Market Intermediaries in Asia and the Pacific

Developing A Regional Social Investment Exchange Initiative

ADB

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Foreword

This is the report of the Market Intermediary Assessment conducted as part of the Asian Development Bank (ADB) Regional-Research and Development Technical Assistance (TA) project: Developing a Regional Social Investment Exchange Initiative.

The research was conducted, and the report was prepared, by Impact Investment Shujog Limited (Shujog) as a consultant to the ADB.

Shujog would like to acknowledge significant contributions to the research made by Impact Investment Exchange Asia (IIX). The research has built on and was contextualized by prior research conducted by IIX with generous financial support from the Rockefeller Foundation.

Special thanks are also due to the many survey respondents and interviewees who took time out of their busy schedules to provide the input which was essential to the success of the research. Lastly, thank you to Shujog's many volunteers, without whom this report would not have been possible.

Please note that for the purposes of this report, $ refers to US dollars.

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ABOUT THE **PROJECT**

This report examines the interest of market intermediaries and facilitators in supporting social enterprises (SEs) and impact investment platforms, such as a regional stock exchange, in Asia. Social enterprises are defined as "business-oriented not-for-profits, or mission-oriented for-profits. SEs have a social and/or environmental mission at the core of their work but seek to operate in a financially sustainable manner."[1]

The findings are based on research conducted by Impact Investment Shujog Limited (Shujog), including a survey of market intermediaries, also known as ecosystem partners, in three critical and differentiated social enterprise areas in Asia: Bangladesh, India and Thailand.

For the purpose of this report, market intermediaries include: financial institutions, rating agencies, law firms, accounting firms, advocacy and interest groups, private sector corporations with corporate social responsibility (CSR) programs, incubators, consulting agencies, academic institutions, and government entities.

The report focuses on current engagement between SEs and market intermediaries, and the intermediaries' willingness to form relationships with, provide services to, or even invest in SEs. It aims to positively influence the growth of social capital markets, indicate the willingness of intermediary involvement in impact investing, and provide direct recommendations to increase the ease of capital flows for impact investing in Asia.

Data for this report was collected from 109 intermediaries through an electronic survey as well as direct interviews with a number of market intermediaries, in the three target countries. Shujog focused on the mid- and large-size firms that have adequate resources to provide technical expertise and services for dealing with capital raising on impact investment platforms.

[1] For the purposes of this report, social enterprises are defined as mission driven for-profits or business oriented nonprofits, such as non-governmental organizations with revenue generating activities.

Market Intermediaries in Asia and the Pacific

EXECUTIVE **SUMMARY**

EXECUTIVE SUMMARY

Background

Asia-Pacific region is home to three-fifths of the world's population, and shoulders some of the most intense and persistent development problems. The region's rising wealth and prominence has been accompanied by growing inequality and unsustainable use of environmental resources. Today, 753.5 million people in Asia live on less than US$1.25 per day, and approximately 63% of the world's poor population (defined as those living on less than US$2 per day) live in Asia.

Over the last several decades, traditional aid organizations have spent billions of dollars on programs targeting poverty alleviation, economic development and environmental challenges. More recently, a new breed of sustainable SEs have emerged to help tackle these problems, led by microfinance institutions (MFIs), but also encompassing a wide range of other market-linked solutions. SEs in Asia address the full range of the development conundrum – economic growth, social betterment and environmental sustainability. With the large scale of social and environmental challenges facing Asia, pressure on traditional aid budgets, and the ingenuity of the social enterprise sector, financially sustainable SEs have a unique opportunity to make significant contributions to sustainable development in Asia.

Asia is home to a wealth of market-based approaches to sustainable development. Unfortunately, many such initiatives still struggle financially and are unable to scale up to effect systemic change. This is because the SE sector in Asia faces barriers to its growth and evolution. A large demand for capital from both for-profit and not-for-profit SEs in the region, and a parallel emergence of impact investing over the past 10 years, indicate the potential for capital markets to play a critical role in sustainable development.

Currently, however, a disconnect between supply and demand of impact investment capital is curbing SE growth and inhibiting the inherent potential of leveraging market based capital for social impact. This report surveyed 109 market intermediaries to illustrate the interest in and prospective role of market intermediaries in bridging this cap and unleashing pools of capital for impact investing. The report compares active participation between market intermediaries and SEs in Bangladesh, India and Thailand, as well as their willingness to provide services to SEs.

Key Findings

In comparing market participation rates in India, Bangladesh, and Thailand, Shujog found that there were several country-specific factors affecting intermediary interest. This includes growth and scale of the local SE market, existing government regulatory processes and the state of overall financial markets. The report shows that market intermediaries based in locations with mature SE markets are most willing and interested in engaging with SEs. However, the largest barrier between market intermediary and SE engagement was the intermediaries' lack of knowledge about the ability of SEs to raise and utilize capital towards amplifying their impact. Despite the information-gap and structural barriers to SEs raising capital, there are overall positive trends among market intermediaries in Bangladesh, India and Thailand. Different levels of SE sector development and varying degrees of engagement prevail between the countries and across the different intermediary sectors, yet, interest in impact investing is growing. Several mid- and large-sized entities have also indicated an interest in signing up for a formalized relationship with impact investment platforms. The onus is on government, investors, and the investment platforms to capitalize on this trend and foster further sector growth in the years to come.

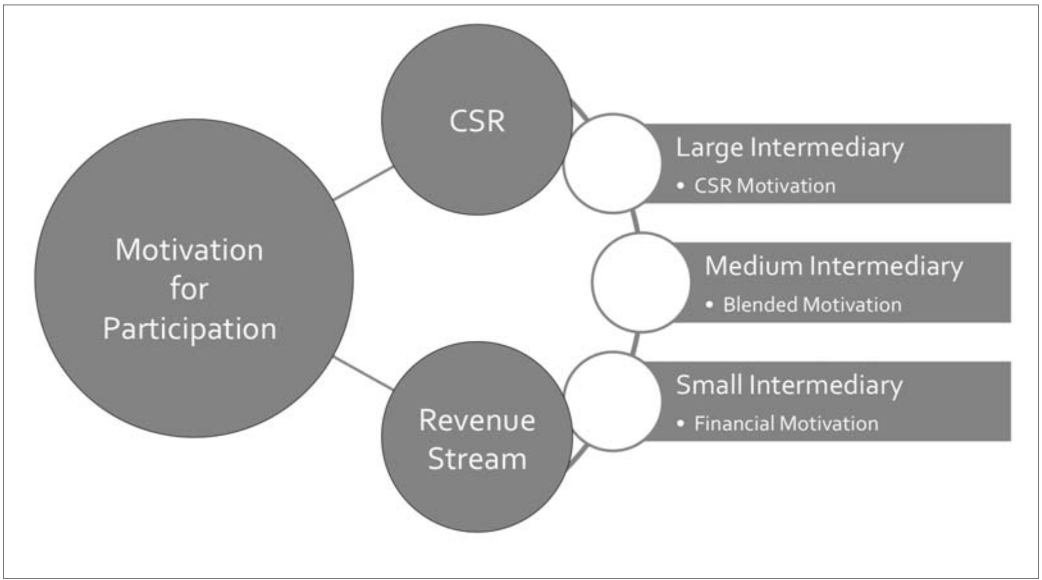
1 Asian Trends Monitoring Bulletin: "Rising Asia, Growing Inequalities," Bulletin 12, 2011.
2 Asian Development Bank, "Poverty in Asia and the Pacific: An Update," 2011.

Market intermediaries' engagement with SEs can be categorized into three distinct camps. Actors currently involved with SEs and actively engaged in promoting their development are considered capable. Actors that are not currently engaged with SEs but express interest in or an intention to do work with SEs in the future are considered growing. Actors with no current involvement with or explicit plans to increase engagement with SEs in the future are considered nascent.

Intermediaries treat SEs as revenue generating opportunities when possible and as opportunities for CSR when there is no potential for profit.

Two principal reasons for engagement were identified: promoting SEs as part of corporate social responsibility (CSR) activities or working with SEs as an additional revenue stream. Figure 1 represents the relationship between market intermediary size and motivation for working with SEs.

Figure 1 - Motivation for market intermediary participation



CSR encourages private sector involvement with SEs through its focus on supporting local development and creating sustainable relations between commercial activities and communities. It thus has the potential to reinforce the effects of trade and investment on growth and sustainability, which resonates with the sustainable business models of SEs. Through CSR, intermediaries can help address many of the major challenges currently facing emerging SEs by offering pro-bono support and discounted services to the many smaller, growth-stage SEs. As discussed below, CSR-motivated engagement of SEs typifies the relationship between large market intermediaries and smaller SEs.

Revenue can also be a motivating force for intermediary participation with SEs. Opportunities for investment in the global impact investing space are predicted to grow to up to $1 trillion in the coming years,[2] signaling the emergence of high-growth business prospects for market intermediaries involved in those investment activities. Profit motivation is a reason for market intermediary participation with SEs in its own right and typifies the relationship between mid- and large-sized SEs working with medium and large intermediaries.

2 See J.P. Morgan, "Impact Investments: An emerging asset class," p. 6.

The above findings can be classified into macro- and micro-level implications and recommendations.

On the micro-level, investment platforms and SEs themselves need to use the opportunities that exist given current intermediaries' motivation. Smaller SEs should position and market themselves in ways that permit leveraging CSR support and thus form relationships with the intermediary actors. Mid- and largesized SEs must build capacity to present compelling business propositions to the intermediaries that can enable them to attract investment capital for further growth.

On the macro-level, intermediary involvement will help transfer capital to the SE sector with more ease – thus assisting the formation and functioning of impact investment platforms. This, in turn, creates the foundation for a shift in market intermediaries' own micro-level motivation by enabling the scaling of sustainable SEs that provide financially viable business opportunities for the intermediaries themselves. The macro-level analysis also presents a paradox in that the majority of intermediaries are not primarily concerned with the formation of impact investment platforms. Thus, in the short term, government policy is key in catalyzing the ease of capital flows to SEs and consequent scaling of the impact investment asset class. This, in turn, will bring the necessary shift in intermediaries' motivation. Removing caps on dividend extraction across national borders and barriers to SEs raising debt abroad are examples of policy measures that will encourage investment in SEs and thus stimulate intermediary support for impact investing.

Market Intermediaries in Asia and the Pacific

PROJECT CONTEXT

PROJECT CONTEXT

Asia is home to a diverse range of social entrepreneurs. These entrepreneurs have created SEs in a variety of different sectors including: healthcare, education for the disadvantaged, affordable housing, clean energy and technology, microfinance, sustainable agriculture, and fair trade artisanal industry.[3] Common across all SEs is an explicit commitment to social or environmental betterment.

Despite the emergence of larger pools of capital for impact investing, SEs are unable to access and utilize this capital. This gap indicates a need for consistent frameworks and intermediary institutions to match demand side and supply side of impact investments.

Many Asian SEs have demonstrable and sustainable socio-environmental impact.[4] Some SEs are also at a level of maturity where they actively seek capital to scale up their positive impact. The demand for impact investment outstrips the capacity of current specialized investment infrastructure and available capital is therefore often unable to reach SEs. Despite the emergence of larger pools of capital for impact investing, SEs are unable to access and utilize this capital. This gap indicates a need for consistent frameworks and intermediary institutions to match demand side and supply side of impact investments.

The lack of an enabling infrastructure is a key challenge in driving capital to investment opportunities that offer genuine positive impact.[5] This absence of intermediaries offering investment advice and consistent ratings for SEs, a dearth of a suitable market places and trading platforms, absence of financial institutions that sponsor and underwrite SEs investments, and slight support from regulation and policy make it difficult for interested actors to participate in an efficacious manner.

This report focuses on the position of market intermediaries in the enabling infrastructure and their role in creating a larger and more efficient market for impact investing. It highlights current engagement between SEs and market intermediaries, and the intermediaries' willingness to form relationships with and provide services to SEs. Its findings aim to positively influence the growth of social capital markets, indicate the willingness of intermediary involvement in impact investing, and provide direct recommendations to increase the ease of capital flows for impact investing in Asia.

By profiling the intermediaries and their roles, the research paints an overview of the present market conditions for Asian SEs to raise capital. The research is country-specific, focusing on market intermediaries working with SEs in Bangladesh, India and Thailand, thus permitting cross-country analysis and highlighting gaps and opportunities in the status quo. The report also highlights the regulatory shortfalls that need to be addressed to support and grow the SE sectors and the impact investment space.

3 SEs are defined as mission-driven for-profit or market-driven not-for-profit entities, where 'mission-driven' entails a focus on non-financial elements that benefit society or the environment.

4 See e.g. Seelos and Mair, "Social entrepreneurship: Creating new business models to serve the poor," pp. 242-243, 2004.

5 See e.g. Monitor Institute, "Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry," pp. 19-22, 2009.

Social Enterprises in Asia

SEs in Asia address the full range of the development conundrum – economic growth, social betterment, and environmental sustainability. Asia is uniquely positioned to suffer from challenges to these goals as it contains 60% of the world's population, immense population density, heightened vulnerability to economic downturns, social upheaval, and environmental degradation.

In response, Asia's social enterprise sector has grown to be as vast and diverse as the countries and challenges it spans. Existing social enterprises address food security, housing shortages, environmental degradation, failing health care and educational systems, and poor sanitation both within and beyond national boundaries.

However, a lot of individual activity by itself is not enough: "A great product idea married to a noble mission is rarely enough to make meaningful progress in the face of massive social challenges like improving the lives and livelihoods of billions worldwide living in impoverished conditions."[6] Investigations in India and the Philippines – as well as in South Africa, Brazil, Kenya, and other countries – reveal no shortage of market based approaches that claim to be profitable or financially self-sustaining. On closer inspection, however, many are struggling financially and most serve a few thousand people, a drop in the ocean given the millions living in conditions of extreme poverty. Only a tiny fraction of market-based initiatives are reaching numbers of people commensurate with the scale of the problems they aim to address.[7]

SEs present innovative and financially viable solutions that improve the lives of people in poor and low-income communities without relying on philanthropic donations.

These SEs are helping tackle problems that have eluded traditional development aid efforts. In the context of Asia, microfinance institutions (MFIs) are the most mature in terms of the size and public recognition. Microfinance's success accelerated the interest and learning curve of SEs in other sectors that, with the proper exposure to the market, can also play a role in areas like poverty alleviation and economic development in a commercially and socially sustainable manner.

6 Monitor Group, "Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty," p. 11, 2009.

7 Ibid, p.14. SEs present innovative and financially viable solutions that improve the lives of people in poor and low-income communities without relying on philanthropic donations.

Market Need

Impact investing platforms are tailored to transparent dealing in securities issued by SEs. Such bespoke platforms will connect SEs seeking capital with impact investors that seek social and environmental returns in addition to traditional financial returns. However, the development of such platforms cannot happen in a vacuum.

A regional marketplace for mature SEs working with the ecosystem and across borders can gain traction faster than individual and potentially competing platforms.

On the one hand, attempting to facilitate capital flows to SEs as a separate asset class will clearly benefit from diverse platforms to permit specialization of roles and infrastructures. In this way, individual platforms may cater to the specific needs of nascent SEs and associated venture investors, growing SEs and private equity-type investors, and mature SEs with a broader set of investors.

On the other hand, a regional SSE is preferable to national exchanges at this stage because liquidity is a key concern for prospective impact investors on an SSE. With excessive fragmentation of the marketplace for mature SEs, liquidity would inevitably suffer. Furthermore, to create sufficient ecosystem support for an emerging marketplace, a regional platform catering to all Asian SEs decreases the associated costs in terms of understanding legal frameworks, establishing a presence and familiarizing oneself with the concepts associated with impact investing. It is thus understood that at the present stage of educating market actors and stimulating activity, a regional marketplace for mature SEs working with the ecosystem and across borders can gain traction faster than individual and potentially competing platforms. This is particularly so for the larger market intermediaries for whom the size differential between them and the SEs is greater.

Specialized intermediaries are particularly important in advocating change and shifting motivations among investors and traditional intermediaries towards participating in social capital markets. Traditional intermediaries' involvement is important as enablers of long-term change and structural shifts.

Restrictions on capital outflows are seen as a significant barrier to international investments in the relatively mature SE markets in Bangladesh and India. Affording these SEs a platform and enabling infrastructure to raise capital in less restrictive markets will thus spur growth and further scaling of SEs across Asia – and with increased investor interest and activity comes increased ecosystem interest.

An SSE will have to operate within a larger ecosystem of market intermediaries in order to make the connection between SEs and investors. The ecosystem plays an important role in increasing the long-term sustainability of SEs and in building a well-functioning market for impact investing. Market intermediaries assist SEs by providing professional services that enhance the capacity of SEs, help them become market ready, and eventually enable them access to capital markets.

Prospective Role of Market Intermediaries on Impact Investment Platforms

Traditional market intermediaries, on the other hand, are those intermediaries that are active in traditional financial markets. These include the large and established international financial market intermediaries, many of which are active in Asia and the Pacific. These include the large and established international financial market intermediaries, many of which are active in Asia and the Pacific. For impact investment platforms to have a healthy and effective ability to raise capital, they must secure the support of both specialized and traditional market intermediaries.

Specialized intermediaries include those concentrating on social entrepreneurship and social impact exclusively. Examples include Grameen Capital, whose goal is to catalyze inclusive growth through financial advisory for SEs and Unitus Capital, whose focus is on market-based investments in companies that work towards poverty reduction. Local organizations like Intellecap, which acts as a social-sector advisory firm in India, and ChangeFusion, which is an incubator for SEs in Thailand, are important to SE growth in individual markets. There are also specialized intermediaries targeting mature SE-subsectors, such as M-Cril and Crisl who provide social performance ratings for MFIs.

Traditional market intermediaries, on the other hand, are those intermediaries which are active in the traditional financial markets, and include the large and established international financial market intermediaries which are active in the region. These traditional intermediaries may engage with SEs, but unlike specialized intermediaries, this is not their primary focus. Traditional intermediaries include most of the more established accounting firms, such as KPMG, Deloitte, Ernst & Young, and PricewaterhouseCoopers, and established financial institutions such as ICICI, HSBC, Citibank, and Standard Chartered.

Specialized intermediaries will bring to the table a more in-depth knowledge of the conditions and practices of the local impact investing space while traditional intermediaries have the resources and broader expertise needed to increase the reach and breadth of impact investing and a social investment exchange. As such, specialized intermediaries are particularly important in advocating change and shifting motivations among investors and traditional intermediaries towards participating in social capital markets. Traditional intermediaries' participation is important, as they are enablers of long-term change and structural shifts.

Market intermediaries fulfill crucial roles at all stages of an organization's process of raising capital. Before an organization can be considered ready for an exchange, it must be audited by an accounting firm that will conduct due diligence and by legal advisors to ensure that all relevant regulations have been met. From there, financial institutions provide the necessary expertise to guide bond and equity offerings to market and credit rating agencies can lend credibility by assigning ratings for debt offerings. Finally, government regulators play a critical role in determining the kinds of environments in which SEs and the exchange itself work.

For instance, each of the Big Four accounting firms (KPMG, Deloitte, PricewaterhouseCoopers, and Ernst & Young) have offices that would be capable of conducting the due diligence required for listing in most countries. The cooperation of such firms would be conducive to the efficiency of an SSE. Accounting firms may also play a role in social impact assessments and verification, using tools such as Social Return on Investment (SROI) calculations and verifying ratings by Global Impact Investing Rating System (GIIRS),[10] as part of an expanded due diligence process.

Government regulations could stifle the success of a regional exchange, such as regulations that inhibit the cross-border movement of capital curb investment interest. Support from government and regulatory bodies is therefore crucial for the success of an SSE. Through regulatory changes, governments can prepare the enabling environment necessary to foster growth of SEs and impact investing; governments may also enact regulations that explicitly promote social entrepreneurship and a focus on value creation beyond profit-seeking.

[10] Deloitte LLP is already a partner of the GIIRS initiative. See: http://www.giirs.org/about-giirs/our-partners.

Academic institutions play the important role of examining the impact investing space to research the intricacies of the field, spreading general awareness about this relatively new sector and examining the benefits of impact investing on sustainable development in emerging markets.

CSR has mainstreamed the idea of harnessing the private sector resources to address many of the world's most pressing problems and is a stepping-stone towards social entrepreneurship.

Professional services can also play a role in developing SEs' business acumen through seminars and workshops.

The spectrum of intermediaries performing their traditional roles, as well as other corporate actors, may also contribute to emerging SEs through their CSR programs and pro-bono services. Corporations with strong CSR programs have contributed greatly to the evolution of social enterprise. CSR has mainstreamed the idea of harnessing private sector resources to address many of the world's most pressing problems and is a stepping-stone towards social entrepreneurship.

METHODOLOGY

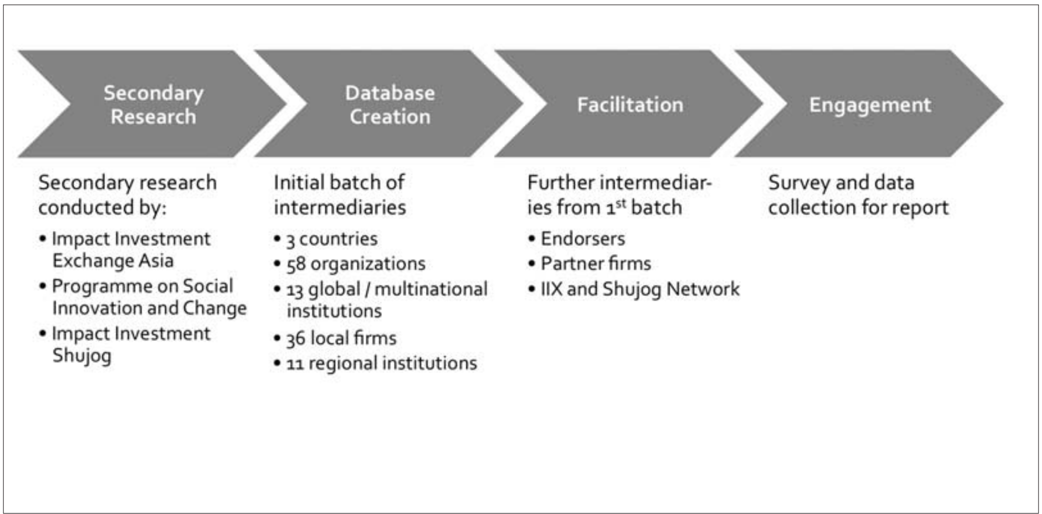
Data was collected using a 21-question survey created by Shujog in partnership with IIX Asia from the beginning of June 2011 to mid-July 2011.[12] The survey introduction informed participants about the role of market intermediaries in building a well-functioning market for impact investing and highlighted the purpose of the survey.

Responses from a total of 109 intermediaries have been collected in the course of the research. This includes a total of thirty-three complete online survey responses as well as data collected through face-to-face meetings with market intermediaries in Bangladesh, India, Singapore, and Thailand.

Shujog researchers also performed additional research on the existence of intermediaries' CSR programs, their affiliation with Singaporean firms that may be drawn upon for cross-border capital raising on a regional SSE, and the potential for preferential pricing for enterprises offering double or triple bottom line returns.

Figure 3 represents the framework for the data collection.

Figure 3 - Engagement framework

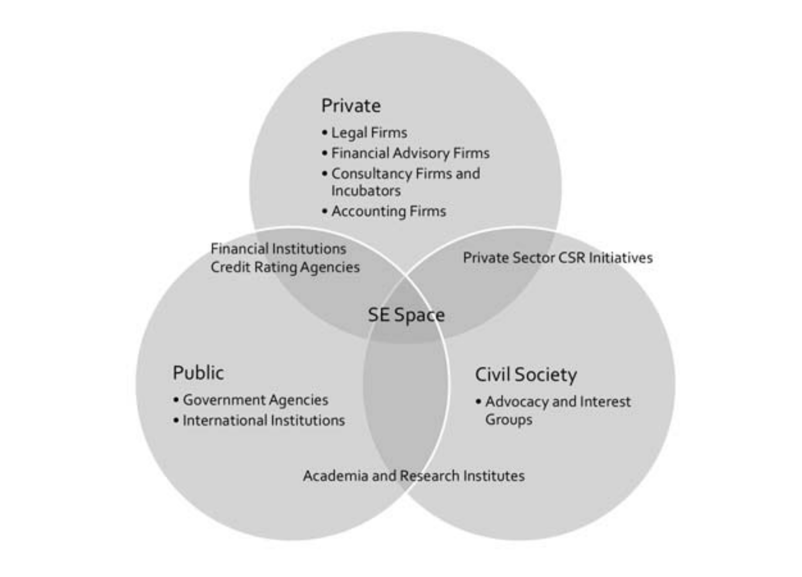


Target intermediaries

Market intermediaries include all actors, organizations acting as mediators between investors and SEs, as well as the institutions governing these relationships. Collectively, the intermediaries create an ecosystem within which capital flows more effectively. This ecosystem frames impact investing and SEs as a new asset class. SEs operate at the intersection of the three spheres of market intermediaries; they occupy the space where private, public, and civil society overlap. With the ecosystem framing the SE space, different SEs leverage characteristics from financially viable private sector firms, mission-driven civil society organizations, and public sector focus on promoting the common good within a community or society.

[12] For the full survey, please see Appendix.

Figure 4 - The SE space within the impact investing ecosystem



The following categories of market intermediaries and facilitators have been engaged for the purposes of this report. Figure 4 shows the intermediaries framing the SE space.

a. Academia and research institutes
b. Accounting firms
c. Advocacy and interest groups
d. Credit rating agencies
e. Financial advisory firms
f. Financial institutions
g. Government agencies and international institutions
h. Legal firms
i. Private sector CSR initiatives

Market Intermediaries in Asia and the Pacific

ANALYSIS OF **FINDINGS**

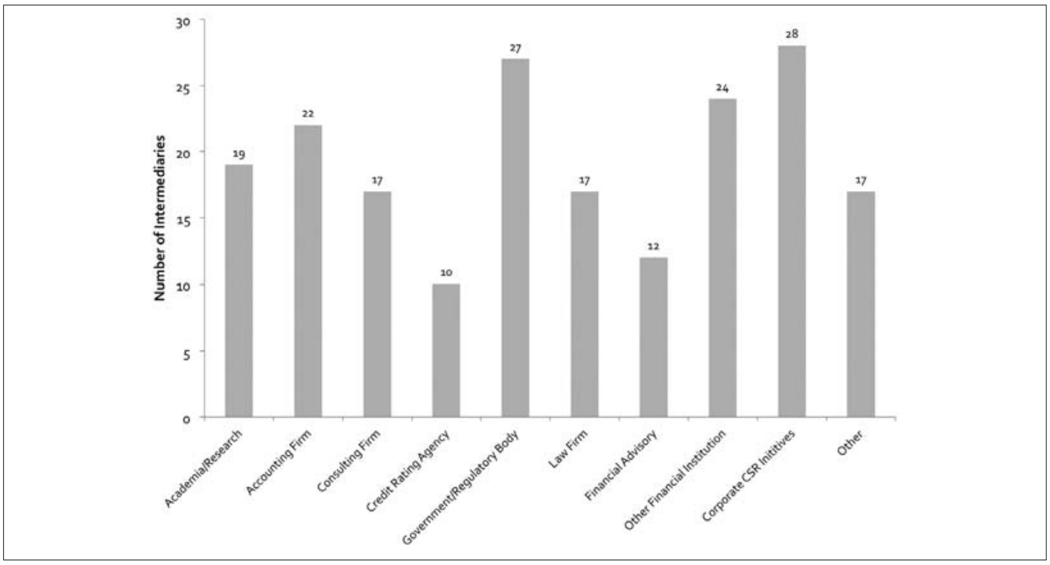
ANALYSIS OF FINDINGS

State of the Market

Market intermediary interaction with SEs is strongly concentrated in India. India's sizeable and mature SE sector is an understandable draw for market intermediaries as it presents ample opportunities for intermediaries – both through their CSR support and as attractive revenue streams. Bangladesh and Thailand have smaller SE markets while Singapore contains a large number of regionally involved market intermediaries and is thus disproportionately involved in the Asian SE marketplace in relation to its size.

Market intermediaries are relatively evenly spread across sectors, with a small number of credit rating agencies involved in the survey, and government and private sector CSR initiatives the most numerous. The lower number for credit rating agencies reflects the concentration in this sector around a few dominating actors. Similarly, numerous corporate CSR initiatives are surveyed, since there are many organizations with CSR initiatives in Asia. Several government and regulatory institutions were also interviewed to reflect public sector involvement with SEs, the necessity for new regulation, and the possibility of SEs removing pressure from existing government provided social services.

Figure 5 – Relevant market intermediaries by intermediary type



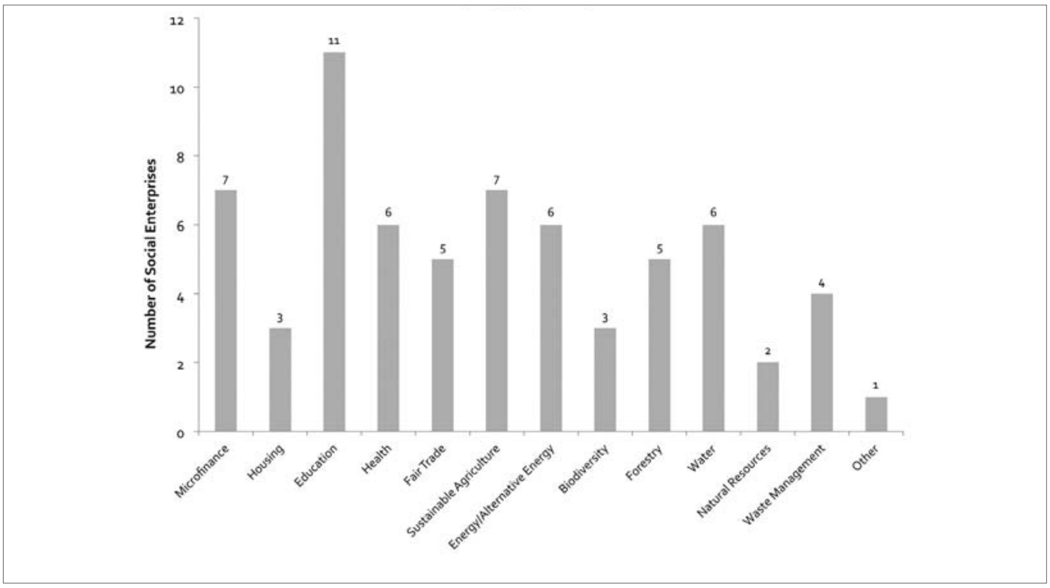
The report found that intermediaries operating in markets with a more mature SE sector are more willing and interested to engage with SEs. This finding holds across sectors and organizational sizes.

Crucially, the larger the difference in size between large market intermediaries and small SEs, the greater the chances of CSR motivated market intermediary participation. Where the SEs are large, there is a greater chance of revenue motivated market intermediary participation.

This trend is reflected in the types of SEs that market intermediaries currently have the greatest levels of interaction with. With MFIs constituting many of the most mature and financially large-scale SEs, it is no surprise that the sector has the second highest number of interactions with the market intermediaries surveyed.
Many MFIs are large enough to present compelling business opportunities for the full range of ecosystem players – ranging from accountants and financial advisors to rating agencies.

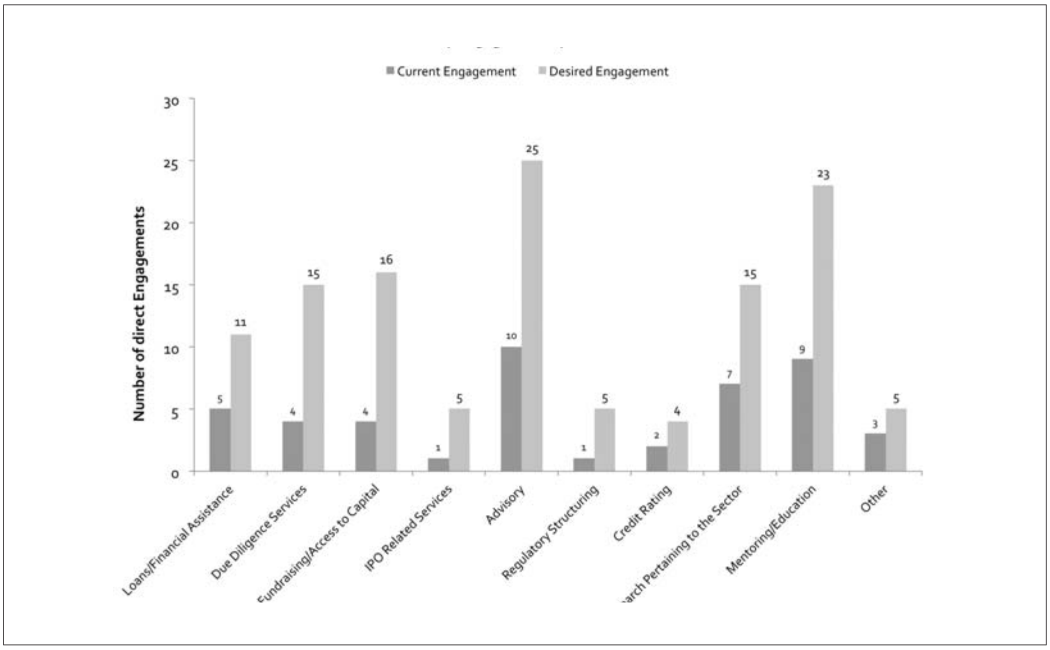
Similarly, the sector with the highest number of interactions with the market intermediaries surveyed in this report is education. Contrary to MFIs, most SEs in the education sector are smaller, and many are still partially reliant on donations and grant-type funding. As such, they are a popular destination of market intermediary support originating in their CSR activities, and typify private sector actor's first foray into supporting social entrepreneurship in Asia. This also reflects the high number of CSR actors surveyed for the report. Figure 6 shows the SE sectors where the surveyed intermediaries are most actively involved in.

Figure 6 – Market intermediary engagement with SEs by SE sector



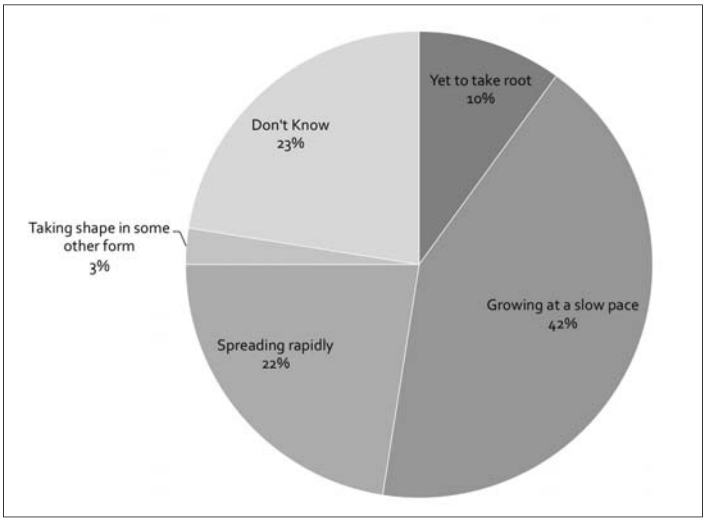
Intermediaries are presently most involved with SEs through advisory, mentoring, and education, including incubation of SEs. These types of engagements typify the relationships that current non-engaged intermediaries want to get involved in. Fund raising, due diligence and financial assistance are the next most common types of activities. Figure 7 shows the relative size of current and desired intermediary engagement with SEs, sorted by type of service offered to the SE.

Figure 7 - Market intermediary interaction and interest in SEs by service provided



The nature of the engagement illustrates the fact that SEs remain a novel concept to most traditional intermediaries, and the fact that many specialized intermediaries focus on incubation and nurturing emerging SEs. Few market intermediaries believe that SEs and the SE sector are a rapidly growing or even important trend. Figure 8 indicates the breakdown of intermediaries' perception of the current state of the Asian SE sector.

Figure 8 - Market intermediary perceived state of SE industry



There are a number of market intermediaries assisting SEs in capacity building exercises, many of which are providing accounting and financial advice, as well as leveraging their own ecosystem relationships. Many specialized financial advisory institutions, such as Intellecap, Unitus, Grameen Financial, and the Institute for Financial Management and Research in Chennai, are dedicated to developing SEs. Larger, more traditional market intermediaries, on the other hand, have been comparatively less supportive. These institutions have the resources necessary to scale SEs past a certain point, and their endorsement will thus help impact investing manifest itself as an alternative asset class in its own right.

Unfortunately, a perception that such an endeavor currently does not make economic sense prevails among nascent intermediaries, because many of the deals in the SE space are small in size (less than US$ 10 million) and perceived as high in risk. That intermediaries must also build their capabilities and sector knowledge for such work makes traditional intermediaries even less enthusiastic at this point in time. However, they have shown marked interest in impact investing and the SE space provided that deal sizes surpass certain thresholds.

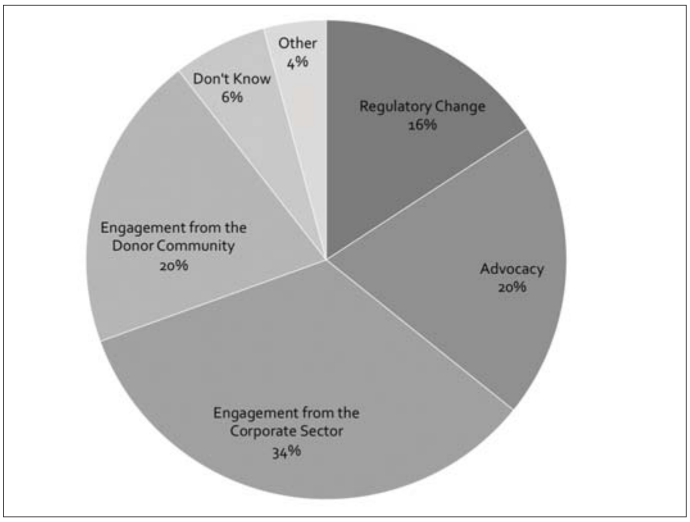
The biggest barrier to intermediary support for the sustainable market oriented growth of SEs is a lack of awareness and knowledge about impact investment and the ways in which it would be beneficial for the growth and scalability of SEs.

The perception of low revenue potential in the SE market illustrates a general lack of SE market understanding on the part of many intermediaries, as the reality is there is significant revenue to be generated through participation in the SE marketplace. There is thus a persistent need to educate market actors on the value created by SEs in both an economic and financial sense. If SEs are viewed as organizations with a strong, scalable business model that creates value for both investors and stakeholders and their propositions and impact are showcased effectively, SEs will attract investor interest. This will gradually reduce perceived risk in the SE sector as a whole, and stimulate consequent ecosystem involvement.

The biggest barrier to intermediary support for the sustainable market-oriented growth of SEs is therefore the lack of awareness and knowledge about present opportunities in impact investment and the ways in which it would be beneficial for the growth and scalability of SEs. Despite this, market intermediaries that work with SEs are aware of the crucial role they will play in the growth of the SE industry.

Intermediaries across Asia identified "engagement from the corporate sector" was as the top requirement for further SE growth. This awareness of their own importance is a key first step towards market intermediaries fulfilling their role in the SE marketplace. Figure 9 illustrates the intermediaries' own perception of their role in scaling sustainable SEs.

Figure 9 – Engaged market intermediary perceived requirements for SE growth



Encouragingly, the research points to a slow but steady growth of impact investment momentum in Asia as market intermediaries gradually realize the revenue generating opportunity of comparatively large SEs and the benefits from CSR-motivated support of smaller SEs. But knowledge about the space, the role impact investment can play in the market-oriented growth of SEs, and the overall benefit of SEs to sustainable development among market intermediaries is often limited. Many capable organizations support SEs through grants, mentoring, and advisory services, without an aim to develop them into market-oriented enterprises. There is a need to raise awareness and educate a wider set of stakeholders about the potential of the impact investment space, especially with regard to the potential for scaling sustainable development initiatives more rapidly through market-based mechanisms.

To this end, impact investing platforms can play an indispensable role in bringing together SEs in need of investment capital and impact investors that desire to direct their capital towards initiatives that create demonstrable positive social impact while also being financially viable. Tailored platforms can build the necessary credibility between market intermediaries, impact investors, regulators, and the SEs themselves. However, for any organization to commit resources towards this endeavor, they must first have an understanding of the important role social capital markets play in the next stage of evolution of SEs. It is thus important to take steps to increase awareness about the opportunities of impact investment, the role of SEs in addressing sustainable development, the potential for SEs to leverage capital market funds to scale their positive social and environmental impacts, and the important role intermediaries play in SE capacity building. Market intermediaries enable SE's access to capital and, therefore, growth and higher impact.

Government and international institutions

The establishment of impact investment platforms requires endorsement from government. Outreach to national governments and regulators is necessary for increased awareness of the concept of impact investment platforms and to enlist their endorsement for platforms such as an SSE. Further research on the regulatory changes that facilitate capital raising for SEs is also needed.

Government agencies, regulation and backing from international institutions play a crucial role as a support mechanism and catalyst in early-stage development of the SE sector.

The importance of government in promoting sustainable social entrepreneurship and impact investing is clearly mirrored in the development of the SE sectors in the different countries. In Bangladesh, India and Thailand, governments have contrasting approaches to SEs, and this contrast is reflected in the different levels of SE sector development. Government agencies, regulation and backing from international institutions play a crucial role as a support mechanism and catalyst in early-stage development of the SE sector. Likewise, the nature of the support can determine certain characteristics and structures of SEs, and the nature of the interaction between market intermediaries and SEs.

That Bangladesh has traditionally favored a larger role for the state and greater regulation has helped nonprofit enterprises gain the support of local administration and government agencies. The government has also insisted on promoting developing businesses with a social focus. Leading SEs in Bangladesh are thus also the leading businesses in Bangladesh, and remain rooted in non-profit structures. These SEs have grown to become enormous institutions that are involved in all aspects of Bangladeshi life, delivering essential education and healthcare services, banking and insurance, as well as telecommunication services and consumer products. Many of these products and services are delivered through subsidiaries of the original non-profit SEs – many of which have now established for-profit businesses that channel profits back to the original non-profit as the owner of the commercial enterprises. An example of such a mega- SE is BRAC, which started as an NGO focused on post-war rehabilitation and development leveraging public resources and official development assistance and has later expanded into pro-poor commercial retail, public health and information and communication technology and in the process become a fully sustainable SE.

This dominance by large SEs is mirrored in market intermediary participation, which is widespread between large ecosystem entities and the large SEs where the size differential is small. This interaction is so commonplace that larger Bangladeshi intermediaries in the survey treat this as any other commercial activity – not as bespoke services for an alternative or emerging SE market.

The Bangladeshi context contrasts to what Shujog found in Thailand. With a less mature SE market dominated by smaller enterprises operating alongside large, donor-funded charities such as the Population and Community Development Association (PDA), the past bifurcation of for-profit and charitable work in policy is mirrored in the domestic SE market. Encouragingly, the Thai government has made some headway with the establishment of the Thai Social Enterprise Office (TSEO), which focuses on developing and encouraging the growth of the SE sector in Thailand, and there is now a vibrant market of emerging SEs with ample accommodation in policy. Interaction between market intermediaries and SEs likewise mirrors government policy, with larger ecosystem players largely absent due to the large size differential, and most active engagement seen between small, specialized intermediaries such as incubators and the emerging SEs.

The above also holds with respect to trading platforms and supporting a regional SSE. Government policy and support from international institutions can catalyze innovation and accommodate growth in impact investing. In the case of Bangladesh, a policy brief highlighting recommended policy changes to facilitate easier access to investment capital for local SEs was presented by IIX Asia to the Finance Secretary of the Bangladesh government. In India, regulatory reforms have been initiated to allow revenue-generating models for SEs, ease norms for foreign investments and generally allow SEs easier access to capital.

Accounting firms

The accounting firms often have the closest relationship and best understanding of client enterprises and their needs. This is partly due to the interactions between auditors and enterprise management before any major transactions, re-structuring, or reorganization. Often, these interactions are driven by the requirements of the annual audit. Through regular contact with SEs' management and operations, accountants are best placed to gauge the needs to raise capital and the ability of the enterprise to scale up activities. The accountants understand the mechanics involved in raising capital or achieving scale and can provide guidance management.

The accounting profession has a clearly defined role to play in the capital raising process of SEs: pre-IPO advisory for the management, the due diligence itself conducted on behalf of investors, and subsequently providing audit comfort letters to the financial advisors and the investors. The larger accounting firms also have local offices in most of the countries being considered and can draw on a pool of competent, qualified staff in each of the countries and are comfortable that the advice being given by the local offices will be of an appropriate caliber.

There was a relatively mixed response from the accounting and audit firms compared to other sectors. Some accounting firms see immediate business prospects in facilitating access to funding for SEs. Most capable and growing firms are mid-sized, whereas the larger firms are less enthusiastic, illustrating the large size-differential between large accounting firms and the majority of SEs.

Accounting firms were also queried on the prospects for discounted fee services for emerging SEs. Discounted fees can facilitate the emergence of the impact investment platforms by making it affordable for SEs to raise investment capital. In some instances, this has already been agreed upon and implemented locally. In other cases, making a long-term commitment to engaging SEs is only feasible on the basis of standard fees. In general, the report finds that the smaller accounting firms are not able to offer their services on a reduced-cost basis.

Law firms

Many law firms provide pro-bono services due to bar recommendations or as a requisite of their professional contract. IIX has benefitted from offers of pro-bono legal advice from several law firms operating out of Singapore, including international firms such as Latham & Watkins LLP and Allen & Overy, and local firms such as One Legal, to provide advice on various regulatory issues related to the launch of impact investment platforms.

Some countries in the region restrict the entrance of foreign law firms into domestic practice. International law firms therefore often work collaboratively with local and regional firms to give legal guidance on cross-border legal issues. In general, the larger firms in Singapore interviewed or surveyed by Shujog understand the IIX proposition and the role of impact investment platforms in developing SEs.

The legal firms in Bangladesh, India and Thailand have also been very supportive and in the case of Bangladesh and India have given a great deal of legal input. They are receptive to engaging with the SEs and in many instances already do so. Depending on the size of the firm, they are prepared to offer competitive pricing on their services to the SEs. As with accounting firms, larger law firms generally show a greater willingness to provide discounted and pro-bono prices. Smaller law offices may also lack the necessary capacity to advise on cross border capital raising.

Credit rating agencies

For impact investment platforms, consistency of ratings across jurisdictions will be important. Hence, we focused our engagement on agencies that have a regional or international presence.

The number of credit rating agencies in any one locality is limited – in many cases limited to one or two well renowned, internationally branded firms. The role for credit rating agencies on a regional SSE is mainly seen when an entity seeks a bond listing, where the rating agencies give national and international level ratings to such a bond. Such ratings are required for the bond to be sold effectively in the retail market rather than to sophisticated investors, which is initially what is envisaged for a regional SSE. We have been in touch with the agencies wherever possible but the numbers contacted are fewer as there only a handful in the overall population of intermediaries.

Credit rating agencies employ fixed fees for their services, and the agencies engaged showed a generally low level of willingness to waive or reduce these fees for SEs. However, those engaged for the report do appear to be keen to work with SEs and provide rating services for them. They consider this work similar to that performed for other lines of business. In addition, agencies at a local level do provide pro-bono support to the social sector by way of workshops and conferences and will continue to do so for any SEs seeking to raise capital on SSE.

Another particular aspect of engaging credit rating agencies is that their involvement only comes with SEs listing on investment platforms. Unlike accountants, lawyers and specialized advisors, rating agencies play no role in smaller or earlier-stage private capital raising. Less or no engagement was thus found between ratings agencies and SEs in less mature SE markets

Academia

Treated as an integral part of the ecosystem needed to spread awareness, scrutinize trends and explore opportunities in impact investing and social entrepreneurship, academia is at the forefront of embracing the emerging the SE sector.

Prominent academic institutions have set up special purpose research and education centers, including the Centre for the Advancement of Social Entrepreneurship (CASE) at Duke University, North Carolina, USA,[13] and the Skoll Centre for Social Entrepreneurship at Saïd Business School, Oxford University, Oxford, UK.[14] Many other academic institutions now also publish targeted research, conferences and programs on social entrepreneurship,[15] and integrated learning programs.[16]

The academic focus on social entrepreneurship is clearly demonstrated in the volume of publications on the topic such as those of the Lien Centre for Social Innovation, Singapore Management University.[17] Research centers such as Asia Centre for Social Entrepreneurship & Philanthropy at the NUS Business School, Singapore, are becoming increasingly active, and leading Asian universities are actively involved in advocating social entrepreneurship and in convening and engaging other ecosystem players through conferences and competitions. This includes centers such as the Global Social Venture Competition at Thammasat University, Bangkok, Thailand,[19] and the Introduction to Social Entrepreneurship course at Ateneo School of Government, Quezon City, Philippines.

A number of academic institutions surveyed for this report showed interest in providing educational support to social entrepreneurs and were keen to be involved in the formation of a regional social stock exchange. There have been offers of support staff or interns for IIX, to present an SSE proposition to academics and students to generate interest, and to publish papers for the purposes of raising the profile of the concept and of the exchange itself.

Academic support has also come from international institutions that have SE or impact investor networks and are interested in learning more about what is happening in the Asia and the Pacific. They are receptive to doing joint streams of research with IIX and Shujog to produce collaborative work.

Financial Institutions and Financial Advisors

Financial institutions and financial advisors are important at all stages of the development of impact investment platforms. At the earlier stages and working with smaller, less mature SEs, they have the expertise necessary to help SEs raise seed capital and first-round growth capital. Such early stage investment capital raising typically takes place in private markets between individual SEs and the clients of financial advisors – some of which specialize in dealing with SEs. With more mature markets and targeted impact investment platforms, financial institutions and advisors will perform key roles in drawing capital towards investment opportunities in SEs, deal provision for impact investors, and creating more liquidity and less risk in the markets.

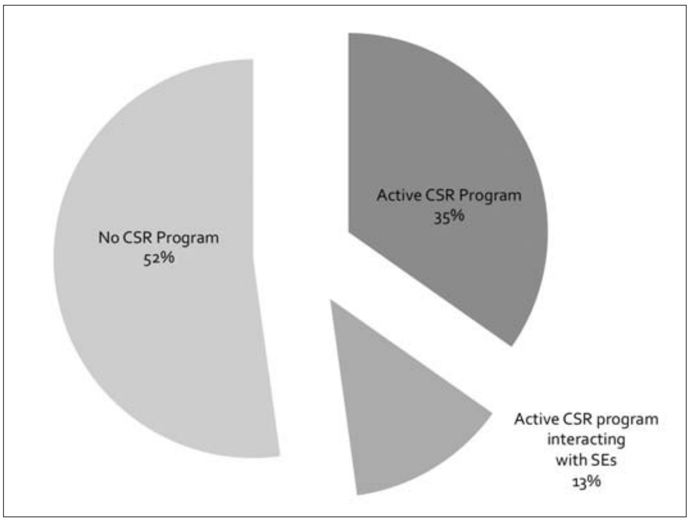
The large spectrum of roles for financial institutions and advisors is reflected in this being the intermediary sector with the greatest variance in interest and activity levels. Traditional and larger actors are less supportive, indicating a perception of SEs as an alternative asset class with relatively few business opportunities. This is due to the typically small investment size compared to traditional investment markets. At the same time, a number of smaller and specialized intermediaries have emerged in this sector, working between interested investors and SEs.

The variance in interest between larger, traditional financial advisors and smaller, specialized advisors is again reflected in the different levels of interest depending on where the advisor is based. The report found a greater number or growing, traditional financial advisors in countries with mature SE markets than in less mature markets. Similarly, 87.5% of the financial institutions surveyed in countries with less developed SE markets indicated an interest in working with SEs through their CSR program, whereas only 25% of them indicated current support for impact investment platforms.

CSR Programs

In the course of research, Shujog reached out to the private sector to gauge interest in providing financial assistance to SEs under their CSR programs. The report found many such organizations were willing to engage with SEs in a variety of ways, including supporting programs to train their own employees on SEs and sponsoring and facilitating advocacy and outreach events that promote impact investment. Figure 10 shows the breakdown of surveyed private firms according to their CSR policy.

Figure 10 - Private sector CSR program interaction with SEs



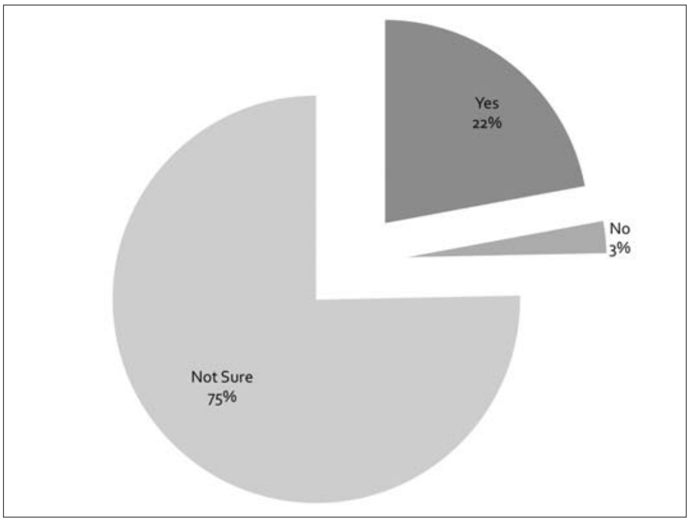
Positive trends are emerging in the intersection of CSR initiatives and SEs – stimulated, at least partially, by regulatory activity. In India, the government of India has asked all companies to provide details of their investments made within their CSR initiatives. The Indian state of Orissa enacted a law requiring corporate houses to invest a predetermined percentage of their profit on "peripheral development". The government of Bangladesh approved in 2008 a proposal for tax exemption which states that 10 percent of corporate income is to be spent on complying with CSR. Companies investing in women's rights issues and welfare activities as well as donating to HIV-AIDS campaign agencies, relief after natural calamities and public universities receive a tax waiver. Thailand's implementation of CSR has lagged behind other countries in Asia, and Thai companies are generally more conservative about information disclosure than their counterparts in Asia. According to a CSR Asia Center survey, Thai companies performed best in the categories of governance, codes and policies. However, their lowest scores came in the categories of marketplace and supply chain.[20]

CSR programs can also extend to discounting fees for services to SEs. While there are some doubts about discounting fees amongst the majority of market intermediaries currently engaged with SEs, there are some market intermediaries that are committed to offering discounted services. That these market intermediaries are willing to discount fees indicates that revenue is not a primary motivation for SE engagement. Figure 11 shows intermediaries' willingness to offer discounted services to SEs through CSR programs.

[13] http://www.caseatduke.org/
[14] http://www.sbs.ox.ac.uk/centres/skoll/Pages/default.aspx
[15] See e.g.: INSEAD's Social Entrepreneurship Executive Education (http://www.insead.edu/facultyresearch/centres/social_entrepreneurship/education/executive_education.cfm).
[16] See e.g.: Wharton Program for Social Impact (http://www.wharton.upenn.edu/socialimpact/)
[17] http://www.lcsi.smu.edu.sg/
[19] http://www.gsvc.org/about_gsvc/our_partners/thammasat_university/.

[20] Bangkok Post. "CSR Wins Converts in Thailand."

Figure 11 - Willingness to offer discounted services to SEs



The report found broad understanding and support for SEs amongst market intermediaries, with a smaller amount of actual engagement currently in place. Of the countries this report focuses on, the greatest number of capable and growing intermediaries were found in India, closely followed by Bangladesh, with Thailand a little behind. Comparatively less interest was found with intermediaries based in traditional financial centers like Singapore.

Conclusions

The report found a broad understanding and support for SEs amongst market intermediaries, with a smaller amount of actual engagement currently in place. Of the countries this report focuses on, the greatest total amount of market intermediaries were in India. This was followed by Bangladesh and finally Thailand.

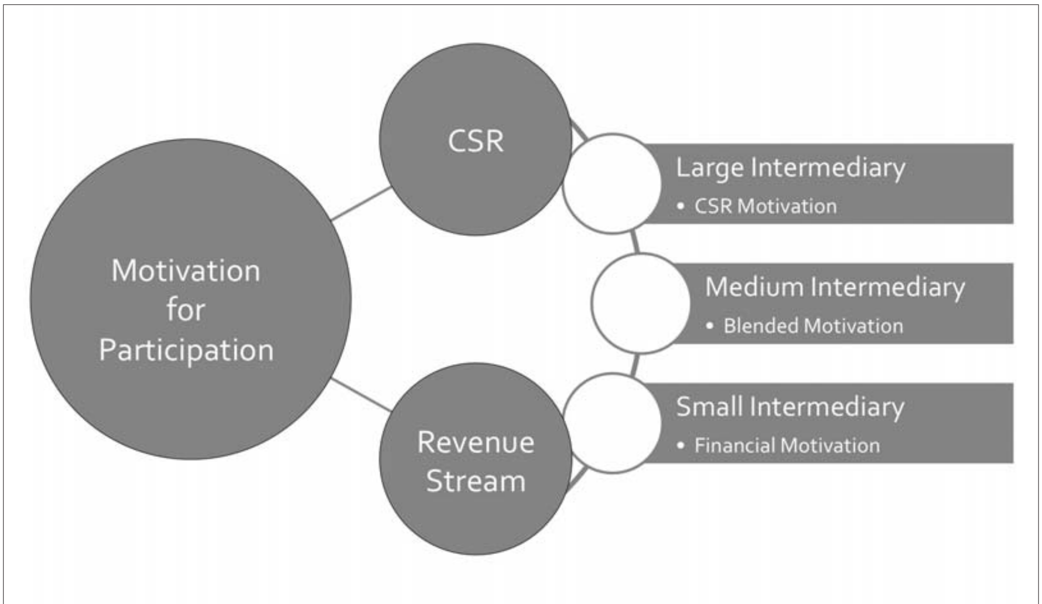
India has one of the most mature SE markets in the region. By virtue of this, market intermediaries in India demonstrated a deep interest in engaging with SEs and providing them the professional services needed to prepare them to access capital markets. The majority of medium to large sized intermediaries in India may be categorized as growing or capable. Because of the large size of the SEs in India, the large sized market intermediaries are mostly motivated by revenue.

In Bangladesh the market is still dominated by large non-governmental organizations (NGOs) such as BRAC, the world's largest development oriented NGO, and the Grameen Bank, one of the oldest and most successful microfinance organizations. In addition to these large NGOs, Bangladesh also has a mature SE sector that has been providing innovative solutions to social problems in the country for many decades. Yet Bangladesh is still lacking the regulation and market mechanisms necessary to incentivize market-oriented SEs and broader capable ecosystem involvement with SEs. Growing intermediaries in Bangladesh, such as accounting firms, law firms, and credit rating agencies, hesitate to provide services to market-oriented SEs. This is in part due to razor-thin margins making these actors very risk averse when considering involvement with new asset classes, and in part due to the divide between the dominating, larger not-for-profits and emerging, smaller SEs. Despite market difficulties, the large market intermediaries are mostly revenue oriented when interacting with large Bangladeshi SEs.

Thailand has a less mature SE market overall, which renders it difficult for market intermediaries to comprehend the full impact of developing market-oriented SEs. Thailand has historically had a very strongly entrenched philanthropic sector and the emergence of SEs is a relatively new phenomenon. The emerging nature of the SE market also makes it harder to find business for the ecosystem while increasing risk perception. However, despite the nascent nature of its intermediary engagement with SEs, Thailand is in a good position to encourage the development of sustainable market-oriented SEs. A new focus on promoting SE sector growth from government and the private sector lends confidence to the future of the SE ecosystem. Yet the emerging nature of the SE sector restricts market intermediary interaction to that which is CSR motivated. There is not yet the large money, large scale SE marketplace one sees in India and Bangladesh.

Market intermediary motivation also varies depending on the country. In Thailand SEs are generally small and not yet well developed. As such, most Thai intermediaries working with SEs are motivated by CSR principles rather than revenue. In India, where SEs range from small and new to large and well developed, the market intermediaries are motivated by both CSR and revenue, depending on their size and the size of the SEs with which they are interacting. In Bangladesh, because of the large size of the SEs in the country, market intermediaries's work with SEs is mostly revenue oriented. Only occasionally do intermediaries engage SEs on account of CSR. Figure 12 illustrates the framework for intermediaries' motivation to engage with SEs.

Figure 12 - Motivation for market intermediary participation



Overall, there is broad support across market intermediaries for the idea of SEs and SE engagement, despite the low levels of actual engagement. Market intermediaries currently involved with SEs are but a small slice of those in existence throughout Asia. The leadership provided by those already working with SEs, whether motivated by CSR or revenue, should be showcased more effectively to foster greater understanding and interest in the SE marketplace as SEs mature and become more commonplace.

Country Profiles

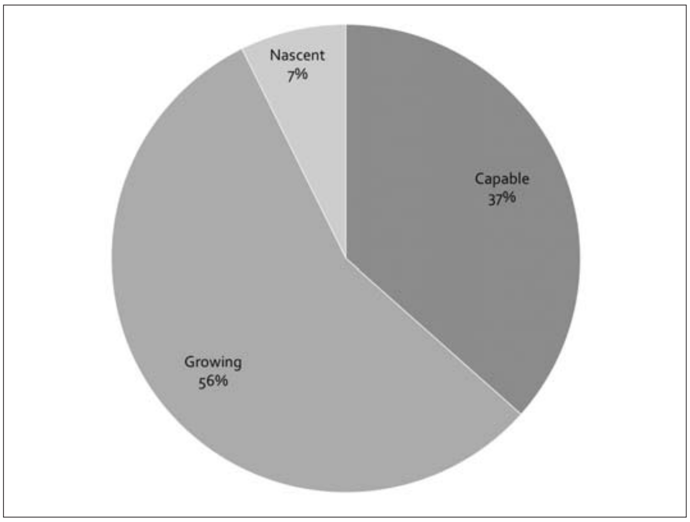
To delineate levels of market intermediary involvement with SEs, market intermediaries have been separated into three categories: capable, growing, and nascent. These labels help clarify levels of engagement. Capable market intermediaries are those that already have established commitments to SE engagement or frameworks outlining how they are able to provide services to SEs. Growing market intermediaries are those that are currently in the process of establishing links with SEs or creating structures of interaction to be implemented in the future. Nascent market intermediaries are those that have no ongoing relationship with SEs or have actively refused to participate with SEs in the past.

Bangladesh

On the whole, Bangladesh has a strong SE sector with high levels of interest among market intermediaries, albeit with some trouble incentivizing new market intermediaries to participate fully with SEs. Despite market intermediaries' interest in becoming more involved with SEs in Bangladesh, it is difficult for them to offer reduced-cost or no-fee professional services because their rates are already low compared to rates charged by intermediaries offering the same services in other countries.

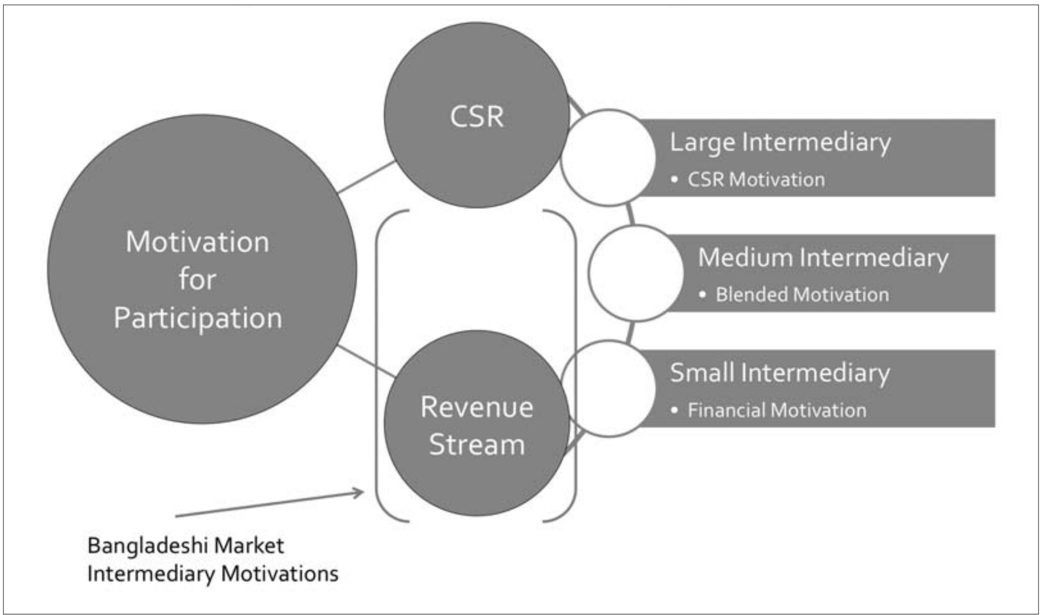
There is great interest in working with SEs on the part of Bangladeshi market intermediaries. There are many market intermediaries that are growing in their involvement with SEs or already interacting with SEs and capable of facilitating investment. Encouragingly, very few market intermediaries are actively uninterested in working with SEs; the nascent space is small. Figure 13 shows the breakdown of current intermediary engagement in Bangladesh.

Figure 13 - Bangladeshi market intermediaries' engagement with SEs



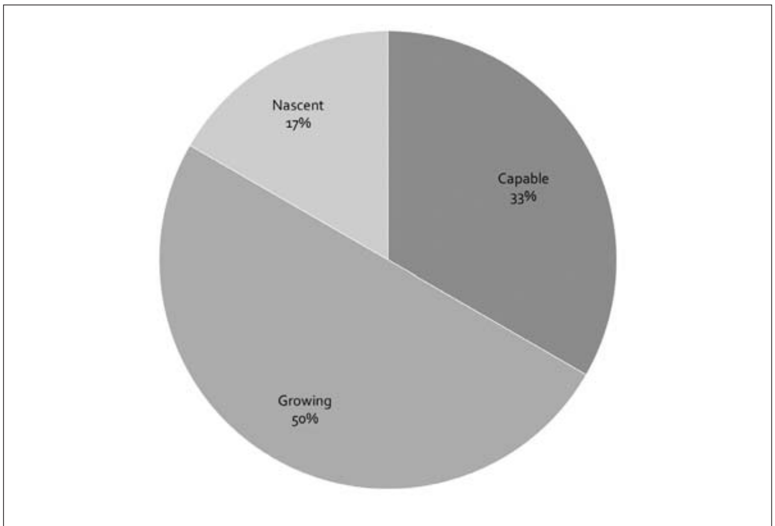
Many SEs in Bangladesh are very large, with examples like the Grameen Bank and BRAC, the largest NGO in the world, dominating the space. Bangladeshi SEs are also comparatively large in relation to Bangladeshi market intermediaries. Because of this, motivation for participation with SEs by market intermediaries is largely revenue oriented, with some participation moving into the blended revenue-CSR space as the SEs decrease in size or the market intermediaries increase in size. Figure 14 illustrates the motivation space for Bangladeshi intermediaries.

Figure 14 - Bangladeshi Market Intermediary Motivation



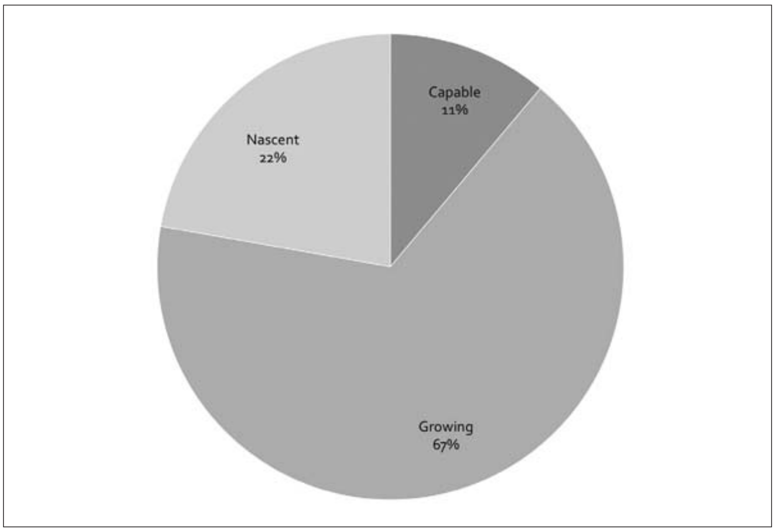
In terms of capable market intermediaries in Bangladesh, there is some development among academics and accountants engaging directly with SEs in Bangladesh. This reflects the need for accounting services by the medium- and large-sized SEs in the country and the impact of mature Bangladeshi SEs as pioneers in the field drawing significant support and interest from academia. Figure 15 shows the level of SE support from accountants in Bangladesh.

Figure 15 - Bangladeshi accountants' SE participation



There remains a gap in the level of engagement seen among financial advisors, law firms, and credit rating agencies – whereas specialized rating agencies like Crisil show growing interest. Notably, however, some capable agents' involvement with SEs is found in all sectors.

Figure 16 - Bangladeshi financial advisors' SE participation



Despite intermediaries' overall broad involvement with SEs in Bangladesh, some organizations express no intention to seek involvement with the growing SE industry. While their number is relatively small, the fact that these nascent participants all come from the financial advisors and accountants of Bangladesh points to a disconnect between certain traditional intermediaries and the SE movement. Though this may seem discouraging, these nascent organizations are mostly the smaller size accounting and advisory firms that may lack the necessary capacities to facilitate capital raising for SEs.

Encouragingly, the number of market intermediaries in Bangladesh that have a growing involvement with SEs is comparatively large. Responses from various market intermediaries spanning all sectors, except credit rating agencies, indicated a strong interest in SEs and a desire to work with SEs in the future. The future of Bangladeshi SE involvement by market intermediaries looks to be a strong one.

The report also found that several Bangladeshi market intermediaries have a strong interest in working with the SE space but lack adequate incentives to scale up their participation. Two factors contribute to this unique situation: Bangladesh's comparatively large SE market and the relatively low rates charged by most market intermediaries in Bangladesh. Unlike in other countries, intermediaries in Bangladesh reported that they cannot offer reduced or no-fee professional services because rates and margins are already extremely low. It is thus difficult for some market intermediaries to become involved in the SE space without revenue source incentives.

Bangladeshi market intermediaries have a strong interest in working with the SE space but lack adequate incentives to scale up their participation.

Despite these difficulties, the Bangladeshi SE marketplace does provide a significant revenue source for a small number of large market intermediaries and SEs. These large market intermediaries, like Citibank and Standard Chartered, have benefited greatly from their participation with the large SEs in Bangladesh like Shakti, Grameen, and BRAC. CSR is thus not a large factor in market intermediary participation.

The numbers paint a picture of a country that is on the cusp of broad market intermediary-SE involvement. The social enterprises exist, the market intermediaries are interested in working with the SEs and there is little evidence of any market resistance to impact investment. Should Bangladesh--either through new regulation or market changes--incentivize market intermediary involvement in SEs, one could expect a strong impact investment ecosystem to come into place quite quickly.

Policy Challenges

The Bangladeshi economy has grown in excess of 5% per year since 2003, achieving solid growth in the midst of the 'global' economic crisis the past two years.[21] With solid growth in SEs and conventional businesses alike, the key policy challenge is to remove remaining barriers to entrepreneurship, ensure benefits of growth are delivered to marginalized people, and ensure that growth is economically, socially and environmentally sustainable.

Many existing SEs focus on solving the problem of entrepreneurial start-up financing. Increasingly, entrepreneurs are entering other social activity areas such as insurance, savings, information dissemination, social networks, and technological expertise. There is however a persistent gap in available growth capital for SEs to move from being micro-enterprises to being self-sustained SMEs. The same holds for business skills training, mentoring, and fostering links with big business.[22]

Bangladesh has two primary regulatory options for mission-driven organizations: non-profit companies, where no profit can be taken out of the company, or non-profit charities, where there is no room for forprofit activities. Mission driven for-profits do exist but they lack access to the massive development funding entering Bangladesh. Consequently, non-profit NGOs still dominate private-sector delivery of social services in Bangladesh. However, organizational models engaged in providing services to marginalized people are slowly changing and looking at existing entities we find an evolving SE spectrum in Bangladesh.

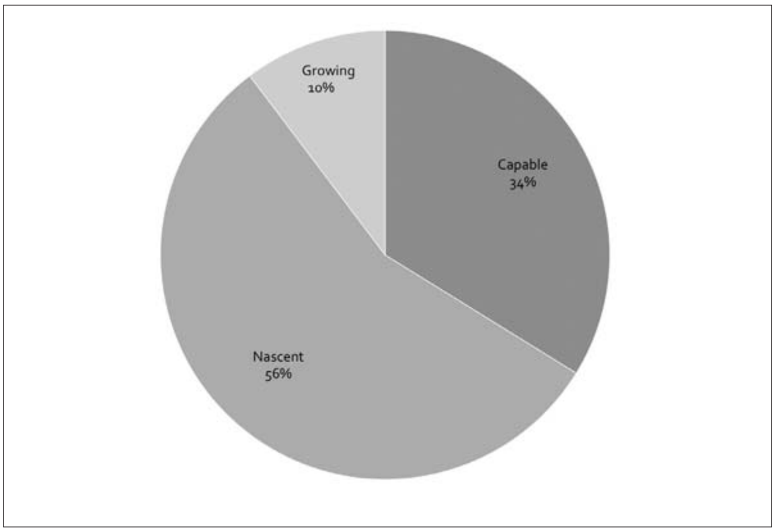
Lastly, Bangladeshi restrictions on capital flows to SEs and caps on dividend extractions across national borders, as well as barriers for SEs to raise debt capital are examples of policies that dissuade investments in SEs and hamper intermediary support for impact investing.

[21] *CIA World Factbook.*
[22] *Bangladesh Social Enterprise Project, Policy Brief.*

India

India has one of the most well developed SE sectors in the world and the distinction of being one of the first countries to have successful for-profit SEs. The market intermediaries are largely ready and strategically viable and the concept of social entrepreneurship is well understood. That being said, India does have some regulatory issues surrounding participation of non-Indian investors in India which affect the potential for impact investment in India.

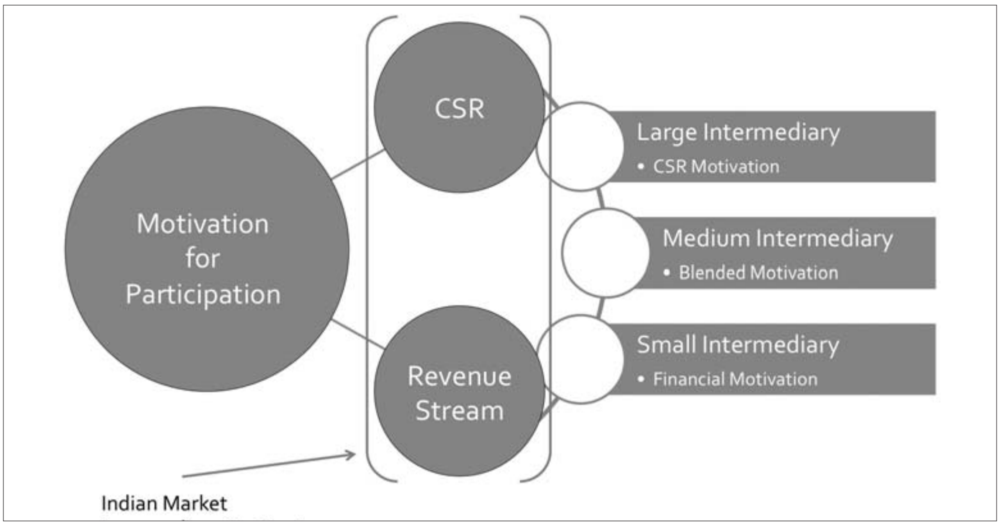
Figure 17 - Indian market intermediaries' engagement with SEs



The data for India presents a picture with a large number of capable market intermediaries, some resistance by some market intermediaries in the nascent grouping, and sizable interest from market intermediaries that are growing in their integration with SEs.

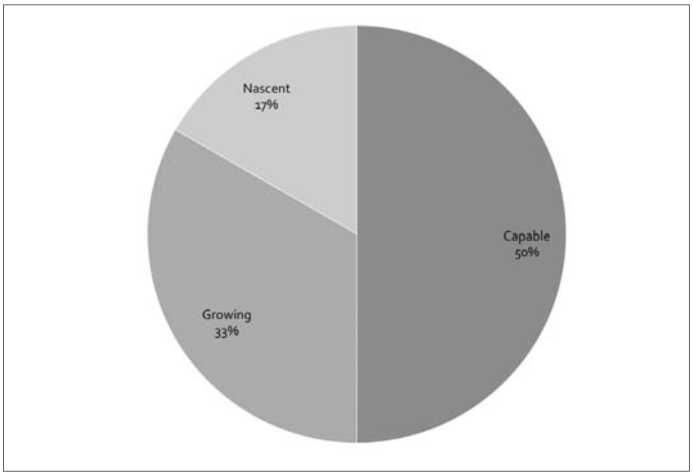
As a very well developed SE marketplace, there is a wide variety of different SE sizes in India. These range from small one-village start ups to the massive microfinance organizations that are prevalent in South Asia. Because of the large variety of SE sizes, there is a wide range of motivations for market intermediary involvement with SEs.

Figure 18 - Indian Market Intermediary Motivation



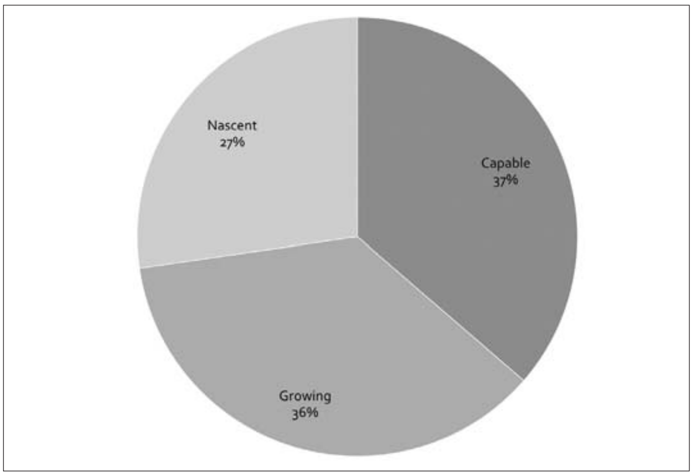
India has a wide range of market intermediaries that are capable and already involved with Indian SEs. The strong conceptual buy-in amongst lawyers and accountants shows important first steps in the development of a functioning impact investment marketplace have already been taken. Other groups, including academia, are also involved with SEs in India already.

Figure 19 - Indian lawyers' SE participation



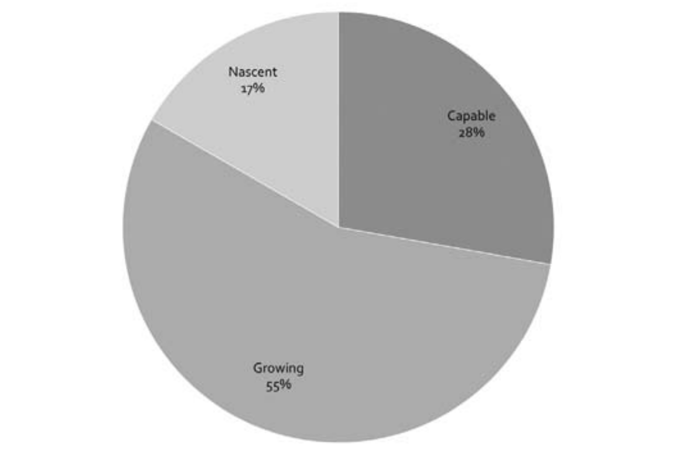
Despite high-level participation on the part of some Indian financial advisors and accountants, it is also in these sectors that Shujog encountered the most resistance from nascent actors. This is due in part to the specialized nature of SEs, and in part the present smaller size of most deals within impact investing. It is hoped that a more mature industry with larger deals will entice these market intermediaries to rejoin the SE ecosystem. A functioning SSE would further draw market intermediaries into the SE ecosystem, as it would increase investor activity by providing liquidity in the market and thus scale up the total possible revenue for market intermediaries from interacting with SEs.

Figure 20 - Indian accountants' SE participation



The majority of market intermediaries in India exhibit a growing interest in becoming involved with the impact investing marketplace. Especially amongst smaller financial advisors in India one sees a strong desire to work with SEs. Over half of the market intermediaries contacted by Shujog in India were either financial advisors or in private companies with a growing or nascent interest in working with SEs. Other sectors demonstrate similar, if slightly less enthusiastic, growing interest in working with SEs. Crucially, all three credit rating agencies interviewed are hoping to become involved with SEs in the future, possibly plugging the gap that currently exists in that sector and hopefully providing a much needed service to Indian impact investment.

Figure 21 - Indian financial advisors' SE participation



Several major players in India are already involved with SEs and strongly committed to successful social and environmental outcomes. Additionally, there is a growing network of market facilitators that are assisting the impact investment space. Despite this generally strong domestic investment activity in SEs, domestic capital may not sustain the Indian impact investment space indefinitely and regulatory changes to accommodate foreign impact investors are necessary.

Like in Bangladesh, India has a selection of large SEs and large market intermediaries. There are numerous microfinance organizations doing work in India and large local market intermediaries, like the bank ICICI, are already involved in the SE marketplace. These large SEs present a strong source of possible revenue. Additionally, in India one finds a number of small- and medium-sized SEs. There is some involvement on the part of the Indian market intermediaries with these smaller SEs, though these interactions increasingly take the form of CSR as the opportunity for revenue decreases as SE size decreases.

In looking at Indian market intermediaries as a whole, one finds strong buy-in and an established presence in the SE sector. Despite a notable gap on the part of credit rating agency involvement and reluctance on the part of sections of the financial advisors, the space is quite well populated. Additionally, there seems to be a large amount of market intermediaries looking to become involved with SEs in the future. This generally strong outlook and overall maturity coincides with significant issues surrounding the regulations for investing in SEs, specifically regulations restricting external investors in India. There is strong domestic investment in SEs at the moment, though these restrictions should be eased for a healthy impact investment marketplace to grow further.

Policy Challenges

India currently has a vast number of mission-driven organizations and SEs. Until recently these organizations have had to be structured as trusts, societies or section 25 companies where profits cannot be distributed to the shareholders.[23] Funding has been either through grants or programs that the organizations implement in a shared objective. The regulatory system has recognized the funding needs and established systems for non-profit enterprises and charitable organizations to attract donations and capital, including laws such as the Foreign Contribution Regulation Act in 1976,[24] the Trusts Act of 1882,[25] the Societies Registration Act of 1860,[26] sections 12A and 80G of the Income Tax Act,[27] and section 25 of the Companies Act.[28]

[23] *As per section 25(1) (a) and (b) of the Indian Companies Act, 1956. Full text available at: http://www.mca.gov.in/Ministry/acts_bills.html.*
[24] *Full text available at: http://www.mha.nic.in/uniquepage.asp? Id_Pk=289.*
[25] *Full text available at: http://vakilno1.com/bareacts/indiantrustsact/indiantrustsact.html.*

These enactments tend to compartmentalize mission-driven organizations as distinct from commercial organizations and require the former to meet certain structural or activity based conditions to qualify for policy benefits under these regulations.

Since 1991 India has reoriented policy and regulations under the New Economic Policy. As part of these policies, India eased requirements for foreign investors into India while incrementally liberalizing foreign investment, foreign lending to enterprises, and policies for technical collaboration and joint ventures. Apart from business investors, institutional investors and venture funds have also been formalized as classes of investors with specific regulations governing their investments in India. For example, regulations have been notified for foreign venture capital investors,[29] borrowing in foreign exchange has been permitted for micro finance activities since 2005,[30] and regulations were introduced for small and medium enterprises inviting public investments and listing in April 2010.[31]

However, there are still several regulatory hurdles in this environment. Foreign investments in a partnership or proprietary structure, as opposed to contributions, require prior government approval. Foreign exchange borrowing cannot be used for working capital. In the context of social innovation, the dynamism and creativity of SEs on the ground are not matched by evolution in regulation. Regulations governing the functions an enterprise can perform, its process of registration and operation, and the areas in which it can operate pose operational constraints to new initiatives and need to be revamped to adapt to the changing environment. The government is however making efforts towards addressing such shortcomings.

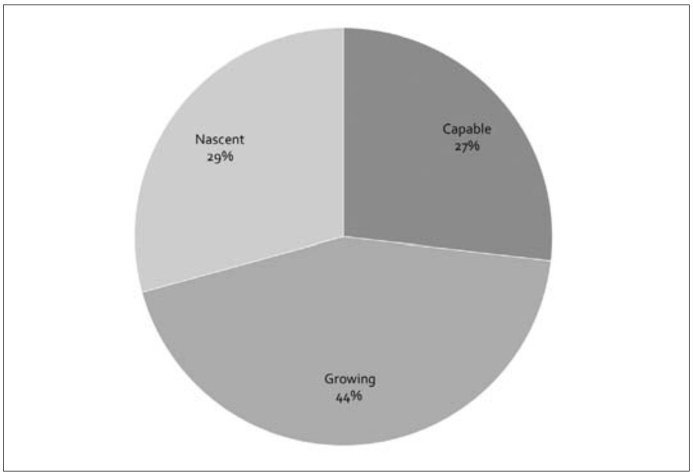
Since July 2009, ministries such as the Ministry of Health and Social Welfare, the Ministry of Social Justice and Empowerment, the Ministry of Women and Child Development, and the Council for Advancement of People's Action and Rural Technology (CAPART) have collectively initiated the NGO partnership system (NGO-PS). This initiative is a great platform for networking among such bodies.[32] Simultaneous with these developments, many Indian SEs have adopted revenue generating models as commercial enterprises, accessed foreign investments as equity and loan by including the element of financial return on such investments, and adopted mainstream avenues for greater flexibility in their business models and mission.

[26] *Full text available at: http://vakilno1.com/bareacts/societyregact/societyregact.htm.*
[27] *Full text available at: http://www.incometaxindia.gov.in/.*
[28] *Full text available at: http://www.mca.gov.in/Ministry/acts_bills.html.*
[29] *Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations 2000 http://www.sebi.gov.in/acts/ForeignVentureCapital.html.*
[30] *Reserve Bank of India: Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) (Second Amendment) Regulations, 2005. Available at: http://rbi.org.in/scripts/BS_FemaNotifications.aspx?Id=2765.*
[31] *Chapter XA of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.*
[32] *http://ngo.india.gov.in/default.php?.*

Thailand

There is a strong culture of giving in Thailand. While this is a positive force in the areas of social work and social development, it also creates a disconnect between social impact and corporate profit. In general, SEs in Thailand are viewed with skepticism because of the strong conceptual separation between "doing good" and "making money". There is a general feeling in Thailand that any profits made by a social enterprise are excessive and that one should not make money off the poor. As a result of this, Thailand is currently not a very mature market for SEs compared to countries like Bangladesh and India, and has few SEs or intermediaries ready to participate actively on an SSE.

Figure 22 – Thai market intermediaries' engagement with SEs

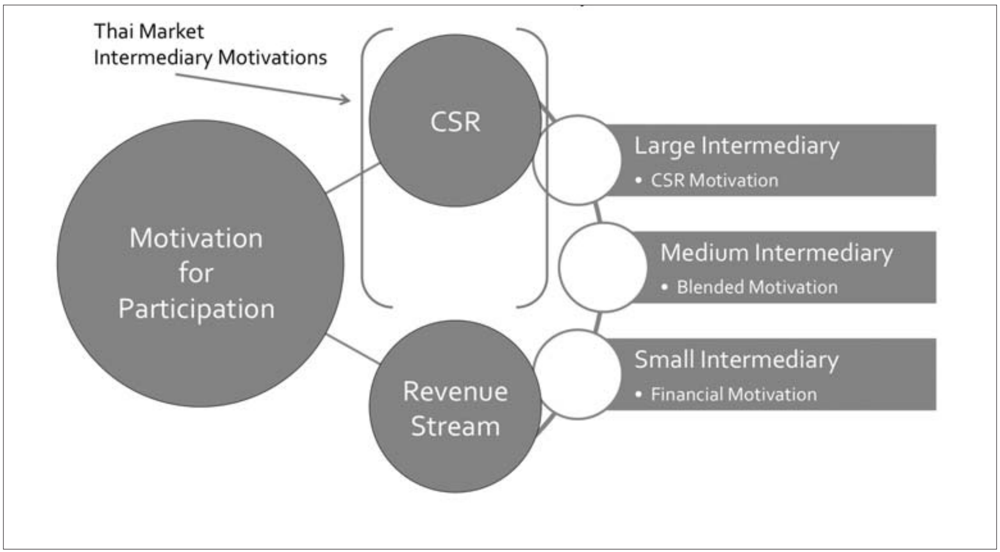


Overall, participation by Thai market intermediaries is growing or nascent. There are many academic organizations, incubators, and consulting firms with a growing interest in the sector, but the scale of interest among lawyers, accountants, and financial advisors remains more limited. Most of the ecosystem interest and engagement in social entrepreneurship thus remains in the spheres of research and advisory, with some consulting services emerging.

SEs in Thailand are viewed with skepticism because of the strong conceptual separation between "doing good" and "making money".

Because of the small size of Thai SEs, there is very little opportunity for revenue generation by market intermediaries from interacting with Thai SEs. Their size is simply too small for significant profit. Engagement of Thai intermediaries with social enterprises is mostly motivated by CSR considerations. While there is some blended motivation on the part of the smaller market intermediaries, motivation to interact with SEs mostly follows the Thai culture of giving though various CSR motivated interactions.

Figure 23 - Thai market intermediary motivation



There are already capable financial advisors and lawyers interacting with SEs in Thailand but they remain in the minority. These two sectors demonstrate the greatest buy-in to SEs as a concept.

Figure 24 - Thai financial advisors' SE participation

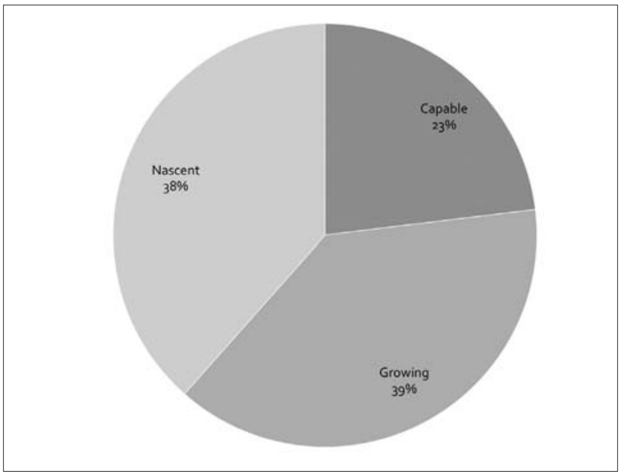
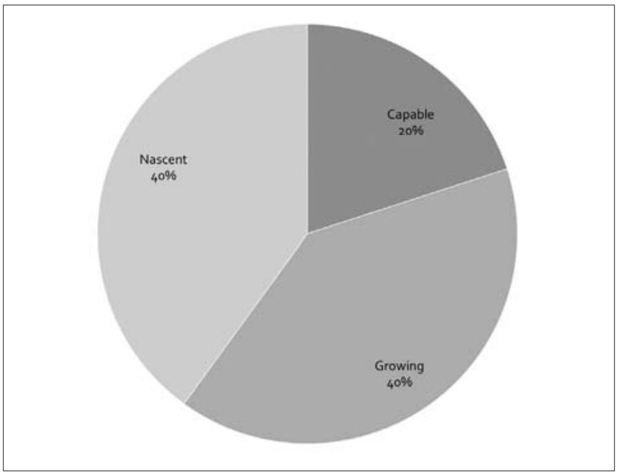


Figure 25 - Thai lawyers' SE participation

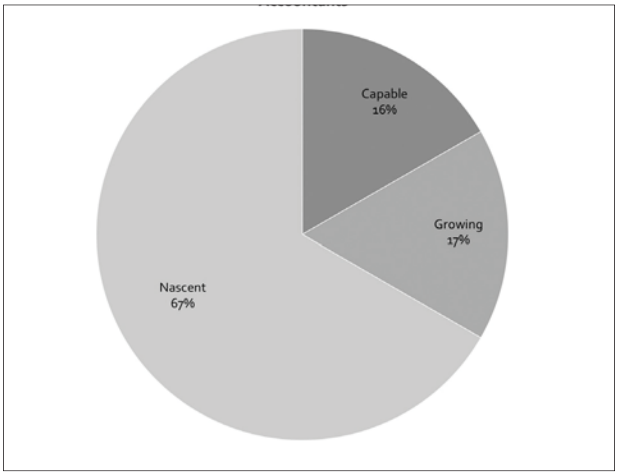


One especially nascent trend is seen among Thai accountants. Though the sector did have some participation and some willingness to work with SEs in the future, the majority of Thai accountants were reluctant to participate as market intermediaries for SEs.

Thailand presents a contrast to Bangladesh and India in terms of the size of the players in the SE marketplace. While the intermediaries are medium and large in size, the majority of SEs are quite small. Because of this, there are not many opportunities for SEs as revenue sources for intermediaries. The majority of market intermediary participation is thus motivated by CSR.

Overall, the numbers and stories from Thailand point to an SE market that is early-stage and consequently renders Thailand not yet ready either for extensive market intermediary involvement in impact investing or for a social stock exchange. However, there are positive trends at work and Thailand will likely be an active hub for SEs in the near future.

Figure 26 - Thai accountants' SE participation



Policy Challenges

The foundations for the regulations that govern Thailand's investment markets are the Investment Promotion Act of 1977 and Alien Business Law of 1972, which has since been replaced with the Foreign Business Act of 1999 (FBA). The Foreign Business Act stipulates that foreigners are prohibited from three lists of businesses: List 1, a list of primarily natural resource based industries; List 2, a list of businesses relating to either national security or art and culture; and List 3, a list of businesses such as accounting, legal services, engineering, or brokering in which Thai nationals are not yet ready to compete with foreigners.

Based on the definition of "alien" set forth in the FBA, foreign individuals or corporations with foreign ownership levels over 49% can not enter any of the restricted industries unless given approval by the Board of Investment (BOI) of Thailand – an entity established by the Investment Promotion Act of 1977.

The Investment Promotion Act of 1977 was intended to offer various investment incentives to both foreign and domestic investors and established the BOI for the purpose of administration. Consequently, the BOI has the power to grant "alien business licenses" to foreigners wishing to engage in the restricted businesses listed in Lists 2 and 3 though the process has been known to be time-consuming with unpredictable outcomes. Another obstacle to market development in Thailand has been domestic investment regulation, which has traditionally prevented Thai investors from investing in non-Thai entities overseas. Furthermore, the instability and economic damage caused by "hot" capital quickly entering and retreating around the 1997 Asian financial crisis created significant amounts of hostility towards foreign investment, making national development versus integration in the global economy a point of contention in Thai politics.

However, more recent developments provide a more solid foundation for SE growth in the years to come. A change in regulations in 2007 now allows Thai investors much more flexibility in investing overseas. With the new change, individual investors and institutional investors are now able to invest up to $5 million and $50 million in overseas stock markets, respectively. The BOI recently announced that since 2000, Thai overseas investment has grown from $100 million to $2.7 billion and in a recent interview, Atchaka Sibunruang, Secretary General of the BOI, stated that the BOI was considering pushing regulatory change, especially in tax exemption law, providing companies with specific country information, and facilitating introductions with foreign government departments in order to further encourage Thai overseas investment.

Another sign of positive development occurred in 2007 when a proposal by the military government in power at the time to amend the FBA such that the definition of "alien" would change to also include companies in which at least 50% of the votes of the company were controlled by foreigners was blocked after vigorous lobbying by the foreign business community. The Thai government under former Prime Minister Samak Sundaravej eventually rejected the proposal. These two developments have been part of a larger trend towards trade and investment liberalization that has continued all the way through the government of Abhisit Vejjajiva, which is looking into the possibility of opening major List 3 businesses to foreign investment. In 2010 alone, the BOI attracted US$ 14.7 billion in foreign investment for 1,591 projects.

Market Intermediaries in Asia and the Pacific

RECOMMENDATIONS

RECOMMENDATIONS

Despite the information-gap and structural barriers to SEs raising capital, there are overall positive trends among market intermediaries in Bangladesh, India and Thailand. Different levels of SE sector development and varying degrees of engagement prevail between the countries and across the different sectors that make up the intermediary ecosystem, but there is a definite shift towards growing interest in impact investing. Several mid- and large-sized entities have also indicated an interest in signing up for a formalized relationship with impact investment platforms. The onus is on government, investors and the investment platforms to capitalize on this trend and foster further sector growth in the years to come.

Market intermediaries' engagement with SEs can be categorized into three distinct camps. Actors currently involved with SEs and actively engaged in promoting their development are considered capable. Actors not currently engaged with SEs but that express interest in or an intention to do work with SEs in the future are considered growing. Actors with no current involvement with or explicit plans to increase engagement with SEs in the future are considered nascent.

Despite different levels of engagement between the countries and across the different sectors that make up the ecosystem, there is a positive shift towards growing interest in impact investing and the new asset class that is SEs.

Two principal reasons for engagement were identified: Promoting SEs as part of corporate social responsibility (CSR) activities, or working with SEs as an additional revenue stream.

CSR encourages private sector involvement with SEs through the adoption and implementation of international standards on social responsibility. CSR programs support local development by creating sustainable relationships between commercial activities and the communities in which they are located. It thus has the potential to reinforce the effects of trade and investment on growth and sustainability, which goes hand in hand with the sustainable business models of SEs. Through CSR, intermediaries can help address many of the major challenges currently facing emerging SEs by offering pro-bono support and discounted services to the many smaller, growth-stage SEs. As discussed below, CSR-motivated engagement of SEs typifies the relationship between large market intermediaries and smaller SEs.

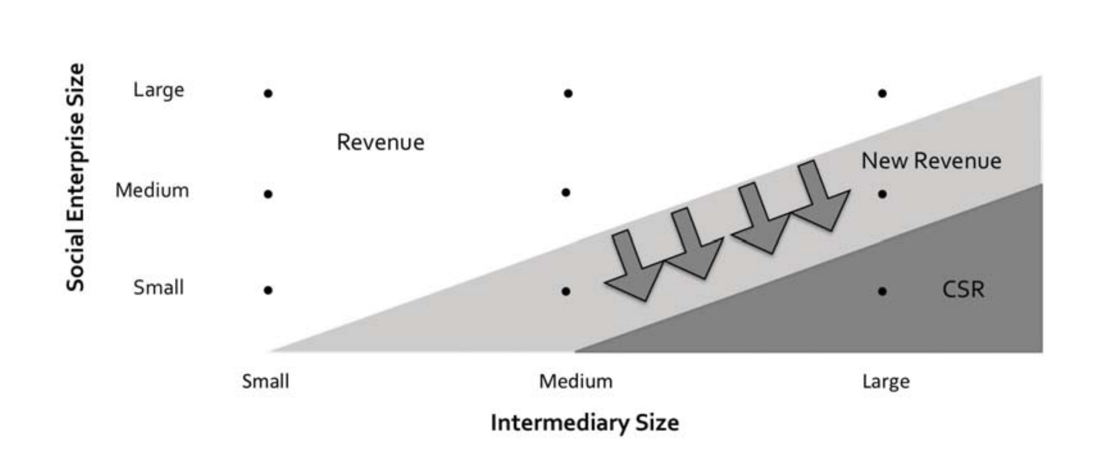
Revenue can also be a motivating force for intermediary participation with SEs. Opportunities for investment in the global impact investing space are predicted to grow to up to $1 trillion in the coming years, signaling the emergence of high-growth business prospects for market intermediaries involved in those investment activities. Profit motivation is a reason for market intermediary participation with SEs in its own right, and typifies the relationship between mid- and large-sized SEs working with medium and large intermediaries.

When the difference in size between a large intermediary and a small SE is sufficiently large, there is a tendency for the intermediary to be motivated to work with SEs through their CSR program rather then being motivated by SEs as a revenue stream. This is due to the comparative size of the revenue from working with small SEs relative to the intermediary's total revenue being very small. Thus, as the size of an SE increases, the likelihood that a given intermediary will be motivated to work with the SE by revenue rather than CSR increases. Put simply, intermediaries will treat SEs as revenue generating opportunities when possible and as opportunities for CSR when there is no potential for profit. The larger, more established SE markets in India and Bangladesh thus draw market intermediaries of all sizes with the opportunity for increased revenue. The smaller size of SEs in Thailand presents a comparatively compelling case for CSR initiatives in the SE space to the medium- and large-sized intermediaries located there.

In creating impact investment platforms and mobilizing interest, it is thus critical to leverage the motivational factors of market intermediaries to secure their support and foster an enabling infrastructure. This support gives legitimacy to the existence of such platforms, and will reduce the risk profile of the exchange, creating positive feedback loops: As the involvement of market intermediaries reduces risk profiles, further intermediaries and investors will take an active interests. This, in turn will further reduce the riskiness of impact investing as a business proposition and new asset class.

With initial support for impact investment platforms and the SEs raising capital on them, the line between intermediaries' revenue and CSR motivations will shift downwards, as increased investor activity from reduced riskiness and increased liquidity create new revenue opportunities. The shift in intermediaries motivations is illustrated in Figure 27.

Figure 27 - Intermediary motivation size-differential relationship



In addition to creating platforms that cater to the needs of investors and intermediaries, a number of activities have the potential to catalyze and ensure growth in the impact investing and SE space.

Capacity building

For intermediary firms to commit resources towards working with SEs, they must first have an understanding of the role social capital markets play in the evolution of SEs as an asset class. Likewise, social entrepreneurs need sufficient business acumen and market understanding to communicate their work and impact to the intermediaries and investors.

Capacity building will therefore play an important role in stimulating SE growth and impact investment platforms by enabling coherent communication between SEs and investors through market intermediaries. Two forms of capacity building are identified as beneficial to this end: Immediate capacity building and long-term capacity building.

Immediate capacity building stimulates the SE marketplace through face-to-face training and interaction focused on raising awareness about the impact of SEs. To this end, there is a role to be played both by high level capacity building facilitated by governments and international institutions like ADB, ASEAN and the World Economic Forum, as well as sector- and country-specific capacity building for SEs at a local level. Higher level capacity building will enable intermediaries to form a consistent infrastructure for SEs, whereas local level capacity building will help SEs communicate their impact to investors and intermediaries.

Long-term capacity building takes the form of academic research through workshops and academies training investors and intermediaries on key concepts in impact investing, impact measurement and the transition from philanthropy and CSR towards sustainable SEs. This will increase the understanding and consequent support from the ecosystem, and such capacity building will remain an important factor in growing the space and sustaining innovation in the market. Similarly, continued focus on building SEs' capacity in financial accountability, business acumen, marketing and communication, as well as impact measurement and reporting for the SEs themselves is will facilitate efficient communication between the SEs and the market.

Advocacy

Conferences, forums, and panel discussions serve as a good platform for bringing market intermediaries together with investors and the SEs themselves. Through direct interaction with SEs, market intermediaries can learn about the social impact that they are generating and thus contributing to sustainable development overall. Conferences or forums, which bring market intermediaries together with SEs, impact investors and other interested parties for a day or two of immersion in the concepts of impact investing and the social enterprise sector, will enable participants to better comprehend the important role capital markets play in the next stage of evolution of SEs, understand the role they as intermediaries can play in this evolution, and realize that the channel to bring SEs and capital markets together are platforms such as an SSE. Intermediaries with limited knowledge about impact investment may also benefit from workshops on various aspects of the space, which are offered by organizations such as Shujog.

Forums bring together participants from development agencies, the government, social enterprises, impact investors, academia/research institutes, and other ecosystem players including bankers, lawyers, auditors, accountants, foundations, and multinationals corporations. Forums provide an important venue for convening and engaging directly with important stakeholders, particularly for government agencies and local market intermediaries.

By facilitating interest from the local stakeholders through immersion in the concepts of impact investment and SSEs and imparting knowledge and interest from all the participants, forum facilitators lay the foundation for longer-term interest in impact investment platforms and Asian SEs through face-to-face meetings with local stakeholders.

Asia is already home to many forums and conferences on social entrepreneurship, sustainable SEs, and impact investing, as well as those targeting particular market segments. ADB and IIX have actively promoted social capital markets by co-hosting the January 2011 Impact Forum for Social Change in Dhaka, Bangladesh and worked in conjunction with Thammasat University in Bangkok, Thailand for the 2011 Global Social Venture Competition of Thailand and Intellecap for the Sankalp Forum India 2011. Forums targeting the microfinance sector include the Microfinance Investments in Asia Conference, organized annually in Singapore, and the Asia Microfinance Forum, organized bi-annually by banking With the Poor Network. The World Fair Trade Organization organizes annual meetings for the fair trade sector, and ADB hosted the Energy for All Investors forum in Manila, Philippines in June 2011. There are several conferences on targeting SE sector such as those organized by the Indonesian SE Association and Social Entrepreneurship Symposium organized by NUS Business School Alumni Association. Finally, academic conferences on social entrepreneurship and related topics such as impact assessment, such as the International Symposium on Social Return on Investment Models organized by the Kaist Business School in Seoul, Republic of Korea, are becoming increasingly frequent.

These forums are especially effective in creating longer-term interest in the sector. They emphasize the role of the intermediaries for the success the SE space and impact investment platforms, and provide opportunities to appeal to the larger ecosystem at the regional level.

As thought leaders continue to redefine the SE marketplace, the market itself will mature and improve in impact and efficiency. As the market grows in size it will become its own best advocate, with investors outside the impact investing space gravitating towards impact investing simply because of the opportunity for profit.

Impact Assessments

Traditional investment markets rely on consistent sets of metrics to measure financial performance, and investors make investment decisions based on such metrics. Market intermediaries perform a plethora of roles in defining, compiling, calculating and communicating these data, as well as assuring, verifying and certifying the metrics.

Intermediaries need to play a parallel role in relation to impact investors, SEs and impact investment platforms for the new asset class to assert itself and reach scale. Consistent, reliable and verifiable metrics must be defined, calculated and communicated in a transparent manner. Early steps have been taken to this end, with initiatives such the Impact Reporting and Investment Standards (IRIS)[34] defining metrics, and frameworks such as GIIRS gaining a degree of prominence and buy-in form established ecosystem actors. Tools such as SROI calculators have also adapted economic principles for economic value creation and cost benefit analysis for ready application to SEs.

Intermediaries need to build capacity on the meaning and use of impact assessments, and increasing their involvement in defining ways to measure value creation and social impact is paramount. At present, ecosystem involvement in impact assessment remains fragmented, and larger players such as the Big Four accounting firms need to formulate consistent and industry-wide strategies for their future role in this space.[35]

As SE markets mature, the intermediaries must become the actors that implement impact assessments, refine reporting standards and verify the authenticity of impact reporting and communications. This includes fulfilling roles in due diligence related to impact investing and certification and indexing of SEs according performance.

Policy

Policy makers and market regulators hold the biggest short-term potential towards scaling impact through social enterprises. While the intermediaries can play the role of enabling policy change and scaling investment if adequate capacity is developed, creating more enabling policies can shift the motivation framework (Figure 27, above) and thereby catalyze intermediary interest and support for SEs in general and impact investment platforms in particular.

[34] *See: http://iris.thegiin.org/.*

[35] *Refer again to Deloitte's role as partner in the GIIRS initiative, which is confined to the USA offices of Deloitte LLP. Deloitte representatives interviewed for this research were unaware of the GIIRS initiative.*

There are two main ways in which policy can catalyze and promote impact investing, intermediary engagement and development of targeted investment platforms: tax incentives and more accommodating capital flow regulations.

Tax incentives are powerful means to direct capital and harnessing market forces. Such incentives are common in several other areas, such as giving tax exemptions for investments in low-income housing or green bond financing.[36] Similar incentives can catalyze increased investor interest in SEs that can demonstrate social and environmental impact, which in turn will provide increased revenue-motivated activities from intermediaries. Similarly, easing restrictions on capital flows to SEs and removing caps on dividend extractions across national borders, as well as removing barriers for SEs to raise debt capital are examples of policies to encourage investments in SEs and thus stimulate intermediary support for impact investing. This is particularly so for countries like Bangladesh and India, where restrictions on capital flow and the lack of fully convertible currencies act as a barrier for external investments in SEs and the issuance of bonds by SEs. This discourages large scale investments in SEs, as bonds are often the best suited financial product for SEs raising capital.

With reference to the intention of the research – to demonstrate the influence of intermediary engagement with SEs on growth in social capital markets – the report has demonstrated that ensuring accommodating policies for SEs and impact investment platforms is not an easy task, and that policy makers and market regulators need adequate information and a solid understanding of SEs to perform their tasks. It is therefore paramount to encourage cross-sectoral communication and idea-sharing and ensure continued innovation in SEs and academic research on the sectors. Only by involving the public, private and civil societies that frame the SE space can we ensure that our objectives of creating efficient markets and intermediary support are met, and actors across all three societies need to continue and scale up their communication and cooperation towards the common goal of developing social capital markets.

As SE markets mature, the intermediaries will become enablers of policy and capacity building, as selfreinforcing structures enter the SE market and spur further interest in impact investing and consequent improvements in efficiency and scaling of impact. As the markets grow in size they will become its own best advocate, with investors gravitating towards sustainable opportunities for triple bottom line returns.

[36] *Bugg-Levine and Emerson (2011): Impact Investing, p. 129.*

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Market Intermediaries in Asia and the Pacific

APPENDIXES

APPENDIX I – MARKET INTERMEDIARY SURVEY (ORGANIZATIONS)

Introduction to the survey

The purpose of this survey is to assess the interest of Ecosystem Players, such as you and/or your organization, in:

a) providing professional services that enhance the capacity of Social Enterprises, help them become market ready and eventually enable them access to capital markets, and

b) playing a role in creating a larger and more efficient market for impact investing.

Ecosystem Players include financial institutions, rating agencies, law firms, accounting firms, private sector organization, academic institutions and government entities, which play an important role in increasing the long-term sustainability of Social Enterprises and in building a well-functioning market for impact investing.

Impact Investment Shujog is conducting research as part of a program sponsored by the Asian Development Bank, which will highlight key participants that are currently facilitating capital investments in sustainable market-oriented growth initiatives, as well as Ecosystem Players interested in participating in this market. The research will directly impact the creation of Asia's first social stock exchange, which will be similar to a traditional stock exchange, however with a strong social impact component.

Impact Investment Exchange Asia (IIX), which is home to Asia's first private placement platform (Impact Partners), is currently developing such a regional social stock exchange. The social stock exchange will serve as a public platform for Social Enterprises in Asia and the Pacific to raise capital through offerings of shares, bonds or other financial instruments. The participation of Ecosystem Players is critical to the success of such a platform as they are the facilitators that provide the professional services in preparation for Social Enterprises to raise capital successfully through the social stock exchange.

DISCLAIMER: This survey will take approximately 5 minutes to complete. Responses to all questions will be held in confidence and used only in the aggregate, not in any way that identifies you or your organization. Thank you for agreeing to participate in our survey.

PART ONE: TYPE OF ORGANIZATION

1) Are you answering this survey on behalf of your organization?

- Yes
- No

2) Where is your organization located? (Check all that apply)

- Bangladesh
- India
- Singapore
- Thailand
- Others (Please specify)

3) What type of firm is your organization? (Check all that apply)

- Academia/ Research
- Accounting Firm
- Consulting Firm
- Credit Rating Agency
- Government/Regulatory Body
- Law Firm
- Financial Advisory
- Other Financial Institution
- Private Sector Organization (Please specify)
- Others (Please specify)

4) Which country/countries is your work based in? (Check all that apply)

- Bangladesh
- India
- Singapore
- Thailand
- Others (Please specify)

5) What is your area of specialization? (Check all that apply)

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (Please specify)

PART TWO: CURRENT SOCIAL ENGAGEMENT LEVEL

Social enterprises are social mission-driven organizations which apply market-based strategies to achieve a social and / or environmental purpose. They pursue their social goals while being financially sustainable. They may be either not-for-profit or for-profit enterprises.

6) Do you have a Corporate Social Responsibility (CSR) program in your company?

- Yes
- No

  Note: If yes, skip to 7); if no, skip to 8)

7) As part of your CSR program, do you currently work with a Social Enterprise?

- Yes
- No

  If yes, skip to 9), if no, skip to 8)

8) What types of projects/organizations due you support through your CSR initiative?

9) Which social or environmental sector does the Social Enterprise work in?

Social

- Microfinance
- Housing
- Education
- Health
- Fair Trade
- Sustainable Agriculture
- Other (please specify):

Environmental

- Energy/ Alternative Energy
- Biodiversity
- Forestry
- Water
- Natural Resources
- Waste Management
- Other (please specify):

10) How do you engage with Social Enterprises?

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (please specify)
- N/A

11) What rates do you charge Social Enterprises for your services?

- Market rate
- Discounted rate
- Pro bono
- Others (please specify)

PART THREE: FUTURE SOCIAL ENGAGEMENT LEVEL

In the context of Asia, the last decade has seen substantial growth in the number and scale of financially sustainable Social Enterprises and a concomitant growth in impact investment supporting these enterprises. Despite the emergence of larger pools of capital for impact investing, Social Enterprises are unable to access and utilize the capital. This indicates that the support of ecosystem players is instrumental in increasing organizational and operational efficiency among Social Enterprises and improving their effectiveness in producing social/ environmental and financial returns.

12) Would you be interested in engaging with Social Enterprises that are based in your home country and seeking to gain access to capital markets?

- Yes
- No

Note: If yes, skip to 12); if no, skip to 13)

13) If yes, what kind of services would you consider offering to the Social Enterprises?

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (Please specify)
- N/A

14) Would you consider offering your services to Social Enterprises at discounted rates?

- Yes
- No
- Don’t Know

PART FOUR: FUTURE OF IMPACT INVESTING IN YOUR COUNTRY

Impact investing, a subset of socially responsible investing (SRI), is defined as investing capital in businesses, funds, or other financial vehicles that actively seek to generate social and/or environmental benefits and financial returns.

Socially responsible investing is defined as investing while taking into account environmental, social, and ethical aspects of investments in addition to traditional financial criteria.

15) What is the current state of impact investing in your home country?

- Yet to take root
- Growing at a slow pace
- Spreading rapidly
- Taking shape in some other form (Please specify)
- Don't Know

16) What do you think will stimulate/expand impact investing in your home country?

- Regulatory change
- Advocacy
- Engagement from Corporate Sector
- Engagement from Donor Community
- Workshops on Impact Investing
- Others (Please specify)
- Don't Know

PART FIVE: ENGAGEMENT WITH IIX

As an Ecosystem Player, IIX (home to Asia's first private and public platforms for Social Enterprises to raise capital efficiently) will list you and/or your company on its website as an endorser and potential professional services provider to Social Enterprises. Being part of the impact investment ecosystem may include:

a) Presenting at conferences and/or participating in such events;
b) Co-hosting workshops and/or participating in such events;
c) Liaising with other eco-system partners;
d) Providing professional services to Social Enterprises and impact investors.

17) Are you interested in working with IIX?

- Yes
- No

18) Are you interested in being identified as a supporter of IIX?

- Yes
- No (Please specify)
  Note: If yes, skip to 18); if no, skip to 19)

19) If yes, in what form would you be willing to formalize your relationship with IIX?

- Signing an MOU
- Signing a Letter of Intent
- Verbal Support
- Others (Please specify)

20) How are you willing to demonstrate your support for IIX?

- Organize a workshop on Impact Investing
- Engage your organization or others involved in the Impact Investing space
- Provide services to Social Enterprises pro bono or at a discounted rate
- Others (please specify)

PART SIX: PERSONAL INFORMATION

21) Please enter the information below

First Name	:	....
Last Name	:	....
Job Title	:	....
Company Name	:	....
Work Phone	:	....
Email Address	:	....
Country	:	....

APPENDIX II – MARKET INTERMEDIARY SURVEY (INDIVIDUALS)

Introduction to the survey

The purpose of this survey is to assess the interest of Ecosystem Players, such as you and/or your organization, in:

a) providing professional services that enhance the capacity of Social Enterprises, help them become market ready and eventually enable them access to capital markets, and

b) playing a role in creating a larger and more efficient market for impact investing.

Ecosystem Players include financial institutions, rating agencies, law firms, accounting firms, private sector organization, academic institutions and government entities, which play an important role in increasing the long-term sustainability of Social Enterprises and in building a well-functioning market for impact investing.

Impact Investment Shujog is conducting research as part of a program sponsored by the Asian Development Bank, which will highlight key participants that are currently facilitating capital investments in sustainable market-oriented growth initiatives, as well as Ecosystem Players interested in participating in this market. The research will directly impact the creation of Asia's first social stock exchange, which will be similar to a traditional stock exchange, however with a strong social impact component.

Impact Investment Exchange Asia (IIX), which is home to Asia's first private placement platform (Impact Partners), is currently developing such a regional social stock exchange. The social stock exchange will serve as a public platform for Social Enterprises in Asia-Pacific to raise capital through offerings of shares, bonds or other financial instruments. The participation of Ecosystem Players is critical to the success of such a platform as they are the facilitators that provide the professional services in preparation for Social Enterprises to raise capital successfully through the social stock exchange.

DISCLAIMER: This survey will take approximately 5 minutes to complete. Responses to all questions will be held in confidence and used only in the aggregate, not in any way that identifies you or your organization. Thank you for agreeing to participate in our survey.

PART ONE: TYPE OF ORGANIZATION

22) Are you answering this survey on behalf of your organization?

- Yes
- No

23) Where is your organization located? (Check all that apply)

- Bangladesh
- India
- Singapore
- Thailand
- Others (Please specify)

24) What type of firm is your organization? (Check all that apply)

- Academia/ Research
- Accounting Firm
- Consulting Firm
- Credit Rating Agency
- Government/Regulatory Body
- Law Firm
- Financial Advisory
- Other Financial Institution
- Private Sector Organization (Please specify)
- Others (Please specify)

25) Which country/countries is your work based in? (Check all that apply)

- Bangladesh
- India
- Singapore
- Thailand
- Others (Please specify)

26) What is your area of specialization? (Check all that apply)

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (Please specify)

PART TWO: CURRENT SOCIAL ENGAGEMENT LEVEL

Social enterprises are social mission-driven organizations which apply market-based strategies to achieve a social and / or environmental purpose. They pursue their social goals while being financially sustainable. They may be either not-for-profit or for-profit enterprises.

27) Are you doing any social service work related to your profession?

- Yes
- No

  Note: If yes, skip to 7); if no, skip to 11)

28) As part of your social service, do you currently work with a Social Enterprise?

- Yes
- No

29) If no, what types of projects/organizations do you support as part of your social service?

30) If yes, which social or environmental sector does the Social Enterprise work in?

<u>**Social**</u>

- Microfinance
- Housing
- Education
- Health
- Fair Trade
- Sustainable Agriculture
- Other (please specify):

<u>**Environmental**</u>

- Energy/ Alternative Energy
- Biodiversity
- Forestry
- Water
- Natural Resources
- Waste Management
- Other (please specify):

31) How do you engage with Social Enterprises?

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (please specify)
- N/A

32) What rates do you charge Social Enterprises for your services?

-
- Market rate
- Discounted rate
- Pro bono
- Others (please specify)

PART THREE: FUTURE SOCIAL ENGAGEMENT LEVEL

In the context of Asia, the last decade has seen substantial growth in the number and scale of financially sustainable Social Enterprises and a concomitant growth in impact investment supporting these enterprises. Despite the emergence of larger pools of capital for impact investing, Social Enterprises are unable to access and utilize the capital. This indicates that the support of ecosystem players is instrumental in increasing organizational and operational efficiency among Social Enterprises and improving their effectiveness in producing social/ environmental and financial returns.

33) Would you be interested in engaging with Social Enterprises that are based in your home country and seeking to gain access to capital markets?

- Yes
- No

Note: If yes, skip to 7); if no, skip to 11)

34) Is yes, what kind of services would you consider offering to the Social Enterprises?

- Loans/Financial Assistance
- Due diligence services
- Fundraising and access to capital
- IPO related
- Advisory
- Regulatory Structuring
- Credit Rating
- Research pertaining to the sector
- Mentoring and Education
- Others (Please specify)
- N/A

35) Would you consider offering your services to Social Enterprises at discounted rates?

- Yes
- No
- Don’t Know

36) Would you be willing to engage your organization in providing services to Social Enterprises?

- Yes
- No
- Don’t Know

PART FOUR: FUTURE OF IMPACT INVESTING IN YOUR COUNTRY

Impact investing, a subset of socially responsible investing (SRI), is defined as investing capital in businesses, funds, or other financial vehicles that actively seek to generate social and/or environmental benefits and financial returns.

Socially responsible investing is defined as investing while taking into account environmental, social, and ethical aspects of investments in addition to traditional financial criteria.

37) What is the current state of impact investing in your home country?

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- Growing at a slow pace
- Spreading rapidly
- Taking shape in some other form (Please specify)
- Don't Know

38) What do you think will stimulate/expand impact investing in your home country?

- Regulatory change
- Advocacy
- Engagement from Corporate Sector
- Engagement from Donor Community
- Workshops on Impact Investing
- Others (Please specify)
- Don't Know

PART FIVE: ENGAGEMENT WITH IIX

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a) Presenting at conferences and/or participating in such events;
b) Co-hosting workshops and/or participating in such events;
c) Liaising with other eco-system partners;
d) Providing professional services to Social Enterprises and impact investors.

39) Are you interested in working with IIX?

- Yes
- No

40) Are you interested in being identified as a supporter of IIX?

- Yes
- No (Please specify)
  Note: If yes, skip to 20); if no, skip to 22)

41) If yes, in what form would you be willing to formalize your relationship with IIX?

- Signing an MOU
- Signing a Letter of Intent
- Verbal Support
- Others (Please specify)

42) How are you willing to demonstrate your support for IIX?

- Organize a workshop on Impact Investing
- Engage your organization or others involved in the Impact Investing space
- Provide services to Social Enterprises pro bono or at a discounted rate
- Others (please specify)

PART SIX: PERSONAL INFORMATION

43) Please enter the information below

First Name	:	....
Last Name	:	....
Job Title	:	....
Company Name	:	....
Work Phone	:	....
Email Address	:	....
Country	:	....

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