



TRAILBLAZING FOR CHANGE:

Hong Kong,
the Impact Investing
Hub of Asia

September 2024

FSDC Paper No.65

Table of Contents

➤	Executive Summary	4
➤	Introduction	7
➤	Impact Investing at a Glance	10
➤	State of Impact Investing in the World and Asia	14
	The Global Impact Investment Landscape	14
	Recent Investment Trends and the SDGs	15
	Impact Investing in Asia	16
➤	Impact Investing Landscape in Hong Kong	21
	Hong Kong's strengths as an Impact Investment Hub	21
	Opportunities for Hong Kong	26
➤	Challenges Faced by Impact Investors in Hong Kong	29
	Limited awareness and education on impact investing	29
	➤ Overcoming perceptions of risk and return	30
	➤ Lack of impact investing education for mainstream investors	31
	Challenges to developing impact strategies	32
	➤ Lack of guidance and incentives for investors to develop impact strategies	32
	➤ Scarcity in impact investing deals and impact investment managers with track records in Hong Kong	35
➤	Policy Recommendations: Building an ecosystem for impact investing to thrive in Hong Kong	37
	a) Awareness raising: Empowering well-intentioned investors	38
	➤ Recommendation 1: Prioritising SDGs and encouraging early adoption of impact frameworks	38
	➤ Recommendation 2: Setting an example through direct government involvement	40
	b) Capacity building: Enhancing education with a multifaceted approach	42
	➤ Recommendation 3: Empowering retail investors through increased investor education	43
	➤ Recommendation 4: Enriching asset owners' expertise through collaborative partnerships and industry engagement	43
	➤ Recommendation 5: Cultivating early through higher education	44
	c) Incentivising impact: Creating a conducive environment for impact investment	45
	➤ Recommendation 6: Enhancing the ease of incorporation	45
	➤ Recommendation 7: Promoting investing with purpose	46
	An Idea for Listed Companies to consider: Utilising odd lots for a good cause	47
➤	Conclusion	49
	Annex	51
	Annex 1 – A brief introduction to impact investing	51
	Annex 2 – Examples of overseas impact investing capacity building organisations	60

A vertical bar with a gradient from red at the top to orange at the bottom.

Executive Summary

Executive Summary

The global financial landscape has witnessed a significant paradigm shift with the rise of sustainable finance. Impact investing, among other means, is a powerful catalyst aligning investor capital with societal and environmental values. This some US \$1.2 trillion-worth market reflects investors' growing interest in tackling critical issues like climate change, poverty, and inequality through their investments.

Asia is witnessing substantial growth in impact investing capital flows. While only a relatively small portion of impact investors' assets are currently allocated to Asian regions, there has been a notable increase since 2017. East Asia, in particular, has seen a remarkable 21% compound annual growth rate in impact investment assets under management from 2017 to 2022, reaching \$17.9 trillion. South Asia has also experienced a 15% growth rate during this period, highlighting the region's rising impact investing momentum.

As a sizeable economy, Mainland China holds vast potential for impact investing, with Hong Kong well-positioned to facilitate this growth due to its deep understanding of the Chinese market and financial expertise. China's ambitious carbon peaking and neutrality targets require an estimated annual funding of RMB 2.6-4.2 trillion, with over 80% predicted to come from social capital. Hong Kong can play a crucial role in bridging this funding gap and channelling impact capital towards China's sustainability efforts. The city's reputation as a green finance hub, its regulatory environment, and the government's commitment to sustainable finance create an ideal ecosystem for impact investing to thrive.

To this end, the Financial Services Development Council (FSDC) sees now as an opportune moment to accelerate the development of impact investing, leveraging its potential to drive positive change and address pressing societal challenges in the city. As such, the FSDC has formed a dedicated Working Group comprising industry experts with a view to gathering market feedback and formulating policy recommendations for the Government's and public stakeholders' consideration. This study aims to **identify measures to promote impact investing in Hong Kong, encourage corporate and institutional participation in impact investing, and ultimately establish the city as a regional hub for impact investment.**

The report identifies the key challenges facing the industry and puts forward relevant policy recommendations: -

a) Awareness raising: Empowering well-intentioned investors

- Recommendation 1: Prioritising SDGs and encouraging early adoption of impact frameworks
- Recommendation 2: Setting an example through direct government involvement

b) Capacity building: Enhancing education with a multifaceted approach

- Recommendation 3: Empowering retail investors through increased investor education
- Recommendation 4: Enriching asset owners' expertise through collaborative partnerships and industry engagement
- Recommendation 5: Cultivating early through higher education

c) Incentivising impact: Creating a conducive environment for impact investment

- Recommendation 6: Enhancing the ease of incorporation
- Recommendation 7: Promoting investing with purpose

Amidst a rising emphasis on impact investing and an expanding array of incentives for both corporate and retail investors to harmonise their financial objectives with positive social and environmental impacts, Hong Kong stands poised to reinforce its stature as a premier hub for impact-driven endeavours in the region. Although the existing regulatory framework may not be as favourable for retail engagement in impact investments, promoting the involvement of diverse investor categories could ultimately foster an environment conducive to the expansion of impact investing. By nurturing a domain where financial gains and societal impacts intertwine, the city can position itself as a pivotal centre where financial acumen converges with social responsibility, enriching both the local community and the broader region it serves.

Introduction



Introduction

Impact investing has emerged as a powerful catalyst for driving positive change in the financial landscape, as investors increasingly strive to align their capital with their core values. The global impact investing market has experienced significant growth in recent years, generating increased interest from investors, entrepreneurs, and policymakers alike. With an estimated value of US\$1.2 trillion,¹ this surge can be attributed to several influential factors. One significant factor is the growing recognition of the pressing need to address critical global challenges such as climate change, poverty, and inequality. This evolving investor mindset has led to a realisation of the potential of impact to deliver both financial returns and positive societal outcomes.

Building on its solid foundation as a green and sustainable financial hub, Hong Kong's growing interest in sustainable and socially responsible investments has propelled the adoption of impact investing practices. Investors in Hong Kong are increasingly seeking opportunities to align their capital with environmental, social, and governance (ESG) factors to achieve positive social and environmental outcomes alongside financial returns. The HKSAR Government's commitment to promoting sustainable finance, coupled with the presence of a robust financial ecosystem and a strong regulatory framework, has created a conducive environment for impact investing to thrive in Hong Kong.

Hong Kong has the potential to establish itself as an impact investing hub, given its existing strengths and competitive advantages. Such a strategy would also dovetail with the city's ambition to establish itself as a regional family office hub and strengthen its reputation as a green and sustainable financial centre. Among others, the presence of institutional investors and asset owners serves as a key driver to advancing the impact investing landscape in Hong Kong. Institutional investors, such as pension funds, insurance companies, and banks, possess substantial capital resources and hold long-term investment horizons, making them well-suited for impact investing. By allocating a portion of their portfolios to impact investments, they can leverage their influence and drive systemic change across sectors.

Similarly, family offices, which manage the financial affairs of ultra-high-net-worth families, have also become increasingly involved in impact investing. According to UBS' Global Family Office Report, 44% of family offices either include or intend to take sustainability or impact considerations in their liquid investment portfolios, and 45% make direct investments in green tech or other sustainability-related ventures.² Family offices often have a multigenerational perspective and a strong focus on values and legacy. Impact investing provides the opportunity to align their family's values with their investment strategies, ensuring that their wealth creates a positive and lasting impact. Furthermore, family offices can leverage their expertise, networks, and patient capital to support impact-driven entrepreneurs and innovative solutions.

¹ Hand, D., Ringel, B., Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIN). New York.

² UBS. (2024). Global Family Office Report 2024. <https://www.ubs.com/global/en/family-office-uhnw/reports/global-family-office-report-2024.html>

Despite the gradual rise in prominence, impact investing remains in its nascent stage of development alongside a prevailing lack of awareness among investors and the general public. Recognising this, the FSDC sees an opportune moment to accelerate the development of impact investing, leveraging its potential to drive positive change and address pressing societal challenges in the city. Beyond its crucial role in promoting green and sustainable development in Hong Kong, impact investing has significant potential to strengthen Hong Kong's position as a hub for green and sustainable finance. This study aims to **identify measures to promote impact investing in Hong Kong, encourage corporate and institutional participation in impact investing, and ultimately establish the city as a regional hub for impact investment.**

A person in a dark suit and tie is holding a gold pen. A hand from another person is pointing at a document on a desk. The document features a donut chart and some text. The background is a blurred office setting with a laptop and other papers.

Impact Investing at a Glance

Impact Investing at a Glance

Impact investing is a form of sustainable investing that integrates social good and economic prosperity by directing investments toward initiatives that enhance environmental or societal conditions. This comprises funding enterprises or projects focused on renewable resources, public health, access to education, affordable housing, and similar domains central to furthering the United Nations Sustainable Development Goals (SDGs). Distinct from conventional investing and philanthropy, impact investing explicitly prioritises generating positive social and environmental outcomes in addition to returns. The dual focus on “financial return” and “impact” is a feature of impact investing that distinguishes it from traditional investing, while the expectation of at least a return on investment and the prospect of some financial gain distinguishes it from charity and philanthropy.³

The market value of this burgeoning field is estimated at US\$1.16 trillion by the end of 2022,⁴ indicating significant size. Impact investments are defined as “investments made into companies, organisations, and funds to generate positive, measurable social and environmental impact alongside a financial return.”⁵ Individual investors can participate through microfinance funds or green bonds, among others.

While there are many definitions of impact investing and is viewed as an evolving space, the following elements further define the practice of impact investing:⁶

- **Intentionality:** Impact investments are made intentionally to contribute to social and environmental solutions, distinguishing them from strategies such as ESG investing, responsible investing, and screening approaches. They are distinguished by their intentional focus on generating positive in addition to financial returns.
- **Financial and impact returns:** Impact investments, often regarded as a relatively long-term investment, seek financial returns on capital, which can range from below-market rates to risk-adjusted market rate, or at least a return of capital; as opposed to philanthropy, which focuses primarily on charitable giving with no specific expectation of financial returns.
- **Range of asset classes:** Impact investing encompasses various asset classes, including cash equivalents, fixed income, venture capital, and private equity, among others. This broadens the range of investment opportunities available to impact investors, allowing them to build diverse portfolios that align with their social and environmental objectives.
- **Impact measurement:** A key aspect of impact investing is the commitment to measure and report on the social and environmental performance and progress of the underlying investments. These social and environmental performance and progress could assessed by making use of targets, thresholds, or other reference points that describe the absolute

³ FSDC. (2024). Wealth for Good: Hong Kong as a Regional Philanthropic Hub.

<https://www.fsd.org.hk/en/insights/wealth-for-good-hong-kong-as-a-regional-philanthropic-hub>

⁴ Hand, D., Ringel, B., Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIN). New York.

⁵ The Global Impact Investing Network. (2023). What you need to know about impact investing.

<https://thegiin.org/publication/post/about-impact-investing/#what-is-impact-investing>

⁶ International Institute for Management Development. (2024, April). Impact Investing: Everything you need to know <https://www.imd.org/blog/sustainability/impact-investing/>

environmental or social outcomes investors are targeting, including tangible targets such as quality of food and water, the level of hazard or risks,⁷ and intangible elements such as happiness return.⁸ This commitment ensures transparency and accountability, while also informing the practice of impact investing and contributing to the growth and development of the field as a whole.

- **Theory of Change:** A Theory of Change is a structured approach outlining how actions and interventions are expected to lead to desired outcomes.⁹ It clarifies the causal pathways and assumptions underlying a programme or initiative, aiding in strategic planning, evaluation, and understanding of the complex processes of social change and development.

With opportunities available and principles established, impact investing holds great promise for the sustainable allocation of capital. A detailed guide to impact investing is included in the Annex of this report.

Distinguishing Impact Investing from ESG Investing

The core distinction between impact investing and general ESG investing lies in their objectives and assessment approaches. Impact investing seeks measurable, positive social or environmental outcomes with the application of theory of change while ESG investing incorporates such factors into risk management and decision-making.¹⁰ Impact investing requires investors to measure and report the social or environmental impact of their investments, while ESG investing focuses on evaluating a company's ESG performance and practices through data analysis and reporting. (Figure 1.)

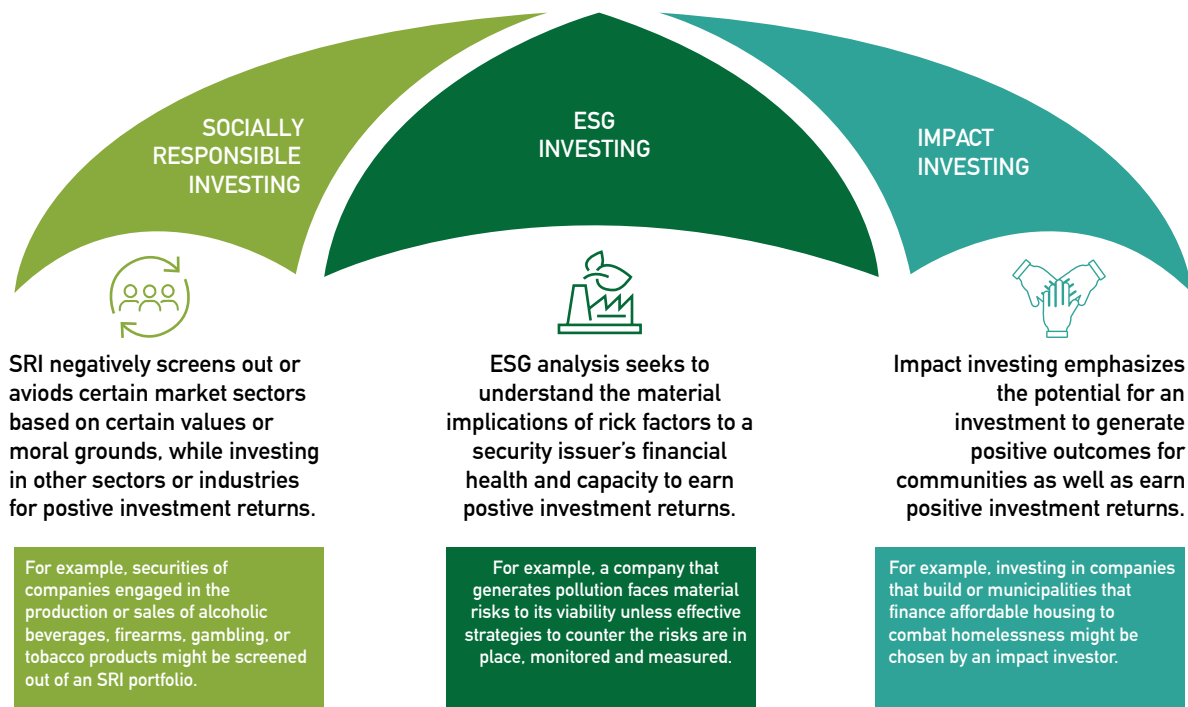
In contrast to general ESG investing's consideration of environmental, social and governance issues, impact investing takes a proactive stance to create change. While ESG investing evaluates factors such as a company's carbon footprint, labour practices, and board diversity, impact investing goes further by explicitly targeting investments that have a measurable and intentional social impact, aligned with the goals and targets such as the United Nations' SDGs. (Figure 2.) Impact investors actively pursue investments that directly enable change by generating blended returns and measurable benefits. This intentional focus on impact differentiates them from ESG investing and underscores their commitment to making a tangible difference.

⁷ Reeder, N., Colantonio, A. (2013), Measuring Impact and Non-financial Returns in Impact Investing: A Critical Overview of Concepts and Practice. London School of Economics and Political Science. https://lsecities.net/wp-content/uploads/2013/10/Measuring_Impact-full-length-Oct-20131.pdf

⁸ Dudfield, J., Emerson, J., Mallett, A., Ng, E. (2024, June). Can Venture Capital Be Optimized for Happiness? Standard Social Innovation Review. <https://ssir.org/articles/entry/venture-capital-happiness#>

⁹ Center for Theory of Change. (n.d.). What is Theory of Change? <https://www.theoryofchange.org/what-is-theory-of-change/>

¹⁰ Foroughi, J. (2022). ESG is Not Impact Investing and Impact Investing is Not ESG. Stanford Social Innovation Review https://ssir.org/articles/entry/esg_is_not_impact_investing_and_impact_investing_is_not_esg#

Figure 1. The Sustainable Investing Umbrella

Source: Breckinridge Capital Advisors ¹¹

Moreover, measuring the impact of impact investments is crucial, and various metrics and standards have been developed to assess their specific performance. These metrics include indicators such as litres of water saved, megawatts of green electricity generated, hectares of new organic land, and the number of new jobs created. However, measuring impact can be complex and time-consuming, and requires careful consideration of the effort and benefits involved. Overall, impact investments strive to make a meaningful difference in addressing global challenges and achieving sustainable development goals while generating financial returns.

¹¹ Breckinridge Capital Advisors. (n.d.). ESG 101. ESG Investing Toolkit. <https://www.breckinridge.com/breckinridge-esg-investing-toolkit/esg-101/>



State of Impact Investing in the World and Asia

State of Impact Investing in the World and Asia

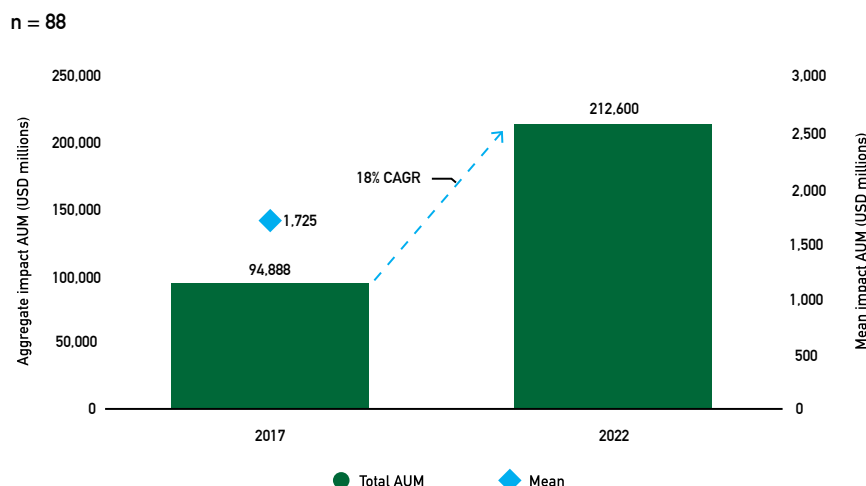
• The Global Impact Investment Landscape

Impact investing has emerged as a novel means of allocating capital beyond traditional avenues, combining philanthropic ideals with for-profit investment according to the evolving preferences of private and institutional investors. It combines charitable efforts with the deployment of capital to generate positive societal and environmental impacts alongside financial returns.

While being a relatively new investment strategy, impact investing has gained significant traction and continues to grow as more investors recognise the potential to generate positive impact alongside financial returns. In **2020**, approximately US\$2.3 trillion of assets had an impact intent and could be considered impact investments under a broad definition, of which **US\$636 billion exhibited clear impact measurement**.¹² This is equivalent to about 2% of global AUM at that time.

Over time, knowledge and education efforts have intensified, leading to a significant increase in the global volume of impact investing assets with established impact management and measurement processes. According to the GIIN, the estimated size of **the global impact investing market reached US\$1.2 trillion in 2022**.¹³ Many international research institutions anticipate the market to continue to grow at a high growth rate, typically in the double digits. The total AUM of impact investment made by survey respondents grew by an average of around 18% per year between 2017 and 2022 according to GIIN (Figure 2.).¹⁴ A Capgemini report predicts that the global impact investing market will reach a volume of US\$6 trillion in 2031, with an average annual growth rate of 9.5%.¹⁵

Figure 2. Impact AUM growth over a five-year period



Note: This figure represents a subset of 88 repeat respondents from the 2018 Annual Impact Investor Survey and 2023 Market GIINSight briefs. Between 2017 and 2022, impact AUM grew by a CAGR of 18%.

Source: Global Impact Investing Network (GIIN), 2023 GIINSight: Impact Investing Allocations, Activity & Performance

¹² International Finance Corporation. (2021). Investing for Impact The Global Impact Investing Market 2020. <https://documents1.worldbank.org/curated/en/644401628704547676/pdf/Investing-for-Impact-The-Global-Impact-Investing-Market-2020.pdf>

¹³ Hand, D., Ringel, B., Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIN). New York. <https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/research/2022-market-sizing-report-final.pdf>

¹⁴ Hand, D., Sunderji, S., Pardo, N. (2023) 2023 Market GIINSight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York.

¹⁵ Capgemini Invent. (2024). The Impact Investing Market Bringing Together Supply and Demand for Sustainable and Social Investment Products. https://www.capgemini.com/de-de/wp-content/uploads/sites/8/2024/02/Impact-Investing_Supply-and-demand_Whitepaper.pdf

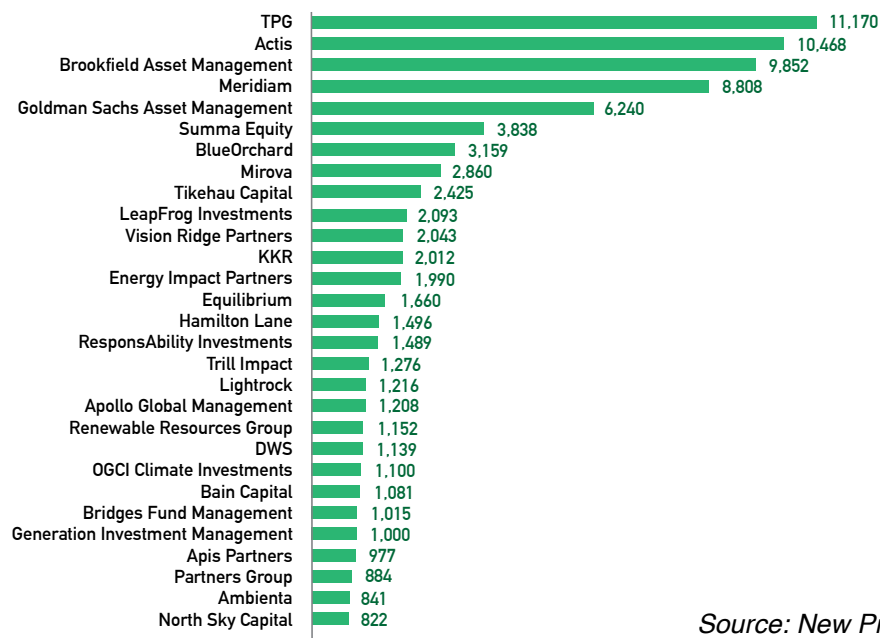
The growth of impact investing is not limited to a specific region. It is a global phenomenon, with impact investors operating across various geographies. In 2022, impact capital was allocated across the globe, spanning all continents, with the US and Canada accounting for 29% of the total AUM, followed by Western, Northern and Southern Europe (23%) and Sub-Saharan Africa (10%).¹⁶ This global reach demonstrates the growing recognition of impact investing as a viable approach to addressing social and environmental challenges globally.

Looking into Asia, impact investors have allocated a relatively small portion of their total assets to the region. Surveyed data reveals that 8% was allocated to South Asia, while Southeast Asia and East Asia received 5% each. However, Asia has experienced substantial growth in allocation rates since 2017. In East Asia, the amount of impact capital AUM increased from US\$6.8 billion in 2017 to US\$17.9 billion in 2022, representing a CAGR of 21%. Similarly, South Asia witnessed a CAGR of 15% during the same period.¹⁷

• Recent Investment Trends and the SDGs

The impact investing market has seen significant growth – with more investors seeking investments that align with their values while offering competitive returns. As pointed out in a World Economic Forum whitepaper, impact fund investments, which aim to generate positive social and environmental outcomes alongside financial returns, have seen an uptick in demand from 2017 to 2022.¹⁸ The top 30 impact asset managers raised a combined total of over US\$86 billion between 2017 and 2022.¹⁹

Figure 3. Top asset managers of impact capital in private markets based on five-year fundraising totals (\$m)



Source: New Private Market (2022)

¹⁶ Hand, D., Sunderji, S., Pardo, N. (2023) 2023 Market GIINsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York.

¹⁷ Ibid

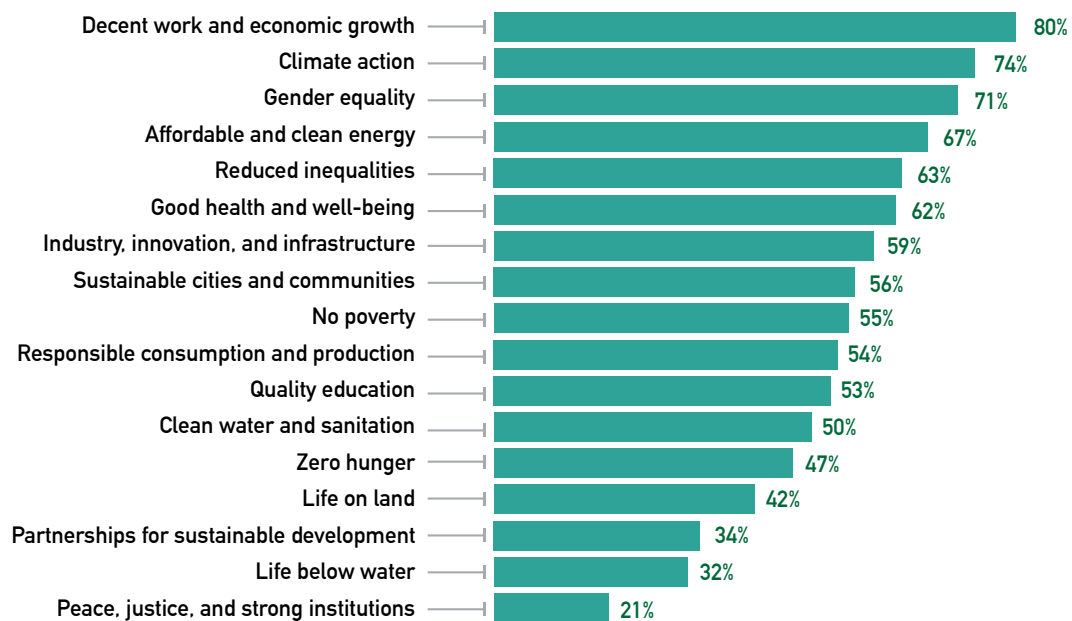
¹⁸ World Economic Forum. (2023). Private Market Impact Investing: A Turning Point. https://www3.weforum.org/docs/WEF_Private_Market_Impact_Investing_2023.pdf

¹⁹ Mitchenall, T. (2022, July 14). Impact 30 2022: New faces in the upper echelons of impact. New Private Markets. <https://www.newprivatemarkets.com/impact-30-new-faces-in-the-upper-echelons-of-impact/#:~:text=There%20has%20been%20a%20reshuffling,be%20crowned%20the%20world's%20largest.>

Despite growing demand, developing countries alone face a substantial financing gap, which the United Nations estimates to be around US\$4 trillion in 2023, a significant rise from US\$2.5 trillion in 2015.²⁰ To effectively leverage and direct impact capital, impact investors often refer to the SDGs as valuable benchmarks. The SDGs cover various areas such as poverty reduction, gender equality promotion, access to clean and affordable energy, and the establishment of sustainable cities and communities. Each goal entails specific targets that require financial investment.

Impact investors adopt diverse thematic approaches to achieve their impact objectives. Among the surveyed investors by the GIIN, 96% of them were found to be targeting at least one of the United Nations SDGs. The most commonly targeted SDGs are decent work and economic growth (SDG 8), which is adopted by 80% of investors, followed by climate action (SDG 13) at 74%, and gender equality (SDG 5) at 71%. These three SDGs are often regarded as lenses that can be applied across various investment sectors, reflecting the priorities of impact investors.²¹

Figure 4. SDGs targeted by investors



Note: Respondents could select multiple SDGs.

Source: Global Impact Investing Network (GIIN), 2023 G/INsight: Impact Investing Allocations, Activity & Performance

• Impact Investing in Asia

Asset allocation

Investors are strategically planning to boost their investments in emerging market regions over the next five years. When expressing their future allocation intentions, the majority of investors (56%) highlighted their plans to increase their impact assets in sub-Saharan Africa, closely followed by Latin America and the Caribbean (48% of investors) and Southeast Asia (42%). In contrast, investors aiming for risk-adjusted market-rate returns are focused on expanding their impact asset allocation in developed markets during the same period. Among market-rate investors, more than a

²⁰ UNCTAD. (2023). SDG investment is growing, but too slowly: The investment gap is now \$4 trillion, up from \$2.5 in 2015. SDG Investment Trends Monitor (Issue 4). https://unctad.org/system/files/official-document/diaemisc2023d6_en.pdf

²¹ Hand, D., Sunderji, S., Pardo, N. (2023). 2023 Market G/INsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York.

third (35%) are seeking to increase their allocations to East Asia, whereas only a quarter of below-market-rate investors have intentions of allocating assets to the region.

Geographically speaking, impact investors have growing interests in allocating more impact assets to Asia. Investor assets allocated to East Asia rose from USD6.8 billion to USD17.9 billion, demonstrating expanded capital flows and a large increase in capital flowing toward organisations and funds pursuing social and environmental outcomes across the region.²² Moreover, investors have indicated plans to allocate more capital toward emerging markets in the coming years. GIIN's 2023 GIINSight Emerging Trends in Impact Investing report found that 42% of surveyed investors aim to increase Southeast Asia allocations over five years, while 40% and 33% plan to raise South and East Asia investments respectively.²³ As more institutional investors, asset managers, and individual investors actively seek opportunities that align with their values and create positive societal impact, the investment AUM in Asia is expected to continue its upward trajectory, reinforcing the region's position as a critical player in the global impact investing landscape.

Government's participation

A key catalyst for the expansion of impact investing in Asia has been the proactive role played by governments and regulatory bodies. These entities have astutely acknowledged the potential of impact investing in driving sustainable development and have accordingly enacted supportive policies and frameworks. For instance, **India** has launched an electronic fundraising platform, the "Social Stock Exchange", under the regulatory ambit of the Securities and Exchange Board of India, to foster social entrepreneurship funding and impact investing.²⁴ The initiative aims to enhance capital availability for enterprises tackling India's most pressing challenges and effectively attract both local and international investors. In **Singapore**, the Centre for Impact Investing and Practices was established by Temasek Trust in 2022 as a non-profit entity to foster impact investing and practices in Asia and beyond.²⁵ In addition, in **Australia**, following an AU\$ 30 million commitment to develop a strong social impact investing (SII) market in Australia in 2017, the Australian Government announced a set of principles for SII to develop the market.²⁶ An SII Taskforce was established in 2019 to develop a strategy for the Australian Government's role in the Social Impact Investing market.²⁷ The **Chinese Government** has also been a keen advocator of driving social impact through channelling impact capital. Although relevant policies might not be explicitly spelt out, initiatives such as public-private partnership (PPP) and specific measures issued by the Shenzhen and Chengdu governments aligned with the intention and purpose of impact investments.²⁸

²² Global Impact Investing Network. (2023). 2023 GIINSight Impact Investing Allocations, Activity & Performance. <https://thegiin.org/assets/documents/pub/2023-GIINSight/2023%20GIINSight%20%E2%80%93%20Impact%20Investing%20Allocations,%20Activity%20&%20Performance.pdf>

²³ Global Impact Investing Network. (2023). 2023 GIINSight Emerging Trends in Impact Investing. https://thegiin.org/assets/Vol%204_2023%20GIINSight%20%E2%80%93%20Emerging%20Trends%20in%20Impact%20Investing.pdf

²⁴ National Stock Exchange of India. (2023, December). NSE Social Stock Exchange Segment. https://nsearchives.nseindia.com/web/sites/default/files/inline-files/NSE%20SSE%20Brochure%20-%20English_08-12-2023.pdf

²⁵ Centre for Impact Investing and Practices. (2022, June 16). Temasek Trust launches Centre for Impact Investing and Practices to promote growth of impact investing and practices in Asia. <https://ciip.com.sg/news-centre/media-release/Details/temasek-trust-launches-centre-for-impact-investing-and-practices-to-promote-growth-of-impact-investing-and-practices-in-asia>

²⁶ The Treasury, Australian Government. (n.d.) Australian Government Principles for Social Impact Investing. <https://treasury.gov.au/programs-initiatives-consumers-community/social-impact-investing/australian-government-principles-for-social-impact-investing>

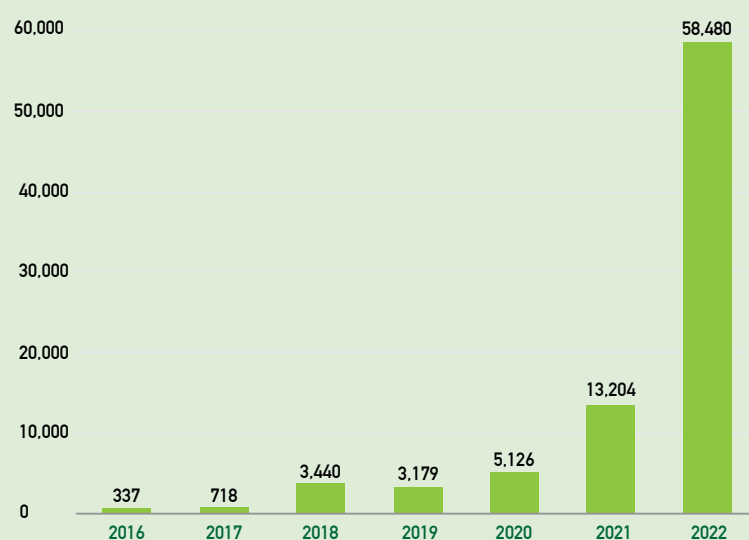
²⁷ Department of the Prime Minister and Cabinet, Australian Government. (n.d.). Social Impact Investing Taskforce. <https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce>

²⁸ Yicai Research Institute. (2022). 2022 China Impact Investing Report. <https://img.cbnri.org/files/2023/03/638156992595300000.pdf>

The Growing Momentum of Impact Investing in Japan

Over the past few years, **Japan** has significantly increased its efforts in impact investing and developing its impact economy, and the development of impact investing is an illustrative example and dedication of concerted efforts of various stakeholders in society. As a result of collaboration between various sectors, Japan's impact investing landscape has experienced substantial growth. The establishment of the GSG Japan National Advisory Board has brought together experts and practitioners from finance, business, the social sector, and academia to shape critical components of Japan's impact investing ecosystem. In 2022, the total value of impact investments in Japan reached JP¥5.8 trillion, more than quadrupling from the previous year.²⁹ This remarkable expansion was primarily driven by investments in debt (48%) and listed equity (34%), which accounted for the majority (82%) of assets under management (AUM). Additionally, as of October 2023, 64 private financial institutions have committed to the Japan Impact-driven Financing Initiative.

Figure 5. Impact Investing AUM in Japan (100 million JPY)



Source: The Japan National Advisory Board, The Global Steering Group for Impact Investment

The term “impact” is moving beyond financial institutions to become a common language among Japanese businesses. In recent years, there has been a shift from “impact measurement” to “impact measurement and management”. This indicates a move from mere measurement to impact-based management. In essence, it implies that impact is a priority in business management. While the market is primarily driven by private capital and financial institutions, the Government of Japan also plays a key role in developing the ecosystem. In this regard Japan's Financial Services Agency has recently released its Basic Guidelines on Impact Investment (Impact Finance).³⁰ The guidelines set out four principles for market participants to follow when structuring and financing investment projects with social and environmental benefits. Such strategic initiatives have stimulated the growth of impact investing activities throughout the region, bolstering its position as a thriving hub for socially conscious investing.

²⁹ The Japan National Advisory Board, The Global Steering Group for Impact Investment. (2023). The Current State and Challenges of Impact Investing in Japan, FY2022 Survey. https://impactinvestment.jp/user/media/resources-pdf/gsg-2022_en.pdf

³⁰ Financial Services Agency. (2024, March). Basic Guidelines on Impact Investment (Impact Finance). <https://www.fsa.go.jp/singi/impact/siryou/20240329/02.pdf>

Thematic in Asia

Asia presents a diverse landscape with varying socio-economic conditions and susceptibility to climate and natural risks, requiring different impact investment themes.³¹ According to Invesco, climate mitigation, climate adaptation, biodiversity and nature losses, and social-related issues are some key thematic focuses in Asia.³²

In terms of climate change mitigation, Asia remains a significant contributor to global emissions and heavily relies on coal. To address this, the focus is on renewable energy generation, low-carbon transport, energy efficiency, and innovative climate solutions. The expansion of carbon markets is seen as crucial for price signalling and aligning carbon prices with abatement costs. The transition to a net-zero economy has already begun in Asia, affecting all sectors, particularly given the region's role as a global supply chain. Investments are being sought in decarbonising companies, especially in material-emitting sectors.

Climate adaptation is of paramount importance in Asia and the Pacific, which faces increased frequency and severity of weather-related disasters. While adaptation finance is increasing globally, there remains a substantial financing gap predominantly filled by the public sector. Investment themes in climate adaptation include water, agriculture and food security, urban infrastructure, nature-based solutions, and forestry and land use. In addition, biodiversity loss and ecological degradation pose significant challenges, particularly in rural areas where a large portion of the population resides. More asset owners are expected to commit to reversing biodiversity loss. While efforts at climate mitigation have focused on reforestation and carbon credits, the impact of existing biodiversity loss has often been overlooked. The evolution of reporting frameworks like the Taskforce on Nature-Related Financial Disclosures is anticipated to broaden methodologies for measuring biodiversity impacts.

Furthermore, the intersection of social and environmental issues, particularly concerning gender and poverty reduction, is gaining recognition in impact investing. Green bond issuers are increasingly reporting on social key performance indicators. While China has made significant progress in reducing poverty rates, South Asia still lags behind the Asia-Pacific region, with a large proportion of the world's poor residing in South Asia, East Asia, and the Pacific. Alongside poverty reduction, improving equity through access to healthcare, affordable housing, education, and financial services is considered vital. There is a growing focus on the triple bottom line of environmental, social, and financial objectives, leading to an anticipated increase in social bond issuance in Asia.

³¹ Invesco. (2023). ESG & Impact: Impact investing in Asia. <https://www.invesco.com/content/dam/invesco/apac-master/en/pdf/apac/2023/esg/april/invesco-impact-investing-in-asia-apr-2023.pdf>

³² *ibid*



Impact Investing Landscape in Hong Kong

Impact Investing Landscape in Hong Kong

Despite being in a nascent stage, Hong Kong's impact investing landscape builds on its achievements in the development of green and sustainable finance. The city has witnessed the successful implementation of various initiatives around promoting green and sustainable investments and addressing environmental and social challenges. The city has established itself as a global leader in green finance, with a robust market for green bonds and sustainability-linked instruments, and as a leading standard-setter when it comes to ESG reporting. An example is that the HKSAR Government has issued close to US\$ 24 billion worth of green bonds under its Green Sustainable Bond Programme as of December 2023,³³ including the world's first Government tokenised green bond issuance in 2023.³⁴

On the investment front, Hong Kong's financial professionals and non-governmental organisations (NGOs) are collaborating to introduce creative investment products aimed at raising funding for projects in the region. WWF Hong Kong, for instance, has developed the Climate Impact Asia Fund, an open-ended fund focused on investing US\$500 million in companies listed in Asia that are actively contributing to combating climate change and environmental degradation.³⁵

Hong Kong's commitment to sustainable finance has fostered a conducive atmosphere for impact investing, paving the way for the city to enhance its impact investing ecosystem. The city's inherent strengths and abundant resources set the stage for it to take on a leading role as an impact investment hub.

- **Hong Kong's Strengths as an Impact Investment Hub**

Hong Kong has the opportunity to establish itself as a prominent hub for impact investing, leveraging its success in developing green and sustainable finance. The current landscape in impact investing provides a solid foundation for further growth and presents numerous strengths and opportunities for Hong Kong as an impact investment hub.

Availability of capital: Hong Kong boasts a wealth of available capital, with a diverse range of investors actively seeking impact investment opportunities. Financial institutions, asset owners, and family offices in Hong Kong are increasingly recognising the importance of deploying capital for positive social and environmental impact. The asset and wealth management business of Hong Kong amounted to over HK\$31.2 trillion (US\$4 trillion) as at end-2023, with 64% of the funding sourced from non-Hong Kong investors. These assets have consistently accounted for 64-65% of total AUM in the past five years.³⁶

³³ Brand Hong Kong. (2024, January) Hong Kong's Green Finance Ecosystem Blossoms. Economist Impact. <https://impact.economist.com/projects/hk-a-premier-hub/infographic/hong-kongs-green-finance-ecosystem-blossoms/>

³⁴ Hong Kong Monetary Authority. (2023, February). HKSAR Government's Inaugural Tokenised Green Bond Offering. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/02/20230216-3/>

³⁵ Stephenson Harwood. (2021). Philanthropy and Impact Investing for Climate – Trends in Hong Kong and Asia. Stephenson Harwood's COP26 Insights Series. https://www.shlegal.com/docs/default-source/news-insights-documents/2021/philanthropy-and-impact-investing-for-climate-trends-in-hong-kong-and-asia_1.pdf?sfvrsn=d242eb5b_0

³⁶ Securities and Futures Commission. (2024). Asset and Wealth Management Activities Survey 2023. https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2023_E.pdf?rev=5549c0965c604a2ba01e6014cf9731a7&hash=574309F73EA20486078C0BA023F7CE47

Financial institutions, asset owners, and family offices: The presence of established financial institutions, prominent asset owners, and influential family offices in Hong Kong further strengthens its position as an impact investment hub. Hong Kong ranked 16th worldwide in Knight Frank's Wealth Report 2024, being home to 5,957 ultra-high-net-worth individuals (UHNWI).³⁷ With a 2.5% increase in 2023 from its 2022 figure of 5,812 UHNWIs, Hong Kong is expected to be home to 7,290 UHNWIs by 2028, a projected increase of 22.4%.³⁸ With a growing number of family offices that are more active in impact investing in their home markets than before the pandemic,^{39,40} these entities bring substantial resources and expertise, facilitating the mobilisation of capital towards impactful projects and enterprises.

A sound financial system: Hong Kong's financial system is known for its stability, efficiency, and transparency. The city's strong regulatory framework and adherence to international standards provide a reliable and trustworthy environment for impact investing activities. This stability attracts both local and international investors, fostering confidence in investment opportunities. Moreover, Hong Kong's vibrant ecosystem offers access to a pool of talented professionals with expertise in finance, sustainability, and professional services, further bolstering the city's attractiveness as an impact investment hub. The availability of such talent enables impact investors to tap into diverse skill sets and knowledge, enhancing the effectiveness and success of their sustainable investment strategies.

Strategic access to Mainland China and other Asian markets: Hong Kong's strategic location serves as a gateway to Mainland China and other rapidly growing Asian markets. On the green finance front, Hong Kong is the largest hub for arranging green and sustainable bonds from Asia, capturing more than one-third of the market.⁴¹ The Shenzhen Municipal People's Government and the People's Government of Hainan Province issued sustainable bonds in the city in 2022 and 2024 respectively.^{42,43,44} Together with its foundation in green finance, Hong Kong's proximity and deep connections to these markets offer unparalleled access to a wide range of impact investment opportunities. The city can leverage its expertise and networks to facilitate impactful investments across the region.

³⁷ Knight Frank. (2024). The Wealth Report – The New Chapter. <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report-2024.pdf>

³⁸ *ibid*

³⁹ He, S. (2024, May 22). HK, SG family offices push for more impact investing in home markets. AsiaInvestor. <https://www.asianinvestor.net/article/hk-sg-family-offices-push-for-more-impact-investing-in-home-markets/496166>

⁴⁰ He, S. (2024, May 13). HK, SG family offices expand impact investing across asset classes. AsiaInvestor. <https://www.asianinvestor.net/article/hk-sg-family-offices-expand-impact-investing-across-asset-classes/495975>

⁴¹ Climate Bonds Initiative. (2023, June). Hong Kong – Green and Sustainable Debt Market Briefing 2022. https://www.climatebonds.net/files/reports/cbi_hk_briefing_2022_final.pdf

⁴² Hong Kong Monetary Authority. (2022, October 24). The HKMA welcomes the second issuance of bonds in Hong Kong by the Shenzhen Municipal People's Government. Hong Kong Monetary Authority. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/10/20221024-6/>

⁴³ Hong Kong Monetary Authority. (2022, October 24). The HKMA welcomes issuance of bonds in Hong Kong by the People's Government of Hainan Province. Hong Kong Monetary Authority. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/10/20221024-5/>

⁴⁴ Shenzhen Municipal People's Government. (2024, August). 深圳市成功在港发行 2024 年离岸人民币地方政府债券 https://szfb.sz.gov.cn/gkmlpt/content/11/11492/post_11492080.html#4456

Government support: The Hong Kong Government has been actively supporting the development of green and sustainable finance in Hong Kong. Recognising the potential of the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative in creating green finance opportunities, the Government Green Bond Programme plays an important role in supporting green infrastructure in Hong Kong and beyond, with a total of about US\$19 billion of green bonds successfully issued.⁴⁵ In addition, the Green and Sustainable Finance Cross-Agency Steering Group has also been established to strengthen Hong Kong's financial ecosystem, facilitating the Government's aims to mobilise capital towards sustainable projects and achieve carbon neutrality by 2050.⁴⁶

A thriving stakeholder ecosystem: Hong Kong enjoys the advantages of a dynamic stakeholder ecosystem comprising influential industry associations like the Sustainable Finance Initiative (SFi) and Social Venture Hong Kong (SVHK). The city also benefits from the presence of renowned international industry associations and research institutions, such as GIIN, as well as homegrown impact investors like RS Group and Happiness Capital. This thriving ecosystem promotes collaboration, facilitates knowledge sharing, and supports capacity building, creating an environment conducive to impact investing. It fosters a strong sense of community and enables stakeholders to harness collective expertise and resources by establishing valuable connections.

⁴⁵ Financial Services and the Treasury Bureau. (2024, April 11). Green and Sustainable Finance. https://www.fstb.gov.hk/en/financial_ser/green-and-sustainable-finance.htm#:~:text=As%20at%20June%202023%2C%20a,global%20investment%20community%2C%20affirming%20investors'

⁴⁶ Green and Sustainable Finance Cross-Agency Steering Group. (n.d.). Hong Kong World's Sustainable Finance Hub. <https://sustainablefinance.org.hk/en>

Case study:**RS Group's Journey in Impact Investing - In Hong Kong, For Asia**

RS Group,⁴⁷ a mid-sized family office based in Hong Kong, has been making waves in the world of impact investing. Founded by Annie Chen in 2009, RS Group has been at the forefront of sustainable finance, utilising its wealth to generate positive social and environmental impact alongside financial returns. This innovative approach has led to the establishment of the SFi and has inspired other investors in Asia to embrace impact-themed investments.

Philosophy and Approach

At the heart of RS Group's philosophy is the belief that every investment should be a constructive, values-based act that contributes to the collective well-being of the world. They refer to this approach as "investing through a values-based lens".⁴⁸ RS Group's investment strategy includes setting specific criteria for companies and stocks, seeking opportunities with clear positive social and environmental impact, and adopting a "total portfolio management" approach that aligns all assets with the Group's mission and goals.⁴⁹

RS Group goes beyond the traditional "impact first" versus "finance first" dichotomy by embracing the concept of "blended value."⁵⁰ They believe that positive outcomes can be optimised by viewing the value creation process holistically and integrating financial and impact considerations seamlessly.

The Impact Journey

A major milestone for RS Group was the publication of their Impact Report in 2016.⁵¹ This report aimed to inspire and empower other potential impact investors in Asia by documenting RS Group's journey and activities. The report received widespread acclaim, sparking interest from other Asian asset owners who wanted to explore a similar approach.

Recognising the need for practical support and advocacy, RS Group launched the Sustainable Finance Initiative (SFi) in 2018. SFi has created a community of asset owners across Asia committed to building real impact into their portfolios. SFi also serves as a trusted partner to family offices and investors in Hong Kong, Singapore, and Taiwan along their impact journeys. The network believes in Capital that Matters, with a vision of a world where Sustainability and Finance are synonymous.⁵²

⁴⁷ RS Group. (n.d.). About RS Group. <https://www.rsgroup.asia/>

⁴⁸ Impact Investing Institute. (n.d.). RS Group. <https://www.impactinvest.org.uk/case-study/rs-group/>

⁴⁹ RS Group. (n.d.). Approach. <https://www.rsgroup.asia/approach/>

⁵⁰ Ibid

⁵¹ RS Group. (2016). Impact Report. http://report.rsgroup.asia/wp-content/uploads/2016/05/RSGroup_Impact_Report.pdf

⁵² Sustainable Finance Initiative. (n.d.) Sustainable Finance Initiative. <https://www.sustainablefinance.hk/>

Case study:***RS Group's Journey in Impact Investing - In Hong Kong, For Asia***

In 2019, the Natural Capital Initiative (NCI) was a new programme launched as part of RS Group's Climate Change initiative.⁵³ The group recognised the dire need to protect natural capital. Despite Asia's wealth of natural capital, which generates 30% of its GDP, Asia has disproportionately underfunded the protection of these important assets. As such, through NCI, RS Group's capital, as well as the hope of attracting other investment capital, are deployed into supporting innovative nature-based investment solutions to value, protect, and restore the world's natural assets on which all our lives depend.

A Role Model

Throughout its 13-year impact journey, RS Group has demonstrated its commitment to catalysing institutional capital into impact investing. They have played a pivotal role in the development of the impact investing sector in Asia, supporting social entrepreneurship and encouraging other investors to enter the space. RS Group's success lies in its ability to achieve financial performance in line with benchmarks while reducing its carbon footprint and maximising its impact score.

RS Group's dedication to impact measurement is evident in its evolving approach. They have developed an internal impact assessment tool that incorporates elements of recognised frameworks such as the IMP framework, as well as their values and principles.

RS Group's pioneering work in impact investing serves as an inspiration to investors worldwide. By demonstrating the possibilities of investing for both financial return and positive impact, the organisation has propelled the growth of the impact investing movement in Asia. Their commitment to sustainable finance and their continuous efforts to drive change are making a lasting impact on the world.

⁵³ RS Group. (n.d.). Nature Capital Initiative. <https://www.rsgroup.asia/nci/>

- **Opportunities for Hong Kong**

The Rise of Impact Investing Opportunities in ASEAN

Hong Kong can capitalise on the growing impact of investing opportunities in the Association of Southeast Asian Nations (ASEAN) region. With its established financial infrastructure and expertise, Hong Kong is well-positioned to serve as a gateway for investors looking to access impactful projects in ASEAN countries. These opportunities span various sectors, including renewable energy, sustainable agriculture, and social enterprises.

Impact investing has taken deep roots across all major Southeast Asian countries and impact investors in the region have significantly enhanced their commitment to supporting impact entrepreneurs. Impact investors have invested over 67% of the cumulative capital invested in the ten years from 2007 to 2016.⁵⁴ The number of impact deals available in ASEAN also presents great opportunities for investors in Hong Kong. Between 2020 and 2022, a total of 379 impact deals in the region channelled impact capital amounting to US\$ 6.9 billion into enterprises, indicating a significant infusion of funds to generate positive social and environmental outcomes.⁵⁵

Even more remarkably so, investors have driven more capital for an impactful cause, seeing approximately a 40% surge in both monetary sums and initiatives backed by impact financiers compared to the prior three-year span from 2017 to 2019.⁵⁶ Development finance institutions have consistently contributed around US\$2 billion annually over the past six years, building on the steady, progressive growth that shaped the period from 2007 to 2016.⁵⁷ These trends epitomise the blossoming maturity and ascending traction of the impact investing landscape across the Southeast Asian region in the current decade.

Potential Opportunities on the Mainland

As one of the largest economies in the world, the Mainland market offers immense potential for impact investing. Hong Kong's deep understanding of the Chinese market, coupled with its financial prowess, positions it as a key player in driving impactful investments. Hong Kong can seize opportunities to mobilise capital for sustainable infrastructure, environmental conservation, and social innovation projects on the Mainland.

Although impact investing in China is still at an early stage of development, more resources and developments have been seen and the future of impact investing in the country is unlimited. In 2022, the China Impact Investing Network (CIIN) was founded to encourage more capital and corporate participation. CIIN will work on four core projects: researching impact measurement management,

⁵⁴ Investing in Women. (2023). Impact Investing in Southeast Asia. <https://investinginwomen.asia/wp-content/uploads/2023/09/Imp-Inv-in-SEA-Update-2020-22-final.pdf>

⁵⁵ *ibid*

⁵⁶ *ibid*

⁵⁷ Agarwal, N., Gokhale, A., Prasad, M., Raje, R., Sharma, B. (2023). Impact Investing in South East Asia Update 2020-2022. Investing in Women. <https://investinginwomen.asia/wp-content/uploads/2023/09/Imp-Inv-in-SEA-Update-2020-22-final.pdf>

researching case studies and the dissemination of impact investing, issuing training assignments, and conducting industry exchanges at home and abroad.⁵⁸

China's ambitious goals of achieving carbon peaking and carbon neutrality in a shorter timeframe than other countries, coupled with the immense challenge of reducing carbon emissions, represent a significant funding demand. For instance, the investment required to support these initiatives is estimated to be between RMB 2.6 and 4.2 trillion annually, with a total scale of over one hundred trillion yuan.⁵⁹ The China Alliance of Social Value Investment predicts that more than 80% of this funding will come from social capital. In this context, Hong Kong has the potential to serve as a crucial facilitator, channelling impact capital to bridge this funding gap and support China's sustainability efforts.

In short, by leveraging its advantages as a hub for green and sustainable finance, Hong Kong can create an ideal environment for impact investing. These advantages include access to capital, a strong financial system, a strategic location, government support, and a thriving ecosystem of stakeholders. Hong Kong's position is further strengthened by the growing opportunities for impact investing in ASEAN and Mainland China, which present promising prospects for solidifying its position as a prominent centre for impact investing in Asia.

⁵⁸ Wu, X, Li, J, & Ma, Y. (2022). Impact Investing in China: challenges and opportunities. China Development Brief. <https://chinadevelopmentbrief.org/reports/impact-investing-in-china-challenges-and-opportunities/>

⁵⁹ Lu K. et al. (2022). The Value of Impact Investing for China's Dual Carbon Goals. China Alliance of Social Value Investment. Shenzhen. <https://www.casvi.org/en/h-nd-1714.html>

Challenges Faced by Impact Investors in Hong Kong



Challenges Faced by Impact Investors in Hong Kong

The realm of impact investing in Asia, including Hong Kong, presents a unique set of challenges for impact investors to navigate. As the region experiences rapid economic growth and social transformation, the pursuit of both financial returns and positive social or environmental outcomes becomes increasingly complex. In this section, we will explore the key challenges faced by impact investors in Asia, highlighting the specific hurdles encountered within the dynamic landscape of Hong Kong.

For some impact investors or industry practitioners in Hong Kong, the scarcity of investable opportunities that align with their social and environmental objectives is a major challenge in the impact investing space. While the city boasts a diverse range of social enterprises, innovative start-ups, and sustainable projects, accessing these ventures and ensuring their viability as impact investments can be daunting. In the case of Hong Kong, despite its status as a global financial hub, the impact investing ecosystem is still in its nascent stages, with limited awareness and understanding of the concept among mainstream and general retail investors. This lack of awareness, coupled with a lack of appropriate investment vehicles and supportive infrastructure, poses a significant challenge for impact investors seeking to deploy capital with measurable social and environmental impact in Hong Kong.

- **Limited awareness and education on impact investing**

One of the key challenges for Hong Kong in advancing its impact investing landscape is the limited awareness and understanding of impact investing within the investment community. While Hong Kong has a strong foundation in understanding sustainable investments in general, given its role as a leading green and sustainable finance hub, there is still work to be done in raising awareness specifically about impact investing.

A survey conducted by Fidelity International revealed that over half (52%) of investors in the Asia-Pacific (APAC) region are concerned about ESG issues, indicating a positive attitude towards sustainable investing and a desire to make a positive change through their investments.⁶⁰ However, the survey also highlighted varying perspectives on sustainable investment strategies across different markets across the region. Respondents in Hong Kong, Mainland China, and Australia showed a particular interest in impact investing.⁶¹ Despite this appetite for impact investing, the actual participation rate remains low due to a lack of awareness and understanding among investors. This poses a challenge for individuals who want to embark on their impact investing journey but face difficulties in getting started.

⁶⁰ Fidelity International. (2023, July 18). Fidelity International survey: While interest in sustainable investing remains strong, APAC investors are grappling with education gap. [Press release]. <https://www.fidelity.com.hk/en/articles/press-releases/2023-07-18-fidelity-international-survey-while-interest-sustainable-investing-1689821631663>

⁶¹ *ibid*

Limited awareness and understanding of impact investing hinder the widespread adoption of such practices and impede the growth of the impact investment ecosystem in the region. To effectively address this challenge, it is crucial to examine the underlying factors contributing to this limited understanding and explore potential solutions.

► Overcoming perceptions of risk and return

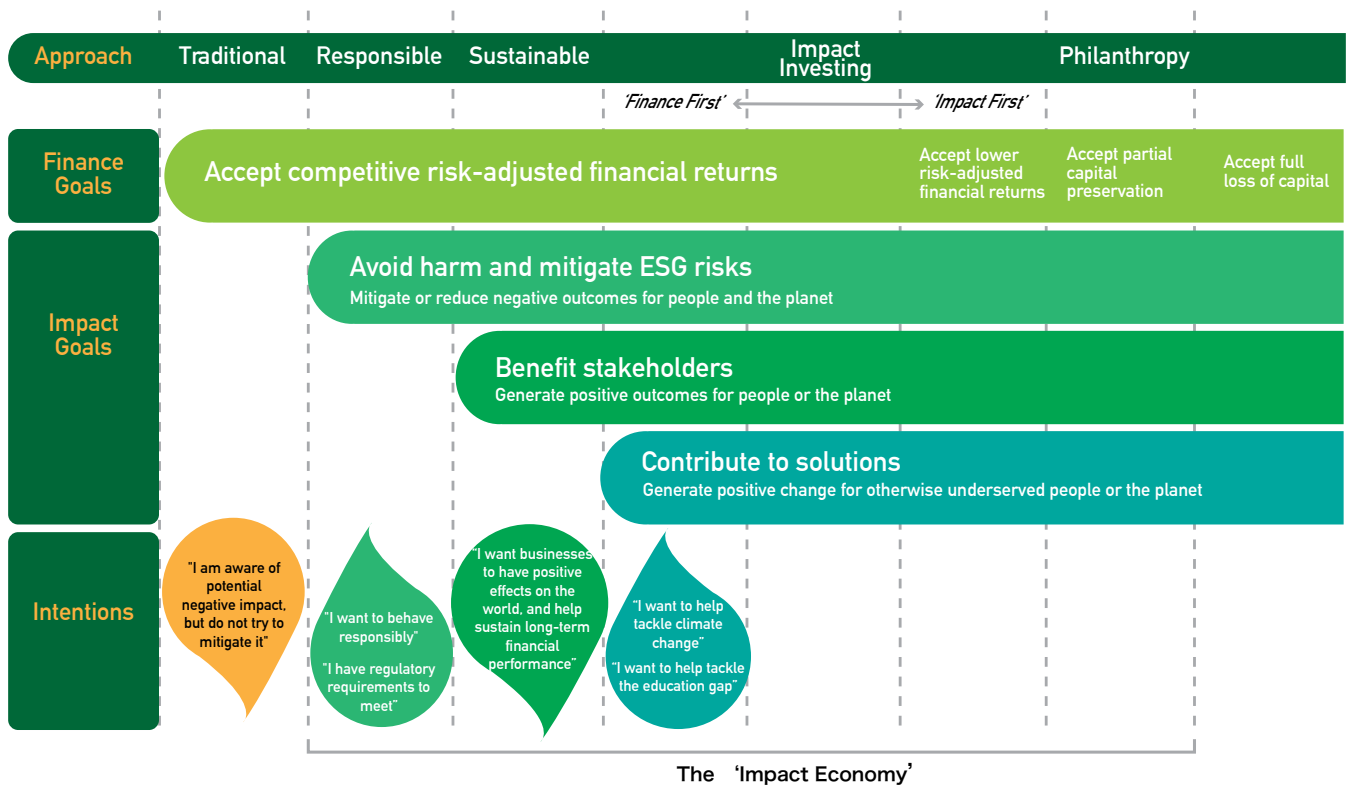
Overcoming risk and return perceptions and educating mainstream investors about impact investing present challenges in Hong Kong. The traditional investment landscape in the region has long prioritised financial metrics and returns, with limited consideration given to social and environmental impact. Consequently, impact investing struggles to gain traction.

The hesitancy to explore impact investing as a viable investment approach stems from a limited understanding of its benefits and the persistent “trade-off” myth, which suggests a perceived trade-off between financial returns and social impact.⁶² Regarding their inclination towards sustainable investing, the primary reason mentioned by respondents across the region was the expectation of better returns, with 40% highlighting this as a key factor. This motive was particularly prominent among respondents in Hong Kong (44%) and Mainland China (46%).⁶³

Impact investments often involve emerging sectors or projects that address complex social or environmental challenges. These ventures can be perceived as higher risk and less predictable compared to traditional investments. Such risk perceptions can deter mainstream investors who are more comfortable with conventional investment opportunities. Overcoming this challenge necessitates targeted efforts to educate investors about potential risk mitigation strategies employed in impact investing, such as diversification, active management, and impact measurement frameworks that provide transparency and accountability.

⁶² Triodos Investment Management. (n.d.) *Impact investing: choosing between impact and financial return?*. <https://www.triodos-im.com/knowledge-centre/choosing-between-impact-and-financial-return>

⁶³ Fidelity International. (2023, July 18). *Fidelity International survey: While interest in sustainable investing remains strong, APAC investors are grappling with education gap*. [Press release]. <https://www.fidelity.com.hk/en/articles/press-releases/2023-07-18-fidelity-international-survey-while-interest-sustainable-investing-1689821631663>

Figure 6 . Spectrum of Capital ⁶⁴

Source: Impact Investing Institute

► Lack of impact investing education for investors

Retail investors worldwide show strong interest in impact investing, with 78% of retail investor respondents surveyed in a Rockefeller Foundation survey indicating that they were aware of impact investing and are currently making impact investments.⁶⁵ However, a gap in impact investing education among mainstream investors in Hong Kong has been identified. The lack of dedicated educational initiatives focused on impact investing further exacerbates the limited awareness in Hong Kong.

Unlike more established investment strategies, impact investing is relatively new and requires specialised knowledge and skills. The lack of educational programmes and resources tailored specifically to impact investing prevents investors from acquiring the necessary understanding and expertise to engage in impact investment opportunities. As a result, the investment community in Hong Kong remains unfamiliar with the intricacies of impact investing and its potential to drive positive change.

Recently, there has been a noticeable increase in initiatives to raise awareness of impact investing has been observed in Hong Kong. While local institutions such as the SFi have devoted significant resources to enhancing capacity and sharing knowledge among family offices and asset owners,

⁶⁴ Impact investing institute. (n.d.) The Spectrum of Capital. Retrieved March 28, 2024 from <https://www.impactinvestings.de/wp-content/uploads/Spectrum-of-capital-general-version.pdf>

⁶⁵ The Rockefeller Foundation. (2019). The Individual Imperative: Retail Impact Investing Uncovered. <https://www.rockefellerfoundation.org/report/individual-imperative-retail-impact-investing-uncovered/>

the FSDC has also been playing an active role in the journey. Besides supporting GIIN in its Asset Owner Roundtable Series that aims to deepen the understanding of impact investing among asset managers in Hong Kong, the FSDC co-hosted in May 2023, the “Navigating the Future of Impact Investing in Asia” conference with GIIN,⁶⁶ bringing together leading impact investors, entrepreneurs, and policymakers from across Asia to discuss the current state of impact investing. However, further steps are needed to scale up these investments and improve accessibility, the efforts of other jurisdictions and international organisations to promote impact investing can serve as valuable examples for Hong Kong. Several Asian jurisdictions and global organisations have taken proactive measures to raise awareness and build capacity in impact investing. Examples of Government efforts to raise awareness include the GSG Impact, which emerged from the Social Impact Investment Taskforce established by the Government of the United Kingdom in 2013,⁶⁷ and the launch of Japan’s Impact Consortium by the Japanese Financial Services Agency.⁶⁸

Learning from these experiences, Hong Kong can develop the best practices and initiatives to educate investors, financial institutions, and relevant stakeholders on the benefits and processes of impact investing. Collaborating with international organisations can facilitate knowledge sharing and guide on implementing effective strategies to promote impact investing within the local context.

Educational initiatives targeting mainstream and general investors should focus on raising awareness of the potential financial returns and risk management strategies associated with impact investing. Highlighting successful impact investment case studies from Hong Kong and around the world can help dispel the myth of a trade-off between financial returns and positive impact. By addressing these challenges, Hong Kong can foster a more supportive environment for impact investing and encourage the integration of social and environmental considerations into investment decision-making.

- **Challenges to developing impact strategies**

- **Lack of guidance and incentives for investors to develop impact strategies**

For investors to maximise the benefits of their impact investment, comprehensive impact strategies in place from the start of their impact journey, guided by investment principles and impact measurement frameworks, is essential. However, the lack of guidance and incentives in Hong Kong hinders investors from developing effective impact strategies. While there is a growing interest in impact investing, the availability of clear resources and tools accessible for investors in Hong Kong to manage the social and environmental impact of their investments is limited. Without proper guidance, investors may struggle to navigate the complex landscape of impact investing and align their financial goals with their desired impact outcomes.

⁶⁶ FSDC. (2023, May 9). GIIN and FSDC Co-host Conference on the Future of Impact Investing in Asia. <https://www.fsd.org.hk/en/media/giin-and-fsdco-host-conference-on-the-future-of-impact-investing-in-asia>

⁶⁷ UK Government. (2015). Social Impact Investment Taskforce. <https://www.gov.uk/government/groups/social-impact-investment-taskforce>

⁶⁸ Financial Service Agency. (2023, November). “Launching Japan’s Impact Consortium” Announced. <https://www.fsa.go.jp/en/news/2023/20231122.html>

The absence of standardised measurement mechanisms exacerbates the challenge. Many measurement frameworks are available to investors which serve the same purpose of quantifying impact based on various mechanisms. As impact investments are generally aligned with the United Nations SDGs, the SDGs naturally are the go-to framework/principle among investors (76%) worldwide surveyed by GIIN.⁶⁹ As for impact measurement and management (IMM) tools, 78% of investors have adopted the IRIS+ IMM tool. While there is no comparable data available specifically for Hong Kong, given the nascent development of impact investing in Hong Kong, investors are not as familiar with these frameworks and IMM tools as compared to those worldwide.

Figure 7. Frameworks & principles guiding impact strategy (n=308)

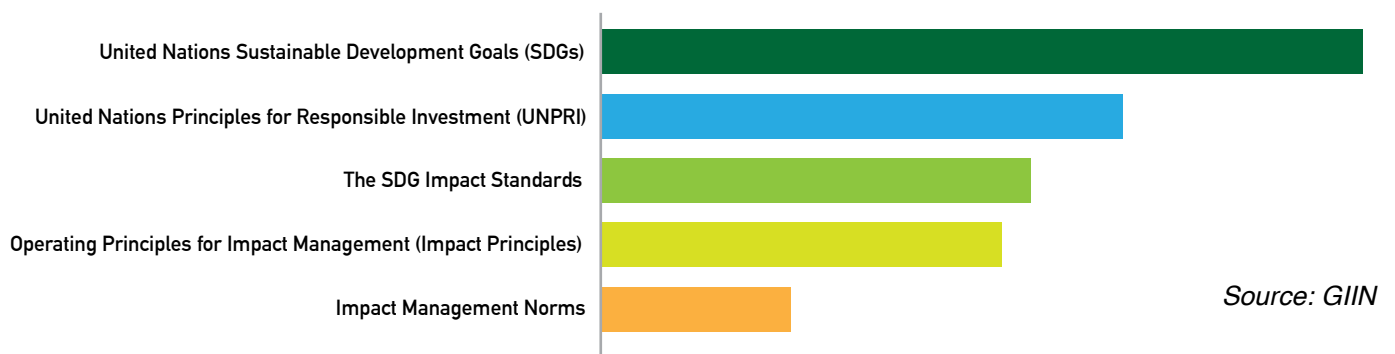
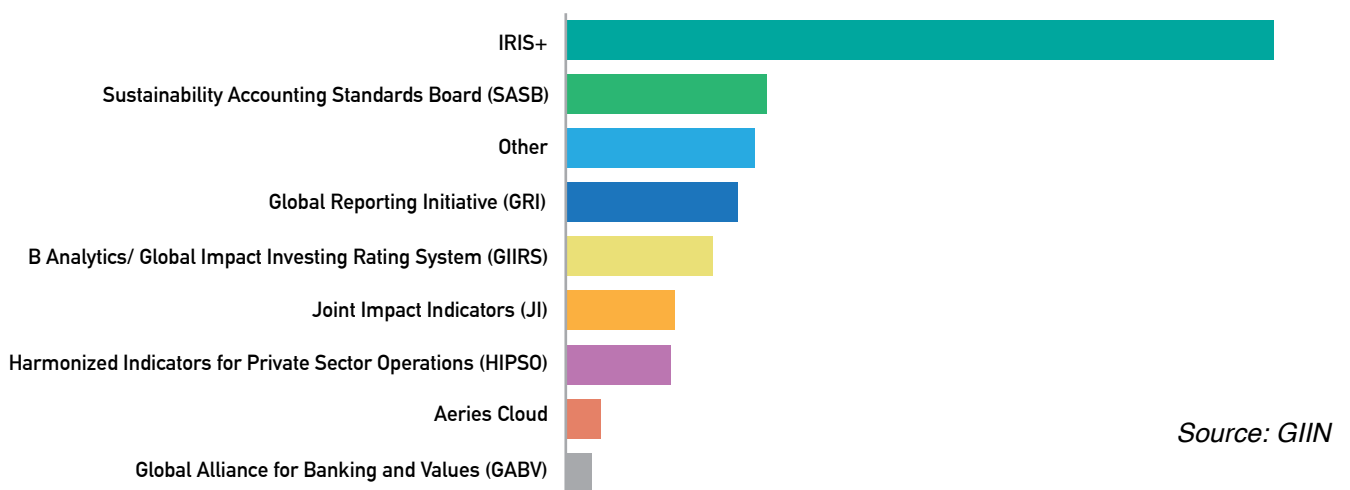


Figure 8. Tools & systems used for impact measurement and management (n=251)



Impact investors rely on consistent and comparable metrics to evaluate and compare the impact performance of different investments. However, without clear guidance on how these tools can be utilised, it becomes difficult to effectively measure and report the social and environmental impact generated by investments. According to UBS, 55% of family offices surveyed globally

⁶⁹ Hand, D., Sunderji, S., Pardo, N. (2023) GIINSight 2023: Impact Measurement & Management Practice. The Global Impact Investing Network (GIIN). New York. <https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/research/2023-giinsight-%E2%80%93-impact-measurement-and-management-practice.pdf>

strongly agree or agree that difficulties in accurately measuring impact are holding them back from allocating more money to impact investments.⁷⁰ This lack of standardised measurement hampers investors' ability to make informed decisions, track progress, and demonstrate the positive outcomes of their investments.

In addition, given its nascent development in Hong Kong, impact investment funds are currently not as prominently recognised by public stakeholders as compared to general ESG funds. The lack of recognition and regulatory certainty surrounding impact funds may impede asset managers from navigating the process of launching new impact funds. It would be beneficial for relevant public stakeholders to consider broadening the definition of ESG funds to include impact funds. A case in point is the inclusion of an “impact category” for investment funds alongside an investment label named “sustainability impact” in the Sustainability Disclosure Requirements and Investment labelling regime issued by the UK’s Financial Conduct Authority.⁷¹ This represents one of the initial regulatory-driven investment product frameworks to provide explicit guidance on impact funds.

We acknowledge that impact-related funds often target the primary market, investing in relatively illiquid assets and are invested on a long-term basis. As such, allowing retail access to impact funds on par with ESG funds would require a fundamental change in the redemption request payment requirement under the Code on Unit Trusts and Mutual Funds, among some other areas.⁷² While the FSDC does not have a conclusive view on extending retail participation to impact funds at this juncture, the inclusion or clarification of labelling terms could furnish certainty for asset managers, as well as bolster investor awareness and education.

In short, while the industry is of the view that relevant barriers are decreasing over time and do not deter investors from committing to impact investment, the challenge of agreeing to converge on a specific standard and understanding how impact performance can be compared and analysed. Addressing aforementioned challenges requires the development of clear resources, standardised measurement frameworks, and supportive policies that foster a thriving impact investing ecosystem.

⁷⁰ Dream Impact. (2021). Asia Impact Venture Investing Report. <https://www.dreamimpacthk.com/wp-content/uploads/Full-Report-Dream-Impact-Asia-Sustainable-Venture-Investing-Report-2021-1.pdf>

⁷¹ Financial Conduct Authority. (2023, November). Policy Statement PS23/16 Sustainability Disclosure Requirements (SDR) and investment labels. <https://www.fca.org.uk/publication/policy/ps23-16.pdf>

⁷² Securities and Futures Commission. (2022, November). Frequently Asked Questions on the Code on Unit Trusts and Mutual Funds. https://www.sfc.hk/-/media/files/PCIP/FAQ-PDFS/Frequently-Asked-Questions-on-the-Code-on-Unit-Trusts-and-Mutual-Funds_11112022.pdf

► Scarcity in impact investing deals and impact investment managers with track records in Hong Kong

Despite the increasing interest in impact investing, there is a limited supply of investment opportunities that effectively align with both financial and impact objectives. Investors and ventures recognise the value and transformative potential of impact investment deals, and these considerations are crucial to making impact deals investable. However, due to the dearth of suitable impact investment opportunities, most investors face challenges in achieving “investability”. In Asia, the readiness for investment is rated as low to moderate due to the limited availability of appropriate impact investing opportunities.⁷³

The lack of impact investing deals presents a significant challenge for investors seeking to allocate capital towards projects that generate positive social and environmental outcomes. This scarcity restricts the range of options available and intensifies competition among impact investors competing for a limited number of deals. Moreover, it may lead to capital being diverted to investments that are not closely aligned with investors’ impact objectives, thereby compromising the overall potential for impact.

In addition to the lack of impact investment deals, the relatively short history of impact investing in Hong Kong has resulted in a dearth of track records for many impact investment managers. This lack of track records is a significant requirement for both impact investors and intermediaries. A study examining impact investments by foundations in Singapore and Hong Kong highlighted the challenges faced by financial institution representatives in sourcing local impact investment funds in Asia.⁷⁴ They expressed concerns about the short track record of many funds, explaining that the absence of a track record prevents them from confidently affirming the managers’ expertise, the existence of robust systems, and their ability to manage funds effectively in the long run.

As much of a dilemma it may sound, the limited track records of impact investment managers in Hong Kong and the broader region pose challenges in attracting investments from impact investors and intermediaries who prioritise proven experience. Investors often seek evidence of past performance and successful outcomes to evaluate the competence and reliability of fund managers. Without a solid track record, impact investment managers face difficulties establishing trust and securing the necessary capital to support impactful projects. Collaborative efforts within the impact investing community can also play a vital role in facilitating knowledge sharing and capacity building, further strengthening the track records of impact investment managers in Hong Kong.

⁷³ Dream Impact. (2021). Asia Impact Venture Investing Report. <https://www.dreamimpacthk.com/wp-content/uploads/Full-Report-Dream-Impact-Asia-Sustainable-Venture-Investing-Report-2021-1.pdf>

⁷⁴ Tan, P, & Lam, S.S. (2018). Impact Investments by Foundations in Singapore and Hong Kong. Asia Centre for Social Entrepreneurship & Philanthropy, NUS Business School. The Sasakawa Peace Foundation. <https://www.spf.org/awif/wp-content/uploads/2018/05/Jan-2018-Impact-Investments-by-Foundations-in-Singapore-and-Hong-Kong.pdf>

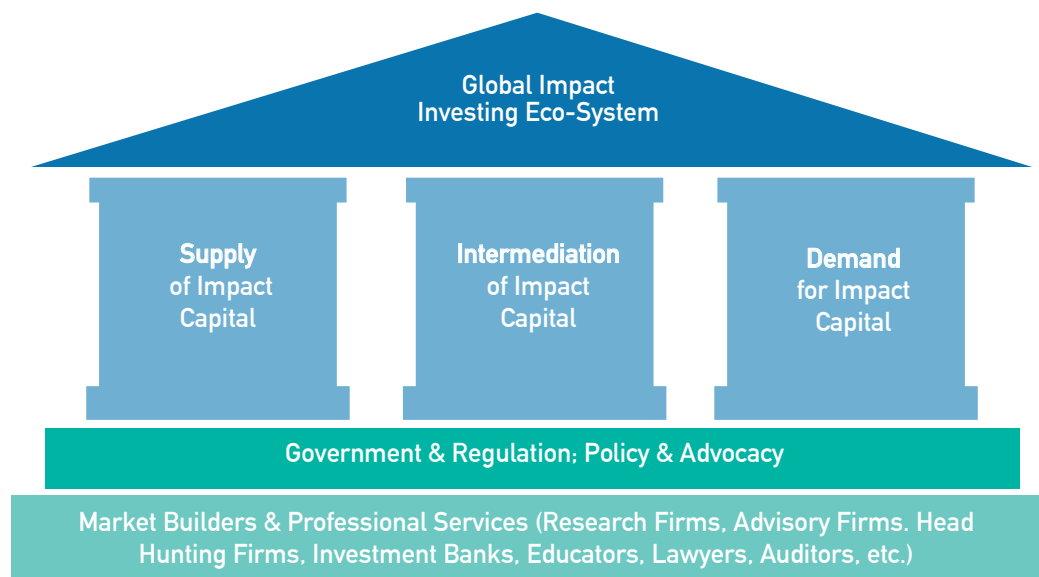


Policy Recommendations

Policy Recommendations: Building an ecosystem for impact investing to thrive in Hong Kong

According to GSG Impact, a thriving impact economy depends on five key pillars that drive impact: **demand for capital, supply of capital, intermediaries, government and regulation, and market builders.**⁷⁵ Building a thriving impact investing ecosystem in Hong Kong requires a focus on the same key foundational elements. The supply side includes asset owners who possess the necessary capital to contribute to impactful initiatives. On the other hand, the demand side consists of stakeholders who require financial resources to carry out on-the-ground activities that generate positive social and environmental outcomes, while also seeking financial returns. Intermediaries play a vital role in facilitating the smooth interaction between the supply and demand sides of impact investing. Additionally, the involvement of government entities and advocacy groups is essential in shaping policies and providing support and facilitation services.⁷⁶

Figure 9. Pillars of the global impact investment ecosystem



Source: GSG Impact

A key component and driver for the sustainable development of the industry is the availability of impact capital in Hong Kong. Therefore, it is crucial to attract local and international investors to allocate funds that generate social/environmental impact. A robust private capital demand from the financial industry should also exist. This involves raising awareness among asset owners and institutional investors of impact investments' potential benefits and long-term value. Fostering a responsible investing culture and encouraging impact integration strengthens Hong Kong's leadership in sustainable finance and investor diversity.

⁷⁵ The Global Steering Group for Impact Investment. (2018). Catalysing an Impact Investment Ecosystem – A Policymaker's Toolkit. <https://www.gsgimpact.org/media/imkbykx5/gsg-paper-2018-policy-catalysing-impact-investment-ecosystempdf.pdf>

⁷⁶ Arora, S, & Garg, A. (2024). Impact Investment Ecosystem – A Critical Review and Recommendations. Educational Administration: Theory and Practice. 30(5). 01-20. <https://doi.org/10.53555/kuey.v30i5.4008>

In light of the above, the FSDC attempts to identify ways to cultivate a comprehensive ecosystem in Hong Kong which facilitates the development of impact investing in Hong Kong. The FSDC has identified three broad themes under which enhancement can be made to address the challenges mentioned in the previous section, namely, **(i) raising awareness, (ii) building knowledge, and (iii) incentivising impact investments.**

a) Awareness raising: Empowering well-intentioned investors

Given its emerging stage of development in Hong Kong, raising awareness of impact investing plays a crucial role in mobilising capital for sustainable development and creating positive social and environmental outcomes. By educating investors about the potential impact of their investments, they can actively direct their capital towards initiatives that address pressing global challenges. This increased capital flow not only drives innovation and scalability, maximising the impact of the capital mobilised but also contributes to the achievement of the SDGs.

Moreover, raising awareness influences corporate behaviour and corporate social responsibility as investors demand greater transparency, accountability, and adherence to sustainability standards. This shift towards responsible practices encourages companies to integrate sustainability into their business models, fostering long-term value creation and a more sustainable private sector. On the other hand, with increased traction gained and awareness built, a new generation of investors who prioritise social and environmental impact could be attracted, ensuring continued engagement and support for impact investing in the future.

As such, leveraging existing available resources, relevant public stakeholders could consider concerting efforts of capacity builders to provide more guidance and benchmark indicators for investors' reference.

► Recommendation 1: Prioritising SDGs and encouraging early adoption of impact frameworks

Prioritising SDGs

To effectively raise awareness of impact investing among investors in Hong Kong, it is crucial for investors to have high-level guiding principles and goals to refer to. An overarching roadmap for impact investing development in place would be beneficial for all stakeholders to identify their roles and contribute accordingly. Among others, prioritising associated international frameworks for sustainable development, specifically the SDGs, would be one of the important elements. By doing so, investors and companies can integrate sustainable practices into their internal decision-making processes and contribute positively to the SDGs. Relevant public stakeholders could prioritise certain SDGs that are more pressing for the needs of the city, and update them accordingly within a regular timeframe. For instance, SDG 17 (Partnerships for the Goals) could be recognised as a crucial enabler for Hong Kong to solidify its position as an impact investing hub while simultaneously increasing community awareness. To strengthen Hong Kong's capabilities in enriching its impact investing environment, it is essential to engage in cross-sectoral, cross-boundary, and cross-cultural exchanges, considering the interdisciplinary essence of impact investing. By nurturing valuable partnerships among diverse sectors, cultural communities, and regions, community awareness could be promoted correspondingly.

A case in point in terms of prioritising SDGs is the proposal made by Xi Jinping, president of the People's Republic of China, during the 76th United Nations General Assembly, where he introduced the Global Development Initiative and advocated for the establishment of the International Research Center of Big Data for Sustainable Development Goals (CBAS) in China. The CBAS focuses on the collection of scientific data and the application of analytics specifically targeting seven Sustainable Development Goals (SDGs): SDG 2 (Zero Hunger), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities), SDG 13 (Climate Action), SDG 14 (Life Below Water), and SDG 15 (Life on Land).⁷⁷

Adopting impact frameworks early

To maximise impact and foster meaningful change, relevant public stakeholders should consider promoting the adoption and incorporation of an impact framework early in investors' early decision-making process, on top of relying solely on the prioritisation of SDGs. An effective solution is to provide localised guidance on impact standards decision-making frameworks, such as the SDG Impact Standards and the OECD-UNDP Impact Standards for Financing Sustainable Development. These frameworks will serve as guidelines for investors and companies to align their investments and operations with the SDGs, while allowing flexibility for investors and companies to choose the impact measurement and management tools that best suit their needs, facilitating a more robust impact investing ecosystem. Such emphasis on the adoption of internationally recognised frameworks dovetails with FSDC's effort to promote sustainable finance alongside a policy research paper regarding transition finance, which is expected to be published within 2024.

Furthermore, it should be beneficial for the Government to take the initiative to provide industry guidelines and best practices for investors and issuers. These guidelines could make reference to international guidance and offer clarity and guidance on how these frameworks could be incorporated into businesses processes, as well as to evaluate and measure the impact of investments in line with the SDGs. By establishing clear guidelines, the Government can actively support the development of the impact investing ecosystem in Hong Kong and encourage more investors to consider the social and environmental impact of their investments. A notable example of the government's role in guiding and providing direction to the finance industry can be seen in the recently published "Basic Guidelines on Impact Investment (Impact Finance)" (Basic Guidelines)⁷⁸ by the Japan Financial Services Agency. These comprehensive guidelines serve as a framework for financial institutions, addressing various aspects such as intentionality, additionality, identification, measurement, management, and support for innovative approaches in impact investment. By adopting similar guidelines, the Government of Hong Kong can play a pivotal role in shaping the impact investment landscape and guiding financial institutions in making purposeful and effective impact investments.

⁷⁷ Chinese Academy of Sciences & International Research Center of Big Data for Sustainable Development Goals. (2023). Big Earth Data in Support of the Sustainable Development Goals. https://www.mfa.gov.cn/web/ziliao_674904/zt_674979/dnzt_674981/qtzt/2030kcxzyc_686343/yw/202310/P020231018367488679110.pdf

⁷⁸ Financial Services Agency. (2024). Basic Guidelines on Impact Investment (Impact Finance). <https://www.fsa.go.jp/singi/impact/siryout/20240329/02.pdf>

► Recommendation 2: Setting an example through direct government involvement

Sovereign wealth funds, with substantial assets, can be well-suited to demonstrate that impact investing's viability and attractiveness play an increasingly important role in global development. According to a report by the International Forum of Sovereign Wealth Funds, 71% of sovereign wealth fund respondents said they had adopted an ESG approach, compared to 24% in the previous year.⁷⁹ By dedicating parts of their portfolios to investments targeting issues like renewable energy, affordable housing, healthcare, and education, sovereign funds can realise financial returns while furthering social progress. Moreover, as pioneering backers, sovereign funds can provide credibility and seed funding to aligned initiatives and attract co-investors, setting precedents and encouraging other institutions to integrate impact considerations into strategic portfolio diversification and tangible contributions.

With the above in mind, the Government could lead by example and demonstrate its commitment to impact investing through direct investment. One way to achieve this is through the role of the Hong Kong Investment Corporation (HKIC), a Government-owned investment institution. The HKIC can allocate a portion of its investment portfolio specifically to impact investments aligned with the SDGs. For example, the HKIC could leverage its Hong Kong Growth Portfolio and Co-Investment Fund to invest in impact projects centred on environmental and social causes with a Hong Kong nexus.⁸⁰ Additionally, this approach could attract impact projects to set up operations in Hong Kong. This could reinforce the participation of the Government as well as address the issue of a scarcity of local impact deals in Hong Kong. By taking this leadership role, the HKIC can establish a benchmark that provides valuable guidance to new investors to impact investing. This proactive step will not only yield financial returns but also create a ripple effect, inspiring other investors to embrace impact investing practices. Inspiration can be drawn from neighbouring jurisdictions and their sovereign wealth funds, particularly the case of Temasek Trust in Singapore.⁸¹ Similarly, Temasek, an investment company headquartered in Singapore, is also committed to impact investment.⁸² By adopting a similar approach, the HKIC can align its investments with specific impact themes, ensuring a holistic and focused investment strategy that delivers positive social and environmental outcomes. In relation to HKIC's role in fostering ecosystems in Hong Kong, the FSDC has also initiated further study on nurturing the start-up ecosystem and the similar role that the HKIC could play.

⁷⁹ International Forum of Sovereign Wealth Funds. (2022). What the S in ESG means for Sovereign Wealth Funds. <https://www.ifswf.org/sites/default/files/IFSWF%20The%20S%20in%20ESG.pdf>

⁸⁰ Hong Kong Investment Corporation Limited. (n.d.). Hong Kong Investment Corporation Limited. <https://www.hkic.org.hk/>

⁸¹ The Trust has demonstrated a comprehensive approach by identifying key impact areas from the outset, including climate action, biodiversity and conservation, adaptation and resilience, as well as global and public health, holistic and inclusive education, among others.

⁸² Temasek. (2021, March). Temasek and LeapFrog Investments Forge US\$500 Million Partnership, Largest Ever Commitment to an Impact Investor. <https://www.temasek.com.sg/en/news-and-resources/news-room/news/2021/Temasek-and-LeapFrog-Investments-Forge-US500-Million-Partnership>

Case of Mubadala – a sovereign wealth fund of the Emirate of Abu Dhabi

Established in 2017, Mubadala Investment Company PJSC (Mubadala) is an Emirati state-owned holding company that acts as one of the sovereign wealth funds of the Emirate of Abu Dhabi. Mubadala is a sovereign investor managing a diverse portfolio of assets in the UAE and abroad, with an AUM of US\$ 276 billion and a total investment of US\$ 29.1 billion. It deploys capital across its portfolio in promising sectors and geographies in more than 50 countries.⁸³

Mubadala meticulously formulates its investment strategy to build a resilient, diversified portfolio across asset types and regions. This aims to optimise returns over the long term while harmonising with responsible investment principles. Mubadala's approach also aligns with secular trends that are fundamental to the future of the world, such as population growth, urbanisation and associated infrastructure needs, and advances in technology such as AI and clean energy transition. This approach equips the portfolio to withstand volatility while facilitating sustainable growth by embracing these transformative forces.

Mubadala was an early pioneer in impact investing even before the field was formally launched. The establishment of Masdar in 2006, for example, demonstrated this foresight. Masdar has since grown into a global renewable energy provider, developing, commercialising, and deploying clean solutions across over 30 nations to supply 100 GW of renewable energy by 2030.

Digital technologies topped investor and business surveys as having the highest relevance to future trends. Around the world, technology enables people, enterprises, and societies to find solutions to environmental concerns and issues such as food scarcity, inadequate sanitation, restricted access to education, poverty, and health. Mubadala invests in breakthrough innovation through sectors like semiconductors, artificial intelligence, advanced mobility and autonomous driving. This drive to maximise the potential technology also applies to their work with Hub71. Hub71 supports Abu Dhabi's ascension as a startup and innovation headquarters, spanning climate tech, fintech and health tech, among other vital fields leveraging technology for good.⁸⁴

⁸³ Mubadala. (n.d.). Mubadala – Investing for the Future. <https://www.mubadala.com/>

⁸⁴ Hub71. (n.d.). Hub71 Who we are. <https://www.hub71.com/who-we-are>

Additionally, the Government can establish PPPs and collaborate with impact-focused organisations to catalyse investments in areas aligned with the SDGs. By actively participating in impact investing initiatives, the Government can showcase the benefits and potential of impact investing and encourage other investors to adopt similar strategies. The Korea Social Value and Solidarity Foundation could serve as a point of reference.⁸⁵ Relevant public stakeholders could also consider adopting various models while investing in impact so as to guarantee a higher rate of success. An effective approach to identifying and expanding successful impact investment deals is through the implementation of the “Pay-for-success” (PFS) model. Under this model, positive social or environmental outcomes are achieved by paying for an intervention only when it has demonstrated the desired results, either in part or in full. In Hong Kong, the Social Innovation and Entrepreneurship Development Fund (SIE Fund), with support from Oxfam Hong Kong, has spearheaded the city’s inaugural PFS project.^{86, 87} This project has provided valuable insights, highlighting the potential of the PFS model as a balanced approach to mitigating risk aversion, fostering innovation, and benefiting all stakeholders involved, including the Government, beneficiaries, and intermediary organisations.

Raising awareness of impact investing among investors in Hong Kong requires a multi-faceted approach. By prioritising specific SDGs and providing a localised decision-making framework for impact standards, investors and companies will be guided to integrate sustainability practices into their operations. The Government’s direct involvement in impact investing, exemplified through the HKIC, will set an example for other investors. Hong Kong can foster an ecosystem where impact investing thrives, generating positive social and environmental outcomes alongside financial returns.

b) Capacity building: Enhancing education with a multifaceted approach

Education plays a vital role in the development and advancement of innovative ideas. To cultivate an environment conducive to the success of impact investing in Hong Kong, it is essential to prioritise the acquisition of knowledge and the promotion of education within the investment community, ranging from retail to institutional investors, and asset owners. By improving education and ensuring easy access to educational resources on impact investing, individuals and organisations can be empowered to make informed investment choices that align with their values and desired impact. Encouraging knowledge growth within the community involves implementing a multifaceted approach to impact investing education, including educating retail and institutional investors, integrating

⁸⁵ The SVS was established in January 2019 as a part of the Korean government’s “Social Finance Promotion Strategy”. It was established in partnership with the private sector, with the design of wholesale finance institution exclusively for the social economy in South Korea.

⁸⁶ Efficiency Office. (2023, January 30). Commissioned by the SIE Fund, the first “Pay-for-Success” project in Hong Kong achieves notable results. <https://www.effo.gov.hk/en/latest-news-and-events/item/commissioned-by-the-sie-fund-the-first-pay-for-success-project-in-hong-kong-achieves-notable-results/>

⁸⁷ Oxfam Hong Kong. (2022, July 30). Oxfam and SIE Fund’s first Pay-for-Success project in Hong Kong offers ethnic minority kindergarten students Chinese enrichment classes and online platform for public access of teaching resources. <https://www.oxfam.org.hk/en/news-and-publication/oxfam-and-sie-fund-s-first-pay-for-success-project-in-hong-kong-offers-ethnic-minority-kindergarten-students-chinese-enrichment-classes-and-online-platform-for-public-access-of-teaching-resources>

impact investing into university curricula, capacity building support scheme similar to the “Pilot Green and Sustainable Finance Capacity Building Support Scheme”, and fostering collaboration and engagement among industry participants.

► **Recommendation 3: Empowering retail investors through increased investor education**

An essential element involves delivering impact investing education to the general population. The Investor and Financial Education Council (IFEC) holds the potential to play a crucial role in this endeavour. Beyond the existing foundational educational materials on ESG, impact, and socially responsible investing that can be found on the IFEC website,⁸⁸ there is an opportunity for the IFEC to expand its resources and establish a dedicated section specifically focused on impact investment. By developing comprehensive educational programmes and online materials, the IFEC can enhance awareness and comprehension of impact investing among retail investors.

In addition to the educational role played by the IFEC, it is essential to leverage existing platforms and resources, both in the public and private sector, to ensure the accessibility of knowledge materials on impact investing. The Green and Sustainable Finance Knowledge Hub (GSF Knowledge Hub) website could also be expanded to include dedicated sections on impact investing.⁸⁹ Trading platforms that are accessible to retail investors could also serve as an ideal education outlet. This expansion can include impact assessment tools, educational articles, research papers, case studies, and interactive tools that provide in-depth knowledge on impact investing concepts, strategies, and impact measurement methodologies. These resources can equip investors with the necessary knowledge and skills to navigate the complexities of impact investing. By consolidating and curating relevant resources, the GSF Knowledge Hub becomes a centralised repository for impact investing knowledge, accessible to a wide range of stakeholders, including investors, financial professionals, researchers, and policymakers.

► **Recommendation 4: Enriching asset owners’ expertise through collaborative partnerships and industry engagement**

In addition to retail investors, asset owners, such as institutional investors, high-net-worth individuals and family offices, also play a crucial role in driving impact investment growth. Institutions such as the Hong Kong Academy for Wealth Legacy (HKAWL) and other platform builders in Hong Kong can consider building knowledge in this segment with its partners. Knowledge and expertise expansion is one of the key objectives of the HKAWL, which aims to enrich the expertise of family office principals and beneficiaries on various topics, encompassing family governance and intergenerational integration, impact investing and philanthropic impact, as well as arts development.⁹⁰ The HKAWL can help bridge the knowledge gap by organising educational events, conferences, and industry forums focused on impact investing.

⁸⁸ IFEC. (n.d.). New Perspectives on Investment: ESG, Impact and Socially Responsible Investing. IFEC. <https://www.ifec.org.hk/web/en/investment/investment-products/green-finance/esg-and-sri-investing.page>

⁸⁹ Green and Sustainable Finance Cross-Agency Steering Group. (n.d.). GSF Knowledge Hub. <https://sustainablefinance.org.hk/en/learning-development/gsf-knowledge-hub?page=1&locale=en&sortby=alphabetical>

⁹⁰ FSDC. (n.d.). Hong Kong Academy for Wealth Legacy. Financial Services Development Council. <https://www.fsd.org.hk/en/hkawl/home/>

The HKAWL network and platform can bring together asset owners, impact investment professionals, and subject matter experts to share insights, experiences, and case studies. By facilitating knowledge sharing, the HKAWL can help asset owners understand the potential benefits and risks of impact investing while highlighting the various investment opportunities available in Hong Kong and globally.

Building knowledge for impact investing requires collaborative partnerships and engagement with various stakeholders. The Government can work closely with industry associations, academic institutions, impact investing networks, and international organisations, such as AVPN, Global Impact Investing Network, and Sustainable Finance Initiatives, to develop educational programmes, conduct research, showcase success stories and share best practices in impact investing. By fostering cross-sectoral collaborations, workshops, and knowledge-sharing events, Hong Kong can leverage the collective expertise and resources of its vibrant financial community to advance impact investing knowledge and practice.

To further enhance knowledge accessibility and promote deal flow, the feasibility of establishing an impact investment deals depository or platform should be explored. This platform can serve as a marketplace where impact investment opportunities are shared, enabling investors to discover and engage with projects that align with their impact objectives. The platform can provide detailed information on impact investment deals, including their social and environmental goals, financial structures, and expected returns. An example available in the market for reference is the AVPN's Deal Share Platform, an online platform for sharing deal information resources for different asset owners seeking to find right-for-profit and non-profit partners specific to their mandate;⁹¹ a version of such platform for philanthropy projects, known as Impact Link, is launched by the HKAWL. By facilitating connections between impact investors and project sponsors, the platform promotes transparency, trust, and collaboration within the impact investing ecosystem.

► Recommendation 5: Cultivating early through higher education

To cultivate a future-ready workforce that embraces the principles of impact investing, it is crucial to incorporate this emerging field into the academic curriculum of undergraduate and master's studies. By integrating impact investment into relevant disciplines such as finance, business, economics, and sustainability, universities can equip students with the necessary knowledge and skills to navigate the evolving landscape of responsible and sustainable finance.

Universities can offer specific classes or sections that explore impact investing in depth. These classes would cover topics such as measuring social impact, frameworks for sustainable finance, social entrepreneurship, and making ethical investment decisions. By combining theoretical concepts with real-life case studies and lectures from industry professionals, students would gain a well-rounded understanding of impact investing. They would learn about its ability to generate both financial returns and create positive social change. Blending theory and practice through examples and guest speakers would give students comprehensive insight into this emerging field.

⁹¹ AVPN. (n.d.). Deal Share Platform – See Impact Organisations in Our Network. <https://avpn.asia/deal-share-platform/>

Moreover, universities can establish research centres or institutes focused on impact investing that serve as impact incubators and hubs for cutting-edge research, thought leadership, and collaboration with industry practitioners. These centres can facilitate interdisciplinary research projects, engage students in impactful research initiatives, and foster partnerships with financial institutions, impact investment funds and social enterprises. Such initiatives encourage students to actively contribute to the development of innovative solutions and best practices within the impact investment ecosystem.

By integrating impact investment into undergraduate and master's curricula, universities not only equip students with the knowledge and skills needed for future careers in responsible finance but also contribute to the broader promotion of impact investing as an integral part of the financial industry. This integration ensures that the next generation of finance professionals is well-prepared to navigate the complexities of impact investing, drive positive social and environmental change, and contribute to the sustainable development of Hong Kong and beyond.

c) Incentivising impact: Creating a conducive environment for impact investment

Incentives are important motivating tools in any environment. They encourage desired behaviours and outcomes by offering a reward. For individuals and organisations alike, incentives help drive performance and promote the achievement of identified goals. Echoing the GSG Impact's pillars of the global impact investment ecosystem, the supply of impact capital is key to the development of a comprehensive ecosystem. While incentives are designed to catalyse more capital into impact investing, identifying new sources of capital that could be channelled into impact areas would be crucial. To enhance investor engagement in impact investing and identify more impact capital in Hong Kong, quick fixes could be made to existing enabling frameworks in this regard.

► Recommendation 6: Enhancing the ease of incorporation

Hong Kong is an international asset management and fund distribution centre with over 2,000 retail investment funds authorised by the Securities and Futures Commission (SFC).⁹² Hong Kong offers various options for establishing funds, including Open-ended Fund Companies (OFCs), Limited Partnership Funds (LPFs), and unit trusts. However, it's important to note that there are fees associated with setting up funds in Hong Kong. Although lower than many other markets, the incorporation fee for both OFCs and LPFs is HK\$3,034, and an additional non-refundable lodgement fee of HK\$479 is applicable for OFCs.^{93,94}

To accelerate the growth of impact investing in Hong Kong, relevant public stakeholders could consider introducing incentives to encourage the establishment and registration of impact investment funds in the city. While compliance with regulatory requirements should by no means be

⁹² Securities and Futures Commission. (2024, June) Table D1 – Authorised Collective Investment Schemes. <https://www.sfc.hk/-/media/EN/files/SOM/MarketStatistics/d01.pdf?rev=e43fc61c0e124f0aad3ee2cddc97c2f2&hash=8F36D5F74AA4E061F1D886499CA66BCE>

⁹³ Companies Registry. (2024, February). Open-ended Fund Companies. <https://www.cr.gov.hk/en/legislation/ofc/faq.htm>

⁹⁴ Companies Registry. (2023, May). Overview – Limited Partnership Funds. <https://www.cr.gov.hk/en/legislation/lpf.htm>

compromised, by waiving or reducing set-up and registration fees for these funds, the Government may attract a wider range of investors to engage in impact investing activities. Such incentives would not only stimulate investor interest but also signal the Government's commitment to fostering a vibrant impact investment ecosystem in Hong Kong.

In addition to reducing financial burdens, the Government can offer other supportive measures to incentivise the establishment of impact investment funds. While the existing streamlined authorisation approach for retail funds is already applicable to impact investment funds, other measures could include expedited approval procedures, relevant tax incentives, expansion of ESG fund definition if deemed appropriate as alluded to in the previous section, and dedicated support services for fund managers to navigate the complexities of impact investing. The benefits of such incentives could go beyond Hong Kong to fill gaps in the supply of capital in Asia that could amplify Hong Kong's role as a hub for impact investment. By creating a favourable and conducive environment for impact investment funds, Hong Kong can position itself as an attractive destination for fund managers seeking to channel capital into impactful ventures. As an example, Luxembourg has developed an incubator supported by public funds to stimulate the innovation among fund managers.⁹⁵ These incentives would boost participation from investors, and also attract experienced impact fund managers, further strengthening the city's expertise and reputation in the field of responsible finance.

► **Recommendation 7: Promoting investing with purpose**

The revamped New Capital Investment Entrant Scheme (New CIES), a key measure outlined in the Policy Statement on Developing Family Office Businesses in Hong Kong,⁹⁶ has been designed to entice asset owners to settle in the city and explore its diverse investment opportunities. Through the strategic allocation and management of their wealth, the New CIES presents an opportunity for Hong Kong to catalyse impact investment, which can be further tapped and leveraged to unleash capital investment potential and achieve greater societal impact.

Under the New CIES, eligible applicants are required to invest a minimum net amount of HK\$30 million in Permissible Investment Assets. Of this, HK\$3 million is allocated to the CIES Investment Portfolio managed by the HKIC, while the remaining HK\$27 million is invested in specified types of Permissible Financial Assets and non-residential real estate. These assets cover a range of options, including equities, debt securities, certificates of deposits, subordinated debts, eligible collective investment schemes, and limited partnership funds. The CIES Investment Portfolio, which is overseen by the HKIC, focuses on investing in companies and projects related to Hong Kong, with a primary objective of fostering the growth of innovation and technology industries, as well as other strategic sectors that contribute to the long-term development of the city's economy.

⁹⁵ International Climate Finance Accelerator. (n.d). International Climate Finance Accelerator. <https://www.icfa.lu/>

⁹⁶ Financial Services and The Treasury Bureau. (2023). Policy Statement on Developing Family office Businesses in Hong Kong. https://gia.info.gov.hk/general/202303/24/P2023032300717_415645_1_1679627481405.pdf

To further enhance the impact of the New CIES and create a more dynamic impact investment landscape in Hong Kong, relevant public stakeholders could consider including impact investments as one of the permissible investment assets, alongside equities and debt securities. The investment made to impact projects centred on environmental and social causes with a Hong Kong nexus would not only align with the New CIES Investment Portfolio's objective of supporting local growth but would also mobilise a greater flow of capital towards impactful investments in Hong Kong. While under the New CIES scheme, financial assets which encompass elements of impact investments, e.g., ESG funds authorised by the SFC, are already permitted investments, providing applicants clarity in terms of the eligibility of impact investments within the scheme could bring in a broader range of investors. By embracing impact investment as part of the CIES framework, the city can foster an environment that encourages investment in initiatives that generate positive social and environmental outcomes.

► **An idea for Listed Companies to consider: Utilising odd lots for a good cause**

Another model of giving or identifying a source of capital for impact investment is to look to our capital markets. While we encourage listed companies to allocate resources to drive impact in Hong Kong, there are instances where odd lot orders can be utilised as a source of capital. Odd lot order giving is a very new concept, it could be a solution for companies to start their impact investing journey in a relatively more risk-averse manner.

Listed companies could consider utilising these odd lots for impact investment, which offers a more convenient alternative to selling them while making an impact. The benefits of utilising odd lots for impact purposes could be significant for both listed companies and beneficiaries. Such a way provides a charitable solution to the business problem of small shareholdings. Often unwanted because they are too small to sell, these odd lot order shares can be transferred to an intermediary or utilised by the listed companies themselves at no cost to the shareholder, aggregated and sold for the benefit of different registered charities. The result is a significant funding stream for the impact projects. Overall, incorporating the practice of giving odd lots to a good cause into financial advisory services aligns with clients' philanthropic goals while offering practical benefits in terms of portfolio management and potential tax savings.

Examples can be found in Malaysia and the UK, such as the Shares2share programme under Bursa Malaysia,⁹⁷ the World Cancer Research Fund and Share Gift in the UK.^{98,99} Although more focused on philanthropy, better utilisation of odd lot orders could be a viable solution to increase capital for impact investments. This approach provides investors with new opportunities for investors to support impactful projects and companies, and also enables the diversification of impact investments, making a broader range of options accessible to retail investors. Ultimately, the policy recommendation seeks to harness the potential of odd lot orders to drive meaningful change and advance the global transition towards a more sustainable and equitable future.

⁹⁷ Bursa Malaysia. (n.d.). Shares2share Creating impact. Enriching lives. <https://bursaacademy.bursamarketplace.com/en/shares-2-share>

⁹⁸ World Cancer Research Fund. (n.d.). Donate your shares. <https://www.wcrf-uk.org/get-involved/donate-your-shares/>

⁹⁹ Share Gift. (n.d.). About Us. <https://www.sharegift.org/how-it-works/about-us/>



Conclusion

Conclusion

Building an enabling ecosystem for impact investing in Hong Kong is not only a strategic imperative but also a tremendous opportunity for the city to position itself as a global leader in the realm of responsible finance. In this paper, we have explored various key elements that contribute to the development of such an ecosystem, including raising awareness, capacity building, education, collaboration, and incentives. By addressing these factors, Hong Kong can create an environment that fosters the growth of impact investing and attracts a diverse range of investors, fund managers, and entrepreneurs dedicated to driving positive social and environmental change.

With its solid foundation in green and sustainable finance, Hong Kong can act as a catalyst for environmental and social advancement and accelerate the development of responsible investing and impact investing, moving beyond ESG investing. Together with its ambition to establish itself as a philanthropy hub, the development of impact investing is a natural progression. Leveraging its position as a global financial centre, regional family office hub and philanthropy centre, the interplay and interconnectedness of Hong Kong's ecosystems make it well-placed to become the premiere impact investing hub in Asia.

The confluence of enabling resources and ecosystem players places Hong Kong at the forefront of the global shift towards a more inclusive, sustainable and impact-driven model of capitalism. As such, the city can unlock significant potential to address social and environmental challenges, while also generating sustainable financial returns. Through collaborative efforts, regulatory frameworks, capacity building, education, and incentives, Hong Kong can position itself as a global hub for responsible finance, attracting investors, experts, and innovators committed to creating a more equitable and sustainable future. The time is ripe for Hong Kong to embrace impact investing and pave the way for a prosperous and impactful future.

Annex

Annex

Annex 1 – A brief introduction to impact investing

• What is impact investing?

Coined by the Rockefeller Foundation in 2007, the term “impact investing” refers to investments made in companies, organisations, and funds with the intention of generating both financial return and social and/or environmental impact.¹⁰⁰ While the definition allows for a wide range of investments and **asset classes**, two essential elements must be present: **intentionality** and **measurement**. The investor’s intention should incorporate aspects of both **social impact** as well as **financial return**.^{101,102}

- *Intentionality*

Impact investing has emerged as a powerful investment approach that seeks to generate positive social and environmental impact alongside financial returns. It goes beyond the traditional notion of investing solely for financial gain, integrating the intentionality to create measurable and beneficial outcomes for society and the planet. Through impact investing, investors actively allocate capital to projects, businesses, or organisations that address pressing global challenges, such as climate change, poverty, education, healthcare, and gender equality.

One key aspect that sets impact investing apart is its intentionality. Impact investors are driven by a desire to make a positive difference and align their investments with their values. They proactively seek opportunities to generate measurable and sustainable impact, ensuring that their investments contribute to positive change. By intentionally directing capital towards impactful initiatives, impact investors play a crucial role in shaping a more sustainable and inclusive future.

- *Financial return*

Contrary to the common misconception that impact investing sacrifices financial returns, it is important to note that impact investments can deliver competitive financial performance. Impact investing recognises the need for financial sustainability to drive long-term impact. While the primary focus is on generating positive social and environmental outcomes, impact investments also aim to deliver attractive risk-adjusted returns to investors. This dual objective aligns economic viability and positive impact, creating a win-win scenario for investors and society at large.

- *Social impact*

Social impact is the core of impact investing, serving as a driving force behind investment

¹⁰⁰ The Rockefeller Foundation. (2018). Bringing Scale to the Impact Investing Industry. <https://www.rockefellerfoundation.org/insights/perspective/bringing-scale-impact-investing-industry/#:~:text=In%202007%2C%20the%20term%20%E2%80%9Cimpact,social%20and%20For%20environmental%20impact.>

¹⁰¹ Rockefeller Philanthropy Advisors. (n.d.). Impact Investing: An Introduction. Retrieved March 18, 2024 from <https://www.rockpa.org/guide/impact-investing-introduction/#:~:text=Impact%20investments%20are%20defined%20as,be%20present%3A%20intentionality%20and%20measurement.>

¹⁰² GIIN. (n.d.). What you need to know about impact investing. Retrieved March 18, 2024 from <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

decisions. Impact investors prioritise investments that generate measurable and positive social outcomes, aiming to address pressing social challenges, improve livelihoods, and promote social equity. These investments span a wide range of areas, including education, healthcare, affordable housing, gender equality, job creation, and community development. By directing capital towards these initiatives, impact investing seeks to bring about tangible and sustainable improvements in people's lives, fostering inclusive growth and creating a more equitable society.

- *Asset classes*

Impact investing encompasses a wide range of asset classes, offering investors diverse opportunities to make a difference. These asset classes include private equity, venture capital, fixed income, public equity, real estate, and infrastructure, among others. This breadth of options allows investors to tailor their portfolios based on their risk appetite, return expectations, and impact goals. By spanning multiple asset classes, impact investing offers flexibility and the potential for impactful investments across various sectors and geographies.

- *Impact measurement*

Measuring impact is a fundamental aspect of impact investing. It involves quantifying the social and environmental outcomes generated by investments, providing evidence of the effectiveness of these efforts. Impact measurement allows investors to assess the extent to which their allocation of capital is contributing to positive change and enables them to make informed decisions based on data and evidence. Robust impact measurement frameworks and tools help investors track progress, identify areas for improvement, and ensure accountability and transparency in the impact investing ecosystem.

• **Why is impact investing important?**

Impact investing brings benefits to multiple aspects of society. Successful impact investing focuses on addressing the needs of underserved markets and segments that have historically received insufficient attention from conventional investors and financial institutions.

Reduced risk for financiers and investors

For financiers and investors, impact investing serves as a vehicle for deploying capital to foster positive societal and environmental outcomes. This form of investment offers significant advantages to financiers, allowing them to mitigate risks while still attaining satisfactory returns. Furthermore, impact investing plays a vital role in mitigating the adverse ecological and societal effects of businesses by extending financial assistance for initiatives that enhance sustainability and social responsibility.

*Scaling innovative solutions*¹⁰³

Impact investing plays a crucial role in driving positive change by offering financial resources and support to entrepreneurs and social enterprises dedicated to developing innovative solutions.

¹⁰³ OceanBlocks. (n.d.) The Power of Impact Investing: Driving Sustainable Growth and Social Progress. Retrieved March 26, 2024 from <https://www.oceanblocks.org/the-power-of-impact-investing-driving-sustainable-growth-and-social-progress/>

It transcends conventional profit-focused approaches by targeting underserved markets and segments that have historically received limited attention from traditional investors. This form of investment fills critical gaps, addressing pressing societal challenges and empowering individuals and communities.¹⁰⁴ It stimulates economic growth, fosters job creation, and enhances access to essential services such as healthcare and education. Moreover, impact investing promotes sustainable practices, encouraging businesses to adopt ethical and environmentally conscious strategies. By catalysing systemic change, impact investing paves the way for a more inclusive, equitable, and sustainable future for all.

Tackling social and environmental challenges

Impact investing serves as a conduit for directing private investment capital towards projects and enterprises that yield positive social and environmental outcomes. Through the strategic deployment of investment capital, impact investors actively contribute to financing initiatives aimed at tackling crucial challenges, including the development of renewable energy infrastructure, the advancement of sustainable agriculture practices, the provision of affordable housing, and the promotion of breakthroughs in healthcare. By aligning financial resources with high-impact efforts, impact investing becomes a powerful catalyst for driving societal progress and fostering a more sustainable future.

Stimulating sustainable economic advancement

Impact investing is a formidable financial approach aimed at generating socio-economic transformation through investments in enterprises and initiatives capable of enhancing the well-being of individuals and fostering economic prospects for those disadvantaged. Practitioners of impact investing strive for triple-bottom-line achievements, wherein favourable financial, social, and environmental consequences are realised from their investments. In this way, impact investors stimulate job creation and economic advancement while uplifting the living standards of marginalised communities.

• **Who makes impact investments, and who benefits from the investments?**

Impact investing involves various stakeholders who play significant roles in driving and shaping the field. First, investors themselves are a key stakeholder group. These can include individuals, institutions, foundations, and even governments that actively allocate capital to investments that aim to generate positive social or environmental impact in addition to financial returns. Impact investors bring financial resources and also their expertise, networks, and influence to support the growth and success of impact-driven enterprises. They often engage in rigorous due diligence processes to assess the potential impact and financial viability of investment opportunities, aligning their investment strategies with their values and impact objectives.

Additionally, entrepreneurs and enterprises pursuing impact-driven initiatives are pivotal stakeholders in impact investing. These can range from early-stage start-ups to established

¹⁰⁴ Gaggiotti, G., and Gianoncelli, A., (2022) "Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise". EVPA. https://www.impacteurope.net/sites/www.evpa.ngo/files/publications/EVPA_Accelerating_Impact_2022.pdf

businesses that integrate social or environmental objectives into their core operations. These entrepreneurs drive innovation and develop sustainable business models that address pressing challenges while generating financial returns. They leverage impact investment capital to scale their operations, expand their impact, and create positive change. Impact investing entrepreneurs often face unique challenges, such as balancing financial sustainability with their social or environmental mission and require support and guidance from impact investors and other stakeholders to achieve their goals. Collaboration between impact investors and entrepreneurs is crucial to fostering a thriving ecosystem that enables impactful businesses to flourish.

Impact Investor	Fund managers
	Pension funds/ insurance companies
	Development Finance Institutions (DFIs)
	Banks and diversified financial institutions
	Foundations
	Family offices
	Individual investors
	NGOs
	Religious institutions
Beneficiaries	Social enterprises
	Sustainable infrastructure projects
	Community development organisations
	Impact Funds and Investment Platforms

• How are impact investments made?

Spectrum of Capital

Impact investment strategies involve investing in companies, funds, and initiatives that generate both financial profits and tangible positive environment and social outcomes. The implementation of impact investing is diverse, with no fixed blueprint to follow. This approach appeals to a wide range of investors as it harmonises economic growth with social responsibility, providing numerous avenues to explore. Some strategies prioritise financial gain while seeking to benefit society, while others prioritise social impact and accept returns that range from below-market rates to a simple return on the initial investment.¹⁰⁵

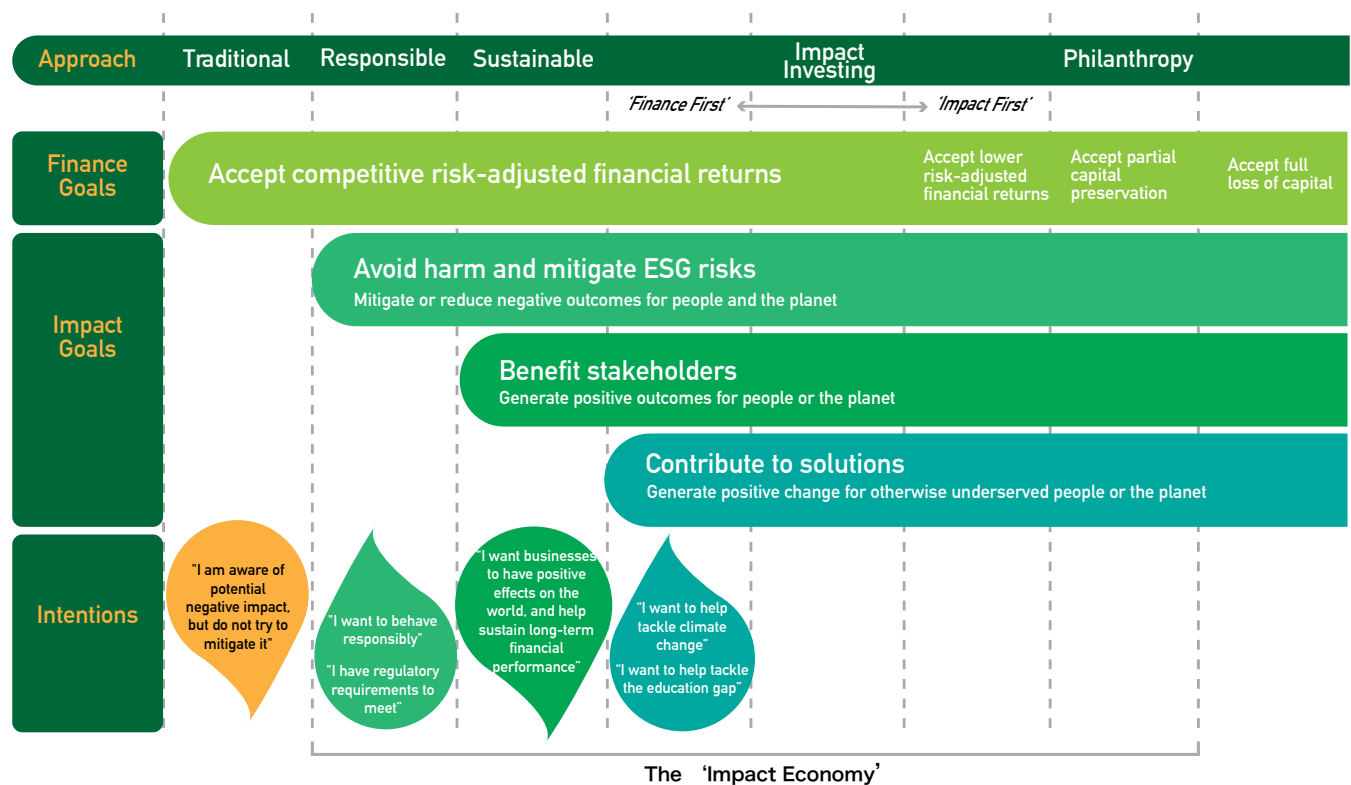
The financial services sector has a pivotal role to play in driving progress on sustainable investment. However, it is crucial to acknowledge that a harmonious interplay between financial and non-

¹⁰⁵ Rockefeller Philanthropy Advisors. (n.d.). Impact Investing: An Introduction. Retrieved March 18, 2024 from <https://www.rockpa.org/guide/impact-investing-introduction/#:~:text=Impact%20investments%20are%20defined%20as,be%20present%3A%20intentionality%20and%20measurement.>

financial incentives and metrics is essential. As negative externalities are gradually integrated into financial models, the sustainable investment landscape is expected to undergo significant changes. In the interim, having a typology that effectively outlines the diverse range and distinctive features of sustainable and impact investments will prove beneficial for investors.

Originally published by Bridges Fund Management, the Spectrum of Capital delineates various investment approaches based on investors' desired risk, return, and impact objectives, categorising them on a spectrum ranging from traditional investment to philanthropy.¹⁰⁶ By grasping the Spectrum of Capital, it becomes possible to develop distinct investment strategies that stimulate entrepreneurial solutions to societal challenges. The dotted lines running along the spectrum indicate that these categories are not mutually exclusive, but often intertwine and accommodate investors who operate between or across different categories.

Figure 10. Spectrum of Capital¹⁰⁷



Source: Impact Investing Institute

The Spectrum of Capital positions traditional investments towards the left side, while traditional philanthropy resides on the right. Over the past few decades, impact-motivated investors have progressively shifted towards the right as they integrate social impact considerations into their investment decision-making processes. Responsible investing involves implementing a negative

¹⁰⁶ Phenix Capital. (n.d.). Impact Investing, what is it?. Retrieved March 28, 2024 from <https://phenixcapitalgroup.com/what-is-impact-investing>

¹⁰⁷ Impact investing institute. (n.d.) The Spectrum of Capital. Retrieved March 28, 2024 from <https://www.impactinvestings.de/wp-content/uploads/Spectrum-of-capital-general-version.pdf>

screen that excludes harmful products such as alcohol, tobacco, firearms, and fossil fuels. It may also include a broader range of risk management factors, including issues such as child labour, sweatshops, and environmental pollution. Conversely, sustainable investing takes impact considerations to a more advanced level, utilising a positive screen to select investments based on proactive and positive environmental, social, and governance (ESG) factors. The primary focus is on supporting businesses that can thrive in a dynamic and evolving landscape. It is crucial to differentiate sustainable investing from responsible investing, as the former not only mitigates risks but also actively seeks to create additional value through both investment selection and portfolio management.¹⁰⁸

Impact-driven investments take an additional stride by purposefully aiming to address societal or environmental challenges while generating financial returns that align with market rates. The underlying principle of these investments lies in the deliberate intention to create impact, which forms a core aspect of the investee enterprise's model.¹⁰⁹

Within the realm of impact investing, there exists a growing array of opportunities for investors who seek to address societal or environmental challenges through for-profit enterprises. These businesses focus on leveraging their core products or their specific geographic locations to contribute to positive change, i.e. finance-first impact investing. For other impact investors, the willingness to invest extends to propositions with an impact thesis that may or may not yield market-rate financial return, i.e. impact-first impact investing. An example of this is social impact bonds, which hold the potential for attractive returns but lack a proven track record. A third category, also a type of impact-first impact investing, involves investors who are prepared to accept a trade-off between financial returns and impact, i.e. concessionary impact investing. This entails investing in initiatives where the impact approach necessitates a below-market financial return. For instance, this could involve supporting social business models that reinvest their financial surpluses, such as trading charities, mission-driven cooperatives, or cross-subsidy models. All three types of investors share the common goal of driving positive change in response to social or environmental issues, thereby qualifying as impact investors.

Lastly, there are impact-driven funders, who are motivated solely by the desire for positive social or environmental change, and who are willing to relinquish the expectation of financial returns through philanthropic pursuits. These funders hold a vital position in addressing urgent social or environmental challenges where commercially viable solutions are currently lacking.

¹⁰⁸ Bridges Fund Management Ltd. (2015). The Bridges Spectrum of Capital. How we define the sustainable and impact investment market. <https://bridgesfundmanagement.b-cdn.net/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-print.pdf>

¹⁰⁹ BVCA. (n.d.). What is impact investment. Retrieved March 28, 2024 from [https://www.bvca.co.uk/Our-Industry/Impact-Investment/What-Is-Impact-Investment#:~:text=The%20'Spectrum%20of%20Capital',&text=Responsible%20investment%20seeks%20to%20Avoid,and%20Governance%20\(ESG\)%20factors.](https://www.bvca.co.uk/Our-Industry/Impact-Investment/What-Is-Impact-Investment#:~:text=The%20'Spectrum%20of%20Capital',&text=Responsible%20investment%20seeks%20to%20Avoid,and%20Governance%20(ESG)%20factors.)

Examples of different types of capital¹¹⁰

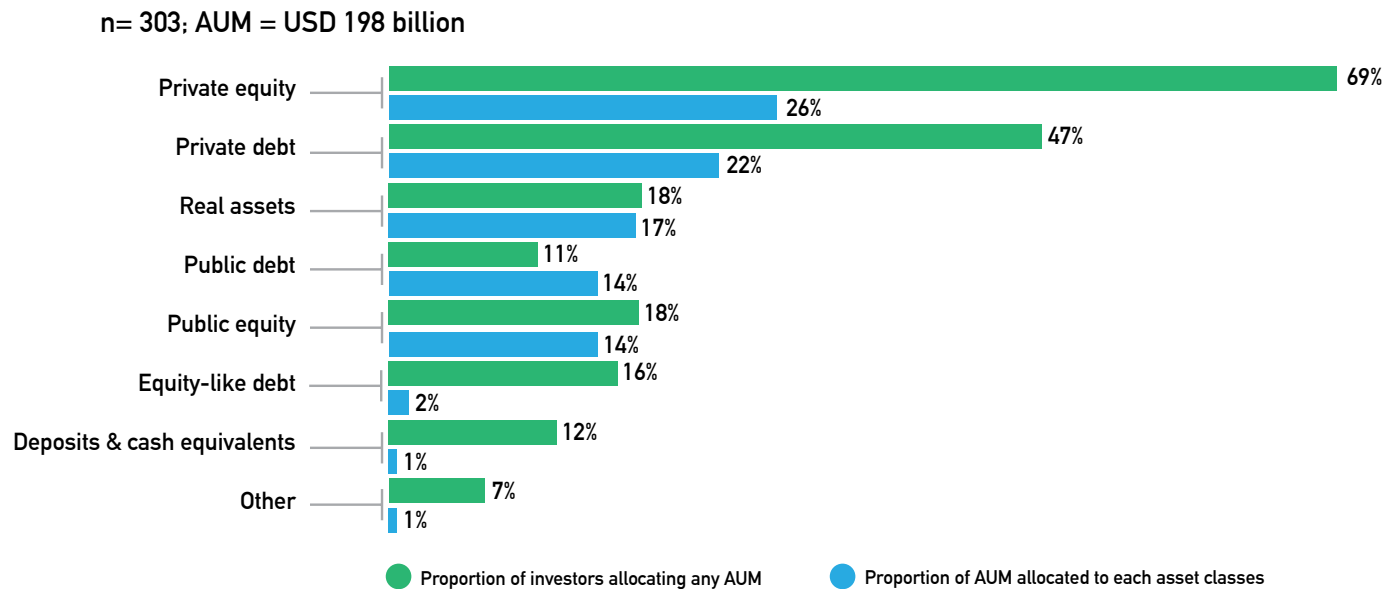
Responsible investment	• PE firm integrating ESG risks into investment analysis	• Ethically screened investment fund
Sustainable investment	• “Best-in-class” SRI fund	• Long-only public equity fund using deep integration of ESG to create additional value
Finance-first impact investing	• Publicly-listed fund dedicated to renewable energy projects (e.g. a wind farm)	• Microfinance structured debt fund (e.g. loans to microfinance banks)
Impact-first impact investing	• Social Impact Bonds / Development Impact Bonds	• Fund providing quasi-equity or unsecured debt to social enterprises or charities

• Through **which** asset classes are impact investments typically made?

Impact investing can be applied across all asset classes in both public and private markets. Among others, **private equity** garnered the largest allocation at 26%, as nearly seven in ten impact investors committed portions of AUM through private equity.¹¹¹ **Private debt** followed closely at 22%, and **real assets** comprised 17%. In addition, investors continued to explore impacting public markets through strategies, portfolio configuration and performance data reviews, with public equity and debt each accounting for 14%. In short, private equity, private debt and real assets attracted the bulk of impact investing capital in 2022, underscoring investors’ continued preference for directing impact investments through private over public market vehicles. The section below provides an overview of the top three asset classes with the highest asset allocations in 2022.

¹¹⁰ Bridges Fund Management Ltd. (2015). The Bridges Spectrum of Capital. How we define the sustainable and impact investment market. <https://bridgesfundmanagement.b-cdn.net/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-print.pdf>

¹¹¹ Hand, D., Sunderji, S., Pardo, N. (2023). 2023 Market GIINSight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York. <https://thegiin.org/publication/research/2023-giinsight-series/#section-a>

Figure 11. Investor allocations across asset classes

Note: Excludes five outlier organizations based on AUM. 'Other' asset classes include social impact bonds, pay for-performance instruments and guarantees.

Source: Global Impact Investing Network (GIIN), 2023 GIINSight: Impact Investing Allocations, Activity & Performance

Private equity

Private equity remains one of the most popular asset classes for impact investors. According to data from Phenix Capital, approximately half of the impact funds in their database are private equity funds, with a total of 1,258 private equity funds in 2023.¹¹² These impact private equity funds raised a total capital of EU €158 billion (US\$170 billion).¹¹³ Major private equity firms are increasingly introducing impact investment funds. In 2022, KKR raised nearly US\$2 billion for its second impact fund, while TPG successfully closed its Rise Climate Fund at US\$7.3 billion, with backing from investors like the Ontario Teachers' Pension Plan and AXA.¹¹⁴ The top three Sustainable Development Goals (SDGs) most targeted by private equity funds were 3: Good Health and Well-being, 9: Industry Innovation and Infrastructure, and 2: Zero Hunger.¹¹⁵

¹¹² Phenix Capital. (2024, February). Private Equity Funds at a Glance. <https://19884981.fs1.hubspotusercontent-na1.net/hubfs/19884981/February%202024%20-%20Private%20Equity%20-%20Impact%20Report%20Final%20-%2005.03.24.pdf>

¹¹³ *ibid*

¹¹⁴ Milburn, E. (2024). Private Equity Funds: Riding the Impact Investing Wave. ImpactInvestor Guide 2024 Generating Real-world Impact. 14-15. <https://edition.pagesuite-professional.co.uk/html5/reader/production/default.aspx?pubname=&pubid=940b2f33-53b4-4658-ba78-7384581c37a7>

¹¹⁵ Phenix Capital. (2024, February). Private Equity Funds at a Glance. <https://19884981.fs1.hubspotusercontent-na1.net/hubfs/19884981/February%202024%20-%20Private%20Equity%20-%20Impact%20Report%20Final%20-%2005.03.24.pdf>

Private debt

Private debt or fixed income has been the largest asset class in impact investing since 2017. The AUM of private debt grew from US\$54 billion to US\$99 billion, a growth rate of 13%.¹¹⁶ Impact investing funds that use private debt vary by sector and geography, among others, Private Debt Impact Funds (PDIFs), which are common in various sectors and markets. These funds have varying capital structures but mostly rely on equity and debt capital from investors such as pension funds, foundations, banks, or public sector funders.¹¹⁷

Real assets

Real assets cut across tangible and physical assets such as infrastructure, property, renewable energy projects, and natural resources. They are ideal for making a concrete and measurable impact on a variety of themes.¹¹⁸ Moreover, real assets typically often have long-term horizons and stable cash flows, making them practical for impact investors pursuing sustainable, robust returns. For instance, renewable energy initiatives reduce carbon emissions and mitigate climate change effects while providing appealing financial returns. Since 2017, the compound annual growth rate (CAGR) of assets allocated to real assets was 27%, rising from an AUM of US\$5 billion to US\$17 billion in 2022.¹¹⁹

¹¹⁶ Hand, D., Sunderji, S., Pardo, N. (2023). 2023 Market GIINsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York. <https://thegiin.org/publication/research/2023-giinsight-series/#section-a>

¹¹⁷ GIIN, Symbiotics. (2017). The Financial performance of Impact Investing Through Private Debt. <https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/research/financial-performance-of-impact-investing-through-private-debt-web-march-2018.pdf>

¹¹⁸ A.s.r. Real Assets Investment Partners. (2024). Impact investing in real assets. <https://asrinvestmentpartners.com/media/kef11znp/en-impact-investing-in-real-assets-asr-real-assets-investment-partners.pdf>

¹¹⁹ Hand, D., Sunderji, S., Pardo, N. (2023). 2023 Market GIINsight: Impact Investing Allocations, Activity & Performance. The Global Impact Investing Network (GIIN). New York. <https://thegiin.org/publication/research/2023-giinsight-series/#section-a>

Annex 2 – Examples of overseas impact investing capacity building organisations

The proactive measures undertaken by various jurisdictions and international organisations to promote impact investing can offer Hong Kong valuable insights and benchmarks for its initiatives. Within Asia and globally, several regions and entities have demonstrated a commitment to elevating awareness and enhancing expertise in impact investing.

The table below summarises some of the efforts gathered from the international market. Hong Kong can gain a deeper understanding of effective practices and mechanisms that can be adapted to foster a thriving impact investment ecosystem within its own financial landscape. Leveraging the experiences and successes of others in the field can help Hong Kong accelerate its progress towards becoming a hub for impactful and sustainable investment practices.

Name of organisation	Jurisdiction	Function
Impact Investing Australia	Australia	Impact Investing Australia is the national partner on GSG Impact and works closely with its member countries to grow opportunities for investments that deliver measurable social, environmental and cultural benefits alongside financial returns. Impact Investing Australia works collaboratively to accelerate financial and social innovation and ensure capital flows to businesses that contribute to solutions.
The Japan National Advisory Board, the Global Steering Group for Impact Investment (GSG-NAB Japan) ¹²⁰	Japan	GSG Impact JAPAN was established in 2014 as GSG Impact's national advisory board in Japan. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG Impact JAPAN's activities revolve around three pillars: research and publications, awareness-raising, and networking.
Centre for Impact Investing and Practices (CIIP) ¹²¹	Singapore	Based in Singapore, CIIP was established in 2022 as a non-profit entity by Temasek Trust. Its objective is to foster impact investing and practices in Asia and beyond. CIIP is the anchor partner for SDG Impact in Asia. SDG Impact is an initiative of the United Nations Development Programme, tasked with developing resources to accelerate investments to achieve the United Nations Sustainable Development Goals ("SDGs") by 2030.

¹²⁰ The Japan National Advisory Board, the Global Steering Group for Impact Investment. <https://impactinvestment.jp/en/index.html>

¹²¹ Centre for Impact Investing and Practices. <https://ciip.com.sg/>

Name of organisation	Jurisdiction	Function
Global Steering Group for Impact Investment (GSG Impact) ¹²²	United Kingdom	Originally emerging from the Social Impact Investment Taskforce established during the UK's 2013 G8 presidency, the organisation's mission has been to catalyse impact investment and entrepreneurship for the benefit of people and the planet. Today, it has a global presence expanding to 44 countries.
International Finance Corporation ¹²³	Global	Founded in 1956 in response to perceived capital limitations and structural challenges in the developing world, IFC—a member of the World Bank Group—catalyses investment in private enterprises through its own investments and through the stimulation of private capital from other sources. For six decades, IFC has been at the forefront of impact investing in emerging markets. IFC leverages the power of the private sector for global good and utilises its experience to transform ideas into investments for green growth, inclusive jobs, and impactful projects.
Global Impact Investing Network (GIIN) ¹²⁴	Global	Since 2009, the Global Impact Investing Network has been the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education and research that help accelerate the development of a cohesive impact investing industry.

¹²² Global Steering Group for Impact Investment. (n.d.). Global Steering Group for Impact Investment. <https://www.gsgimpact.org/>

¹²³ International Finance Corporation. (n.d.). International Finance Corporation. <https://www.ifc.org/en/home>

¹²⁴ Global Impact Investing Network. (n.d.). **Global Impact Investing Network** (GIIN). <https://thegiin.org/>

Acknowledgements

The FSDC would like to thank the following working group members for their valuable input:

Mr Daniel R. Fung
Mr Ronald Chan
Mr Kelvin Cheung
Ms Stephanie Choi
Mr David Fong
Ms Leonie Kelly
Mr Ernest Leung
Mr Wayne Li
Mr Michael Long
Mr Daryl Ng
Mr Eric Ng
Ms Loretta Ng
Ms Maud Savary-Mornet
Ms Penelope Shen
Ms Jean Sung
Ms Katy Yung

The FSDC would also like to thank Mr Eugene Leung, Ms Lillian Li and Ms Tze-wai Ng for their contribution to the Paper.

The operation of the FSDC is led by:

Dr King Au
Executive Director

This report is prepared by the FSDC Policy Research Team:

Dr Rocky Tung
Director, Head of Policy Research
Ms Joyce Lee
Senior Manager, Policy Research
Ms Wivinia Luk
Senior Manager, Policy Research
Ms Jessie Chen
Manager, Policy Research
Ms Erica Chung
Manager, Policy Research
Mr Kendrew Leung
Manager, Policy Research
Ms Mickey Sze
Analyst, Policy Research



Report Weblink

Weblink to the pdf version of this report



FSDC Weblink

Financial Services Development Council

About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

Contact us

Email: enquiry@fsdc.org.hk

Tel: (852) 2493 1313

Website: www.fsdc.org.hk