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SOCIAL IMPACT INVESTMENTS AS A TOOL FOR FUNDING SOCIAL ENTERPRISES

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Purpose: Social impact investments are essential to support and promote social entrepreneurship development. This article aims to identify the factors that could develop the local impact investment market in Sri Lanka as a tool for funding social enterprises.
Design/methodology/approach: The methods of research are an analysis of scientific literature, experts' interviews, and generalization.
Findings: In order to accelerate the impact investment as a tool of funding, the impact investors, social enterprises, government and society must work collectively. Necessary social, cultural, and policy changes should be carried out, and specific recommendations have been made accordingly.
Originality/value: This research study is essential in terms of sustaining and promoting impact investments in Sri Lanka as a tool of funding social enterprises and developing the ecosystem.

Keywords: social enterprise, social impact investing, impact investments, finance, investors.

Category of the paper: Research paper.

1. Introduction

Impact Investment is a concept that is directly connected with social enterprises or social entrepreneurship, and its roots run to the centuries back where the old tradition held the wealthy responsible for the welfare of the impoverished communities. In the 17th century, England tried to align their investment and purchase decisions with their values and norms. Also, in the 1800s, Colonial America launched businesses aligned with their social values to fund religious communities (Bugg-Levine, and Emerson, 2011). Furthermore, more recently, fair trade and socially responsible investments also have followed this old tradition. After the 21st century, this practice got a boost and identified and named it "impact investment" and currently plays a significant role in the socio-economic development of the world.

When it comes to Sri Lankan context, impact investment and social entrepreneurship can be identified as emerging topics. Nevertheless, without knowing it as concepts, Sri Lanka has been using these concepts practically for many years. As a result of it, according to the British Council "The State of Social Enterprises in Sri Lanka" 2018 report (British Council, 2018) there are nearly 11,000 small and medium social enterprises located around the country, and they are addressing different environmental and social problems. Since the country itself is still developing and has to be concerned about social as well as ecological facts, the existence of social enterprises is essential. This same report has mentioned that these social enterprises are struggling to survive due to a lack of resources. Therefore the concept of impact investment can be used positively in order to address the issues faced by social enterprises.

Throughout the past 10 years, researchers and scholars and organizations such as GIIN (2009), Monitor Institute (2009), Bugg- Levine and Emerson (2011), Cohen & Bannick (2014), Allman & Nogales (2015), Finkelman & and Huntington (2017), Barclays (2018), IFC (2019), OECD (2019) have contributed their research and findings to the impact investment concept. Mainly, in Sri Lanka, not enough research has been done relating to either social entrepreneurship or impact investment. Nevertheless, research (Gunawardena, and Mudalige, 2019; British council, 2018; Amaradiwakara, and Gunatilake, 2016; Nishanthi, 2014) that focused on social entrepreneurship and social enterprises have paid slight attention to the concept of impact investing.

The concept of impact investment expanded, and researchers (Cohen, & Bannick, 2014; Bugg-Levine, and Emerson, 2011; Allman, & Nogales, 2015; Finkelman, & and Huntington, 2017; GIIN, 2009; Monitor Institute, 2009; Barclays, 2018; IFC, 2019; OECD, 2019) have carried out empirical and theoretical studies for the development of the concept. These findings and results are especially important to accelerate impact investments by understanding the intentions, motivation, and incentives of the impact investors.

Global Impact Investment Network (hereinafter referred to as GIIN) has continuously followed up the progress made in the impact investment industry. The research carried out by Monitor Institute in 2009 on behalf of GIIN, "Investing for Social and Environmental Impact" (Monitor Institute Report, 2009) outlined the infrastructure, resources, and tools required to take impact investing through various stages of development. In GIIN Road Map For Future Impact Investment report 2018 (GIIN report, 2018), they have looked back on the findings of the 2009 report (Monitor Institute Report, 2009) and researched the development of the concept over the last decade.

In the Sri Lankan context, researchers (Gunawardena and Mudalige, 2019) have found access to finance as one of the main challenges that social entrepreneurs are facing, although not enough studies have been done to find solutions to overcome this challenge. British Council "The State of Social Enterprises in Sri Lanka" 2018 report (British Council, 2018) has recommended to do policy changes and introduce financial and loan facilities for social enterprises to overcome the challenge of access to finance. But the study has not paid attention to accelerate impact investing to support social enterprises financially. Ultimately, there is not enough research carried out in regards to impact investing acceleration. The focused research problem of this research is accelerating impact investments as a solution for the challenge of access to finance for social enterprises in Sri Lanka. Therefore, this study aims to identify the factors that could develop the local impact investment market in Sri Lanka as a tool for funding social enterprises. The research question of the article is as follows: How to accelerate the local impact investments to fund social enterprises in Sri Lanka.

2. Impact Investing

According to Finkelman & and Huntington (2017), impact investing – "Investing with the intention to generate positive social or environmental impact alongside a financial return." Monitor Institute (2009) underlines that impact investing – "Actively placing capital in businesses and funds that generate social and/ or environmental good and at least return nominal principal to the investor". GIIN (2009) emphasizes that impact investing is "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". OECD (2019) states that: "Social Impact Investment provides finance to organizations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns, and it is a way of channeling new resources towards the sustainable development goals". Thus, different stakeholders have different understanding of what social impact investment is. After analyzing different definitions of impact investing (GIIN (2009), Monitor Institute (2009), Cohen & Bannick (2014), Allman & Nogales (2015), Finkelman & and Huntington (2017), Barclays (2018), IFC (2019), OECD (2019) it can be stated that impact investment focuses on three main facts: the intention to tackle social and environmental challenges; seek for financial return; commitment to measure the impact.

Moreover, OECD has paid attention to the use of impact investing in sustainable development and collaborates with those two concepts. Seeking for financial return is the margin line which makes impact investment different from charity and philanthropy. Further, in impact investing, investors are making their investment intending to see a clear and measurable social or/and environmental impact. Generally, investors assume lower financial returns from impact investing than traditional investments. Furthermore, impact investors also can be divided into two groups, based on their priority of returns; namely 1. "financial first" investors, 2. "impact first" investors.

The financial first investors focus more on the financial return of their investments. They are more likely to invest in CRS companies or other traditional profit-making businesses who are doing charity laterally. „They are typically commercial investors who seek out sub-sectors that offer market-rate returns while achieving some social or environmental good.

They may do this by integrating social and environmental value drivers into investment decisions, by looking for outsized returns in a way that leads them to create some social value (e.g., clean technology), or in response to regulations or tax policy (e.g., the Green Funds Scheme in the Netherlands or affordable housing in the U.S.)" (Monitor Institute, 2009). Impact investors always focus on creating social and/or environmental impact and pay less attention to the profit. This type of investors mostly invests in social enterprises and socially driven businesses. According to the finding of Monitor Institute report (2009), in some circumstances, the above mentioned financial first and impact first investors work together and are described as "YIN-YANG" deals.

Moreover, the Investment spectrum indicates different modes of investments according to the desires of the investors and businesses. Investors can choose to invest in different kinds of organizations: from charities to traditional business organizations. Investors who are keen on creating positive social and environmental impact, invest in social enterprises, or socially-driven business. When it comes to socially-driven business, investors get a higher profit. Nevertheless, in social enterprises sometimes there could be no financial return for the investor due to the profit re-investing or the profit is not sufficient to do a financial return (the profit is only enough to cover the expense). But those types of impact investments hardly motivate impact investors, and it does not accommodate the basic requirements of the concept of impact investment. Therefore, regardless of the model of the business, successful impact investment should return a profit for the investor and should create a positive social impact. Decisively, impact investors expect for social return and sub-market or market-rate financial return, and it has been proved from the investors' surveys (GIIN, 2019).

According to OECD (2019) report, the global impact investing market is proliferating, and it attracts mainstream finance sources such as asset managers, institutional investors, and multinational companies. Moreover, this report shows that the estimated current size of the global impact investment market is $502 billion (GIIN, 2019). The impact investors use different methods for financing social enterprises. In the private equity and debt market the investors generally take one of three approaches (Finkelman, & Huntington, 2017). The first approach is to invest in companies that generate impact as enhanced corporate philanthropy. For instance; Toms' shoes donates a pair of shoes for a child in need from every pair of shoes they sell. The second approach is to invest in companies that address social and environmental issues through their products or services. Ex: "Belu-Natural Mineral Water" manufactures and sells only the glass water bottles as it can be recycled successfully. The third approach is to invest the financial return to generate impact, for example providing financial support to small businesses, providing low-interest loans to low-income people. *While it is clear that this approach to investing has become more widespread in recent years, the lack of clarity about which investment strategies and assets should be considered to be impact investment makes the total size of the market difficult to establish. Instead, we identify some classes of investors whose mandates align with the definition of impact investing.* (IFC, 2019). According to Bugg-Levine et al. (2012), the impact investors and social enterprises have realized that current methods of financing social enterprises are insufficient and investors are examining and exercising new methods. Table 1 shows the traditional and modern methods of impact investing.

Table 1.
Traditional & Modern Methods of Impact Investing

Traditional Methods	**Modern Methods**
● Private debt and equity ● Corporate Engagement & Shareholder Action	● Loan Guarantees ● Quasi-equity debt ● Pooling ● Social Impact Bonds

Source: Compiled by the authors based on IFC (2019), Bugg-Levine et al. (2012) & Finkelman & Huntington (2017).

Loan guarantees provide assurance to the lender. This lowering lender risk allows social entrepreneurs to access reasonably priced debts. This is a new method which is used by investors in order to finance social enterprises. Quasi-equity debt is a useful method of funding social enterprises that cannot attract share capital due to the structure of the organization, such as non-profit organizations. Quasi-equity debt is a typical loan, and financial returns are calculated as future revenue of the company. Pooling funds also can be identified as a modern way of funding social enterprises. *The pooling model has spread globally, with innovators such as IFMR Trust, in Chennai, engaged in the securitization and structured finance of microfinance loan portfolios in which they retain an investment share* Bugg-Levine et al. (2012). A social impact bond is a contract between social enterprises, investors, and the government. Social enterprises or non-profit organizations are contracted to deliver a social impact, and investors fund it. If the project succeeds, the government pays for the project. These modern methods of funding social enterprises not only give more options for investors but also provide higher freedom to social enterprises to perform and create maximum social and environmental impact.

However, despite all these new methods, impact investors are still struggling to invest in social enterprises. The impact investors usually are motivated by their personal values and attitudes. If ethical values or interests to solve social problems didn't drive impact investors, they might only concentrate on traditional investments and on maximizing financial returns. According to Mavra (2011), funders and investors do not trust that community-based businesses have the potential for dynamic growth. Since investors are making investments for financial returns, this less confidence restrains them from making impact investments in social enterprises.

3. Social Entrepreneurship in Sri Lanka

The concept of social entrepreneurship is authentically combined with Sri Lankan business culture and practice, although the term "social enterprises and social entrepreneurship" is new to the country. The business culture of the country has an influential connection with the concept of socially responsible business for many years in the country and focused on creating a positive impact on low-income people and helping them to overcome poverty.

The Social Enterprises ecosystems in South-Asian Association for Regional Cooperation Countries report of World Bank Group, 2017 (World Bank Group, 2017) states that Sri Lanka is in the Nascent level of the social enterprise ecosystem. *SE space in Sri Lanka is nascent. Many enterprises working with the low-income population do not classify themselves as SEs. The capital infrastructure and enabling ecosystem for SE development is very limited* (World Bank Group, 2017). The concept is new to the literature, and only a few researches (Gunawardena, & Mudalige, 2019; British Council, 2018; World Bank Group, 2017) have been carried out in the Sri Lankan context. According to both the British Council (2018) and World Bank Group (2017) reports, Sri Lanka doesn't have a clear and confirmed definition or criteria about operations of social enterprises. The British Council report (2018) states that 11,000 social enterprises are existing all over the country, covering 25 districts. These social enterprises are focused on different sectors such as agriculture, renewable energy, healthcare, childcare, education, hospitality, tourism & leisure, social care, housing, creative industries, fisheries, employment, and skills, etc. Furthermore, SL social enterprises are focused on objectives of social and environmental goals such as creating employment opportunities, providing eco-friendly products and services, protecting the environment, supporting vulnerable groups, etc. According to the British Council (2018) report, the majority of social entrepreneurs' primary beneficiary group is women, and many others target low-income people. Further, SL social enterprises are carrying out impact evaluation and contemplative practice. *Sri Lanka's social enterprise sector has predominantly evolved from three main sources: social organisations (i.e. grassroots societies), co-operatives, and local NGOs. Professional organisations are also now becoming important players, providing the much-needed professional skills development that is crucial for the social enterprise sector. First and second generation family businesses and a new generation of MSMEs are now showing interest in adopting the concept of social enterprise* (British Council, 2018).

According to the World Bank Group (2017) report, SL social enterprises are highly performing in the fields of agriculture and renewable energy. According to the British Council research report (British Council, 2018), the majority (75% of the respondents) of social entrepreneurs/social enterprises have a clear vision and understanding of the concept. 41% of the respondents only have social and environmental goals, and they do not consider the financial returns. 59% of the respondents focused on both social impacts as well as the financial return. While international research shows that youth is more interested in social entrepreneurship, SL statistics show that people between 45-64 are more interested in social enterprises. Furthermore, the majority of social enterprises have been founded by men and most interestingly, the majority of social entrepreneurs are highly educated. According to the report (British Council, 2018), the majority of social enterprises have been founded between the years 2000-2010.

Although there is no specific policy and legal framework for social enterprises in Sri Lanka, the criteria regarding small and medium enterprises apply to social enterprises. Among other responsibilities, the SL government has focused on providing better welfare service as a foremost duty. Therefore appealing policies and action plans are enforced to promote and uphold small and medium enterprises in the country. The SME policy framework covers 6 main areas; **figure 1** below further demonstrates the policy framework.

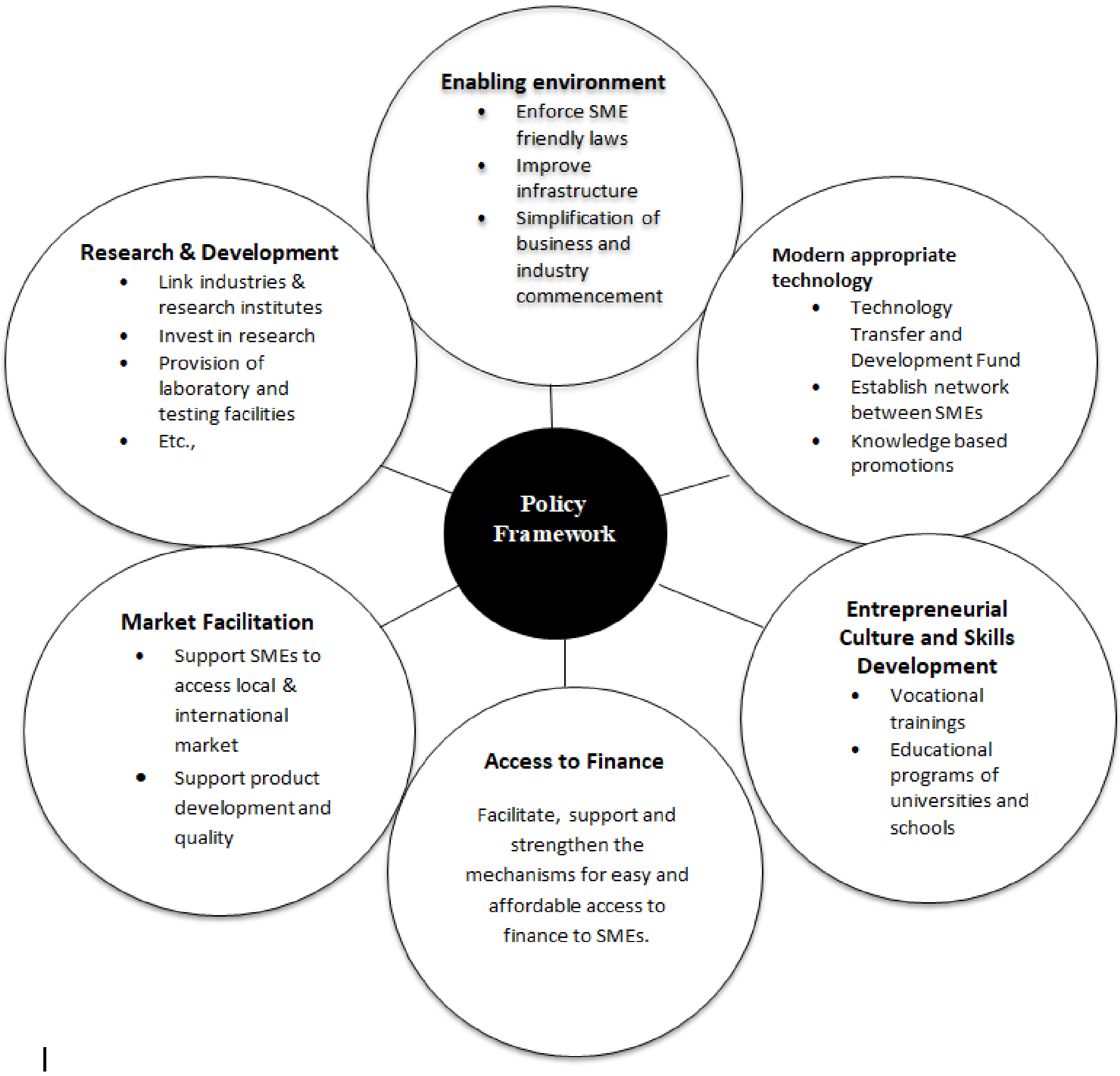

Figure 1. Policy Framework. Source: Compiled by the authors based on National Policy Framework, 2016.

Moreover, other national policies such as national economic policy, rural development policy, agriculture policy, trade policy, environmental policy, solid water management policy, etc., also committed to uphold and promote SMEs and social enterprises in Sri Lanka. There are no specific acts or legal provisions relating to social enterprises in Sri Lanka. Social enterprises can incorporate and register their business activities under the Companies Act of 2007. According to the British Council (2018) recommendations, further developments for the policy and legal framework have to be carried out for the expansion of the social enterprises in SL.

Social enterprises in SL mostly start with personal investments of the founder, and then they spend their 1st, 2nd or 3rd years searching investments for scaling up their business activities. Moreover, most social enterprises use bank loans as a funding method for their business activities. Venture capital is hardly used as a capital source, and impact investing also can be considered quite a new concept and practice to the country. There are many emerging supporting systems for social enterprises in SL, not only the government organizations such as the *Industrial Development Board* but also private organizations such as *Lanka Social Venture*, *Lanka Impact Investing Network*, *Social Enterprise Lanka*, etc. are providing incubation programs for social enterprises. The government universities who are conducting entrepreneurship degree programs are also providing advisory and incubation services for social enterprises. Further, the *Good Market* and *Kapruka Sri Lanka*, *Grasshoppers Sri Lanka*, are motivating social entrepreneurs by helping them to bring their products to the local and international levels. Major international development agencies and financial institutions are also playing a key role to promote small business activity in the country. For instance, the Small and Medium Enterprises Development Facility Project run by the World Bank is aiming to improve access to finance for small and medium enterprises affected by the global financial crisis in Sri Lanka (World Bank Group, 2017).

SL social enterprises are facing different challenges, and the British Council (2018) report and Gunawardena & Mudalige (2019) have discussed these challenges. Social enterprises are also facing the same challenges that SMEs' and corporates face (British Council, 2018). The British council (2018) has identified obtaining finance as a common barrier among social enterprises. **Figure 2** below shows the other challenges identified by the research carried out by the British Council (British Council, 2018).

Figure 2. Challenges Faced By the Social Enterprise in SL. Source: The British Council (2018).

The research conducted in 2019 (Gunawardena, & Mudalige, 2019) also identified access to finance as the foremost challenge faced by the social enterprises in SL. *There is a significant effect of access to finance and the growth of social enterprises and on the other hand, the descriptive statistics show a lower level of access to finance among Sri Lankan social enterprises. Hence, the improvement of financial facilities for social enterprises is very much essential* (Gunawardena, & Mudalige, 2019). Among other significant recommendations for upholding social enterprises in SL, the British Council (2019) recommends creating easy access to market and capital in order to increase the supply of finance. Moreover, the report indicates the requirement of increasing private and philanthropic investments in social enterprises.

4. Impact Investment In Sri Lanka

Sri Lanka has a short history of the concept of impact investing as the concept has come to the discussion only after 2015. However, the institutional venture capital, development finance institutions (DFIs), and international financial institutions (IFIs) have performed in the capital market for many years. The concept is also new to the research field. The authors have carried out the theoretical analysis of impact investing based on research carried out by GIIN (2015), findings of Lanka Impact Investing Network (LIIN). According to the GIIN (2015), *Sri Lanka has a large number of actors and varies investor types with a mix of both local and international players*. Moreover, rather than local investors, a significant number of international investors (IFIs, DFI) are in the investment market. High net-worth individuals and family officers are active in the local impact investment market in Sri Lanka. Although according to GIIN (2015), local investors are more prone to commercially oriented investments rather than impact investments. **Table 2** below indicates the estimated number of impact investors and impact-related investors existed as of 2015.

Table 2.
Impact Investors and Impact Related investors in SL

Type of Investors	Estimated Number	Details of Investors in Sri Lanka
Funds Managers	13	Ten international funds (that have invested only a Small share of their capital in SL), one domestic fund, and 2 regional funds are currently making investments, and a few are scoping and preparing to launch in Sri Lanka.
DFIs & IFIs	12	All DFIs & IFIs are making direct investments into enterprises in SL, and a few are also channeling through commercial banks for SME lending and investing small amounts in foreign funds.
Foundations	1	Only 1 international foundation is making investments in SL, as many have existed the country with Sri Lanka being considered a middle income country and facing concerns about human right violations during the recently concluded civil war
HNWIs & Family Offices	70+	Over 70 HNWIs and family offices are members of domestic angel networks, and several HNWIs have pledge capital to upcoming domestic funds. Family and friends are prominent informal source for seed and venture stage capital
Institutional Investors	7 banks 1 pension fund	Seven commercial banks are lending to SMEs with capital provided by DFIs. 1 pension fund is potentially backing a domestic fund.

Source: GIIN, 2015.

According to the GIIN (2015), DFIs and IFIs have contributed nearly USD 386 million to the impact investment market while high net-worth individuals and family offices have deployed less than USD 100,000. Moreover, the majority of the investments have been allocated to large corporations and, SMEs have received less attention (0.3% of total capital) from the investors. Both local and international impact investors are investing in different sectors such as financial services, manufacturing, tourism, health care, agriculture, traditional handicraft, etc. Further, most investors are interested to invest in the early stages of the enterprises. According to the GIIN (2015) report, SL impact investors use established measurements to measure the impact. Social impact is measured by the metrics such as the number of jobs created, products sold, etc.

The first impact investing network in Sri Lanka was founded in 2015 namely, the LIIN (Lanka Impact Investing Network). This organization is networking high net-worth individuals and investors and facilitating social enterprises to find investors for their business activities.LIIN is currently creating Sri Lanka's first investment funds to address the challenge of financing for social enterprises. The first is a USD 5 million impact investment fund to support social enterprise through a Sri Lankan TV program similar to the "shark tank" in the USA. Second, USD 20 million a social impact fund to support existing medium and large enterprises in SL. LIIN, together with Social Enterprise Lankan and Independent Television Network, has already hosted 2 seasons of the TV show called “Ath Pavura" and invested in many social enterprises around the country.

The impact investing market of SL is facing different challenges and barriers. According to the GIIN (2015) report, there are 3 main barriers. Lack of entrepreneurial culture is the main challenge faced by the impact investing market, and this discourages investors. Furthermore, there is a considerable misalignment between the financial demands of the enterprises and the investments of the investors. This avoids creating a better understanding among investors and enterprises. Secondly, poor financial management and operational skills also are an identified challenge faced by the impact investment market. Unexpected financial losses discourage investors. GIIN (2015) report suggests providing mentorship and selected entrepreneurs for funding to overcome this challenge. Thirdly, lack of information and poor networking is a barrier faced by the impact investment market. There is no better connection and network between investors, incubation programs, social enterprises, government, and other main actors of the industry. LIIN also identifies this as a significant barrier and works towards building networks for the development of the impact investment industry.

5. Methodology

The research methodology: 6 semi-structured in-depth interviews with experts from 3 main fields: social entrepreneurship, academia, and impact investing, that are relevant to the subject of the research study, have been carried out. The authors have selected experts according to these criteria: 1) Investors, who have a minimum of 5 impact investments; 2) Scholars, who serve as a senior lecturer of commerce or entrepreneurial studies department of a government university in SL or have a minimum of 5 years experience as a researcher in investment and/or impact investments and/or social entrepreneurship fields. 3) Social Entrepreneurs, who have been invested by local impact investors within the last 5 years or have completed 5 years as an active social entrepreneur in SL. The 3 main categories have been more explained in detail in **table 3**.

Table 3.
Background Information of the Interviewees

The experts were encoded as follows	Category	Personal Profile
Expert_1	Scholar	Serving for 25 years as a senior lecturer in the Entrepreneurial Studies Department of a Government University, Sri Lanka
Expert_2	Scholar	Serving for 12 years as a senior lecturer in the Entrepreneurial Studies Department of a Government University, Sri Lanka
Expert_3	Investor	Invested in 9 social enterprises and having 5 years of experience in the impact investing field

Cont. table 3.

Expert_4	Investor	Invested in 13 social enterprises and having 4 years of experience in the impact investing field
Expert_5	Social Entrepreneur	Social Entrepreneur, Public Speaker and an Activist with 14 years of experience in the field
Expert_6	Social Entrepreneur	The founder of an award-winning social enterprise that was found in 2012

Source: created by authors.

These in-depth interviews assisted the researchers in collecting richly descriptive information. Mainly, the researchers developed 6 interview questions that covered the research question. The questionnaire included the following questions:

- How do you understand and describe the role of local impact investors in the impact investment market in Sri Lanka?
- What are the factors that may encourage local investors to make impact investments to social enterprises?
- What are the activities/ criteria that social enterprises should follow to attract investors?
- What do you think about impact investing as a tool for funding social enterprises?
- What are the social, economic, and political factors that could develop the impact investment ecosystem in Sri Lanka?
- What are your suggestions to improve the local impact investment market in Sri Lanka to develop social entrepreneurship?

The invitations for the interviews have been sent via email during the 1st week of April 2020. The interviews were carried out from the 27th of April - 5th of May 2020 via Zoom and Whatsapp. Each interview lasted from 45 minutes to 3 hours, and the full conversation was recorded by using a phone recorder and zoom with the consent of the interviewees. The methodology of qualitative research recommends that experts choose for themselves whether to remain anonymous or to publish their names. Depending on the request of many experts, the names of the experts are not provided, and when quoting the expert's statement, his/her number is indicated. The list of experts and the description of the characteristics supporting their competence are presented in **Table 3.** It should be noted that when describing experts to ensure their anonymity, experts are described using the masculine gender, as accepted by reference to positions, degrees, or other depersonalized data.

6. Empirical analysis

The interviewees have mentioned both encouraging and discouraging factors that affect impact investing in SL. According to all interviewees, the majority of the factors are discouraging factors. Furthermore, interviewees mentioned suggestions to alleviate the discouraging factors. Since the impact investing and social enterprises go hand in hand, all the interviewees pointed out the importance of enhancing social enterprises. Having a well-grown social enterprise that gives good financial return, as well as a high amount of positive impact, would be an encouraging factor for impact investing. *Without having good social enterprises, we can't build an impact investing market. So, on one side, social enterprises should rise, and then in parallel to that, impact investors should expand by investing seeds to the SE* (Expert 5). According to all interviewees networking with leadership, having adequate procedures and systems encourage investors to get into the impact investment market. Currently, there are no such kinds of networking systems nor proper systems to connect social enterprises and impact investors. According to Expert 6, *It must be practical, and we need good leadership to build and maintain the systems. Of course, we need a proper network among social enterprises, investors, government bodies such as the agriculture department.* Furthermore, 2 interviewees suggested solutions for the above-mentioned networking, leadership, and procedures. They are as follows *I believe that we lack networking and middle persons to connect investors and SE. For example, if we could create an impact investing fund with the involvement of the experts to work as middle persons and connect investors and social entrepreneurs, it would be useful for the development of both fields* (Expert 4). *We can build online platforms where SE can showcase their ideas to attract impact investors. The idea evaluation process should be impartial, and we should technically evaluate social enterprises to filter non-sustainable projects. If we can build all these things, we can use impact investing as a useful tool of funding* (Expert 2). According to all interviewees, having an adequate understanding of the concept encourages impact investors to make investments. The concept is still emerging, and people do not have adequate knowledge about the concept. Therefore interviewees emphasized the importance of providing enough information to traditional investors, prospective investors, and society. *I believe only the high-end knows these concepts and the low level of the country doesn't have any idea about these concepts. So we should educate investors, society, and especially our future generation* (Expert 6). *If the prospective investors are not aware of this impact investing concept, then we can't develop this in the SL market as a tool for funding SE. Our traditional investors might think that impact investing is not a wise decision. This is our attitude. So the attitude or the behavioural tendency is based on the information available to you. Therefore we must keep our traditional investors informed by providing information about the concept of impact investing* (Expert 1). Having a good market for the products and services of social enterprises is also a factor that encourages impact investors. 4 interviewees indicated this fact: *If we have a good market, then investors also would pay their attention to our enterprises and will provide funds. People should understand the importance of social entrepreneurship and should support social enterprises by buying products from us and not going for cheap and low quality imported goods* (Expert 6). *We must control the entering of low quality and cheap imported goods to the SL market, then our SE can have a good share in the market, and this will encourage investors to invest in social enterprises* (Expert 3). In order to attract impact investments, the criteria that should be followed and standards that must be met by the social enterprises are as follows; according to all the interviewees, the SE must have a good balance between the profit and the impact. Therefore to attract investors, social enterprises must have marketable products and services and demonstrate the positive social and environmental impact.

All the interviewees mentioned the importance of having a clear business model and revenue model and 2 interviewees (Expert 2, Expert 3) emphasized the importance of having multiple revenue models. According to the interviewees, social enterprises do not pay enough attention to the business model, revenue model, and the sustainability of their business. Moreover, all the interviewees highlighted the importance of having responsible financial management. Also, according to all the interviewees, social enterprises must have a strong marketing plan which currently, they have not paid enough attention to. *Having an innovative and competitive business idea and business model is also an important fact. Social enterprises must have a clearly defined revenue model. Most importantly, those revenue models must be strong enough for the long term existence of the business* (Expert 4); *They can find other revenue models through electronic media such as youtube, Facebook, websites and these multiple revenue models are good support for the sustainability of the social enterprise* (Expert 2). All the interviewees highlighted the importance of ensuring continuous growth and commitment towards creating impact. *After starting the business, some of our social enterprises forget their goal of creating social impact. This must be changed and SE must continuously focus on their impact creating process* (Expert 1). *Then the continuous growth should be ensured. If the enterprise is not showing any growth, there will be not any attraction of the investors in the future actions* (Expert 2). 5 interviewees pointed out the value of being truthful. According to the interviewees, most of the social enterprises are not truthful and trustworthy, and this is a reason for the mistrust and misunderstanding between the SE and the impact investors. The interviewees describe it as follows; *Some cunning people sugar coat their businesses as Social Enterprises and they try to attract impact investors and get the money* (Expert 5). *Some businesses try to define themselves as social enterprises and ask for investments. That is fine if they truly create a social impact, but unfortunately, most of them do not create any impact at all* (Expert 4). Having enough business literacy has been emphasized by 4 interviewees (Expert 1 and 2, Expert 3 and 4). According to them, SL social entrepreneurs do not have enough business literacy. Moreover, some programs have been implemented by the interviewees to increase the business literacy of the entrepreneurs. But still, they see the need for engaging more participants for these educational programs. *Most of our social entrepreneurs don't have enough knowledge in marketing, business administration, finance management, etc. So, first of all, we need to educate them and keep them updated with modern technologies, markets, systems, and other business-oriented subjects* (Expert 4). Furthermore, all the interviewees pointed out the importance of readiness to learn and being open to negotiations. Conclusively the criteria and recommendation for social enterprises are; maintaining the balance between the profit and the impact, having an effective business model, having robust revenue model, sound financial management, implementing effective marketing plans, truthfulness, trustworthiness, ensuring the continuous growth, having enough business literacy, and being open for negotiations. According to all the interviewees, SL needs cultural evolution not only for the development of the impact investing market but also for the betterment of the social entrepreneurs. All interviewees suggested changing the banking system in the country. SL banks give high-interest rates (6-12%) for the fixed and other deposits, and this discourages people from investing in businesses. *Our banking rate is very high, so people don't have to go for risky investments. They can just deposit their money in the bank accounts and get huge interest. So we need to think about reducing the interest rates of fixed and other bank deposits* (Expert 2). All the interviewees have emphasized the requirement for national policy changes and the need for defining the concepts. Moreover, the interviewees pointed out the importance of giving national level recognitions to these 2 concepts. *We have done a lot of ground-level development. Now we need policy-level development and legal recognition for these concepts. If we can't get this in the next 5 years, it will be challenging for us to make any significant change in the impact investment market* (Expert 5). 4 interviewees (Expert 1; Expert 2, Expert 4; Expert 5) pointed out the value of introducing an appreciation mechanism for impact investors and social enterprises with the involvement of the government. *There should be some appreciation mechanism, awarding schemes, government recognition, and support in order to get more participation* (Expert 2). *The government should create systems that help impact investments and impact investors. These could be tax reliefs, rewards, etc. Also, the government should take coordinated efforts to the business and investment development of the country* (Expert 1). Expert 2, has mentioned the requirement of enacting rules and regulations to control malpractices in social enterprises and impact investing market; *If people are misusing impact investments, there should be a way to control them*. Moreover, Expert 5, highlighted the need for developing a system where social entrepreneurs are obligated to report their impact creation to the government. This will encourage impact investors to make impact investments towards SE. Also, according to Expert 5, this reporting system will help to identify the social enterprises for rewarding schemes. *If we legally recognize SE, then it is mandatory to report your impact just like how you report your annual finances to the National registrar of Companies. This will be a massive help for investors as they can select the right social enterprises by seeing their performance reports* (Expert 5).

The findings of this study also confirmed the results in the research study of Global Impact Investing Network (GIIN, 2015) that the lack of networking and information, poor financial management, and lack of entrepreneurial culture can be identified as significant challenges for impact investing acceleration in Sri Lanka. The experts distinguished leadership as an important aspect to build and maintain networks between SE and impact investors in SL. Also, this study revealed that a lack of legal recognition and national policy can be recognized as significant challenges too. In the British Council (2018) report, the requirement of legal influence has been mentioned but has not given a specific way of influencing. According to the empirical findings of this study, giving legal recognition to the impact investing concept and social entrepreneurship concept is necessary for the betterment of both concepts. The legal recognition will compel the social enterprises to record their performance to the government. This reporting system can be used for multiple purposes. One is that it will be useful for rewarding social enterprises. The second is that this will provide better information to the investors about the social enterprises and their performance. Having access to the information would encourage traditional investors to enter the impact investment market, and also it will encourage impact investors to accelerate their investments. Ultimately this will not only improve the impact investment market in Sri Lanka but also will help to uphold social enterprises. The government must play a vital role to develop the local impact investments to uphold social enterprises. The concept of social entrepreneurship and impact investing has not been recognized at the national level. Therefore, the policy changes must be carried out within a reasonable time for the enhancement of both concepts. This includes changing national banking policy to reduce high-interest rates of savings and deposits and encouraging people to invest money in social enterprise for financial and moral returns. Further, by giving tax reliefs, rewards, etc., the government can motivate investors towards impact investing.

According to the statistical data of FT (2018) report, the impact investors prefer to invest in social enterprises that are in the venture stage. This also conforms to the context of SL; while social enterprises require seed finance, the local impact investors in SL are looking for well-grown social enterprises to invest their money. Since the social enterprises in SL are still in their thriving stage, unless correcting this discrepancy, the impact investments cannot accelerate. As stated in Bugg-Levine et al. (2012), since the old methods are insufficient and less effective, the impact investors and social enterprises in the international impact investment market realized the need to examine new methods for impact investing. Therefore, using modern methods such as Loan Guarantees, Quasi-equity, and Debt Pooling has been encouraged. However, Sri Lankan impact investors have not paid enough attention to modern methods and only prefer to make equity investments. Therefore, there is a crucial necessity using modernized and efficient methods to make impact investments towards social enterprises. To overcome this limitation, information and insight regarding the concept, must be provided to local impact investors in SL.

The experts emphasized the importance of the role of social enterprises in the acceleration of impact investing. According to the respondents, social enterprises' demonstration and improvement of their financial results and social impacts would encourage investors to make their investments in SE. Also, an adequate awareness of the concept is a crucial factor for making impact investments. Further, the exact mechanism that connects the stakeholders and having reliable and effective platforms and systems is also a foremost factor that encourages local impact investors to enter into the impact investment market. Being come from an entrepreneurial culture is also essential to encourage impact investors. Moreover, having recognition and appreciation would also encourage local impact investors to make impact investments in social enterprises.

The social enterprises, impact investors, society, and the government, should work collectively to improve the local impact investment market in Sri Lanka (**See Figure 3**).

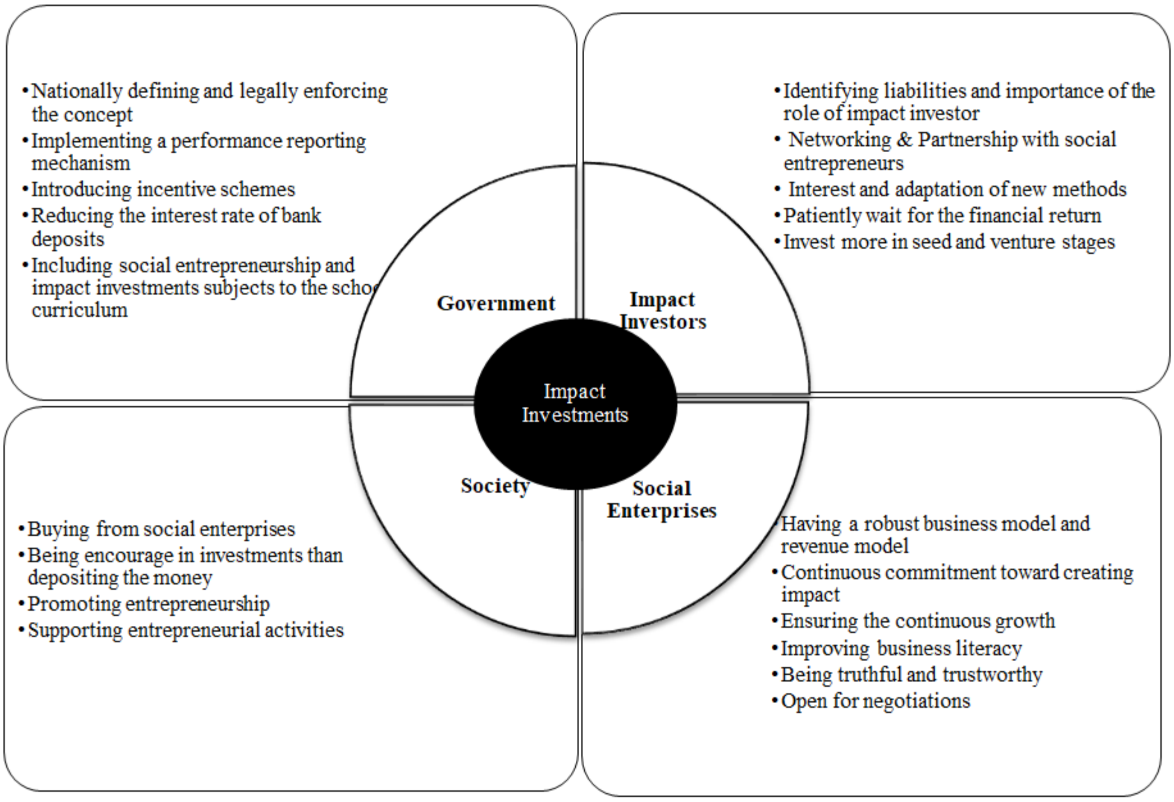

Figure 3. Acceleration model of local impact investments in SL. Source: Compiled by authors.

Since the concepts of impact investment and social entrepreneurship go hand in hand, there is an immense need for developing social enterprises in the country. To enhance social enterprises, the business literacy of social entrepreneurs must be increased. It will assist them to manage and maintain their social enterprise with a stable balance between profit and impact. Social enterprises must be self-sustainable, and continuous growth should be ensured. Truthfulness, trustworthiness, and readiness to learn are also crucial facts for the development of social enterprises. The investors should understand their role in the impact investments market and should fulfill their responsibilities accordingly to improve the local impact investment market in SL. The society must be given entrepreneurial education to create an entrepreneurial culture, and the people must value and appreciate the roles of social enterprises and impact investors. Moreover, people should consider investing their money in a social enterprise where they can get both financial and moral returns rather than saving or depositing in a bank. The government should make policy changes to recognize the impact investing and social entrepreneurship concepts legally. Further, the influence of creating a market for social enterprises, doing policy changes for the banking sector, and introducing an appreciation system for both social entrepreneurs and impact investors, adding these concepts to school education, would improve the impact investment market in Sri Lanka.

7. Conclusion

Our study analysed accelerating local impact investment market in Sri Lanka as a tool for funding social enterprises. Sri Lanka has an emerging social entrepreneurial ecosystem. Impact investing and venture capital are new concepts to the country, most social enterprises are using traditional funding methods such as bank loans to find investments. As it has been found by the research, access to finance is a significant barrier to the growth of social enterprises in Sri Lanka. Sri Lanka is still adapting the impact investing as a successful tool for funding social enterprises. Apart from foreign funds and bank investments, the participation of private investors is comparably low.

We believe that there are several significant contributions to the literature made by our paper. Our research revealed many challenges for impact investment in SL: lack of leadership, networking and information, poor financial management, and lack of entrepreneurial culture, lack of legal recognition of concepts. Accelerating impact investment is based on the improvement of the impact investment market and the commitment of the stakeholders. The existence of a market that the impact investors can enter with high confidence of getting expected finance together with the satisfaction of creating a positive impact on the society will encourage the investors to get into the impact investing market. Therefore, having a lucrative and secure impact investment market and successful and sustainable social enterprises are the foremost factors for accelerating impact investments in SL. Social enterprises should be with the aims to become more sustainable, improve their revenue models, business skills, be open to learning and negotiations. In order to build a lucrative and attractive market – society, social enterprises, impact investors, and the government should operate collectively. By facilitating and giving encouragement to the local impact investors, the gap between the interest and the action would be filled, and the financial support to social enterprises would increase. Ultimately, enforcing the factors that encourage impact investors, ensuring the development of social enterprises, providing the required government influence, and making the required social changes will accelerate the local impact investments.

Our paper also has some limitations. We have used purposive sampling that comes under the non-probability sampling. Since the sample is selected based on the researchers‘ ascertainments and criteria, the sampling was judgemental. There was a reasonable probability of having uncontrolled variability and bias in the estimations of the sampling. Despite these limitations, however, we believe that the experts' interviews have allowed us to find out the factual circumstances in the sector analysed.

In the future, the research studies should be carried out regarding executing national policies in impact investing and social entrepreneurship development in Sri Lanka. Furthermore, more research studies are necessitated to finding effective methods to connect impact investors with social enterprises through a proper networking mechanism.

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