

POLICY LANDSCAPE ANALYSIS

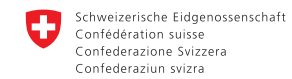
IMPACT INVESTING IN BANGLADESH



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Disclaimer

The document has been developed for the National Advisory Board (NAB) for Impact Investment in Bangladesh. The contents of this work are intended for the NAB to use as a blueprint to develop the proposed Bangladesh Impact Investment Strategy and Action Plan (BIISAP) and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law.

The research was commissioned in mid-February 2020. Due to the COVID-19 global pandemic, Bangladesh went into lockdown on March 25 and the majority of stakeholder interviews were conducted through online video conferencing platforms. Each respondent received background information on the study prior to the interview and was encouraged to give open and honest answers.

Designed by

Khaya Mezba

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About the National Advisory Board (NAB)

The National Advisory Board (NAB) for Impact Investment in Bangladesh is led by the Secretary of the Economic Relations Division under the Ministry of Finance. The organisation facilitates collaboration among regulators, corporations, chambers of commerce, development partners, multilateral financial institutions, academia and other relevant stakeholders to catalyse the development of an Impact Investment ecosystem. Since its inception in 2018, NAB has been working towards complementing mainstream investment so that intergenerational well-being can be guaranteed for the people of Bangladesh in the long term.

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List of Acronyms

a2i	Aspire to Innovate (formerly Access to Information)
ACDI/VOCA	Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance
ACI	Advanced Chemical Industries
ADB	Asian Development Bank
ADP	Annual Development Program
AUM	Assets Under Management
AVC	Agricultural Value Chains
BB	Bangladesh Bank
BD	Bangladesh
BFP-B	Business Finance for the Poor in Bangladesh
BIDA	Bangladesh Investment Development Authority
BIISAP	Bangladesh Impact Investment Strategy and Action Plan

Bn	Billion
BSEC	Bangladesh Securities and Exchange Commission
CFA	Chartered Financial Analyst
CIFF	Children's Investment Fund Foundation
CIS	Collective Investment Scheme
CSR	Corporate Social Responsibility
DAI	Development Alternatives, Inc.
DFI	Development Finance Institution
DFS	Digital Financial Service
DIB	Development Impact Bond
ECD	Early Childhood Development
EOGSEA	Entrepreneurs' Organisation – Global Student Entrepreneur Awards
ERD	Economic Relations Division
EYW	Empower Youth for Work
GAIN	Global Alliance for Improved Nutrition
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GoB	Government of Bangladesh
GSG	Global Steering Group
HIES	Household Income and Expenditure Survey
ICT	Information and Communication Technology

IDLC	Industrial Development Leasing Company
IELD	Inclusive and Equitable Local Development
IFC	International Finance Corporation
IIX	Impact Investment Exchange
IM	Impact Management
IR	Investment Readiness
IRIS	Impact Reporting and Investment Standards
IRMF	Impact Ready Matching Fund
IRR	Internal Rate of Return
ITES	Information Technology Enabled Service
KII	Key Informant Interview
MFI	Microfinance Institution
MFS	Mobile Financial Service
Mn	Million
MRA	Microcredit Regulatory Authority
NAB	National Advisory Board
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PPP	Public Private Partnership
RMG	Readymade Garment

ROI	Roots of Impact
RSA	Revenue Sharing Agreement
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SDI	Sustainable Development Investment
SIB	Social Impact Bond
SIINC	Social Impact Incentive
SME	Small and Medium Enterprise
SUN	Scaling Up Nutrition
UBSOF	UBS Optimus Foundation
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNSIF	UNDP Social Innovative Finance
US	United States
USD	United States Dollar
VIPB	Venture Investment Partners Bangladesh

Foreword

Investment is critical to economies and society. Investment can deliver employment, power businesses, further industrialisation, build infrastructure and increase GDP. Investment in technology can transform lives and help make the essentials of life affordable. But between the grinding gears of growth and development, we see nations divided by economic inequality, social challenges and looming environmental catastrophe. Most recently, Covid-19 has torn at the social, economic and psychological fabric of countries across the world.

Despite Bangladesh's persistent average GDP growth of 6.5 per cent per annum over the last decade and a half, the poorest five per cent of the population have seen a 70 per cent reduction in their share of National Income between 2010 and 2016. The fruits of growth have flowed predominantly to the wealthy, with the rich getting richer and the poor getting poorer. This is unsustainable.

At the same time, industrialisation can create negative environmental side effects, such as degrading agricultural land, poisoning air and damaging lakes and rivers.

The rumblings of change can be felt underfoot across the world. The role of charity, philanthropy, and non-profits has often been limited to addressing these negative social and environmental externalities. Yet recently, new investment models are gaining ground, with people beginning to believe that alongside profit, investment must have IMPACT - social and environmental - with yardsticks for measuring this impact.

These new investment models, blend investors' profit-motive with social and environmental objectives. The aim here is to marshal increased levels of investment from responsible and enlightened investors which positively impact both people and planet.

To align itself with this new global investment landscape, the Bangladesh Securities and Exchange Commission (BSEC), formulated the Alternative Investment Rules 2015, creating guidelines for impact investment for impact investors, impact enterprises and ecosystem

builders. The Bangladesh Bank, through a series of circulars, has opened up avenues allowing scheduled banks and financial institutions to invest in impact funds on top of their existing investments. It has also opened doors for impact investors and investees to access similar perks afforded to green financing facilities. The National Board of Revenue, also, has created tax incentives for impact investment.

The National Advisory Board (NAB) on Impact Investment in Bangladesh, headed by the Secretary of the Economic Relations Division, Ministry of Finance, draws its membership from regulators, market facilitators, market participants, academia, professional bodies. The NAB is responsible for developing an eco-system for impact investment, including the support and promotion of impact entrepreneurs in Bangladesh. The NAB has proposed the development of a *Bangladesh Impact Investment Strategy and Action Plan* (BIISAP) for promoting understanding, advocacy and proliferation of impact investment at a wider scale in Bangladesh.

This study, *Policy Landscape Analysis: Impact Investment in Bangladesh*, aims to provide a baseline. In addition to reviewing secondary information, primary data has been collected from interviews with stakeholders, including impact enterprises, ecosystem builders and impact investors. LightCastle Partners was tasked to look into the impact investment landscape, to conduct a systematic review of related government policies, to support the upcoming BIISAP consultation, based on this policy analysis, and prepare a concept note outlining the structure for developing the BIISAP.

This study also captures some of the new dynamics provoked by COVID -19. It found, perhaps surprisingly, that more respondents believed the ongoing pandemic would create unprecedented opportunities for impact investment than those who feared that it might hold back progress. LightCastle Partners has done a commendable job in burrowing through and analysing secondary literature, and interviewing stakeholders during an extremely uncertain time.

This study was conducted with the generous support of UNESCAP, British Council, Swiss Agency for Development and Cooperation in Bangladesh and Build Bangladesh. We count on our partners for further support during the upcoming wider and deeper consultation process. This consultative process, involving a broader spectrum of stakeholders, will result in the development of the *Bangladesh Impact Investment Strategy and Action Plan*.

Arastoo Khan
Member Secretary
National Advisory Board

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Executive Summary

Impact investment can be understood as investment made with the intention of generating positive, measurable social and environmental impact alongside a financial return¹. Global impact investment industry assets under management (AUM) are currently standing at around USD502 billion² and are expected to grow to USD2 trillion, or 1 per cent of global investments over the next decade.³

This growth is part of a long-term and fundamental shift in society where businesses are increasingly expected to do good and be purpose driven to facilitate the growth of what can be understood as the *impact economy*.⁴ An impact economy prioritises positive social and environmental returns along with profit. Impact measurement and management is an instrumental part of this.

This report analyses the current policy landscape as regards impact investment in Bangladesh, complemented by a series of primary interviews with three key stakeholder groups (impact entrepreneurs, impact investors and ecosystem builders). It identifies the strengths, opportunities, weaknesses and threats inherent in this ecosystem (SWOT) to devise a blueprint for the development of the proposed *Bangladesh Impact Investment Strategies and Action Plan* (BIISAP).

The ecosystem surrounding the Bangladesh impact economy is gradually developing. Since the launch of the Alternative Investment Rules by the Bangladesh Securities and Exchange Commission (BSEC) in 2015, Bangladesh Bank has released four key circulars to enable and encourage banks, non-bank financial institutions (NBFIs) and non-resident investors to contribute to impact funds. The launch of the first proposed impact fund in 2017 by Build Bangladesh in partnership with the UNDP/UNSIF and the establishment of the National Advisory Board (NAB) for Impact Investment in Bangladesh in 2018 followed by the incorporation of NAB

Bangladesh as the 19th member country of the Global Steering Group (GSG) for Impact Investing have been critical steps for the development of impact investment in Bangladesh.

The study revealed critical points that need to be considered for the development of the BIISAP, as follows.

Strengths

- a. Solving social and environmental challenges is an increasingly significant motivation for many businesses
- b. The Bangladesh government is committed to a target of achieving the SDGs and promoting inclusive growth

Weaknesses

- a. A lack of awareness and understanding among all stakeholder groups
- b. Significant challenges hindering impact measurement, reporting practices and due diligence
- c. Limited collaboration among ecosystem builders

Opportunities

- a. As Bangladesh achieves middle income status in 2025, a potential decline in grants from bilateral and multilateral donors might be observed in the coming years. Increasingly, donors are looking into channelling funds to emerging markets through innovations such as blended finance (an approach that gives incentives to mobilize private capital) and supporting impact investments. As a result, NGOs/NPOs in Bangladesh are gradually incorporating enterprise development approach. The experts in impact arena are assuming that businesses with the capacity to generate both impact and financial return might enjoy increased access to capital resulting from this shift.
- b. The COVID-19 pandemic is potentially opening new avenues of growth for impact enterprises, driving demand for innovative solutions.
- c. Commercial investors have started to explore the impact arena through distinct impact funds.
- d. Agriculture, consumer food, healthcare, education, housing and fintech will remain priority sectors for impact investors in post-pandemic Bangladesh.
- e. While policy is still in the early stages, regulators are proactively supporting this emerging agenda.
- f. Banks and NBFIs are interested in investing alongside others as a result of the new green financing rules by Bangladesh Bank.

Threats

- a. Barriers, such as access to finance, training and more, preventing impact enterprises from scaling and sustaining their businesses.
- b. Enterprises are not always investment ready.
- c. Grassroots level and regional impact enterprises are being excluded from receiving training that help them scale up.
- d. Lack of fiscal and monetary incentives for impact enterprises and investors.

The NAB has been working to complement the existing investment ecosystem, and inspire more enterprises and investors to explore the avenues of impact investment.

Recommendations

This study suggests the following recommendations for the NAB to consider as it develops the proposed BIISAP:

- a. Awareness, advocacy and capacity building interventions, specifically around impact measurement and management, can help develop the knowledge and capability of entrepreneurs, accelerators/incubators and investors.
- b. Promoting greater collaboration among ecosystem builders can build a more effective market, with better information sharing and reduced transaction costs.

- c. More standard approaches to 'impact due diligence' and the standardisation of impact management and measurement frameworks.
- d. Facilitate the growth of catalytic funding and blended financing to channel more capital to the impact economy.
- e. Introducing specific incentives (i.e. tax breaks, matching fund of funds) for investors investing in impact funds and impact enterprises can help attract more capital.
- f. Procurement rules that encourage, incentivise or mandate public and private agencies to source from impact enterprises can help drive demand for their products and services, creating a virtuous circle which further attracts investment in this area.

1. Background and Introduction

1.1 Objectives of the Study

Since 2018, the National Advisory Board (NAB) for Impact Investment in Bangladesh has been leading the development of impact investment in the country. The NAB has commissioned this research in order to gain a deeper understanding of the existing impact investment ecosystem and to determine the way forward.

The detailed research methodology has been provided in Appendix A, while the findings are based on five objectives below, agreed as part of the NAB research brief.

- a. To assess the existing impact investing landscape in Bangladesh by conducting thorough research, including social enterprise, social business, inclusive business and other untapped potential business.
- b. To provide a systematic review of all policies, strategies and programmes undertaken by the Government of Bangladesh (GoB) that relate to impact investing and how they either support or provide obstacles to the growth of impact investing.
- c. Providing a list of all programmes funded by private sectors, development partners and the Government of Bangladesh on impact investing within the country.
- d. Suggesting appropriate strategic choices to support and inform the Bangladesh Impact Investment Strategy and Action Plan (BIISAP) consultation process.
- e. To prepare a concept note outlining the structure for developing the BIISAP.

1.2 Defining Impact Investment for Bangladesh

Since impact investment is an emerging concept in Bangladesh, one single widely accepted definition of impact investment has yet to be agreed upon. This study aims to clarify this issue and propose a common definition based on both international and local experience.

A comparative analysis among 10 definitions provided by a range of actors⁵ in the ecosystem identified “positive”, “measurable”, “social impact”, “environmental impact” and “financial return” as the most frequent defining characteristics of these definitions. Based on the analysis, the GIIN definition – which embodies all 5 characteristics – is proposed as most appropriate for Bangladesh.⁶

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

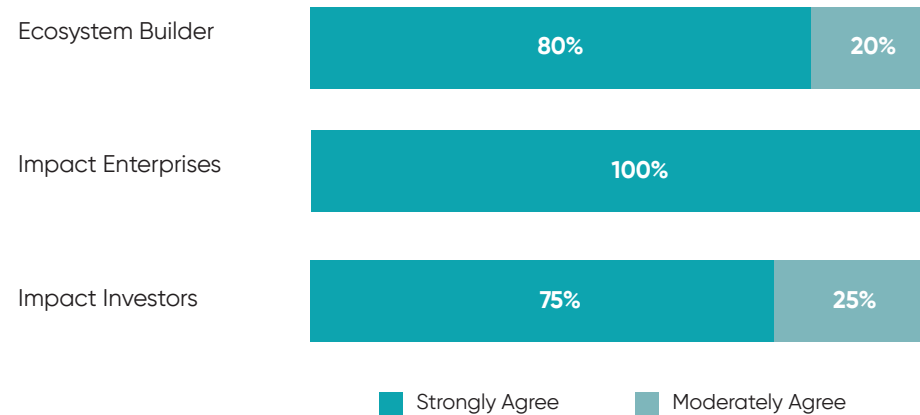
However, when any investment is being routed through any impact fund registered under BSEC, the definition would be –

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

Survey respondents were asked to express their degree of agreement with the proposed definition for impact investment and 85 per cent strongly agreed with the above definition.

Several respondents suggested the additional inclusion of sustainability; governance; and the ratio between social good and financial return.⁷

Chart 1: Degree of Agreement with The Definition



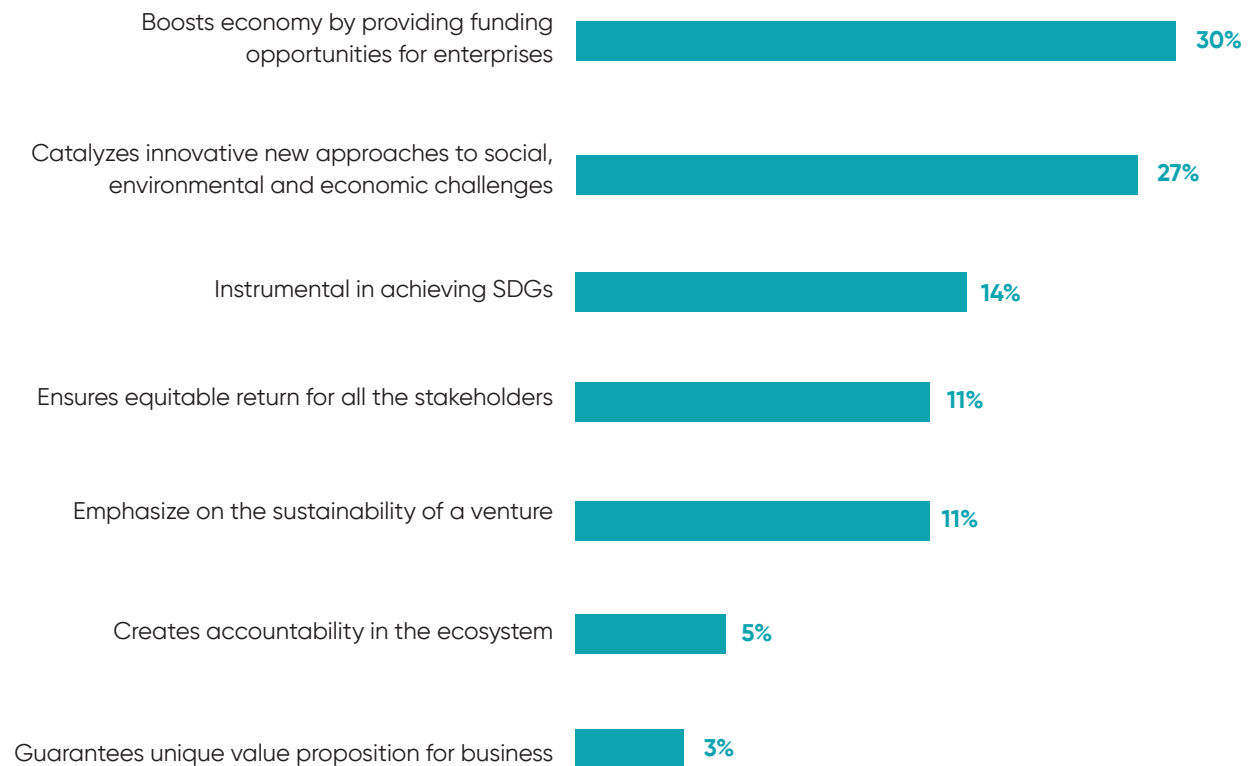
1.3 Why is Impact Investing Important for Bangladesh?

Addressing inequality lies at the heart of achieving the Sustainable Development Goals (SDGs). The Bangladesh Government is committed to achieving the 17 SDGs by 2030 but cannot achieve these goals at the current rate of public and development expenditure. Moreover, as Bangladesh becomes a middle-income country, Overseas Development Assistance (ODAs) will reduce, debt may not be available at preferential rates and the Government of Bangladesh may need to build up the country's forex reserves to guard against currency devaluation⁸. Respondents in the development sector recognised these challenges and identified the contribution that impact investment can make towards the achievement of the SDGs as one of its key propositions.⁹

When respondents were asked to select the top reasons why impact investment is important for Bangladesh, 30 per cent suggested that boosting the economy by providing funding opportunities for enterprises was the most important, followed by catalysing innovative

approaches to social, environmental and economic challenges (27%) and achieving the SDGs (14%).

Chart 2: Reasons Why Impact Investing is Important



Impact Investing as a Road to Recovery from Pandemic

The COVID-19 pandemic is likely to leave a lasting impact on both exports (the RMG sector has already seen falling demand), remittances (as overseas workers return from the Middle East and Europe where they were employed mostly in semi-skilled/unskilled jobs) and domestic demand (not only in tourism but also internal demand for products and services) leading to significant increased unemployment, especially in informal sectors.

Respondents were asked for their opinions on the immediate impact of the crisis. Around 38 per cent said that it would create an unprecedented opportunity for impact investing while 33 per cent said that it might halt the progress of impact investing in Bangladesh for a while.

3R Model of Impact Investment – Response, Recovery, Resilience – suggested by GIIN

An immediate response to any crisis is to minimise the damage. The onslaught of COVID-19 has forced many start-ups, social businesses and SMEs to stop their operations. In these challenging times, impact funds can provide struggling businesses with funds to keep their business running.

In the recovery and resilience stages, impact investment becomes even more relevant. Recently, USAID, SDC, IFAD, BRAC and YGAP have launched funds to help the market recover.

1.4 Brief History of Impact Investing in Bangladesh

In June 2015, Bangladesh Securities Exchange Commission (BSEC) introduced the Alternative Investment Rules 2015 which were the first explicitly aimed at impact funds, along with private equity and venture capital in Bangladesh. Bangladesh Bank subsequently released two circulars which have enabled banks,¹⁰ financial institutions (FIs)¹¹ and non-resident investors¹² to invest in impact funds. followed by another circular in 2019 linking impact investing and green financing to encourage banks and FIs' contribution to impact funds.¹³

In 2016, the first International Conference on Impact Investment in Bangladesh took place, followed by an International Workshop on Impact Investment in 2017, both organised by Build Bangladesh. The establishment of the NAB in 2018 and GSG membership represented a new step for impact investing in Bangladesh. In the same year, Impress Capital Limited became a member of the GIIN as the first Bangladeshi entity.

In September 2017, the honourable Prime Minister of Bangladesh launched the "Build Bangladesh – UNDP SDGs Impact Fund". This was the first proposed impact fund in the country, through a partnership between Build Bangladesh and the UNDP/UNSIF with the aim of raising over USD 100 million from private investors to create positive social and environmental impact in Bangladesh. Build Bangladesh and UNDP are working together to register the fund with the BSEC by early 2021.

Meanwhile, as this fund takes shape, the first impact fund in the country was approved by BSEC in September 2019. The fund was jointly launched by Impress Capital Limited (ICL) and JC Management Company. This USD 10 million fund is called the "Build Bangladesh Social Entrepreneurs Fund" and is to be invested as equity and equity linked securities in mainly non-listed companies in Bangladesh. The United Nations Development Programme (UNDP) will act as an impact advisor to the fund.¹⁴

Presently, limited research exists on impact investment in Bangladesh. In 2016, the British Council released a report on social enterprise in Bangladesh which presents a comprehensive view of the social enterprise ecosystem and which briefly discussed impact investing. In 2015, Dalberg and GIIN produced a series on impact investing in South Asia, which includes a chapter on Bangladesh. A detailed list of existing literature on impact investing in Bangladesh is provided in Appendix F.

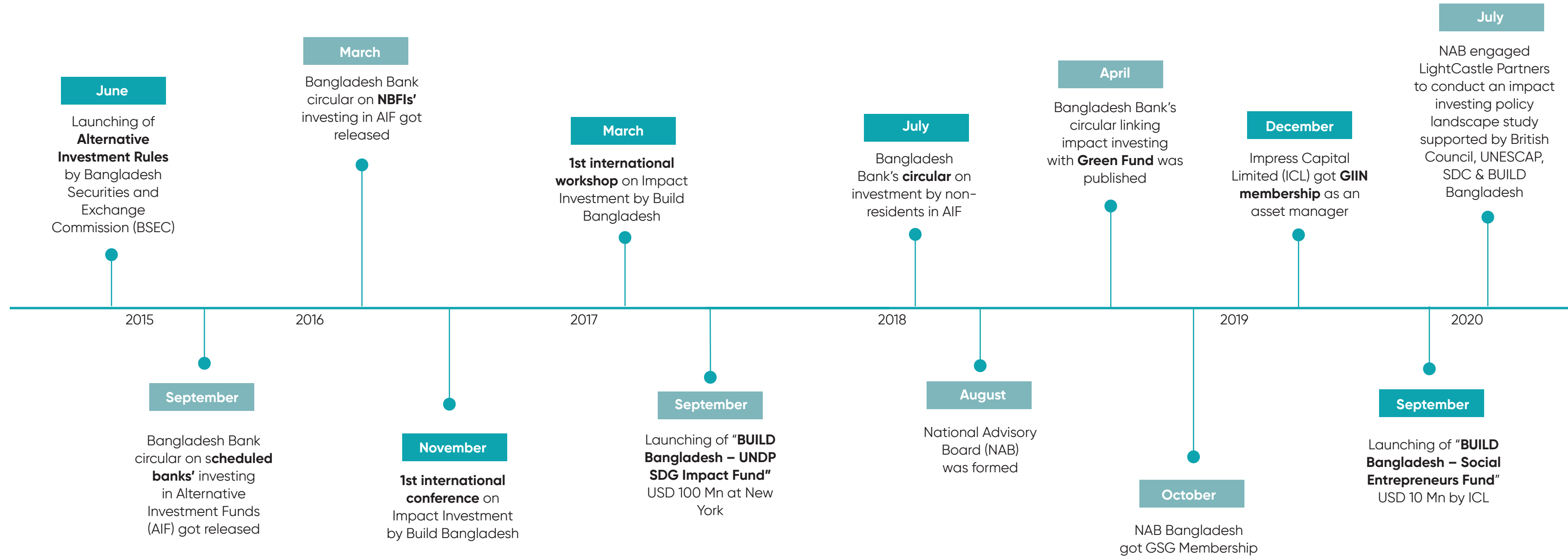


Figure 1: History of Impact Investing in Bangladesh

Case Study: NAB Bangladesh



The National Advisory Board (NAB) for Impact Investment in Bangladesh, which is the first of its kind in Bangladesh guides the way forward for shaping the future of Impact Investment Ecosystem in the Country.

The NAB works towards the following outcomes:

- Development of the Bangladesh Impact Investment Strategies and Action Plan (BIISAP) to guide impact investing in Bangladesh.
- Secure local and global impact investment in the economy through collaboration with local and global corporations, multilateral development organisations and partners and the Bangladeshi diaspora.
- Provide assistance and extend cooperation to guide impact investment in Bangladesh in consultation with the Global Steering Group (GSG) for Impact Investment, Government of Bangladesh, businesses and international development partners.
- Secure impact investment through sectoral priorities in collaboration with local and global organisations.
- Provide assistance and support to raise funds for reputable and accredited impact investment funds once approved by the Bangladesh Securities and Exchange Commission (BSEC) (i.e. Build Bangladesh-UNDP SDGs Impact Fund) from relevant organisations and individual and/or group of high net worth people.
- Initiate capacity building programmes partnering with relevant local and global organisations to increase the competency of impact investment managers both locally and internationally with the aim to eventually establish an Impact Investment Exchange in Bangladesh.

The NAB on Impact Investment in Bangladesh is one of the 30 plus NABs including the EU globally working to catalyse the global and local market for Impact Investment to complement the works undertaken by the Global Steering Group.

2 Policy Landscape Analysis

2.1 The Policy Context – Stakeholder Perspective

Respondents from regulatory bodies with a potential role to play in impact investing policy development, including the NAB, Sustainable Finance Department (SFD), Bangladesh Bank; Bangladesh Securities and Exchange Commission (BSEC); Economic Relations Division (ERD) and Ministry of Finance, Government of Bangladesh were interviewed. The respondents reported the following key drivers and trends -

a. **Financing SDGs through public-private partnerships:**

Bangladesh aims to achieve the Sustainable Development Goals (SDGs) by 2030. While the government is financing infrastructure development through Overseas Development Assistance (ODA) and concessional loans; other crucial goals that involve improving education, healthcare, water and sanitation and climate action are subject to domestic annual development budget (ADP)¹⁵. As the existing budget for these sectors are already scarce and the pandemic has disrupted the healthcare and education sector, the government recognises the potential role of impact investing and public-private partnerships in helping Bangladesh meet the SDGs.

b. **Promoting inclusive employment:**

Policymakers are acknowledging the prospect of impact investing in generating employment for both underprivileged and socially excluded communities (i.e. people with disabilities, climate refugees, third gender groups, etc.).

c.

Response and recovery during and after the pandemic:

Policymakers are anticipating that impact investing may drive research in the health and medi-care sectors during the COVID-19 pandemic. For example in May 2020, the ICT Ministry launched the Call for Nation COVID-19 Response Hackathon for start-ups and individuals trying to minimise the effects of the pandemic - for the socio-economically disadvantaged population, delivering health care equipment and treatment and more. The Ministry is also running COVID accelerator online bootcamp for seed start-ups, again showing how the impact economy offers hope in the face of the crisis. Stakeholders believe that government agencies (ICT Ministry, Startup Bangladesh, Bangladesh Hi-tech Park Authority and others) will continue to prioritise businesses that generate social and environmental impact both during and post-COVID period.¹⁶

2.2 Assessing Government Interventions – Existing Policy

The Government has already taken a number of steps to support impact investment in Bangladesh, including several major relevant steps.

In 2015, with the aim of mobilising private sector investment, BSEC launched the Alternative Investment Rules. Impact funds can now be registered and regulated as an Alternative Investment Fund under this rule, along with private equity and venture capital funds.

Bangladesh Bank has been promoting green banking since early 2011 in order to encourage environmental sustainability. Since January 2016, all scheduled banks and FIs have been

allocating 5 per cent of their total loan disbursement/investment towards green banking.¹⁷ Banks that comply with this practice enjoy several preferential treatments from the central bank such as higher CAMELS (Capital, Asset, Management, Earning, Liquidity, Sensitivity to market risk) rating, special mention on the website and permissions for opening new branches. The central bank also mandates CSR activities by the banks and FIs through its Green Banking and CSR Department (GBCSRD).

Bangladesh Investment Development Authority (BIDA) is now planning to promote impact investment towards the achievement of social and environmental goals. The organisation plans to create its own fund, currently under design. A new version of the Debt Securities Rule is to be approved by BSEC soon, to include provisions on the issuance of sovereign/corporate green bonds which may also open new opportunities for regulatory progress and reform.

In order to provide a deeper understanding of policies in Bangladesh and their implications for impact investing, a more in-depth analysis covering relevant laws, guidelines and circulars has been conducted and presented in the following table.

Law/ guideline/ Circular	Regulatory Body & Publication Date	Brief Description of Provisions	Areas of Improvement/ Clarification Required/ Issues Identified	Implication for Impact Investing
Alternative Investment Rules 2015	Bangladesh Securities and Exchange Commission (BSEC) June 22, 2015	Definition: An impact fund is an alternative investment fund which invests in equity and equity linked instruments of such companies, organisations, and funds which are engaged in activities with the intention to generate a measurable and beneficial social and/or environmental impact in addition to financial returns, as justified with internationally recognized criteria.	<ul style="list-style-type: none"> • The balance between impact and financial return; • Guidelines explaining internationally recognized criteria or any measurement and reporting criteria; <ul style="list-style-type: none"> - KII investors and entrepreneurs - KII Ecosystem Builder (BSEC) 	<ul style="list-style-type: none"> • Clearer guidelines on the registration process and management of impact funds.
		If a foreign entity or foreign fund management company intends to act as fund manager, it has to form a fund management company incorporated in Bangladesh.	<ul style="list-style-type: none"> • Foreign investors view this provision as a restrictive and it holds back investment interest; <ul style="list-style-type: none"> - KII Ecosystem Builder (BSEC) 	<ul style="list-style-type: none"> • Encourages foreign fund management companies to explore the Bangladesh market.
		At least one key personnel managing the fund should have at least 5 years of experience in advising or managing pools of capital, fund, asset, wealth, or portfolio, or in the business of buying, selling and dealing of financial assets.	<ul style="list-style-type: none"> • The process for formally reporting key personnel qualification; <ul style="list-style-type: none"> - KII Ecosystem Builder (ERD) 	<ul style="list-style-type: none"> • Increases accountability and trust.

		The funds can be raised from a maximum of 200 eligible investors via private placement with a minimum subscription of BDT 5 Mn (USD 58.8K) each.	<ul style="list-style-type: none"> • Exploration of whether the minimum subscription can be lowered to accommodate more diverse investors; - KII Investor (IDLC) 	<ul style="list-style-type: none"> • Encourages more and more diverse private sector investors to invest in impact funds
			<ul style="list-style-type: none"> • Developing the capacity of professionals to perform the impact due diligence process and reporting processes for impact investees - KII Ecosystem Builder (BSEC) 	<ul style="list-style-type: none"> • Guidelines to assist impact fund managers and investees to adhere to more common standards.
Circular on Investment in Special Purpose Vehicle, Alternative Investment Fund or similar fund/ funds by the scheduled banks	Department of Off-Site Supervision (DOS), Bangladesh Bank November 25, 2015	Scheduled banks willing to invest in non-listed special purpose funds (Special Purpose Vehicle, AIF registered with BSEC) are allowed to invest up to BDT 2 billion (USD 23.53 million) in such funds.	<ul style="list-style-type: none"> • Absence of incentive for investing in impact funds has been partly mitigated later through GBCSR Circular on considering impact fund investment as green financing 	<ul style="list-style-type: none"> • Opportunity for impact fund and impact enterprises
Circular Regarding Investment in Non-listed Special Purpose Funds by NBFIs	Department of Financial Institutions and Markets (DIFM), Bangladesh Bank March 30, 2016	NBFIs willing to invest in non-listed special purpose fund/ funds (Special Purpose Vehicle, AIF registered with BSEC) are allowed to do so following specific guidelines –	<ul style="list-style-type: none"> • Absence of incentive for investing in impact funds has been partly mitigated through GBCSR Circular on considering impact fund investment as Green financing. 	<ul style="list-style-type: none"> • Opportunity for impact fund and impact enterprises

		<p>a. The aggregate investment in such funds made by any FI shall not exceed 50% of its paid-up capital;</p> <p>b. The investment in such a single fund made by any FI shall not exceed 10 percent of its paid-up capital or 20% of that particular fund, whichever is lower.</p>		
Circular on investment by non-resident investors in Alternative Investment Funds	Foreign Exchange Investment Department, Bangladesh Bank July 30, 2018	<ul style="list-style-type: none"> • The AIFs must be registered under BSEC to attain foreign investments. Under the existing rules, non-residents are also allowed to make direct investments or portfolio investments in Bangladesh. • Foreign investors holding units of AIFs would be allowed to sell or transfer or redeem the units as per rules or directions issued by the BSEC. 	<ul style="list-style-type: none"> • As no separate tax rebate or incentive for foreign investors investing in impact fund is currently being provided, investors are disincentivized from these vehicles. - KII Ecosystem Builder (SFD BB) 	<ul style="list-style-type: none"> • Opportunity for impact fund and impact enterprises
Circular on Considering Investment by Scheduled banks and Financial Institutions in Impact Fund as Green Financing	Sustainable Financing Department (SFD), Bangladesh Bank April 04, 2019	<ul style="list-style-type: none"> • Investment by scheduled banks and FIs in Impact Funds will be considered as Green Financing • Impact funds must ensure one of these outcomes – <ol style="list-style-type: none"> 1. Resource efficiency; 2. Air emission and quality efficiency; 3. Resource recycling; 4. Waste (liquid and solid) management; 5. Renewable Energy 6. Land contamination prevention/mitigation; 7. Energy efficiency; 8. Land acquisition and resettlement management; 	<ul style="list-style-type: none"> • Apart from the 21 thematic areas, any other areas deemed eligible by Bangladesh Bank will be considered eligible. BB's selection criteria should be clarified for better understanding. • Although the circular was published in April 2019, SFD has not received a single application from DOS and DIFM. 	<ul style="list-style-type: none"> • Banks and FIs will be encouraged to invest in impact funds if they receive preferential treatments by BB such as <ul style="list-style-type: none"> - higher CAMELS rating; - special mention on the website; - permissions for opening new branches

		<p>9. Water management and conservation; 10. Labour and working condition management; 11. Water use efficiency; 12. Community health and safety management; 13. Waste water and effluent treatment management; 14. Indigenous people and cultural heritage; 15. Heat and temperature management; 16. Women and children right protection; 17. Air ventilation and circulation efficiency; 18. Environment/climate friendly industry/ Building/Brick Kiln; 19. Environment/climate friendly transportation/ vehicle; 20. Nature conservation; 21. Environment-friendly Agriculture; 22. Any others deemed eligible by BB</p> <p>• After primary selection, banks are to apply through Dept. of Off-site Supervision (DOS) and FIs are to apply through Dept. of Financial institutions and Markets (DIFM).</p> <p>• Then DOS and DIFM are to ask SFD for a No Objection Certificate (NOC) to begin assessing environmental and social prospect.</p>	<p>• No standardized environmental and social impact measurement framework has been provided in the provisions.</p> <p>- KII Ecosystem Builders (SFD, BB)</p>	
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<p>Circular on Direct Budgetary CSR Expenditure</p>	<p>Green Banking and CSR Department, Bangladesh Bank December 22, 2014</p>	<ul style="list-style-type: none"> • Banks and FIs are mandated to spend on CSR from their net profits and there is no limit on expenditure* • Banks and FIs are to allocate 30% of their CSR outlay on the education sector, 20% on healthcare sector; • The rest is to be allocated in <ul style="list-style-type: none"> - emergency disaster relief; - promoting environmentally sustainable output practices and lifestyles; - promoting artistic, cultural, literary; - building sports and recreational facilities for the underprivileged; - upgrading facilities and lifesavings equipment in emergency rescue services (i.e. fire brigades) - improving infrastructure for disadvantaged communities in remote areas <p>* Upcoming modification: Banks and FIs will spend 2.5% of their net profits on CSR activities.</p>	<ul style="list-style-type: none"> • A provision that incentivizes these groups to allocate a portion of their CSR budget into either long-term impact investment vehicles or matching/co-investments with impact investors, or direct investments into certified impact enterprises, which could be tax-deductible. - KII Investor (BD Angels) 	<ul style="list-style-type: none"> • Impact businesses operating in these mentioned areas can be considered for CSR funding by banks and FIs
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Table 1: Comparative Analysis of Existing Policies

2.3 Barriers to Impact Investment and Ways to Mitigate Them

Secondary analysis and findings from interviews with stakeholders have identified barriers and gaps in the policy landscape. These are:

a.

Absence of impact due diligence and reporting framework:

As with many other countries, the Government does not take any formal responsibility for overseeing impact investing. Also as elsewhere, there is a lack of standardisation when it comes to frameworks and practice for impact reporting. In this context, the NAB can play a crucial role to fill a gap in the ecosystem. The NAB can support impact investors and enterprises to develop and adopt more common standards and frameworks for impact measurement, reporting and due diligence, fostering collaboration and sharing good practice throughout the impact ecosystem.

b.

Incomplete incentives for commercial investors to explore impact investing:

Although banks and NBFIs are being encouraged to invest in impact funds through the green financing provisions which entitle them to preferential treatments (i.e. high credit score, mention in Bangladesh Bank website), and some tax incentives have been introduced, the incentives for impact investors are not yet comprehensive and could be further developed.¹⁸

c.

Absence of procurement guidelines

To promote impact businesses, government could consider encouraging both the private and public sectors to procure from impact enterprises by implementing similar laws that are used for mandating CSR and green financing for banks and FIs.¹⁹

d.

Scope for innovative financial practices such as blended finance are missing in the policy framework

Policy reforms to minimise regulatory bureaucracy implementing more innovative methods can be explored by regulatory agencies.²⁰ Presently, there are no formal regulation regarding financial derivative. Equity and equity-linked investments are being regulated by BSEC and debt investments are being regulated by Bangladesh Bank. Regulation of innovative investment instruments such as - quasi equity, revenue sharing agreement (RSA) are not covered by any existing agency or policy.

3 Demand Side Dynamics – Impact Enterprises' Perspective

3.1 The Context – Stakeholder Perspectives

There is no active impact fund that fulfils all the requirements mentioned in the BSEC Alternative Rules 2015 as of July 2020. As a result, none of the enterprises interviewed have received impact investment that is in alignment with the definition proposed in this report or the definition issued by BSEC.

For maintaining uniformity and facilitating better understanding for readers, the term “impact enterprise/entrepreneur” has been used to refer to these group who are not really impact enterprise/entrepreneur by the definition proposed but integrated some impact components in their business models. All of them are creating and measuring positive social impacts (i.e. job creation for rural SMEs, creation of direct and indirect livelihood for marginalised communities, integrating women farmers into the agriculture supply chain) and are conscious about green environment along with generating financial return.

Nevertheless, some of the businesses had accessed some form of investment and were in a position to provide a wider perspective of the emerging market. Around 67 per cent of those interviewed have received finances from DFIs (IFC and UNCDF) at some stage. 50 per cent of them have accessed finance from institutional investors (like BD Ventures) and angel investors. In response to the survey, they identified the following:

- a. **Solving social and environmental challenges as a motivating factor:**

Many enterprises want to connect deeply with their target community and solve social and environmental challenges through their business model, with a theory of change at the heart of their propositions.²¹
- b. **DFIs' shifting role may hasten the rise of impact enterprises:**

Enterprises are expecting that the traditional donor-grant model, which many individuals and organisations have relied upon to help them deliver their social or environmental ambitions, will be increasingly replaced by revenue generating models in the coming years due to Bangladesh's LDC graduation, and therefore a rise in the role for impact enterprises, trading for impact.²²
- c. **COVID-19 as an opportunity for innovation:**

Respondents identified the pandemic as not only a crisis but also potentially an opportunity to launch new products and services that would help both themselves and their target markets to weather the storm and thrive beyond the crisis.

Case Study: iFarmer (Bangladesh)

Agri-tech start-up with an impact focus



iFarmer is Bangladesh's first Deep Tech agriculture platform focused on connecting farm sponsors and funders with farmers in order to increase food production and productivity. iFarmer won the Fintech Award in 2019 from UNCDF, was declared "Start-up with the most Social Impact" by the Swiss Embassy in Bangladesh and has been funded by Startup Bangladesh (ICT Ministry of Bangladesh). In February 2020, the start-up raised USD 500 thousand from Accelerating Asia. The start-up previously received USD 73 thousand in investment from the Accelerating Asia VC fund.

- a. **The Business Model:** Farm sponsors select the kind of farms they want to sponsor via the iFarmer website, and then release funds to iFarmer. Upon receiving sponsor funds, iFarmer hires and trains farmers, helps source the animals, provides support with feed and veterinary services, and helps sell the animals. Currently iFarmer only focuses on livestock but will include other agri-businesses in its portfolio in the future. After the sponsorship cycle (between 6–12 months), sponsors can choose to cash out or reinvest in the platform. At the end of the cycle the farmer receives a percentage of the profit, the sponsor receives a share and iFarmer takes a management fee.
- b. **The Impact Created:** In the first year of operation, iFarmer developed a network of nearly 1000 farmers and facilitated almost USD 90 thousand in farm sponsorship.
- c. **The Future Plan:** Going forward, the start-up wants to create credit profiles for farmers, farm owners and traders so that they can present their credit history when applying for a loan at a bank or NBF.

3.2 Barriers Faced by Impact Enterprises, and Potential Solutions

Lack of access to finance remains a key challenge for many enterprises in Bangladesh and impact enterprises identify the following specific challenges:

a. **Knowledge gaps at both enterprise and investor level:**

Investors and investees do not always share the same understanding of impact investment. There is some confusion between terms such as impact enterprise and social business and what this may mean for commercial or below market rate levels of return, for instance.²³ Ecosystem enablers - accelerators, incubators, institutions teaching entrepreneurship can support education and awareness raising and seek to be more consistent themselves in the adoption of various terms.

b. **Absence of formal frameworks for measuring and reporting impact:**

Enterprises often feel they do not have standard guidelines or recognised frameworks for reporting their impact.²⁴ Establishing more standardised frameworks and practices for impact reporting can help bring greater consistency to this confusing territory.

c

Impact enterprises' inability to scale and sustain:

Lack of core business expertise in areas such as finance, marketing, strategy and operations makes it challenging for impact enterprises to grow and sustain their businesses. Some solutions created by these enterprises are not adaptable for different consumer groups, while they often cannot sustain their business from just focusing on one consumer segment, leaving them in a sort of no-mans-land. Capacity building training can play a crucial role in facilitating growth and sustainability of impact enterprises.²⁵

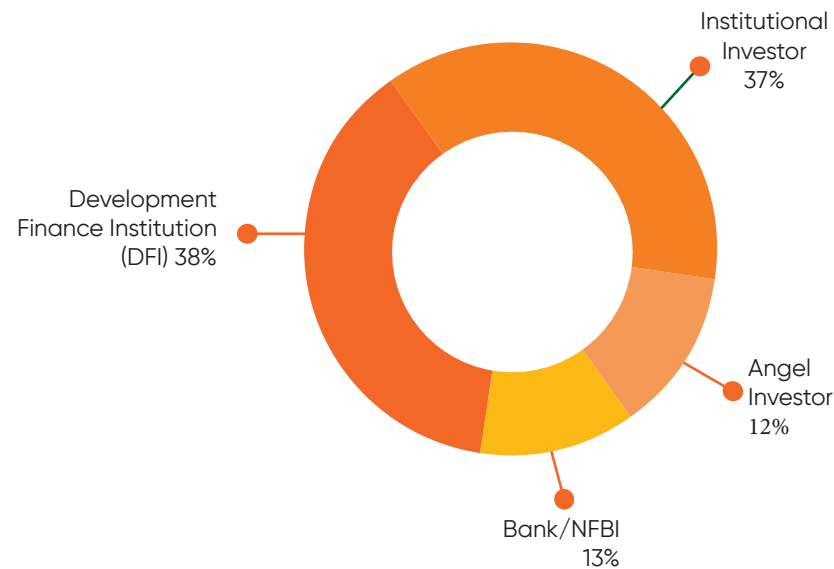
4 Supply Side Dynamics – Impact Investors' Perspective

4.1 The Context – Stakeholder Perspective

In recent years, both DFIs (such as IFC, Bill and Melinda Gates Foundation, UNCDF, BFP-B) and institutional investors (Impress Capital) have been exploring impact investing in Bangladesh.

Apart from one (IDLC), all investors we surveyed had invested in at least one impact enterprise²⁶ in the last three years. They identified the following drivers and trends -

Chart 3: Type of Investors



a. Donors shifting towards investment approaches and blended financing:

Multilateral development organisations are gradually shifting away from a donation model towards investment. For instance, Oxfam, BRAC, Syngenta Foundation for Sustainable Agriculture (SFSA), and Asian Development Bank (ADB) among others, have already started working towards impact investing alongside donating.^{27,28} They are increasingly focusing on utilising donor funds to catalyse blended finance, alongside other investors.²⁹

b. Commercial investors opening distinct impact funds:

Alongside their conventional funds, institutional investors are setting up and managing impact funds motivated by two factors – to add a “do good” dimension to their value proposition and to keep up with global investment trends rapidly leaning towards sustainability.³⁰

c. Social and environmental outcomes and impact measurement:

Project outcomes (22%), sustainability of the venture (15%) and financial return (15%) are identified as the most important impact measures for impact investors.³¹

d. Agriculture and consumer food, healthcare, housing and fintech will lead the way:

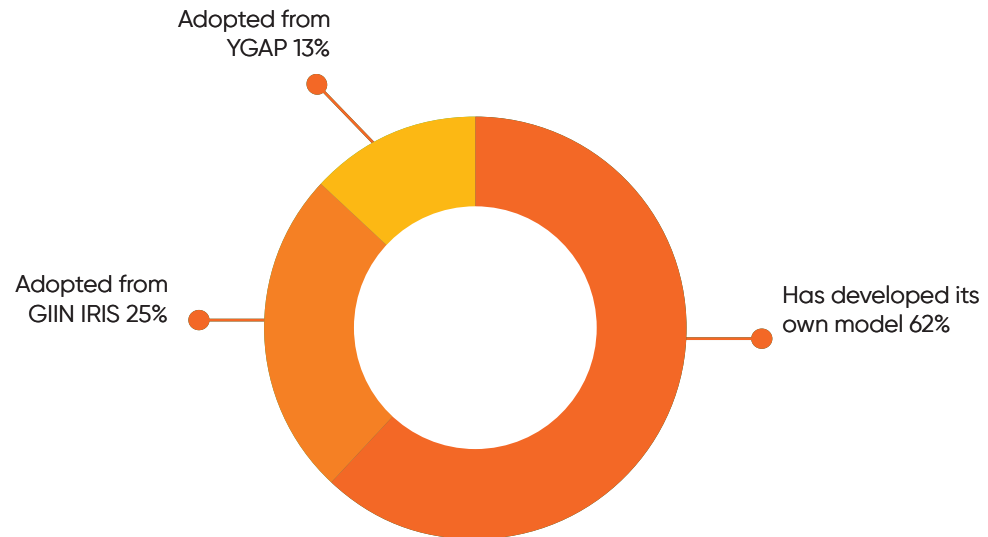
83 per cent of respondents identified these critical sectors as priorities for impact investment for both during and post-COVID Bangladesh.

4.2 Existing Impact Investing Practice

While impact investment funds are still in their infancy in Bangladesh, funders and financiers are making a number of investments in enterprises with the aim of delivering social impact.

Around 38 per cent of respondents reported that the average value of investments they had made into impact enterprises 26 was less than USD 500 thousand in the last three years. 76 per cent had used equity and equity-like instruments. DFIs reported that they had disbursed a small proportion (8%) of their funds to rural SMEs through grant programmes but were aiming to reduce this percentage in the coming years.

Chart 4: Impact Measurement Model Followed by Impact Investors



When it comes to impact measurement approaches, some models are developed locally and others take a more global lead. SFSA and IFC, for instance, follow the impact measurement model set by their global offices. Some investors have adopted BD YGAP's model. Other investors are using the IRIS+ framework for measuring, managing, and optimising impact.

DFIs mostly identified project outcomes (social and environmental), sustainability of interventions and SDG links as the most crucial aspects of how they think about impact measurement. For DFIs, the financial return of an intervention is often considered as a secondary outcome.

Presently, most of the investors are following a sector agnostic approach but in future they are assuming that agriculture and consumer food, healthcare, fintech and housing will become priorities.

Chart 5: Average Value of Investments Made by Impact Investors in Last 3Years (USD)

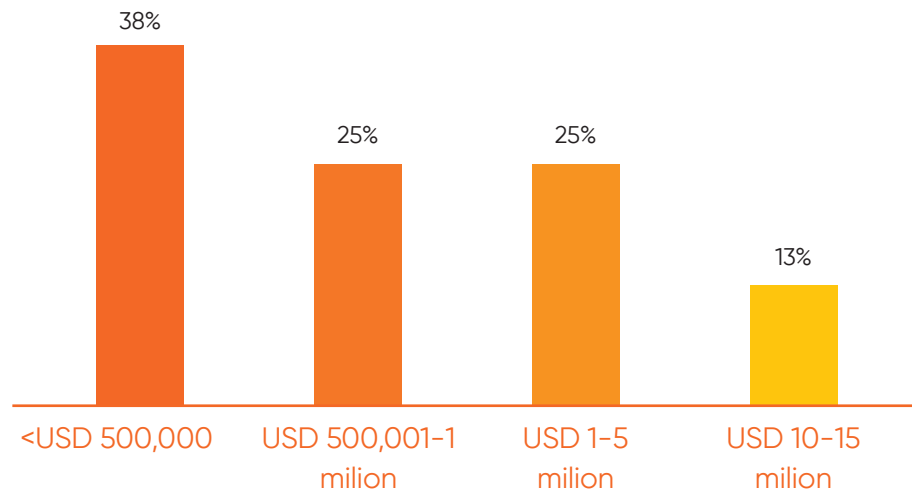
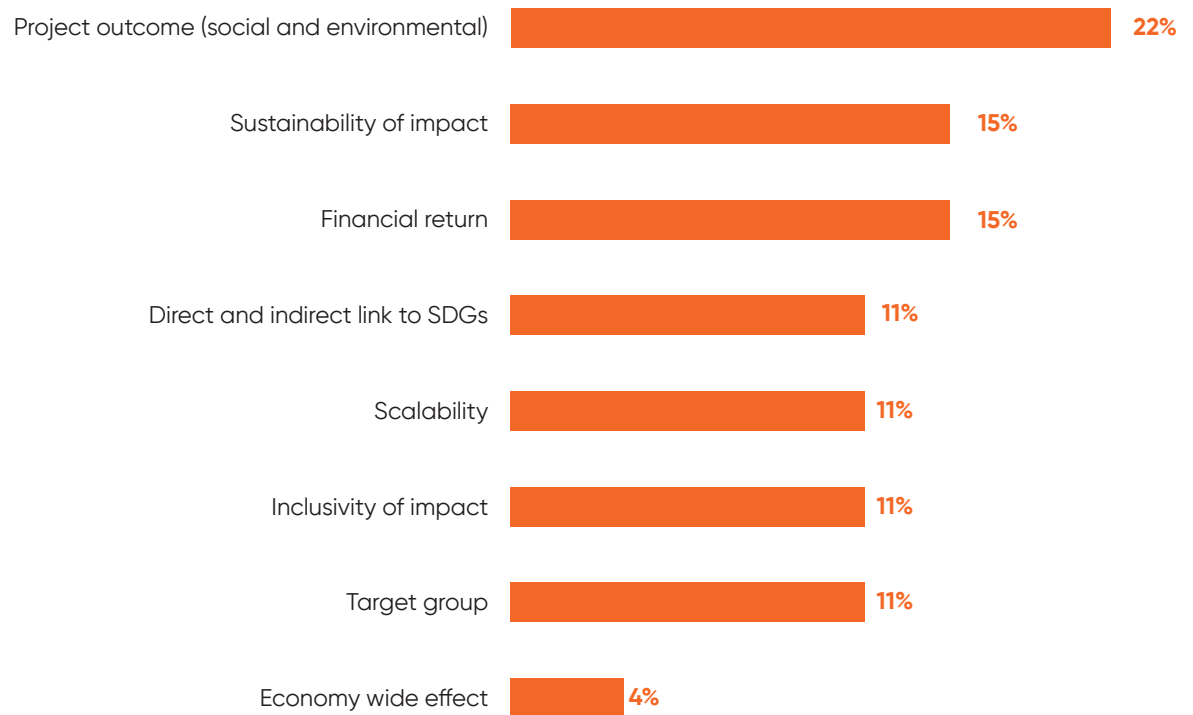
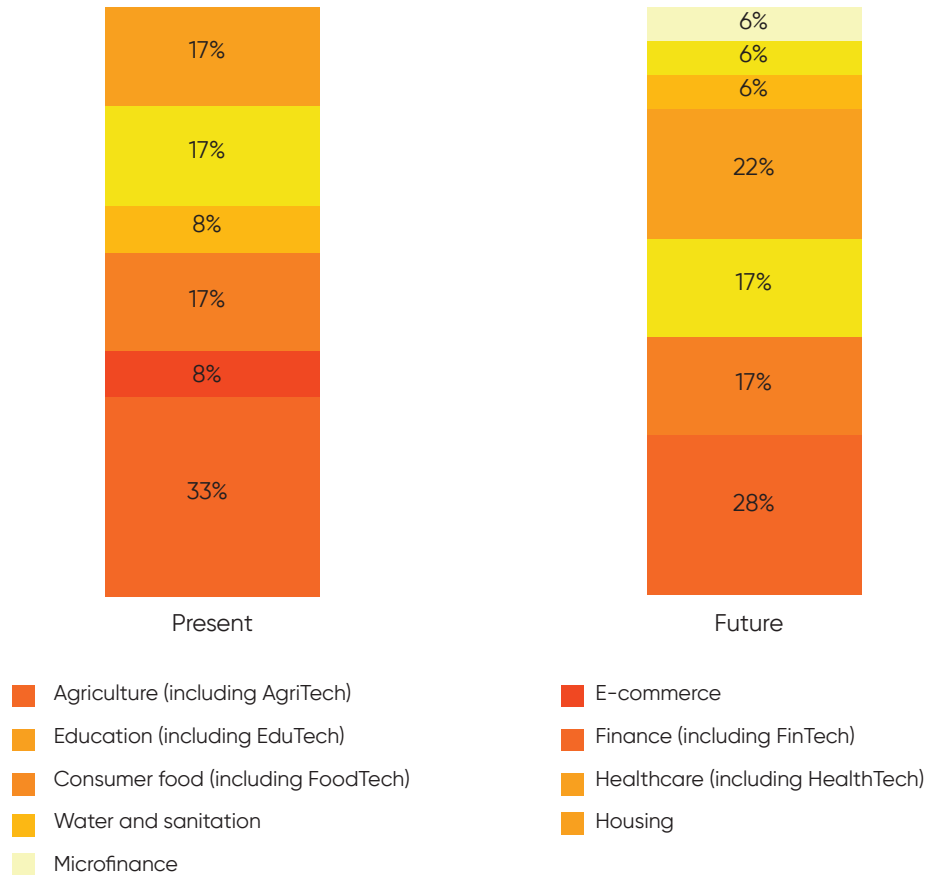


Chart 6: Most Important Impact Parameters



Impact investors also believe that water and sanitation along with housing will gain greater importance in the coming years, partly due to their direct link with the SDGs. 31

Chart 7: Priority Sectors for Impact Investments



4.3 Challenges Faced by Impact Investors and Potential Solutions

Based on both primary and secondary research, some key challenges have been identified and potential solutions, categorised into four broad areas. Impact investors report that the newness of the concept and an inadequate support ecosystem, in particular, lead to the following key challenges –

a. **Policy and guidelines are still at formation stage:**

The existing policy framework still has a number of gaps, while common standards and frameworks have not yet been established, for instance with regard to the impact due diligence process. However, there is scope for greater collaboration between various relevant networks and partnerships to improve standards, create common frameworks and share good practice. The NAB can play an important catalytic role here, alongside others.³²

b. **Significant knowledge gaps are hindering impact measurement and reporting practices**

For instance, even when impact reporting frameworks do exist, investees lack the capacity to provide the necessary data. Capacity building trainings by accelerators, incubators and institutions can be one of the immediate solutions to this challenge. Government entities with an innovation focus like Start-up Bangladesh (ICT Ministry) and a2i (ICT Division) can take an active role in supporting the spread of knowledge and common standards.³³

c. **Enterprises are not impact-ready:**

Impact enterprises are sometimes too focused on raising funds based largely on their theory of change and not by delivering a strong track record.³⁴ Blended finance, and the use of grants alongside investment can support development in the early years and prepare early-stage companies for sustainability and later rounds of funding. Build Bangladesh (through its Social Enterprise, Inclusive Bangladesh Development – IBD) and YGAP Australia (through YGAP Bangladesh) has formed a partnership to run an accelerator programme and lead investment rounds together. Partnerships like this can increase enterprise impact readiness.

d. **Lack of mutual understanding between investors and investees around time-frames:**

Some impact investors want to support strategies that generate critical long-term change, while others seek smaller and incremental but immediate change. This sometimes makes it difficult to match diverse investors with investees.³⁵ Investors new to impact investing may not yet appreciate the complexity of social and environmental impact. Ecosystem builders can play a role in raising understanding level and awareness of the depth, breadth, and the time horizon of impact through one-on-one sessions, publications, workshops and webinars.

Case in Point: Biniyog Briddhi (Bangladesh)

Catalytic Funding

In March 2020, a catalytic fund named Biniyog Briddhi was launched in Bangladesh powered by the Swiss Agency for Development and Cooperation (SDC) and Roots of Impact (ROI). The fund aims to both train, finance and advocate impact investors and enterprises through Impact Ready Matching Fund (IRMF up to USD 100 thousand) and Social Impact Incentives (SIINC up to USD 250 thousand). The programme is built around three pillars –



- a. **Capacity building:** Initially, incubators, accelerators and impact entrepreneurs receive targeted capacity building in order to promote investment readiness (IR) and strengthen impact management (IM). Train-the-trainer programmes for service providers and vouchers for impact entrepreneurs aim to bring these capacities to the next level.
- b. **Catalytic funding:** Impact entrepreneurs and investors can benefit from more suitable and attractive forms of capital by using catalytic finance that attracts additional investment. In addition, entrepreneurs are incentivized to manage their impact, which will create more transparency and engagement from business angels to invest.
- c. **Advocacy:** Lastly, policymakers and advocates receive fresh ideas on how to create a more favourable framework for social and ecological innovation and mobilize more capital for the benefit of impact entrepreneurs.

4.4 Impact Bonds – Social Impact Bonds (SIB) and Development Impact Bonds (DIBs)

SIBs and DIBs are funding mechanisms that encourage private sector capital to flow through agreements made between a number of different parties. The agreements are typically agreed between –

- a. Investors** – who provide upfront capital;
- b. Service providers** – who work to deliver outcomes;
- c. Outcome funders** – who repay investors their principal plus a financial return if an independent evaluator shows that outcomes have been achieved.
- d. Evaluator** – an independent assessor of outcomes

In a SIB structure, typically a country's own government act as an outcome funder. Whereas in a DIB, the funders are typically international development funders or international foundations from an outside country. Local actors may also play a role.

However, while there has been considerable excitement in Bangladesh and around the world regarding the prospects of SIBs and DIBs, they have also faced significant challenges and criticism, in terms of their cost and complexity, potential for replication, perverse incentives and more³⁶.

Case Study: Educate Girls (India)

Development Impact Bond (DIB)



UBS Optimus Foundation (UBSOF), in collaboration with Children's Investment Fund Foundation (CIFF), launched the World's first Development Impact Bond (DIB) in education in 2015 driven by the idea that non-profit development organizations could tap private investors for working and risk capital with the DIB would be repaid by a third-party, with interest, if the organization achieved targeted educational goals.

- a. **The Investment:** The foundation made a USD 270 thousand loan to Educate Girls, an Indian charity tackling inequality in India's education system, to improve enrolment rates and improve education for girls in Bhilwara, Rajasthan, India.
- b. **The Result:** Educate Girls reached 7,300 children, covering 166 schools across 140 villages by July 2018. The programme enrolled 768 girls between six through 15 years old (or 92% of eligible out-of-school girls in the region). This was 116% of its enrolment target. Educate Girls helped students increase learning levels by 79% more than their peers, or 160% of the target.
- c. **The Return:** As impact targets were hit, UBSOF will earn a pre-determined return of USD 144,085 (a 15% IRR) over the three-year investment. That principal and return will be paid by CIFF. Educate Girls will receive about one-third of the return and the rest will be used for programmes at the foundation.

5 Understanding the Ecosystem Builders' Perspective

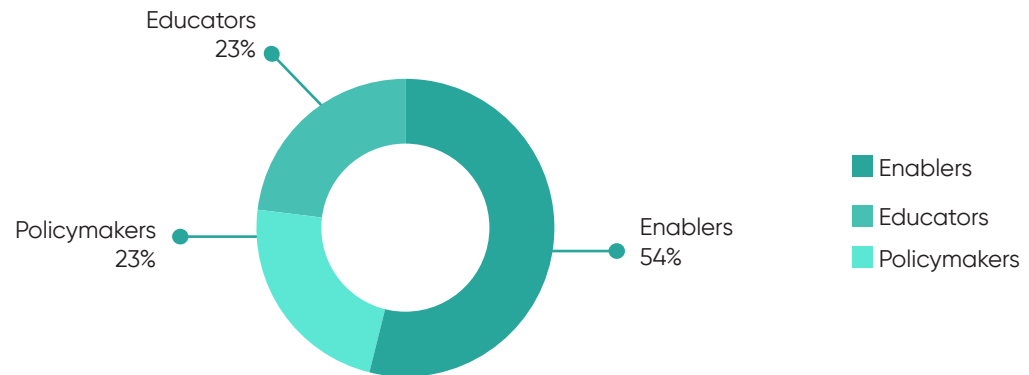
5.1 The Context – Stakeholders' Perspectives

The impact investment field of course includes both investors and investees. But a third group of actors can also be important – ecosystem builders, intermediaries, supporters or enablers.

We have identified three sub-groups within the ecosystem builders group –

- a. **Educators**
accelerators and incubators, institutions focused on social innovation;
- b. **Enablers**
multilateral development organisations and intermediaries;
- c. **Policymakers**
the Security and Exchange Commission, central bank, investment development authority and relevant ministries.

Chart 8:
Representation of
Ecosystem Builders in
the Research



All respondents outlined that, in the upcoming years, their collective focus will be on creating opportunities for businesses that drive social and environmental change. Respondents reported the following as key drivers and trends -

a. **Economy-wide positive outcomes:**

Impact investments can increase financial and environmental literacy and improve quality of life in areas like sanitation, affordable housing, energy, infrastructure and waste management.³⁷

b. **Investment potential of Banks and NBFIs:**

Banks and NBFIs will be interested in partnering with match funds as a result of the new green financing rules by Bangladesh Bank.³⁸

c. **Post Covid-19 opportunities:**

New opportunities will arise in the healthcare and agriculture sectors due to the COVID-19 pandemic.³⁹

d. **Policymakers' focus on promoting impact investment:**

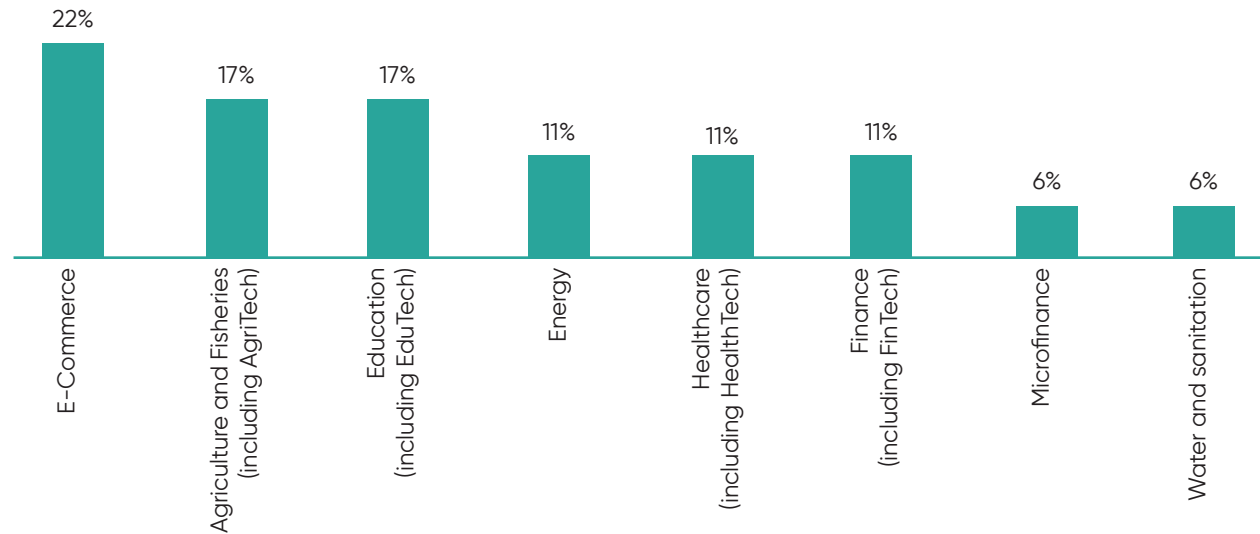
Regulatory bodies may increasingly focus on promoting impact investments alongside private equity and venture capital.^{40, 41}

5.2 Recent Developments in the Impact Economy Ecosystem

a. Educators in Making Enterprises Impact Ready:

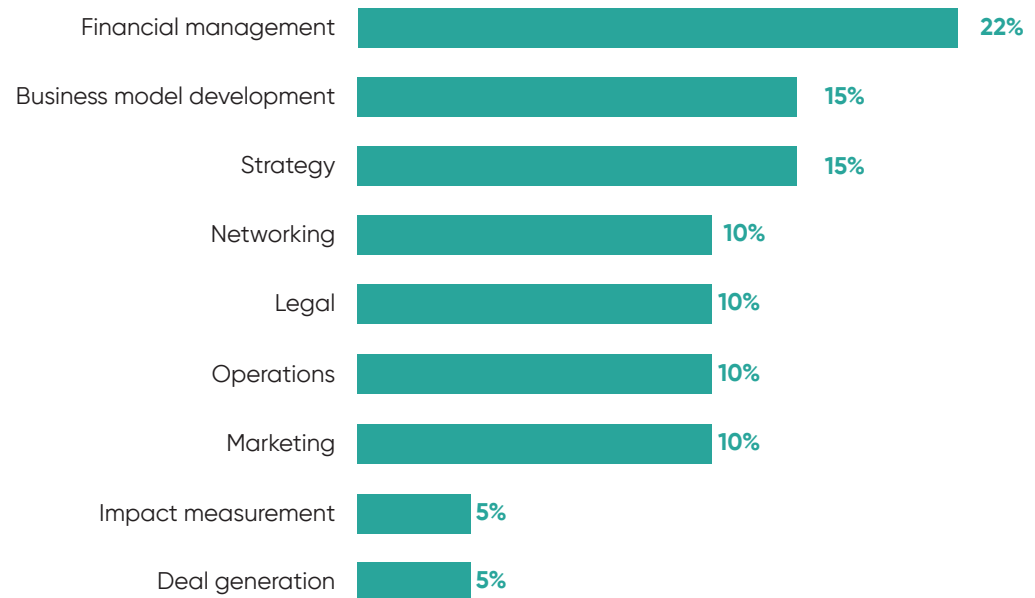
The most prominent accelerator programmes in Bangladesh frequently working with impact enterprises²⁶ were interviewed. Almost all of the accelerators are sector-agnostic but can be divided into broad groups based on some thematic areas. For instance, Toru is well-known for accommodating the training needs of social businesses. Seedstars is renowned for catering to the needs of both impact enterprises and social businesses while BetterStories is more start-up focused.

Chart 9: Sectoral Representation in Accelerator/Incubator's Portfolio



Most of the accelerators cover areas such as finance, business model development, strategy, and networking with investors among others. Only YGAP and Toru reported teaching impact measurement to the cohort members.

Chart 10: Major Areas Covered by Accelerators/Incubators



When asked about the support requested by the enterprises, the educators identified networking and pitching opportunities (31%) and mentoring sessions, workshops and seminars (25%) at the top of the list.

One of the respondents said that impact enterprises which successfully graduate and scale-up manage to do so by closely monitoring the evolution of the problems they are setting out to solve and adjusting their market offerings accordingly. The founder of one global accelerator program reported that for impact enterprises, scalability should be their highest priority in order to generate financial returns to keep investors motivated whilst simultaneously creating job opportunities to advance the economy.

Case Study:

YGAP

Impact Enterprise Accelerator
Program

The logo for YGAP, featuring the lowercase letters 'ygap' in a bold, green, sans-serif font.

YGAP has been actively shaping up the impact investing ecosystem since 2016 through its accelerator programs and has a portfolio of 86 impact enterprises locally. These enterprises represent 11 industries with 8+ different target group/beneficiaries and address 12 SDGs and together have impacted 412,648 lives.

YGAP and Build Bangladesh jointly have invested BDT 80 Mn+ in resources and developed 3 important localized frameworks – (1) Impact entrepreneurs' data set, (2) Fund Due Diligence, and (3) Monitoring, Evaluation and Learning – to pave the way for successful impact investments in the local ecosystem.

In May 2020, total Growth Fund disbursement is BDT 9.2 Mn to 4 impact entrepreneurs, and another 7 enterprises are on the final stage of Fund Due Diligence Framework out of which 3-4 will receive another BDT 7.2 Mn in total within August 2020, during the COVID 19 pandemic.

Through YGAP's Funding Model (Selection+Accelerate+3 Frameworks) an entrepreneur receives a fund between BDT 1.5 to 2.5 Mn – along with a simple term sheet, clear KPIs and reporting guideline. Based on performance further fund requirements are met. The organization do not plan to demand position in the boards and control stakes. Additionally, the founders can buy back the shares following a predefined range by hitting certain revenue and impact targets.

In partnership with Inclusive Bangladesh Development (IBD) and Manusher Jonno Foundation (MJF), YGAP runs an advocacy project to develop the pre-demand side of the impact investment ecosystem. Through a TV reality show the project promotes knowledge and opportunities available in the current ecosystem that will support grassroots entrepreneurs to address local issues and design local solutions. The project ran in 5 districts, directly reaching 7,876 people (46% female) through 24 educational institutions and 2,493,520 people indirectly (via TV Episodes, Social Media Campaigns and On-Field queries).

b. Enablers' Role in Strengthening the Impact Value Chain:

The majority of the ecosystem enablers reported that access to finance is the key barrier for early-stage enterprises in Bangladesh, irrespective of their vision. Others suggested that some local commercial investors are interested in businesses which create social impact but they do not identify themselves as impact investors nor make impact an explicit criterion in their investment strategy. They typically use traditional financing instruments for their investments and their impact stories are unreported. Impact investment is therefore somewhat ad-hoc and unmapped in Bangladesh. Concepts such as blended finance, matching funds and catalytic funds are getting increasingly popular but in reality, only a few possess clear understanding of the instruments.⁴²

Some stakeholders reported that, as the impact investing market matures in Bangladesh, concerns around "impact washing" will also rise. This refers to when a company or fund makes impact-focused claims in bad faith without having any demonstrable positive social or environmental impact.⁴³

In order to educate enterprises, investors and accelerator programmes, SDC in partnership with ROI has launched a series of investment readiness training as a part of the Biniyog Briddhi initiative. Other initiatives by multilateral development organisations are discussed at the end of this report.⁴⁴

CaseStudy: Build Bangladesh – Impact Funds

Impact Fund



In September 2017, the Hon'ble Prime Minister of Bangladesh launched the "Build Bangladesh – UNDP SDGs Impact Fund", the first impact fund of its kind with an aim of raising over USD 100 million from private investors willing to back profitable ventures that create positive social and environmental impact in Bangladesh.

The BUILD Bangladesh Social Entrepreneur Fund of an AUM of USD 10 million was formed later in 2019 to serve smaller enterprises with lower denomination of investments. This Fund was approved by the BSEC and launched in partnership between Impress Capital Limited and JC Management Limited. With organizational support from BSEC, BIDA, ERD, Bangladesh Bank, UNDP, UNESCAP, British Council, IFC, ADB among others, Build Bangladesh has been playing an instrumental role in taking the ecosystem forward over the last 4 years. Build Bangladesh is also working as the Secretariat for the NAB Bangladesh.

Case Study: Impress Capital Limited

Impact Fund Manager



Impress Capital Limited (ICL), the asset management stream under the Build Bangladesh umbrella of the Impress Group was founded in February 2015 and licensed under the Bangladesh Securities and Exchange Commission (BSEC). ICL is managing three open-ended mutual funds and its asset under management is about USD 10 million. ICL has raised BDT 1.45 billion (USD 18 million) for institutions from readymade garments and construction materials sectors, by issuing commercial papers and zero-coupon bonds. In 2019, ICL became fund manager of the first Impact Fund approved by the BSEC – Build Bangladesh Social Entrepreneurs Fund (BBSEF) worth USD 10 million. This Fund was launched in partnership with global investor as anchor investor and UNDP Social Innovative Finance (UNSIF) as the Impact Advisor.

Key Features: The BBSEF is uniquely designed for entrepreneurs/organizations that can contribute to the development of Bangladesh. The fund will invest in small and medium cap enterprises with high growth potential with the ability to provide risk adjusted financial returns along with social and environmental positive impacts. The fund will be investing in various sectors complementing the 7th Five Year Plan while addressing the SDGs.

Investment Objectives: The objective of the fund is to generate return by investing in enterprises/organization, whose businesses have measurable positive social and positive environmental impact. The hurdle rate for the Fund is set at up to 10%.

c. The role of Policymakers:

Policymakers and regulators with a direct role to play in the impact economy ecosystem include the Bangladesh Bank (BB, central bank), Bangladesh Securities and Exchange Commission (BSEC), Economic Relations Division (ERD), Ministry of Finance, Public Private Partnership and Bangladesh Investment Development Authority (BIDA). The National Advisory Board (NAB) for impact investing started work in August 2018, with a vision to coordinate among all these parties.

While the BSEC released the Alternative Investment Rules and allowed Impact Funds to be registered in the country in 2015 and the Bangladesh Bank has launched a number of circulars to encourage Banks and Financial Institutions (FIs) to invest in impact funds, no provision has been introduced that encourages commercial institutional investors or high net worth individuals (HNWI) to contribute to impact funds. Relevant policies are discussed in detail in chapter 2.

5.3 Challenges Identified by Ecosystem Builders and Ways to Mitigate Them

Ecosystem builders have identified four key challenges, categorised below –

a.

Grassroots level impact enterprises are being excluded:

As most of the accelerator and incubator programmes are located in major cities, impact entrepreneurs in rural Bangladesh are being left out (with a few exceptions⁴⁵). At present, only a few organisations (YGAP Bangladesh, UNCDF) have countrywide coverage. Countrywide accelerator programmes should be introduced.

b. **Lack of collaboration amongst ecosystem builders:**

Many of the ecosystem players compete rather than collaborate while international actors can crowd out local players, particularly amongst educators. In order to establish a common understanding among ecosystem players, a data room for impact investment could be developed and maintained. Simultaneously, a co-ordinating body like NAB could help in mitigating communication gaps.

c. **Underdeveloped impact due diligence and measurement frameworks:**

Impact measurement still remains unknown or unclear territory for many ecosystem players and there is no standardised assessment tool for measuring social and environmental impact.⁴⁶ This is partially linked to the lack of a policy framework to guide impact investing. BSEC or others, including the NAB might provide guidelines for conducting due diligence processes with impact enterprises.⁴⁷

d. **Absence of incentives for impact enterprises and investors:**

At present, impact enterprises do not benefit from any advantages in terms of explicit fiscal benefits (tax rebates) or monetary support (loans at discounted rates).^{48, 49} Incentivising impact entrepreneurs and investors through policy-level interventions is one way to encourage more enterprises and investors to engage in impact investment.

6 Recommendations and Way Forward

Analysis of existing policies and findings from primary research together paint a picture of an emerging Bangladeshi impact investing ecosystem propelled by government’s proactive role, NAB’s formation and development sector’s active participation. The research also identified knowledge gap at investor and enterprise level, lack of collaboration among ecosystem players and absence of formal framework for impact investing as the top hindrance in achieving a vibrant impact economy.

In order to achieve the end goal – Impact economy, NAB as the lead implementer can facilitate partnerships and informed awareness among all players in the Bangladesh impact investing arena while also strengthen global connectivity with GSG and GIIN and leverage public-private partnership with policy support from BSEC, Bangladesh Bank, BIDA, ERD and other relevant agencies.

Strategic Recommendation	Estimated Outcome of Intervention	Possible Lead and Connected Agencies for Implementation	Timeframe
R1: Capacity building trainings on impact investing	<ul style="list-style-type: none"> - Impact investors, enterprises and accelerator/incubators programs will share the same level of understanding of impact components; - Increased investor awareness on policy framework and incentives provided on investment; - Overall increased understanding of impact economy and ways to achieve that. 	<ul style="list-style-type: none"> - Public Sector Agencies: BSEC, BB, ICT Ministry - a2i - Private Sector Agencies: BUILD Bangladesh, YGAP, Toru, LightCastle Partners - Development Partners: British Council, SDC, UNCDF, IFC 	Short-term

<p>R2: Promoting collaboration among ecosystem builders</p>	<ul style="list-style-type: none"> -Increased informed awareness on impact; -Recognizing each other's area of expertise and operation will help in targeted goalsetting and achieving them. 	<ul style="list-style-type: none"> - Public Sector Agencies: Startup Bangladesh (ICT Division) - Private Sector Agencies: BUILD Bangladesh, BetterStories, Toru, YGAP, LightCastle Partners and other accelerator/incubator programs. - Development Partners: British Council, SDC, UNCDF, IFC 	<p>Medium-term</p>
<p>R3a: Formalizing impact due diligence process</p>	<ul style="list-style-type: none"> - Concrete guideline with mentions of specific agencies for validating a targeted impact outcome 	<ul style="list-style-type: none"> - Public Sector Agencies: BSEC, BB, Ministry of Environment, Ministry of Commerce - Development Partners: IFC, UNCDF, UNDP 	<p>Short-term</p>
<p>R3b: Formalizing impact measurement framework</p>	<ul style="list-style-type: none"> - Standardized measurement criteria will minimize confusion in investors and investee. 	<ul style="list-style-type: none"> - Public Sector Agencies: BSEC, BB, Ministry of Environment, Ministry of Commerce - Development Partners: IFC, UNCDF, UNDP 	<p>Medium-term</p>
<p>R4: Introducing a mechanism for acknowledging investors investing in impact funds and enterprises</p>	<ul style="list-style-type: none"> - If investors can be a part of a consortium like certified b-corp. which unlocks new avenues for growth, they will feel more encouraged; - In India, multiple impact funds of funds have been implemented in the past two years. The first one Indian Impact Fund of Funds 	<ul style="list-style-type: none"> - Public Sector Agencies: Ministry of Commerce, BSEC, BB, NBR, ERD, Ministry of Finance, BIDA 	<p>Medium-term</p>

	<ul style="list-style-type: none"> - was launched jointly by GSG and UNSIF. Bangladesh can follow a similar strategy in attracting investors initially. - Preferential facilities like loans at a discounted rate might promote more impact investments in the economy. 		
R5: Facilitate the growth of catalytic funding and blended financing	<ul style="list-style-type: none"> - Improved access to capital for impact enterprises; - Encourage commercial investors to invest in enterprises that solves social and environmental challenges alongside creating financial return. 	<ul style="list-style-type: none"> - Public Sector Agencies: BB, BSEC, Ministry of Finance - Private Sector Agencies: BUILD Bangladesh, LightCastle Partners - Development Partners: SDC, ROI, UNCDF 	Medium-term
R6: Procurement rule that mandates organizations to source from impact enterprises	<ul style="list-style-type: none"> - A portion of each corporations' total procurement to be sourced from impact businesses will ensure fair chances for entrepreneurs; - Motivate entrepreneurs to integrate social and environmental impact components to their business models which might accelerate the growth of impact economy. 	<ul style="list-style-type: none"> - Public Sector Agencies Ministry of Commerce, ERD, Ministry of Finance - Development Partners: Supply Chain Financing Dept., IFC 	Long-term

Table 2: Strategic Recommendation with Agencies Identified

During the BIISAP consultation process NAB as the lead implementer is recommended to explore the most optimized implementation process.

According to the global startup report, globally investment deals have gone through a 55 per cent decrease in the first quarter of 2020.⁵⁰ In Bangladesh, where the funding as percentage of GDP ratio is as low as 0.04 per cent, the fund flow is anticipated to dry up for startups, social business and impact enterprises. Investors are not even considering to actively looking into deals till the end of this year.⁵¹ Access to debt capitals from scheduled banks and NBFIs has also become scarce as private sector credit growth came down to 8 per cent this March and is anticipated to fall further.⁵² Amidst this dismal display, impact investing can play a pivotal role in reviving the impact-generating enterprises by supplying patient capital.

Building a strong resilient and inclusive economy has become a priority for both public and private sectors – more so after the pandemic. With proper policies and well-matched partnerships, stakeholders perceive impact investing can play a positive and significant role in achieving both development and economic goals of the country.

Authors

This report was co-authored by Silvia Rozario, Risalat Huda and Bijon Islam (Consultants, LightCastle Partners).

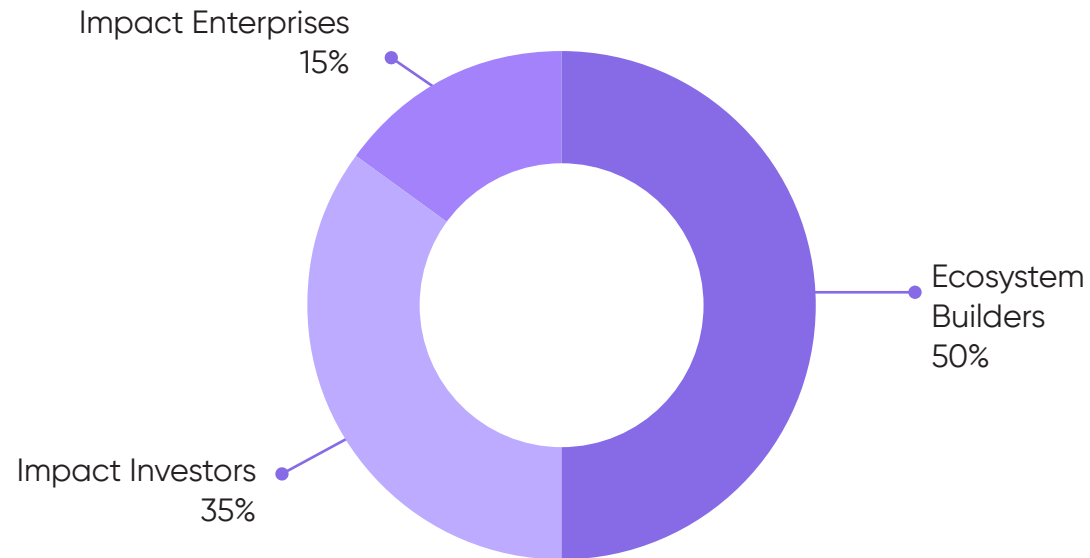
Appendix

Appendix A: Research Methodology

In order to set the scope of the study, a thorough reviewing of published material on impact investing by global and local organisations, consultancy firms, multilateral development organisations and academic journals was conducted. Based on this secondary research alongside the preliminary interview with the Global Steering Group (GSG) for Impact Investment, three broad stakeholder groups were identified –

- a. Impact Enterprises
- b. Impact Investors
- c. Ecosystem Builders

Chart 11:
Stakeholder
Presence in the
Sample



These terms are explored and defined below.

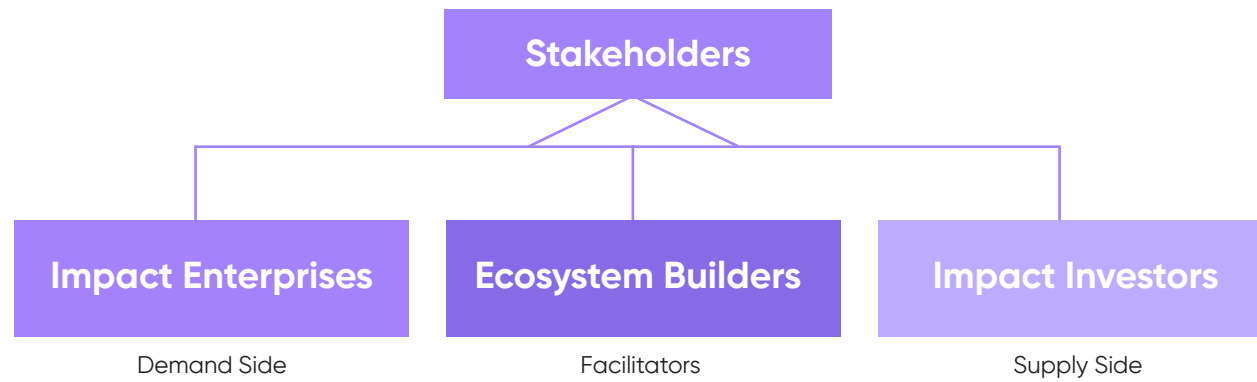


Figure 2: Stakeholder Mapping

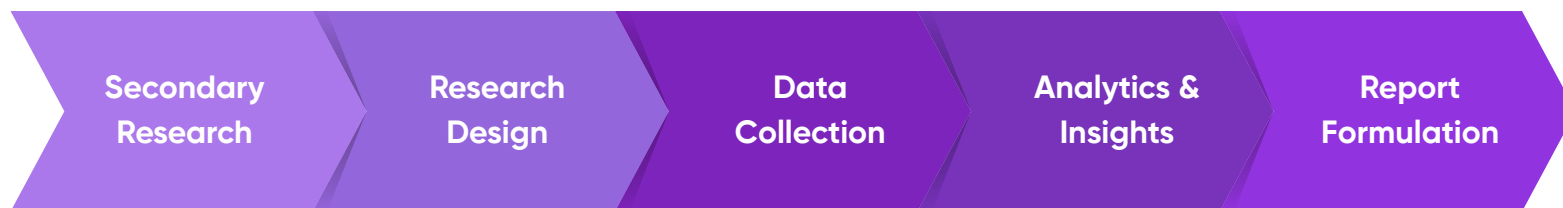


Figure 3: Steps in Research

Data capture instruments (see Annex h) catering to different stakeholder groups and conducted key informant interviews (KIIs) were designed at this phase.

All of the interviews were guided interviews. The data collection phase enabled us to assess the respondents' current level of understanding, determine the opportunities and challenges within the ecosystem, and also potentially help develop interviewees' overall understanding of impact investment.

Appendix B: Relevant Concepts in Impact Investing

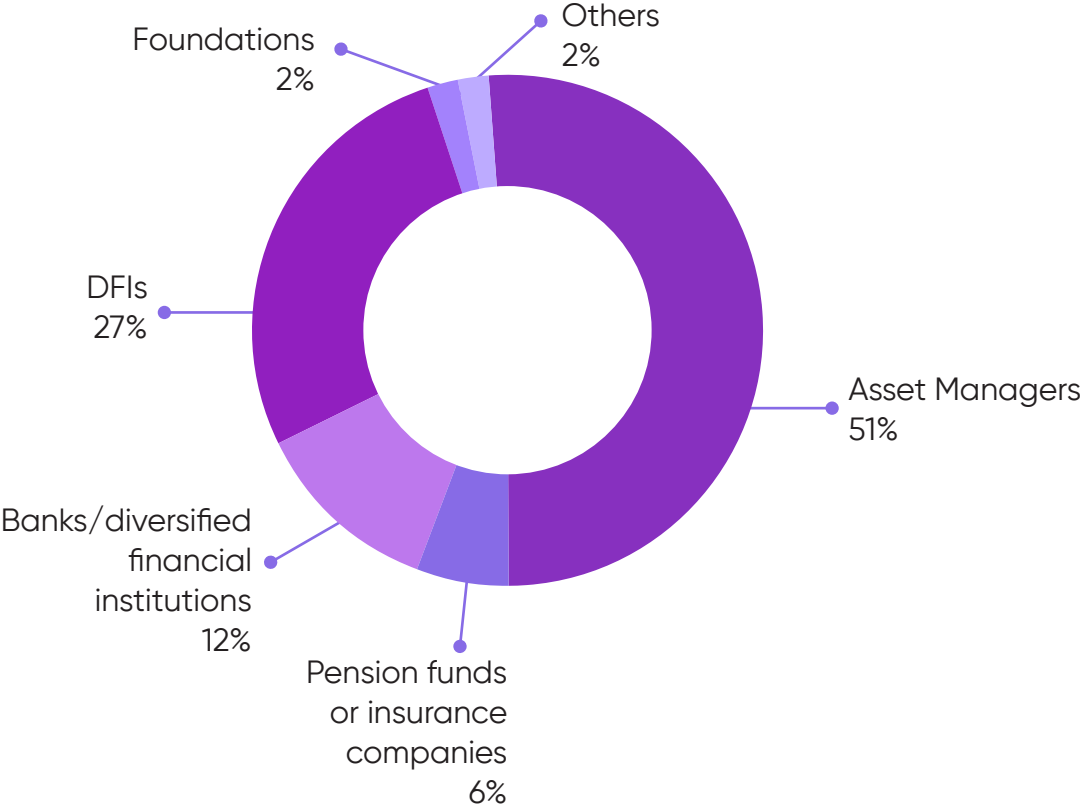
Impact Investing

The Global Steering Group (GSG) for Impact Investment describe how "Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement."⁵³

Investment approaches have been evolving over time, conventionally understood to focus only on financial return, then in the 20th century moving to a more nuanced balance of risk and return, and now in the 21st century, towards a 'three dimensional' consideration of risk, return and impact.⁵⁴

A survey of asset managers conducted by the Global Impact Investing Network (GIIN) found that 86 percent of respondents said they ventured into impact investing because of client demand.⁵⁵ At the end of 2018, the overall impact investing industry assets under management (AUM) was estimated to stand at USD 502 billion.⁵⁶

Chart 12:
Global Impact
Investing AUM
by Organization
Type (%)



Source: Annual Impact Investor Survey 2019, Global Impact Investing Network (GIIN)

The Impact Economy

The GSG suggest that a “vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet. In the impact economy, businesses use their capabilities to optimise both their positive impact on the world and their financial return. Investors use their resources to optimise business impact, adding and creating value beyond what would otherwise be achieved.”⁵⁷

This idea of an impact economy is relatively new and overlaps with other, older terms such as the social economy. Businesses in this economy may include so-called impact enterprises, inclusive businesses, social enterprises or social businesses, co-operatives, NGOs, green businesses, B-corporations⁵⁸, community enterprises and others. Impact investment is only one part of this impact economy, which cannot function without enterprises on the ground making a difference to communities and the planet - investment requires investees. Equally, access to investment is only one factor that influences the success of any business, social, inclusive or otherwise.

Impact Measurement

Central to this idea – and definition – of impact investing and the impact economy is the discipline of impact measurement (and management). While social enterprises, co-operatives, social business or other terms may be defined by their ownership model or what they do with profits, impact enterprises, impact investment and the impact economy have been defined as having the crucial characteristic of measurable impact. This is evolving and contested territory and this research further explores the development of impact measurement in Bangladesh.

Appendix C: Impact Investing Definition Analysis

Organization	Type of Organization	Definition
Global Impact Investing Network (GIIN)	Global Impact Investing Organization	Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return .
International Finance Corporation (IFC)	Financial Institutions	Impact investing means to mobilize capital into investments that target measurable positive social, economic, or environmental impact alongside financial returns .
Bangladesh Securities and Exchange Commission (BSEC)	Regulatory Body	Impact Fund is an alternative investment fund, which invests in equity and equity linked instruments of such companies, organisations, and funds, which are engaged in activities with the intention to generate a measurable and beneficial social or environmental impact in addition to financial returns , as justified with international recognised criteria.
Global Steering Group for Impact Investment (GSG)	Global Impact Investing Organization	Impact investment optimizes risk, return and impact to benefit people and the planet by setting specific social and environmental objectives alongside financial ones, and measuring their achievement.
Bain & Company	Consulting Firm	Impact investing dedicates capital to companies that generate social or environmental bene-fits .

Impact Investment Exchange (IIX)	Global Impact Investing Value Chain Player	Impact investing refers to investments that are done with the intention of creating social and environmental good . It means that at the core of it, you need to have that social change and environmental change in a positive way, to happen with that investment.
Bridges Ventures	Fund Manager	Impact investment's aim is to generate strong financial returns for investors alongside measurable social and/or environmental impact .
B-Corps	Global Movement	Benefit Corporations are exactly the same as traditional corporate structure except that they legally create a material positive impact of a business on society and the environment .
OECD	International Policy Research Institute	Social Impact Investment provides finance to organizations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns .
Harvard Business School	Academia	Impact Investing consists of putting financial capital toward social and environmental purposes without compromising financial return .

Table 3: Definition Analysis

Appendix D: Challenges in the Existing Policy Framework and Ways to Mitigate Them

Areas	Regulatory Bottlenecks/ Suggested Policy Reforms	Way Forward	Reference
Supply and Demand Side	a. Lack of clarity in definition	<ul style="list-style-type: none"> • Setting a standard definition providing proper directive on <ul style="list-style-type: none"> - social impact - environmental impact - balance between impact and financial returns sought 	<ul style="list-style-type: none"> • KII - investors and entrepreneurs (90%); • KII - Ecosystem Builder (BSEC); • Alternative Investment Rules 2015
Supply and Demand Side	b. Absence of impact due diligence and reporting framework	<ul style="list-style-type: none"> • Establishing standard frameworks and practice for impact reporting by both impact investors and enterprises • Empowering NAB so that it emerges as a mandating body able to support standardization throughout the impact ecosystem 	<ul style="list-style-type: none"> • KII - Ecosystem Builders (BSEC), (SFD, BB) • KII - Investor (BD Angels, BD Venture) • Alternative Investment Rules 2015

Supply Side	c. Inadequate initiatives for commercial investors to explore impact investing	<ul style="list-style-type: none"> • Incentivizing impact investors by introducing programs like certified b-corp or getting loans at discounted rates from scheduled banks and NBFIs. • Mandating impact investment for each investor's portfolio augmenting the provision of mandating CSR for banks, FIs and companies as a long-term measure 	<ul style="list-style-type: none"> • KII - investor (BD Angels) • KII - Ecosystem Builders (ERD), (BSEC) • SFD, BB Circular on April, 2019 • Alternative Investment Rules 2015
Demand Side	d. Absence of procurement guidelines	<ul style="list-style-type: none"> • Introducing procurement guidelines for manufacturing and service sector to include impact enterprises in their supply chains. • Short to mid-term partnerships can be explored by BB and Ministry of Planning to identify key areas of intervention. 	<ul style="list-style-type: none"> • KII - Ecosystem Builders (NAB) • KII - Enterprise (Sheba.xyz) • GBCSRD, BB Circular December, 2014

Appendix E: Challenges Faced by Enterprises and Ways to Mitigate Them

Key Challenges	Explanation	Way Forward	Reference
a. Knowledge gaps at both enterprise and investor level	<ul style="list-style-type: none"> • Confusion between terms such as impact enterprises and social businesses • Confusion between purely commercial investments and impact investments 	<ul style="list-style-type: none"> • Ecosystem enablers - accelerators, incubators, institutions teaching entrepreneurship can support education and awareness raising 	<ul style="list-style-type: none"> - KII - Bhalo - KII -iFarmer
b. Absence of formal frameworks for measuring and reporting impact	<ul style="list-style-type: none"> • The largest online service marketplace in the country measures impact by calculating - <ol style="list-style-type: none"> a. total number of businesses benefitted; b. employment opportunities created; c. indirect livelihoods created. • The largest E-grocery platform in Bangladesh raised USD 3 Mn from IFC on the back of four promises- <ol style="list-style-type: none"> a. creation of 2,000 jobs; b. ensuring better incomes for 	<ul style="list-style-type: none"> • Establishing standard frameworks and practices for impact reporting by both impact investors and enterprises. • Building on - a few emerging examples and best practice such as x and y 	<ul style="list-style-type: none"> - KII - Impact Entrepreneurs - KII - Impact Investor (IFC)

	<p>farmers;</p> <p>c. reducing wastage and</p> <p>d. improving food safety practices.</p> <ul style="list-style-type: none"> • One of the respondents measure impact by the growth (annual) of women farmers' participation in their program. <p>There is a lack of common ground in measuring impact.</p>		
<p>c. Impact enterprises' inability to scale and sustain</p>	<ul style="list-style-type: none"> • Lack of core business knowledge in areas like finance, marketing, strategy and operations makes it challenging for impact enterprises to grow and sustain. • Many solutions created by enterprises are not adaptable for different consumer groups, while they often cannot sustain their business from just focusing on one consumer segment. 	<ul style="list-style-type: none"> • Education and hands-on training • Mentorships can play a pivotal role for early stage entrepreneurs 	<ul style="list-style-type: none"> - KII - Bhalo - KII - Sheba.xyz - KII - iFarmer - KII - Investor (IFC) - KII - Ecosystem Builder (Toru)

Appendix F: Challenges Faced by Investors and Ways to Overcome Them

Key Challenges	Way Forward	Reference
<p>a. Policy guidelines are still at formation stage</p>	<ul style="list-style-type: none"> Impact due diligence process can be explained more clearly identifying the roles of relevant agencies and probable public-private partnerships for implementation (i.e. environmental impact will be validated and scored by Department of Environment, Gov or partnership with British Council would be mandatory to get the social impact score) <p>*more on this topic has been covered in Chapter 6</p>	<p>- KII - All interviewed impact investors</p>
<p>b. Significant knowledge gaps are hindering impact measurement and reporting practices</p>	<ul style="list-style-type: none"> Capacity building trainings by accelerators, incubators and institutions can be one of the immediate solutions to this challenge; Government entities with an innovation focus like Startup Bangladesh (ICT Ministry) and a2i (ICT Division) can take an active role in supporting the spread of knowledge and common standards. 	<p>- KII - IFC - KII - BD Venture - KII - IDLC - KII - BD Angels</p>
<p>c. Enterprises are not impact-ready</p>	<ul style="list-style-type: none"> Blended financing, co-matching grants and catalytic funding can be useful and necessary for early-stage companies. Build Bangladesh (through its Social Enterprise, Inclusive Bangladesh Development – IBD) and YGAP Australia (through YGAP Bangladesh) has formed a partnership to 	<p>- KII - IFC - KII - Truvalu - KII - SFSA - KII - BD Venture - BUILD Bangladesh</p>

	run accelerator programme and lead investment rounds together. Partnerships of this type can be adopted as a way to increase enterprise's impact readiness.	
d. Lack of mutual understanding between investor and investee about the time frame	<ul style="list-style-type: none"> • Investors interested in impact investing must understand the complexity of impact and the patience it requires. • Ecosystem builders can play a role in raising understanding level and awareness of the depth, breadth, and the time horizon of impact through one-on-one sessions, publications, workshops and webinars.⁵⁹ (example: the previously mentioned BUILD Bangladesh case) <p>[Note: This issue was mostly raised by institutional and angel investors. DFIs were more patient about time horizon of investment.]</p>	<ul style="list-style-type: none"> - KII - BD Angels - KII - BD Ventures - BUILD Bangladesh

Appendix G: Challenges Identified by Ecosystem Builders and Ways to Mitigate Them

Sub-Groups	Key Challenges	Way Forward	Reference
Demand Side	a. Grassroots level enterprises are being excluded	<ul style="list-style-type: none"> • Countrywide accelerator programmes should be introduced. At present, only a few organizations (YGAP Bangladesh, , UNCDF) have countrywide coverage. 	<ul style="list-style-type: none"> - KII - Seedstars - KII - ROI - KII - YGAP

Demand and Supply Side	b. Lack of collaboration among ecosystem builders	<ul style="list-style-type: none"> • In order to establish a common understanding among ecosystem players, a data room for impact investment could be developed and maintained. • A co-ordinating body like NAB could help in mitigating communication gaps. 	<ul style="list-style-type: none"> - KII – Toru - KII – BB - KII – BetterStories
Supply Side	c. Underdeveloped impact due diligence and measurement framework	<ul style="list-style-type: none"> • A standard framework in the Alternative Investment Rule could be considered. • BSEC should provide guidelines for conducting due diligence processes with impact enterprises. (see next chapter) • As the due diligence process is at a rudimentary stage, investors willing to invest in alternative funds are not entitled to commercial justice. Bangladesh Supreme Court can explore a legal structure that assures justice for investors by minimizing chances of corruption.⁶⁰ 	<ul style="list-style-type: none"> - KII – Seedstars - KII – ROI - KII – SDC - KII – BUILD Bangladesh - KII – UNCDF
Demand and Supply Side	d. Absence of incentives for impact enterprises and investors	<ul style="list-style-type: none"> • Incentivizing impact entrepreneurs and investors through policy-level intervention (see next chapter) 	<ul style="list-style-type: none"> - KII – Seedstars - KII – UNCDF - KII – ERD - KII – BB

Appendix H: List of GoB Rules and Regulations Related to Impact Investing

Law/Circular/ Guideline	Date of Publication	Implementer	Web Link
Alternative Investment Rules, 2015	June 22, 2015	Bangladesh Securities and Exchange Commission (BSEC)	https://www.sec.gov.bd/slaws/BSEC(Alternative_Investment)_Rules,_2015_22.06.2015.pdf
Circular on Investment in Special Purpose Vehicle, Alternative Investment Fund or similar fund/funds by the scheduled banks	November 25, 2015	Department of Off-Site Supervision, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/dos/nov242015dos02e.pdf
Circular Regarding Investment in Non-listed Special Purpose Funds by NBFIs	March 30, 2016	Department of Financial Institutions and Markets, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/fid/mar302016dfim04e.pdf
Circular on Investment by non-resident investors in Alternative Investment Funds	July 30, 2018	Foreign Exchange Investment Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/feid/jul302018feid02e.pdf
Refinancing Scheme for Green Products/ Initiatives/Projects	April 30, 2020	Sustainable Financing Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcrd/apr302020sfd02.pdf

Circular on Considering Investment by Scheduled banks and Financial Institutions in Impact Fund as Green Financing	April 04, 2019	Sustainable Financing Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcd/apr042019sfd01.pdf
Policy Guidelines for Green Banking	December 24, 2013	Green Banking and CSR Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcd/dec242013gbcd08e.pdf
Annual Target for Direct Green Financing	September 04, 2014	Green Banking and CSR Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcd/sep042014gbcd04.pdf
Financial sector Corporate Social Responsibility (CSR) Guidelines	December 22, 2014	Green Banking and CSR Department, Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcd/dec222014gbcd07e.pdf
Financial Inclusion Guidelines	April 16, 2013	Bangladesh Bank	https://www.bb.org.bd/mediaroom/circulars/gbcd/apr162013gbcdl02.pdf
Small and Micro Enterprise Lending Guidelines	January 17, 2011	Microcredit Regulatory Authority (MRA)	https://www.mra.gov.bd/images/mra_files/Regulations/mra%20regulations%20-%20unofficial%20translation%20final.pdf

Appendix I: List of Development Programs Related to Impact Investments

Program	Implementer	Description
Agricultural Value Chains (AVC) Program	DAI	Agreement with 25 private sector agri-firms. Activities include competitions for value chain co-investment/innovation grants, partnership with agri-firms to invest in supply chain governance and input distribution networks, and partnership with NGOs, private businesses, MFIs, social venture capital firms, and commercial banks. https://www.dai.com/our-work/projects/bangladesh-agricultural-value-chains-avc-program
Biniyog Briddhi	Roots of Impact, Swiss Agency for Development and Cooperation and LightCastle Partners	Strives to improve the financial, social and environmental performance of impact enterprises by supporting them to master investment readiness and impact management. Brings together investors, incubators, accelerators, and support organizations. https://www.sie-b.org/
Bringing Impact Investors Together	Build Bangladesh	An international workshop on Impact Investment to provide information, intelligence and decision-making tools for investors. It explores opportunities to attract local and global impact investments, identify sectoral priorities, and discuss potential to establish an Impact Investment Exchange. http://www.buildbangladesh.org.bd/event-biit.php

Business Finance for the Poor in Bangladesh (BFP-B) Programme	BFP-B	Strives to improve the policy and regulatory environment for financial institutions by inducing private sector investment in expanding the frontiers of finance, enhancing the credit-worthiness of small businesses, and enhancing financial inclusion. http://www.bfp-b.org/
Changing Economics of Santal Through Agriculture (ChESTA)	Syngenta Foundation for Sustainable Agriculture	Focused on the ethnic Santal community, it educates smallholders about modern crop cultivation, post-harvest technologies, agricultural marketing, and facilitation. https://www.syngentafoundation.org/agriservices/whatwedo/farmershub/chesta
Corporate Connect: Strengthening Market Access for Women Business Owners	WEConnect International	It aims to create sustainable market linkages between women-owned businesses and local and multinational corporations. https://weconnectinternational.org/en/corporate-connect
Global Student Entrepreneur Awards (EOGSEA)	Entrepreneurs' Organization	A global competition for undergraduate student entrepreneurs that offers them access to a global network of mentors, resources and connections from influential entrepreneurs. https://www.eonetwork.org/dhaka/
Grow Your Business with Truvalu	Truvalu.enterprises	Provides strategic business development services to improve operations, management, finance, and marketing alongside equity investments to and building trade relationships with agro-SMEs. http://www.truvalu-group.com/
Impactor	Toru Institute of Inclusive Innovation	An eight-month long business incubation program for early-stage entrepreneurs to develop their products, businesses, and leadership skills alongside legal and investment support. http://toruinstitute.com/

Impactpreneur	Toru Institute of Inclusive Innovation	Impactpreneurs undergo 1-2 years of incubation, coaching, and mentorship to scale their businesses into sustainable and investable enterprises. http://toruinstitute.com/
Inclusive and Equitable Local Development Programme (IELD)	UNCDF, UNDP and UN Women	Addresses structural impediments that prevent women from entering the labour market through local public and private investments, and unlocking domestic capital for women's economic empowerment and entrepreneurship. https://www.unCDF.org/ield/homepage
Innovation and Design Lab	Toru Institute of Inclusive Innovation	Innovators in this lab go through a human-centred design process to develop, test, prototype and pilot their innovation. Innovations are monitored by experts to ensure that the ideas are ready to be deployed and scaled. http://toruinstitute.com/
NutriStar / Scaling Up Nutrition (SUN)	Global Alliance for Improved Nutrition (GAIN)	A competition to harness innovative solutions for improved nutrition by connecting start-ups and businesses in emerging markets with technical assistance and investment opportunities. https://sunpitchcompetition.com/bangladesh/
Empower Youth for Work (EYW)	Oxfam	Introduces business, entrepreneurship, accounting, and green business to youth entrepreneurs. Extensively discusses on how to increase productivity, tactics to raise income, provision of loans and investment readiness. https://wee.oxfam.org/EYW
Sampreeti	Manusher Jonno Foundation	Seeks expression of interests from organizations, institutions, groups, and clubs to explore innovative ideas, models, and proposals that contribute to the prevention of radicalization and violent extremism. http://www.manusherjonno.org/

ScaleUp Bangladesh	BetterStories Limited	A 12-month long investment readiness accelerator program to help SGBs (Small & Growing Businesses) in Bangladesh become Scalable, Investment Ready, and Climate Resilient. https://betterstories.limited/
SmartCap	LightCastle Partners	Accelerator for SMEs that lack financial accessibility and business know-how despite having growth opportunities. It weaves business pedagogy, market connections, financing, & technology together. https://www.lightcastlebd.com/accelerator/smartcap#method-grow-business
Social Entrepreneurship Accelerator Program	YGAP Bangladesh	Works to improve the lives of people living in poverty by accelerating start-up social enterprises and supporting them grow their businesses and make positive changes in their communities. https://www.thedailystar.net/star-youth/spark-bangladesh-accelerator-2018-1546642
Unnoty	ACDI/VOCA and LightCastle Partners	Provides business development support via accelerator programs and investment readiness training to women agri-entrepreneurs, including product matrix, business model canvas, financial governance and management, branding & sales, and modern Ag-Tech. https://www.lightcastlebd.com/acceleration/projects/third-cohort-of-acdi-voca-unnoty-accelerator-program-completed
Urban Innovation Challenge	BRAC	Invites to submit innovative and sustainable solutions to urban problems to provide seed funding and mentorship to test the ideas, followed by an opportunity to pitch it to investors to scale it up. http://www.brac.net/udp-urban-innovation-challenge

YGAP Bangladesh Accelerator	YGAP	Accelerator program for impact entrepreneurs that strengthen their business models and also provide mentorship, marketing support, legal and accounting help, and access to finance. https://ygap.org/bangladesh/
YHER Bangladesh	YGAP	In October 2018 YGAP launched YHER – an accelerator program dedicated for women led impact enterprises one of its kind in South Asia. Till May 2020 the enterprises have recorded an average of 510% growth in impact and 262% growth in revenue
Incubator for Social Business	YY Goshti	Social incubation program that provides mentorship, workspace, business services, graphic and web solutions, accounting and legal counselling, and seed funding. https://ygoshti.com/incubator/

Appendix J: Existing Literature on Impact Investing in Bangladesh

Existing Literature on Impact Investing	Publisher	Key Messages	Gaps in the Research	Link
The State of Social Enterprise in Bangladesh, Ghana, India and Pakistan, 2016	British Council (2013)	Provides a comprehensive overview of the Bangladeshi Social Enterprise ecosystem. The research also includes detailed policy analysis relevant to social enterprises. It has identified three key areas of intervention.	The study used "social" and "impact" enterprise as interchangeable terms. It has also reported grant funds as impact investments.	https://www.britishcouncil.org/sites/default/files/bc-report-ch2-bangladesh-digital_0.pdf
Creating Impact: The Promise of Impact Investing	IFC (2013)	Emphasized the role of impact investing in achieving SDGs.	Has not covered a lot of ground on the usage of financial instruments to mobilise SDGs through impact investments	https://www.ifc.org/wps/wcm/connect/66e30dce-0cdd-4490-93e4-d5f895c5e3fc/The-Promise-of-Impact-Investing.f?MOD=AJPERES&CVID=mHZTSds
The Landscape for Impact Investing In South Asia, November 30, 2014	GIIN, Dalberg, DFID (2015)	Provides a comparative view of Bangladesh impact investing market with its regional peers. Reported the market size	Some donor funds have been counted as impact investing but no classification criteria has been provided.	https://thegiin.org/assets/documents/pub/South%20Asia%20Landscape%20Study%202015/1_Full%20South%20

		to be USD 955 Mn.	Mentioned 15 active investors and 9 impact funds (non DFIs) while in reality the first impact fund got registered in 2017	Asia%20Report.pdf
Build Bangladesh Report	Build Bangladesh (2016)	Demonstrates early stage of Impact Investment in Bangladesh (2016), Entrepreneurial programme including women entrepreneurs and start-up from grass root level of regional Bangladesh.	Small sample numbers; Need to scale up to have concluding recommendations	www.buildbangladesh.org.bd
Growing Impact: New Insights into the Practice of Impact Investing	IFC (2019)	Provides a gradual picture of the developing impact investing ecosystem across regions.	Does not provide adequate details on Bangladesh market.	https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impactpdf?MOD=AJPERES&CVID=naZEst9


Appendix K: Situation Analysis using Frameworks

According to the Organization for Economic Cooperation and Development (OECD), to create a fully-fledged impact economy, a government can initially take steps as a market facilitator, then play a role as a market participant and finally move on to being a market regulator.

GoB as Market Facilitator					
Promote impact enterprises through incubators and accelerators	Establish a centre within the gov. that develop and oversee impact investing policies	Educate current and potential impact investing participants	National strategy: design and implement policies to improve the impact investment ecosystem	Create a fund of funds to provide catalytic capital to impact-driven investment funds	Provide a centralized database and crowdfunding platform connecting impact investors and enterprises
Currently arranging countrywide workshops and seminars	-	Developing formal module-based training with hands-on practical cases	Establishment of NAB by Finance Minister under the Department of Finance, GoB	Launched climate funds, social safety net budgetary allocations	-

GoB as Market Participant		
Provide funding through funding programmes and government owned funds to impact enterprises or impact-driven funds	Procure payment-by-results contracts and create a government outcomes fund to streamline the payment-by-results procurement system	Embed social value in procurement decisions by sourcing from impact enterprises by integrating social and environmental metrics
-	-	-

GoB as Market Regulator					
Create investor opportunity to invest in impact enterprises by mandating impact as a consideration in their investment decision	Establishing a standardized approach to impact reporting for benchmarking enterprise performance	Providing a clear legal form focusing on impact investment's societal and environmental contribution rather than on their ability to generate profit	Incentivize impact enterprises by reducing the tax burden or providing fiscal incentives	Incentivize impact investors by reducing the tax burden or providing fiscal incentives	Catalyse the supply side by creating investable solutions in the impact investment field.
-	-	-	-	-	-

 Govt. intervention either has taken place or in planning phase


 Govt. intervention has not taken place yet

Figure 4: Benchmarking Bangladesh Government's Performance against GSG Framework

Appendix L: List of Figures, Tables, Charts and KII Questions

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d. Data Capture Instruments

1. What do you think of the impact investment landscape in Bangladesh?
2. We have defined impact investment as: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." How much would you agree with our definition for impact investment?
3. Please select the top three sectors that are securing the highest value and volume of impact/social investment, or are most preferred by investors, at present. Please also select the top three sectors that might get priority in the future.
4. As an impact enterprise, which type of investors have you received investments from till now?
5. As an impact enterprise, what was the total value of investments received by you in the last three years?
6. As an impact investor, what was the total value of investments made by you in impact enterprises in Bangladesh?
7. What type of instruments have you used so far while making an impact-linked investment?
8. How did you come up with your impact measurement guideline? Please mention whether the framework was designed by yourself or adopted from another source.
9. Please mention the top three opportunities that may arise in the future as impact investment starts to gain traction in Bangladesh.
10. Please mention the top three challenges that may arise in the future as impact investment starts to gain traction in Bangladesh.
11. What are the biggest risk factors faced by impact investors and impact enterprises in Bangladesh?
12. Please rate the adequacy of the existing policy framework in catering to the needs of the impact ecosystem?
13. What are the policy interventions that can ensure a seamless impact investment operation in Bangladesh?

Detailed Data Capture Instruments:

- a. KII Impact Entrepreneurs
- b. KII Impact Investor
- c. KII Ecosystem Builders

References

¹Global Impact Investing Network (GIIN)

²Annual Impact Investor Survey 2019, Global Impact Investing Network (GIIN), June 2019.

³Sizing the Impact Investing Market, Global Impact Investing Network (GIIN), April 2019.

⁴Impact Investing is Catching Fire, Forbes, October 2018.

⁵Bangladesh Securities and Exchange Commission (BSEC), international impact investment organizations and fund managers (GIIN, IIX, ROI, Bridges Ventures) , consulting firms (Bain and Company), multilateral development organizations and policy research institutes (IFC, OECD) , B-Corps, and academia (Harvard Business School)

⁶Detailed analysis can be found in the annex

⁷This can be understood as simply a more concise formulation of the GSG definition which states that "Impact investment optimizes risk, return and impact to benefit people and the planet by setting specific social and environmental objectives alongside financial ones, and measuring their achievement."

⁸LightCastle Primary Analytics based on Bloomberg Exchange Rate Historical Data

⁹More on this topic has been discussed in Chapter 6

¹⁰Bangladesh Bank, DOS Circular No.- 02: Investment in Special Purpose Vehicle, Alternative Investment Fund or similar fund/funds by the scheduled banks.

¹¹Bangladesh Bank, DFIM Circular No. - 04: Regarding Investment in Non-Listed Special Purpose Funds registered with Bangladesh Securities and Exchange Commission.

¹²Bangladesh Bank, FEID Circular No. - 02, Investment by non-resident investors in Alternative Investment Funds under BSEC (Alternative Investment) Rules, 2015

¹³Bangladesh Bank, SFD Circular No. – 01/2019, Investment in impact fund by scheduled banks and FIs to be

considered as green financing.

¹⁴Detailed analysis on existing policies has been provided in Chapter 6

¹⁵KII with Economic Relations Division, Ministry of Finance, GoB

¹⁶KII with Bangladesh Securities and Exchange Commission (BSEC)

¹⁷Circular No. 04/2014, Green Banking and CSR Department, Bangladesh Bank, September 2014

¹⁸KII with Bangladesh Bank

¹⁹KII with NAB

²⁰KII with SDC

²¹KII with Sheba.xyz

²²KII with ShopUp

²³KII with Bhalo

²⁴KII with iFarmer

²⁵KII with Toru

²⁶For maintaining uniformity and facilitating better understanding for readers, the term “impact enterprise/entrepreneur” has been used to refer to these group who are not really impact enterprise/entrepreneur by the definition proposed but integrated some impact components in their business models.

²⁷KII with Truvalu.enterprises

²⁸KII with Bangladesh Angels

²⁹KII with Syngenta Foundation

³⁰KII with International Finance Corporation (IFC)

³¹Based on all KII with Impact Investors

³²KII - All interviewed impact investors

³³KII with IFC, IDLC

³⁴KII with BD Angels

³⁵This issue was mostly raised by institutional and angel investors. DFIs were more patient about time horizon of investment

³⁶See for example https://ssir.org/articles/entry/the_downside_of_social_impact_bonds

³⁷KII with BUILD Bangladesh

³⁸KII with United Nations Capital Development Fund (UNCDF)

³⁹KII with Swiss Agency for Development and Cooperation (SDC)

⁴⁰KII with BetterStories

⁴¹KII with Seedstars

⁴²KII with SDC

⁴³KII with NAB

⁴⁴A detailed list has been provided in the annex describing relevant initiatives taken by development partners

⁴⁵Manusher Jonno Foundation and Inclusive Bangladesh Development jointly worked in 7 districts outside Dhaka in 2018-19

⁴⁶KII with Bangladesh Securities and Exchange Commission (BSEC)

⁴⁷World Bank: Commercial justice means the legal right of businesses to solve their disputes formally. It reduces chances of corruption and increases transparency.

⁴⁸KII with Economic Relations Division, Ministry of Finance, GoB

⁴⁹KII with Bangladesh Bank (BB)

⁵⁰The 2020 Global Startup Ecosystem Report (GSER), Startup Genome and Global Entrepreneurship Network, 2020.

⁵¹COVID19 Impact on Startup Ecosystem, LightCastle Primary Research, June 2020.

⁵²Managing director of BRAC Bank, June 30, 2020.

⁵³Global Steering Group for Impact Investing

⁵⁴Impact Investing for Sustainable Community Development, Simon Fraser University, 2016.

⁵⁵Annual Impact Investor Survey 2019, Global Impact Investing Network (GIIN), June 2019.

⁵⁶Sizing the Impact Investing Market, Global Impact Investing Network (GIIN), June 2019.

⁵⁷Global Steering Group for Impact Investing

⁵⁸Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

⁵⁹Making Sense of the Many Kinds of Impact Investing, Harvard Business Review, January 2016

⁶⁰World Bank: Commercial justice means the legal right of businesses to solve their disputes formally. It reduces chances of corruption and increases transparency.

