuse the less experienced fund manager, who may be attracted by the most sophisticated and self-publicising social enterprises. Grants often sustain SEs for considerable periods, perhaps for longer than they should. Two-thirds of SEs consider grants the most valuable type of startup funding, according to CAPS research.

At the market level, there are dozens of entities, including SEs, searching for funding. They may be unaware of the kind of funding that suits their position in the enterprise lifecycle. Catching the unwary investor, many newly founded SEs are unviable, should be wound up and must not be allowed to continue appealing for further funding. With the shutting down of well-meaning but weak SEs being lax, many are of poor quality with poor long-term prospects. In some parts of South-East Asia, especially the Mekong region, the incubators and accelerators proliferate. They are often run by relatively young professionals with scant financial and accounting skills but still find their way into IIF portfolios.

This is not to suggest that SEs have an easy corporate passage. CAPS research demonstrates that SEs, "find the biggest barrier to attracting capital is expectation of high returns". Inexperienced fund managers wanting to take part in II tend to take the path of least resistance and continue to invest in SEs without being fully aware

of the hazards of doing so. Laudably, SEs are often established on the strength of conviction, a sincerely felt moral imperative to right a social ill or serve an excluded segment of society. However, SEs that become established expose the contradictions between the 'social' and the 'enterprise' aspects of their existence that render them unsuitable for IIF portfolios. SEs may well wish to be profitable and believe that social and financial missions are compatible. Usually, however, social priorities take precedence.

The conundrum we are left with at the market level in the Region is that because many impact fund managers tie achieving impact to making relatively small investments in relatively small companies, the SE is now the default entity for II. The market assumes that a USD20 million impact fund for the Mekong Region will make investments of some USD100,000 to USD500,000, mostly in start-ups or very early-stage companies. They will be social enterprises in the main. Both the fund manager and the investor are taking VC-level risk, often unwittingly, in the service of 'impact'.



## 6.2 The missing middle conundrum

The social enterprise conundrum has a parallel, the missing middle conundrum. From the 1950s to the 1990s, development assistance, or 'aid', and development finance were separate. The former undertook development projects, the latter provided finance to the private sector. Only from the mid-1990s was this pattern reconsidered. With the publication of the MDGs and the SDGs, MSMEs, the informal sector and entrepreneurship came to prominence, employing strategies to reduce poverty and inequality. The two streams, described as 'development assistance' and the 'private sector', that is business, became partners albeit somewhat warily.

It is likely that II and IIFs would not have come into being without this relationship. However, there is a missing middle. As the private sector became the driver of development, microfinance came to the fore. This has led to great gains in poverty reduction. Attention then focussed on the MSME sector that was unable to access finance from formal channels. With microfinance expanding by loan size and widening to include micro-enterprises, individual borrowers and group beneficiaries required ever larger amounts of capital. SME banking emerged, offering increasingly sophisticated products. However, access to finance remains difficult for MSMEs. The reasons affect developed and developing economies alike. They include inadequate and incomplete financial records, opaque ownership structures, a lack of frameworks to ensure good governance and an inability to meet collateral requirements.

This was unfortunate for II and IIFs. The focus on getting capital to small, early-stage enterprises, often SEs, coincided with the proliferation of SME-focused funds from the mid-1990s onwards. Such funds emerged from sector-agnostic backing such as SME funds pioneered by the UK's Commonwealth Development Corporation (CDC). The CDC's initial portfolio of 14 SME funds did not target social enterprises. However, in the wider marketplace, with investment strategies aligned with SEs, micro- and small-enterprises (capital deployments of some USD500,000 or less), the IIFs that were created were at a disadvantage. They were expected to undergo rapid growth, generate employment, reduce poverty and deliver market rates of return. Many private placement memorandums from the mid-1990s to the global financial crisis of 2008-2010 promised net internal rates

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<sup>4</sup> This tends to happen in smaller single-country funds, for example those with USD10 million to 30 million of capital commitments; it is less so in larger funds which usually are offered by more seasoned fund managers, some of whom learned some harsh lessons in the past.

of return, or IRR, of 20-25% in US dollar terms. This was wholly unrealistic with an average investment of USD500,000 and a range of only up to USD1 million. IIFs, burdened with unrealistic expectations and the wrong investment vehicles, often simply common equity, were asked to solve the 'problem of the missing middle'. That gap was ill-defined. It referred to the parlous space between the stages of pre-seed capital deployment, the so-called 'friends, family and fools', through to a company's first injection of bank finance or impact fund investment.

Some pioneers in sector-agnostic SME funds, such as those managed by the CDC, learned hard lessons from the early 1990s. Early-stage-focused SME funds making investments of between USD50,000 and USD100,000 at the lower end were particularly at risk. Some had IRRs of -35%. With an SME investment fund community only just beginning to form in the mid-1990s and before the internet was sophisticated enough to disseminate hard lessons learned, many of the early errors made by the CDC funds were destined to be repeated. They are still being made today, particularly in the Region.

Our 120 interviews suggest that the missing middle consequentially affected the industry in the Region. The size of many IIFs (USD20 million to 30 million) means they are barely viable. Add to this the focus on smaller, higher-risk investments in SEs, particularly for those newly established, and it may be argued that they have little chance of success from the outset.

Other than HNWIs, FOs and foundations deliberately targeting this segment, institutional investors and mainstream capital sources are not interested. Case Study 3 is proof of this. Persuading a bank to carry,

or distribute to clients, an impact product that is up to 20 times smaller than standard products, a USD50 million IIF on the one hand against a USD2 billion fixed income product on the other, is a daunting prospect. To do so for a fund comprising social enterprises is an impossibility.

From the perspective of the market, IIFs are classified as developmental or sub-commercial; they remain "at the children's table rather than the adults' table," as one Singapore-based fund manager put it. This inhibits FIs and mainstream investment houses from making allocations to IIFs on purely fiduciary criteria. All impact funds are therefore tarnished as being sub-commercial.

Thus, there is almost no room for IIFs that do not target SEs and that do not focus exclusively on early-stage investments. It is easier, for example, for a USD200 million healthcare fund targeting lower-middle-market companies in South-East Asia to be carried by a bank than a USD20 million agriculture fund.



## 6.3 The access to finance conundrum

Access to finance is a struggle for many firms, especially MSMEs. The corollary is that significant impact is possible by making finance available to them. However, a logic path has evolved. This is that MSMEs struggle to access finance; providing finance to MSMEs is at the base of II and IIFs; therefore, providing access to finance for MSMEs is inherently a high-impact endeavour. This specious logic is damaging. Elements of the start-up and missing middle problems are carried over. Businesses of all sizes require finance in order to grow. However, as important is the need for expertise in such areas as management, governance, strategic planning, export development and market penetration. Providing finance does not, of itself enable a business to be built. If the market relies on the flawed logic that most impact is achieved by II and IIF activity, how can investors be expected to fund IIFs? This is particularly so in the Region. The business community is conditioned to segregate anything that seems to be charity from anything that seems to be business.



## 6.4 The Venture Philanthropy Conundrum

The last of the four conundrums out of many we could have analysed follows the pattern of the other three. A significant number of impact fund managers and investors fail to realise that the investment proposals these they promote and consider are, in effect, venture philanthropy. As such, they will never make the returns that fund managers project or hope for. Two definitions of venture philanthropy, again out of many, highlight the issues.

The IADB considers that venture philanthropy is a term “used by different people to mean very different things.” It defines venture philanthropy as “‘engaged philanthropy’ that combines the policies and practices of long-term investment and venture capital models of the for-profit sector with the principles and public-benefit missions of the non-profit sector [emphasis added]. Its strategies involve both capital investments in non-profit organisations and social enterprises together with some form of technical or capacity-building assistance.” Sopact, a social enterprise focused on impact measurement, defines venture philanthropy as directing “capital exclusively to non-profit organisations where financial return is impossible by design [emphasis added]. Success is measured entirely through social outcomes, such as lives improved, systems shifted and problems solved. The ‘return’ is impact evidence, not financial appreciation. This fundamental distinction means venture philanthropy can support interventions that would never attract commercial capital despite delivering enormous social value.”

In the Region, few impact fund managers are entirely clear about the nature of investee businesses’ operations. As an example, an impact fund of USD30 million makes investments of USD250,000 to USD2 million. In addition to investing capital, the fund provides grants. It can also use convertible instruments, either grants or debt. It has significant TA funding to support it, perhaps as much as USD3 million, or 10% of the committed capital. The fund is presented as a commercial fund that, in some cases, may make very early-stage investments, hence the grants and convertibles. In practice, however, few if any of the investments have genuinely realisable commercial prospects, or at least not during a typical life of 10 years. They are SEs or ‘SE-adjacent’. As a result, the projected 15%, or even 8%, IRRs in US dollar terms is unattainable from the fund’s very design phase.



Another problem is the search for significance. Regardless of the investor profile, the desire for their capital to ‘matter’, or to ‘have an impact’, is understandable and laudable. However, investors’ two objectives of their capital being catalytic and additional are litmus tests and, to a degree, proxies for impact. Investing in SEs where others would not, can indeed fulfil such aims but doing so at the seed or very early stages is not necessarily more impactful than deploying capital at other stages or in other forms. Turning a large business around or replacing management through a management buy-out or buy-in may be equally or far more catalytic and additional by any number of measurements.

Viewing impact as a hierarchy of effectiveness is futile. The depth or value of non-financial impact is necessarily subjective. It reflects individual values represented by a portfolio. Many impact managers in the Region told us that IIF recipients need to be catalytic and additional so that investments can have meaning. They pay scant attention to the subsequent performance of investees and to their chances of survival. In this way, most impact investment becomes venture philanthropy by another name.

If fund managers and investors go into a venture with their eyes wide open and carry out appropriate due diligence, they should of course proceed. We are not

arguing that early-stage funds or those targeting high-risk businesses should not be raised. On the contrary, they are important features of the impact landscape. We do, however, question whether funds by themselves are the appropriate means of providing capital to small businesses, particularly social enterprises. We do press for such funds to be clearly flagged as being sub-commercial. Were industry associations and networks to take the lead in drawing this distinction, they would bring significantly more accuracy to the assessment of investees. Commercially oriented impact funds able to achieve compelling non-financial impacts will attract the attention they deserve and become a fund class, or a ‘thing’, in their own right.

To conclude this review of the problems fund managers and investors face, we do not advance one strategy over another. Far less do we reject the very premise of venture philanthropy or the viability of SEs. We emphasise the vague use of terminology and how the lack of sufficient understanding and expertise affects the ‘impact conversation’ and the market in the Region.

Reticence about II in mainstream investment houses, banks and companies comes about by, among other factors, the number of IIFs making small investments, lending to or investing in SEs, trying to solve the missing middle, positing that the greatest impact is to realised through these focus areas and claiming that unrealistic high net returns may be generated. All these matters hinder the transition of II and IIFs to the investment mainstream. IIFs remaining experimental are doomed from the outset in terms of standard commercial practice.

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<sup>5</sup> <https://www.iadb.org/en/news/venture-philanthropy-panacea-or-snake-oil> Accessed 21 May 2026

<sup>6</sup> <https://www.sopact.com/use-case/social-enterprise> Accessed 21 May 2026

# 7 REGIONAL OVERVIEW

## 7.1 Objective

We wanted to understand the nature of the market in the Region as revealed by those we interviewed. We take note of the constituent countries' geopolitical, macroeconomic and socio-economic backgrounds and present environments. This is essential because the conditions, habits and attitudes that have shaped II and IIFs in the Region since the early 2000s influence our conclusions and recommendations.

### 7.1.1 Impact Development Finance in South-East Asia

Recurrent themes in the environment for II and IIFs include inefficiency and the impact marketplace being at an early stage of development, especially for funds. It may be argued that the development finance community is partly responsible for this. Having left behind the Organization for Economic Development and Co-operation's (OECD) least developed country status, many South-East Asian countries have relentlessly expanded economically since the 1990s. As such, the eligibility of these now lower-middle income and middle income nations for development finance has shrunk equally dramatically. Such financing must never be phased out, but it is not a necessity for a thriving IIF market. However, such a reduction, based on headline macroeconomic indicators, had a deleterious effect on the impact marketplace by slowing the maturity of fund managers and their offerings.

As an Asian region, South-East Asia is attractive to North Asian and international investors. This reflects three factors, favourable demographics in developing economies, a large aggregate population and proximity to China. International investors seeking traditional and impact fund offerings consistently cite the perception, whether substantiated by data or otherwise, that South-

East Asian economies are expected to grow more quickly than many other emerging regions. This position seems to ignore concerns about political uncertainty and economic policymaking far more than for Latin America and Africa. However, nearly 90% of survey respondents asserted that the fiscal, regulatory and legal environment for impact investment is insufficiently transparent in South-East Asia.

The situation in South-East Asia can be characterised as a two-tiered marketplace with mismatched expectations. On the lower-tier supply side, institutional investors, asset managers and financial institutions are deeply sceptical about the very premise of impact investment. We observe a preponderance of inexperience, small investments, often in SEs, and a fundamental misreading of the core skills and structural necessary for funds, whether impact or otherwise, to complete full cycles successfully. The higher tier, with fewer managers and offerings, contrasts such situations in three ways.

#### South-East Asia

##### Pre-Pandemic Headline Impact Data

- US\$11.3 billion deployed in 449 deals, 2007-2016.
- US\$6.7 billion deployed in 298 deals, 2017-2019.
- 60% of deals greater than US\$10 million, more than half in financial services.
- Over 50% of investors from outside South-East Asia.
- Over 50% of capital deployed in Indonesia, Vietnam and the Philippines.

Sources: Global Impact Investing Network.

The first is the model of Vietnam, which has a thriving fund and II and IIF ecosystem, with many fund management houses that grew from precarious beginnings. The second is a small number of regional impact fund managers who have added impact offerings based on established track records in lower-middle-market VC and PE. Such offerings usually attract investment from some MDBs and the few remaining DFIs with South-East Asia fund windows.

<sup>7</sup> As noted above, we have deliberately avoided undertaking a USD performance and data review of impact managers and funds in the Region. There are many resources for such information, and it adds little.



These include the Asian Development Bank, IFC, Proparco of France, DEG of Germany and the British International Investment. Other prominent local and foreign institutions have also committed. They include Singapore's Temasek and the US Bill and Melinda Gates Foundation.

Third are numerous global thematic or sectoral funds with allocations to South-East Asia. These tend to undertake larger transactions of USD10 to 30 million or more in sectors such as healthcare and education. They are attracted by strong mass markets in countries such as Indonesia. This nation offers a market of some 400 million consumers.

The contrast between East Asia and Latin America is instructive. The Multilateral Investment Facility (MIF), a multi-donor funding pool established by the IADB in 1994 focused, among many areas, on venture capital and private equity and remained deeply engaged in Latin America through market-building and fund investment until the early 2020s when it wound down. The MIF endured irrespective of countries' development status as categorised by the OECD. It consistently nurtured new managers and supported them in flourishing countries such as Brazil and Mexico, as well as poorer countries and regions. In South-East Asia, the model adopted by the one outlier, Vietnam, may have applied to the entire Region had it benefitted from a similar dedicated programme. It is difficult not to detect a correlation, or at least a meeting, between concerted DFI engagement in Vietnam from the Doi Moi, or Renovation Reforms implemented by the Vietnamese Communist Party from 1986 onwards, and the now thriving fund ecosystem, both impact and other elements.

In the 2000s, strategic policy-making and consistent government focus on clean and renewable energy and agricultural productivity, for example, created the environment for development and commercial finance to back funds, whether labelled as impact or not, targeting such programmes. Because Vietnam is a lone model in this respect, there is far more direct investment in impact offerings than by funds.

With respect to consistent DFI engagement in Vietnam, there are far more middle-market managers and far greater comfort among investors of all backgrounds with funds that target market segments to which many ascribe impact objectives and outcomes. At the same time, in South-East Asia as a whole, the number of transactions that, with a common approach at least may be characterised as impact investments, steadily increased in the second decade of this century (see inset). It is noteworthy that large direct investments captured by the headline data contrast sharply with the USD5 million average transaction size in private equity investments during the same periods.

There is also a contrast between large transactions

**“The pandemic was another wake-up call. It feels like more of us have woken up here. Thirty per cent of Vietnam could be under water part of or all the time by 2060. If we haven't gotten it yet, we'd better get it quickly and start investing.”**

**Fund Manager, Ho Chi Minh City, Vietnam**

in clean and renewable energy and financial services, predominantly debt, and smaller ones from private equity funds targeting fintech, insurance and digital payments platforms. Of note, four-fifths of investments in agriculture were below USD1 million.

If South-East Asia began the 2020s with direct impact investments and fund allocations increasing, although with explicit impact funds still not in the investment mainstream, the COVID-19 pandemic set II and IIFs back considerably. The crisis did, however, stimulate greater urgency around the subject of the environment, health and climate change. It also provoked a negative movement, the sustainability backlash.

## 7.1.2 Environment, health and climate change

Unsurprisingly, the pandemic focused attention on the relationship between environmental degradation, agricultural practices, urbanisation, poverty and global health. It is logical that the interconnection between communities and markets was re-examined. This includes the discussion about how resource-depletion and mismanagement imperil us all. This coincided more recently with a sense of resignation that we will fail to contain the rise in average global temperatures to 1.5 degrees Celsius. Awareness of such existential threats, with the pandemic a harbinger, has been an imperative for II and IIFs.

It lends weight to exhortations for more private-sector investment to combat climate change and prevent ecosystem collapse. In the words of one Vietnamese fund manager, "The pandemic was another wake-up call. It feels like more of us have woken up here. Thirty per cent of Vietnam could be under water part or all of the time by 2060. If we haven't gotten it yet, we'd better get it quickly and start investing." This clarion call has most certainly been heard by nextgens.

## 7.1.3 The sustainability backlash

Although global consciousness is growing, a powerful counterweight gathers force in the form of the resurgence of the political right in some parts of Europe and the United States. Populism has successfully fused the questioning of sustainability and ESG practices with its policy platform as a call to arms. The argument is that such 'woke' preoccupations are responsible, at least in part, for the world's inequities. The corporate sector is implored to 'return to business as usual' in the service of faster economic growth.

Fortunately, at the government level these positions do not yet inform policy positions in the Region. The rate at which China is adding energy capacity from solar and wind speaks for itself. However, the effect on the business community has been profound. In some instances, it reinforces latent scepticism about sustainability and impact. In others, it provokes an outright backlash. This is seen in explicit corporate policy reversals, such as omitting ESG considerations from investment decisions. A permission structure to no longer take into account sustainability or impact has been granted by a combination of frustration and resentment at the increase in costs, real or imagined.

This is borne out by our stakeholder survey, in which 82% of respondents believed that impact investment

### Impact Investment Funds and Global Headwinds in the Region and Beyond

Since the late 2010s, impact investment has faced strengthening headwinds in numerous regions. Its inclusion as a sub-activity within sustainable investment, or less specifically, its association with sustainability, has subjected it to negative animus, which ranges from scepticism to outright backlash and investment and corporate policy reversals. More right-leaning governments, most notably in the United States, have co-opted and fused this momentum with so-called 'anti-woke', 'anti-liberal' policy positions.

Numerous scandals, in which the disparity between the pronouncements and reality of FI's or corporates' practices and achievements, especially related to ESG, have brought domestic and international opprobrium and investment withdrawals. Assertions made by angered investors have included the following transgressions:

**Impact-washing:** Impact-washing is the practice of making misleading or exaggerated claims about the social and/or environmental benefits of an investment product or transaction. In some cases, this has been done to attract investors seeking positive change. In others, measurement and verification have been at best flawed, at worst falsified. It is similar to greenwashing, but involves on a broader range of social and environmental claims.

**Greenwashing and bluewashing:** These practices refer to exaggerating or misrepresenting the positive environmental or social impacts of a fund, company or product to attract capital, using misleading labels, unsubstantiated claims, selective reporting or highlighting some green initiatives, while downplaying negative impacts. Investment banks, in particular, have been accused of such transgressions in both public equity and fund sales.

**Transition-washing:** Transition-washing is a specific form of greenwashing or impact-washing that occurs when financial institutions or companies make exaggerated, misleading or unsubstantiated claims about their contributions to the transition to net zero, or a low-carbon or sustainable economy.

has suffered from the sustainability and ESG backlash to a great or moderate extent. II and IIFs are seemingly caught between two contradictory positions. South-East Asia and Hong Kong, as a global financial centre, find that it has made more pronounced the split between the impact community, today's impact

investors and practitioners, and the mainstream, or the market at large. The former group feels impelled to act more decisively. The latter, as one investor suggested, “Is taking its feet off the accelerator because they can: people feel that no one is looking right now.” Vietnam and China are exceptions because economic policymaking and control have forestalled attacks on II in the private sector. This is not to say that II is now in the mainstream in either country. However, background ambitions, such as net zero economies remain intact.

Another obstacle is that the II sector is divided. The split between ascendant economies and the poorer point up the gap in resources devoted to new II, such as climate change and degradation, and traditional areas that include agriculture, affordable housing, water supply and sanitation. In the view of the market, recent matters of concern are suitable only for II and are to be tackled by social enterprises and NGOs. Anecdotal evidence from interviews of those on the sell side, that is promoting products to clients, suggests there has been a significant drop off in demand for sustainable or

impact products. This is thought to be as a result of the pandemic and in response to negative press about ESG and sustainability.

The impact fund situation in South-East Asia is one of slow, dogged progress. Successful IIFs tend to be one of three forms. They may be regional multi-sector funds with a focus on clean and renewable energy, healthcare and financial inclusion targeting Indonesia, the Philippines and Vietnam. They may instead be single-country Vietnam funds with opportunistic exposure to Cambodia and Lao. These extensions are seldom exercised. The third form is particularly problematic. They are small single-country or regional impact funds of USD20 million or less, carrying out small transactions primarily with social enterprises.

It is safe to say that there are fewer domestic and international investors considering allocating to impact investment funds in the Region in other areas. Attitudes to the Region are perhaps best summarised by the director of one Africa-focused European foundation, who cites “a general feeling that the Region is wealthy enough to solve its own problems. Other parts of the world need our capital more than South-East Asia and China.” Whatever the reasons, and even if most impact capital comes from within the Region, the relationship between investors and offerings clearly needs recalibrating.

**“The Region [Asia] is wealthy enough to solve its own problems. Other parts of the world need our capital more than South-East Asia and China.”**

**Senior foundation executive, Benelux region, Europe**





### 7.1.4 Larger South-East Asian economies

By value, the largest three recipients of IIF investment are Indonesia, the Philippines and Thailand. Indonesia accounts for between one-fifth and one-quarter of impact investment in South-East Asia, according to the Indonesia Impact Alliance. However, of the three, it is seen as the country where bouts of political and social instability have the most direct negative impact on II/IIFs. In Thailand, notwithstanding the lack of a full return to civilian rule since 2014, investment in IIFs has flagged because of its relative affluence and the smaller proportion of its population struggling to meet basic needs.

The Philippines is a curious anomaly in the Region. According to the United Nations, its population was 117 million in 2024, of whom just over 15% lived below the national poverty line and half, when surveyed, considered themselves to be living in poverty. It has a very asymmetrical commercial landscape, dominated by a handful of oligarchic families and corporates and a plethora of MSMEs. Notwithstanding regular coverage by the international media of extreme weather events and natural disasters, such as typhoons, earthquakes and volcanic eruptions, neither its widespread poverty nor the effects of climate change seem to translate into commitments to inject impact funds. At the same time, perceptions of overweening bureaucracy and corruption deter investors within the Region.

The Mekong area is split into halves. Whereas the World Bank now categorises Vietnam as a lower-middle-income country, Cambodia, Laos and Myanmar remain firmly in the LDC category, the latter pushed further into poverty by years of conflict and sanctions. The DFI

community remains heavily engaged in the Mekong region, although it would not be surprising if, within five to seven years, DFIs struggle to justify further allocations to Vietnam other than for climate change adaptation and resilience.

As previously discussed, Vietnam is the country in the Mekong region, and it may be argued in all of South-East Asia, that best demonstrates how stable government, consistent policy-making and a steady improvement in living standard can build a thriving investment fund framework. Improvements are particularly related to poverty reduction and climate change mitigation, adaptation and resilience. All these factors attract strong investor interest. Attesting to this, Vietnam now has over 20 impact funds, with a particular focus on clean energy and decarbonisation.

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<sup>8</sup> This excludes mainstream funds making larger investments (say, US\$15 million or more) in sectors targeted by IIFs, along with listed equities funds.

<sup>9</sup> Poverty and Equity Brief, October 2025 World Bank Group. <https://documents1.worldbank.org/curated/en/099257004222532085/pdf/IDU-9f55581b-270d-4d05-8476-6e15baee76c7.pdf> Accessed 28 May 2026

## 7.2 Impact Development Finance in China

Because China is, by any measurement, the largest market yet to mature from an II and IIF perspective, we identify the forces that have shaped its II and that may be harnessed to reframe it in the future.

### 7.2.1 Transfer of family wealth and opening up

The first dynamic is the nearly RMB84 trillion (USD12 trillion) of wealth expected to be transferred between generations in China between 2023 and 2063, according to the Hurun Wealth Report. This will be the largest inter-generational movement of wealth in history and an opportunity that II and IIFs cannot afford to miss. However, the cultural history and societal background that underpin impact in China must be analysed. The second point to note is that impact investment is so new in China that it is largely unaffected by the four conundrums explored in Chapter 6. There is certainly unfamiliarity with the discipline, but there is no entrenched negative bias. In addition, many current or soon-to-be nextgen HNWI's have satisfied themselves with material acquisition and are now developing a set of priorities, poverty eradication, shared prosperity and environmental regeneration that align with those of their impact-minded global peers. This said, the corner of the investment landscape currently inhabited by impact in China is small and remote. It must be understood by taking into account a number of factors.

#### China

##### Pre-Pandemic Headline Impact Data

- Estimated US\$5.1 billion deployed in 312 deals, 2007-2016.
- US\$3.8 billion deployed in 195 deals, 2017-2019.
- Approximately 55% of deals greater than US\$10 million, primarily in financial services and clean energy.
- Over 45% of investors from outside China.
- Over 60% deployed via Tier-1 cities and western China.

Sources: Global Impact Investing Network, Asian Development Bank, World Bank Group, IMF, China Alliance of Social Alliance Investment (CASVI).

The first is the rapid economic growth and progress on poverty alleviation since the 1990s. Next is the introduction of market-based economic policies and instruments. Vast personal wealth has been amassed, largely concentrated in the eastern provinces. A cadre of HNWI's and family offices has emerged with a desire to put their resources to good use.

In parallel to these factors is the growing pressure on the government for better environmental stewardship and levelling the socio-economic playing field. Demands are voiced for safe food following various scandals nationwide and for clean air in large cities. There are calls for access to better and affordable healthcare. Divisions between extreme wealth and poverty, a growing middle class and remaining widespread deprivation. That some 5% of the population of China lived on USD8.30 a day in 2021, points to the need for II. These particular factors go along with a general reckoning with the effects of rapid industrialisation and urbanisation. Since the 2010s, the Chinese government recognises that the environmental and ecological subsidies that enabled such rapid growth rested on cheaper, more polluting development choices that led to deferring of the costs of repairing environmental damage.

As the cleaning and greening of production has become a national policy priority since the 2010s, the private sector, including the embryonic impact community, has been acting on the signals coming from the government and others for the need for investment to be responsible and sustainable. That means there must be no harm to the environment and growth should not come at any cost. The regulatory environment has begun to catch up, firstly with support for green and inclusive finance. Indeed, in late 2023, the finance community was called upon to support economic and social development priorities, including fintech, digital and green finance. For the first time, repentance for past resource exploitation (the clean-up) and the reorientation of future investment (a sustainable growth path) were shared priorities with the private sector. The pandemic only increased the urgency of the government's message that it and the private sector were to shoulder this responsibility together.

<sup>10</sup> <https://www.hurun.net/zh-cn/info/detail?num=64KVOT8NCTNB>. Accessed 19 May 2026



### 7.2.2 Obstacles to establishing II and IIFs

Five matters stand out as obstacles to integrating II and IIFs into mainstream investing in China. The first is culture and tradition. Philanthropy long foreshadowed socially and environmentally responsible investment. The scale of this practice in China is impressive. According to Science Direct, total charitable giving in 2020 exceeded RMB200 billion (USD28 billion). As wealth creation has accelerated since the transition to a hybrid market economy, and because intermediaries are directing wealth in new and attractive ways, the philanthropic tradition is being fused with entrepreneurial wealth and nextgen priorities focused on impact priorities. Investment has taken over from giving alms to the poor.

It may be said that the philanthropic tradition informs the actions of the founders of China's fintech behemoths, such as Alibaba and TenCent. Their establishment of mission-aligned corporate investment

**“There is a lack of understanding of how businesses can achieve these [impact] goals. The door is ajar. It is certainly not shut. But much education and handholding will have to be done.”**

**Funds lawyer and impact investment advocate, Beijing, China**

outlets and foundations attracts the newly affluent in the personal sector. In an aspirational, consumption-led culture endowed with recent wealth, public esteem and goodwill for doing good is a badge of honour.

At the same time, charitable giving constrains impact

investment. Tradition ensures that giving and business are kept apart. As one interviewee points out, “there is a lack of understanding of how businesses may achieve these goals. The door is ajar. It is certainly not shut. But much education and handholding will have to be done.” Another deeply entrenched trait is duration. Money is often donated with no regard for long-term problem-solving. Donations may be ongoing, but the root causes are left untreated. The personal sector's vigorous engagement in the public markets is a factor. Millions of individuals from many sections of society buy and sell scores of stocks every day. In the words of one Hong Kong-based fund manager, “No one hangs around for the long term in China. You get in, and you get out.” Because investment entails long-term value creation, there is much work to be done to change this attitude.

The next problem is the policy environment. Almost all interviewees cited unevenness in economic and sectoral policymaking as a determining factor in the state of impact investment in China. Policies may be opaque and inconsistent, with sudden reversals common. As with decision-making at state-owned enterprises, the private sector looks for discernible messaging before it acts with conviction. One Hong Kong-based fund manager investing in China shared that, “Because the government hasn't clearly said

<sup>11</sup> [https://data.worldbank.org/indicator/SI.POV.UMIC?f\\_link\\_type=f\\_linkinlinenote&flow\\_extra=eyJpbmxbpbm-VfZGlzcGxheV9wb3NpdGlvbil6MCwiZG9jX3Bvc2l0aW9uljowLC-Jkb2NfaWQiOiIyNjkwZDk1YzQ2ODcxNWY5LTJFjZGM0ZDM2MGI-wNGFkNGQifQ%3D%3D&locations=CN](https://data.worldbank.org/indicator/SI.POV.UMIC?f_link_type=f_linkinlinenote&flow_extra=eyJpbmxbpbm-VfZGlzcGxheV9wb3NpdGlvbil6MCwiZG9jX3Bvc2l0aW9uljowLC-Jkb2NfaWQiOiIyNjkwZDk1YzQ2ODcxNWY5LTJFjZGM0ZDM2MGI-wNGFkNGQifQ%3D%3D&locations=CN). Accessed 21 May 2026

<sup>12</sup> Can digital finance promote individuals' charitable giving? Empirical evidence from China - ScienceDirect. Accessed 21 May 2026

impact investment walks, talks, sounds, smells and is taxed like this, people are afraid to move". The default mode of the private sector is reactive, pursuing the priorities first adopted by the national and provincial governments.

However, policy directives may also be drivers of change. Social priorities encouraged the government to concentrate on the green expansion of the MSME sector, poverty alleviation and the upgrading of agriculture. The use of technology and AI achieves food security, revitalises the rural economy and improves healthcare. Poverty alleviation and reducing inequality have been at the forefront of social policy since the identification by the Chinese government in 2010 of 832 'poverty counties' as priority districts. Although directives were transmitted directly to local governments, investment agencies and SOEs, the private sector was sent an unmistakable message to play its part.

**“Because the Chinese government hasn't clearly said impact investment walks, talks, sounds, smells and is taxed like this, people are afraid to move.”**

**Hong Kong-based fund manager**

Green finance seems at first to be an unlikely problem. It is the first institutionalised investment programme that maps entirely to impact investment priorities. It is China's equivalent of climate concern and is now very much mainstream investing. This creates difficulties for II and IIFs. The acceptance of green finance predates the pandemic, when the government identified 10 zones in seven provinces. Many issues were tackled, including regulations concerning environmental disclosure; linking local finance to climate targets, specifically reducing greenhouse gas emissions; metrology standards, requirements and targets, and the introduction of climate-scenario modelling.

By the early 2020s, ESG regulations were being tightened, with the authorities monitoring bond and credit markets and asset management more rigorously for climate-related disclosure and performance evaluation. Green bonds have come under particular scrutiny as the government seeks to align financial policy with climate targets. Meanwhile, the private sector set about introducing technology, such as solar and wind electricity generation. It then offered goods and services to many sectors, including manufacturing, transport, infrastructure, agriculture and so on.

Clean and renewable energy and energy efficiency

quickly emerged as prominent standard bearers. China, for instance, added 582 gigawatts (GW) of solar capacity and 193GW of wind capacity in 2022-2024, or 59% and 63% respectively, of total new global capacity. However, since the late 2010s, circular production has gained ground. This has stimulated innovation in the financial community, exemplified by the emergence of transition finance. This encourages polluting industries to comply with new stringent legislation and supports businesses providing green goods and services. Some estimates have green credit growing at 30% a year since the early 2020s and many banks are designing green products for MSMEs and consumers. The sustainable bond market has also become far more diverse, including green and blue bonds, carbon-neutral bonds, carbon yield bonds, green asset-backed securities and low-carbon transition bonds.

The relevance of this acceptance is that it is now common for domestic and international investors to engage in China's green finance marketplace. The difficulty is that this is now a legitimate investment offering. II and IIFs face fierce competition for investment and, being regarded as less safe, may be further squeezed toward the investing sidelines.

A similar difficulty centres around the SME sector. This field may be an important factor in unlocking capital for investment in impact funds in China. Because of SMEs' importance to economic output and employment, particularly in rural areas, the segment features prominently in policymaking and has been explicitly included in green finance objectives. The Ministry of Industry and Information Technology's definition of SMEs ranges from businesses with 20 employees and revenue of just under USD500,000 to those with 1,000 workers and revenue of roughly USD65 million. If we label the upper half of those within the definition, that is 500 workers and at least USD30 million in revenue, as China's middle market, and if we agree that impact investment funds, together with bank finance, are the most efficient means of channelling capital to it, the urgency for IIFs to replicate the path to legitimacy of green finance is obvious.

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<sup>13</sup> China's Rural Poverty Alleviation and Development Outline (2011–2020), issued 2011.

<sup>14</sup> The Green Finance Reform Pilot Zone Policy and Corporate Sustainable Development Performance: A Quasi-Natural Experiment from China; Multidisciplinary Digital Publishing Institute, 2025.

<sup>15</sup> Source: China National Energy Administration; International Renewable Energy Agency Renewable Capacity Statistics (2023–2025 editions).

One feature favouring this path for China's SME sector is that it has never been regarded as the one set of entities that will eradicate poverty and inequality. Neither is it centred on solving the missing middle conundrum in regard to II in China. Although short-termism and opacity do deter institutional investment in SMEs, the more transactional approach to business in China differentiates commercially oriented investment in SMEs from lending to social enterprises.

The last problem in this examination of II and IIFs in China is impact-adjacent government investment. The Chinese government has developed the potent tool of providing capital to lower and middle-market companies it deems strategic. The funding is often provided at earlier stages and can be accompanied by grants and TA. Carried out by provincial governments, it is in essence, impact investment by another name. Capital thus provided is patient and accompanied by support services, such as marketing, branding, inventory management and market penetration. Case study 1 is an example of such investment in action. The major difference from IIFs is that the provincial government's capital is not restricted in terms of duration. unbound by a defined fund life of seven or 10 years. The disadvantage for II and IIFs is that investment targets may no longer need funding through this channel. The advantage is that the field of remaining hopefuls is wide open.



### 7.2.3 Summary

In the words of one executive interviewed in China, tradition, policymaking and government intervention

**“If I were to put the impact story first and not stress the financial story, I would struggle to raise one penny in China.”**

**Impact Fund Manager, Shenzhen, China**

leave II and IIFs “with an open goal. Impact just isn't really a thing yet, but that is the opportunity for our strikers”. If anything is holding impact back, it is that legal frameworks need to be improved and the direction of policy on discipline should be clarified. Indeed, 93% of survey respondents believe that the legal, regulatory and fiscal environment surrounding impact investment should be improved.

Because large, high-profile movements of capital into IIFs have not yet occurred as the result of a dearth of funds, individuals and smaller asset managers lack models to follow. The corporate sector feels pressure to engage but is unclear how to do so. There is no familiarity with the investment instruments and fund structures that they either may invest in or set about creating themselves. That said, a mindset shift is happening in the corporate world. Previously, the approach of founders was usually to amass a fortune and continue to grow or perhaps start a new venture. Now, more thought is given to the role of businesses in society. For larger companies, there is a greater urgency because they have the highest profile.

China is an outlier in many ways and a paradox. Headline numbers reveal that, regardless of ‘non-Western-packaged’ activity, there are remarkably few impact offerings and self-identifying impact managers. There appears to be a complete lack of awareness or understanding of what impact investment is, beyond highly curated investor and manager circles on the eastern seaboard, especially the provinces and cities of Beijing, Shanghai, Guangdong, Shenzhen and the GBA. It may be argued that VC and technology-focused offerings match up with some impact approaches, particularly in regard to climate. However, they have yet to lead with impact in their dealings with investors. Demand for impact fund offerings labelled as such is anaemic at best in China, reflecting a combination of cultural norms and antipathy to the lack of liquidity and the long tenors of impact funds compared with other asset classes.

The personal sector tends to be short-termist, speculative and skittish. Long-term value creation is neither sought nor particularly familiar. The collapse of the property behemoth, Evergrande, in 2024 typifies this approach, with many individuals exposed to the company's debts having committed significant amounts of their savings. Because, as yet, there is no mechanism for individuals to enter and exit impact investments or funds, indeed such volatility not being attractive at all, it will be many years before domestic savings may be channelled into deserving companies other than through impact funds with their attendant restrictions.

As ever, the key to understanding the impact marketplace in China is to understand that the volume of investment many would deem impact, clean and renewable energy or EVs as examples, may dwarf other regions by many multiples. Such investment tends not to be channelled through Western-style vehicles labelled IIFs. National policy imperatives have resulted in vast domestic industrial capacity and mobilised trillions of capital inputs to nurture world-leading technologies. These include EV batteries and solar panels, and make China the single-largest holder of green real assets globally.

Indeed, the combination of policy incentives, supply-chain support and government-issued R&D mandates means that China now commands more than 80% of global lithium-ion battery shipments and more than 70% of the global power-battery market. Chinese firms hold more than 60% of relevant patents. Similarly, solar power, shaped by decades of feed-in tariffs, grid integration policies and manufacturing support, gives China complete control of the industrial value chain. It is now the dominant producer of global polysilicon, and reached a key milestone in 2025, with additions to solar capacity surpassing those from coal for the first time.

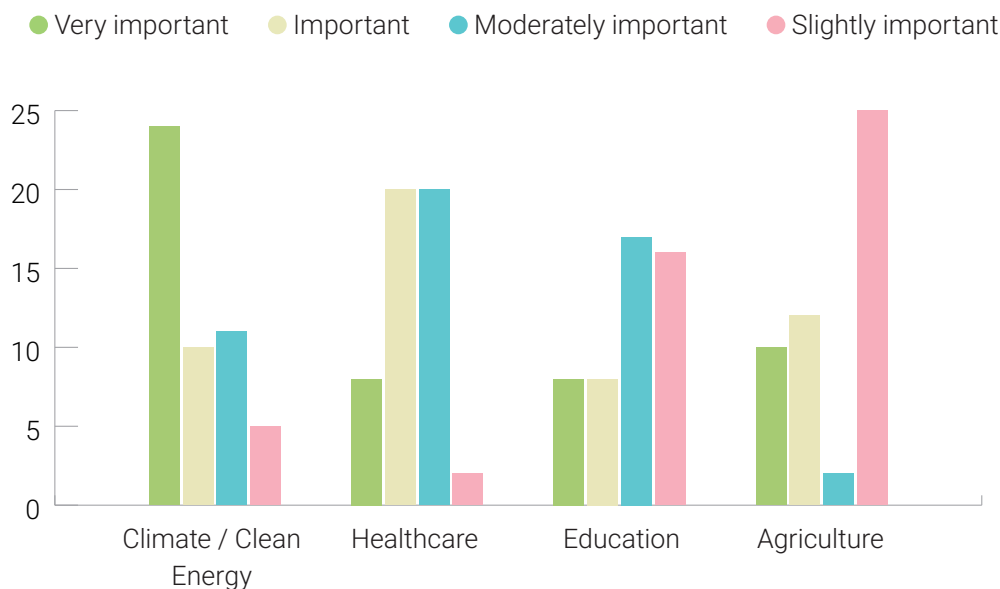


# 8 KEY ISSUES AND CHALLENGES IN II/IIF IN THE REGION

## 8.1 Investor perceptions of impact offerings

Interviewees were asked to rank the importance of investment themes that came to mind regarding impact. They invariably answered that their first thought was climate. They followed this by mentioning, in varying order, healthcare, education and agriculture. Such responses are shown in the following graph.

What are the top three sectors that come to mind when you think of impact investment in the region.



The concept of climate is all-inclusive. In practice, it includes any number of topics, sectors and market segments, such as 'green investments', green finance, clean and renewable energy and energy efficiency. Clean transport is also frequently included. More recently, circular production has become important. This may be thought of either in a sophisticated way as resource-neutral or resource-accretive production, or simply as reducing waste. More thoughtful proponents of sustainability will sometimes link agriculture and food systems to climate. The latter are either put forward as a subset of 'green' investing, or as a class in their own right. Education, often a high priority for philanthropists, is usually opportunistic because there are considerably fewer education-focused funds than climate or agriculture offerings. Financial inclusion is a

prominent theme, but generally not for the uninitiated. It tends to be foundations and sophisticated family offices that are knowledgeable about and seek access-to-finance exposure through funds. At the same time, the many investors that target MFIs will place their capital with them.

Our observations are anecdotal. We are trying to ascertain what is foremost in the minds of wealth-holders when they consider impact investment. It appears that the supply side has only a rough idea of the range of impact funds. It is hard to divine the reasons for this. The scarcity of fund offerings relative to other regions, a dearth of non-climate-themed funds and other business or cultural factors may be the cause.

The prominence of climate in assembling portfolios is not a problem in itself. Indeed, it is a positive



## 8.2 Transaction Profiles and Fund Sizes

Investors and impact fund managers appear stuck in an unproductive relationship. Investors seeking impact opportunities have entrenched views about impact, complaining that most deals are early-stage, managers are relatively inexperienced, the risk is high and there will be little if any financial return. Only rare groups of investors actively seek impact opportunities, mostly HNWIs, foundations and family offices. Such allocations are generally separated because so few offerings comply with investors' return criteria and fiduciary obligations. This is certainly the case for institutional investors and financial institutions. Fully 45% of respondents to our survey said that they do not believe it is possible to generate attractive or 'market' rate returns from funds targeting positive social and environmental outcomes. Current offerings are clearly unlikely to feature on their scoping of the market.

development. As explained above, the ability of wind and solar generation to attract billions of dollars of direct and listed investment is a significant factor. Although little of this investment goes through IIFs, the question arises as to what it will take for other impact classes themes to even approach remotely comparable prominence.

Healthcare and access to finance seem to be joining the 'legitimate' investment category. Perhaps that is because of the analogies, even if tenuous, with large financial institutions and healthcare companies and insurers. The categories of agriculture, affordable housing, water and sanitation face an uphill task to compete. Education and clean transport might be said to be between these extremes, although government policy regarding investment in them is a continuing worry.

Our research indicates that in China, particularly, the importance of leading with financial returns is paramount. As Case Study 2 (Annex 3) demonstrates, impact objectives can be stealthily added or introduced to greater or lesser effect thereafter. As with any fund, investors want to understand how a fund will make money. The balance between marketing financial returns and impact can be adjusted for marketing to family offices known to have impact windows or nextgens with impact priorities. However, even the most impact-enlightened family offices look for clear routes to commercialisation.

**“Answer me this about impact investment: where is the alpha?”**

**Fund investor, Singapore**

Compounding the problem, fund managers' offerings do not take investors' requirements into account. This broken interface is best summed up by one investor who, reflecting general market sentiment, said, "Answer me this about impact investment: where is the alpha?" Alpha, in his reckoning, seems to mean the premium for even considering investing in IIFs. In fairness to South-East Asia and China, this is a universal challenge. The issue is that the combination of short-termism and antipathy to illiquidity erects an even higher barrier to participation.



## 8.3 The Investor Mindset

The investor mindset may be one of three. These are older and nextgen private wealth-holders; foundations and family offices, and institutional investors, including financial institutions.

### 8.3.1 Private wealth-holders

When considering II and IIFs, older generations usually see a clash between profitability and impact, not even accepting that the two subjects are not forced to be in competition. Impact offerings that are aligned with their core business focus areas are the only ones to command their attention. If they make impact allocations, they are segregated from the holder's core portfolio. Such investments may be given to a younger family member to manage.

Nextgens, by contrast, are more innovative, many bringing ideas from abroad. They often clash with the older generation by attempting to reform not just the investing for impact but also the entirety of the family business. Nextgens who are interested in II may chafe at not being part of senior management. Some, however, see being in charge of a more unconventional capital allocation as a learning opportunity and as a milestone. Although older generations have no expectation of financial returns from II/IIFs, nextgens see profitability as an indicator of commercial sustainability and thus a priority. They are better at distinguishing between social enterprises and genuinely commercial businesses whose models are trained on social and environmental problem-solving.

The older generation sees II and IIFs making profit or breaking even as welcome but anomalous. For nextgens it proves the case that II/IIFs should be in mainstream investing.

### 8.3.2 Family offices and foundations

The Region's FOs, with few exceptions, are also divided by generation. Indeed, there is only one Hong Kong-based family office that declares that its entire portfolio is in sustainable investment, including IIFs. In other FOs, investment professionals and family members are attempting to build a cadre of transactions that may readily sit in mainstream portfolios and show older generations and chief investment officers that they are unremarkable and should be treated equally.

With the exception of Temasek in Singapore, the Region's foundations have not engaged in concerted

field-building, underpinned by capital. This is a model institutions such as the Rockefeller and Ford Foundations of the United States follow.

Some foundations in China are moving in this direction, with an emphasis on the application of technology and AI to entrenched social issues and decarbonisation.

### 8.3.3 Institutional investors

The most hidebound are the Region's institutional investors. Some would argue that including them in the supply side of this discussion is generous. They cannot be said to be seeking impact investment products in any meaningful way if the capital committed as a percentage of the total amounts to analogous non-impact products is considered. However, change may be coming, led, as ever, by 'climate'. The billions of dollars of investment in clean and renewable energy that began to flow from the mid-to-late 2010s, although mostly direct to private companies, was the first milestone.

On the public side, listed funds normalise investment in pooled vehicles with environmental objectives, although without the liquidity constraints of private equity and debt funds. Attitudes are also being shaped, if slowly, by the cost implications of climate change. Large future liabilities will require vast asset gathering. This needs new climate-focused, climate-smart products. Institutions are far from investing reflexively into climate change-themed IIFs, much less creating them. However, as one fund manager put it, "we have everything to play for in this domain".

### 8.3.4 Financial institutions

Commercial banks are the most challenging class to move towards large, regular commitments to impact investment funds. This applies in particular to private wealth platforms, in which IIF allocations most comfortably sit. Although some banks, such as Morgan Stanley and Credit Suisse, now UBS, experienced success in raising funds-of-funds from HNWI and UHNWI clients, it is very difficult to persuade a bank to 'carry' an individual fund, unless it is of a sufficient size. This may well be any fund valued at less than USD500 million.

Case Study 3 demonstrates that the structural obstacles within banks to moving more capital into IIFs are monumental.

### 8.3.5 Fund Structures and Tenors

One of the most deep-rooted obstacles on the supply side is the structure of IIFs. The short-termist investment mindset, combined with the adverse reaction to illiquidity and long lock-up periods, make impact funds, whether equity or debt, unappealing. They also ignore the point that long-term value creation requires patient, long-term capital. If the rationale for value creation is only just now becoming accepted because of climate change, it is safe to assume that impact funds will continue to face an uphill struggle for some time to come. Experimenting with creative structures that provide liquidity and exits

#### **Winds of change? China's National Venture Capital Guidance Fund (NVCGF)**

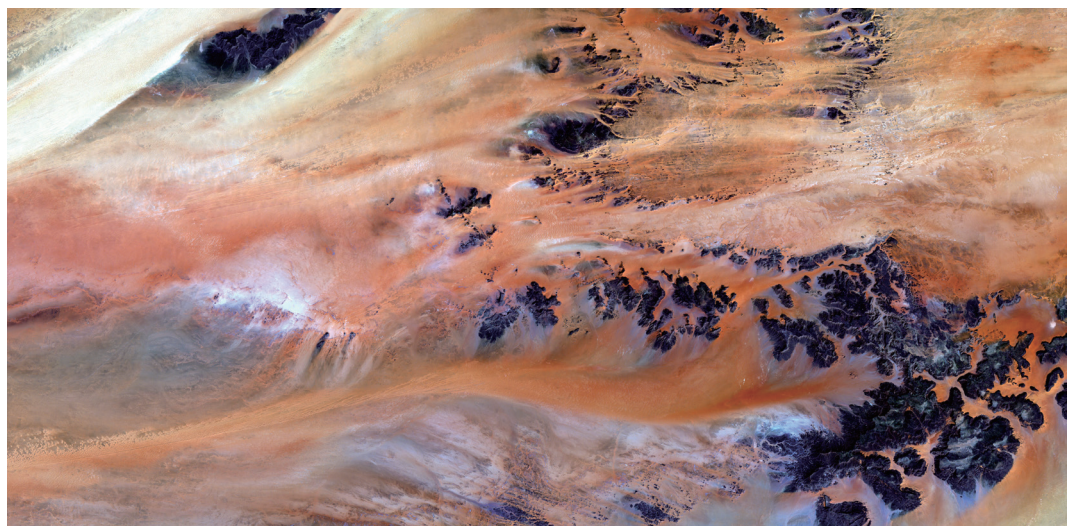
Launched in December 2025 and fully operational in 2026, this flagship government-led technology investment fund has a 20-year fund life (10-year investment period + 10-year exit period). It was set up by China's National Development and Reform Commission and the Ministry of Finance with RMB 100 billion (US\$14.6 billion) of initial funding from special long-term national debt funds.

Although it is not explicitly labelled as an impact offering, the NVCGF could mark a watershed moment for the concept of patient capital in China and its normalisation over time. The fund's specific support for technological innovation will necessarily orientate some of its investments towards investment themes counted by many as impact. A 20-year fund life is unusual even among purveyors of patient capital (with the exception, perhaps, of long-tenor nature-based holdings), but the critical point is the message it sends to investors and fund managers about creative structures and meeting capital needs in the country.

as early as possible may overcome this blockage. Investments must be restructured with a view to returning capital to investors as early in investment periods as possible through geared equity structures and the use of self-liquidating instruments. IIFs lasting 7 to 10 years and even up to 12 years already are a far harder sell in the Region than in other areas. Add in risk-return misperceptions and the alleged 'lack of alpha' at least one of the following dynamics must be present for an investor to consider IIFs:

- A commitment to a value set compelling investment in presumed 'sub-commercial' offerings in pursuit of greater purpose.
- An unusually sophisticated understanding of the true range of offerings that may be considered as impact and knowledge of the manager landscape, resulting in highly curated fund selection.

However, beyond academic institutions, foundations and visionary HNWIs and family offices, the notion of patient capital generally is generally ignored. There is a reflexive assumption that patience implies a lack of commercialism. Certainly, IRRs on 12-year funds are necessarily lower because of the restrictions of that metric. Yet there are numerous examples of patience bringing outsized dividends. An example is in Case Study 4. This signals that alternative and profitable approaches to impact, including extended tenors, are possible.



### 8.3.6 Blended finance and technical assistance

Domestic and international investors in impact funds focused on South Asia, Latin America and Africa are far more comfortable than their Chinese and South-East Asian peers with the use of blended finance and TA. In the Region, reactions to these tools range from the circumspect to the bewildered. Funds with guarantees or first-loss provisions and capital stacks in tiers of seniority and underpinned by TA are immediately categorised as exotic, sub-commercial, developmental IIFs.

Many therefore regard those funds as unworkable. Certainly, the use of any such tools makes funds, or discreet portions of them, sub-commercial. However, there is deep scepticism and generalised rejection of the following situations that are commonplace in other regions:

- Blended finance and TA used by funds seeking commercial returns to conclude transactions in geographies, sectors and market segments otherwise not viable.
- Funds pursuing commercial returns that also include 'innovation windows', or where a percentage of capital is committed to high risk deals that 'move the needle' according to shared socio-environmental or other priorities, such as reaching the 'poorest of the poor'.

Fund orthodoxy in developed markets eschews such mechanisms and carve-outs outright. In the Region, however, the effect of similar investor intransigence and unfamiliarity means there are huge geographical, sectoral and class gaps where patient investment is absent. Managers are simply unable to get such funds capitalised without the participation of DFIs, foundations or experienced family offices.

Similarly, there seems to be little heed paid to the argument that in poorer parts of the interiors of countries in the Region, subsidies may be necessary to encourage investment. Unthinking rejection blinds potential investors to the fact that their unwillingness to consider non-market returns may be addressed by innovative fund structures and risk-layered capital stacks. The investor community forgets that venture capital was heavily subsidised in the United States in the 1960s and 1970s before it being accepted into the mainstream.

### 8.3.7 Capital Allocation

There are numerous approaches of investors in the Region prioritising financial returns while also seeking to generate impact or prioritising impact while capturing some financial upside. Their challenges lie in managing risks and market inefficiencies. Short-term financial gains often overshadow long-term investee sustainability. However, impact investors are increasingly willing to take greater financial risks to achieve lasting socio-environmental outcomes.

There are applications for impact categories. Traditional funds have received attractive returns by addressing inefficiencies in the 'convenience economy'. Lifecycle investing or interceding to create or accelerate inflection points in a market segment is now a recognised investment skill. This approach marries innovations in technology with AI to create value if smart capital is enhanced through technological innovation to resolve inefficiencies and bottlenecks. In lower-income market segments, these are often framed as last-mile delivery solutions.

Traditional investors in the Region often struggle to vet such opportunities because of their unique risk profiles. The dynamics of lower-income market segments are simply unfamiliar. Specialist expertise is also needed to track the full investment lifecycle, ensuring that financial progress and impact outcomes are monitored accurately. To mobilise capital for positive environmental outcomes, the right financial structures are needed, coupled with robust policy and regulatory frameworks that are not yet in place. Financial intermediaries are not suited to facilitating or structuring deals for social enterprises. This is evidenced by the limited right of exits. The same applies to environmental themes, with the important exception of large, direct transactions in climate verticals.

### 8.3.8 Returns

The supply side, that is investors looking for impact funds, affected as much by its fixation on listings as the primary exit route as it is by investment short-termism. As such, because long-term value creation is not mainly viewed as a prerequisite for public listing, financial and capital markets remain shallow. Trading volumes also reflect questionable asset quality and long-term growth prospects. The personal sector also invests heavily in the listed markets, albeit with small individual amounts.

Stock purchases are based on trends and hearsay, and are made purely for short-term, speculative



gain. Despite these factors, any divestment strategy other than an initial public offering is almost always universally viewed as less than optimal in the Region. In the middle and lower-middle market, savvy investors will be attracted by well-managed, well-governed assets through trade and financial sales. However, this tends to happen in traditional mergers and acquisitions (M&A) activity rather than in marketplaces for impact assets. Secondary sales of impact assets or fund portfolios are not often seen in the Region.

If public markets shape investor perspectives on returns from impact assets, then it should be a welcome situation that many assets in the healthcare and education sectors, mainly in China and Indonesia, have achieved the status of unicorns. The challenge is to build awareness that it is the vibrancy of untapped demand and the creation of new segments that can drive long-term value in such businesses. Such logic needs to be applied to middle-market businesses to allow better exits from impact assets. However, just over 45% of respondents to our survey believed it was possible, but not certain, that IIFs may generate market returns.

### 8.3.9 Impact Investment Funds Seeking Capital

Although the challenges on the supply side of investors are not to be underestimated, resolving those on the demand side, fund managers seeking capital, is a greater priority from the perspective of the impact marketplace. It is clear that a positive response to the question about the appetite for IIFs will only be given if impact funds and fund managers are of sufficient

quality. We argue that far greater responsibility for the current disjunction in the impact marketplace lies with the demand side rather than the supply side. The consensus among interviewees who have worked as practitioners, investors, advocates and academics in the field of II is that the sophistication and performance of impact managers and their offerings in the Region lag far behind those found in India, Africa and Latin America. The following ten areas of concern emerged consistently from our interviews.

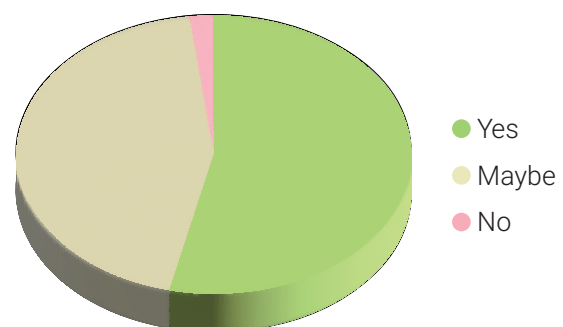
#### Lack of subject-matter expertise.

In the words of one Mekong-based interviewee commenting on South-East Asia as one of the major developing regions along with other parts of Asia, Africa and Latin America, “the whole impact thing washed up on our shores last.” At best, impact funds are barely out of their establishment stage. The lack of subject-matter expertise is not an absence of academic scholarship. It is one or more of the following errors.

- Fund managers’ inadequate understanding of the implications of managing an impact fund, from deal selection and due diligence to portfolio management, reporting and divestment.
- A frequent conflation of impact with ESG, rather than positioning ESG as one building block of an impact edifice.
- Adopting the flawed logic that a fund makes early-stage investments in SMEs; the investment team does impact measurement and management, therefore the fund is an impact fund.

As this graph indicates, no respondents to our survey on the quality of IIF managers believed them to be excellent, and just over 70% rated them as only fair to poor.

Ratings of impact fund managers based on respondent experience or market intelligence.



## Inexperienced teams

Unlike accountancy or law, impact fund management has no clear early career path. It requires many skills, from investment to fund administration, management and business operations and MSME development. The number of IIFs and social enterprise start-ups far outstrips the supply of experienced investment executives and entrepreneurs. As a result, the make up of teams has been dangerously skewed toward management consultants, traditional development practitioners, sociologists and measurement experts, many of whom have NGO and think tank backgrounds. Investment banking is often the responsibility of just one team member. Other common substitutes for experienced staff include seasoned IC and AC members, who give assurances that they will mentor young teams. No matter the collective experience of AC and IC members, there is no substitute for investment skills on an investment team. For an example, see Case Study 3 (Annex 4).

## Inadequate understanding of structures

This relates to the two foundations of fund management, fund structure and fund economics. Inexperienced managers design fund offerings whose tenors in no way allow for the intensity of early-stage investing. Investors, bedazzled by the impact narrative, support managers in a fund offering that incorporates VC risk in pursuit of impact objectives, often in complex operating environments. They are oblivious to two vital issues.

- The considerable resources needed to build, manage and keep viable a portfolio of 15-25 investments.
- The time it takes to incubate and nurture investments into stable small enterprises.

The manager and investors rapidly discover that there is insufficient time or management fee to address these issues. We are not suggesting that all impact investment funds fall into these traps. Those with seasoned PE and VC professionals involved know to avoid them. Our research shows us that we can divide the impact fund manager community into three categories.

- First- and second-time managers. Cambodia is the most pertinent example in the region.
- Single-country SME managers that have put up sector-agnostic investment offerings theses with impact overlays, either by sector or class. The most frequent of these being clean energy and agriculture. Vietnam is the best example in the Region of a

country whose fund management community has reached this phase. It nears the sophistication found in Kenya or Colombia. The country has more than 20 now-experienced managers managing impact or impact-adjacent funds.

- Lower- and lower-middle-market managers who have traditionally made investments of USD5 million-25 million and have backed into impact by way of SME investing. ESG is the usual requirement, and the narrative to investors is that with deal-doing skills well developed, impact skills can quickly be learned or hired.

It is not so complex that only few can master it. In many South-East Asian countries, managers are in the maturing phase, where learning the true cost and resource-intensiveness of impact portfolios takes place. The lessons to emerge are rarely positive. If unrealistic impact targets are imposed, such as requiring a certain percentage of women owning and managing businesses, or a percentage of sales to the disadvantaged, managers and investors will have built on sand, not created a strong edifice.

## Solving the missing middle

As noted in Chapter 6.2, a disproportionate number of managers in South-East Asia try to solve the missing middle by focusing on small, early-stage investments. The initial promise of microfinance, that microentrepreneurs will blossom into thriving SMEs to which banks seamlessly lend, has become reality at the scale envisaged. The proliferation of challenge funds, incubators and accelerators tells the seasoned practitioner that the ecosystem is fixated on start-ups, with unrealistic assumptions about undiscovered entrepreneurs who, but for initial capital, are brilliant business leaders. Statistics show this is the exception, not the rule.

Solving the missing middle is neither pointless nor destined to fail. What interviewees, particularly from asset managers such as pension funds and insurance companies, consistently complained of is that such offerings are uninvestible for them. They are too small, too risky and the teams offering them are not up to the required standard.

## Scalability and replicability

Managers and investors covet scalability. Significant socio-environmental problems require solutions at scale. However, there are five matters to address if funds and businesses are to scale effectively.

- Access to finance.

- The desire for rapid proof of concept.
- Rapid investee company growth.
- Positively affecting large numbers of people quickly.
- Making speedy, discernible contributions to poverty alleviation, climate change adaptation and resilience.

This is difficult for any business to do. Replicability takes scalability one step further. It is the ability of a business model to be extended, duplicated, imitated or hybridised elsewhere. Both ambitions are welcome. However, it is unrealistic to expect newly established businesses to scale so rapidly. The prominence of scalability and replicability as eligibility criteria and impact validators may cause managers to overlook more deserving opportunities.

### **Financial return–impact return interface**

Insufficient investment experience and advancing the impact narrative to the detriment of the basics, such as cash flow, product and service-market fit and inventory management, have given rise to the paradoxical notion that funds can somehow calibrate financial and impact priorities as required. In simple cases, this may be true. If fund A targets Cambodia and Laos and Fund B, Singapore and Brunei, most will conclude that Fund A will have greater impact because of OECD development status and the scarcity of risk capital in Cambodia and Laos. However, the trade-off as packaged by so-called ‘impact-first funds’ is viewed by most mainstream CIOs as wholly unrealistic.

If a business cannot become commercially viable, the impact generated, although perhaps profound, is time-bound. It will be limited if the business languishes, non-existent if it fails. Because of the early-stage, small-enterprise focus of many funds, and their inability to attract or build teams with deep local networks and investment track records, portfolios end up heavily weighted toward social enterprises. This is not to criticise SEs of themselves, but highlight that their equivocal attitudes to profitability make them inherently unsuitable for fund investments.

To put these concerns into perspective, managers, and in some cases investors, fail to realise that close-ended, time-bound PE or VC funds are unsuited to the investments they make, mainly SEs. However, if investors are prepared to back fund managers and all stakeholders fully understand the risks, they should be allowed to proceed. SEs may become viable commercial businesses. This often reflects management’s realisation that commercial imperatives are critical not just to survival, but to delivering goods

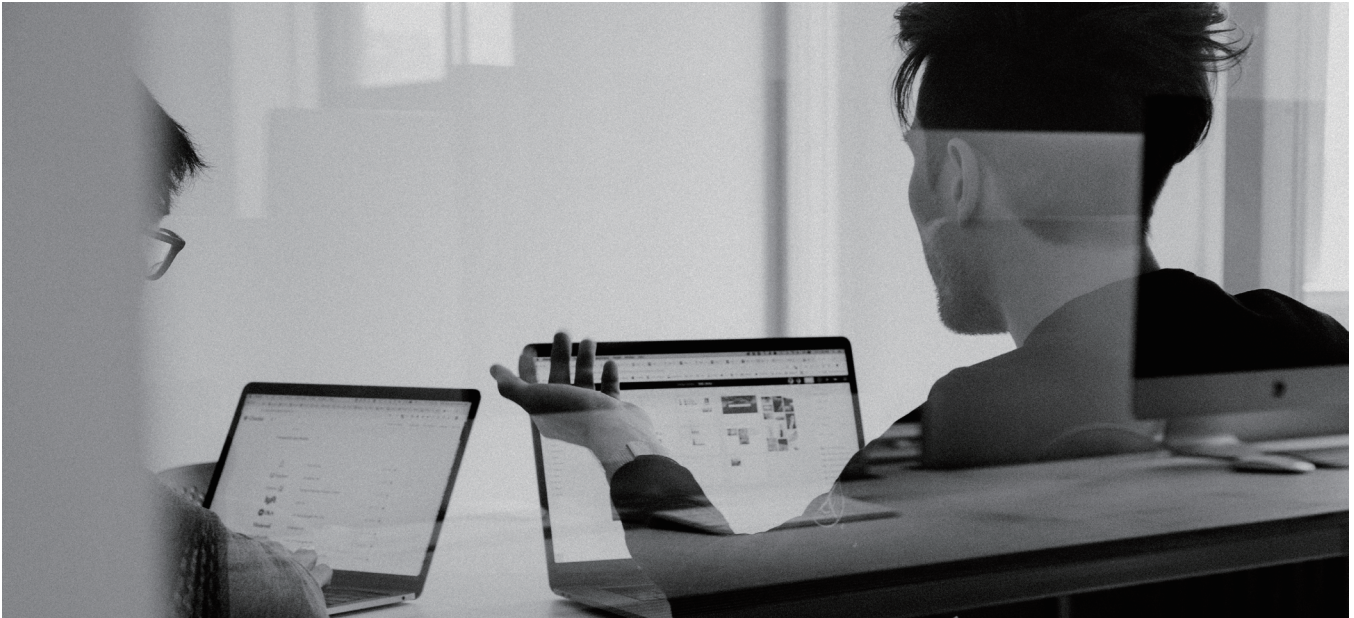
and services to the intended market segment or partnering with target lower-income producers or suppliers. Finally, there is an important difference between pursuing high-risk impact through new delivery models, untested technologies or in difficult geographies, funds for post-conflict states are good examples, and misunderstanding or misrepresenting the high-risk elements in a fund labelled ‘impact’.

### **Impact measurement**

This enables learning and holds the industry to account. This is key for credibility. Unfortunately, the importance of measurement in the Region has been exaggerated to the point of draining the resources of fund managers and investee companies. It can even jeopardise an entire fund. The determinants of business success and survival are not the judicious use of impact indicators. Rather, they are such matters as the strength of cash flows, financial discipline, strategic planning, good governance, inventory management and human resource management. However, the inexperience of some industry advocates in fund design and capital deployment, and the naivete of many emerging managers, leads them to believe that impact measurement is among investors’ major selection criteria.

### **Impact management**

This is another curious construction of the II industry. The Impact Management Project, a think tank and advisory firm, defines it as “The process by which an entity understands, acts on and communicates its impacts on people and the natural environment, in order to reduce negative impacts, increase positive impacts, and ultimately to achieve sustainability and increase well-being”. On the face of it, this is not a problem. However, as in any area, the challenge in the Region is first that impact management often sees inexperienced investment teams attempting to have investees, often SEs, maximise impact as they see it or wish it to be, irrespective of the commercial implications. In its most pernicious form, in which investors link manager incentives to impact outcomes, impact results are unlawfully altered. Second, experienced and ethical CIOs unsurprisingly look askance at this. Such impact management practices encourage inexperienced fund managers to impose preconceived strategies for solving very complex problems, as in the last-mile delivery of medical services in rural Philippines.



### Fund design

The preceding issues are contributors to and symptoms of weak fund design skills. They reflect excessive focus on the socio-environmental objective; insufficient scrutiny of the viability of the investment irrespective of socio-environmental aims; unresolved tensions between financial and social imperatives; a concentration on small transactions, which sit awkwardly in fund structures due to intensity and volume, and unrealistic expectations that small, impactful transactions can quickly scale.

### Deal flows

Because impact investment is nascent in the Region, unless an investment house adds an impact practice or ‘backs into’ impact from SME investing, most discover the sensitive relationship between fund design, deal flow and fund economics only after 1-2 years of operations. From the moment a manager begins to

“The impact fund champagne was poured far too early. We never diligenced the grapes and the hangover hit before the party really got started.”

**Industry Association Advocate, Hong Kong, commenting on the first wave of impact funds in the Region (2010s)**

develop the fund pipeline, that is long before a fund is marketed, the arithmetic that binds transaction types and the number of deals to be done with the fund size and team complement must stand scrutiny and stress-testing. If the numbers do not add up because the fund strategy has too many deals to be sourced, managed and exited, by too few experienced team members across too many geographies or sectors, the fund is doomed. It will experience the triple fatal flaws of insufficient management fees, too few staff and too many deals.

We might summarise the overall effect of these ten issues as a chronic misalignment of risk-return profiles and expectations. This was clearly borne out in our research. Extrapolating from China’s advances in clean and renewable energy, few investors quibble that there can be highly profitable commercial responses to the scale of the Region’s socio-environmental challenges. The short-circuits in the impact space are concentrated in fund modality, not direct investments. In the words of one interviewee, “The impact fund champagne was poured far too early. We never diligenced the grapes and the hangover hit before the party really got started.”

<sup>16</sup> Where the sectors and market segments eligible for investment are clear, they are less affected. For example, it is harder to see how impact management might be applied to portfolio companies in a clean and renewable energy fund than a gender-lens investing (GLI) fund.

### 8.3.10 Important caveats

- Early-stage investing, solving the missing middle and investing in social enterprises should be done by family offices and foundations. They are best positioned to experiment. They are also better equipped to tolerate unfortunate surprises and losses. Nextgens might oversell the prospects of an impact portfolio, but if impact capital is sourced from within, the risks of contagion to the mainstream portfolio are negligible. This is to sandbox experimental and risky investing before they are moved to mainstream portfolios.
- Our research did not reveal an antipathy to experimentation and innovation of themselves. Rather, it showed impact managers regret that their natural investor base remains so sceptical of IIFs. There is little indication that this position will change until more middle-market funds are brought to market that achieve attractive net returns in hard currencies. Our research also points to a long list of tasks and improvements for the industry associations and advocacy community to tackle.
- Although some IIFs in China do indeed concentrate on smaller businesses and are seeking to solve the missing middle, impact investment as a field is so early stage nascent there that it is not too late to avoid many of the pitfalls that plague IIFs in South-East Asia.

### 8.3.11 Conclusion

We firmly believe that the supply side of potential impact investors and the demand side of impact fund managers are talking at cross-purposes in the Region. The former are hearing a narrative from the latter that is often jumbled and illtuned. Fund managers need to listen to the simplicity of the plea, "Where is the alpha?". This said, we are aware that outlining a list of deficiencies without suggesting solutions is not constructive. Chapter 9, therefore, proposes remedial actions that our interviewees broadly concur on, will help to address many of these weaknesses. In this way, we truly can reframe the Region's IIFs for the rest of the 21st century.



# 9 CONCLUSIONS

## 9.1 Eleven hypotheses before and after research

We now analyse the 11 hypotheses referred to in Chapter 2.3. We compare our anticipated result in each case with the results of our empirical research.

We then offer recommendations, based on stakeholder interviews, to help advance the Region's impact fund marketplace. It is the Research Team's conviction that the recommendations, if implemented, will reframe II and IIFs to fulfil their full potential in the 21st century.

### Hypothesis 1

**Hypothesis 1: There is a wide gap between perceptions and the reality of impact and impact funds in the Region.**

#### Summary Market Assumptions

Wealth holders and asset managers have entrenched views about the sub-commerciality of II/IIFs. The older the individual, the more likely he/she is to hold this view and the less open the person is to persuasion.

#### Summary G2A Recommendations

The border between 'business' and 'charity' is so firmly drawn by older HNWIs, patriarchs leading/chairing corporates, conglomerates and family offices, that these views will only be softened by publicising commercial successes and demonstrating consistent returns. Nextgens, whether with discreet resource allocations of capital from elders or decisional power over the corpus, will be the ones to unlock wealth for impact. Our focus must be on them.

### Current Market Position

- The Region is divided between those who believe II is charity by another name and inherently sub-commercial and those who see its commercial benefits. Far more wealth holders are in the former camp than the latter.
- Nextgens are demonstrating their allegiance. They

are pushing boundaries, more often in environmental themes than in social finance.

- Not only is it almost impossible to change patriarchs' minds, but most are keen philanthropists. They hold that whatever combination of altruism, religious beliefs or other impulses drives their charitable giving, their socio-environmental obligations are fulfilled through this philanthropic giving.

**“Let me start by saying I think what you do is noble, but it's an expensive waste of time.”**

**September 2025, CEO of a South-East Asian conglomerate**

### Summary Outcomes

- One outcome is that billions of dollars of wealth that could be used for II are not being so used. In family offices, persistent nextgens are eventually given allocations to which patriarchs or governing bodies attach few conditions. Nor do patriarchs harbour expectations of compelling financial returns, and most, when interviewed, have been indifferent to the socio-environmental impacts investments might realise.
- Nextgens are vastly under-intermediate because the transfer of intergenerational wealth has only just started. The challenge will be to ensure that the few intermediaries with track records in impact fund construction, management and deployment are leading such advisory work.

### Recommendations

- The statement with which one of the wealthiest conglomerate heads in South-East Asia began our interview sums up so many similar opinions: “Let me start by saying I think what you all do is noble but it's a waste of time. I am here to make money, and if my costs go up because I spend money on ESG and all that stuff, I will lose out to my competition. My daughter has a few hundred million that she does impact with. That's enough!”. It was clear that even striving for stewardship in ESG management is

bothersome and costly in his view.

- To the extent that intransigent business leaders and patriarchal wealth holders are part of the landscape, any investment propositions must lead with the commercial. For instance, an investment fund targeting solar and wind assets need not stress environmental outcomes, illogical as that may seem. Paradoxically, few such wealth holders deny climate change and they would likely welcome investment in wind and solar companies if it will mitigate it. Second, if their corporates or family offices have VC and PE fund allocations, it is advisable only for experienced teams to solicit them and only with IIFs projecting net US dollar IRRs in double digits. The further projected fund returns stray from traditional offerings, the harder the task.
- Regarding the broader investment community, preconceptions will only be altered by solid teams, consistent returns, well-constructed products and credible impact assessment, the latter secondary to an unwavering focus on sound investing. Far clearer IIF segmentation also has an important role to play here.
- Lastly, sharing lessons learned is crucial. This recommendation is repeated throughout this Report. We recommend that fund and investment examples lead with business cases and demonstrate how commercial discipline drives commercial returns. This is because successful impact business models are predicated on addressing the environmental or social issues in question.



## Hypothesis 2

**Hypothesis 2: Impact investment is invariably associated with 'climate', especially in South-East Asia. Most climate-focused IIFs make early-stage investments.**

### Summary Market Assumptions

In South-East Asia and China, the first thematic area that comes to mind at the prompt, impact, is 'climate'. Within this catch-all, clean-tech and clean and renewable energy are most prominent, specifically wind and solar power. Most climate-focused funds invest in Series 'A' funding rounds, hence they present more as venture capital funds than longer-tenor private equity or debt funds.

### Summary G2A Recommendations

Led by direct and listed investments (notwithstanding the sustainability/ESG backlash since the late 2010s), clean and renewable energy, especially solar and wind, have graduated to the mainstream. This can be ascribed in large part to the urgency of climate-change mitigation and adaptation, itself fuelled by periodic social unrest in response to toxic air pollution. The billions of dollars that have piled into Chinese investments in the same period imply that the task of the impact community is to craft fund vehicles that can mobilise capital (domestic and foreign) that is familiar with and would welcome exposure through the fund modality.

## Current Market Position

- Early in every interview, the Research Team posed the question, 'What sectors come to mind when you think of II and IIFs?' Invariably, the answer was, 'climate'. By 'climate', interviewees invariably meant clean energy, that is solar and wind power. In this way, the term 'climate' has become a catch-all that broadly infers decoupling from fossil fuels by investing in alternatives. As we have seen most notably in China, billions of dollars of direct and portfolio investment have flooded into wind and solar companies.
- There is much to celebrate here. It indicates that a once nascent and separated model, considered expensive and awkward to scale, has matured and now comfortably sits in the investment mainstream. In the case of solar panels, costs have fallen so steeply as to jeopardise the economics of production. It is better to be tackling this problem than looking to take part in discussions.
- Yet 'climate' in the Region is a tale of three markets: less developed South-East Asia, China's eastern seaboard and China's interior:

- Less developed South-East Asia: Other than Singapore and Brunei, and the greater Bangkok and Kuala Lumpur areas of Thailand and Malaysia, respectively, clean and renewable energy investing is represented by a plethora of relatively small companies addressing local, provincial and regional demand, often in the personal and small business sector. Vietnam is beginning to see more renewable energy capacity and the emergence of explicit clean-tech funds. Large government installations and public-private partnerships are dotted around some countries. But beyond outsourced production of components in Vietnam, for instance, only in the 2020s have we seen single-country or regional clean and renewable energy funds targeting the middle market either directly or through roll-ups and M&A.
- China's eastern seaboard. China is the Region's outlier, with government-led and directed capacity being built at speeds unmatched globally and underpinned by private-sector innovation and new technologies. Although the latter may predominantly occur on the eastern seaboard, capacity is built where sun and wind abound, including some of the country's poorest provinces such as Gansu and Inner Mongolia.
- China's interior. Interior parts of China, unless close to and easily connected to mega-production installations, require context-specific, sometimes off-grid solutions similar to most South-East Asian countries. The lack of clear regulations governing where the private sector and middle market may operate deters II and IIFs. Despite China's prowess and innovation in clean and renewable energy, a widespread domestic view is that energy provision and transmission in much of western China is largely a government responsibility. This leaves the MSME and poorer personal segments somewhat adrift.
- A wider definition of 'climate'. We welcome 'climate', as currently conceived, becoming a gateway sector for II and IIFs. Without involving immersing stakeholders in development priorities, however, we highlight the importance of a far more encompassing, nuanced definition of the climate model.
- The agriculture-climate interface: Agriculture accounts for up to one-quarter of greenhouse gas emissions in some countries in the Region. Large percentages of the population work in agriculture, more than three-quarters in Laos for example. The climate-resource utilisation-economic growth relationship already discussed cannot be redrawn without significant investment in agriculture. Although the same argument may be applied to most sectors, climate change has particular implications for agriculture. More food has to be grown on less arable land with shrinking water resources and increasing climate volatility. Primary agriculture is an awkward asset in fund structures because of the high risk of on-farm exposure, but all segments higher in the value chain need targeted investment and upgrades.
- Emerging investment themes. Climate change ushers in new investment models for II and IIFs. One such is climate-responsive financial inclusion. New methodologies for risk appraisal are required to roll out a range of products providing such solutions as crop insurance, disaster insurance and extreme heat insurance. Assuming that insurers will be facing increased liabilities because of greater climate unpredictability and intensity, creative asset backing gathering will be essential for them and for FIs. This, in turn, means new savings products, asset-pooling and prudent ways of collateralising the assets and future cash flows of lower-income groups. As the CEO of one MFI opined, "let's be honest, this is where the future lies because this is where the numbers are".
- Facilitating gradual change. II and IIFs must indeed go where the numbers are by following the example of investing in clean and renewable energy. Larger agricultural processors and agri-businesses require investment to transition to cleaner production and to incorporate suppliers and distributors sustainably into value chains. Just under one-quarter of China's population, and nearly 30% of South-East Asians are employed in agriculture. Funds must invest in middle-market agriculture companies.
- Fund managers must build awareness that as hundreds of millions in the Region's four most populous nations, China, Indonesia, Vietnam and the

## Recommendations

- The availability of clean and renewable energy in China is testament to the reach and ability of the government. The amount and breadth of its resources are unparalleled. However, we make two recommendations, that climate should be defined more widely and that the sector should be brought gradually into the investment mainstream.

Philippines, demand universal healthcare coverage many more managers, funds and investors will be needed. This comes as such societies face higher life expectancy, ageing populations and complex demographics. Higher levels of service provision are assured if returns are consistent and the risk commensurate. The depth of unmet demand will steer impact. Three challenges, however, must be overcome. They are delivery, particularly in rural areas and archipelagic countries; allowing the private sector to participate, and resolving administrative and bureaucratic inefficiencies.

- Recognising the breadth of poverty and inequality. It may seem anomalous that we cite healthcare in Hypothesis 2, which is climate-related. However, if we remind ourselves of the World Bank’s definition of poverty as “profound deprivation in well-being”, and of the imperative of tackling inequality, then it can be seen how important it is to increase the number of sectors that grow and join the ‘climate’ category. There they tap IIFs of USD50 million-350 million.



## Hypothesis 3

**Hypothesis 3: Returns from impact investment offerings—funds or otherwise—are assumed to be lower than returns from traditional funds.**

### Summary Market Assumptions

Impact managers make trade-offs between financial returns and impact. Therefore, financial returns must be ‘sacrificed’ in pursuit of impact objectives.

### Summary G2A Recommendations

The Region’s fund managers (and many investors) need a more nuanced understanding of what ‘counts’ as II/IIFs; specifically, that IIFs need not be early-stage or SE-focused; rather, they can be later-stage, with investments of US\$20 million-30 million or more in companies that could comfortably sit in traditional investment portfolios.

### Current Market Position

- Other than among experienced impact investors and fund managers, there is a widespread assumption that impact investment must mean lower returns.
- Impact, in this view, is an amalgam. It distracts and distorts the investment process. It is also a zero-sum game. The possibility that commercial-financial and socio-environmental objectives can be mutually reinforcing is not considered.
- With the supply of impact funds heavy on small funds and early-stage or SE deals, the investor base is reduced to pioneering HNWIs, family offices and a handful of foundations.

### Summary Outcomes

- The most fundamental effects of this widespread view of returns are fourfold:
  1. Impact remains in the realm of the alternative, the exotic.
  2. Lower returns become a self-fulfilling prophecy, reinforced with each impact offering that under-performs against market risk-return benchmarks. An example in practice is this familiar response from foundations to impact offerings: “The endowment certainly could not consider the ABC Fund. The returns are far too low. However, it may suit x or y mission-related window or z impact allocation.”
  3. In family offices, this often manifests as an ‘impact carve-out’. This has three effects: it de-emphasises the importance of applying the same investment rigour to impact investments

<sup>17</sup>Sources: World Bank and UN Food and Agriculture Organization.

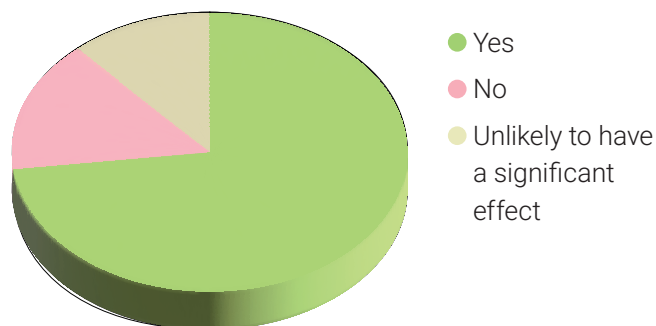
as to the mainstream portfolio; it excludes the possibility that returns on some impact offerings can match or exceed traditional ones, and it further entrenches separation between the core portfolio and the impact carve-out when the former does ESG. This is industry speak for applying ESG criteria to the main portfolio, self-identifying as a responsible, ethical or sustainable house.

4. Innovation is foregone. IIFs that target, with clarity for all stakeholders, high-risk geographies or market segments (post-conflict states, LDCs, small island developing states (SIDS) funds, for example) or experiment with new blended finance tools and revenue models, are not created.

### Recommendations

- We believe that rigorous training and upskilling of managers is needed gradually to repair the market’s default ‘impact fund-low return’ bias. As the following graph shows, nearly three-quarters of survey respondents opined that impact fund returns must be commensurate with traditional fund returns if impact investment is to be mainstreamed. If implemented, we believe these recommendations will produce two especially important outcomes. First, higher capital volumes will flow with fewer hindrances into impact offerings of all risk-reward profiles; second, funds clearly signposted as ‘other’ for the express purpose of innovation and experimentation can attract capital from appropriate sources, such as DFIs, MDBs and the HNWIs, FOs and foundations committed to sector building.

Must returns from impact investment funds be commensurate with traditional funds in order for impact to be mainstreamed as an investment offering?



- The main components of such upskilling should include the following:
  - Know your business model. Unless a business model can realise impact intrinsically, that is the commercial opportunity resides in addressing the social and environmental challenges, something other than investment is happening. Provided the fund promoter understands this and communicates it clearly to investors, both parties are free to pursue the strategy. Yet just as some investment strategies are ill-suited to traditional fund structures, some investors lack sufficient experience to spot the admixture and its hazards.
  - KYFT – know your fund type. Many fund managers and inexperienced investors do not realise that they are actually engaged in venture philanthropy with VC-risk levels. Even in favourable operating environments, this is a heavy lift. Comprehensive manager training takes managers ‘back to basics’ to understand the sensitive relationship between a fund thesis, fund size, portfolio size, fund economics (management fee) and overall offering viability. To be clear, if there are managers and investors aligned in a high-risk, high-reward fund that is breaking new ground, this is a welcome dynamic. However, the fund manager and investors must understand the modality well enough to recognise the risks.
  - KYO – know your objectives. Angel investing, early-stage investing and solving the missing middle are noble objectives. They imply commitment to market building and solving a very real problem in all economies. MSMEs invariably struggle to access affordable finance from formal sources. Our recommendation, which would be well-served by targeted training, is to ensure that fund managers and investors clearly understand these three points:
    - Early-stage investing is just one of many II and IIF segments.
    - Funds are probably not the best solution for early-stage investing or solving the missing middle unless they are supported by LPs that can supplement the traditional annual management fee of 2% either with a higher percentage or with significant TA commitments.

- Unrealistic ambitions for scale and replicability in SE and SME investment portfolios steepen the fund risk curve.
- The impact community should increase the number of expansion finance and later-stage offerings. The Region has relatively few lower-middle and middle-market offerings providing exposure to substantive companies with enterprise values of USD25 million to USD500 million. Given the scale of socio-environmental challenges in the Region, we believe that far more well-managed commercial funds targeting sectors such as healthcare, education, financial inclusion, ag-tech and agri-processing are needed. The potential upsides and impacts are significant, for this is a region not without unicorns. This recommendation is important because the middle market has the best prospects for attracting large sums of private, institutional, public and sovereign capital for both financial gain and non-financial impacts.

## Hypothesis 4

**Hypothesis 4: The segmentation of impact offerings is unclear.**

### Summary Market Assumptions

Inadequate, unclear segmentation is off-putting to many investors and deters capital flows to IIFs. Most notably, only seasoned impact investors are able to differentiate between earlier-stage, higher-risk funds and later-stage funds. The default image conjured by IIFs for most CIOs and ICs is that they are amateur, 'developmental' and unsuitable.

### Summary G2A Recommendations

With a handful of notable exceptions, global and local networks and associations have few if any personnel who have structured funds, managed full fund cycles or invested capital in IIFs. As the vanguards of field-building, it is crucial that they have practitioners on staff who have investment and fund experience. Only then can impact offerings be accurately segmented and many of the prejudices impeding II/IIFs in the Region be dispelled.

## Current Market Position

- Our research shows conclusively that for the majority of investors, impact engenders two deeply held views: impact, as with sustainability, belongs in the past, and IIFs cannot be commercial.

- Our research also indicates that the lack of clear segmentation of the offering set bears much of the blame. Only 2% of survey respondents believe the impact investment opportunity set is well segmented in the Region. The remainder believe it is poor to mediocre. Four reasons for this stand out:

**“We impact investors are forever talking amongst ourselves. The big boys never join our table, and you can understand why.”**

**Foundation executive, Singapore**

1. Certain global networks, existentially impelled to provide positive news about impact investment in order to fundraise successfully, posit aggregate annual II flows in the billions of dollars. Such numbers are easily reached when definitions are vague—throw in large renewables funds and one quickly approaches the USD1 billion mark in many markets.
2. As it relates to funds, the use of aggregated data on the total number of funds and the total capital raised obscures the more complex and less salutary picture with respect to impact funds;
3. The incomplete and inadequate explanation of the role of TA facilities, the use of blended finance and where they sit within funds that might have segregated allocations for investments that can use them alongside fully commercial allocations;
4. The inability to reframe lessons learned and developments in the impact marketplace for an audience wider than mostly philanthropic, 'impact-first' circles should be noted. As one interviewee shared, “We impact investors are forever talking amongst ourselves. The big boys never join our table, and you can understand why.”

## Recommendations

- Global and local networks and industry associations need to apply far higher levels of rigour and transparency to segmenting II and IIF market offerings. These stakeholders are adept at plotting impact investment on a sub-commercial-to-commercial scale. A typical diagram in their literature will position philanthropy and grants at one end of an axis and commercial deals at the other. Moving beyond the status quo demands far more nuance. In our view, they must do a number of things in future:

- Ensure that they themselves are conversant with the mechanics of all structures, sizes and deal-types in the IIF family, from developmental and early-stage to commercial.
- ‘De-exoticise’ IIFs by switching the focus from earlier-stage offerings and solving access to finance issues to middle-market funds. A welcome addition to the Region would be a large bucket of entirely unremarkable funds, unremarkable in the sense of funds making investments of USD5 million-50 million in the agriculture and healthcare sectors, the marine economy and ecotourism, for example. These are commercial responses to climate change or social challenges.
- Build awareness, particularly among institutional asset owners and managers of pension funds, insurance companies, endowments, other asset managers, financial institutions, sovereign wealth funds and corporate foundations, of the full spectrum of risk-return profiles in impact investment.
- We also suggest that two priorities for fund managers are know your audience and share lessons learned. Successes and failures should be discussed and such managers must co-operate with industry associations and networks to ensure the widest dissemination possible. As an example, some of the world’s largest asset managers and pension funds are investing in unicorns in Indonesia’s healthcare sector. This is an extreme end of the spectrum by company size. We can work downwards from there to demonstrate that there are many more companies, some with small beginnings, that merit institutional investment. There is a spectrum of funds, single-country and regional, tackling extreme poverty, inequality and environmental issues that persist throughout the Region.



## Hypothesis 5

**Hypothesis 5: There is a severe skills deficit in the Region’s impact fund managers.**

### Summary Market Positions

The general market view of impact managers is that they are inexperienced investors. The few outliers tend to be in the ‘climate’ space and in healthcare, and generally VC-focused.

### Summary G2A Recommendations

The Region requires a dedicated training institution whose qualification is as highly regarded as the Chartered Financial Analyst (CFA) certification.

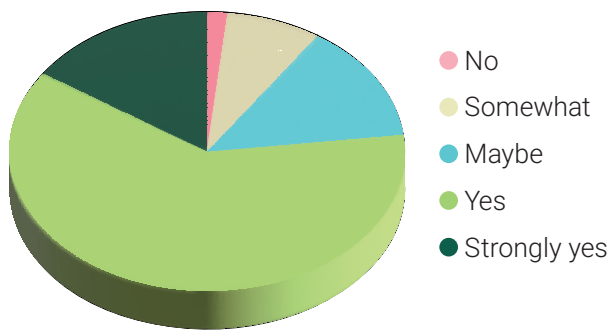
### Current Market Position

- It is a valid conclusion from our research that only compelling financial, or market, returns will move IIFs to the mainstream. Some stakeholders will be willing to accept greater risk and chance lower returns for experimentation. Predominantly in the Region, however, perceptions are entrenched, meaning that investment acumen, track record and deal pipeline remain the key criteria for investment. This is as it should be, particularly if IIFs wish to receive treatment equal to that given to non-impact peers.
- Other than with experienced VC fund managers who are pursuing climate themes or healthcare opportunities in response to the compelling financial returns they discern and their investors seek, the market sees only severe skill deficits in impact fund managers. The smaller the impact fund, the more circumspect are experienced investors. This reticence may be merited. In the words of one practitioner, “impact here has always been social heavy, finance light”.

### Recommendations

- Just as the world’s most exacting fund managers covet professionals with exceptional financial skills, the impact investment discipline requires a rigorous qualification with strong emphasis on the following areas:
- Fund design. This has two focus areas, the arithmetic binding a fund’s thesis, investment strategy, size, revenue (management fee), staff complement, operating expenses and returns (among other factors); and (ii) how to embed impact objectives into a fund thesis not alongside commercial drivers (i.e., as incidentals), rather through them, in other words, woven into the commercial drivers of the business models in the sectors and market segments targeted.

Percentage of respondents who believe that advancing impact investment in the Region would be well served by a professional qualification as rigorous as the CFA.



- Risk-reward profiling. Understanding the true risk profile of transactions by size and stage and assessing the tenors that likely suit each.
- Pipeline development. Specifically, developing transaction opportunities on the ground in target markets, fishing beyond the ponds of incubators and accelerators. This implies manager expertise in the areas of value addition beyond finance that fund managers must be able to offer for their capital to be attractive to investees.
- Deal structuring and selection. Equity, quasi-equity, mezzanine structures, debt and revenue-based and royalty-sharing models, among many others.
- Impact measurement: Proportional measurement, which recognises that: (i) commercial imperatives must take precedence ('out of business, nothing to measure!'); (ii) there are few pure quantitative indicators available for assessing impact; (iii) measurement is burdensome for investees, and therefore must be practical and, wherever possible, useful (for instance, market segment data that shed light on existing and new demand vectors for an FI/MFI); and (iv) measurement is no substitute for investment skills.
- Investing to exit. All the above skills honed to exit strategies that are realistic for the fund's investment thesis.
- To clarify, we are not suggesting that a tough qualification is a panacea. Rather, it may correct numerous skills deficits that fund managers and investors discover early in investment periods. This will build credibility, minimise under-performance, reduce failures and limit them mostly to funds clearly pushing the risk envelope by sector, geography or otherwise.

## Hypothesis 6

**Hypothesis 6: Many corporates, family offices and HNWLs 'do impact', colloquially speaking, yet this investment activity goes undetected, especially in Western analytical categories.**

### Summary Market Assumptions

Hundreds of millions of dollars (or more) of impact capital deployment goes undetected by global networks and industry associations because it does not conform to Western categories. Although this refers to non-fund impact capital deployment, it suggests that the charity-investment conundrum discussed in Section II is less straightforward than it might seem

### Summary G2A Recommendations

Impact investment in the Region tends to be below the radar and not named as such, but the compunction is what matters here. As with China's quasi-governmental venture philanthropy, there are track records to be harnessed and built upon. Interviewees concur that only when the stock of well-structured, well-managed funds is increased will they regularly invest in and assess IIFs as they would other offerings. Broadening the sectoral coverage is an important accompanying task.

### Current Market Position

- In more than two-thirds of interviews with HNWLs, FOs and companies in which the patriarch remains in place as CEO or chairman, no matriarchs being found, impact was 'being done' to varying degrees of sophistication and diversification. Interviewees often said, "We do do impact here". It became clear that this phrase acts as a pre-emptive defence; a rebuttal that the family or institution does its bit for the common good.
- In China, although HNWLs and family offices tend to be more inscrutable, corporate foundations established by behemoths like TenCent and Alibaba have emulated Western, specifically American, models. The former, for example, has selected the application of technology to climate change mitigation and adaptation as a central theme. Few such foundations were allocating capital to IIFs in 2025, but they are actively considering fund allocations in the future.

### Recommendations

- Impact investment, when well executed, is welcome in any form. It is important that we understand all of the forms it takes. As an impact community, we can then identify more accurately the gaps we need to address.

We can also select the instruments that are best suited for each market segment. For this reason, the Region's IIFs must emulate the fund managers that have built successful track records in the region. We also suggest that fund managers target sectors, deal sizes and risk-return profiles with which investors are most comfortable.

- In China, one objective should be to attract recognised parastatals into funds. The China National Cereals, Oils and Foodstuffs Corporation (COFCO) in an agri-business fund is an example. This is a signal to private and institutional investors that funds are a good way to 'do impact'. Further, with behemoths such as COFCO willing to play a catalytic role, as in Case Study 1 (Annex 2), or to accept more junior positions in a fund's capital stack, more capital may be raised and such funds could be brought into the mainstream during a period.

## Hypothesis 7

**Hypothesis 7: Next gens have a crucial role to play in the II/IIF ecosystem.**

### Summary Market Positions

Without exception, older generations and next gens themselves point to a profound change in attitudes in the Region. The world's largest ever inter-generational wealth transfer, underway in China, will accelerate this. Indeed, patriarchs, grandparents and senior management alike concur that it is the next gens who 'get it'.

### Summary G2A Recommendations

The very best of nextgen commitment to impact investment must be harnessed: access to capital, infusing fresh thinking into family offices and other institutions, prioritisation of climate change mitigation and unwillingness to ignore social ills (poverty and inequality).

### Current Market Position

- Whether private bankers serving nextgen clients, younger generations in family offices, recent graduates returning from abroad or experienced local recruits, interviewees concurred that changes are afoot as wealth passes from the older to the younger generation. The steadfastness of the young is partly explained by the fact that, unlike their forebears, most have matured with climate change as an acknowledged existential threat.
- In the words of one South-East Asian private banker,

"We know we have to meet nextgens where they are. Old products just won't cut it with them." This implies that wealth holders and managers recognise that II and IIFs must generate verifiable outcomes for the relationship to blossom. It also shows that the latter have much trust-building to do. The backlash against ESG and sustainability has added to augmented nextgen wariness of traditional wealth managers.

### Recommendations

- The knowledge base and technical capacity of intermediaries must be rapidly increased to address the ambitions and capture the resources of nextgens. Private banking practices within FIs, for example, need to get up to speed on the true risk-return profiles of impact funds and other products in the market and to hire skilled practitioners to build domain expertise.

## Hypothesis 8



**Hypothesis 8: II/IIFs in the Region would benefit from FOs and foundations expanding their repertoire.**

### Summary Market Positions

Few would disagree that family offices and foundations are vital actors on the impact landscape. Several stand out, especially in South-East Asia and Hong Kong, as steadfast advocates that 'walk the talk'. Yet most impact professionals in family offices with impact investment allocations of whatever size, decry (off the record, of course!) that so much more could be done.

### Summary G2A Recommendations

Forward-looking FOs and foundations should take the lead in complementing catalytic, early-stage and direct investment portfolios with arguably unremarkable allocations to middle-market impact investment funds. (We use unremarkable here in the best possible sense: nothing out of the ordinary, in the way that direct/portfolio investing in solar or wind companies now is.)

## Market Position

- As with many impact investors worldwide, the Region's FOs and foundations are sympathetic to early-stage investing, supporting entrepreneurship and solving the missing middle. Such commitments are to be celebrated. However, the market is wary of funds that, for example, offer exposure to middle-market companies in the agri-business, agro-processing, healthcare, education and financial inclusion sectors, along with clean and renewable energy. The counterargument may be that if their commitments are unremarkable, their capital is probably superfluous. What the IADB's dedicated vehicle and consistent DFI and MDB allocations in Latin America and worldwide demonstrate is that the presence of their capital remains essential for far longer than might be assumed, if consistent private-sector participation is to be assured.

## Recommendations

- Other than Temasek, few are the Region's institutions with influence as powerful as, for example, the Bill and Melinda Gates Foundation. However, this position is created, not bestowed. There are numerous powerful institutions and wealth holders whose presence in funds may attract regional and foreign peers.
- More visible and consistent commitments are welcome, possibly pooled into a vehicle such as a fund-of-funds, to invest in maturing managers' second and third offerings as a means of deepening and mainstreaming impact allocations.



## Hypothesis 9

**Hypothesis 9: The Region requires a dedicated pooled vehicle to seed new fund managers, bed down maturing managers and continue to invest at least until their third fund cycle.**

### Summary Market Positions

There was near unanimity among II stakeholders surveyed for this Report that a pooled, open-ended vehicle would make an enormous contribution to II/IIFs in the Region.

### Summary G2A Recommendations

A dedicated vehicle, underpinned by ongoing fund manager training modules, alongside ecosystem building, convening power and a knowledge centre, would advance II/IIFs significantly. The IDB's Multilateral Investment Facility (MIF) could be used as the blueprint for such an entity.

allocations to middle-market impact investment funds. (We use unremarkable here in the best possible sense: nothing out of the ordinary, in the way that direct/portfolio investing in solar or wind companies now is.)

## Market Position

- Until recently, there has been far less focus by MDBs in South-East Asia and China on impact investment than in other developing regions. Throughout the 2010s, for example, the majority share of Asian Development Bank commitments to VC and PE managers were in top-quartile funds. Neither Asia nor Africa ever benefitted from a MIF-like organisation. The state of the impact investment ecosystem in East Asia bears testament to the unfortunate result.
- With the exception of IFC and, more recently, ADB, there is no dedicated entity, established and managed in the Region, whose anchor investment in IIFs could attract investors of all stripes from within and beyond the Region.

## Recommendations

- Among the recommendations to emerge from our 11 Hypotheses, we believe this is the most actionable and would be the most consequential.
- The depth and sophistication of Latin America's fund ecosystem is attributable, in no small measure, to the role of the MIF as a catalyst. Its investment programme took shape in the mid-1990s, long before the term II was coined. This suggests that the logical departure point for building a thriving fund community sitting below large, established, often continent-wide

or global managers, consists of combining investment capital with capacity building and ecosystem building.

- There are numerous sovereign, government and public institutions, along with foundations and possibly even financial institutions in the Region that could support such a vehicle. It must have the following characteristics. First, it must be professionally managed and free of the economic and political priorities of contributing national institutions or states. It must avoid politicisation of capital allocations. Second, it must remain true to its mission to seed and fortify fund managers, attract investment and support the broadening of the fund ecosystem by models, sectors, geographies, capital types and tenors.

**“When surveyed in 2025, 98% of stakeholders in the Region agreed that a fund-of-funds would be a helpful tool to advance impact investing in South-East Asia and China.”**

**Noah Beckwith, Senior Impact Adviser,  
Asia Impact Investment Funds I and II**

- A key priority for the sector-building side of such a facility is to segment impact offerings in the Region clearly and to support managers in categorising their offerings accurately. It should also play an active role in two areas. These are extracting case studies, anonymised if necessary, from impact practitioners, particularly those that are not well known and dispelling myths and prejudices, bearing in mind that IIFs necessarily focus on early-stage deals and that returns are by definition sub-commercial.
- Because of the imbalances across the Region, the vehicle’s investment mandate may include the following priorities.
  1. Innovative structures. Long lock-up periods and illiquid asset classes put off investors in the Region. This said, investors and philanthropists acknowledge that climate change cannot be mitigated without profound change. Those who are minded to provide patient capital or consider evergreen structures, using blended finance tools, catalytic grants and the like, may use the vehicle to channel their commitments.
  2. Commercial sustainability. All structures, instruments and fund allocations should share the objective, no matter how long the journey, of commercial sustainability, building enduring, self-standing profitable businesses.

3. Least developed and post-conflict states in South-East Asia. There should be a window for the Region’s poorest economies, regions and people, Laos, Cambodia, Myanmar, remote parts of Indonesia and the Philippines and ethnic minorities. Such offerings must be clearly labelled as high risk, likely to focus on earlier-stage businesses and require significant grant capital for fund manager training, investee company readiness and business development services.
4. China’s interior. We fully acknowledge the unique features of China’s development model. However, we also recognise that many regions of China’s interior require dedicated investment and expertise. Just as the private sector has proven such an adept partner for provincial governments on the eastern seaboard, the vehicle could address geographies and market segments with tailored funds. This could well advance general impact investment. Interviewees consistently pointed to most private impact capital available in China, although limited, staying in the country. It may be appropriate for such capital to be devoted to national socio-environmental priorities. The emerging impact fund manager community will certainly welcome the strong message sent by having an anchor investor such as the proposed vehicle in domestic impact funds looking beyond the eastern seaboard.



## Hypothesis 10

**Hypothesis 10: Hong Kong and Singapore can play a far bigger convening and mobilising role for II/IIFs in the Region.**

### Summary Market Positions

Hong Kong and Singapore are already the leading financial centres for aggregating, intermediating, structuring and channelling impact capital in the Region. They could play an even bigger role.

### Summary G2A Recommendations

Led by industry associations and advocacy groups, and reinforced by impact investors and managers socialising results at mainstream investment events, major public and private institutions in Hong Kong and Singapore could champion the establishment of the pooled investment vehicle suggested in Hypothesis 9 to ramp up II/IIFs in the Region.

(We use unremarkable here in the best possible sense: nothing out of the ordinary, in the way that direct/ portfolio investing in solar or wind companies now is.)

### Current Market Position

- Although interviewees unanimously agreed that governments are ill-suited to taking investment decisions, most agree they can help to build the II/IIF ecosystem, principally by clarifying regulatory regimes, providing time-bound fiscal incentives, contributing seed capital to funds or funds-of-funds, funding research and advocating for Hong Kong and Singapore as the gateways to the Region.
- In Hong Kong and mainland China, most investors and fund managers interviewed pointed to the absence of “industrial support and tax incentives” deterring impact investment.
- The thriving community of family offices in both Hong Kong and Singapore could help rally wealth holders. According to the Inland Revenue Department of Hong Kong and the Business Times of Singapore, the number of single-family offices in Hong Kong and Singapore had reached more than 3,700 and 2,000, respectively, by the end of 2024.

### Outcomes

- Hong Kong and Singapore are the logical nodes for building and disseminating impact product throughout the Region. Regarding mainland China, Hong Kong is already playing a catalytic role in advancing II and IIFs in Shanghai, Beijing and Shenzhen.

- Far more government resources are needed to support investment forums and knowledge sharing anchored in the business case for impact investing. There is little awareness beyond China, for instance, of certain provincial governments’ prowess in catalysing private investment by providing junior capital tranches and grants that are withdrawn over time.

### Recommendations

- Our recommendation for Hong Kong and Singapore consists of five pillars:
  1. Improved support services. Both locations are respected jurisdictions for domiciling funds. They could emulate to great benefit the example of Mauritius, which from the early 1990s positioned itself as the domicile of choice for SME-focused investment funds in Africa, India and beyond. Mauritius’s offshore financial services sector emphasised the rule of law and, as DFIs and multilaterals introduced ever stricter ESG requirements, Mauritian professional-service providers swiftly rose up the ESG learning curve. The professional services providers of Hong Kong and Singapore, law firms, accountants, custodians, back-office support firms, must similarly get up the impact learning curve. As Mauritius has demonstrated, the result goes far beyond revenue for services. The jurisdiction itself becomes an ecosystem for fund conceptualisation and fundraising.
  2. Rule of law. Other than Singapore, few countries in the Region inspire as much investor confidence in the rule of law as Hong Kong. This is shown by the frequent use of special purpose vehicles governed by Singapore or Hong Kong law. Case law demonstrating unbiased, transparent treatment of parties’ legal disputes is crucial to building confidence in new IIFs.
  3. Hong Kong as the gateway to China. Hong Kong is the natural gateway for domestic and foreign funds seeking exposure to China. As the partner of one Hong Kong-based law firm shared, “No outsiders understand how business is done on the mainland like we do [in Hong Kong].” Just as China’s renewables

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<sup>18</sup> Hong Kong: IRD: PRESS RELEASE and Singapore, Singapore family offices exceed 2,000 in 2024, up 43% on year - The Business Times. Both accessed 23 May 2026

sector has attracted billions of dollars of domestic and foreign investment, Hong Kong's unique relationship with the mainland is ripe for far greater intermediation and concierge services for impact. The managing director of a prominent industry network cautions that "Demand for impact in and outside China is not strong." However, if it is true that the mass market is "where the numbers are", that is the lower and middle-market segments, and we know there is money to be made by making the Chinese economy fit for environmental purposes, Hong Kong can intermediate these flows.

4. Catalytic capital. As we have seen, the Region's poorer countries and conflict states require vast investment. New fund structures, revenue models, blended finance tools and risk-sharing mechanisms are being developed around the world. The best-placed centres for fund managers and investors to create and seek these are Hong Kong and Singapore.
5. Fiscal incentives. 98% of respondents to our survey agreed that fiscal incentives will advance II and IIFs in the Region. Although we consider that such incentives should be time-bound to maintain rigour and counter the critique that, were II and IIFs not sub-commercial, no such incentives would be provided, they have an important role to play in building the market. They can take various forms on the supply and demand side of the impact fund marketplace, including tax holidays on profits, or carried interest, reduced withholding taxes at the fund level and tax deductions in the case of write-offs.



## Hypothesis 11

**Hypothesis 11: Financial institutions are the hardest investors to crowd into II/IIFs.**

### Summary Market Positions

The management strictures and incentive regimes in financial institutions make the wealth they hold the most difficult to unlock for IIFs.

### Summary G2A Recommendations

Concerted engagement at the highest levels of FI management is required to unlock billions of dollars in untapped capital for impact investment. We recognise that far more investment-grade product must be available to capture this wealth, experienced intermediaries must work with banks to modify the strictures of wealth platforms and the incentive structures of relationship managers in private banks should encourage the distribution of impact products.

### Current Market Position

- Even the most senior executives of domestic and foreign banks acknowledge that getting a middle-market impact fund through the system is almost impossible. Whether in the private wealth or asset management sides of banks, the smaller the product, the more challenging it is to convince relationship managers to sell it. In Case Study 4 it was only persistent lobbying and the fact that, as one manager phrased it, "Senior management sort of realised it was pregnant with the product when it was already too late to stop it" that forged the exception. The fund was successfully raised.
- There are no signs of change. If the past is anything to go by, that will not come from within. Most major FIs have one or two outlying executives, often lauded as visionaries who 'get it' on impact and sustainability. However, their advocacy is usually sidelined into pedestrian sustainability departments and corporate social responsibility (CSR) projects. Few have their own profit-and-loss centres, so they have no financial influence.

### Recommendations

- Bank structures are entrenched, and impact funds of less than USD350 million sit awkwardly within them. However, expediency and even survival in the face of AI infiltration and nextgen pressure may change the view of IIFs within FIs.
- If AI does pose an existential threat to many lines of private, retail and investment banking, their offerings



need radical overhauls. Downsizing is already happening and perhaps only those banks offering boutique services and solutions will survive. They will have to deal with IIFs. Although FIs may lack their own VC and PE expertise, they have access to prized HNWI, who form an influential investor base. Collaboration between FIs provides synergy as is shown in Case Study 3 (Annex 4). FIs should, and soon may have no alternative other than to meet clients' demand for proprietary products that reflect their values. The risk-return profiles of IIFs designed to be raised (partly or wholly) on banks' wealth platforms should conform to market conventions regarding such factors as size, risk-return profile and track record. Funds-of-funds that offer exposure to best-in-class managers in the Region are another option. However, it may be difficult to convince wealth holders that the double-fee layer and the long lock-up period justify allocation.

- If FIs take this course of action, rigorous training of senior management and relationship managers will be required. Just under 8% of our survey respondents believe that FIs in general and private bankers in particular, are able to advise clients on impact investment products.

## 9.2 Conclusions

The Research Team is optimistic about the future of impact investment and impact investment funds in the Region. The obstacles may seem insurmountable but the conclusion is that, with improved structuring, management and segmentation of impact offerings, the Region's marketplace will embrace II. The private sector, ever in search of new investment opportunities, will recognise that addressing our environmental and social challenges is "where the numbers are".

Cooperation between governments and the public and private sectors will resolve points of friction.

### **Government:**

- Must ease pain points and bottlenecks through legislation, fiscal and regulatory reform.
- Must communicate about the tools it will use to encourage IIFs that target its preferred geographies, transaction sizes and types.

### **Public sector:**

- Must identify public-sector institutions that can ensure IIFs bring in private-sector investment.
- Must lay out where funds are positioned and set out such essentials as tenor, clear objectives and definitions of success.

### **Private sector:**

- Fund managers must explain realistically what funds can realistically be expected to deliver.
- Investors must state the points at which improvements in fund offerings will induce them to allocate capital, other than just higher financial returns.

This is the model that launched the venture capital sector in the United States in the 1960s and 1970s. Critically, this collaboration may accept that sub-commercial capital and risk-sharing tools will be required to induce investment in certain areas; persuade governments and the private sector to provide the tools on a time-bound basis; ensure that the private sector fully participates, and commits parties to long-term capital provision once programmes start and business cases built. We are not recommending state-directed lending, other than in China. Rather, we wish to see large, patient pools of capital that bring in the private sector. This is an appeal to the self-interest of all participants.

## Objectives, time lines and roles

There is a longstanding debate about the need for systemic changes to capital formation and capital allocation. There are also discussions between wealth holders and asset holders about the frameworks needed to encourage investment. These are long-term objectives and difficult to bring about. Players have conflicting timelines. Advocates of change urge speed; many wealth holders and asset owners, while sharing the impact community's environmental objectives, ask why is it their responsibility to solve long-term structural and systemic issues with their capital. They also question how they are able to do so if so little impact product meets even the most flexible of investing criteria. A major obstacle is the paucity of good quality IIFs.

## The transition of 'climate' into the mainstream can be replicated

This Report explains how 'climate', led by the solar and wind sectors, is now a mainstream funds recipient. Our research suggests that a similar journey is underway in the circular economy and in healthcare. The European Research and Education Foundation defines the circular economy as one that "keeps materials moving through reuse, repair, redistribution, and recycling". It further claims that, "this is the most powerful way to preserve natural resources and minimise emissions that cause climate change." Circularity embodies the convergence of the conceptual, systemic change, and the practical, IIFs making strong returns from efficiency and resource recalibration plays. Healthcare is simpler to explain. Social media gives voice to those whose healthcare needs have hitherto gone unmet. Failure to meet them has become a public imperative in which governments need the private sector's help. To succeed in transitioning to the mainstream, these and other areas will need to correctly identify the types of capital required at appropriate stages and investment sizes, and the risk-reward appetites of those providing it.

## Focus must be on returns

The relationship between an asset owner and asset manager in a fund is a fiduciary one. As such, the most compelling predicate for an investor to commit capital is almost always financial return. It may be unrealistic to expect IIFs to generate financial returns commensurate with the best-performing 'traditional' strategies. A more realistic objective may be to meet the minimum thresholds of institutional investors, endowments,

pension funds, insurance companies and others, to secure attention. This will be done sector by sector, model by model. Only by seeing financial returns will the market acknowledge, and eventually prioritise, the social and environmental drivers underpinning them in IIFs.

No government can resolve the multitude of socio-environmental issues we face on its own. As climate change intensifies, the urgency of mitigating its effects and adapting to it will grow. There is great benefit to conditioning the private sector now to confidently embrace climate action through II and IIFs as one of the major growth opportunities of the future. The impact community can lead this charge. Many factors must align for II and IIFs to fulfil their promise. We believe the foundational elements are there, as presented in the following Theory of Change that reframes IIFs in the Region. The theory incorporates many of the elements of the above 11 hypotheses.



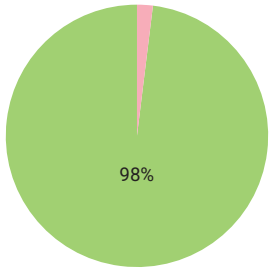
<sup>19</sup> <https://erefdn.org/advancing-sustainability>. Accessed 24 May 2026

### 9.3 Theory of Change



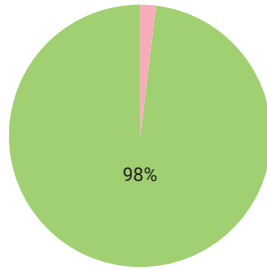
# QUESTIONNAIRE

## IMPACT INVESTMENT RESEARCH



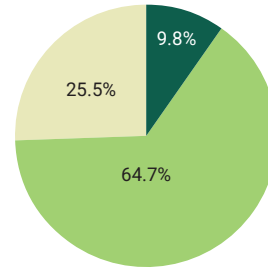
● Yes ● No

Would a fund-of-funds that supports emerging and existing fund managers, and invests in new impact theses be a helpful tool to advance impact investing in South-East Asia and China



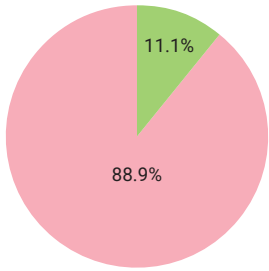
● Yes ● No

Would fiscal incentives help to advance impact investment in South-East Asia?



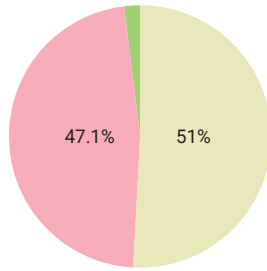
● Strongly Yes ● Yes  
● Somewhat ● No

In South-East Asia and China, do you believe that there is still unfamiliarity and discomfort with the idea of using investment to achieve positive environmental and social outcomes?



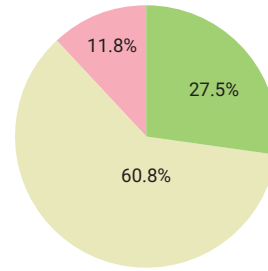
● Yes ● No

Are government regulations - legal, regulatory, fiscal - governing impact investment in South-East Asia sufficiently clear?



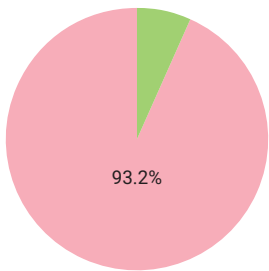
● Yes ● Maybe ● No

Is the impact investment opportunity set well segmented and clear in South-East Asia and China?



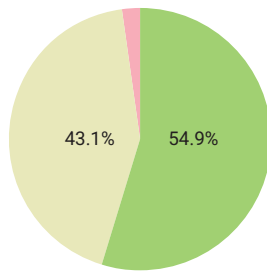
● Yes ● Somewhat ● No

Has impact investment suffered from the general backlash in and beyond the region against ESG, sustainability and associated accusations of greenwashing, bluewashing etc?



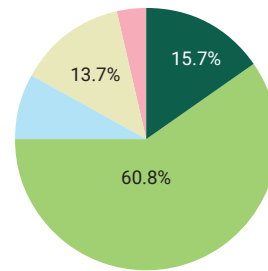
● Yes ● No

Are government regulations - legal, regulatory, fiscal - governing impact investment in China?



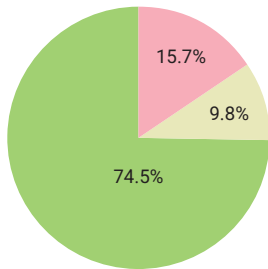
● Yes ● Maybe ● No

Do you believe that it is possible to generate attractive or market-rate returns in investments targeting positive social and environmental outcomes?



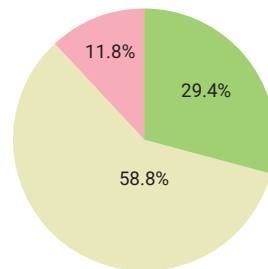
● Strongly Yes ● Yes  
● Somewhat ● Maybe ● No

Would impact investment be advanced by a professional qualification covering topics such as fund management, capital allocation, deal structuring... as rigorous as the CFA, for example?



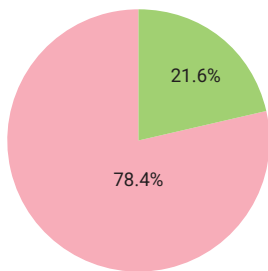
● Yes ● No ● Unlikely to have a significant effect

Must returns from impact investment funds be commensurate with traditional funds in order for impact to be mainstreamed as an investment offering?



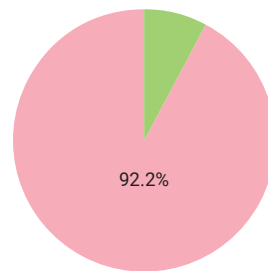
● Excellent ● Good ● Fair ● Poor

How would you rate the quality of impact investment fund managers that you have either invested in or from what you have heard in the market?



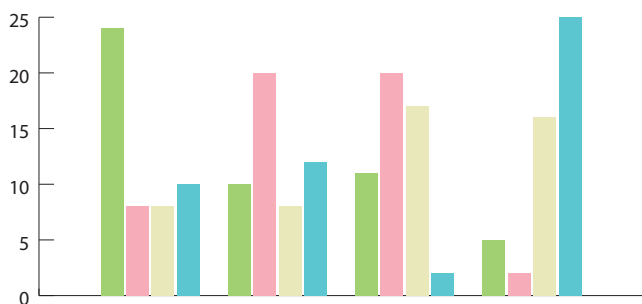
● Yes ● No

Must investment strategies focus on startups and early-stage businesses to be considered impact investment?



● Yes ● No

Are financial institutions - especially private bankers - sufficiently knowledgeable to advise clients on impact investment products and strategies?



● Climate/Clean Energy ● Healthcare ● Education ● Agiculture

What are the top three sectors that come to mind when you think of impact investment in the region.

# CASE STUDY

## Case Study 1

### Guo Xing Dong (Gladsome): Investing in Agriculture

#### Decades of Agricultural Decline in China

Agriculture and related industries as a share of GDP fell from 27.7% in 1978 to 15.9% in 2023, according to the National Bureau of Statistics.

Just under 35% of the Chinese population resided in rural areas in 2024, according to the Food and Agriculture Organization (FAO), down from 84% in 1960.

Two-thirds of China's inhabitants lived in urban environments by 2024, according to the FAO.

The history of China includes regular occurrences of crop failure, famine and rural depopulation. During the last 20 to 30 decades the government has worked hard to encourage farmers to adopt modern agricultural techniques and technology to increase yields and boost incomes. During the last ten years or so and particularly during and after the pandemic, young men and women with degrees and exposure to best practices in farming have returned to their villages to lead this revolution. Up to date communications and the internet have connected hitherto isolated communities to markets previously closed to them because of distance and geographical barriers.

The government has sent experts into these areas to help the movement from subsistence farming to agricultural businesses and increase the income of those dependent on the land. Central and provincial funding has been essential to these efforts. These factors have created growth opportunities for well-positioned private companies.

This case study looks at Guo Xing Dong (Gladsome), an agriculture services business based in Shanghai Province founded as Shanghai Gladsome Modern Agricultural Development Co Ltd, but now renamed Guangdong Gladsome Modern Agricultural Development Co, Ltd.

### Gladsome from the Perspective of the Shanghainese Government

From the perspective of the provincial authorities, Gladsome advances the agriculture-modernisation agenda in two ways. First, it provides co-operatives and farmers with machinery and technology for crop diversification, quality improvements and increased output. Partial government funding is important for this. Second, it offers value-added services that link producers and markets. Increased productivity and efficiency boost sales, economic activity is driven to local communities, employment opportunities are created and the agricultural ecosystem is strengthened.

Gladsome is a provider of agricultural services, equipment, 'smart agriculture' hardware and software solutions and market access services. From the provincial government's perspective, this puts it at the centre of social and economic policy. Although it uses agriculture grants in a time-bound manner and as a policy tool, the government's intention is not to sustain enterprises and co-operatives that are unviable or failing. It is a recognition that modern inputs, know-how and technology are essential for improving agriculture. This case study looks at how Gladsome contributes to the development of a vibrant agriculture ecosystem in Shanghai Province; and how the various dimensions of Gladsome's business model underpin its commercial viability and, therefore, its ability to achieve impact profitably and improve the lives of farmers.

The company's core products and activities include the following:

- 1. Smart greenhouses:** Proprietary, modern structures that can be adjusted remotely through a dashboard to optimise temperature, light, ventilation and so on, with the following outcomes:
  - a. Improved quality, consistency and reliability of crops.
  - b. Ability to grow higher-value crops, such as grapes, peaches, kiwis and cherries.
  - c. Reduced pesticide and fertiliser usage in many



cases, conferring higher prices for safer, 'bio', and organic products.

- d. Efficiency and labour-saving, enabling labour reallocation to crop management, quality assurance and the introduction of new crops and varieties.

## 2. Irrigation and mixing technology:

- a. Optimisation of watering and fertiliser/pesticide use, often leading to reductions.
- b. Automation of irrigation, fertiliser/pesticide mixing and greenhouse management allows farmers to spend more time looking after crops and focusing on quality.
- c. Efficiency gains, enabling labour re-allocation.
- d. Data monitoring, enabling optimisation and knowledge gathering.

## 3. Smart planters and tractors:

- a. Increased efficiency and accuracy of planting, improving crop performance.
- b. Monitoring and data evaluation services contributing to increased output (soil quality data are a good example), enabling labour re-allocation and facilitating increases in land under cultivation.

## 4. Traceability:

- a. Local producers can participate in value chains associated with the farm-to-market and farm-to-table movements, conferring price increases for higher value-added products.
- b. Strong and growing demand for green and organic product is driving growth, but farmers

can only engage in such value chains if they have the know-how and pursue crop strategies that optimise rotation and varieties selected. This necessarily moves them up the value chain.

## 5. Value-added services:

- a. Advisory services (ongoing and post-implementation, twice yearly) on equipment usage, breeds and varieties, planting strategies, harvest cycles and so on.
- b. Relationship-brokering with retailers, supermarkets and other off-takers.
- c. Market information allowing production to meet specific demand requirements.
- d. Development of marketing and branding strategies, including packaging, enabling co-operatives and enterprises to move up the value chain and build sustainable client relationships.
- e. Route-to-market strategies.

Patient funding provided to Gladsome by the Shanghai government enables Gladsome's own patient engagement with its customers to help them increase the value of their output. When Gladsome first began to work with the authorities in this way, such funding accounted for nearly half of their resources, but over time, it has dropped considerably. The government and Gladsome are both aligned in fortifying clients and cementing their inclusion in higher-value supply chains, for the former, to fulfil its socio-economic objectives, for the latter, to boost clients' profitability.

## Additional Outcomes Attributable to Gladsome Products and Services

The government's engagement in Gladsome is anchored in the shared objective of commercial success and profitability. The following outcomes are not desirable development outcomes pursued in their own right. They are intended to show Gladsome's commercial development. In this way, the government and Gladsome, in partnership, re-engineer agricultural production. This includes:

- 1. Co-operative development:** Co-operatives are the backbone of much Chinese agriculture. Gladsome solutions build co-operative sustainability. Resilient co-operatives are essential because they undertake key functions that drive growth and ultimately safeguard the economic livelihoods of members and farmers. These include:

- a. Planting and sales cycles: Jin Yuan co-operative in Pudong is a helpful case. Watermelon seedlings must be planted in December and January for a May-June harvest. In addition to advising farmers on fertiliser and pesticide use, co-operative management updates them on sales performance as the harvest proceeds. This informs them of the remaining sales required to achieve their base earnings and reduces pressure on watermelon quality/output later in the season, when the incidence of disease is greater due to heat and more pests. The co-operative seeks to meet base targets as early in the season as possible so that sales in the July-September cycle are more of a boon and enable greater re-investment and bonus payments.
- b. Planning and strategy: Co-operatives organise member and farmer activities. As higher-value crops are introduced, land allocation and crop rotation must be co-ordinated. For instance, watermelons can only be grown once every four years because of the high nutrient levels they require from the soil. The co-operative will determine which staple crops are grown in the intervening three years, often rice, and may help to improve quality by introducing new breeds and reducing fertiliser and pesticide usage through smart solutions.
- c. Farmer on-boarding: Co-operatives help to initiate new farmers, in some cases providing financial assistance to acquire the inputs to begin to grow higher-value crops.
- d. Access to land: Securing more land for farmers. This can be challenging and requires strong local relationships.
- e. Insurance provision: Co-operatives organise and maintain crop insurance through the Agriculture Insurance Company, a state-owned enterprise with which farmers are unable to engage directly.

**2. Labour up-skilling:** The role of labour in agriculture is transformed and upgraded by implementing Gladsome strategies. Time saved planting and watering by farmers, and monitoring by co-operatives and enterprises, is better spent on packaging, brand development and servicing retail channels. By working with Gladsome, it may take just one farmer to oversee irrigation of 300mu (approximately 50 acres) of land where

previously dozens were needed. This frees other members to focus on crop quality and other tasks.

The Gladsome example is also instructive from the perspective of impact measurement. It demonstrates what will be missing if only a few indicators are considered, for example, the number of jobs created or increases in farmer wages. Capturing certain qualitative aspects of impact is even more revealing. These include:

**3. Entrepreneurship:** Gladsome products and services transform co-operative members from one-dimensional producers to entrepreneurial business-builders. Members come to think strategically about planting, crop selection and product quality, allowing management to develop the brand and market awareness of their produce. With up-skilling and diversification, many members seek to increase land under cultivation, drawing in friends and relations to work with them. This increases their income and generates employment.

**4. Access and inclusion:**

- Access to technology, inputs and know-how enables co-operatives and enterprises to add value to agriculture and respond effectively to demand.
- Access to markets, brokered by Gladsome, helps clients to build reliable demand for product among off-takers and sustain participation in supply chains.
- In this sense, Gladsome is the essence of a producer/supplier inclusive business model, because its technology and value-added services enable producers and suppliers to engage in markets in ways they otherwise could not. The engagement is sustainable and leads to concrete increases in Gladsome clients' revenue and, therefore, farmers' receipts.

**5. Livelihood security and resilience:**

- Gladsome helps to build farmer and co-operative member livelihood security and resilience in various ways:
- Crop diversification: Reduced reliance on a single crop (traditionally rice paddy) by introducing high-value-added cash crops, for example, watermelon or grapes, alongside staple crops such as rice.
- Income diversification and increases: Villages,

communities and farmers can diversify and increase incomes as they rent land to other farmers and migrant labourers, enabling them to increase land under cultivation. Many members recounted journeys from one or two mu (five hectares) under cultivation to tens or even 100 mu. They are also able to move to higher-value crops that earn more than staple crops.

- Crop quality: Gladsome greenhouses and technology enable control of humidity, temperature, watering and nutrient provision, all of which contribute to more reliable and higher-quality crops.

### **The Impact of Efficiency Gains via Technology: Smart Tractors and Rice Transplanters**

An enterprise visited on Chongming Island outside Greater Shanghai uses Gladsome technology to track tractors and rice transplanters.

GPS chips enable data collection on vehicle location, area covered, soil depth and plant quality. Gladsome analyses the data, which helps the co-operative's management to optimise equipment deployment and monitor driver performance.

The government also benefits from the data, and the tracking function gives comfort that vehicles partially funded by grants are used for purpose and not on-sold. (This is significant in the context of President Xi Jinping's crackdown on corruption at all levels.)

Before introducing Gladsome technology, the enterprise had to hire monitors to ensure tractor drivers were working. Now, tractor drivers can be hired at 2,400 RMB/month and labour can be reallocated to higher-value-added areas.



### **6. Value chain development:**

- Gladsome enables co-operatives and enterprises to move up the value chain. High-end consumers, the demand source for improved products, want the safest food available, grown with minimal use of fertiliser and pesticide (if non-biological or organic). Gladsome's traceability solutions are critical in this regard.
- By working with Gladsome, farmers diversify and produce to higher specifications and generate output of greater value, which commands higher prices.

### **7. Local economic development:**

- As co-operatives and enterprises increase output and quality by phasing in Gladsome technology and building markets through Gladsome's marketing and branding services, local economies benefit as traffic is driven to them.
- This can take the form of individual and wholesale buyer visits and eco-tourism, which is high on the government's agenda.
- The farm-to-table concept, aided by Gladsome's traceability solutions, also generates local traffic because food-safety concerns cause buyers to want to meet and see local producers for themselves and to buy at source.
- Similarly, as a product gains a reputation and market following—the '8424' watermelon variety is a good example—people are drawn to the source, especially as supply can rarely keep pace with demand.

### **8. Efficiency gains through smarter agriculture:**

- Gladsome technology and services enable farmers, and thus clients, to reduce time spent on labour-intensive activities and add value to crops.
- In this sense, the company helps farmers and co-operatives/enterprises to create smart businesses that are market-responsive rather than simply growing food and hoping to manage to sell product (previously often only to the government or via uncertain sales channels).



## How Gladsome's Business Model Drives Impact

Gladsome offers products and value-added services. The success of the former is, to a great extent, a function of the effectiveness of the latter. The value that Gladsome delivers at the local level and the relationships it forges with local authorities generate demand for its products and facilitate subsequent client capture. The appeal of Gladsome to local governments is that Gladsome's solutions modernise production and drive local economic development, employment preservation and wealth creation. Local governments and industry associations identify co-operatives and enterprises that are suitable and motivated to implement Gladsome solutions. Government grants complement private-sector investment because, once again, the achievement of sustained enterprise and co-operative growth is as vital to achieving government policy objectives as it is to customers' commercial success, which of course, is vital to Gladsome.

## Conclusion

Gladsome is now a thriving agricultural equipment, services and solutions business that receives frequent enquiries from provinces across China to replicate its success. The company is, without question, entirely commercial in its orientation. Perhaps in the future the government's patient capital is replaced by that of impact investors willing to blend funding to achieve socio-environmental and financial results. Indeed, in a fully private-sector iteration of Gladsome's trajectory, there is no reason why the grant portion could not be convertible to equity following certain milestones.

Cases such as Gladsome challenge some of the strictures that hinder more open-minded attitudes to new investment structures. Ironically, it is not the government that clings to strict interpretations of what is 'business' and what is 'charity', nor does it see a problem with making grants in furtherance of long-term commercial outcomes. Rather, it is the domestic investor community whose perspectives need to be modernised. As the Chinese government comes to clarify precisely what impact investment means from a legal and regulatory perspective, examples like Gladsome will serve it well in showing what profitable impact investment can mean in practice.



## Case Study 2

# Dao Ventures, the CIF and Dao Foods

### Overview

The case of Dao Ventures and the impact funds that its Founder, Tao Zhang, is managing and raising in the Region, demonstrates that the positioning of impact offerings in China needs careful consideration in three ways. These are how investors perceive the opportunity in terms of asset class and risk-reward profile; how an investment model interacts with government policy, and how consumers and the market at large view goods and services provided by investee companies.

The case demonstrates that a commercial approach to impact investment goes a long way towards securing capital commitments. The narrative of impact opportunity is equally essential, particularly where investors are still largely inexperienced. If an impact fund in China taps into various business-cultural attitudes, an appetite for speculation and betting, while simultaneously demonstrating to those seeking socio-environmental impact that there are needle-moving gains to be made, then it is far more likely to attract investment.

### Tao Zhang: From Journalist to Entrepreneur

Tao has a varied background, being a diplomat, a foreign correspondent in Europe and a businessperson in the technology and software sector. He also gained experience in M&A, venture capital and investment. He founded an investment advisory firm in the telecoms, mobile telephony and technology and, then the clean energy fields. At the time, Beijing and its surrounding provinces suffered from heavy pollution. This problem had to be solved before the capital hosted the 2008 Olympic Games.

In the event, air quality significantly improved because of reduced coal burning for energy and forced factory closures. As Tao acknowledges, leading with the climate argument rather than the economics of an inevitable transition away from the most polluting fossil fuels was a non-starter. As he put it, "At the time, it must be said that investors were much more tuned into the 'energy' part than the 'green part'".

A stint at the Washington-based think tank, the World Resources Institute, made Tao realise that although there was much advocacy for clean environments and energy, there was little accompanying investments.



### Dao Ventures and the China Impact Fund

In 2012, Tao founded the Dao Ventures consortium, which has since provided technical assistance to more than 1,000 SMEs and has invested or attracted more than USD200 million of capital. The company has also received tens of seed grants of up to USD20,000 in collaboration with a semi-government-owned science and technology park in China. Tao had identified a 'missing middle' within the environmental enterprise space in China, noting the dearth of capacity in the country among specialised businesses that could implement the clean-ups and efficiency measures mandated by the government. Tao took advantage of the growing demand, especially for environmental-remediation services. He then raised his first investment vehicle, the China Impact Fund (CIF).

He realised that there was a need for structured and, in some cases, patient capital underpinned by value addition. The CIF's investment strategy was to invest in Chinese SMEs tackling environmental issues such as industrial efficiency, recycling, water usage and wastewater management. An open-ended fund rather than one with a defined life, the CIF invested small amounts of 5% or so. The CIF was the first impact fund labelled as such in China. Backed by a handful of HNWI investors, aligned with them about non-financial objectives because Tao was honest about the fact that generating returns would take time. Unusual for a fund offering, he told his supporters it was impossible to predict what financial returns would look like. Tao had sufficient confidence in his investment model to assure investors that their capital would be returned with upside, but did not know by how much.

Tao's experience raising the CIF demonstrates the importance of bringing together a prospective investor's familiarity with the investment approach and the interplay between financial and environmental outcomes. He specifically approached investors who were already advisers to some of the companies he backed. He did not need to persuade them the model was sound.

The CIF worked closely with local and provincial governments. This eased the cash flow problem facing environmental services companies. SOEs and government entities were directed by the authorities to achieve the environmental efficiency gains or transition strategies mandated. However, they only paid when the work was completed. Government funding allowed CIF portfolio companies to achieve success. Some were even acquired by SOEs, which recognised how critical their ongoing services had become.

### **From Dao Ventures and the CIF to Dao Foods**

Tao next founded Dao Foods in 2018, as part of the Dao Ventures consortium. Having reconnected with a Harvard classmate in 2017, Tao, along with Dao Foods co-founder and Harvard classmate Albert Tseng, was taken with the idea of making "Chinese consumers part of the environmental solution" by promoting acceptance of and enthusiasm for alternative proteins. Because older generations' diet revolved around meat and seafood, Tao focused on younger demographics, where the environmental footprint of the meat industry and animal welfare issues resonated more. Dao Foods remains creative about "meeting younger consumers where they are", meaning that advertising and the incorporation of environmentally progressive messaging are tailored to the ways in which they consume information and engage with advertising. The battle was to win acceptance by mainstream consumers of good, nutritious food products. With the objective of reaching as many such consumers as possible, Tao and his team pushed for protein diversification through Dao Foods' entrepreneurs, rather than adopting the Western approach of trying to get the public to embrace alternative proteins all at once.

In 2020, Tao launched Dao Foods Venture Fund I, with a focus on plant-based foods, mass and precision fermentation and, cautiously, cell-based meat as a long-term strategy. China accounts for one-quarter of global meat consumption and over 40% of seafood consumption. The fund's strategy was, therefore, to achieve protein diversification through concerted engagement with entrepreneurs, investors, large food

companies and government stakeholders. Therefore, Dao Foods combined impact investment with ecosystem building. As well as investing in more than 20 companies, Dao Foods has held 12 China Next-Generation Good Food Bootcamps, bringing together stakeholders, including emerging entrepreneurs and government entities, who are interested in the alternative proteins space across the country.

The fund's first investment was in Starfield Food and Science Technology Ltd, which garnered global attention. Starfield produces healthy plant-based food products, including plant-based meat and seafood substitutes. Other investments include PlantNow, a Shanghainese plant-based drinks company targeted at the younger market, and Cultured Decadence. This is a US specialist in cell-based lobster production that was acquired by Upside Foods in 2022, a leader in the cultivated meat industry, formerly known as Memphis Meats.

Dao Foods is currently working towards a second fund with a cross-border emphasis. Although the fund's environmental objectives and impact logic remain unchanged, it will look to support Chinese companies ready to expand internationally and multinational companies wanting to set up in China. It expects to make 20-25 pre-series A or series A investments of USD500,000 to USD1 million.

The positioning and marketing of these products are, of course, essential, but Tao points to the relative lack of visible product in the market as a significant impediment. Price and convenience are also critical demand drivers, so the precision of market entry and messaging is paramount. The second fund will also focus on tech-driven companies to diversify the portfolio and achieve more rapid commercialisation, although they tend to require greater investment and the runway to market is usually much longer. The overall objective, however, diversifying the sources of proteins—remains unchanged.



## Implications for the Chinese Impact Investment Market

Although Dao Foods Venture Funds I and II are targeting niche emerging industries, they provide important lessons.

1. Business acumen is paramount. If Tao and his business partner did not have relevant academic credentials, policy experience and investment experience that he had when launching the CIF, it would not have succeeded. It is the investment skills of the fund manager that is paramount in investors' allocation priorities. This is particularly so in China, where it is harder to explain the distinction between impact investment and charity with investors.
2. Returns matter. For Chinese investors, Tao stresses the importance of leading with venture capital-commensurate returns. It is important to work alongside and within portfolio companies as a hands-on investor to bring the financial rigour, good governance and effective management that are so often lacking.
3. Cultural experience must be taken into account. Tens of millions of Chinese have made and lost significant sums putting money into e-commerce, IPOs and internet-based businesses. The expectation of quick, high returns remains the default position, which is why shorter impact fund lives are preferable. Managing investor expectations is essential.
4. The ecosystem is not friendly. Natural examples of impact funds for mainland Chinese fund managers to emulate are found in Hong Kong. As much as there is a small community of networks and field-builders in Hong Kong working to build awareness of impact investing for family offices in the region, Tao and other interviewees agree that it will take many case studies for business people to feel comfortable with the mechanics of impact investment funds.
5. Improve policy clarity. Although the government has raised the issue of patient capital in investment forums and policy papers, it seems uncertain how to mobilise private-sector capital in the impact market. Tao argues that clear policy directions about how impact investment will be treated by regulators is an essential first step. Thereafter, fiscal incentives and government tenders for funds targeting

particular sectors, geographies, programmes and business models will be needed. Once these are in place, Tao is optimistic that a turning point of interest in and commitments to impact funds will have been reached.

## Conclusion

China has the most potential for successful impact entrepreneurship of any major economy in the region. It has avoided concentrating on micro- and small-enterprises. The increasingly dynamic social enterprise sector in China addresses many of the social and environmental issues that, elsewhere, impact investors have attempted to address by investing in and seeking to commercialise their unsustainable counterparts. Billions of dollars of investment have flowed into sectors such as forestry, clean and renewable energy and water. It may be argued that China is "the largest impact investing market in the world if it were recorded in a standardised way". As Tao's ventures demonstrate, however, it will take many compelling examples of well-managed impact funds to generate, if not market returns, at least respectable low-double-digit returns before investors routinely consider them in their allocation decisions.



<sup>20</sup> Dao Ventures' Zhang: The impact ecosystem is developing very slowly in China. Accessed 25 May 2026

## Case Study 3

# Asia Impact Investment Funds I and II

Between 2010 and 2012, the Asian Development Bank (ADB) contracted Noah Beckwith as an industry expert to design an inclusive business financing strategy focused on private equity, venture capital and debt funds. A chance encounter with Joost Bilkes, a relationship manager at Credit Suisse Singapore (CS), culminated in the creation of two innovative impact investment funds without comparison in the Region either at the time or since.

More sophisticated CS clients, usually of Indian heritage or with knowledge of impact investment in South Asia, pointed out that, whereas that country had a very evolved impact marketplace, South East Asia had few. Beckwith recognised the attraction to any fund manager of access to the distribution capabilities and global reach of a prestigious Swiss bank such as CS. However, a partner fund manager would need to be identified. The benefit to such manager of access to the private wealth platform would be CS's ability to design the investment model.

The impact policy should leave no doubt about the sectors in which investments could be made. It should also be explicit about the business models eligible for investment. The Asia Impact Investment Funds (AIIF) should target business models that could transform the lives of the poor. In practice, this meant measuring the difference the funds made before and after investing. Lastly, there must be the potential for long-term improvement in livelihoods, including greater security, resilience, the ability to withstand exogenous shocks and gather and store wealth. The funds should also improve employment prospects, upskilling and training, gender equality, opportunity and inclusion, security and livelihood sustainability.

A crucial element of the fund's architecture was the creation of an impact advisory council (IAC). Although subordinate to the investment committee (IC) and not empowered to take investment decisions, The IAC was the gatekeeper for access to the funds.

The aim of the AIIF was to bridge the gap between the intentions of the manager and investment outcomes. Transparency was essential and a number of prominent investors participated either as IAC members or observers. The fundamental principle was to establish

a transparent baseline and basis for each investment; a shared understanding between investors and fund manager of the rationale for each from an impact perspective, and the logic by which the commercial activities of the investment could be expected to deliver impact.

## Getting AIIF on the Private Bank Platform

In 2014, a memorandum of understanding (MoU) was concluded between Credit Suisse as impact adviser and United Overseas Bank Venture Management (UOBVM, the private equity investment arm of UOB, a large Singaporean bank) as the transactor. In accordance with Monetary Authority of Singapore regulations, the impact adviser was to provide advisory services to the transactor in the form of expertise in impact investment. However, a number of obstacles had to be overcome if the fund product was to be carried on the CS private wealth platform.

1. Fund size. In the early 2010s, Credit Suisse had well over USD1.5 trillion in assets under management. The target size of AIIF I was USD100 million. The problem was that relationship managers (RM) were used to selling products in the hundreds of millions or billions of dollars. From a resource-allocation perspective alone, let alone the personal views of market heads and RMs, there was no discernible logic to the value proposition.
2. Risk. Despite interest from customers in impact investment, the private bank was in an unknown territory. There would be adverse consequences if either there was no client uptake for the product, or if it proved so popular that it sold in hours and left important clients disappointed. RMs with little expertise in impact and ESG and sustainability may have difficulty promoting a product about which they were unsure.
3. Compliance. It was unclear how the bank would undertake due diligence (DD) for AIIF. The core DD capability, located in Zurich, familiar with assessing private equity funds of USD500 million to USD2 billion was clearly unsuited to the task. However the bank had an obligation to vet the product thoroughly and objectively.
4. Misaligned incentives. Individual incentive structures did not align with the product. Senior managers were unhappy that RMs' time was

being allocated to such a small product. This affected their own prospects for meeting quarterly and annual sales targets. The financial reward for selling AIIF was negligible compared to other products such as fixed income solutions. The relative illiquidity of a 10-year private equity fund, the lock-up, put off RMs.

5. Client management. The accounting mechanisms for AIIF were also discouraging for sales teams. Private equity funds such as AIIF practice just-in-time cash management. Although a client legally commits to funding their pro rata participation in fund investments, the capital is only called from them as investments are made. Internal accounting systems register such capital calls as outflows that are regarded as losses on client portfolio statements. There is no mechanism for recording an investment, rather than a loss, whereby the principal will be returned and profit, or carried interest, will be paid out much later in the fund's life.
6. Cost and management capacity. Because of the accounting challenges, the only practical solution was to 'custodise' the product. This meant selling shares, or participations, in the fund to each client. A feeder fund structure consisting of tens of individual investors was thus created that acted as one limited partner, or investor, in the fund. The feeder, however, would have to be housed somewhere within the bank. This would be either Zurich or New York. The advantage of the feeder structure was that it would enable clients to invest relatively small amounts. The minimum investment was set at USD250,000, the minimum ante in traditional products being in the order of millions of dollars.

Although there was broad support for the AIIF in theory, opposition grew to putting them into practice. This reflected the view the AIIF, small and unprecedented as they may have been, were awkward fits and appeared risky. Bilkes, who had been head of fund selection based in Singapore, therefore took the product to a small unit based in Hong Kong called Solution Partners. It was regarded as a laboratory, where innovative products were structured and sold. An advantage was that running the product through Solution Partners with a small target capitalisation of USD100 million, avoided

the requirement of full DD of a larger product conceived and managed by a third party. However, a senior manager in New York objected late in the process, forcing the product to be subject to DD in Zurich and carried as a product formally recommended by CS.

#### Moving the Machine: To Sell or Not to Sell

The establishment of the funds nearly came to an end on a number of occasions. Sometimes, this resulted from risk-related concerns aired by senior executives. On other occasions the funds were the victim of intrigue and turf wars. However, the funds had gained support at the highest levels of management in the Zurich headquarters. One major obstacle was that RMs and market heads were uninterested in selling the fund. It was only when each market head and team were tasked with raising USD5 million to 10 million, a minimum of USD50 million in aggregate, and when such targets were linked to their individual annual bonuses, that the sales effort began in earnest.

In a complex and uncertain environment, the fund achieved a first and final close of USD54.6 million in December 2016. Although this was just over half of the target capitalisation, it was a significant achievement, and an important milestone for the bank and indeed for the impact marketplace in the Region. Some 10 years on, and having successfully navigated the global pandemic with only one major casualty, the Fund's largest three investments are due for divestment in 2026-2027. In the meantime, the successful closure of AIIF's successor, AIIF II LP, is a broad endorsement of the fund model and a positive litmus test for HNWI and UHNWI interest in impact solutions of this nature.



## Lessons learned

There are many takeaways from the AIF experience.

1. Capital accounting. There must be mechanisms to correct the appearance of losses on clients' wealth statements that are in fact capital drawn for investment.
2. Alignment of incentives. Although little can be done about RMs' antipathy to 10-year products such as AIF, straightforward mechanisms can be found to encourage them to promote products they might otherwise ignore.
3. Senior-management buy-in. The buy-in of senior management is essential. However, senior managers require training regarding the impact opportunities that many continue to overlook. All but the most forward-looking senior managers at CS failed to understand the potential that AIF represented in terms of client retention and acquisition. In an increasingly intermediated private wealth market in which fees are being driven ever lower, the instances of banks developing genuinely proprietary solutions are few. AIF was a product that CS could have presented with absolute certainty as proprietary and unique in the region and beyond. The onus is on senior management in banks to communicate these priorities to their subordinates, the market heads and relationship managers, and to use such incentives as annual bonuses to reward engagement and dissuade indifference.
4. Long-term employee enfranchisement. We should return to the genuinely boutique, bespoke style of banking that existed until the last decades of the 20th century. Then, the relationship between banker and private client was less transactional and more personal. If the combination of AI and cost pressures leads to

mass attrition at banks in the coming years, it is all the more reason to reimagine the position of the RM and attendant incentives to develop and retain talent in the long term.

5. Funds of funds may be a better fit: Funds of funds allow the FI to raise USD500 million or more in one exercise. Disadvantages are that private bank clients are very sensitive to fees. A fund of funds means 'fees on fees'. The bank has to show that the aggregate return to investors more than compensates them for the relatively high product fees. It is also difficult to stand out from competitors using a fund of funds strategy. The options that make an offering distinct, such as frontier markets or post-conflict states, are too risky for a bank. Some of the now familiar sectors targeted by impact funds of funds, clean energy, access to finance, education, agriculture, job creation and women's empowerment, may be those that remain the only viable ones for some time. It would be preferable to institutionalise such products so that they become routine investments. More unfamiliar offerings may then be introduced gradually. CS, now UBS, went on to raise a climate technology fund of funds of approximately USD500 billion. It invested in 35 funds targeting opportunities in the built environment, green transport, renewable energy and agribusiness.

## Conclusion

It is important not to erroneously interpret the challenges of the AIF experience as a referendum on the viability of unlocking private wealth for impact investment funds. It is likely that funds of funds are a more realistic product for banks to champion in the medium term. Perhaps a manageable objective, particularly during the current turbulence in the global economy is to regard impact funds of funds as a private banking product. In the interim, forward-looking senior bank managers may be encouraged to look beyond the current lull in sustainable and impact investment, to a time when addressing climate change is even more urgent than it already is, and when the demand for energy fuelled by big data, AI and the new mediums of exchange is even greater.

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<sup>21</sup> The standard internal due diligence process to enable a product to be promoted on the bank platform was three to six months at the time. Fund managers would generally be expected to have USD1 billion under management and at least three full fund cycles completed. Although UOBVM fell slightly short on the former criterion, it had managed and exited more than three funds by the mid-2010s.

<sup>22</sup> Any product with a so-called 'long tail', in other words, whose overall financial performance only becomes clear at the end of a 10-year fund life (or longer if one-year extensions are exercised), is unwelcome to RMs because they move frequently to other banks relative to other positions in the industry, such as corporate finance.

## Case Study 4

### Happiness Capital

Happiness Capital is an impact-focused venture capital entity established in 2017 within Hong Kong's Lee Kum Kee Group. A certified B Corp focussing on maintaining rigorous ESG standards, Happiness is an autonomous fund within the Lee family office that draws on the fortune amassed by patriarchs during the last five generations. Lee Kum Kee made his fortune from oyster sauces that still sell. The founder recognised that without clean water, there would be no oysters for his sauces. Four generations on, his descendent, Sammy Lee, conceived of an investment philosophy that enshrines well-being as both a guiding principle and objective. The mission statement of Happiness aims to be "The most trusted enterprise for a healthier and happier world beyond 1,000 years".

Working closely with managing director, Eric Ng, Lee overcame initial family resistance to using happiness as the starting point of a new impact investment model. He was able to persuade them by defining the concept in the practical applications of sustainable food systems, the environment, trust and health. Happiness is very precise about what it includes within each category. For example, within sustainable food systems, alternative proteins are a major focus. In health, it concentrates on physical and mental well-being, as well as diseases that are yet without cures.

### Calculating the 'Happiness Return'

Lee and Ng consulted recognised experts to determine not just how the dimensions of happiness inform the investment process, but also how happiness itself may be calculated. Though the econometric formula devised to calculate a 'happiness return' with precision may be beyond the less mathematically-minded, it highlights the specifics by which Happiness maps its investments.

The variables selected evaluate those conditions that impact a person's happiness and the way in which they are experienced. These include fluctuations of income and personal wealth, professional endeavour and the quality of employment, accommodation, health, knowledge and skills, social and civic engagement and the state of the environment. The Happiness Return Framework (HRF) enables evaluations to be made of how an investment might boost or hinder a person's well-being. Beyond investment selection, it informs

the investment holding period and provides a baseline against which rigorous analysis determines divestment.

A significant use of the HRF evaluates how the well-being of an investment's stakeholders, customers, clients and consumers, impacts its future commercial value. Not dissimilar to accounting's goodwill and intangible assets, this notion explores how positive social and environmental impacts add value.

### Investment strategy

The tenor of Happiness' funding underscores its outlier status not just in Hong Kong, but in the Region. The co-founders recognised at the outset that the pursuit of meaningful happiness in portfolio companies may be hindered by a close-ended fund of 10 or so years. Thus, Happiness Capital is effectively an evergreen fund able to hold assets indefinitely without pressure to divest prematurely. That it is a captive fund with no external investors frees it from traditional exit pressures. The question may be asked whether the team would have successfully raised a fund if it had to take this investment model to market. However, there is a compelling reason why Happiness may have done well. It seeks traditional venture capital returns.

Happiness has two capital deployment strategies. It invests in VC funds and in start-ups. It places up to USD10 million in funds and makes direct investments from as little as USD100,000 going up to USD10 million. In the latter cases, it will invest in Series A,B or C financing rounds or pre-IPO raises. It seeks base returns of three to four times invested capital with one to two home runs in each portfolio. Ng emphasises the importance of maintaining an unwavering focus on exits throughout. In this sense, the Happiness team is influenced by Japanese companies' approach to the stock market, where there is an intention to create long-term value.





## Happiness Capital and the Region's II marketplace

Ng displays the optimism of a successful pioneer. He insists that evergreen structures are critical not just as a counterbalance to the short-termist investment culture in the Region, but because he sees interest among nextgens, other private investors and fund managers. In his view, the gravitational pull of potentially transformative investments, biofuels for aviation and shipping for example, make the case for a long-term investment approach. For this reason, Ng believes that impact investors must be up front about whether they are targeting market returns. Although he avoids passing judgement on impact investors who do not, he implies that sub-commercial returns will do little to advance the sector. This is debatable, but what is undeniable is that the ecosystem is much richer for the presence of Happiness. The power of example and track record, in this case the commercial success of many of Happiness's more than 60 investments and the benefits of the evergreen structure speak for themselves.

## Conclusion

Happiness Capital is a vital part of the impact ecosystem not just in Hong Kong, but globally, through its joint-venture partners in London, Zurich, San Francisco and beyond. If its track record serves as a blueprint not just for other family offices, but also for third-party fund managers whose fundraising strategy leads with the VC-level returns, significant impact capital may be unlocked in the Region.

There is another feature of Happiness that its peers would do well to consider. Family members cannot become full-time Happiness employees, although they are allowed six-month placements. This indicates that even without pressure from external investors, Happiness thinks deeply about corporate governance in the best interests of its employees, the family and its investee companies. As one of the first family offices in Hong Kong with a constitution and a strong emphasis on consensus, its happy balance between structure, governance and investment philosophy could well be copied by other family offices to produce similar multi-dimensional returns that address the evolving priorities of nextgens and other investors.





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