

Lessons Learned

An Overview of Impact Investing Opportunities in SE Asia

Xylem Capital



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- Impact investment and fund development specialist
- Leading Impact investment and social entrepreneurship initiatives in Asia for 20+ years
- 10+ years in organic and regenerative agriculture throughout Asia and US
- Led financing strategy for over 6GW+ of clean energy in Asia
- Former PwC Corporate Finance



Rich McClellan

- Strategy and policy advisor
- Former McKinsey & Co. (11 years); former Tony Blair advisor (3 years)
- Serving SE Asian countries on topics like circular economy, startup ecosystems, future skills, I4.0, plastic waste reduction, and provincial master-planning and tourism strategies
- Project development in renewable energy and economic zones

Summary

- SE Asia lags the world in impact investment; and it is critically needed here
- Continued economic growth in almost every sector reduces investment risk, but understanding of impact investing is dangerously low
- Areas that are most in need of investment include:
 - Economic disadvantage
 - Climate change preparedness
 - Gender disparities
- Ripe opportunities in early-stage regenerative agriculture and landscape climate initiatives, and growth capital in energy, forestry and food





Economic Trends

- Strong historic growth, with a lot of opportunity ahead
- Covid has slowed, but not stalled these economies
- Significant need for investment in energy and infrastructure to sustain growth
- Flood of manufacturing moving out of China and into Southeast Asia, compounded by bottomless demand from Chinese consumer for commodities
- Global investors are starting to separate China opportunities from other emerging markets (means greater focus on Vietnam, Indonesia, Thailand, Philippines, etc.)
- High rates of poverty and disadvantage, particularly outside of urban centers
- Women and ethnic minorities still largely and systematically disenfranchised, but some nuance by country

Environmental Trends

- Economic growth trumps environmental considerations in most places
- Climate change impacts and future risks significant for this part of the world with low preparedness levels, e.g., rising sea levels in Mekong, increased extreme weather, deforestation
- Significant and growing pollution, especially plastic (marine) and air with little government consideration
- Farming practices increasingly industrial and driving deforestation and soil erosion
- Balancing economic growth with environmental mitigation will be key to next phase, but very little consideration now on how to marry economic growth with climate change



Legislative and Policy Trends

- Countries struggling to balance growth with commitments to GHG reductions
- Major dialogs happening on role of fossil fuels (esp. LNG) vs. renewables in supporting growing energy needs
- Many countries also looking carefully at a range of important development topics, like Industry 4.0, circular economy, green growth, future skills, gender, etc.
- Foundations and NGOs succeeding in getting policies and laws "on the books" but struggling to get them implemented



Limitations

- Implementing capacity—working out the right balance of local and international
- Corruption is endemic in many places
- Poor access to finance, particularly for SMEs and for early stage, and almost zero access to risk capital
- Very high share of economies are still informal



Opportunity Space

High Potential
Medium Potential
Low Potential

Investment opportunities		Agriculture	Const-ruction	Energy	Financial services	Infrastructure	Manufacturing	Transportation
Public finance								
	Market development	High Potential	Low Potential	Low Potential	Low Potential	Low Potential	Low Potential	High Potential
	Education & awareness	Medium Potential	High Potential	High Potential	High Potential	Medium Potential	Medium Potential	Medium Potential
	Lobbying/regulatory dev	High Potential	High Potential	High Potential	High Potential	Low Potential	Low Potential	High Potential
	Training	Medium Potential	Medium Potential	Medium Potential	Low Potential	High Potential	High Potential	Medium Potential
Early-stage capital								
	Feasibility and pre-fs	High Potential	High Potential	Medium Potential	Medium Potential	High Potential	High Potential	High Potential
	Project development	High Potential		High Potential	Medium Potential	High Potential	High Potential	Low Potential
	Fund establishment	High Potential	Low Potential	Medium Potential	Medium Potential	High Potential	Medium Potential	Low Potential
	Proof of concept	Medium Potential	High Potential	High Potential	Medium Potential	Low Potential	Low Potential	Medium Potential
Growth Capital								
	Market Access	High Potential	High Potential	Medium Potential	High Potential	High Potential	High Potential	Low Potential
	Scale-up	High Potential	Medium Potential	High Potential	Medium Potential	High Potential	High Potential	Medium Potential
	Technology & equipment	Medium Potential	High Potential	High Potential	Medium Potential	High Potential	High Potential	Medium Potential
	Working capital	Low Potential	Low Potential	Low Potential	Low Potential	Low Potential	Low Potential	Medium Potential
	Acquisitions	Medium Potential	High Potential	High Potential	High Potential	Medium Potential	Medium Potential	Medium Potential
	Operational overhaul	Medium Potential	High Potential	Medium Potential	Low Potential	High Potential	High Potential	Medium Potential

Select impact investing opportunities

	Context	Opportunity	Instruments	Recipients
Large Scale Renewables	<ul style="list-style-type: none"> Significant energy needs coupled with impetus for decarbonization 	<ul style="list-style-type: none"> Wind and solar opportunities abound; also potential for hydrogen 	<ul style="list-style-type: none"> Grants to support due diligence, feasibility studies, or project development Growth equity/fund investments 	<ul style="list-style-type: none"> Local/international consortiums, Independent Power Project Developers
Regenerative Farming	<ul style="list-style-type: none"> Rapid deforestation and monoculture farming leading to loss of natural capital 	<ul style="list-style-type: none"> Acquisition/lease transition of land for farming of climate regenerative food for established market 	<ul style="list-style-type: none"> Feasibility Studies Investment capital 	<ul style="list-style-type: none"> Fund Managers, farms, project developers
Green Infrastructure	<ul style="list-style-type: none"> Governments supporting rapid domestic growth and inter-regional trade but only beginning to consider sustainability 	<ul style="list-style-type: none"> Symbiosis, eco-zones, and green construction practices can serve to regenerate the biospheres 	<ul style="list-style-type: none"> Grants to support project development, pre-feasibility studies, green bonds 	<ul style="list-style-type: none"> Project developers
Sustainable Manufacturing	<ul style="list-style-type: none"> Rapidly growing sector built on primitive and under-developed practices 	<ul style="list-style-type: none"> Manufacturing scale-ups to achieve industry 4.0, international standards, gender parity, supply chain excellence 	<ul style="list-style-type: none"> Growth capital 	<ul style="list-style-type: none"> Manufacturers, funds

Impact Lens

	Issues	Can be addressed by investments in....
Green Development	<ul style="list-style-type: none">• High growth is generating environmental impacts and increasing economic disparity	<ul style="list-style-type: none">• Renewables, eco-industrial zones, green construction, sustainable manufacturing, smart transportation
Climate Change	<ul style="list-style-type: none">• Large populations living in areas with high risk of climate change impacts (e.g., close to the sea)	<ul style="list-style-type: none">• Sustainable construction and green infrastructure, regenerative agriculture
Biodiversity	<ul style="list-style-type: none">• Rapid deforestation and mono-culture farming leading to loss of natural capital	<ul style="list-style-type: none">• Regenerative agriculture, cooperatives, regenerative agro-hubs, regenerative supply chain (particularly cold chain), sustainable forestry
Gender Policy	<ul style="list-style-type: none">• Women historically disenfranchised, many development programs not targeted to their needs	<ul style="list-style-type: none">• Access to finance, job skills, construction, manufacturing





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**THE ENVIRONMENTAL
COST OF ECONOMIC
GROWTH**

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