



# Impact Investing in South Asia:

How has it evolved and what are the current opportunities and challenges?

CADMUS

## Introduction

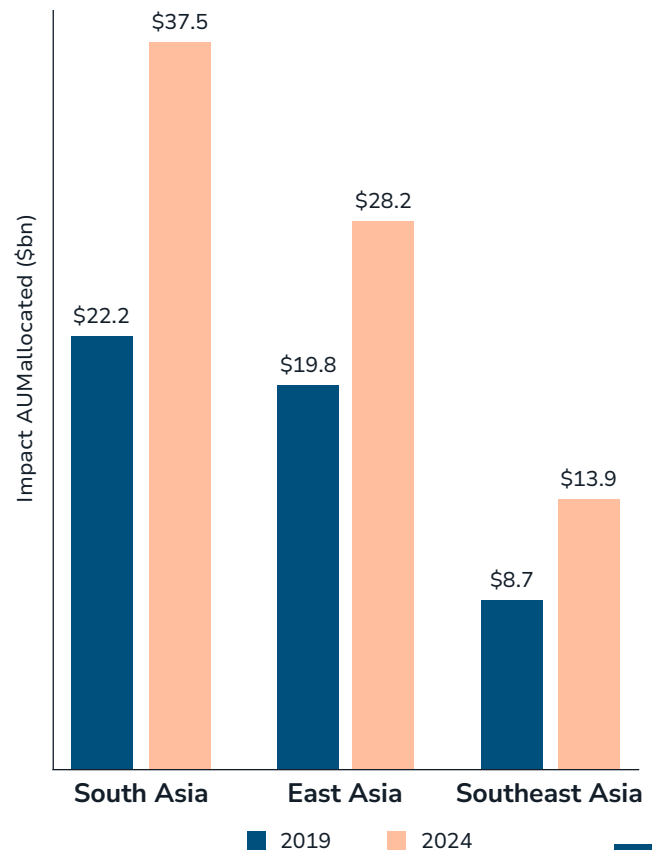
In the last two decades, the global investment landscape has undergone significant evolution, driven in large part by the growth of impact investing. *Impact investing refers to investments made with the intention to generate positive, measurable social and environmental outcomes alongside a financial return.*<sup>1</sup> It blends financial goals with a desire to address pressing challenges, such as poverty, inequality, climate change, and access to education and healthcare.

South Asia is home to over 1.8 billion people although defined by diversity in terms of cultures, economies, and challenges. Despite this, countries such as India, Bangladesh, Pakistan, Sri Lanka, Nepal, and Bhutan also share commonalities including relatively higher levels of poverty than the wider Asian region, limited access to basic services, and environmental threats. Yet, despite these challenges, it has experienced impressive economic growth, burgeoning entrepreneurial ecosystems, and an increasing push toward a more sustainable development path. It is within this context that impact investing has emerged as a powerful tool for driving change.

Initially, impact investment was a niche concept, with few players and limited understanding of how to balance financial returns with social impact. However, as global awareness of sustainability, and the urgency of addressing climate change and inequality grew, so too did the interest in impact investment in the region (see figure 1). What started as a fledgling movement, primarily driven by a handful of pioneers, has now evolved into a significant sector attracting local and international investors, social enterprises, and donor and government support.

*This short paper aims to explore the journey of impact investment in South Asia, starting from its early stages in 2005, to the present day, where it has become a powerful catalyst for addressing some of the most pressing issues of the region, and where, from a Cadmus perspective, it is likely to go in the near term.*

Figure 1: The dominance of impact investing in South Asia



Source: GIIN In Focus, Impact Investing in Asia in 2024

<sup>1</sup> Global Impact Investing Network (GIIN) definition - 2024

## The emergence of impact investment in South Asia (2005-2010)

Fueled by growing global recognition of the limitations of traditional philanthropy and aid in addressing the region's social issues, the term "impact investing" gained popularity through the work of pioneers like the Rockefeller Foundation and Acumen Fund, who sought to demonstrate that social challenges could be addressed through market-driven solutions that generate both social and financial returns.

During these early stages, impact investment in South Asia was concentrated in a few key sectors, primarily:

- **The microfinance sector**, as investors recognized the importance of providing financial services to the underserved, especially in rural areas where access to capital was limited, through institutions such as SKS Microfinance (now Bharat Financial Inclusion) in India and Grameen Bank in Bangladesh.
- **The clean energy sector**, with investments in solar power, biogas, and small-scale renewable energy projects targeting rural communities, through companies such as SELCO India to provide solar solutions to rural households.
- **The healthcare and education sectors**, where access to quality services was limited, especially in rural and underserved areas. Companies such as Aravind Eye Care in India, and education-focused ventures like EduComp and Byju's became some of the first investments in these sectors.
- **Agriculture and agribusiness**, which was another key sector for early impact investment. Companies focusing on sustainable farming techniques, irrigation technology, and supply chain innovations began attracting attention particularly across India and Bangladesh.

Despite the optimism and early successes, impact investing in South Asia faced significant challenges during its formative years. Based on Cadmus experience of these years, the challenges could be summarized as:

- **Lack of awareness** - investors and entrepreneurs were not familiar with the concept and the region's financial markets were not yet equipped to handle these types of investments;
- **Perceptions of risk** - enterprises which were most suitable for impact investment, including early-stage businesses, were often seen as risky investments, and attracting mainstream investors was challenging;
- **Little consensus on how to measure the social and environmental impact of investments**, leading to difficulties in proving the effectiveness of investments and attracting more capital; and
- **The absence of clear regulatory frameworks for impact investments** in many South Asian countries hindered the development of the market.

## Growth and deepening of the market (2011-2016)

South Asia's expanding middle class, entrepreneurial ecosystems, and rapid technological adoption provided an opportunity for impact investors to gain traction. This was aided by development institutions such as the World Bank, UK FCDO and the European Union beginning to support impact investing initiatives, as well as governments in the region, recognising the importance of creating a conducive environment for impact investments. For instance, in India, the Impact Investors Council (IIC) was established in 2015 to support the growth of the impact investment ecosystem, which was pivotal for advocating for more favourable regulations and played an important role in formalising and promoting the sector. Eight years later, in Nepal, Cadmus through the Invest for Impact Nepal

(IIN) Programme funded by British International Investment (BII), FMO and the Swiss Development Cooperation, provided the catalyst to strengthen and deepen the work of the Nepal Private Equity Association leading to establishing the foundations for accelerating growth of the sector.

Private equity firms, venture capitalists, and commercial banks started to realise that impact investing offered an opportunity to achieve financial returns, influenced by several factors:

- **The rise of the UN's Sustainable Development Goals (SDGs)** helped increase awareness among institutional investors about the potential for aligning impact investing with long-term financial returns.
- **Growing recognition of ESG (Environmental, Social, Governance) factors.** As companies and investors became more aware of the financial risks associated with environmental and social issues, there was stronger demand for ESG-based investing. This trend was particularly strong among Development Finance Institutions (DFIs), family offices and high-net-worth individuals, who were eager to make investments with a dual objective of returns and impact.
- **Growing use of blended finance** where concessional capital was used to de-risk investments and attract more mainstream private capital. DFIs, such as the International Finance Corporation (IFC), British International Investment (BII), and France's Proparco, increasingly used blended finance strategies to scale impact investments in sectors like renewable energy, healthcare, and agriculture.

Despite this, impact investing in South Asia continued to face *several evolving challenges* which slowed the pace of growth. The key challenges, based on our experience, included:

- **Regulatory barriers:** South Asian governments, though increasingly supportive of impact investing, failed to address regulatory uncertainty especially regarding tax incentives and foreign direct investment (FDI) rules in some countries, such as India, Nepal, and Pakistan, which dampened investment.

- **Lack of scalable impact solutions:** Many of the enterprises that were initially targeted were relatively smaller and at an earlier stage of development. While they demonstrated potential for social impact, many struggled to scale their models effectively. Investors were often hesitant to commit large amounts of capital without clear evidence of a proven, scalable business model. So greater reliance was placed on DFI investment during this period.
- **Data and impact measurement:** Standardized impact measurement frameworks were still in their infancy, and many investors struggled to quantify the results of their investments in ways that were both credible and actionable. This lack of standardized measurement tools made it difficult for impact investors to compare and evaluate different projects and companies.
- **Access to capital for early-stage ventures:** While larger impact funds gained momentum, access to funding remained a challenge for early-stage enterprises. Venture capitalists were often reluctant to invest in business models that required a long gestation period to become profitable, given significant market volatility.

## Maturity and innovation (2017-onwards)

By 2017, the impact investment landscape in South Asia had matured significantly, with the market becoming more diversified, robust, and well-supported by both domestic and international players. This period marked the acceleration of growth and the diversification of sectors that attracted impact capital, driven by a mix of institutional interest, innovative financial structures, and growing societal awareness of sustainability issues.

According to the Global Impact Investing Network (GIIN), South Asia has since then become one of the fastest-growing regions for impact investment with the region seeing approximately US \$5 billion

in impact investments, with India being the largest recipient, followed by Bangladesh, Sri Lanka, and Pakistan. Furthermore, larger impact investment funds have begun to emerge - Aavishkaar Capital, Omnivore, IIMPACT, and Saama Capital have become leading players in South Asia's impact investing space, providing capital to early-stage and established ventures focused on clean energy, healthcare, education, financial inclusion, and sustainable agriculture. Impact investing funds since 2017 have raised between US \$100 million to over US \$1 billion at close. This growth has also been driven by the attractive returns they offer investors – in a recent GIIN investor survey, investors reported that gross financial returns on private equity and private debt investments in the wider Asian (and South Asian) region were on average 3 percent higher than global asset class averages – see figure 2 below.

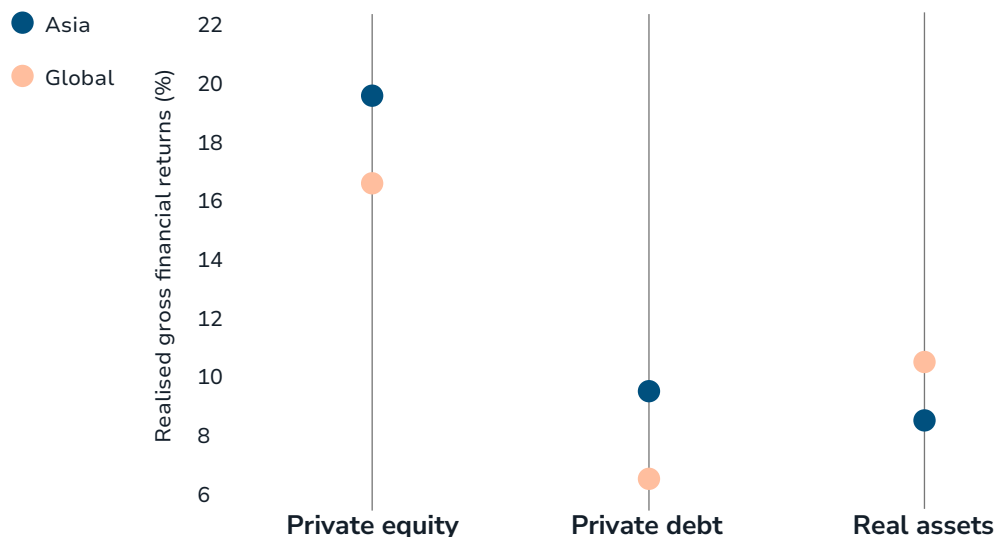
In addition to this, governments in countries like India, Bangladesh, and Sri Lanka have begun to take a more active role in promoting impact investing through supportive policies, regulatory reforms, and funding programmes. In India, for example, the government's Start-Up India and Make in India initiatives have encouraged entrepreneurs and social enterprises to create scalable solutions that could address social challenges, such as poverty, education, and healthcare.

The rise of ESG-investing globally has played a significant role in shaping and accelerating the growth of impact investing in the region. As more institutional investors - such as pension funds, private equity firms, and commercial banks – have integrated ESG principles into their investment strategies, impact investing has become a core part of their portfolios. Later adopting countries such as Nepal, that Cadmus is supporting through the IIN initiative, are seeing their financial sector increasingly adopting ESG principles, which has allowed it to become increasingly attractive to international, and in particular DFI, investors, leading to over US \$500 million of investment over the past 5 years into this sector.

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Figure 2: PE and private debt impact investments in Asia are outperforming the global average



Source: GIIN In Focus, Impact Investing in Asia in 2024

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## Key drivers shaping the future of impact investing

The growth and diversification of impact investment across sectors such as clean energy, healthcare, agriculture, and finance is helping to create potential for a buoyant market in the coming decade, despite short term instability in global markets. We believe several emerging trends will shape the speed and trajectory of growth in South Asia over the next decade:

### Digital transformation and the rise of tech-enabled impact solutions

The digital revolution in South Asia is transforming industries across the board, and impact investing will increasingly benefit from technology-enabled solutions. India, Pakistan, and Bangladesh have all seen significant increases in internet penetration. By 2023, internet penetration in India reached 65% of the population, while Bangladesh and Pakistan saw internet penetration rates of 70% and 40%, respectively.

The fintech revolution continues to dramatically reduce the financial inclusion gap in South Asia. Digital wallets, peer-to-peer lending, micro-insurance, and mobile banking solutions will allow millions of people to access financial services for the first time. Companies like Paytm (India's largest digital wallet that reported 400 million+ active users in 2023, handling more than US \$4 billion in transactions monthly) and bKash (with 60 million customers as of 2023, accounting for over 60%

of the mobile money transactions in Bangladesh with monthly transaction volumes exceeding US \$3 billion) – both of which Cadmus has helped to innovate products and service offerings – have shown how mobile platforms can enable financial participation for unbanked and underbanked populations.

Companies leveraging drone technology, precision agriculture, and blockchain-based supply chain management are improving efficiency and access to markets for farmers. As climate change continues to impact farming, agri-tech solutions are attempting to promote climate-resilient crops and water-efficient practices. For instance, AgroStar, an agritech startup in India, has provided over 10 million farmers with access to affordable agricultural inputs and personalized advice through its app.

### The integration of ESG metrics and impact measurement

One of the most significant developments is likely to be the widespread adoption of ESG metrics and impact measurement frameworks. As investors have become more focused on not only financial returns but also measurable social and environmental outcomes, standardized metrics for assessing impact, such as those being developed by GIIN and DFIs such as IFC will become more sophisticated and widespread.

The integration of ESG factors into investment strategies are likely to move beyond relatively simple systems towards integrating more deeply into how enterprises do business. In South Asia, ESG is likely to be increasingly adopted in certain sectors – starting with finance and renewable energy, as we have seen in markets such as Nepal, Bangladesh and India, where increasingly larger numbers of financial institutions are embedding ESG principles into their operations, helping them make better-informed investment decisions that account for long-term risks and returns.

## Blended finance and innovative funding models

Blended finance - a strategy combining concessional capital from donors or DFIs with private sector funding - will continue to play a key role in scaling impact investments in South Asia. Blended financial structures will be important in projects where business models are not yet mature enough to attract support from corporate or institutional investors. Furthermore, the trend toward co-investment partnerships between public and private sectors is expected to accelerate, unlocking larger pools of capital for high-impact projects.

- **Green bonds, social bonds, and impact bonds** are growing in popularity as alternative funding mechanisms. Governments, banks, and corporations are issuing these bonds to raise capital for specific SDG-related projects, such as renewable energy or education. India is one of the largest issuers of green bonds in South Asia, with a market estimated to be around US \$850 million to US \$1 billion in 2024 but still modest by international standards. Green bonds whilst still nascent in Bangladesh, Sri Lanka, and emerging in other countries such as Nepal, the market is poised for expansion, supported by government initiatives and emerging policy frameworks.
- **Development Impact Bonds (DIBs)** that tie funding to measurable social outcomes have gained significant momentum over the past decade. Designed to attract private investment toward public good initiatives, DIBs have become increasingly appealing in the region due to their potential to enhance accountability, improve service delivery, and scale interventions in education, health, and skills development. The Quality Education India DIB (2018–2022) one of the world's largest education-focused DIBs, brought together partners like UBS Optimus Foundation and the Michael & Susan Dell Foundation to improve learning outcomes for over 200,000 children in India, with investors receiving a reported 8% return on their investment.

## Growing demand for impact-driven solutions

The region's large and youthful population, coupled with rapid urbanisation and relatively robust economic growth (in comparison to other parts of the globe), creates both opportunities and pressing challenges that impact investors are well-positioned to address.

- **Demographic shift:** With a median age of 28 years in India, 24 years in Bangladesh, and 22 years in Pakistan, South Asia has a large young population that will increasingly demand access to quality education, employment, healthcare, and financial services. This demographic presents an ideal opportunity for investors to focus on enterprises that can create sustainable value for individuals and communities.
- **Urbanisation:** By 2050, more than 50% of South Asia's population is expected to live in urban areas, presenting opportunities for sectors around urban and municipal services, affordable housing, clean energy, transportation, and digital infrastructure. Rapid urbanisation will also require addressing issues such as air pollution, waste management, and water scarcity, all of which are areas where impact investors can drive significant positive change.
- **Increased consumer demand:** Rising middle-class populations in countries like India, Bangladesh, and Sri Lanka are increasingly demanding environmentally sustainable and socially responsible products and services. According to a PwC report, nearly 63% of consumers in India now prefer to purchase products from companies with clear environmental or social commitments, further underscoring the growing market for socially responsible investments.

## Increasing importance of climate finance and renewable energy

South Asia is particularly vulnerable to the impacts of climate change, with countries like Bangladesh, Nepal, Pakistan and India facing frequent flooding, cyclones, and droughts. As a result, climate finance

has become one of the most promising and urgent areas of targeted impact investment into the region.

The region is projected to become a global leader in renewable energy investments, particularly solar and wind power. In India, renewable energy capacity reached over 150 GW by 2023, and the country aims to achieve 500 GW by 2030. Bangladesh and Pakistan are also expanding their renewable energy portfolios, with solar power leading the charge in both countries. In addition, in Nepal hydro-power projects have led to the country being energy self-sufficient and even an exporter of power to India.

Furthermore, the development of carbon credit markets will also be a significant area for impact investors to target. India, for instance, has been a key participant in the international carbon market, with the potential to unlock billions in financing for clean energy projects. The Indian government has already implemented energy efficiency certificates and carbon credits, creating additional financial mechanisms for climate-focused investments.

## Challenges that need to be overcome

Despite a promising future, several barriers still hinder the growth and expansion of impact investing in South Asia. We believe these challenges must be addressed for the region to fully realise its potential as a tool for social and environmental change. The following are some of the key barriers, that we see as moderating its growth. Whilst it is not an exhaustive list, it provides in our opinion, some of the most pertinent challenges that will need to be overcome:

### Limited pool of investors

Many investors still perceive impact investing as a niche market or one that entails higher risks and lower returns compared to traditional investments. This can make it challenging for impact-focused businesses, especially in the social and environmental sectors, to attract funding from traditional venture capitalists or institutional investors.

Many commercial investors interested in South Asia have only moderate risk appetites, particularly in markets with political or economic instability. Impact investments, especially those targeting rural and underserved areas, are often perceived as high-risk, which can deter potential investors. Risk-mitigation mechanisms such as guarantees, loan-loss reserves, and political risk insurance are still insufficient in many South Asian markets, reducing investors' confidence in deploying capital in high-risk sectors like clean energy, healthcare, and agriculture. Without these mechanisms, many investors continue to view the region as high-risk.

### Differing regulations on Foreign Direct Investment (FDI)

South Asian countries maintain varying rules for FDI across different sectors. For example, India and Bangladesh have different restrictions and caps on foreign ownership in certain industries, such as agriculture or healthcare. These differences create challenges for international impact investors looking to operate across multiple markets in the region. Moreover, the regulatory hurdles related to taxation, repatriation of profits, and foreign exchange control regulations complicate cross-border financial flows. Pakistan, for instance, has more stringent regulations on FDI in certain sectors, creating additional barriers for impact investors looking to expand their portfolios across the region.

### Trade barriers and bureaucratic delays

Countries like Sri Lanka and Bangladesh may have favourable policies on paper, but the bureaucratic inefficiencies in implementing these policies can slow down investment flows. Delays in customs approvals, permits, and clearance procedures can make it more difficult for international investors to move capital across borders. For example, while Sri Lanka has positioned itself as a regional hub for impact investment in sectors like renewable energy, delays in government approvals for projects, including cumbersome permitting procedures, can result in significant delays (and costs) for deploying capital. The recent macro-economic shocks have also hampered its ability to translate its policy goals into action.

## Challenges with data collection and measurement of impact

Whilst some of the early challenges faced by impact investors of measuring and reporting on the impact of their investments have eased, they have yet to be fully addressed making assessing social or environmental impact a complex and often subjective process. Some of the key challenges in data collection and impact measurement include:

- **Data availability and quality:** In many parts of South Asia, especially in rural areas, access to reliable and accurate data is limited. Enterprises, and in particular less established firms, operating in underserved regions may lack the capacity to track and report on their impact effectively. This makes it challenging for investors to gauge the effectiveness of their investments and measure their contributions to achieving impact.
- **Cost of data collection:** Collecting impact data often requires dedicated resources, both in terms of time and money. Many enterprises do not have the capacity to gather, analyse, and report on data systematically. As a result, they may struggle to demonstrate their social and environmental impact, which in turn affects their ability to attract future investment.

## Conclusion

As we move into the next phase of the impact investing journey in South Asia, the region is poised to continue being a major hub for innovative investments that have the potential to address the region's critical challenges. Its rapid population growth, urbanization, and increasing access to digital technologies present unique prospects for scaling investments that achieve both financial returns and social impact. The ongoing climate crisis, social inequalities, and economic challenges further underscore the urgent need for impactful solutions, creating an environment where impact investors can play a crucial role in shaping sustainable futures.

Looking ahead, the integration of artificial intelligence (AI), blockchain technology, and data analytics is expected to further accelerate the impact investment ecosystem. Additionally, as global interest in ESG investing continues to grow, South Asia is well-positioned to attract more capital into its high-impact ventures. The region is close to reaching a "tipping point," attracting investors committed to both financial returns and improved climate and nature as well as social outcomes. Despite challenges such as market immaturity, measurement of impact and its costs and continued perceptions of high risk, many proven solutions are already emerging that will likely spur future growth in the sector.

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