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論文題名

Impact Investing in the BoP Market: Implications for Japanese Companies

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Abstract

The purpose of this thesis is to provide implications for Japanese enterprises that have been paying attentions in expanding in the Base of Pyramid (BoP) market, through financial investment practices such as impact investing. This thesis also talks about some existing successful cases carried out by non-Japanese enterprises in order to provide the implication from another angle. However, due to limited public information, this thesis does not discuss how the implication should be practiced in future actions. With such purpose in mind, the research questions were defined as: “What is impact investing?”, “How is the impact investing industry characterized?”, and “How can Japanese enterprises leverage impact investing to build competitive strategies in BoP markets?”

Impact investing, through which investors allocate capital to market-based (i.e., profit-oriented) solutions to social and environmental challenges—in contrast to philanthropic or political solutions—has gained increasing attention over the last decade. A key attraction of impact investing is its potential scalability: solving a social or environmental problem through an investment in a profitable enterprise generates profits that both provide and attract more resources to address the challenge than solving it through spending alone. As noted in the past in the investing world, investors’ pools of capital have always been means to ultimately social (and/or environmental) ends. However those ends are defined by a particular institution or private investor—and it is now the decade to believe that investors, whether individual or enterprise, should consider impact investing as another tool to achieve mission objectives.

According to the Global Impact Investing Network (GIIN), impact investments are defined as “investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.” The original

aspect of this activity is the specific desire and intention to generate both financial and social returns. Impact investing has emerged as an answer to solving poverty and critical social and economic issues that neither governments nor charity alone could solve. Thus, it fills in the gap between the market and philanthropy.

In this thesis, a traditional dissertation will be conducted with a mix of several case studies. After introducing the purpose, the concept of impact investing in BoP market and the main characteristics will be discussed based on current reviews. Then, we will also spend some time on presenting Japanese enterprises' current difficult situation in BoP market, and set this topic as the introduction to the second half of this thesis where we will present two non-Japanese organizations that illustrate the successful impact investing practice in BoP market, through two short success stories. Finally, the key conclusions of this paper will be presented.

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1. Reviews About Impact Investing

In this chapter, based on the current academic literature, the key concepts of impact investing will be presented. First an explanation of why has the term and practice of impact investing started will be shown, as well as a brief discussion on the current definitions of this type of investments. Then, in sub-chapter "Impact Investors", it will be analyzed the profile of impact investors, their expected returns and impact goals, as well as further specific characteristics of this type of capital. Afterward, in the later sub-chapter, the measuring of impact investing will be discussed, starting with an explanation of why it is important to measure the social impact of these investments, specific difficulties it poses and also what the current industry trends are. As a result of being an industry still in its initial years, the interest of the academia on impact investments is emerging, existing only few published papers on such topic. Hence, this literature review is mostly based on reports from industry players and experts.

1.1. Impact Investing – Between Philanthropy and Traditional Investments

Impact investing is a tricky term to define, particularly when taken at face value. First, as argued by several papers in the early 2010s, all investments have social and environmental impacts (Environmental, Social, and Governance Integration: For Performance, For Ethics, or For Both? Cambridge Associates LLC 2010), so whatever definition is used for the term must help clarify what differentiates "impact investments" from any other investment. Second, although institutions have been engaged in impact investing for some time (Ford Foundation 1968), the term "impact investment" has come into prominence only over the last decade or so. Without an "official" dictionary definition, the term is used in different ways in practice.

In fact, the world faces pressing social and environmental challenges, such as the preservation of natural resources and the mitigation of poverty, which both governments and charities alone are failing to solve. O'Donohoe et al (2010) defend that government resources and philanthropic contributions are not enough to tackle the world's social and environmental problems, since "even wellfunctioning governments and well-resourced philanthropies will always be limited by resources and scope". That is, the author argues that government and philanthropy cannot reach the necessary scale to solve the problems society is confronted with due to its limited resources.

Moreover, Simon and Barmeier (2010) argue that business and international development professionals with several years of experience defend that "neither Official Development Assistance nor nonprofit institutions are effectively or efficiently tackling poverty reduction in the developing world, especially in the Base of the Pyramid world" and that such efforts have, "stunted growth by subsidizing goods and services that should be provided by the local government or private sector". In other words, such experts argue that, instead of channeling resources to something that is productive, these initiatives are failing to address the social challenges and contributing to minor advances. The authors also state that, as a result of this, the same professionals "have turned to business as a more sustainable strategy to achieve development goals", as they strongly believe that "poverty alleviation will never be achieved through hand-outs and government props".

Recognizing that neither government or philanthropy alone are enough to solve problems such as global poverty and environmental climate change, both Clark et al. (2012) and O'Donohoe et al. (2010) defend that the critical role market-based solutions can play in complementing the work of government and philanthropy.

According to O'Donohoe et al. (2010), by "harnessing more efficient, competitive business models to deliver better, cheaper and more widely-available services to poor communities", the tested theories and practices of market capitalism can be used to address such pressing social and environmental challenges. The authors argue that impact investments can even free governments and philanthropy from some of the obligations they have been fulfilling ineffectively. Therefore, "allowing government and philanthropy to concentrate their limited resources on reaching the poorest of the poor who cannot participate in market-based solutions".

It is in this landscape, where market-based solutions can be used to complement the work of government and charity that impact investing plays its role. Simon and Barmeier (2010) talk about that social and environmental challenges not addressed directly by current international development efforts or investment opportunities, will be the aim of impact investments. The authors further state that "like nongovernmental organizations (NGOs) engaged in development, impact investments focus on sectors that have a significant positive effect on recipients' quality of life", which means that, like philanthropy, the main goal of impact investing is to tackle an existing social problem. However, the authors also state that, unlike charity, "impact investments are made with the expectation of an explicit financial return, and are not largely dependent on external subsidies to sustain operations"

Hence, we can conclude that impact investing is something of a term in between philanthropy and traditional investments (Figure 1). As Simon and Barmeier (2010) state, impact investors "have married the efficiency of the private sector with a social purpose that allows them to take risks that purely financially driven investors do not". In a similar way, O'Donohoe et al. (2010) argue that "impact investment introduces a new type of capital merging the motivations of traditional investments and donations".

Figure 1

Charity (Social Return) ← → Profit (Financial Return)

Source: Clark et al. (2012)

When blurring the frontiers between traditional investments and philanthropy, impact investing is revolutionizing the way capital is deployed since, as O'Donohoe et al. (2010) argue, "by convention, capital has traditionally been allocated either to investments designed to optimize risk-adjusted financial return (with no deliberate consideration of social outcomes), or to donations designed to optimize social impact (with no expectation of financial return)". Also in this line of reasoning, Bugg-Levine and Emerson (2011) defend that impact investing "is disrupting a world organized around the competing beliefs that for-profit investments should only produce financial returns, while people who care about social problems should donate money in an attempt to solve these problems or wait for government to step in". Moreover, both Clark et al. (2012) and Freireich and Fulton (2009) argue that there is an increasing number of investors that want to be provided with other solutions than just traditional investment and pure philanthropy, therefore rejecting the notion that they face a binary choice.

1.2. No Common Definition

Until a few years ago, the impact investing market was still pretty fragmented and disorganized, with isolated players not seeing themselves as part of a broader industry. However, in 2009 Freireich and Fulton (2009) argued that “recently it has become possible to see the disparate and uncoordinated innovation in a range of sectors and regions converging to create a new global industry, driven by similar forces and with common challenges”. In other words, actors hoping to obtain both social and financial returns on their investments had started to recognize each other as partners with resembling intentions and difficulties, leading to the rise of a new industry. O’Donohoe et al. (2010) also defended this point when stating that “in recent years, participants in the impact investing market have recognized the common threads across their respective activities and a larger movement has begun to emerge”. For this reason, Freireich and Fulton (2009) also argued that the impact investing industry had reached a turning point in its development, moving from “uncoordinated innovation” to “marketplace building”, which means that the market is in its early growth stage and giving the first steps towards building necessary infrastructures. Also in this line of reasoning, in 2011 Saltuk et al. (2011) reported that 75% of their surveyed impact investors had described the industry as “In its infancy and growing”.

As a result of being an industry still in its early growth stage, there is not yet a commonly accepted definition for impact investments. In fact, according to Simon and Barmeier (2010), “there is no common definition of impact investing among individuals, financial advisors, or even those currently in the impact investing universe”. Therefore, it is worth taking a closer look to some of the positions in the academic and technical literature, in order to understand their similarities and differences, as well as some questions they raise.

To begin with, impact investments have their main goal to generate both financial return and social impact. According to O'Donohoe et al. (2010), this "differentiates impact investments from investments that have unintentional positive social or environmental consequences". Moreover, as Freireich and Fulton (2009) state, impact investors go "beyond negative screening to invest in companies actively doing good". This means that there is, in fact, a proactive intention to create positive social results as opposed to a passive attitude of screening out investments in companies or industries that generate negative impact.

Consequently, according to Simon and Barmeier (2010), impact investments' "explicit social or environmental mission is their core purpose and is fully integrated in their core business models". This means that creating social impact is not only a proactive intention of the investors but also essential to the company or fund receiving the investment. Similarly, concerning the investee company, O'Donohoe et al. (2010) argue that "positive social and/or environmental impact should be part of the stated business strategy and should be measured as part of the success of the investment". Since generating social impact is a specific goal for the investors and central to the company receiving the investment, measuring impact will be a key activity. According to Bugg-Levine and Emerson (2011), impact investors "treat impact measurement as a central business practice, rather than as an afterthought to use for external reporting and marketing". Therefore, the results of the organization will be measured in financial and social terms, which means that, in case the social return achieved is not the expected, the company will change its processes and procedures, as what happens with financial results.

Despite the similarities in respect the distinguishing characteristics of impact investing, there are also small differences in these definitions. The first one concerns financial returns, as the consensus sets these at equivalent to the nominal principal; beyond that, there is no standard calculation of the value of the expected financial return. Likewise, the way the desired social impact is stated varies: “social and/or environmental good”, “development outcome”, and “positive impact”. Finally, the relationship between the two types of return is not always the same, which means that sometimes the primary intention is to generate social impact, while other times it is to achieve financial return.

From such differences perhaps three important questions arise: How much is the expected financial return? How is social impact defined? How to balance social and financial returns; which is the first priority? These questions will be addressed in more detail further on. Here we define impact investing using the definition employed by the Global Impact Investing Network (GIIN) as: “investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return”. This definition was chosen for the reason that it is straightforward, simple, and reflects all the key distinguishing factors. Moreover, it is a recognition of GIIN’s work in standardizing the language, in order to create a common identity for the impact investing industry and therefore contribute to its further growth and development.

1.3. Impact Investors and Expected Returns

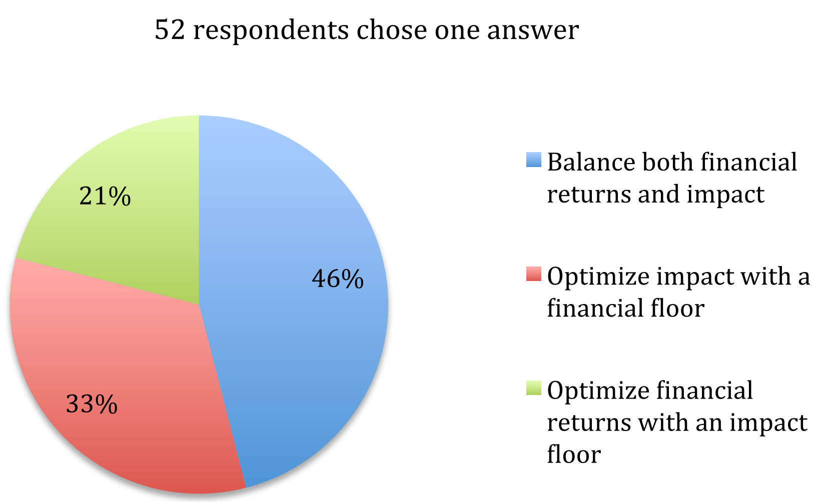
Impact investing is practiced by different kinds of investors, as O’Donohoe et al. (2010) argue: “a variety of investor types participate, including development finance institutions, foundations, private wealth managers, commercial banks, pension fund managers, boutique investment funds, companies and community development finance institutions”. The one common characteristic among impact investors, according to Freireich and Fulton (2009), is the belief that “some level of financial return and social/environmental impact can be achieved together”. Other than this, the authors argue that “many differences must be confronted”. In this sub-chapter it will be analyzed in further detail the particular characteristics of impact investors, namely their return expectations and impact objectives, as well as the most common funding structures.

Expected returns are a key factor in any investment decision. When considering impact investing, they acquire an even more significant importance, since impact investors aim simultaneously at financial and social returns. In fact, Saltuk et al. (2011) defend that, in order for impact investing to succeed, “one needs an understanding of the relationship between financial returns and impact”. However, impact investors approach this relationship in different ways.

According to Saltuk et al. (2011) some investors “believe, for example, that financial performance and impact are dependent variables in inverse proportion, implying that increasing one should decrease the other. Others feel that the two are independent, which would allow for both to increase together”. As a result, some impact investors prefer to optimize one type of return while maintaining a minimum target for the other, whereas others prefer to balance both financial and social returns simultaneously.

Saltuk et al. (2011) also argue that some investors “will swap return for impact, but don’t think it’s generally necessary”. Actually, the authors reported that 62% of their surveyed impact investors would sacrifice financial returns for greater impact, and yet 60% of respondents do not believe that a tradeoff is generally necessary between impact and financial returns. In respect to how the surveyed investors approach the relationship between financial return and impact, the authors state that 46% indicated to balance both; the remaining respondents optimize one while setting a floor to the other: 33% optimizes impact with a financial floor, while 21% optimizes financial returns with an impact floor (Figure 2).

Figure 2



Source: Saltuk et al. (2011)

Hence, impact investors can be classified according to their approach to the balance between financial and social returns along a continuum. At one end, there are investors who are mainly concerned with social returns, seeing financial returns as almost a collateral effect of their investment; at the opposite end, there are other investors who seek primarily financial returns, and only secondarily social returns. Between these two extreme segments, we find the impact investors that strive to put financial and social returns on an equal footing.

Indeed, Freireich and Fulton (2009) broadly classified impact investors in two groups, according to their primary objective: "impact first investors, who seek to optimize social or environmental impact with a floor for financial returns" or "financial first investors, who seek to optimize financial returns with a floor for social or environmental impact". According to these authors, impact first investors have as a primary goal to generate positive social or environmental return, and are often willing to tradeoff some financial return if necessary. Moreover, the authors argue that "impact first investors are typically experimenting with diversifying their social change approach, seeking to harness market mechanisms to create impact". Regarding financial first investors, Freireich and Fulton (2009) state that these are usually commercial investors seeking subsectors that offer market-rate returns and generate some positive social or environmental result at the same time. The authors explain that "they may do this by integrating social and environmental value drivers into investment decisions, by looking for outsized returns in a way that leads them to create some social value, or in response to regulations or tax policy".

In respect to impact investor's financial return expectations, O'Donohoe et al. (2010) state that they "vary dramatically: while some impact investors expect to outperform traditional investments, others expect to trade-off financial returns for social impact". For this reason, O'Donohoe et al. (2010) as well as Saltuk et al. (2011) argue that impact investor's financial return expectations can be outperforming, competitive or concessionary, when compared with financial returns from similar investments that do not target social impact.

The different return expectations are also a result of the way the investor relates to the funds he or she is using: a manager of someone else's money tends to work towards a specific financial return, whereas a philanthropist can seek a social impact with some disregard for financial returns. O'Donohoe et al. (2010) illustrates this idea when arguing "some impact investors, such as pension fund managers, are constrained by a fiduciary duty to the clients whose money they manage. These investors will have to prioritize the pursuit of a competitive financial return". In a similar way, the authors argue that foundations will demand higher social impact, as a result of its social duty, which means that they will usually prioritize social impact over financial return, which in turn results in investments that "can acceptably deliver less competitive rates of financial return".

Regarding social return expectations, these are more difficult to quantify. This is so since measuring the social impact created is a challenging and hard task. Nevertheless, social return expectations will be linked with the investor's impact objectives.

With this discussion regarding return expectations, we have answered two questions raised in the previous sub-chapter: How to balance social and financial returns; which is the first priority? How much is the expected financial return? The answer, however, is it depends. Both the relationship between social and financial returns and the value of expected financial return vary according the investors' characteristics, preferences and goals. Investors can either be financial first investors or impact first investors, and they can have outperforming, competitive or concessionary return expectations.

1.4. Impact Objectives

Impact investing aims for different social goals. It is necessary to stress this fact, since the common misperceptions that confuse impact investments with charity blur the understanding of the variety of activities, big and small, that get this type of funding.

Defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return", impact investments have as a distinguishing characteristic the intention to generate a positive impact in addition to a financial return. However, the impact aimed at will vary according to the investors' preferences. This means that impact investors do not put their money only into systems to take clean water all over Africa; they can also bet on small scale activities that would still cause a positive social impact, such as investing in a small family-owned company that would take the owners out of poverty.

In this line of reasoning, O'Donohoe et al. (2010) argue that investor's "impact objectives can range from mitigating climate change to increasing incomes and assets for poor and vulnerable people". In a similar way, Saltuk et al. (2011) state "some promote general economic growth or the delivery of products or services to underserved populations, while others are focused on addressing environmental issues for the broader population". In respect to impact objectives, Saltuk et al. (2011) also reported that 58% of the surveyed impact investors prioritizes social impact, whereas 34% pursues both social and environmental goals; the remaining 8% aims at environmental impact. The authors add that "94% of investments reported were made into businesses that are intended to benefit low-income populations", which means that serving low-income populations was a goal shared by almost all the surveyed impact investors. When talking about the goals of impact investing and return expectations from impact investors, we must therefore adopt a broad frame of mind. Different investors have different preferences, which will be translated in different goals and expectations. This way, the definition of social impact will depend on the investor's impact goal. Hence, a new and even more pertinent question arises: How is social impact measured? Such answer will be addressed in a following sub-chapter, when discussing challenges with measuring impact results.

1.5. Funding Structures

Traditionally, investment structures take the form of equity and debt, as well as guarantees and deposits. According to O'Donohoe et al. (2010) impact investments can take these different traditional forms or some more innovative investment structures, where returns are linked to metrics of social performance. The authors add that "publicly listed impact investments also exist, though they are a much smaller proportion of the transactions being made today". Moreover, the authors argue that "the existence of such innovative structures allows investors with different (social and/or financial) return and risk appetites to invest via the vehicles that best align with their goals".

The different structures used will have different implications for the investor and for the investee company. For instance, the repayment, the duration of the investment, and the annual payments will vary according to the chosen investment instrument (Figure 3)

Figure 3

Financing instrument	Term sheet	Implications for social enterprise
Grants	Duration: Short-term Annual payments: None Repayment: None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt capital	Duration: Long-term (3–7 years) Annual payments: Interest payments (variable) Repayment: Yes	- Annual interest payments require low-risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity capital	Duration: Unlimited Annual payments: Dividend payments (variable) Repayment: No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine capital	Duration: Long-term (3–7 years) Annual payments: Interest payments (variable) Repayment: Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid capital	Duration: Long-term (3–7 years) Annual payments: None Repayment: Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Source: Clark et al. (2012)

Concerning equity investments Clark et al. (2012) argue that investors will "share the risk of the venture and add value beyond capital". This is so, since the investors acquire a part of the company in which they have invested. How significant is this part of the company depends on the stake they hold, as do the possibility of having a voice and vote concerning management, participating in the definition of strategies, and so forth. For the investee company, the advantage will be the fact that interest payments will not be required, with the disadvantage of the ownership dilution. According to Clark et al. (2012), "equity is provided by business angels and venture philanthropists, some foundations and specialized impact investment funds".

In respect to debt investments, Clark et al. (2012) argue that "while a traditional bank loan is often out of reach for young social enterprises due to the lack of security and weak cash flows, foundations, venture philanthropists, and specialized funds provide unsecured debt with interest holidays, affordable rates, and bullet or royalty-based repayment mechanisms". According to Saltuk et al. (2011), the downside of debt investments is linked to the required regular coupon payments. However, the authors also refer the benefit that such structure will not dilute ownership. When trying to understand the criteria that determines which is the preferred funding structure, the answer will once again be linked with the investor's type, preferences and goals.

1.6. Challenges With Measuring Impact Results

Measuring returns is fundamental to evaluate whether or not the initial goals of the investment are being attained, and at which cost. In other words, these measurements inform investors of the efficacy and efficiency of their investments, and whether or not they have been successful. In the case of measuring the performance of impact investments, both financial returns and social impact need to be evaluated. Authors as Clark et al. (2012), O'Donohoe et al. (2010) and Trelstad (2008) argue that while it is quite straightforward to measure financial results, the key challenge is to measure the social impact. According to the authors, determining the financial performance is simpler since it is possible to use traditional metrics and evaluate investments against standard risk and financial return parameters. However, measuring social impact is complicated and difficult, since it is a somewhat abstract reality that tends to extend itself into the future, producing innumerable and unexpected ripple effects.

In fact, according to Trelstad (2008) there are three main challenges with measuring the social returns of impact investments. The author states that the first challenge is "defining what specifically we mean by "social impact""; in other words, Trelstad (2008) considers that defining what the social objective of the investment is and what threshold of outcomes are aimed at is actually the first challenge. The author argues that the definition of social impact may range from a proof of concept of the model to knowing that the investments are moving low-income people out of poverty. After defining the desired social impact, Trelstad (2008) argues that the second challenge is to actually prove and measure anything, indicating the possibility to count outputs or demonstrate outcomes. Finally, the third challenge according to Trelstad (2008) is to measure the "economic multipliers or unintended consequences" of the impact investments. These economic multipliers are related with the ripple effects that impact investments can have, causing a virtuous cycle. The author illustrates: "if the textile mill creates 5,000 jobs in Tanzania, what sort of impact does this have on the local or regional economy or national tax receipts?"

Summing up, social impact is less tangible and more unpredictable than financial returns, hence harder to be accurately measured. It presents a double problem for investors: to figure out what to measure and how to measure it. These problems will be discussed in the following sections.

1.7. What to Measure – Definition

When thinking about measuring the performance of the investment, the first step to give is to define what we are looking to measure. As we have just discussed, with impact investing such task can be pretty complicated.

O'Donohoe et al. (2010) defines social impact as "a broader set of outcomes, such as increased income and assets for the poor, improved basic welfare for people in need, and mitigation of climate change" which can be attributed to a particular organization's activity. However, the author explains that it is often difficult to make such attribution since social outcomes are more likely to be influenced by external factors.

Metrics of social outcomes are powerful, but expensive and difficult to gather, as it requires running a control group to survey or interview the intended beneficiaries (Clark et al., 2012; O'Donohoe et al., 2010). O'Donohoe et al. (2010) illustrate with an impact evaluation of a bednet manufacturer, arguing it could involve a multi-year study on the incidence of malaria among target customers, with a control group to understand what would have happened to those customers if the company had not sold them bednets. This way, relevant social outcomes could include changes in the customers' health and income level, or in their family's education levels.

Since in practice metrics of social outcomes are onerous, several impact investors choose to measure outputs. These indicators and metrics are generated as a result of the organization's operations (Clark et al., 2012; O'Donohoe et al., 2010). In the bednet manufacturer example, an output would be the number of benets sold. Nevertheless, Godeke et al. (2009) state that "an organization should define its desired outcomes and work to determine how the measurable outputs correlate to those outcomes". This means that, while it is important to differentiate outputs from outcomes, in order to measure impact and portray the complete picture, it is critical to assess and measure both of them.

1.8. 3rd Party Measurement System

After deciding what are the outputs and outcomes to measure, the new challenge is actually being able to measure them with the right set of metrics and indicators, given that the entire process of measuring social impact is complicated, expensive and can be subjective, as previously discussed.

Initially, impact investors either developed their own measurement systems or used the ones of the company they had invested in. However, as argued by O'Donohoe et al. (2010), having several different systems for tracking and measuring impact "is inefficient for the market as a whole and limits comparability across investments", since there will be little consistent quantitative data about the social impact actually achieved. The authors also argue that without standards and average performance benchmarks, investors will have limited means to evaluate whether the investment is making progress toward its social goals and to compare its social performance with those of other investors.

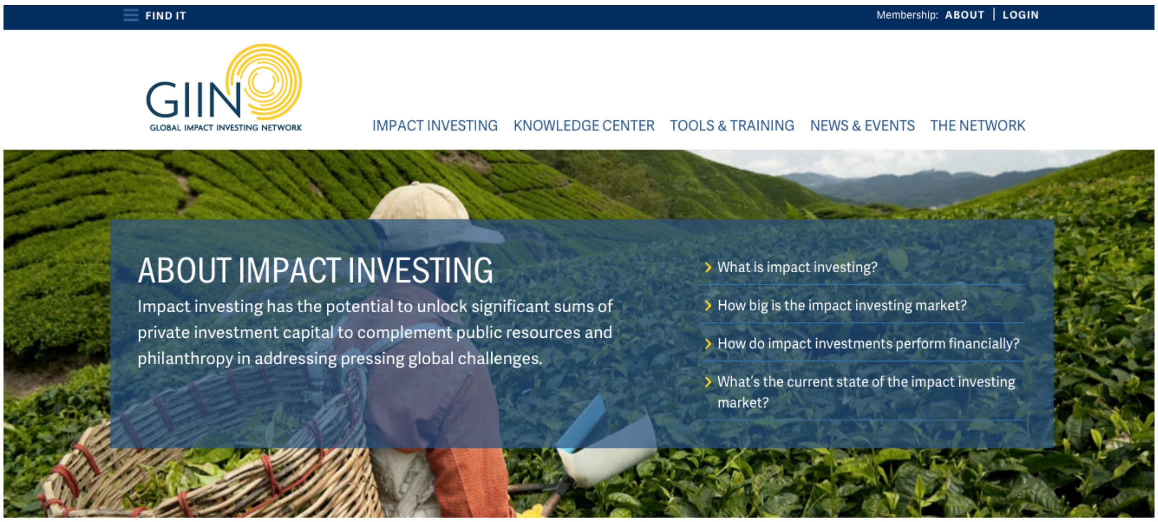
Hence, having social performance metrics well-defined and standardized ensures that impact investments can be assessed against a set of rigorous social impact criteria and more broadly compared. For this reason, industry participants worked to build and contribute data to standardized frameworks, so to answer to this need of industry benchmarks that could provide a standard framework for understanding the social performance of a company or fund (O'Donohoe et al., 2010). Actually, when comparing with data from the previous year, Saltuk et al. (2011) reported that the percentage of respondents using third-party systems increased from 21% to 31% whereas the percentage of respondents using systems of the company they had invested in declined from 24% to 17%. The authors also reported that within the impact measurement system, 85% of respondents are using metrics aligned with IRIS (65%) and/or another external set of standards (37%).

Having standard impact metrics in place smoothes the progress of measuring and comparing the social impact generated by impact investments, allowing for metrics to be compared across organizations with different impact objectives (Clark et al., 2012). In fact, according to O'Donohoe et al. (2010), "by instituting standard approaches to impact measurement, the industry can become more objective and transparent around the drivers of investment decisions".

In the following sections it will be presented and discussed some of the key organizations and initiatives created to build the impact investing industry's infrastructures and standards.

The Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing and is currently a sponsored project of Rockefeller Philanthropy Advisors. J.P. Morgan, Rockefeller Foundation, and the United States Agency for International Development (USAID), launched the GIIN in September 2009 with the goal of accelerating the development of an effective impact investing industry. The GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions. Currently, it has five key initiatives: Outreach, Network Membership, ImpactBase, IRIS and Investors' Council (Appendix 1).



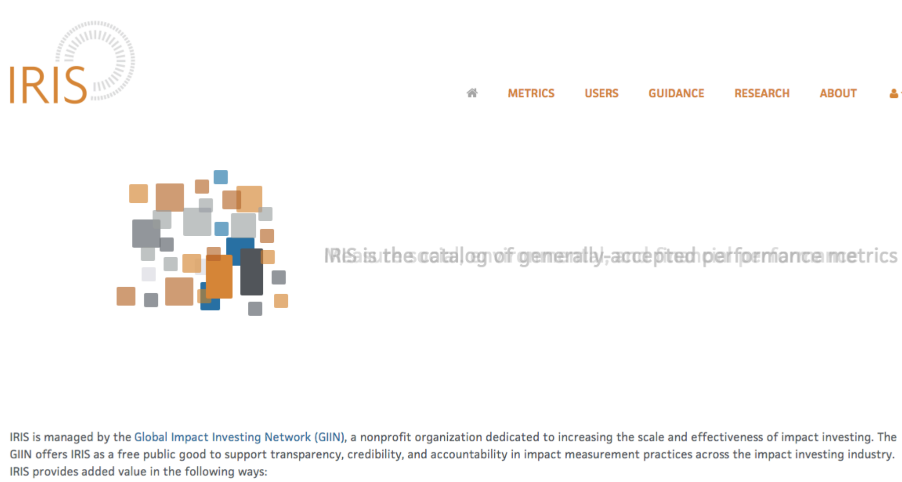
The Impact Reporting and Investment Standards (IRIS)

The Impact Reporting and Investment Standards (IRIS)4 is "the catalog of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the sector's credibility". It was launched in 2008 by Acumen Fund, B Lab, and the Rockefeller Foundation, and is managed by GIIN since 2009. The goal of this initiative is to develop and provide a common reporting language for impact-related terms and metrics, driving the industry towards consistent and widespread application of performance metrics (GIIN, 2012).

Just as financial accounting standards such as International Financial Reporting Standards (IFRS), IRIS provides a basis for performance reporting, which encourages transparency, credibility and comparability. Moreover, IRIS standard metrics and definitions are designed to be applied across diverse sectors and regions, including broad performance indicators that can be applied to any organization, as well as those that are sector-specific.

IRIS indicators are organized in five different categories. Organization description includes the metrics that focus on the organization’s mission, operational model, and location. Product description corresponds to metrics that describe the organization’s products and services and target markets. Financial performance includes the commonly reported financial metrics. Operational impact corresponds to metrics that describe the organization’s policies, employees, and environmental performance. Product impact represents metrics that describe the performance and reach of the organization's products and services.

When navigating the framework, users browse the categories and sub-categories to identify the set of IRIS metrics that align with their impact objectives, deciding which data points to share or hold back and whether to use the metrics to report for the organization as a whole or for a particular product. Additionally, they can also choose which sector-specific metrics to show or hide, since that metrics are organized in eight different sector categories: agriculture, education, energy, environment, financial services, health, housing/community facilities and water.



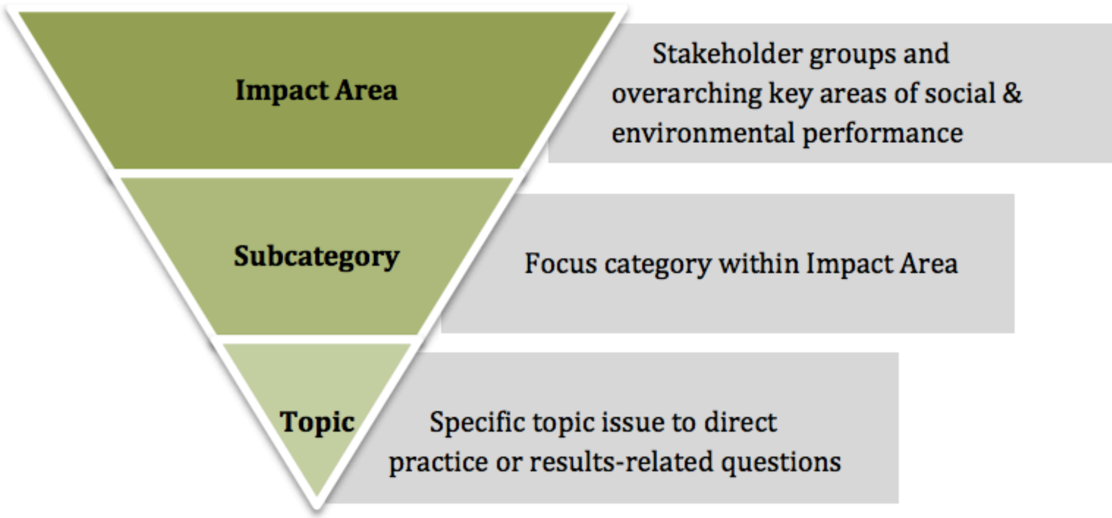
The Global Impact Investing Rating System (GIIRS)

The Global Impact Investing Rating System (GIIRS) Ratings & Analytics "is a comprehensive and transparent system for assessing the social and environmental impact of developed and emerging market companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics". This way, GIIRS provides simple and comparable ratings of the social and environmental impact (but not the financial performance) of companies and funds. It was launched in 2010 by the nonprofit organization BLab in response to the need for a broader impact rating system.

Regarding GIIRS fund ratings, the overall rating combines the score from a fund manager assessment, which is designed to capture the fund management intent, practices and policies related to social and environmental impact, and an aggregation of the scores of the companies in the fund's portfolio. Questions in the fund manager assessment are tailored depending on three variables: type of security that the fund manager invests; the stage of investment that the fund is in; and the fund's geographic focus. The investment aggregation score is determined by a weighted average of underlying portfolio company ratings in order to capture the impact created from fund-invested capital.

Concerning company impact ratings, GIIRS has a three tiered company assessment structure (Figure 4). This way, questions are divided into four different impact areas (Governance, Workers, Community, and Environment), which in turn are comprised of several sub-categories around which groups of questions covering key social and environmental issues are organized.

Figure 4



Source: GIIRS

Consequently, GIIRS provides companies with an overall rating, ratings in subcategories, and key performance indicators relevant to the company's industry, geography, size, and social mission. As a result, GIIRS is both consistent and dynamic, evaluating companies on the same social and environmental impact areas while applying appropriate focus and depth to issues where a company is likely to have an impact.

The GIIRS star rating is based on 200 possible points allocated into the four distinct impact areas and their respective subcategories and topics. This scale is intended to capture a full spectrum of positive impact performance, which means that no points are deducted for negative performance nor does the assessment include negative screenings. This way, each impact area of the company is rated across a 5-star spectrum of impact, based on the total points scored in each area. In respect to the overall company rating, there are four possible designations: GIIRS Rated, GIIRS 3 Star, GIIRS 4 Star, and GIIRS 5 Star.

Whenever possible, GIIRS has incorporated IRIS metrics into the core of its rating system, both for companies and funds. To provide a feedback loop, GIIRS shares its data anonymously with IRIS, making it a more robust benchmarking resource. As a result, any GIIRS rated company or fund is IRIS-compliant in their reporting. This represents another effort to standardize both the language and metrics, in order to allow for industry consistency and growth.

GIIRS Ratings & Analytics offers the ability to compare impact investments across geography, sector, industry and size, leading to an increase in the efficiency of the due diligence, investment, and reporting process for impact investments. This way, GIIRS adds value to investors, advisors, funds and companies by measuring social and environmental impact, by providing comparable, independent, and verified metrics and ratings, and by creating customized reporting and analytics solutions.

Moreover, GIIRS provides the impact standards and rating system necessary to facilitate a scalable and transparent marketplace for institutional investors, financial services intermediaries, and companies seeking mission-aligned growth capital. For this reason, GIIRS has the potential to unlock substantial new sources of capital from investors who are interested in impact investments but lack the appetite and expertise to develop their own social impact assessment methodology.

2. The Impact Investing Industry

In this chapter, the impact investing industry will be characterized and analyzed. First, in subchapter 2.1 the social entrepreneurship and social business will be discussed, due to social enterprises are mostly where impact investing happens. Secondly, in subchapter 2.2, the preferred business sectors and geographical regions for impact investing will be discussed. Then, in sub-chapter 2.3. the main characteristics of some of the existing impact investing funds and companies will be presented. Finally, in sub-chapter 2.4, organizations that illustrate the impact investing activity will also be shown.

2.1. Social Entrepreneurship and Social Business

Social entrepreneurship is a specific type of entrepreneurship. In fact, according to Dees (2001), "social entrepreneurs are one species in the genus entrepreneur. They are entrepreneurs with a social mission".

Dees (2001) builds his definition of social entrepreneurship on the theories of entrepreneurship of Jean Baptiste Say, Joseph Schumpeter, Peter Drucker and Howard Stevenson. According to the author, social entrepreneurs have five characteristics through which they "play the role of change agents in the social sector". Such characteristics are: the adoption of a mission to create and sustain social value (not just private value); the recognition and determined pursuit of different opportunities to serve that mission; the engagement in a process of continuous innovation, adaptation, and learning; acting boldly without being limited by resources currently in hand; and exhibiting heightened accountability to the constituencies served and for the outcomes created. Dees (2001) also argues that social entrepreneurship "combines the passion of a social mission with an image of business-like discipline, innovation, and determination".

However, Boschee and McClurg (2003) argue that Dees' definition does not include a critical element: earned income. The authors stress that organizations need to generate earned revenue from its activities, in order to avoid becoming financially dependent on others and, in turn, achieve sustainability or self-sufficiency. Boschee and McClurg (2003) argue that sustainability "can be achieved through a combination of philanthropy, government subsidy and earned revenue", whereas self-sufficiency "can be achieved only by relying completely on earned income". For this reason, the authors define social entrepreneurs as "any person, in any sector, who uses earned income strategies to pursue a social objective".

This pursuit of a social objective is the key differentiating characteristic of social entrepreneurship. As stated by Dees (2001), "adopting a mission to create and sustain social value is the core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible businesses". Massetti (2008) goes further, and argues that "it does not appear that there is a distinguishing set of traits that delineate social from traditional entrepreneurs. Rather, the differentiating factor appears to be the nature of the mission the entrepreneurs select for their businesses. Social entrepreneurs focus more on social concerns while traditional ones focus more on market-oriented ones". Also in this line of reasoning, Austin et al. (2006) notes that "the distinction between social and commercial entrepreneurship is not dichotomous, but rather more accurately conceptualized as a continuum ranging from purely social to purely economic".

In this thesis, social entrepreneurship and social entrepreneurs will be defined as according to Boschee and McClurg (2003): "any person, in any sector, who uses earned income strategies to pursue a social objective".

In terms of social business, according to Yunus (2008), a social business is “a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world”. Moreover, the author also argues that the key objective and criterion according to the organization should be evaluated is “is to create social benefits for those whose lives it touches”.

This way, as with social entrepreneurship, the first distinguishing factor of a social business is the pursuit of a social objective. According to Alter (2007), purpose is the characteristic that separates social businesses from for profit companies. The author explains that whereas for profit companies have as main purpose to generate profit, “social impact is the primary purpose of social enterprises”.

Yunus (2008) also argues that “social business and social entrepreneurship are not the same thing”. The author defends that “social business is a subset of social entrepreneurship. All those who design and run social businesses are social entrepreneurs. But not all social entrepreneurs are engaged in social businesses”.

The difference is that social businesses need to be financially sustainable; it has to be able to cover operational costs while achieving the social objective. In fact, Yunus (2008) argues that “as long as it has to rely on subsidies and donations to cover its losses, such an organization remains in the category of a charity. But once such a project achieves full cost recovery, on a sustained basis, it graduates into another world—the world of business. Only then can it be called a social business.”

Thus, as Massetti (2008) states, “social businesses differ from traditional not-for-profit institutions in that the social businesses must have profits to successfully function. And, they differ from traditional profit-based businesses in that their profits are used to support social causes rather than to increase the wealth of investors, managers, and owners”.

2.2. Business Sectors and Geographical Regions

As a result of the variety of investor types and the early stage in which the industry is, the practice of impact investing is approached with different impact goals and return expectations, and with impact investors allocating their capital in different business sectors and geographies. In fact, O'Donohoe et al. (2010) state "charting the landscape of the impact investment market, investors range from philanthropic foundations to commercial financial institutions to high net worth individuals, investing across the capital structure, across regions and business sectors, and with a range of impact objectives".

Actually, the business sectors into which impact investors put their money varies significantly, from basic sanitation, clean water distribution to the fight against disease. This is a personal decision, taken in accordance with the funds available and the investor's intentions. O'Donohoe et al. (2010) argue that impact investments are concentrated in business sectors that answer to basic needs or services, such as agriculture, housing, education, energy and financial services. On the other hand, Simon and Barmeier (2010) argue that impact investments focus on "sectors not currently serviced by traditional international finance flows".

Saltuk et al. (2011) reported that the sector with most representation across the surveyed impact investors is microfinance (Figure 5). The reason for such preference is due to the fact that microfinance is a more developed and mature subset of impact investing. This way, the standardization of terms and basic metrics for performance comparison are already in place, which allows for a great amount of available information regarding realized returns and deals, therefore attracting further investors and capital.

The geographical regions chosen by impact investors also vary according to the investor's type, preferences and goals, with current deals both on emerging and developed markets.

However, O'Donohoe et al. (2010) argue that investors usually prefer to focus on one of the two markets. One reason for this specialization, according to the authors, is related with the investor's value set: some choose to focus in emerging markets, so to help the world's poorest, whereas others opt to act in the local neighborhoods in need. The authors also argue that another reason is due to the existence of "significant regional differences that require local expertise".

Figure 5 – Sector distribution across investments

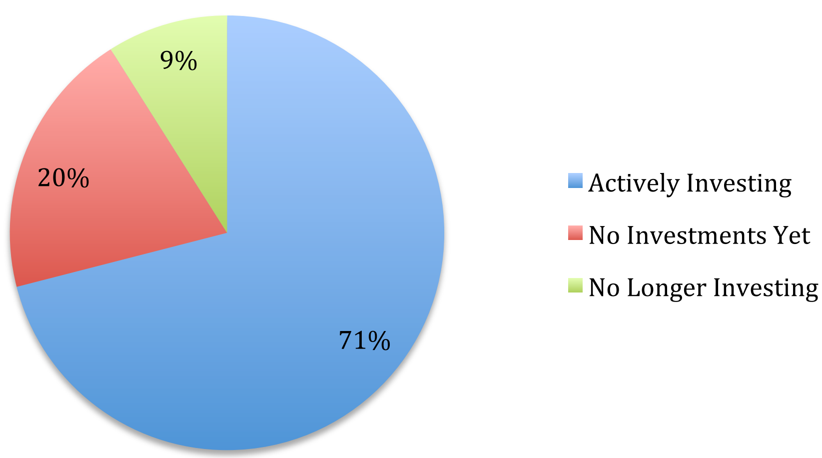
	Number	%	Notional (USD, mm)	%
Microfinance	742	34%	1.612	37%
Food & agriculture	339	15%	247	6%
Clean Energy & tech	291	13%	281	6%
Cross-sector	286	13%	650	15%
Other	270	12%	436	10%
Housing	165	7%	906	21%
Healthcare	59	3%	89	2%
Education	44	2%	139	3%
Water & sanitation	17	1%	16	0%
Total	**2.213**	**100%**	**4.377**	**100%**

Source: Saltuk et al. (2011)

2.3. Impact Investment Funds

The GIIRS Quarterly Analytics Report (B Lab, 2012b) presents the main highlights of the impact investing funds that received a GIIRS Fund Rating (referred as GIIRS funds from now on). The authors note that "the number of rated funds has increased by 150%", to 36, since the previous report of Q1 2012. Moreover, there were still 24 other funds in the rating process, leading to a total number of 60 GIIRS funds. Regarding its investing status, Figure 6 illustrates that 71% of funds were defined as "Actively Investing", whereas 20% had no investments so far, and 9% had already completed the investment phase and thus were no longer investing. This way, this data shows that most funds are quite recent which, in turn, demonstrates the extremely high growth of impact investing as well as the huge potential of this activity. Most active funds focused in developed markets have a total committed capital of $25- $49 million, whereas in emerging markets it corresponds to $10-$24 million. However, it is worth noting that the only fund sized as $125+ million invests in emerging markets.

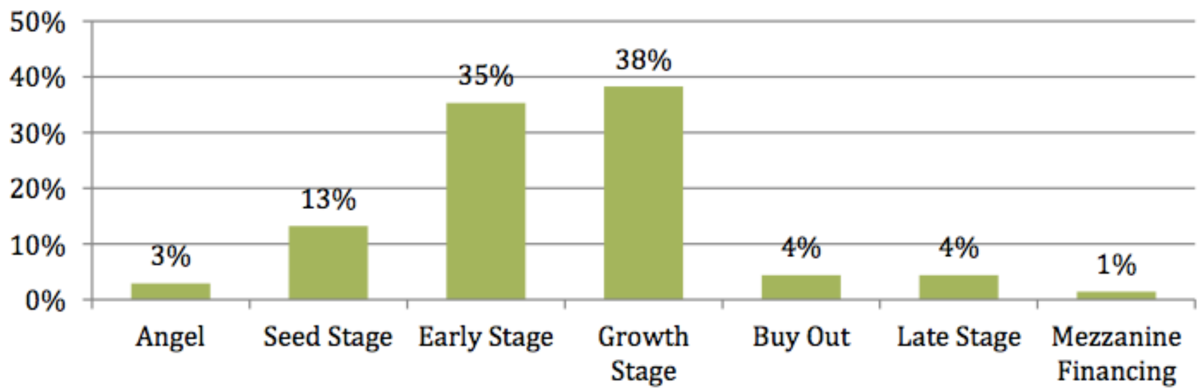
Figure 6: GIIRS rated funds by investing status



Source: GIIRS (2012)

The 15 active funds investing in developed markets have deployed a total capital of approximately $560 million, whereas the 17 active funds focused on emerging market have a total committed capital around of $600 million. This way, the total committed capital of GIIRS funds is almost $1,16 billion. The majority of GIIRS funds present an average size for each investment of $1-$5 million, both for developed and emerging markets. Figure 7 illustrates how impact investing is positioned between philanthropy and traditional markets. On one hand, philanthropists invest very early in the growth stage, whereas traditional markets only come in on later stages. Yet, GIIRS funds are highly concentrated in earlier phases, with the most part of them investing in companies' early and growth stages.

Figure 7 – GIIRS rated funds by investment stage



Source: GIIRS (2012)

Respecting the targeted financial returns, most GIIRS rated funds expect to realize a rate of return between 11-25%. When considering rated funds focused on developed markets, 25% targets a 26+% rate of return. Regarding GIIRS rated funds focused on emerging markets, 40% targets a rate of return between 16-20%.

These expected rates of return demonstrate how impact investing is very different from philanthropy. The relatively high rates are explained by the significant risks associated with investing in early stages. According to GIIRS Quarterly Analytics Report (2012), from the total 60 GIIRS funds, 52 had completed the fund manager assessment. When asked about the weight of impact investments on the parent financial institution or fund management company, 73% answered that it was more than 75% of total assets under management.

As the industry evolves and third party rating systems are more widely spread and adopted, we expect that there will be a higher correlation between the incentive structure and the social performance of the portfolio.

2.4. Companies

In the GIIRS Quarterly Analytics Report (B Lab, 2012), the main characteristics of GIIRS rated companies was also highlighted. Since the previous report of Q1 2012 "the number of rated companies has increased by almost 100%". GIIRS rated companies grew up to 268, with 150 still in the rating process, leading to a total number of 418 GIIRS companies.

Once again, the data shows that there has been a huge growth in impact investing. Additionally, future growth is also expected, due to the high number of companies still in the rating process.

From the 268 GIIRS rated companies, 140 operate in developed markets whereas 128 are set up in emerging markets (see Appendix 2). Regarding the achieved GIIRS overall rating, the company global index rating was three stars and the global index score was 91. It's worth noting that the score for emerging market companies was higher than the one of developed market companies.

Considering the activity sector, the majority of companies both on developed and emerging markets operate in the service sector. However, the second sector with higher weight varies according to the market type: for developed markets it is the wholesale/retail sector, whereas for emerging markets it is the manufacturing sector. Over 70 industries are covered by

GIIRS rated companies, with 68% of these companies represented in the top 10 industries (Figure 8).

Figure 8 – Top 10 industries of GIIRS rated companies

Industry	# Companies
Financial & insurance activities	35
Food & beverages	34
Human health, social work & medical supplies	18
Electrical equipment and electricity generation	17
Telecommunications/information services	15
Computer/tech services & products	14
Agriculture, forestry & fishing	13
Education	12
Other services	12
Apparel & Personal care products	11

Source: GIIRS (2012)

Financial and insurance activities is the one with the highest number of organizations, with microfinance institutions representing 47% of the companies in this industry. This result is in line with the fact that microfinance is a more mature field. Regarding the GIIRS rated companies in the Food & beverages industry, 68% are manufacturers, 23% wholesalers and 9% retailers. It is interesting to note that the specific types of industries in the top 10, such as health services, education, agriculture and electric supply, clearly translate the social nature and goals of impact investing.

According to 55% of GIIRS rated companies, jobs in their community grew by more than 5%. However, it is worth taking a closer look at this value, since there is a considerable difference among the market type: 28% of companies in developed markets reported such growth in job creation against 84% of companies in emerging markets. Summing up, the data presented demonstrate a very fast growth in recent years, and great potential for future growth. Moreover, it also shows a very direct link between the companies' activities and the social objectives of impact investing.

3. Impact Investing in BoP Market

In this chapter, the potential of impact investing in BoP market as an alternative strategy for Japanese enterprises will be discussed. First, in subchapter 3.1 the definition of BoP market and different BoP business worldwide will be characterized. Then, in subchapter 3.2 we will sort out some common difficulties Japanese enterprises faced in surviving BoP markets globally, through examining some previous cases that led to failure. Continue with the topic we will take a look at some specific issues Japanese enterprises must overcome in order to achieve success in the BoP market. Finally, in sub-chapter 3.3, non Japanese enterprises that have successfully overcome its challenges with BoP markets using impact investing as one of the busines-developing strategies will also be shown. This part will be a reference to Japanese enterprises as a potential learning that can help widen their choices of winnign strategy in worldwide BoP market.

3.1. Global BoP Market and Business

Similar to emerging markets, BoP market refers to regions that are comparatively underdeveloped and poor in GDP. What is different with emerging markets is that the BoP market is specifically defined as the socioeconomic segment of people who live on an annual per capita income of less than $3,000 dollars. (NRI 2012) Totaling about 4.5 billion people, or more than 70% of the world population, the market in BoP region is estimated to have a value of approximately $5 trillion. As developing and emerging countries experience economic growth, BOP, which was once treated as a target for international support, is now considered to be a new volume zone and the “next market” in the global economy.

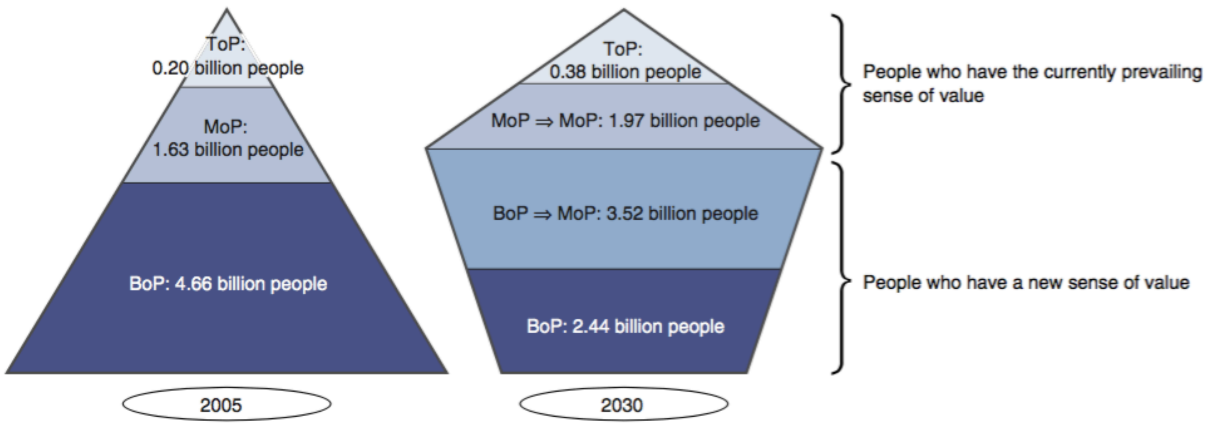
Within emerging and developing countries in Africa and Asia, which have recently been recognized as rapidly growing markets, the majority of their populations fall into this BoP segment. As much as the purchasing power per capita within the BoP segment is relatively low, the fact that people from the BoP regions are purchasing daily necessities as well as products and services that can improve their lifestyles is evident when we look at the business activities of leading U.S. and European companies that have already engaged in the BoP business.

In Japan, on the other hand, companies in various fields have started to move into the BoP business with aims of "acquiring a share of the huge market that already exists" and "acquiring a share of an even more massive market that is expected to develop when the incomes of people in the BoP segment increase and they come to fall under the Middle of the economic Pyramid (MoP)" (This is the segment in which annual incomes are between $3,000 to $20,000 dollars).

The fields in which BoP business is most likely to develop are those that were identified by the United Nations Millennium Summit in September 2000 as common goals for the international community in the shape of Millennium Development Goals (MDGs). Some of the most common fields include, for example, the fields of food/nutrition, water/sanitation, health care/medical service, education and environment/energy. As such, the majority of new products and services offered through the BoP business will aim to address many social issues still facing the BoP segment and contribute to improving quality of life in this segment.

BoP business sees people falling under this segment not only as consumers but also as business partners such as producers and retailers so as to incorporate them in a business value chain. Through business activities based on such a value chain that speaks a similar language with traditional social enterprises and businesses, it is highly likely that the income of the BoP segment will increase and the market will become more dynamic especially when specific impact investment funds shift focus to these regions as aforementioned in this thesis. From this perspective, BoP business has been recognized as not only having an economic impact, but also offering the potential for resolving social issues, as well as providing an alternative for investors to gain both social and financial return. (Figure 9)

Figure 9 – Estimated structural changes in the world market in terms of population



Source: Developing BoP Business in Emerging Markets (NRI, 2012)

3.2. Japanese Enterprises' Difficulties in BoP

Year 2009 can be seen as the "first year of BoP business" in Japan – Japanese government organizations such as the Ministry of Economy, Trade, and Industry (METI), the Japan International Cooperation Agency (JICA) and the Japan External Trade Organization (JETRO) as well as international organizations such as the United Nations Development Programme (UNDP) all either began or expanded initiatives to promote BoP business. In particular, a scheme of providing funds for feasibility studies and programs of providing support for finding potential local partners are thought to have led to a significant increase in the number of Japanese companies making the first move to enter the BoP markets.

However, although Japanese companies have started to move into the BoP business, whether all of them are capable of actually developing properly remains questioned. Looking at European and U.S. companies, we find that the road to the successful development of BoP business has been steep, and many have been forced to fight harder than imagined. Japanese companies have faced the same struggle, and the same seems to go for those companies that people even refer to as being more successful or advanced.

While every new business is difficult for a company to launch, BoP business is particularly difficult in that it presents unique challenges such as “the customers are completely different from those that we have dealt with before” and “the products and services that we offer are unlike anything we have ever offered before.” As a result, BoP startups appear to be more challenging than usual. When promoting BoP business, therefore, we need to take more of a medium to long-term view than would be warranted by a conventional startup.

In Developing BoP Business in Emerging Markets, a report conducted by NRI in 2012, they particularly mentioned that there are some actual cases of companies that abandoned their efforts to develop BoP business even though they had gone as far as initiating feasibility studies and developing their businesses in those local areas. According to their research, those cases of European, U.S. and Japanese companies that have abandoned their efforts can be broadly divided into three categories:

- Business could not be developed although feasibility studies were conducted

- Business discontinued due to the loss of a key person
- Because products failed to sell, the company was considering the abandonment of the business

Furthermore, in BOP ビジネス政策研究会 報告書, a report conducted by METI in 2013, it also mentioned some common challenges Japanese enterprises are prone to face given the past experiences the businesses had encountered in several BoP regions. In fact, the research institution carried out several interviews to both big and medium-sized Japanese enterprises in 2012 about the company's experiences with business developments in the BoP market. The results of main challenges can be shortlisted as the following:

- Lack of company strategy
- Lack of resource and capital
- Lack of local partners and talents
- Lack of R&D
- Lack of local distribution
- Unable to predict local needs; hard to forecast demands due to market/environmental issues

In particular, the report mentioned that when developing a long-term business in the BoP market, there are several life cycles in business to contemplate. To begin with, the project consideration stage – whether to actually make the decision of entering BoP market or not; the project development stage – initial planning or reconstructing of the company needed for developing in BoP market; the project expansion and establishment stage – the strengthening of local market and continuous business planning or adjustment.

However, from the interview results it can be concluded that most of the Japanese enterprises face somewhat similar and serious challenges in all three stages. For example, in the first stage, most Japanese enterprises find it difficult to acquire approval/support from both internal and external stakeholders, accurately predict local needs and local market environment so that future forecast is often misleading and seem to be too promising, and identify local key person as well as business planning partners due to lack of local resource and cultural difference. In the second stage, most Japanese enterprises find it difficult to review production costs and specifications in a timely manner in order to respond to local changes due to slow decision-making process, secure project execution partners and share the same project objectives even after different expectations are noticed, effectively utilize public support program due to complicated compliance and slow decision-making process, and address mother company's policy and system issues to local employees in BoP. Lastly, in the final stage of business development in BoP, most Japanese enterprises find it hard to implement lateral and repeated application of specific business models for BoP effectively and address patent counterfeiting issues and risk from other non-Japanese companies due to the lack of law protection in the local market (especially in medicine and healthcare industry).

The issues that Japanese companies must overcome in order to achieve success in the BoP market can be thus concluded by the mix of the aforementioned specific challenges and the traditional in-market strategy where customers, products/services, and business model are taken into consideration. For instance, from the perspective customer, Japanese enterprises should learn to integrate BoP business into company's portfolio strategy for a target country. From the perspective of products and services, they should strengthen the attitude of “現地現物Genchi Genbutsu” instead of escalating and binding most of the things under the control of mother company in Japan. And, from the perspective of a business model, they should aim to improve the profitability of BoP business.

Generally, Japanese companies recognize BoP business as one that requires a special strategy that is distinct from a portfolio strategy that is formulated for each target country. It is often unclear why a company must approach the BoP segment. Because of the lack of such clarity, the positioning of BoP business in the company’s portfolio strategy is also unclear, resulting in a situation where the positioning of BoP business within the company’s overall global strategy is lowered. Given this situation, it becomes difficult to secure sufficient budget and resources for promoting BoP business and the efforts of personnel engaged in BoP business are not appropriately evaluated.

In addition, by realizing that a hypothesis is simply an assumption, a company must create multiple business model hypotheses, and these business models must be improved based on the results of a field survey.

Japanese companies generally place an emphasis on the “go and see” approach. However, for business in emerging and developing economies, this approach has not been fully in place. The pace at which the cycle of “product development → understanding customer reaction → product improvement” moves is slow. There are actually some companies that know that their products have started to sell in rural markets, but that have never set foot in these rural areas. To fully utilize the strengths of Japanese companies, it is necessary to reaffirm whether the “go and see” attitude has firmly taken root within a company.

3.3. Examples – Success Stories of Non-Japanese Enterprises

In order to create a BoP business that will grow, it is essential for Japanese businesses to consider their failure cases in the past experiences and come up with several differentiated strategies that can compensate what are lacking in each of the development stages. In the same report (Developing BoP Business in Emerging Markets, NRI 2012), NRI argue that along the flow of new business creation in BoP market, it is crucial to incorporate "impact" at the concept development stage, incorporate "insight" at the stage of product development and business planning, and incorporate "dynamism" at the business promotion stage.

It is not hard to see that the idea of developing a BoP business is highly similar to what has been discussed in the previous two chapters – impact investing. In order for businesses to gain a positive and long-lasting result in BoP markets, it is more than just taking business as pure business that counts, but planning a thorough strategy incorporated with environmental impact that will help benefit the local community. Impact investing shares the same mindset in realizing local environment's progress while aiming for financial return.

In fact, there are several non-Japanese companies that illustrate not only the impact investing activity but they have actually successfully leveraged the impact investing activity as one of the market-entry strategies in the BoP markets. In this sub-chapter two cases will be introduced. One explains how as an impact investor a company can greatly benefit from this investing strategy and the other case discusses how an investee can benefit and give back as an investee.

The logic behind is that, by conducting impact investing through establishing internal investment fund and investing the capital in local social startup companies that share the same business expertise and objective in the BoP markets, it is more effective and easier for a company to collect local knowledge on customer demand through the binding bridge with local startups and exchange expertise in operation as well as production in order to realize scope of economies, broaden product offerings, and strengthen service flexibility.

Although one objective of conducting impact investing would be to collect financial returns, in the case of "investing more relationship than money" to the local social startups in BoP market, financial gains are more of a back-burner issue, since what the company can get out from the impact investment transcend monetary impact in the short-term, but a local relationship building and long-term operating strategy.

3.3.1. Pearson and the Pearson Affordable Learning Fund

Pearson is one of the world's largest education and learning company originated from UK. In 2012 the company launched an impact investment fund, Pearson Affordable Learning Fund, totaling $15 million of initial Pearson capital. Since the beginning of the establishment of the fund, The Pearson Affordable Learning Fund has aimed to build scalable services to meet a burgeoning demand for affordable educational services in Africa, Asia and elsewhere.

The first investment from the fund was a stake in Omega Schools, a privately held chain of affordable, for-profit school startups based in Ghana. Omega Schools were developed by Ken Donkoh, a Ghanaian entrepreneur, and Professor James Tooley, a pioneer in the low-cost private school field and professor of education policy at Newcastle University, UK. The investment helped Omega expand from ten schools in greater Accra serving about 6,000 students to a full-service school chain serving tens of thousands of students throughout Ghana. Apart from investing directly in affordable schools, the Pearson Affordable Learning Fund also invests in organisations that provide educational support, including mobile content, teacher training and accreditation services. Through the continuous investments from the Pearson Affordable Learning Fund, about 50% more jobs have been created and supported and approximately more than 20,000 students/educators in Africa have been impacted, improving living standards and economies. It is worth noting that this reflects how Pearson generates and measures both its financial returns and social impact which, as seen in Chapter 1, are clear characteristics of impact investing.

Moreover, this impact investment even transcends the common definition of how companies give out capital and merely collect social impact back. By building up a business-binding bridge with the local for-profit schools, Pearson provided not only money but actual learning materials, textbooks, and equipments to the schools. In exchange, local schools shared their unique education model and operating skills for schools in BoP back to Pearson. This exchange of expertise and products/service has also helped bringing the investment activity to a whole new level inside Pearson – traditionally investment funds and its results are only managed by specific finance teams inside the company, however in Pearson's case, since the investment activity is not so much monetary but more than strategical in product planning/business plan altering in the long run, besides specific finance teams that do manage the performance of the fund, other departments such as strategy planning, marketing, and educational material research & development teams are all brought together in generating the social impact.

When we take a look into Omega School, the first investment Pearson Affordable Fund decided to invest in, it is not hard to see how Pearson could greatly benefit from this local startup that provide innovating education in emerging markets as an investor too. Recognising that they operate in a 'sachet economy' where Ghanaian parents make daily sacrifices to send their children to school, Omega Schools have built a chain of low cost private schools which do not take these sacrifices for granted. They have designed a specialized curriculum, assessment, technology and management processes that deliver high quality education very affordably.

An important innovation pioneered by Omega Schools is the introduction of the daily fee which caters for the many parents that cannot afford to pay monthly or termly fees. Omega thrive on the daily vote of confidence of their parents. The fee covers tuition costs, uniform, books, transport, de-worming programmes and a hot meal. Each child also receives fifteen free school days a year and an insurance policy which guarantees that every child will complete their schooling even in the event of the death of a parent. Omega Schools have redesigned the school curriculum and created lesson plans and workbooks for all their schools as well as teacher training and mentoring. Their operating model combines the experience and expertise of a critical number of education specialists with trained, passionate and energetic high school graduates, to deliver quality teaching and learning.

These are all the valuable learnings in operating eductaional institutions that Pearson will most likely have a hard time to gain had it not approached the local startups first and offer a platform that does not only aim for generating and ampifying impacts but aslo serve as a connecting bridge that benefits the two parties at both ends.

3.3.2. 234Give

234Give is a Nigerian crowdfunding organization focused on leveraging fundraising and charitable giving via an online platform. The company makes the connection between nonprofit organizations or individual fundraisers and donors, linking those seeking to raise money with those wishing to donate. Founded on November 1, 2012 and headquartered in Lagos, it is the first platform of this type in Nigeria.

The company provides a set of complementary services. First, it enables NGOs, other charitable organizations and individual fundraisers to advertise, access a wide spectrum of donors, and receive funding for their projects easily. This way, 234Give allows the planning execution, and measure of successful online fundraising campaigns and charity fundraising events. Secondly, the platform provides individual fundraisers or organizations with the opportunity to painlessly support charity projects, reach out to donors and raise funds through easy and effective online payment facilities. Thirdly, donors are offered with easy access to information provided by fundraisers. Moreover, in case of making a donation to projects of their interest, the challenges of insecurity associated with online payment system is eliminated. Finally, the platform deploys state-of-the-art technology to meet all necessary online connections, payment systems, feedback requirements, and security systems relevant to protecting stakeholders.

As a result of channeling the power of the internet for online giving, 234Give connects these organizations to a wider network of donors and empowers them to gather significantly more funds than what is possible through traditional channels.

Allowed fundraisers at 234Give include charities, nonprofit institutions or NGOs, corporate organizations and individual fundraisers. It is important to note that while nonprofits raise money for their own general ongoing activities, corporate organizations and individual fundraisers raise money to support a cause or a nonprofit registered on the platform. 234Give also distinguishes fundraising as a cause, which consists of individuals seeking to finance a worthy humanitarian cause or nonprofits seeking to raise money for a specific project. Since its launch, over 390 donors have given via the online platform, and there are currently over than 116 nonprofits are registered on 234Give.

234Give is an organization that, as an investee, could greatly benefit from impact investing, given its necessity for funds and resources to possibly extend its business and operations to other countries, increasing the social impact generated.With this example, the intention is to demonstrate the potential of impact investing to complement charities and philanthropic initiatives in the BoP markets where Japanese companies can think about working with in the long run in order to quickly gain local existances.

4. Conclusions

4.1. Implication

The goal of this thesis is to discuss the implications derived from conducting impact investing in the BoP market. Hence, the paper started by discussing how impact investing had started, and understood that it emerged as an answer to solving poverty and critical social and economic issues that neither governments and charity alone could solve. Thus, impact investing fills in the gap between the market and philanthropy. Defined as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return", impact investments use market based solutions to solve tough problems in innovative ways. Here it is critical to clearly understand that the goal is to generate both social and financial returns, not only just one or the other.

We have also seen that the most common challenges Japanese companies agreed on in developing a BoP business in emerging markets, and categorized that in each development stage of BoP business, impact, insight, and dynamism should be incorporated in order to maintain a long-lasting relationship with the local environments. In the end the thesis imply that the impact investing idea discussed in the first half of the thesis may potentially serve as an innovative strategy for Japanese enterprises to consider in order to have all impact, insight, and dynamism inplced in developing a long-term BoP business. Two short cases were presented to show how both the investor and investee can benefit greatly from the investing activity. Although currently most of the successful stories lie within non-Japanese enterprises, we do hope that one day Japanese companies can finally overcome the cultural and organizational challenges in developing BoP business.

4.2. Limitations

There are several limitations of this thesis. First, as an implication for Japanese enterprsies to consider the possible effects on conducting impact investing in BoP market as market-entry strategy, this thesis did not elaborate more on actual actions that are needed in real-time practice. Second, due to limited public information on Japanese companies' current difficulties faced in developing businesses in BoP market, this thesis categorize all difficulties discussed without pointing out specific problems faced by various industries and company types. Third, due to the lack of information mentioned above, the thesis might not talk deeply enough about specific existing challenges and might be biased in raising impact investing as an innovative strategy for all kinds of Japanese enterprises in the market. However, the core idea of this thesis is to provide a starting point in considering impact investing as one of the many strategic options, and future practice methods are deemed as further study extended from this thesis.

Appendices

Appendix 1: The GIIN's five key initiatives

Outreach

The GIIN's Outreach initiative elevates the profile of the impact investing industry by highlighting examples of impact investments, tracking industry progress, and sharing market information and best practices with the diverse impact investor community, potential impact investors, and the general public. The GIIN attends and speaks at industry events, informs conference and event programming, and promotes mainstream traditional and social media coverage of the impact investing industry. In addition, the GIIN's practitioner-focused research draws on its industry networks and leverages data gathered through its programs.

As part of Outreach, the GIIN maintains an online impact investing resource center, which features research, news clippings, events, useful links, and GIIN publications about impact investing. The GIIN also hosts an online Career Center, which is a free source for top job openings in impact investing from members of the GIIN and other impact investing organizations. Additionally, the GIIN authors and circulates a free monthly newsletter that features the latest impact investing news and events, as well as Investor Spotlight interviews with leading impact investors about their motivations, strategies, and deals.

Network Membership

The GIIN's membership is for organizations interested in deepening their engagement with the impact investing industry. Members of the GIIN are connected to a thriving peer community and gain formal access to industry information, tools, and resources. Members periodically meet at events and through virtual convenings, and receive tutorials on tools designed to strengthen their impact investment.

ImpactBase

ImpactBase is the online global directory of impact investment vehicles. ImpactBase reduces search costs and brings order to the previously fragmented and opaque impact investing fund and product marketplace. ImpactBase provides an organized database and search tool for sharing and finding information on impact investment vehicles. Fund managers and financial intermediaries increase visibility with individual and institutional investors around the world by creating ImpactBase profiles for their impact investment vehicles. Accredited investors and financial advisors subscribe to ImpactBase to search for and learn about vehicles that match specific impact investment objectives.

IRIS

Impact Reporting and Investment Standards (IRIS) is a set of metrics that can be used to describe an organization's social, environmental, and financial performance. IRIS is designed to address a major barrier to the growth of the impact investing industry - the lack of transparency, credibility, and consistency in how organizations and investors define, measure, and track their performance. The IRIS initiative has three main components: (1) developing and refining IRIS; (2) increasing accessibility of IRIS promoting IRIS use; and (3) encouraging voluntary contribution of self-reported, anonymous IRIS performance data to provide additional market intelligence.

By using IRIS to track social, environmental, and financial performance, a wide range of investors and organizations can communicate their social, environmental, and financial performance using the same terms and definitions. This consistency helps investors evaluate and compare performance for more accurate assessment and comparison, and helps portfolio organizations track and improve their business and social performance.

Investors' Council

The GIIN Investors' Council is an exclusive leadership group for active large-scale impact investors. Comprised of asset owners and asset managers with diverse interests across sectors and geographies, the Investors' Council provides a forum for experienced impact investors to strengthen the practice of impact investing and accelerate learning about new areas in the field. As leaders, Investors' Council members also participate in field-building activities such as infrastructure development and research to advance the broader impact investing industry.

The Investors' Council currently supports two working groups focused on specific impact investing themes. The first working group, Terragua, is composed of Investors' Council members that are focused on increasing investment in sustainable agriculture in sub-Saharan Africa, with a goal to improve the lives of poor farmers and their families. The Inclusive Finance Working Group is composed of Investors' Council members interested in inclusive finance, particularly financing access for small and medium enterprises, microfinance, and financial inclusion access platforms.

Source: GIIN

Appendix 2: GIIRS rated companies by country and market type

	Developed Markets	Emerging Markets
Canada	12	
New Zealand	1	
United States	127	
Bangladesh		1
Brazil		4
Chile		2
China		1
Costa Rica		7
Dominican Republic		1
Ecuador		1
El Salvador		2
Ethiopia		1
Georgia		8
Ghana		2
Guatemala		2
Honduras		2
India		25
Kenya		22
Liberia		1
Mexico		18
Nicaragua		6
Nigeria		1
Pakistan		1
Peru		1
Philippines		1
South Africa		3
Tanzania		2
Uganda		4
Vietnam		9
Total	**140**	**128**

Source: GIIN Lab (2012)

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