

A practitioner's perspective on impact investing in China

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I first came across the concept of impact investing when I was a Mason Fellow at Harvard Kennedy School. The concept immediately grabbed my attention as I was seeking something that could professionally leverage both my experience in the business field and my public service background. This explains why not long afterwards I got to lead New Ventures, an impact accelerator housed at the World Resources Institute (WRI) in Washington that supported environmental small and medium-sized enterprises (SMEs) in Brazil, China, Colombia, India, Indonesia and Mexico.

In 2012, New Ventures successfully transitioned out of the WRI with the objective of giving all local and regional centres independence to move into their next phase of development. Around the same time, with initial support from a Hong Kong-based family foundation and a few high-net-worth individuals in mainland China, I co-founded the China Impact Fund (CIF) as China's first impact investing vehicle for environmental SMEs. A couple of years later, Dao Ventures was formed as a China-US consortium of various entities, including CIF, to encompass both China-based and cross-border impact investing.

So far, Dao Ventures has worked with over 1,000 social and/or environmental SMEs in and outside China, and made and/or facilitated investments of over US\$200 million into some of these companies, along with its philanthropic affiliate Green Startups Accelerator (formerly New Ventures China). Here below are two of our portfolio companies that both highlight the issues and opportunities related to impact investing in China.

Case studies

Ecofroggy International is a social enterprise in China that provides stationery products made from recycled paper, and environmental education services to China's primary school students aged six to 12. The company generates positive social and environmental impact via design and sales of Ecofroggy-branded products

by steering the children's future consumer behavior towards being more ecofriendly. To date, Ecofroggy has provided products and services to over 200,000 Chinese primary school students across the country.¹

Despite its impact and viable business model, Ecofroggy has not had a smooth ride in convincing investors to loosen their purse strings. At a recent entrepreneurship contest that Ecofroggy participated in, the five judges all expressed heartfelt admiration for its impact but were puzzled at how to properly value and exit from such a venture from an investment standpoint. Obviously, the concept of impact investing has yet to sink in with them, which is not uncommon with mainstream venture capitalists in China.

Compared with Ecofroggy, Landwasher,² a waterless toilet company, is a more established environmental SME with more than 100 employees and over 15 years' operating history. In 2013, it was selected as one of the world's 50 most innovative companies by Fast Company,³ together with household names like Apple and Google.

Success in its domain aside, the company still does not seem sexy enough for orthodox venture investors who have been used to dizzying venture valuations especially in the mobile Internet sector. Fortunately, on top of our impact investment support, Landwasher also benefited from our capacity building and investment facilitation work where, for instance, we once helped raise a \$1.5 million debt financing for the company.

Encouraging the growth of impact investing

The two cases both illustrate that impact investing is still a very new concept to the vast majority of local investors in mainland China, who remain very commercially focused in their objectives. In addition, aside from development-focused organisations such as the International Finance Corporation and the Asian Development Bank, there are only a handful of self-identifying social and/or environmental impact investors in China. A few are gaining early traction or establishing a presence on the ground, but actual impact-investing transactions remain comparatively limited, not to mention successful exits.⁴

Over the course of practising impact investing in China, my colleagues and I have noted a growing concern among regionally-active impact-investing professionals that over-hype could be very detrimental to the development of impact investing on the ground. There is a danger to this nascent industry that lack of proven success cases could lead to a perception of ‘all talk and no action’ on the part of those involved, especially given that the Chinese culture traditionally encourages less talk and more action.

Having said this, it should be recognised that the philosophy embodied by impact investing is certainly not lost in China’s traditional culture. The spirit of impact investing could actually be traced back to some of China’s traditional cultural concepts such as Ren, meaning benevolence or humanity especially towards disadvantaged groups. Another old Chinese proverb also speaks to an ancient philanthropic impulse: while an underprivileged person should maintain his own integrity, a wealthy person should contribute to the welfare of the society.

There is not enough space here to delve into all the things that impact-investing practitioners need to be aware of in China. For this reason, I encourage interested readers to go to our website and download a [China impact investing report](#)⁵ that we authored and published in 2012. However, if I have to single out one thing to bring to people’s attention, it is the importance of building an ecosystem with the objective of scaling up impact investing in China, if not making it mainstream.

Conclusion

Informed by my experience to date, I have come to believe that an ecosystem involving multiple stakeholders is indispensable to healthy, long-term growth of impact investing and environmental/social entrepreneurship. For impact investing to grow and gain significant traction in China, a few impact funds are obviously far from enough. Further, the ecosystem certainly cannot just consist of social entrepreneurs and impact investors, but also must include venture capitalists, government organisations, policy makers, corporate buyers and professional services firms focused on serving these SMEs.

Impact investing, if properly leveraged by all stakeholders, is well positioned to serve as a catalyst for the positive transformation of China’s development model over the coming decades. As Wayne Silby, an esteemed pioneer of impact investing and advisor to Dao Ventures, often says to me, with the global importance and inter-linkages of the Chinese economy, impact investing has the potential to not just change China – it could change the world.

Tao Zhang is founder and managing director of Dao Ventures, a cross-border impact investment, advisory and accelerator group with co-headquartered offices in both China and the US that primarily consist of ACBridge Global Advisors, China Impact Fund (CIF) and New Ventures Global. CIF is considered China’s first impact fund that specialises in supporting environmental small and medium-sized enterprises (SMEs), including companies with an environmental value proposition for the country’s Base of Pyramid (BoP) population. Under Tao’s leadership, Dao

Ventures has worked with over 1,000 environmental and social SMEs in and outside China, along with its philanthropic affiliate Green Startups Accelerator (formerly New Ventures China). Prior to this, he was the Global COO of New Ventures, the centre of environmental entrepreneurship at the World Resources Institute. In this role, he successfully led New Ventures in Washington, D.C. and its local centres (Brazil, China, Colombia, India, Indonesia and Mexico) to double investments into New Ventures companies to nearly \$400 million within two years. Before he entered impact investing,

Tao had accumulated extensive investment and operational experience at several telecom and high-tech companies, as well as journalism and policy analysis experience at China’s state-run Xinhua News Agency.

Tao received a BA from Beijing Foreign Studies University, an MBA from Wake Forest University, and an MPA from Harvard University as a Mason Fellow. Tao was a columnist for the Wall Street Journal Chinese, with a focus on how to leverage investing to cure environmental and social ills. Tao is a China Fellow at the Aspen Institute and a member of the Aspen Global Leadership Network.

¹ <https://www.daoventures.com/single-post/2016/07/18/Ecofroggy-and-Its-International-Venture>

² <https://www.daoventures.com/single-post/2016/03/03/CIF-Portfolio-Company-Case-Study-Published>

³ <https://www.fastcompany.com/3005390/landwasher>

⁴ *Creating the Chinese Dream, A practitioner’s guide to impact investing in China’s green SMEs, November 2012, China Impact Fund, New Ventures China* <https://www.daoventures.com/single-post/2013/02/02/CIF-Publishes-Bilingual-Report-on-Impact-Investing-in-China>

⁵ <https://www.daoventures.com/single-post/2013/02/02/CIF-Publishes-Bilingual-Report-on-Impact-Investing-in-China>