

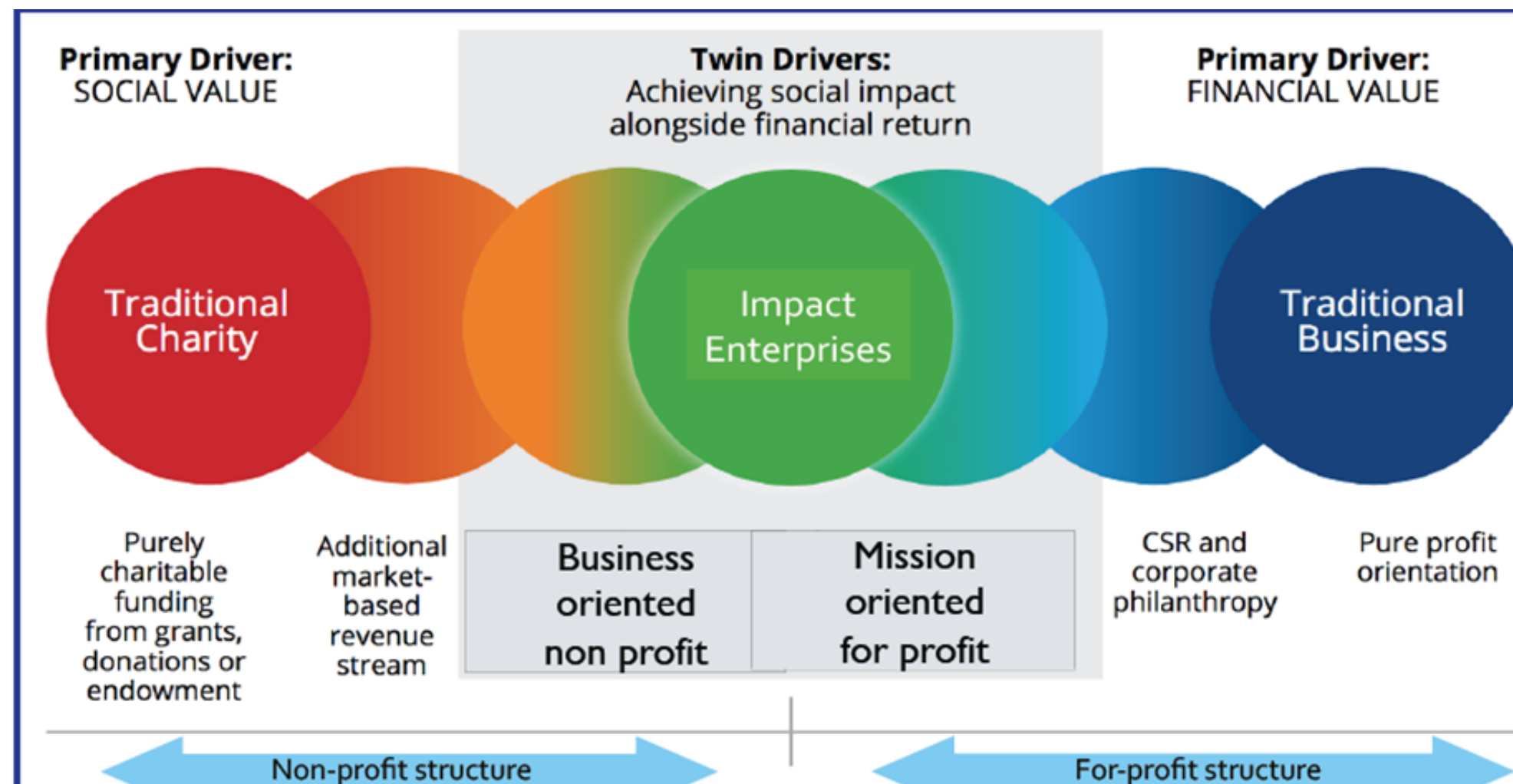
National Advisory Board for Impact Investing- Sri Lanka

Date:
15th December 2022



WHAT IS IMPACT INVESTING?

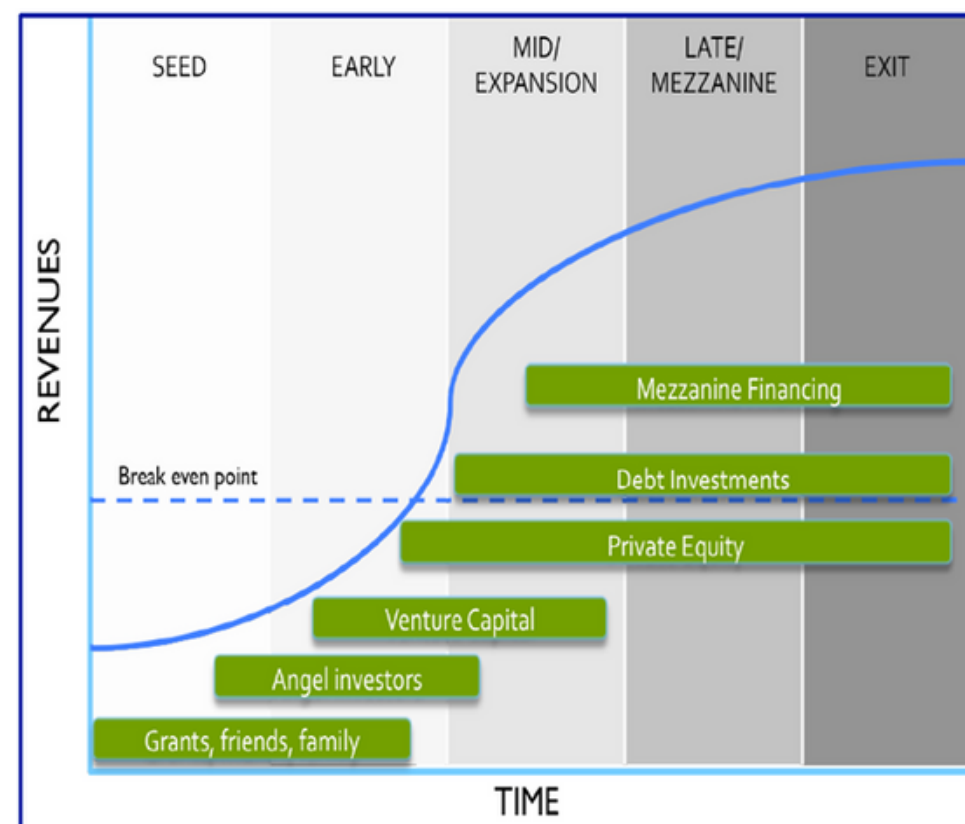
Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return



Impact Investing Vehicles

Private Capital

Primarily include financial institutions, corporates, (U)HNWIs ((Ultra) High Net Worth Individuals) and retail investors. These investors can be both traditional investors, who expect a market rate of return, and impact investors, who are willing to accept a more reasonable rate of return if the investment also generates demonstrable social and/or environmental returns. The traditional financing vehicles that private sector actors could typically use to invest are listed in the figure below;



Philanthropic Capital

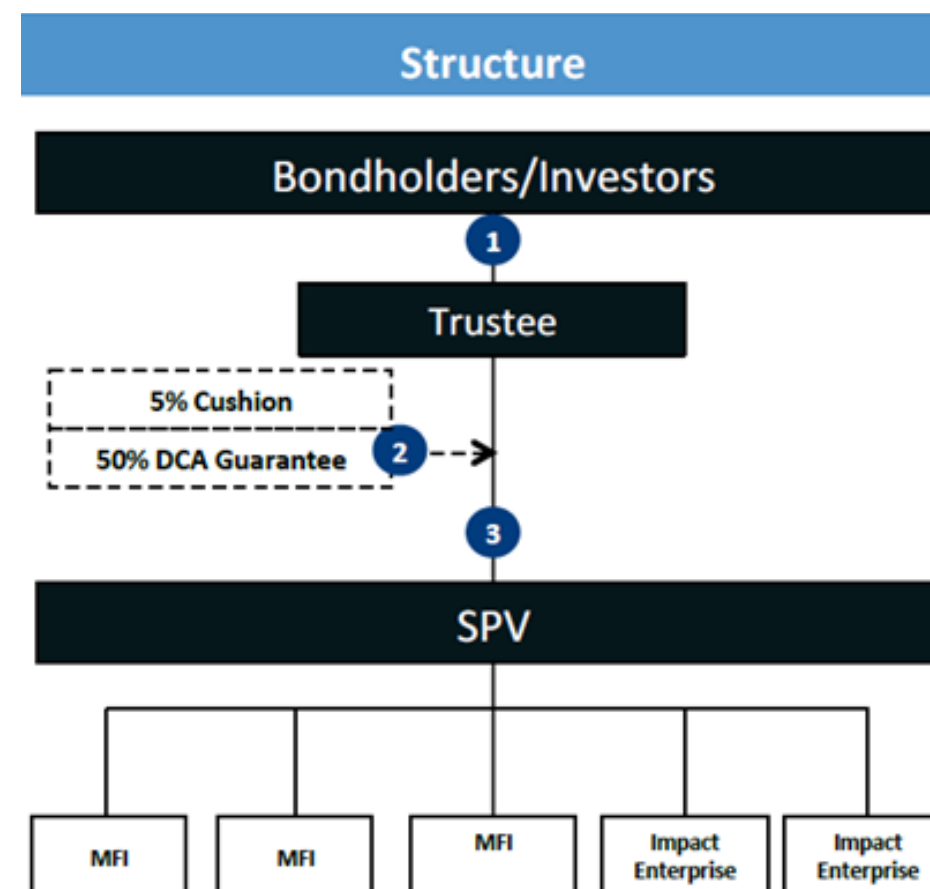
Foundations and INGOs adopt a more 'impact first' and risk tolerant approach compared to traditional investors. While grants are the dominant form of capital provided, foundations are increasingly looking to invest in financially sustainable initiatives that can create a below market rate return alongside scalable impact through program related investments.

Impact Investing Vehicles..

Public Capital

Consists of two key players: **governments and donor agencies**. Beyond shaping policies, governments are increasingly playing a critical role in catalyzing the ecosystem for SIBs through subsidies, concessionary loans and capital investments to improve overall basic operating infrastructure. Donors typically address the funding gap by **implementing capacity building programs that can lay the foundation to build demand for capital** until the beneficiary entities have a more attractive risk-return-impact profile that will attract private sector capital.

Both governments and donor agencies can further catalyze investment flows by de-risking investments through guarantees or first loss capital. Debt instrument issuers require high credit rating of issuers making instruments backed by governments considerably more attractive. USAID is one of the leaders in the impact investing space, providing 50%-70% pari-passu guarantees to give private sector actors the confidence to invest in mission-oriented instruments








Impact Measurement & Management (IMM)

Why It Is Important?

IMM is an integral to making effective impact investments.

IMM includes identifying and considering the positive and negative effects one's business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one's goals.

UNDP's SDG Impact is promoting the development and adoption of a universally agreed standard for what 'good' impact measurement and management process looks like for SDG-enabling investments and enterprises - and the tools to authenticate their contribution towards advancing the SDGs.

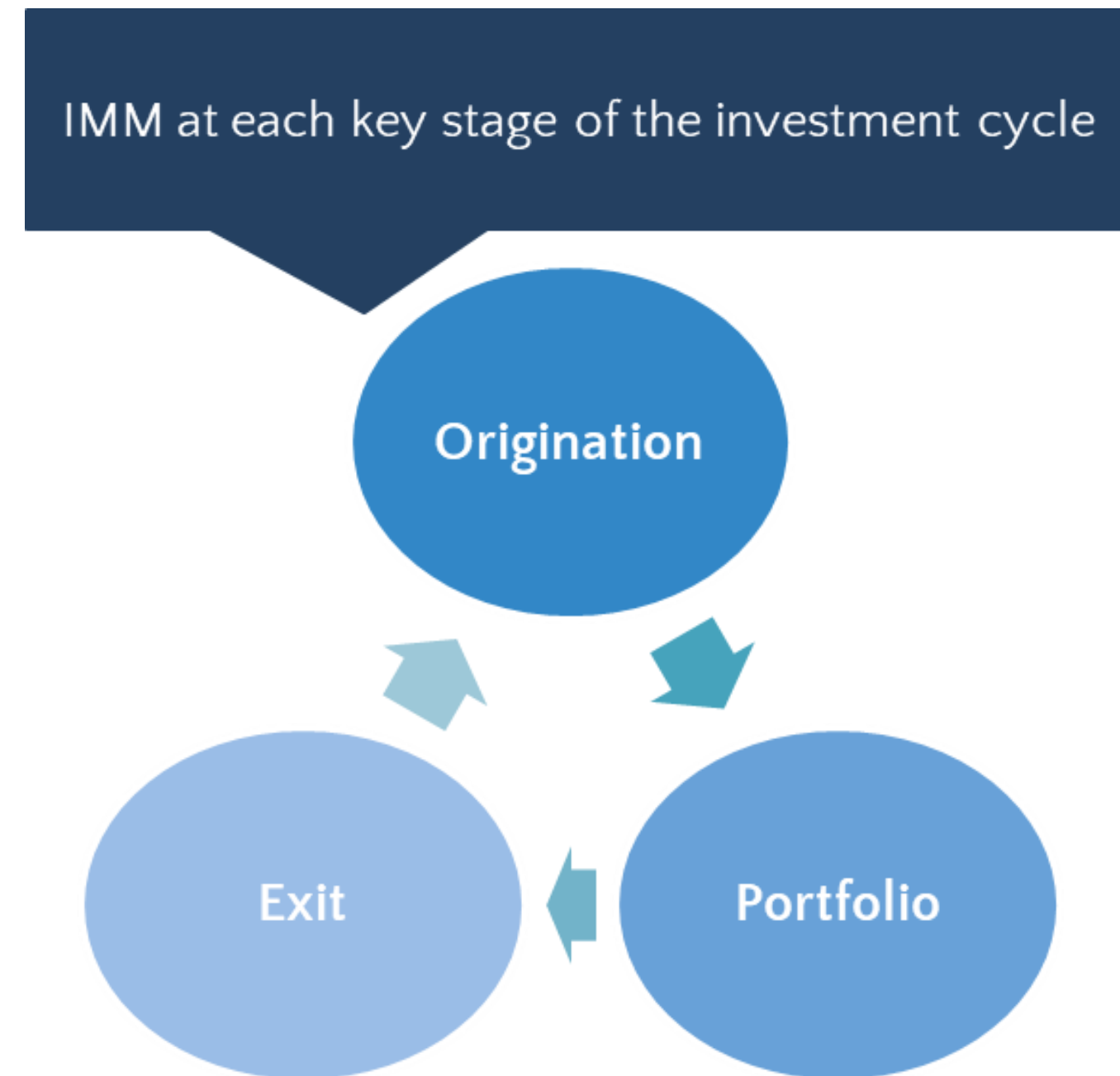
IMPACT DIMENSION	IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER
 WHAT	<ul style="list-style-type: none">• What outcome occurs in period?• How important is the outcome to the people (or planet) experiencing them?
 WHO	<ul style="list-style-type: none">• Who experiences the outcome?• How underserved are the affected stakeholders in relation to the outcome?
 HOW MUCH	<ul style="list-style-type: none">• How much of the outcome occurs - across scale, depth and duration?
 CONTRIBUTION	<ul style="list-style-type: none">• What is the enterprise's contribution to the outcome, accounting for what would have happened anyway?
 RISK	<ul style="list-style-type: none">• What is the risk to people and planet that impact does not occur as expected?



SDG Impact

Impact Measurement & Management (IMM)

IMM Across the Investment Cycle-Use Case

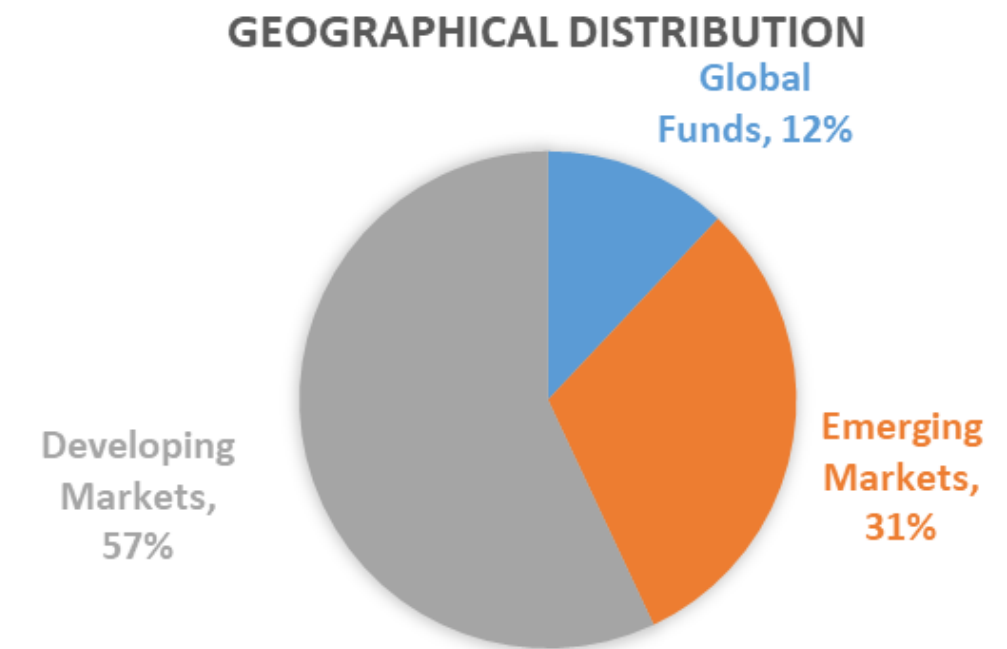
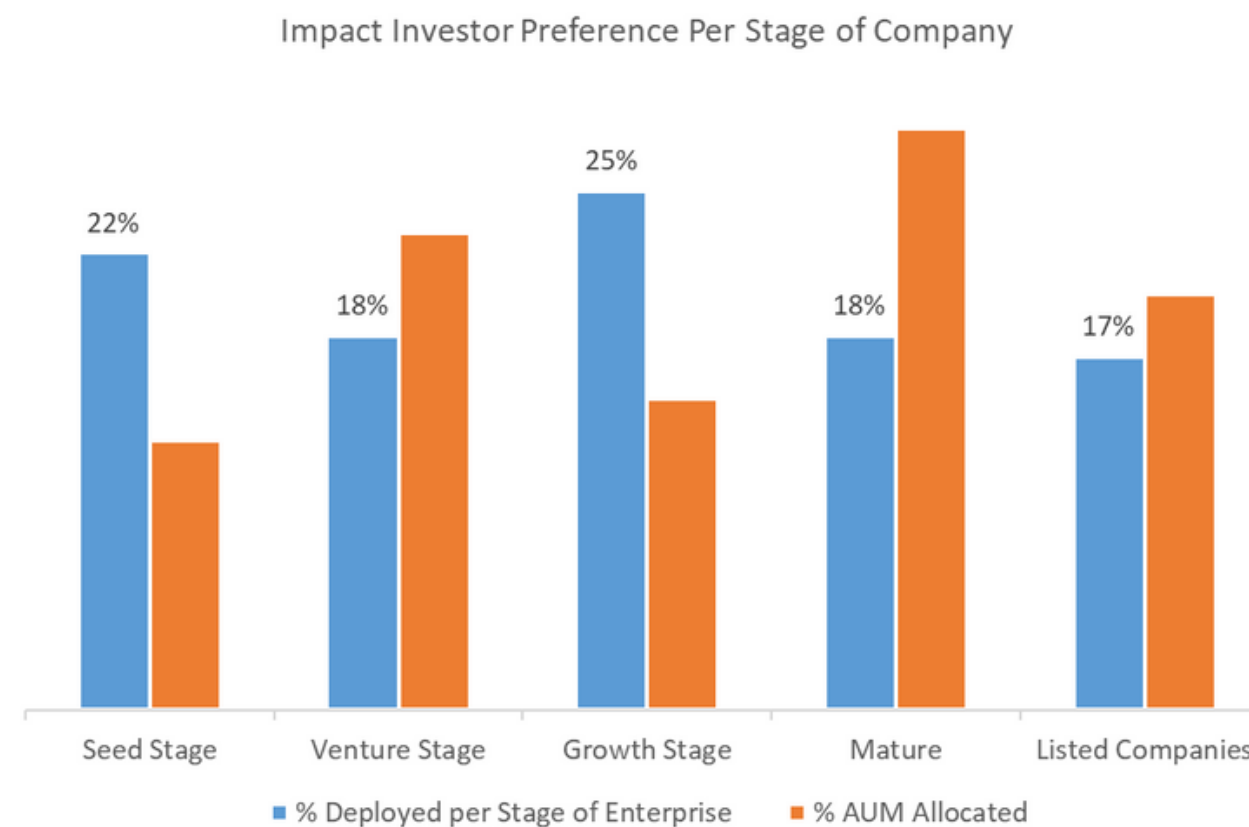
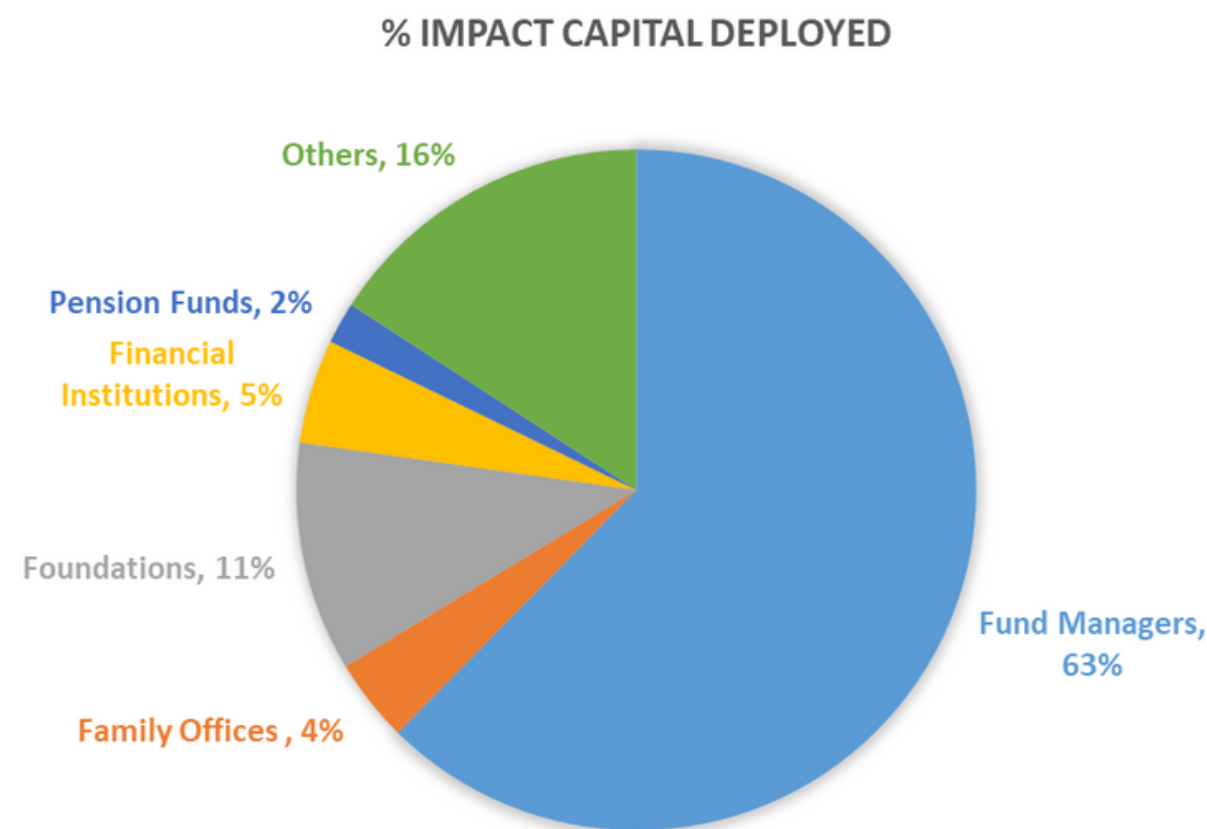


IMM TOOL	INVESTMENT STAGE		
	Origination	Portfolio	Exit
	<i>Due Diligence, pre-approval</i>	<i>Post-investment</i>	<i>During or after exit</i>
1. Objectives & Logic Model	<i>Specify the investment objectives and develop the logic model</i>	<i>Update the logic model</i>	
2. Indicators & Monitoring Plan	<i>Set indicators, set baselines and targets</i>	<i>Report results based on evidence, identify action needed</i>	<i>Report final results based on evidence</i>
3. Risk Management Matrix	<i>Identify risks and mitigation strategies</i>	<i>Update risk status and manage risks</i>	
4. IMP Framework - 5 Dimensions & ABC	<i>Detail 5 dimensions of the key expected impact/s and ABC Matrix</i>		
5. IMM Screening Tool	<i>Use IMP (4.) to screen and compare investments</i>		
6. Lessons Learned Matrix		<i>Identify and record lessons learned to help improve impact and inform future investments</i>	<i>Identify and record lessons learned to inform future investments</i>

Impact Investing

Global Trends

UN states that there's an annual gap of USD 7 trillion that's needed to achieve the 2030 Sustainable Development Goals target. Financial markets have seen unprecedented commitments from asset managers allocating capital toward the funding gap and this has enabled the total impact investing market to reach the USD 1 trillion mark earlier in October 2022. – up 63% since 2019.



Impact Investing-Trends

Case Study: Thriving Impact Investing Ecosystem in India

India has emerged as a thriving hub for impact investing, with over US\$14 billion deployed through over 300 deals between 2019 and 2021. It is estimated that there are over 600 SIBs within India, currently impacting over 500 million lives and raising over USD 9 billion in capital.

Below are the Key Reasons for the Success:

- Entrepreneur First-Ecosystem enablers providing this support are focused on capability building over capacity-building (Practicality)
- Investors with strong investment thesis to improving sector outcomes or community outcomes.
- The Indian Diaspora- The Indus Entrepreneurs (TiE) is a non-profit organizations formed by Indian Diaspora over 29 years ago, with a mission to nurture startups by mentoring, networking, educating, incubating, and funding. TiE is now present in over 14 countries with 61 chapters and has more than 15,000 members who take an active role in supporting the Indian entrepreneurs. They've invested over USD 50 billion in capital and have unlocked over USD 1.5 trillion by supporting over 25,000 startup.
- Strong National Advisory Boarding for Impact Investing (IIC)



Impact Investing in Sri Lanka

General Investment Climate



Severity of investor challenges, by stage of investment



Key challenges faced by investors and severity of impact

Difficulty in raising country-specific funds	Few enterprises in Sri Lanka for investment—entrepreneurial culture not as vibrant as in other countries; strong preference for professional jobs rather than business	Few SMEs are investment-ready, typically due to weak corporate governance and a shortfall in financial and operational management skills; e.g., SMEs may be keeping double and triple books, or not disclosing accurate records	Enterprises do not want to take capital in USD. Either convince companies or bear the exchange rate risk	Lack of opportunities for follow-up rounds of investments—companies often too small	Difficulty exiting through IPO—no track record yet for impact investors; low liquidity in capital markets
Difficulty in finding local, experienced fund managers			Misalignment between amount of capital demanded by enterprises and targeted by investors		
Difficult to domicile in Sri Lanka—particularly in terms of PE funds	Identifying potential investees largely through networks	Many SMEs are heavily leveraged (i.e., have taken out multiple loans and are in significant debt)	Need to convince good enterprises to take on equity capital—particularly family businesses		Misalignment between investor preference for exit and investee preference—e.g., entrepreneurs afraid of trade sales that might reduce their control
	Some sectors like microfinance reaching saturation				



Impact Investing in Sri Lanka

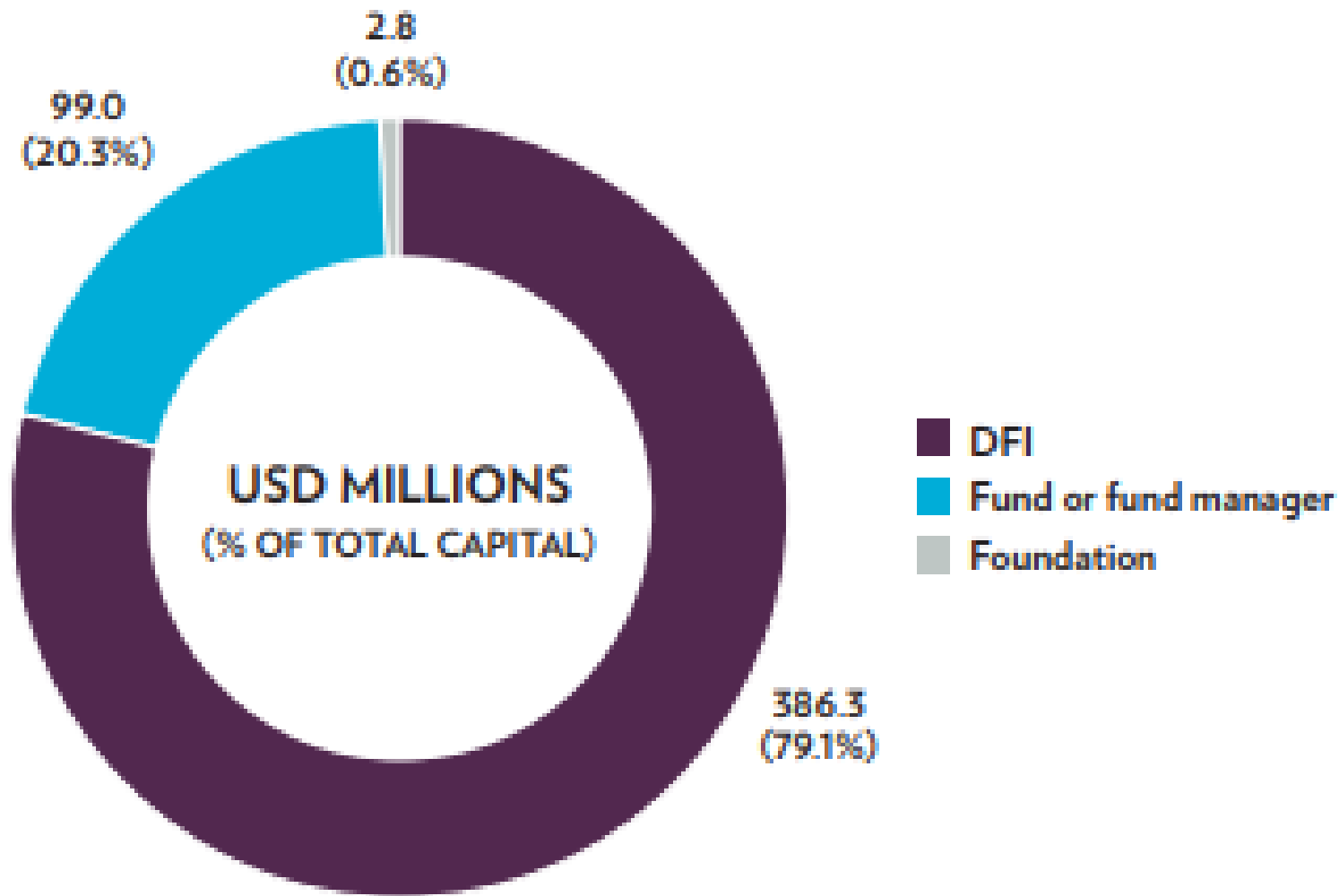
Staking Up Against Peers

	Parameters	Cambodia	Indonesia	Philippines	Vietnam	Sri Lanka	Bangladesh	India	Pakistan
EQUITY CONSIDERATIONS	Strength of Ecosystem Partners	HIGH (3)	HIGH (3)	HIGH (3)	MEDIUM (2)	HIGH (3)	HIGH (3)	HIGH (3)	LOW (1)
	Investor Appetite (Global)	MEDIUM (2)	HIGH (3)	HIGH (3)	HIGH (3)	LOW (1)	HIGH (3)	HIGH (3)	MEDIUM (2)
	Local Access to Equity	HIGH (3)	LOW (1)	MEDIUM (2)	MEDIUM (2)	MEDIUM (2)	MEDIUM (2)	LOW (1)	MEDIUM (2)
	Local Access to Debt	HIGH (3)	HIGH (3)	MEDIUM (2)	MEDIUM (2)	LOW (1)	LOW (1)	LOW (1)	LOW (1)
DEBT CONSIDERATIONS	Conducive regulations	HIGH (3)	HIGH (3)	HIGH (3)	MEDIUM (2)	MEDIUM (2)	LOW (1)	MEDIUM (2)	LOW (1)
	Competitive interest rate	HIGH (3)	HIGH (3)	LOW (1)	MEDIUM (2)	HIGH (3)	LOW (1)	LOW (1)	HIGH (3)
	FX issues	HIGH (3)	MEDIUM (2)	HIGH (3)	MEDIUM (2)	LOW (1)	LOW (1)	LOW (1)	MEDIUM (2)
	TOTAL SCORE (out of 21 points)	20/21	18/21	17/21	15/21	13/21	12/21	12/21	12/21

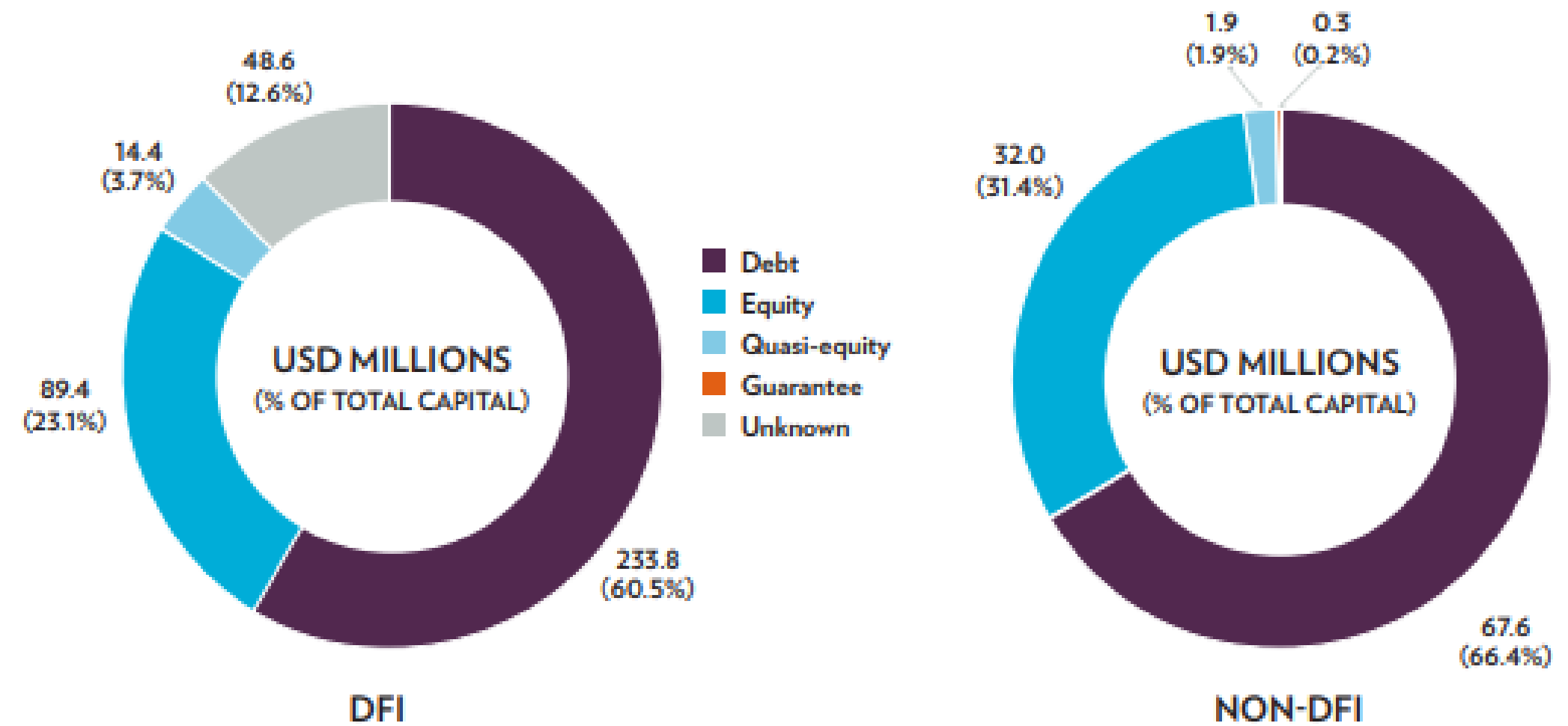
Impact Investing in Sri Lanka

Demographics to Date

Source of Funds



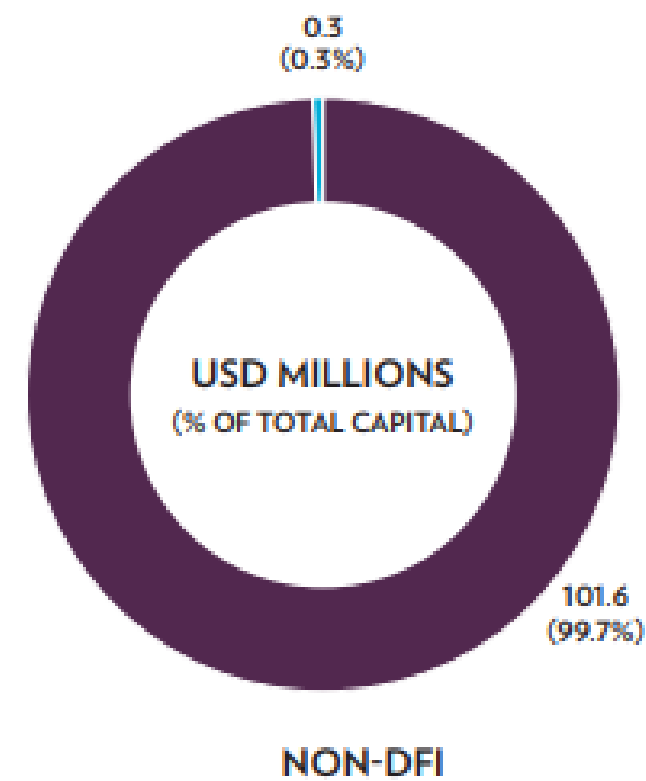
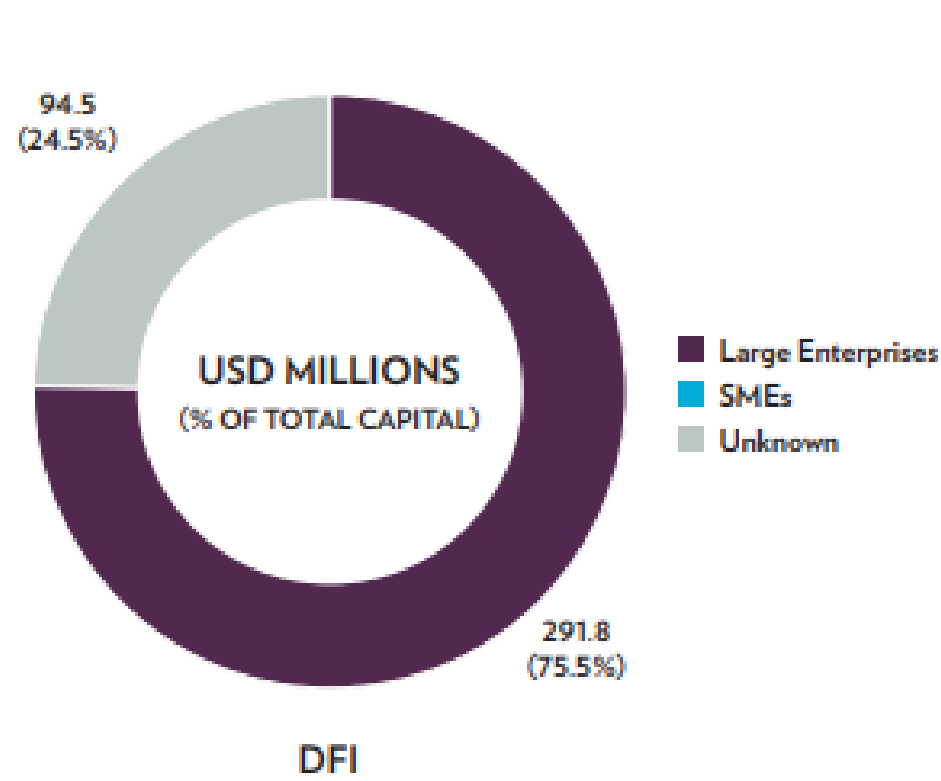
Types of Instruments



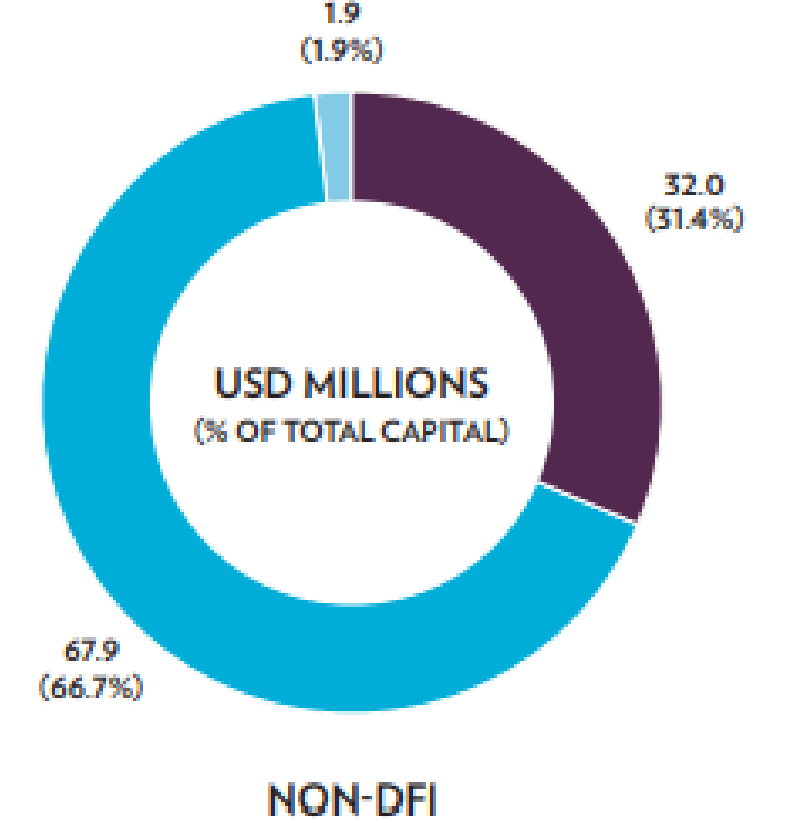
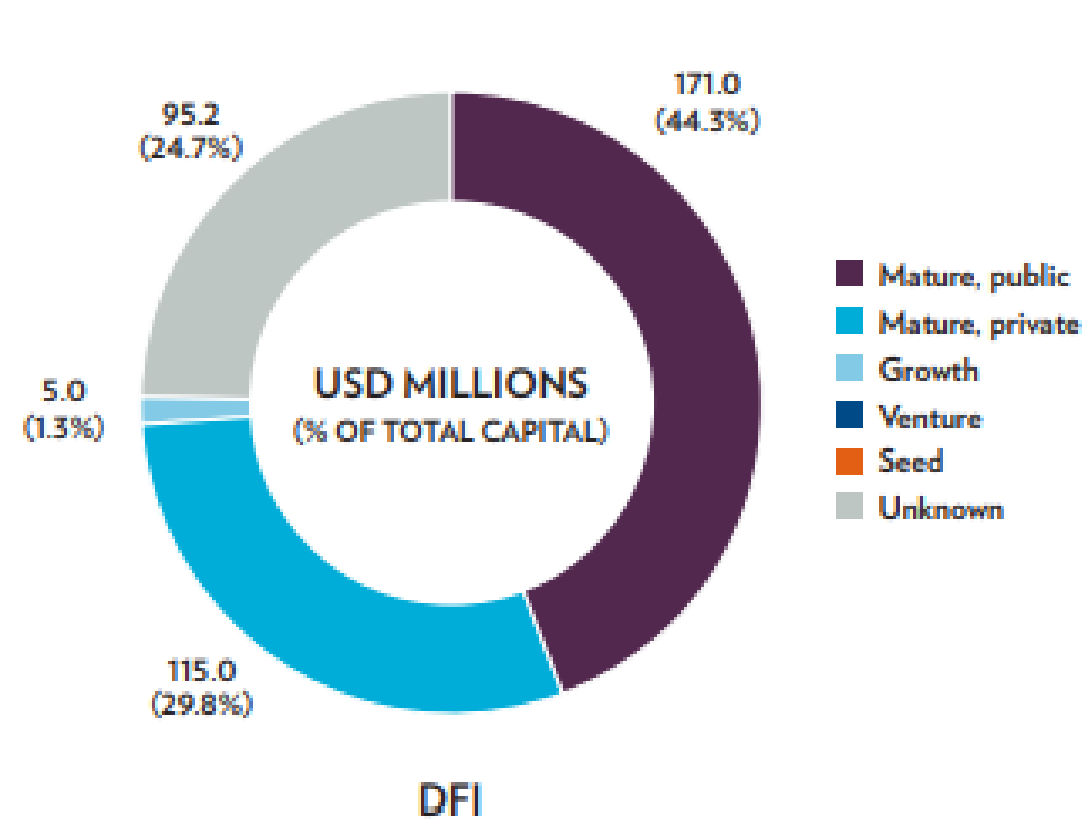
Impact Investing in Sri Lanka

Demographics to Date

Size of Enterprise



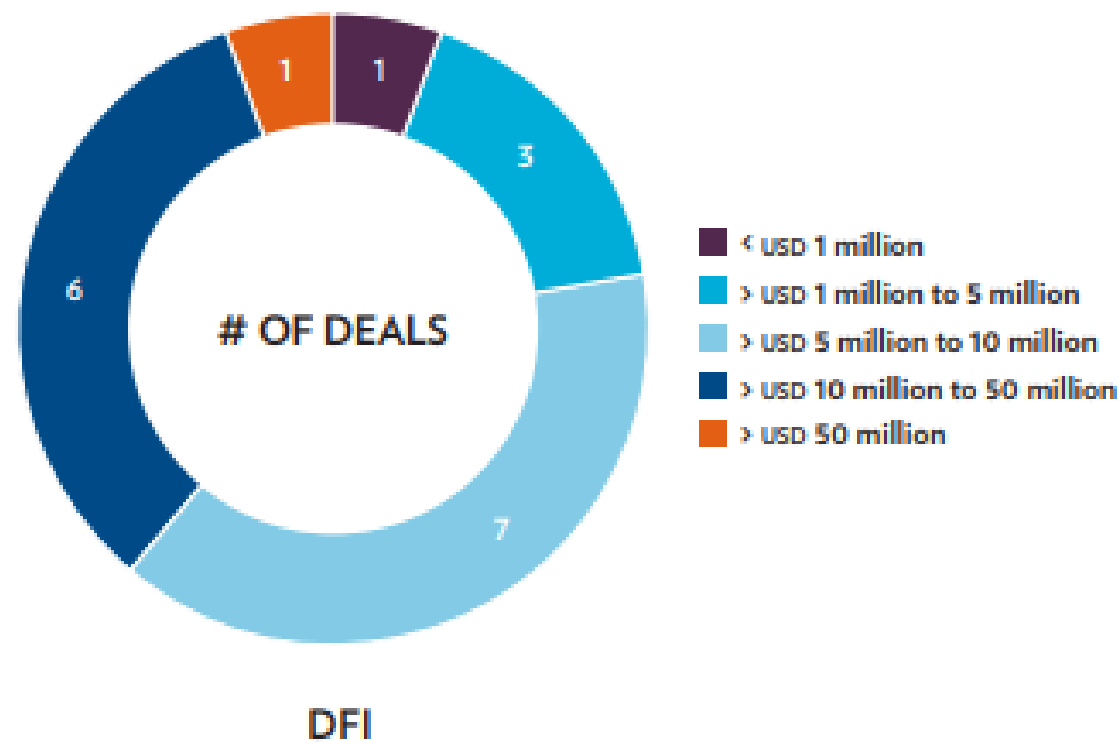
Stage of Enterprise



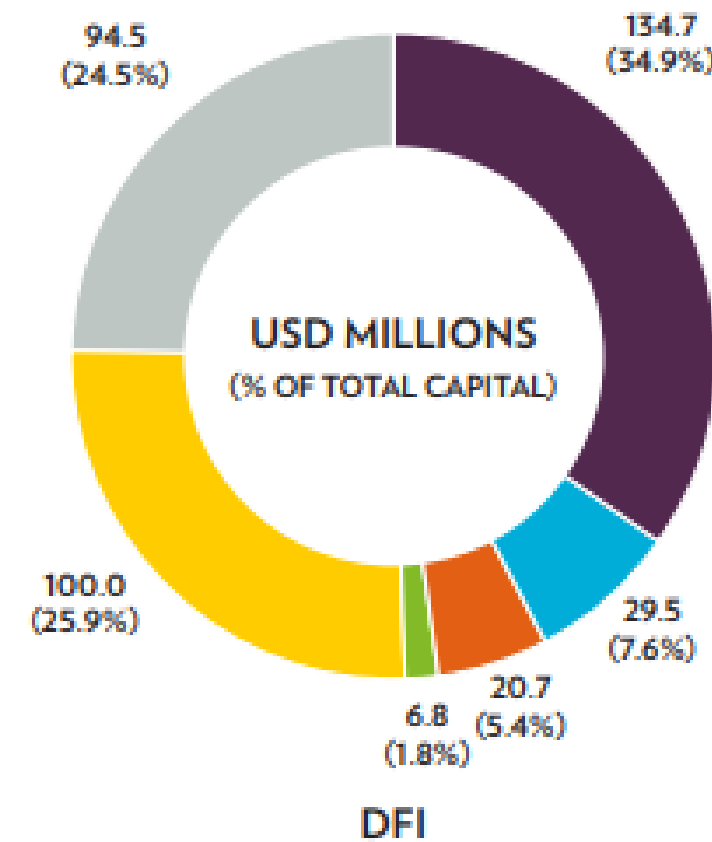
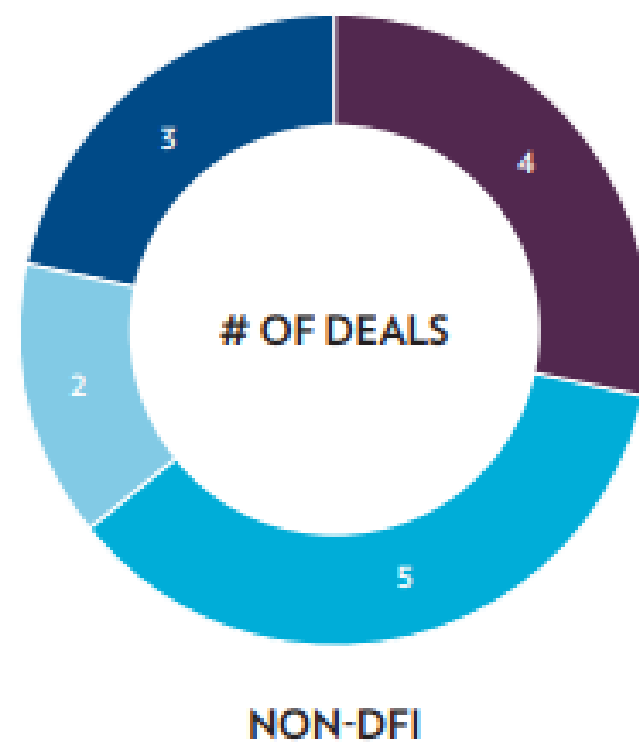
Impact Investing in Sri Lanka

Demographics to Date

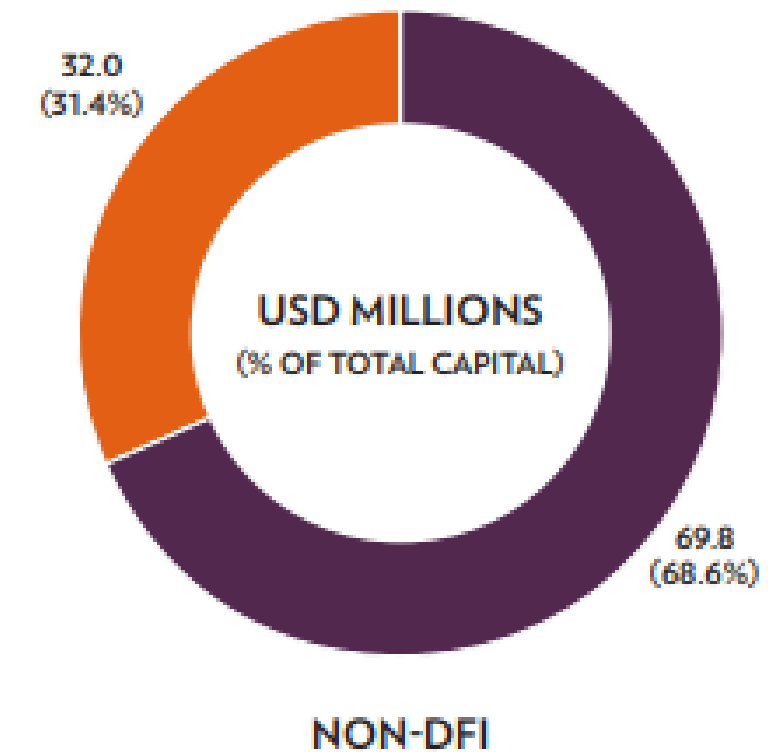
Ticket Size



Focus Sectors



- Financial Services
- Manufacturing
- Health
- Energy
- Other
- Unknown



Impact Investing in Sri Lanka

Key Investment Traction to Date

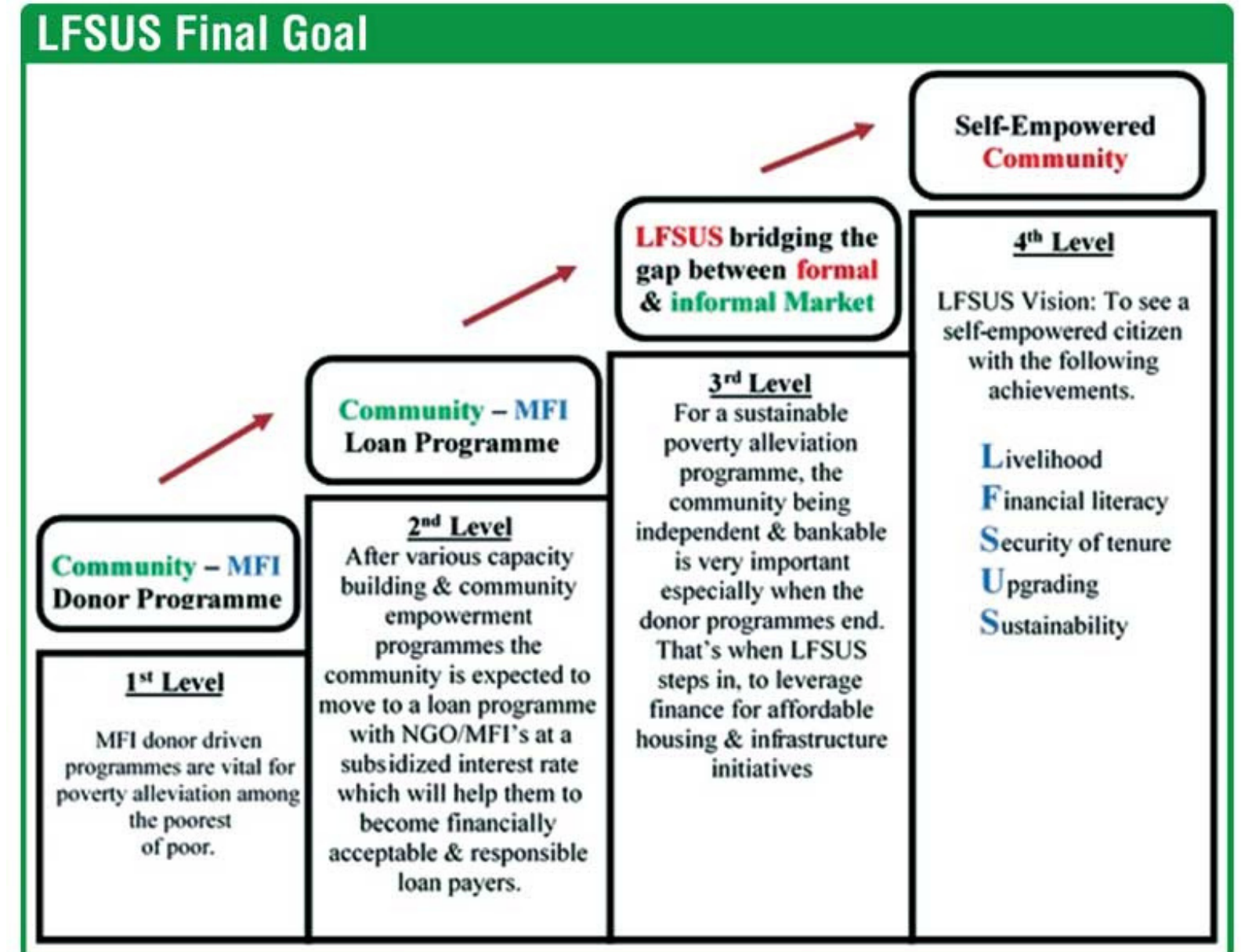
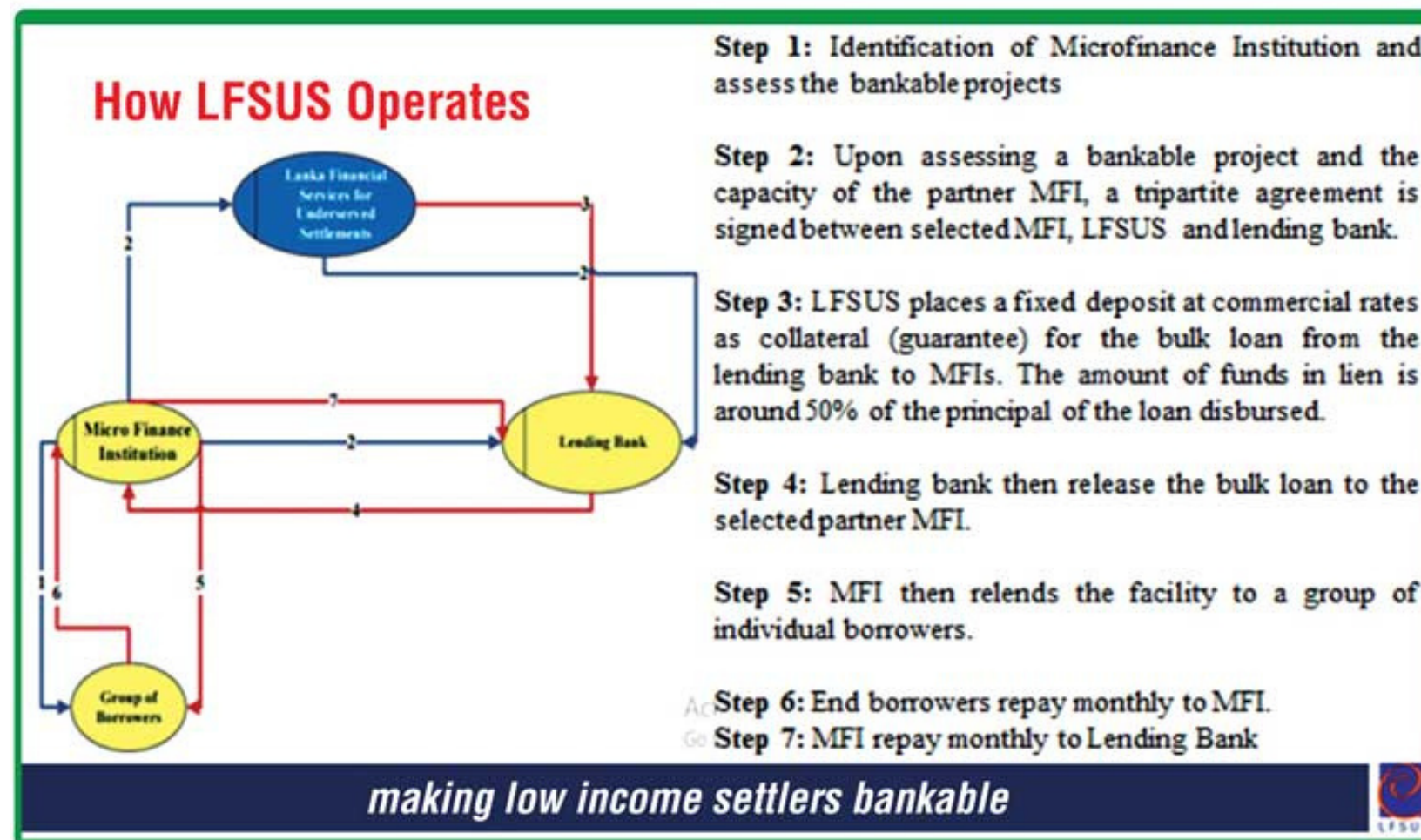
- Lanka Impact Investing Network (LIIN), Sri Lanka's first and only impact investment firm was able to create the very first platform for impact investments through the TV show "AthPavura" where over a span of 2 seasons LKR 22 million of impact investments have been released to 23 social enterprises.
- The Indian based impact investment fund named Aavishkar Frontier Fund has made two investments in Sri Lanka with Ma's Tropical Foods and Grasshoppers.
- A leading Sri Lankan private commercial bank issued Sri Lanka's first ever green bond amounting to USD 7.75 million in partnership with Switzerland based impact investment fund Symbiotics.
- Sri Lankan private sector banks and financial institutions have partnered with various leading international impact investment firms such as Proparco, Leapfrog, FMO etc. in order to raise green investment facilities.
- 3 Billion LKR Wind Power Securitization by Ceylex Engineering.
- Sejaya Micro-credit recipient of USD 2 million funding from World's First Women's Livelihood Bond



Impact Investing in Sri Lanka

Public Private Partnership

- LFSUS Credit Guarantee Fund of USD 1.4 Million seeded by UN Habitat
- LFSUS provides credit guarantees to the commercial banks to encourage them to finance MFIs/ NGOs for the development of housing sector for its low income members.



Impact Investing in Sri Lanka

Movements and Forums

- LIIN hosted the only two Impact Investor Forums in Sri Lanka in 2017 and 2019
- LIIN hosted the only Gender Lens Investing Forum in Sri Lanka in 2019
- UNDP SDG Impact Maps Launch in 2022

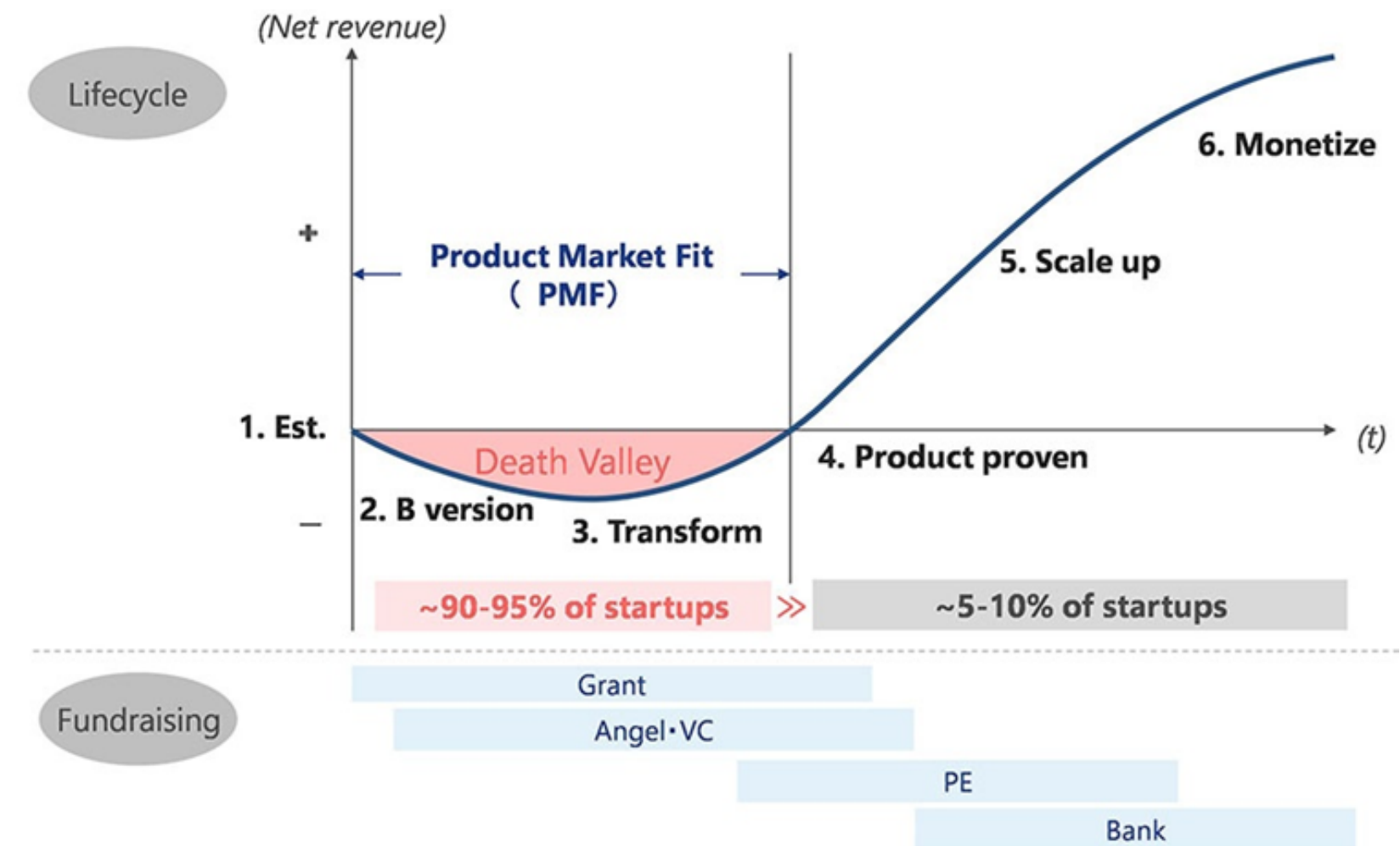


THE GLOBAL GOALS

Impact Investing in Sri Lanka

Why It Has Not Thrived?

- The market is still very nascent and fragmented. Due to the risk perception of investors, the average deal size is between USD 1 million and USD 5 million. Due to this, only around 5-10 per cent of startups successfully graduated from Series A to B. Meanwhile, 90-95 per cent of startups fail in the early stages as they do not have enough funding for the expansion stage.
- Limited Pipeline of Investment Ready Scaleable Opportunities.
- Lack of awareness of Innovative financial instruments.
- No central body to drive the Impact investing agenda in Sri Lanka





NATIONAL ADVISORY BOARD
FOR IMPACT INVESTING
SRI-LANKA

Establishment of the National Advisory Board for Impact Investing- Sri Lanka (NABII-SL)

Vision : “To Drive Impact Capital to Fast-track the Achievement of UN SDG’s in Sri Lanka”

Mission : “Facilitating an impact investing ecosystem in the country by means of channeling impact investments into the country in partnership with like minded stakeholders.”



National Advisory Board for Impact Investing

Who are They?

The National Advisory Board for Impact Investing (NAB) is spearheaded by the GSG to create a global impact investing eco system.

The GSG works with countries represented by their NABs, network partners and other key stakeholders, to identify priorities, deliver initiatives, raise awareness and advocate for the development of impact investing around the world. The GSG currently represents NABs in 28 countries plus the EU as members.



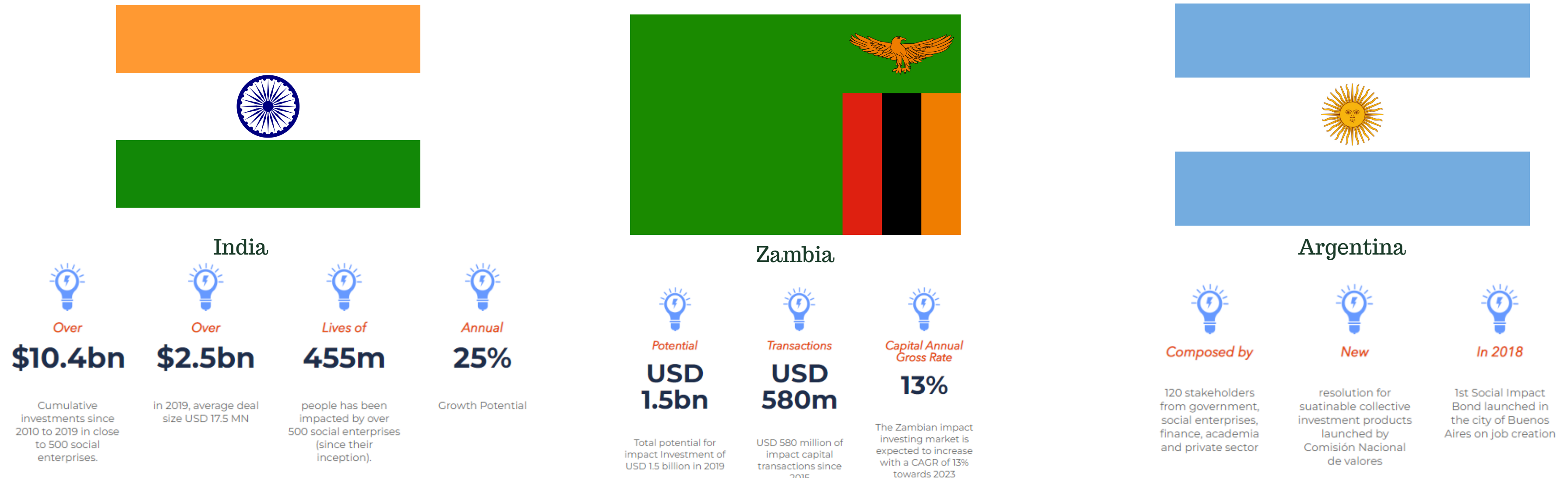
National Advisory Board for Impact Investing

Key Objectives



National Advisory Board for Impact Investing

Success Stories



Pioneering Initiatives to Drive Impact Capital

- The Japanese NAB commissioned the creation of a social investment wholesaler funded by unused banking assets.
- The French NAB drafted proposals to develop a Centre of Expertise for Social Impact Bonds, which it plans to pursue with the new administration in 2021.



Key Objectives



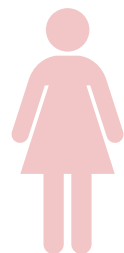
Mainstreaming Impact investing and impact entrepreneurship in Sri Lanka through channeling impact investments.



Educating Sri Lankan stakeholders on the values of impact investing and impact measurement.



Creation of a network of impact enterprises who are ready to receive impact investments.



Creating a culture of applying gender lens into investing.



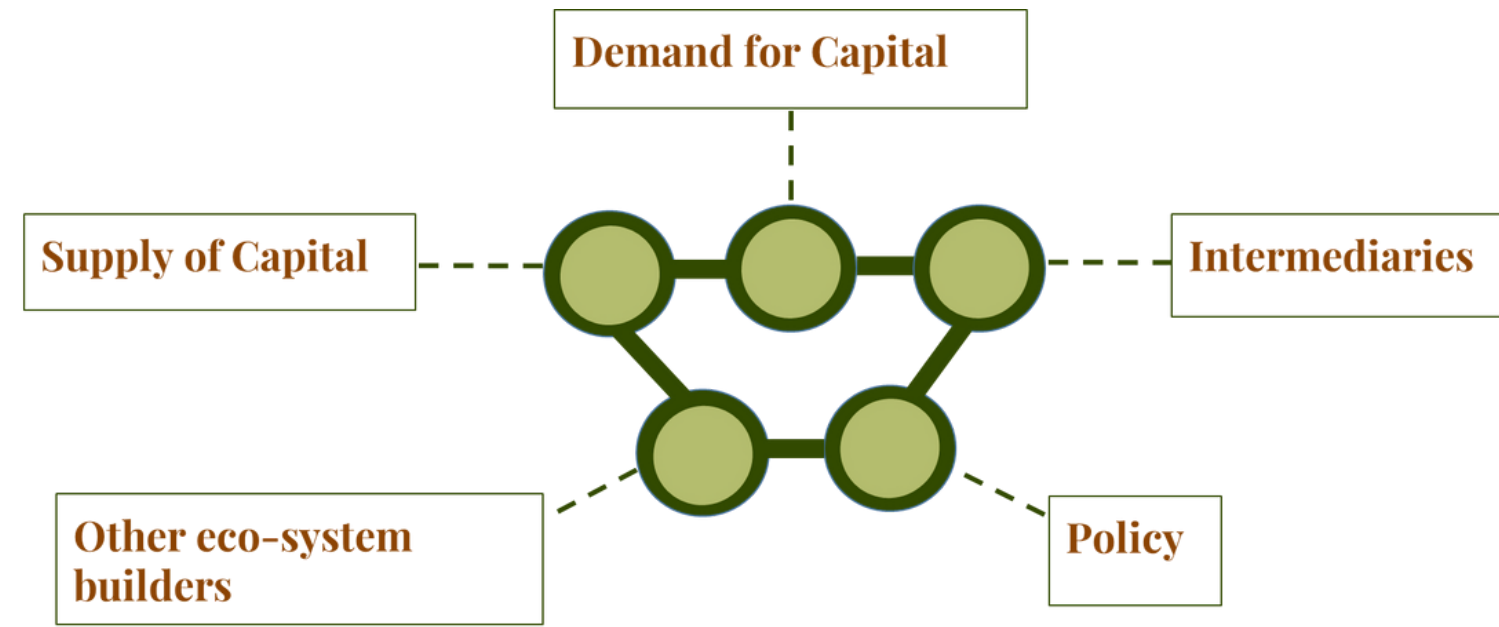
Facilitating partnership opportunities among Sri Lankan and international stakeholders focused on impact investing.



Creating a database and quality research



Member Representation Structure



Board Members

Advisory Members





Objectives in 2023

Publishing a series of articles on impact investing and action plan for Sri Lanka

In Assistance with GSG drive global impact investments into local social impact funds, catalytic/blended financial instruments and impact enterprises.



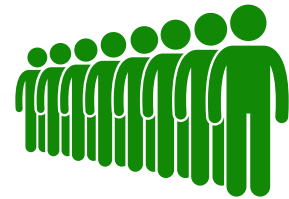
Organizing periodic partner networking and education sessions

Hold a National Level Forum to drive global Impact Capital to Sri Lanka

Launch inaugural annual newsletter on impact investing activities and climate in Sri Lanka for the Year 2023.



Objectives in beyond 2023



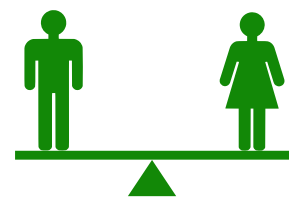
Creation of Steady Pipeline of Investor Ready Impact Enterprises.



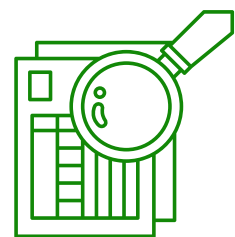
Advocate an impact investment policy and incentives to draw in a steady flow of global impact capital.



Facilitating partnership opportunities among Sri Lankan and international stakeholders focused on impact investing.



Creating a culture of applying gender lens into investing.



Keeping track of the globally changing impact investing ecosystems and mapping out and updating the local impact investing eco system with relation to global practices.



Being the main contact point for global impact funds in order to route impact capital to the country

"Driving Impact Capital to Fast-track the Achievement of UN SDG's in Sri Lanka"

THANK YOU

