Impact Investors in Asia

Characteristics and Preferences for Investing in Social Enterprises in Asia and the Pacific

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Foreword

This is the report of the Impact Investor 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 project is financed by the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility.

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

Shujog would like to acknowledge significant contributions to the research made by Impact Investment Exchange Asia (IIX). The research was 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**

The aim of the research is to understand the "buy" side of the market for impact investing in Asia and the Pacific. Specifically, this project places emphasis on understanding the scale and scope of capital pools available for impact investment in sustainable social enterprises (SEs)[1] in Asia and the Pacific in the coming years, the interest of investors in utilizing a "social stock exchange" as part of their impact investment strategy in the region and the design features that such a social stock exchange must incorporate in order to attract these impact investors.[2]

The research seeks to understand, "What engages investors in impact investment?"; "What is the current and projected level of interest?"; "What is the need for and appeal of a social stock exchange?"; and "What are the operational requirements for each investor category to participate on a social stock exchange?" – all in the context of Asia and the Pacific region.

This report provides insights to investors keen to invest in the region, financial intermediaries that advise SEs on capital raising, and developers of platforms seeking to connect SEs in the region with impact investors. Impact Investment Exchange Asia (IIX), an SE based in Singapore, is applying the final outputs of this research as it finalizes the operating features of Asia's first social stock exchange, which it is creating. The outputs of the research will also aid policy makers and institutional actors to better understand and foster an environment for sustainable development through impact investing.

1 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.

2 Impact investors are defined as investors seeking to make investments that create positive social and environmental impact beyond financial return (J.P. Morgan, "Impact Investments: An emerging asset class," 2010).

Impact Investors in Asia

EXECUTIVE SUMMARY

Background

Impact investing has emerged as an alternative asset class that channels large-scale private capital into addressing the world's most pressing social and environmental challenges. J.P. Morgan estimates that the impact investment market has the potential to absorb between US$400 billion and US$1 trillion over the next decade, even when only including five sectors (housing, rural water delivery, maternal health, primary education and financial services) in the analysis.[3] While foundations, development finance institutions and ultra-high net worth individuals have been the traditional pioneers in impact investing, there is a large supply of untapped impact investment capital among individuals and institutions that can help to meet this investment demand over the coming years. Our hypothesis is that the development of a social stock exchange serving SEs in Asia and the Pacific can help to unlock this supply of impact investment capital.

The capital markets can play a critical role in sustainable, economic development in Asia. 753.5 million people in Asia and the Pacific region live on less than US$1.25 per day, and approximately 63% of the world's poor population (defined as living on less than US$2 per day) live in Asia.[4] Possessing huge growth potential in Asia, sustainable SEs are uniquely positioned to address a wide range of economic, environmental, health, and social challenges.

Though a large number of innovative SEs address a myriad of social and environmental challenges throughout Asia, a disconnect prevails between the supply of impact investment capital from impact investors and the demand for growth capital by SEs. This disconnect is presently curbing SE growth and inhibiting the inherent potential of leveraging market-based capital for social impact. The disconnect arises from the lack of information about the availability of impact investment opportunities in the region as well as the difficulty and high due diligence costs incurred in accessing such opportunities; the high perceived risk associated with impact investments, especially in emerging markets; and the potential illiquidity of investments in SEs and limited range of exit options for investors. This disconnect also arises from the lack of standardized impact measurement and reporting as well as from a mismatch, in many instances, between investors' and SEs' expectations for financial returns on impact investments.

A regional social stock exchange may be able to reduce this disconnect of supply and demand by addressing these issues. In particular, a regional social stock exchange could improve access to and reduce due diligence costs for investment opportunities in SEs; offer a variety of investment products that may mitigate risks; improve liquidity in impact investments; improve transparency by establishing standardized reporting for social and environmental impact; and engaging market intermediaries and encouraging stakeholder participation.

IIX and its not-for-profit affiliate, Impact Investment Shujog (Shujog), are playing a critical role in the development of Asia's first social stock exchange. Recognizing that there is a need to build up the capacity of SEs in Asia so that they can effectively absorb growth capital, Shujog focuses on capacity-building, advocacy, research and education related to the SE sector in Asia and the Pacific. In order to facilitate private capital raising by SEs in Asia and the Pacific, IIX launched Impact Partners in March 2011, serving as Asia's first private placement platform connecting SEs and impact investors.

3 J.P. Morgan, "Impact Investments: An emerging asset class."
4 Asian Development Bank, "Poverty in Asia and the Pacific: An Update," 2011.

Survey Methodology

The project entailed surveying, sampling, and interviewing investors across the globe in order to understand their investing activities in Asia and the Pacific region. The survey contained 41 questions and was distributed to a wide range of investors, which included individuals and institutions, in Asia and the Pacific and around the globe. Individual investors targeted included individuals with a wide range of incomes and assets, ranging from retail investors to ultra-high net worth individuals. Institutional investors targeted included both traditional investors as well as institutional investors focusing on impact investments. The survey received 70 responses.

Key Findings

1 The results show that investors (across all of the groups surveyed) are willing to increase their involvement in impact investing over the next few years (subject to the development of appropriate market infrastructure). This is true for those already engaged in impact investing and those who are not yet. The expected increase in investment should lift all regions of Asia and nearly all sectors.

2 In order for this potential increase in impact investment to be realized, there are a number of pre-requisites that must be met. The most frequently cited prerequisites to increased impact investing were increased information about the availability of impact investing opportunities, and easier access to impact investment opportunities. In addition, investors expect to diversify the methods and types of instruments they use to make impact investments. Investors also expect to increase the amount of investment in public equities and liquid debt, as well as their investment through funds and indirectly through advisors. Overall, the impact investment market can be expected to evolve from one dominated by direct investments in private securities to one in which indirect investments and liquid securities play a larger role.

3 A large majority of respondents are in favor of the development of a social stock exchange, and a large majority of respondents say they would actually transact on it. The most cited reason for transacting on a social stock exchange is the ability to realize both social and financial returns. Certain types of investors also cite it as a useful mechanism for exiting their current investments. Some of the most important perceived benefits of a regional social stock exchange include increased liquidity as well as increased transparency of both social and financial information.

4 One of the key attractions of a social stock exchange to investors is the desire to achieve social returns.[5] With this in mind, it is not surprising that the vast majority of respondents believe it is important for a social stock exchange to require listed companies to report on their social and environmental impact.

The results of the research also provide valuable input into other operational requirements that a social stock exchange must meet in order to be useful to impact investors, and the preferences of impact investors for such an exchange. The results indicated that not only do most investors have an interest in trading equities on a social stock exchange, but many investors are also interested in trading bonds and funds. Hard currencies are largely preferred for transactions, though local currencies are acceptable to many. The minimum investment and market capitalization sizes varied amongst the respondents, especially when comparing individual investors with institutional investors. Though there was significant variation in responses, many investors would expect frequent price quotations from any social stock exchange. They also would expect regular reporting of financial, social, and environmental performance results. Such insights will prove valuable in developing a social stock exchange that meets the needs of impact investors.

[5] Social return refers to a beneficial social or environmental outcome that may be attributed to an investment in a social enterprise.

Impact Investors in Asia

PROJECT CONTEXT

PROJECT CONTEXT

Overview of impact investing

Impact investing has fundamentally changed the way investors and enterprises engage in sustainable development. The traditional divide between for-profit enterprises seeking only financial gain and non-profit organizations seeking social good is blurring as hybrid organizations bring together profit-generating operations and social missions. In parallel to the emergence of sustainable SEs, new categories of investors have emerged. Actively seeking investments yielding both a financial and a social return, these impact investors are taking notions of socially responsible investment one step further and proactively seeking investments with demonstrable positive social and/or environmental impact.

Impact investing has emerged as an alternative asset class channelling large-scale private capital to address the world's most pressing social and environmental challenges. J.P. Morgan estimates a profit opportunity for impact investors between $183 and $667 billion over the next decade in five sectors serving global populations earning less than $3,000 annually.[6] As another indicator, Avantage Ventures estimates that achieving universal access to clean water and sanitation in Asia alone could create a market potential of $7 to 21 billion for SEs by 2020.[7]

There has been a tremendous growth in the amount of capital committed to impact investment over the past 10 years. The traditional pioneers in impact investment have been foundations, development finance institutions and ultra-high net worth individuals. The attraction of impact investing, however, is not confined to these groups, and there is a large supply of untapped impact investment capital among individuals and institutions that could be mobilized with the development of appropriate investment channels. As an example, a recent study[8] found that nearly 48% of US investors were interested in making impact investments. That same study sized the currently available supply of capital from US retail investors at $120 billion. A study by the Monitor Institute in 2008 projected that the impact investing market will grow to $500 billion over the next five to ten years.[9] Trying to size the demand for investment capital from SEs, J.P. Morgan estimated an investment opportunity of between $400 billion and $1 trillion over the next decade.[10]

Capital markets can play a critical role in promoting sustainable economic development in Asia. Certainly, capital markets have the potential to play an important role in increasing the flow of investment capital to financially sustainable SEs in Asia to allow them to increase the scale of their impact. By allocating relatively scarce pools of capital among users in a competitive marketplace, capital markets help to ensure capital flows are employed efficiently. While traditional capital markets, on balance, direct capital towards those uses that promise the highest risk-adjusted financial returns, social capital markets have the potential, through impact investing, to direct capital to those uses that demonstrate the best combination of positive social and environmental impact and financial return.

In the context of Asia, the last decade has seen substantial growth in the number and scale of financially sustainable SEs. Representing huge growth potential, sustainable SEs in Asia are uniquely positioned to positively impact the lives of the 60% of the world's population who live in Asia by addressing a wide range of economic, environmental, health, and social challenges. 753.5 million people in Asia alone live on less than US$1.25 per day.[11] An additional 880.8 million people in Asia live on less than US$2 per day in moderate poverty, bringing the Asian region's total poor population to 1.63 billion people, or 47.4% of the

6 J.P. Morgan, "Impact Investments: An emerging asset class."
7 Avantage Ventures Asia Pacific Impact Investment Report. "Impact Investing in Asia: The Opportunities, The Challenges and Where It Is Headed."
8 Hope Consulting, "Money for Good: The US Market for Impact Investments and Charitable Gifts from Individual Donors and Investors," 2010.
9 *Ibid.*, p. 9.
10 J.P. Morgan, "Impact Investments: An emerging asset class."
11 Asian Development Bank, "Poverty in Asia and the Pacific: An Update."

region's total population.[12] SEs fill a critical gap in the market addressing these "bottom of the pyramid" populations with a variety of innovations in a broad range of sectors such as poverty alleviation, health and sanitation, disaster relief, and education. Asian SEs must be able to sustain their innovations – financially, organizationally, and with impact – so they can address the most critical challenges facing the region for the long-term future.

Disconnect between capital supply and demand

Notwithstanding the large number of innovative SEs in Asia and the Pacific and the myriad social and environmental challenges they address, there is a prevailing disconnect between the supply of impact investment capital and the demand for capital to fund SE growth. This disconnect is presently curbing SE growth and inhibiting the inherent potential of leveraging market-based capital for social impact. The disconnect arises from the lack of information about the availability of impact investment opportunities in the region as well as the difficulty and high due diligence costs incurred in accessing such opportunities; the high perceived risk associated with impact investments, especially in emerging markets; and the potential illiquidity of investments in SEs and limited range of exit options for investors in SEs. This disconnect also arises from the lack of standardized impact measurement and reporting, as well as from a mismatch, in many instances, between investors' and SEs' expectations for financial returns on impact investments.

The disconnect between capital supply and demand is curbing SE growth and inhibiting the inherent potential of leveraging market-based capital for social impact.

First, access to investment opportunities and information remains a large barrier to entry. Impact investors interested in Asian SEs are faced with a vast and varied field that makes active participation costly and finding suitable investees difficult. Each investor must carry out his or her own due diligence studies on each potential investee – a lengthy, labor-intensive, and inefficient process. Improved access to information about impact investment opportunities and greater transparency would lower search and investigation costs for prospective impact investors.

Second, increased liquidity of investments is a pre-requisite for attracting a broader range of investors to this sector. There does not yet exist a transparent, accountable and efficient transactional platform that reliably facilitates investments that generate real financial and social returns. Liquidity remains a critical barrier for many potential impact investors. Social venture capital funds and other equity investors in SEs have been able to realize exits, if at all, primarily from share buy backs by SEs and sales of entire businesses to strategic buyers. The most typical route for liquidity for a venture-backed company in the traditional financial markets—an initial public offering (IPO)—has been off limits to most SEs. Attracting a broader range of institutional capital as well as individual investors to the impact investing sector would require a far more liquid and deep marketplace.

Third, while the movement towards a standardized impact measurement and reporting system has received considerable attention, consensus has not yet been reached. In order to attract investors who are not able to perform first-hand analysis of the social and environmental impact of their investments, there is a need for standardized impact reporting metrics to facilitate easy comparison of investments on the basis of potential social return.

Fourth, lowering the perceived risks of impact investment is required to attract broader sources of capital, including institutional capital.

Finally, return expectations remain poorly communicated and poorly paired in terms of setting expectations between impact investors and SEs seeking to attract investment capital.

[12] *Ibid*.

Efficient matching of supply and demand of impact investments demands a greater understanding of the suppliers of capital. Understanding the factors that influence the scale of investor activity will allow demand-side actors to structure their operations and market themselves in a manner conducive to attracting growth capital. The hope is that this research into the interests of impact investors, the drivers and impetuses of mission-driven investment, and investor interest in a social stock exchange and required design and operational aspects of a social stock exchange will ultimately foster growth in impact investment supporting SEs in Asia and the Pacific.

Benefits of a regional stock exchange

A regional social stock exchange could reduce this disconnect between supply and demand by improving access to investment opportunities in SEs; improving transparency and reducing due diligence costs for investments in SEs; serving as a regulated trading mechanism, offering substantially greater liquidity than is now available for investments in SEs; improving transparency by establishing standards of disclosure, including standardized reporting of social and environmental impact; offering a variety of investment instruments and products to mitigate risk; and engaging market intermediaries and stakeholder participation.

A regional social stock exchange for Asia and the Pacific would serve as a platform on which SEs in Asia and the Pacific can raise capital through offerings of shares, bonds or other financial instruments. Such a social stock exchange will unlock the capital of impact investors seeking to make investments in SEs that generate financial returns while also promoting positive social and environmental outcomes through a platform that provides liquidity and transparency.

The role of IIX and Shujog in creating a successful social stock exchange

Recognizing the investment constraints faced by some of Asia's most promising SEs, IIX's mission is to provide SEs in Asia and the Pacific with greater access to investment capital, allowing them to scale their activities and expand their impact. Through its two investment platforms – Impact Partners and Impact Exchange – IIX connects SEs with impact investors that value the social and environmental impact these SEs create. In order to facilitate private capital raising by SEs in Asia and the Pacific, IIX launched Impact Partners in March 2011 serving as Asia's first private placement platform connecting SEs and impact investors. The Impact Partners platform showcases SEs from across Asia and the Pacific that are seeking investment capital.

IIX is working toward the creation of a regional social stock exchange serving SEs in Asia and the Pacific. IIX's aim is to create a transparent marketplace where SEs can raise capital from mission-aligned investors and impact investors can benefit from a source of liquidity, access to investment-ready SEs, and transparent reporting of financial, social and environmental results.

IIX recognizes that there is a need to build up the capacity of SEs in Asia so that they can effectively absorb growth capital. In response to this need, Impact Investment Shujog (Shujog) was created in March 2010 as a not-for-profit affiliate of IIX. Shujog, registered as a charity in Singapore, focuses on capacity building, advocacy, research and education related to the SE sector in Asia and the Pacific. Shujog conducts a variety of advocacy and research activities to raise awareness and build knowledge of the social enterprise and impact investing sectors in the region.

Shujog also performs impact assessments for social enterprises, helping them to showcase and highlight their social impact to investors effectively. Shujog performs contextualized impact measurement and reporting to complement emerging standardized metrics such as GIIRS and SROI (*See Appendix*).

Creating transparent markets for impact investment cannot be accomplished in a vacuum. Building platforms to connect SEs and impact investors is only part of the solution. In order for social capital markets to grow and for capital to flow efficiently to SEs, it is necessary to have the support of a broad 'ecosystem' of intermediaries across the region. This ecosystem needs to mirror what exists in traditional capital markets and must include transaction advisors (such as financial advisors, legal advisors, and accounting advisors), rating agencies, government/regulatory bodies, research firms, academic institutions, and organizations that build capacity in and provide technical assistance to SEs.

Singapore's financial infrastructure and its position as a regional hub can play an important role in the scaling of impact investing and social enterprise in Asia. Singapore is well positioned to channel capital to Asian SEs through its mature private banking sector, its well-developed investment banking industry, and its reputation as a trusted global financial center. Local regulation is conducive to cross-border capital raising, and existing investors are familiar with the regulatory environment. The presence of a respected regulator such as the Monetary Authority of Singapore (MAS) will comfort investors and quicken growth of the SE space in Asia. These are all contributing factors to reducing perceived investment risk.

The aim of the research is to understand the needs and preferences of impact investors with regard to investment in social enterprises in Asia and the Pacific with a view to:

1 determine whether such investors favor the development of a regional social stock exchange as a platform to channel such investment, and
2 understand the requirements that such a regional social stock exchange must meet in order to be useful to investors.

METHODOLOGY

Engagement Framework

The project entailed surveying, sampling, and interviewing stakeholders across the globe in order to understand their impact investing activities in Asia and the Pacific region.

The survey and consequent analysis has revealed important information concerning the current state and prospective growth of the impact investing market. This work was further contextualized by prior research conducted by IIX (with the support of the Rockefeller Foundation) and the Programme on Social Innovation and Change (PSIC).[13] Available market studies and academic literature by leading researchers in the field were also utilized.

Approach

A pilot survey was first created in June 2010 and sent to five investor organizations from Europe, Asia and North America that were in IIX and Shujog's immediate networks. These five investor organizations provided feedback on the survey, which was used to refine the survey. The finalized survey was then distributed to a wide range of investors, which included individuals and institutions, in Asia and the Pacific and around the globe from the beginning of May 2011 to the end of June 2011. The survey was supplemented with face-to-face meetings and telephone discussions with investors with an interest in investing in SEs in Asia and the Pacific.

Survey Format

The survey was presented in an electronic form and consisted of 41 questions.

The survey questions were designed to create a demographic and financial profile of current and potential impact investors, and to determine their preferences for impact investing in Asia and the Pacific. The survey questions also aimed to understand the level of investor interest in utilizing a social stock exchange and

[13] Durreen Shahnaz, Founder of Shujog, was the head of PSIC at the Lee Kuan Yew School of Public Policy, National University of Singapore, from 2008 to 2010. PSIC conducted significant research on Asian SEs and their readiness to absorb investment capital.

to determine the requirements that such an exchange must meet in order to appeal to impact investors. In particular, the survey sought to understand investor preferences with regard to the social impact metrics/assessment methodologies that such an exchange should adopt.

Specifically, the survey questions covered the following areas:

- ✎ Characteristics of the respondent
- ✎ Current involvement in impact investment, including the degree of involvement and geographic areas and sectors targeted
- ✎ Expected future involvement in impact investing
- ✎ Impact investment criteria
- ✎ Support for the development of a regional social stock exchange
- ✎ Operational requirements and preferences for such a social stock exchange
- ✎ Preferences for social impact indicators and assessment methodologies

Shujog received forty-six completed and twenty-four partially completed responses.
(For the full survey, please see the Appendix).

Target Investors

In conducting its research, Shujog targeted both individual investors and institutional investors. The target universe included investors who were currently involved in impact investing as well as investors who were not currently involved in impact investing, and the analysis draws distinctions between these groups where relevant.

Individual investors targeted included individuals with a wide range of incomes and assets, ranging from retail investors to ultra-high net worth individuals.

Institutional investors targeted included a wide range as well. These included traditional investors, as well as institutional investors focusing on impact investments, including social venture capital funds (SVCs) and microfinance investment vehicles (MIVs).[14]

Surveys were distributed to individuals and institutions in IIX's and Shujog's broad networks as well as other investors chosen to ensure a broad range of types of investors.

Exhibit 1: Institutional Investors Targeted

Institutional Investors
Social venture capital funds (SVCs)
Microfinance investment vehicles (MIVs)
Pension funds
Mutual fund managers (possibly with SRI funds)
Institutional fund managers (possibly with SRI funds)
Other fund managers
Sovereign wealth funds
Endowments/Family foundations

[14] Social venture capital funds invest in social enterprises at the early stages of their development. Microfinance investment vehicles function as SVCs that focus solely on microfinance investments.

Impact Investors in Asia

ANALYSIS OF FINDINGS

ANALYSIS OF FINDINGS

Overview

Shujog's research revealed a number of insights into the behavior of various groups of investors and into the general direction of the impact investing sector. Among these trends, five key findings stand out:

1 investors from across all surveyed groups—including those that are already engaged in impact investment and others that are not—are willing to increase their involvement in impact investing over the next few years, subject to the development of appropriate market infrastructure;
2 for this potential to be realized, there are a number of pre-requisites that must be met;
3 investors intend to diversify the methods and types of instruments they use to make impact investments, with a focus on products that offer increased liquidity;
4 a large majority of all respondents are in favor of the development of a social stock exchange, and a large majority would consider transacting on it; and
5 one of the key attractions of a social stock exchange is its ability to help achieve social returns, and a large majority of investors thought it was important for a social stock exchange to include social impact information.

Profile of Survey Respondents

Shujog surveyed an investor universe that included a wide variety of individual and institutional investors. Responses were received from 34 individual investors and 31 institutional investors.[15]

In terms of the individual investors, their annual household incomes ranged from less than US$50,000 to over $1 million, and their approximate amount of net investable assets ranged from less than $500,000 to over $50 million. For the purposes of our analysis, we characterized the individual investor respondents as either retail investors (<$1 million in investable assets) or high net worth individuals (HNWI, >$1 million in investable assets). Where relevant, we highlight and discuss significant distinctions between these two groups throughout this report. Of the surveyed individual investors, 35% were already engaged in impact investing, 59% were not yet engaged, and 3% were uncertain.[16] Individual respondents came from across the globe, with a significant portion from Asia.

Figure 1: Annual household income in US$ (individual investors)

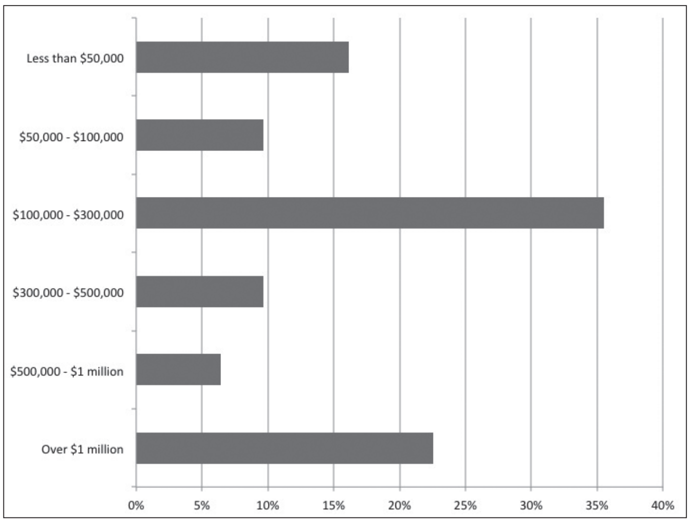
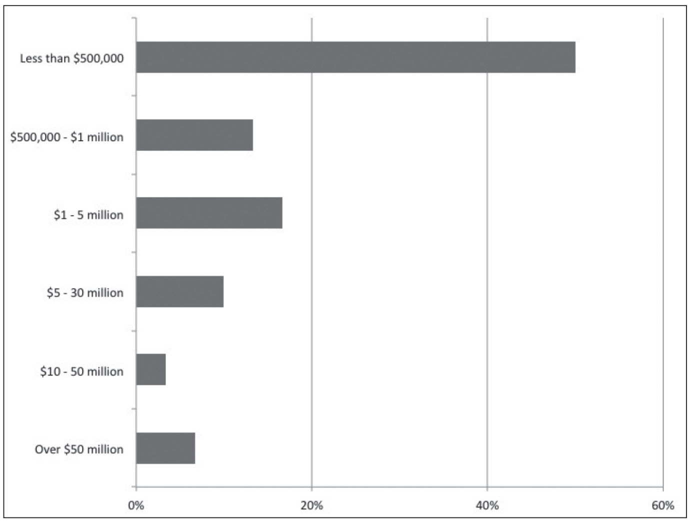


Figure 2: Approximate amount of net investable assets in US$ (individual investors)



[15] Five additional respondents did not identify whether they were individual or institutional investors. These respondents only answered select questions from the survey, but have been included in the overall data.
[16] The high degree of participation in impact investing among respondents is not believed to be representative of the overall investor universe, but most likely reflects bias in the survey universe.

The institutional investor respondents also represented a diverse range of institutions, in terms of the type of institution, their size (measured by assets under management), and the degree of their involvement in impact investing. The institutional investor respondents included foundations and endowments, traditional fund managers, pension funds, and managers of social venture capital funds (SVCs) and microfinance investment vehicles (MIVs). The assets under management of the respondents varied widely, from less than $100 million (which group included a number of the SVCs and MIVs) to over $50 billion. The ultimate source of their investor capital came from around the globe, including Europe, Asia and North America, and from a variety of types of investors, including retail individual investors, HNWIs and institutional asset owners. For the purposes of our analysis, we characterized the institutional investors based on whether or not they were currently engaged in impact investing. Among the institutions currently engaged in impact investing, we also on occasion singled out SVCs and MIVs for separate analysis because of their unique focus – being solely dedicated to impact investing and focused primarily on making private investments. Where relevant, this report highlights significant distinctions between individual investors and institutional investors and among the different types of institutional investors.

Figure 3: Origin of investor capital
(institutional investors)

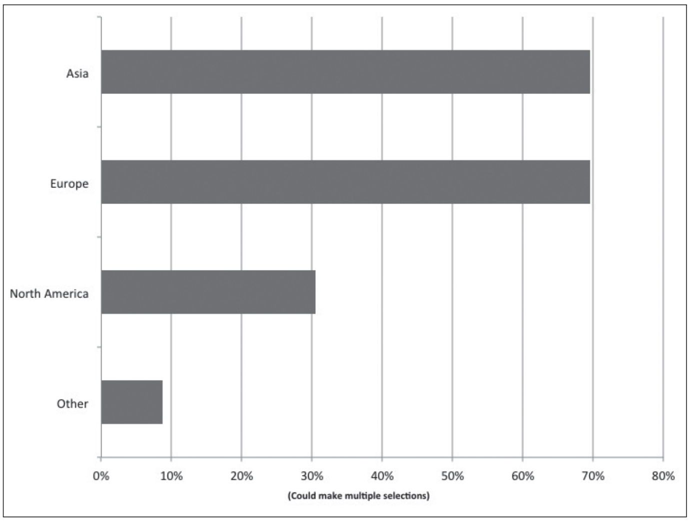
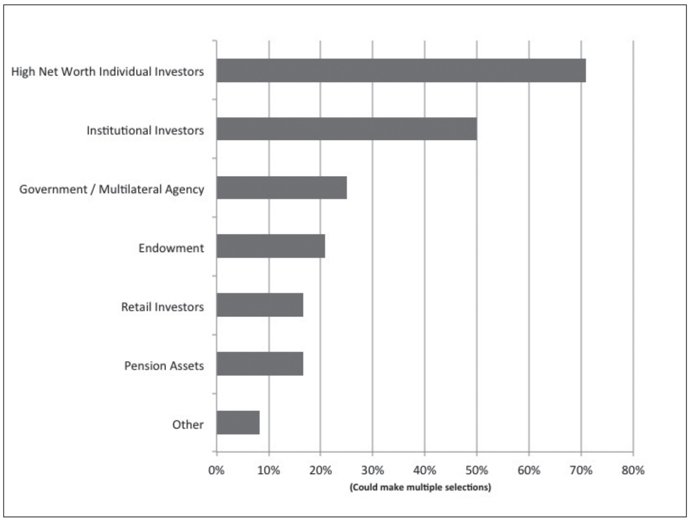


Figure 4: Source of investment funds
(institutional investors)



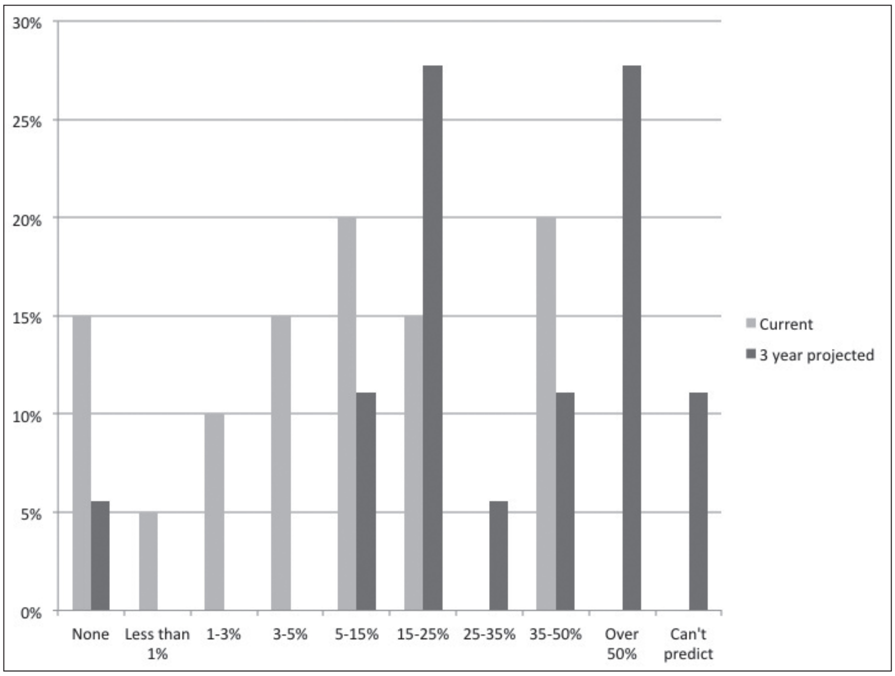
Participation in Impact Investing

One of the most pronounced findings of the survey is that investors are willing to increase the amount of their portfolios allocated to impact investing, subject to the continued maturation of the impact investing market and the development of appropriate market infrastructure. This finding applies across all groups of respondents, including retail investors, HNWIs, and institutional investors. Those already engaged in impact investing expect to increase the percentage of their portfolios dedicated to impact investing over the next three years. A large percentage of those who are not currently engaged in impact investing expect to begin making such investments within three years.

Investors are willing to increase their impact investing activity, subject to the continued maturation and development of the marketplace.

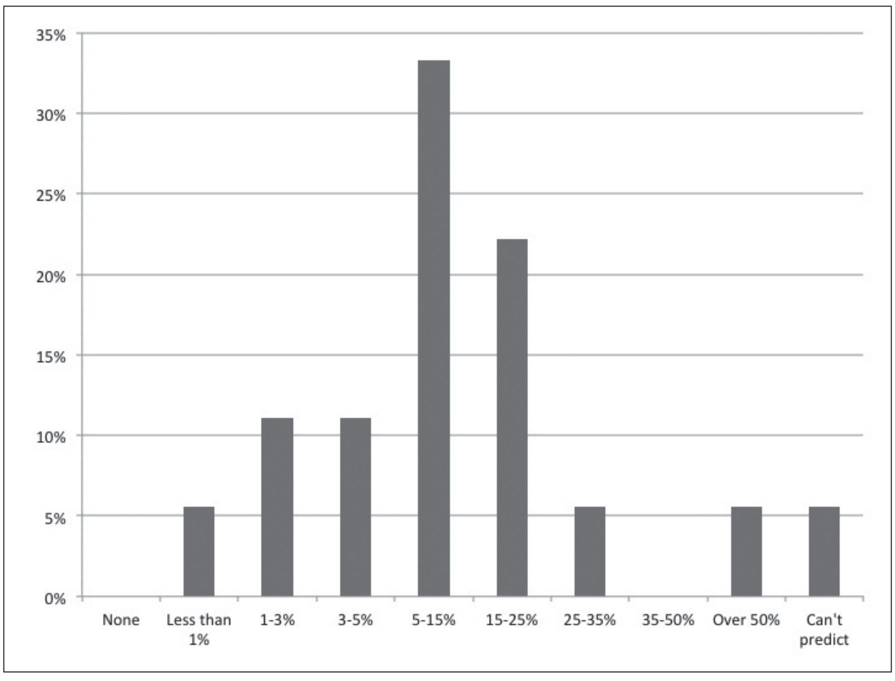
The data supports the view that impact investing is a relatively small market currently, but is poised for rapid growth. Excluding SVCs and MIVs (which, by definition, target a majority of their investment portfolio for impact investments), those respondents who are currently engaged in impact investing do so with only a relatively small percentage of their portfolios today.

Figure 5: Percentage of total funds invested in impact investments
(currently impact investing, not including SVCs and MIVs)



In addition, a relatively high level of respondents who are not currently engaged in impact investing indicated that they would expect to be so engaged within three years, subject to the further development of the impact investment market. Among individual investors who are not currently engaged in impact investing, an overwhelming percentage of respondents indicated that they expected to become impact investors once the market developed; furthermore, 67% said they expected to invest over 5% of their total funds in impact investments. Those institutional investors who are not currently involved in impact investing were more circumspect. The vast majority responded that they could not predict their future level of involvement in impact investing as it was dependent on their client or investor preferences.

Figure 6: Projected percentage of total funds invested in impact investments in three years
(individual investors, currently not impact investing)



The finding that impact investing is expected to increase over the coming years held true across a wide range of sectors which attract impact investment as well as across a wide range of geographic areas. Respondents were asked to identify the sectors in which they had made or were currently making impact investments and also to indicate the sectors in which they would like to make impact investments in the future. Almost all sectors showed increases in the number of investors interested in investing in the future relative to the number currently investing. Education, sustainable agriculture, and health are among the sectors showing the greatest increases, with 64%, 58%, and 51%, respectively, of all respondents saying they would like to make impact investments in these sectors in the future.

Similarly, all geographic regions within Asia registered increases in the number of investors interested in investing in the future relative to the number currently investing. SE Asia and South Asia lead the way both in terms of current investments as well as future plans, with 59% and 53%, respectively, of respondents expressing a desire to make impact investments in these regions in the future.

Figure 7: Sectors for impact investments (overall)

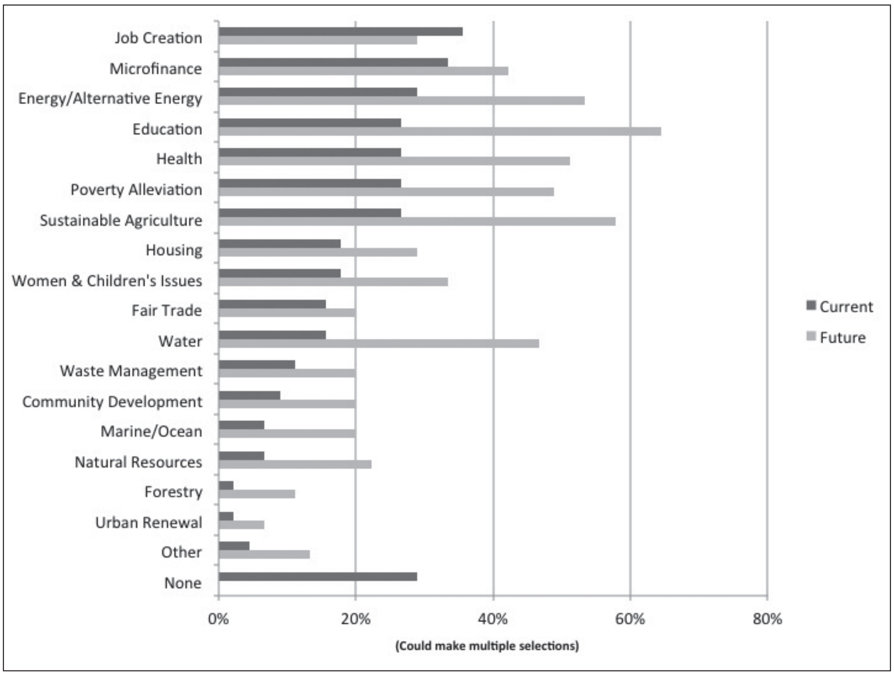
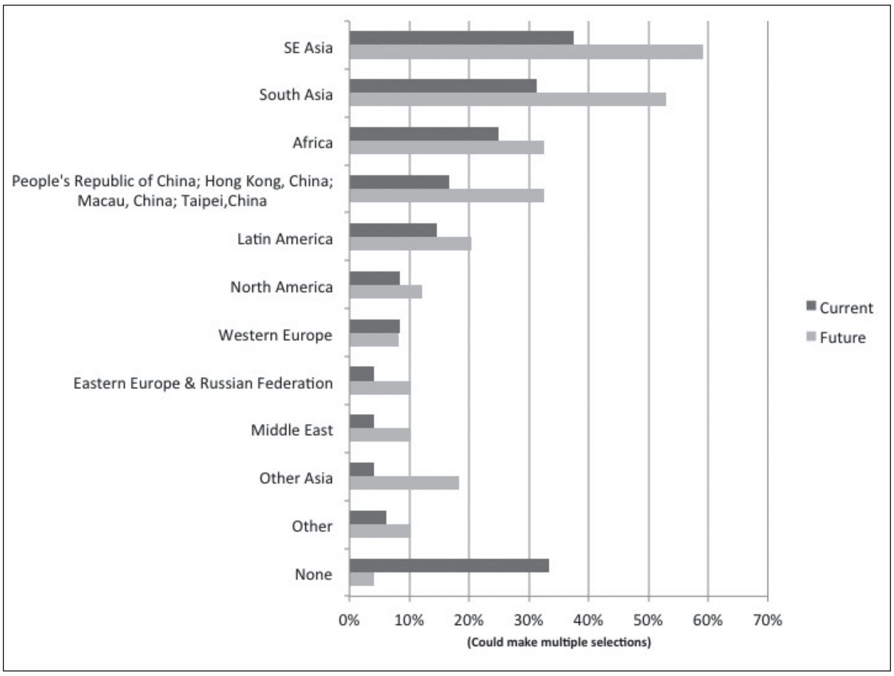


Figure 8: Geographic areas for impact investments (overall)



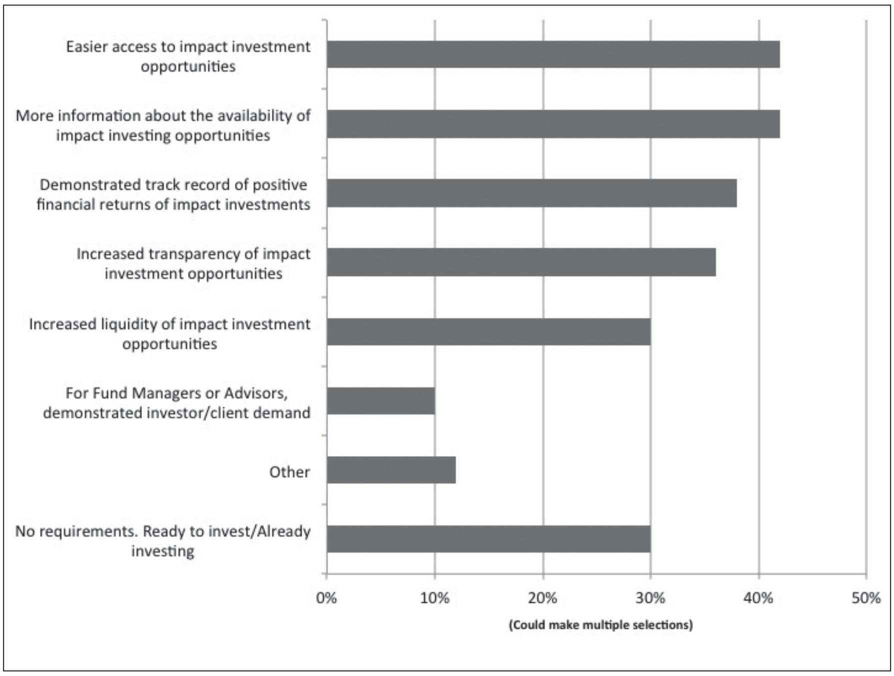
Prerequisites to Realize the Potential of Impact Investing

Survey respondents were asked what requirements would need to be met in order for them to begin making impact investments or, if they were already impact investors, to increase their level of impact investment. Several sections of the survey, including this one, focused largely on the financial returns and liquidity requirements for impact investing; several other sections focused on the social and environmental requirements for impact investing, which will be discussed later in the report. A wide variety of requirements were cited. While a majority of respondents who are already engaged in impact investment responded that there were no impediments to investing further, many of the current impact investors and the vast majority of those not already engaged in impact investing identified one or, in some cases, several requirements that would have to be met to begin or increase impact investing.

Increased information about the availability of impact investing opportunities and easier access to impact investment opportunities were the most cite prerequisites to increased impact investing.

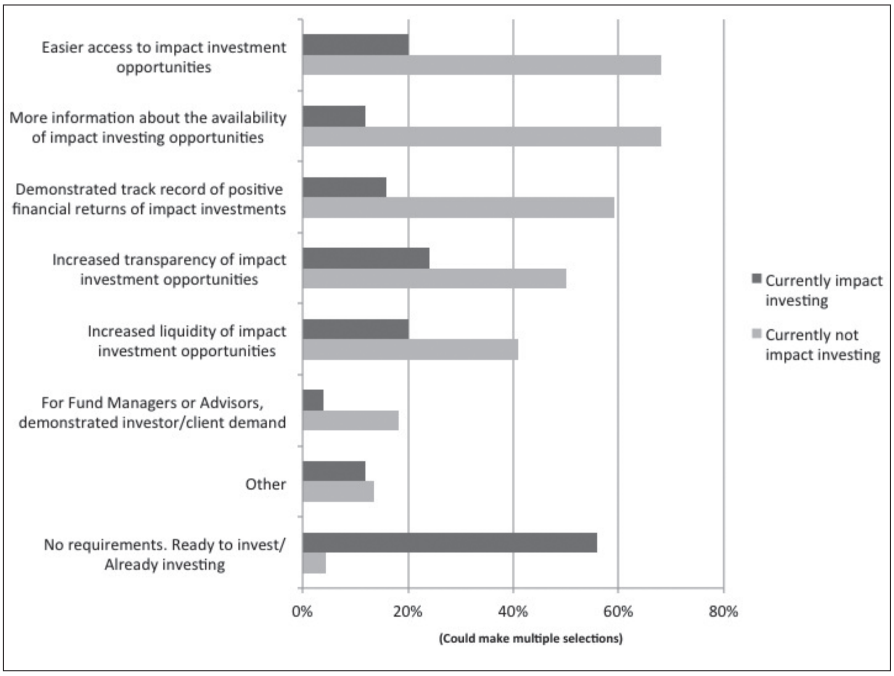
The most frequently cited prerequisites to increased impact investing were increased information about the availability of impact investing opportunities, and easier access to impact investment opportunities (each cited by 42% of respondents). Other frequently cited prerequisites were a demonstrated track record of financial returns on impact investments (38%), increased transparency of information about specific impact investment opportunities (36%), and increased liquidity of impact investment opportunities (30%). Many fund managers also indicated that they were waiting for demonstrated interest from their clients. Other requirements noted by certain respondents included the development of impact investment funds with assets over $100m, and a demonstrated track record of social and environmental impact from impact investments.

Figure 9: Prerequisites for impact investing (overall)



Interestingly, those already engaged in impact investing cited most frequently the need for greater liquidity, for greater transparency and for easier access to impact investment opportunities; while those not yet engaged in impact investing cited most frequently the need for more information about impact investment opportunities, a demonstrated track record of financial returns, and easier access. Those who have already begun making impact investments appear to have identified a need for greater liquidity and transparency. Those who have yet to commit to the market are waiting for more information – both in general and specifically related to the financial return they can expect. Both groups are clear that easier access is critical to expanding the market.

Figure 10: Prerequisites for impact investing
(currently impact investing vs. currently not impact investing)

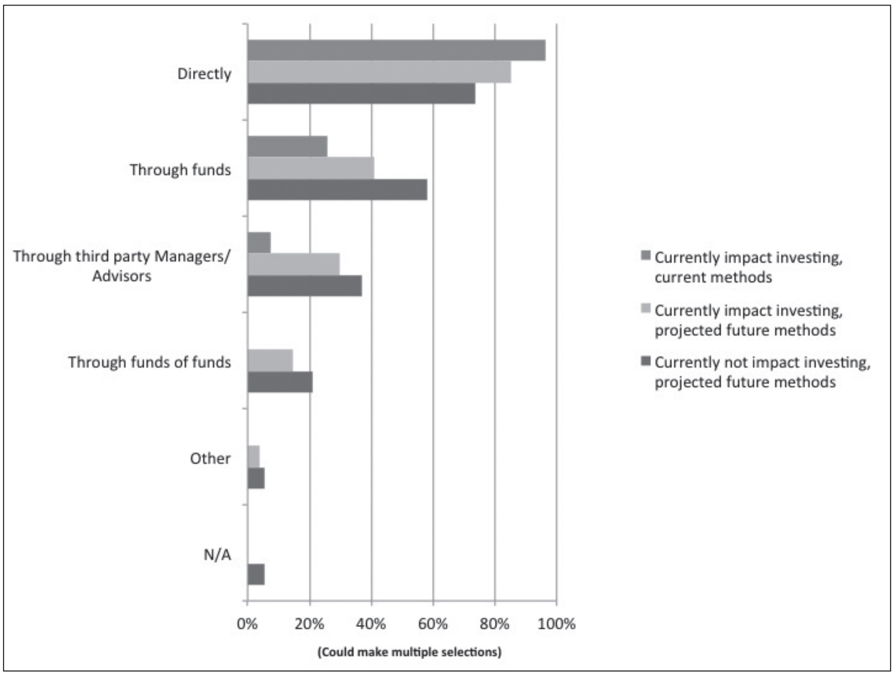


Prospective impact investment methods

Impact investors intend to diversify the methods and types of instruments they use to make their impact investments. In particular, impact investors expect to reduce their reliance on direct investment and to increase their use of third party advisers and their investment through funds and funds of funds. Likewise, investors expect to move away from the current environment where the majority of impact investments are private loans or private equity investments to a market where liquid debt securities and publicly traded equity securities account for a larger share of the market.

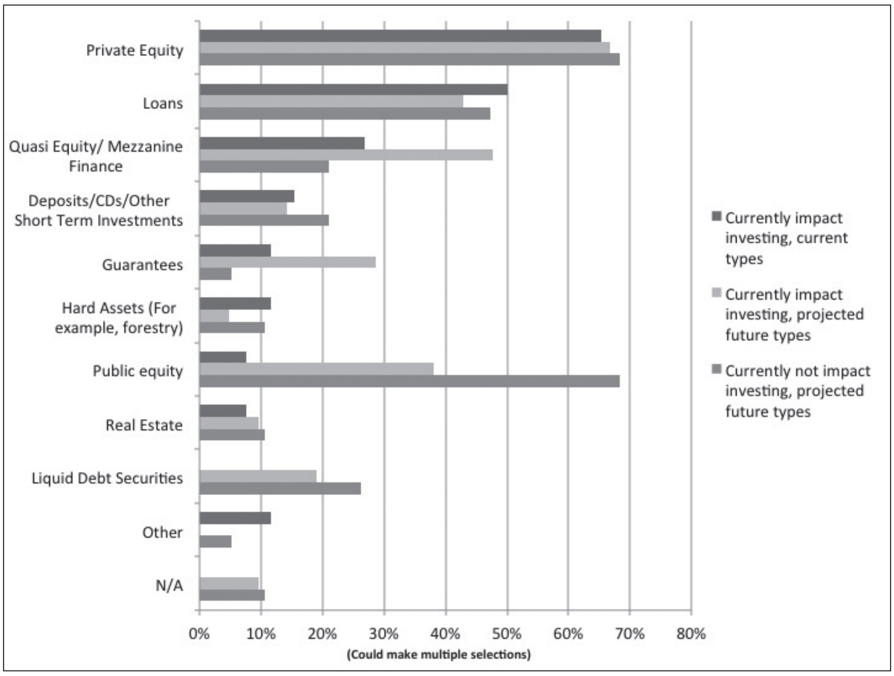
Of those respondents who are currently impact investors, the overwhelming majority currently makes impact investments directly, with about one quarter also utilizing funds and a small percentage utilizing third party managers. When asked how they would like to make impact investments in the future, a reduced percentage of this same group indicated a desire to continue investing directly and a markedly higher percentage indicated the desire to invest through funds, third party managers and funds of funds. Moreover, those who are not currently impact investors but who expect to begin making impact investments in the coming years show an even greater propensity to invest through indirect routes. Apparently, the demand for the development of these investment products and services is strong.

Figure 11: Methods of making impact investments
(currently impact investing vs. currently not impact investing)



Among current impact investors who responded to the survey, the most widely used forms that their impact investments currently take are private equity, loans, and quasi-equity / mezzanine finance.[18] Not surprisingly, liquid debt securities and public equities play almost no role in current portfolios. When asked what forms they would like their impact investments to take in the future, private equity, loans and mezzanine finance remained the most popular, but liquid debt securities and public equity securities were also cited by a large percentage of respondents. Even more strikingly, among those yet to engage in impact investing, public equity securities were the most preferred form of investment.

Figure 12: Types of impact investments
(currently impact investing vs. currently not impact investing)



[18] Mezzanine financing is a form of financing positioned in between debt and equity. Mezzanine financing is popular for attractive because of its ability to retain offer the upside of equity, but preserve while maintaining the lower risk of debt.

Individual Investors

Individual investors in particular demonstrate a pronounced interest in utilizing funds and a strong desire for liquid investment opportunities. Though only 25% of individual investors currently invest through funds, 58% hope to do so in the future. While only a very small number of individuals make impact investments through public equity securities currently, 68% hope to do so in the future. The differences are pronounced between retail investors and HNWIs, with retail investors showing a greater desire to utilize funds and third party managers and a greater desire for liquid investment opportunities. By contrast, HNWIs who are currently involved in impact investing through direct investment in private companies seem to be relatively content with the status quo. Interestingly, retail investors seem more keen on trading liquid debt securities than HNWIs: 46% of retail investors would like to trade liquid debt securities in the future, whereas only 13% of HNWIs said so.

When trying to explain why retail investors are currently less likely to make direct investments, liquidity appears to be a key factor. Consider that a much higher percentage of retail investors (64% vs. 20% of HNWIs) emphasized a requirement for increased liquidity in impact investments before they could increase their impact investing activity. Furthermore, more retail investors required easier access to impact investments (79% vs. 50% of HNWIs). Considering that a social stock exchange would fulfill both of these requirements, retail investors in particular stand to gain significant benefits from the establishment of a social stock exchange.

Figure 13: Types of impact investments (individual investors)

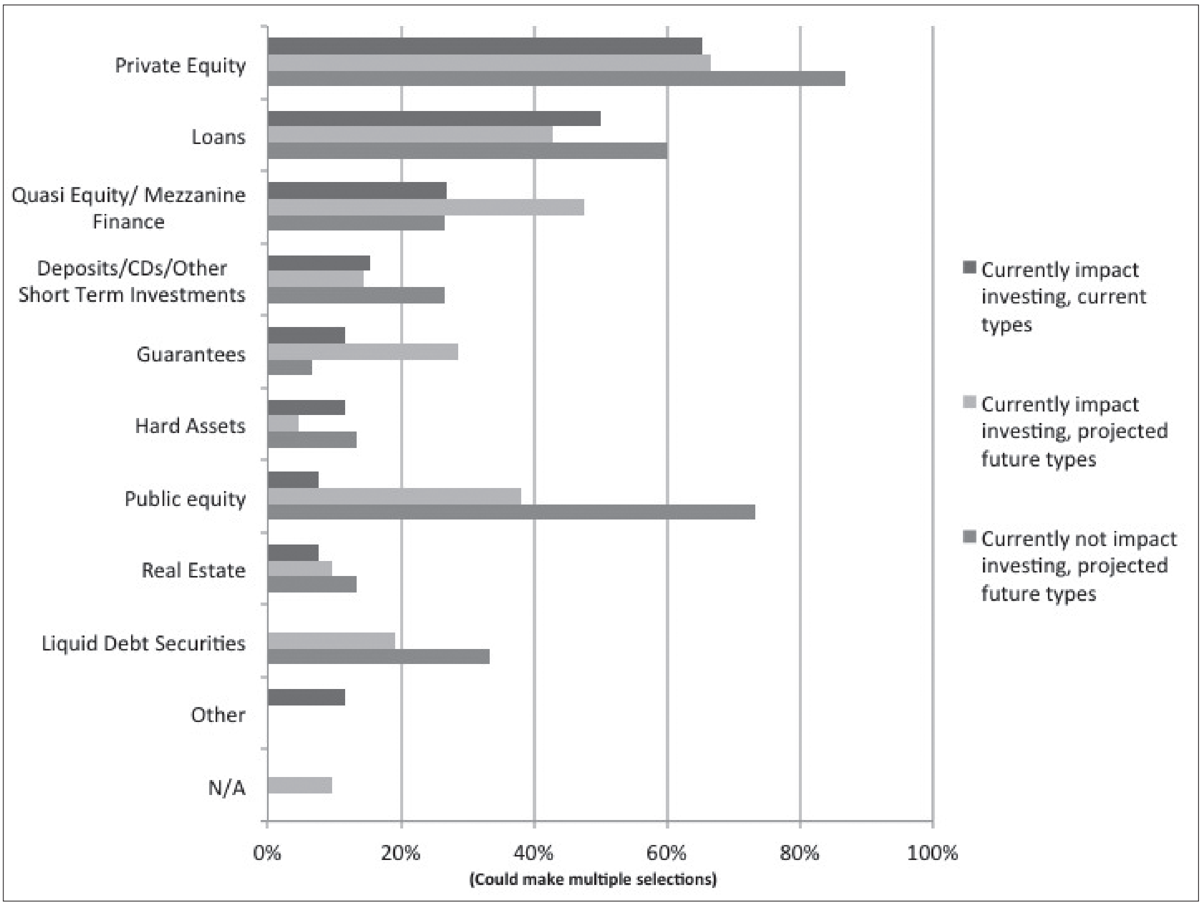
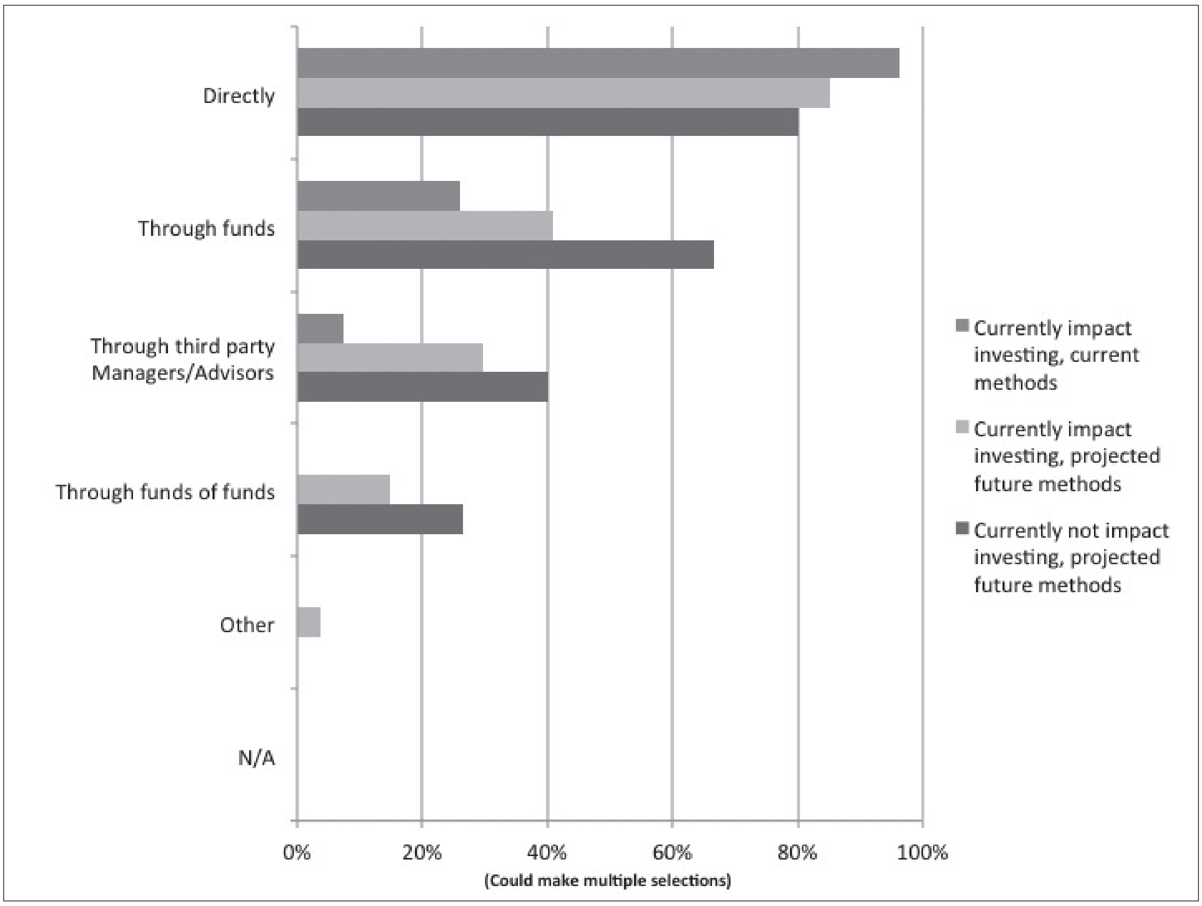


Figure 14: Methods of making impact investments
(individual investors)



Institutional Investors

Institutional investors are not as interested in investing in funds (14% currently do, and only 26% plan to do so in the future) as are individual investors. And though institutional investor respondents value liquidity, they do not place as much value on it as do the individual investor respondents (69% of institutional investors mentioned liquidity as an added benefit of a social stock exchange). Like individual investor respondents, institutional respondents cited private equity as the most common form of impact investment today. While these respondents expect private equity to remain the most common form of investment, public equity and liquid debt securities are expected to play a large role in the future as well.

Figure 15: Types of impact investments (institutional investors)

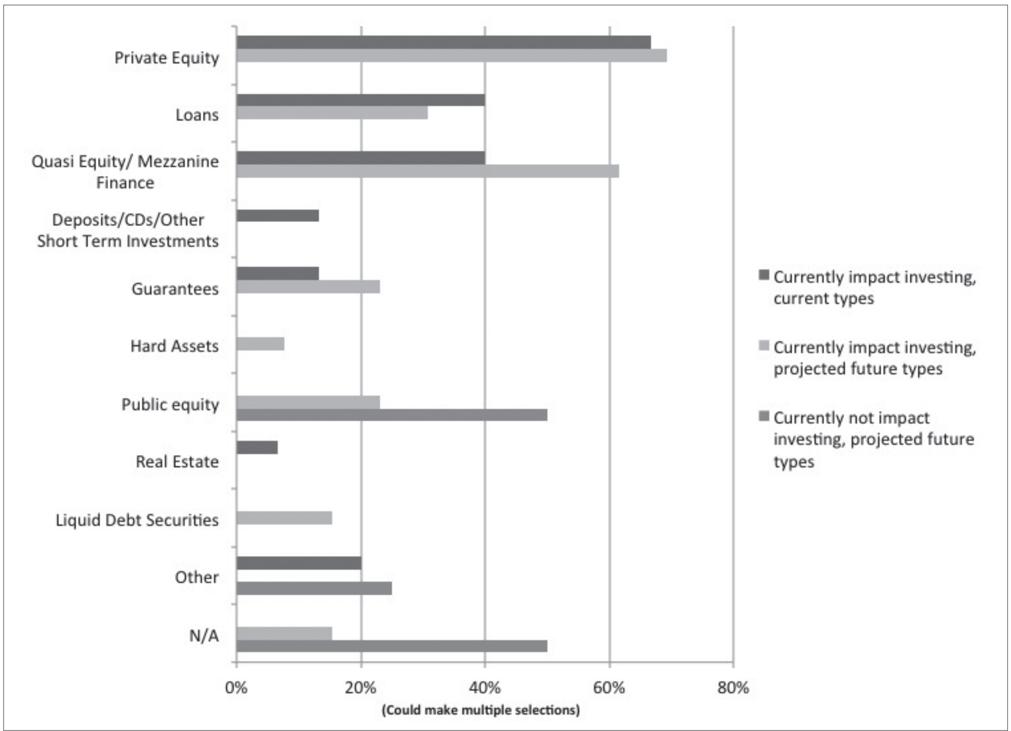
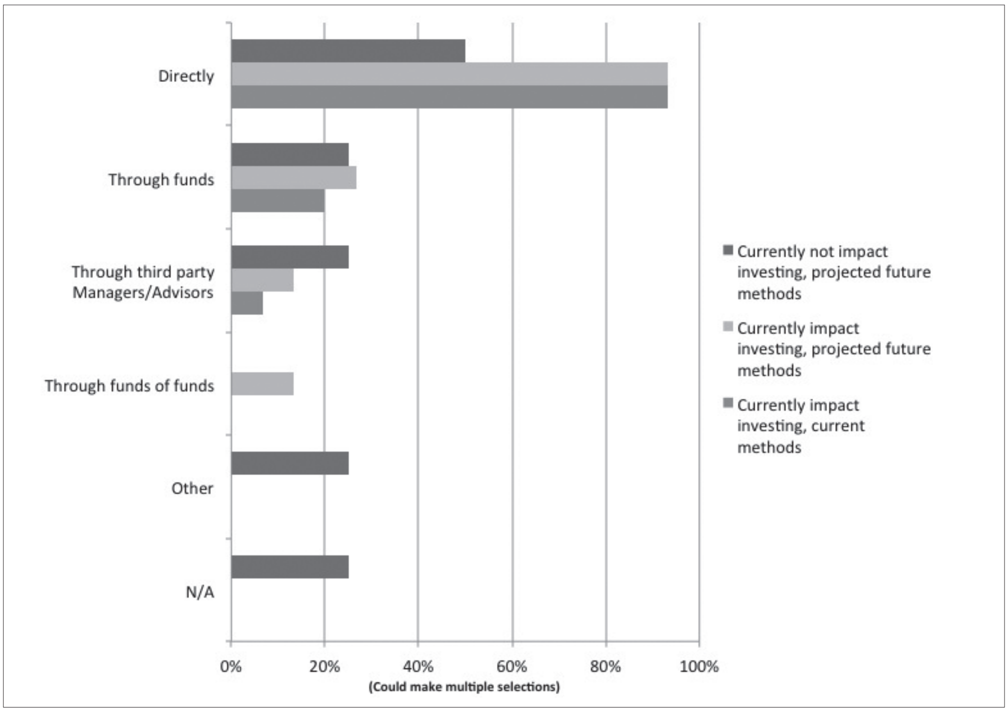


Figure 16: Methods of making impact investments (institutional investors)



Attractiveness of a Social Stock Exchange

The results of the survey point to a high inclination among investors to not only support the development of a social stock exchange, but also to transact and/or encourage their clients to transact on such a platform. Very importantly, even those respondents who are not currently engaged in impact investing expressed strong interest in the development of a social stock exchange and in transacting on such an exchange.

74% of investors who are not currently impact investing would consider transacting on a social stock exchange.

73% of respondents who are currently making impact investments said they are in favor of the development of a social stock exchange, and 74% said they would consider transacting on such an exchange. This speaks powerfully to the widespread call for and utility of a social stock exchange.

Figure 17: In favor of the development of a social stock exchange (currently impact investing)

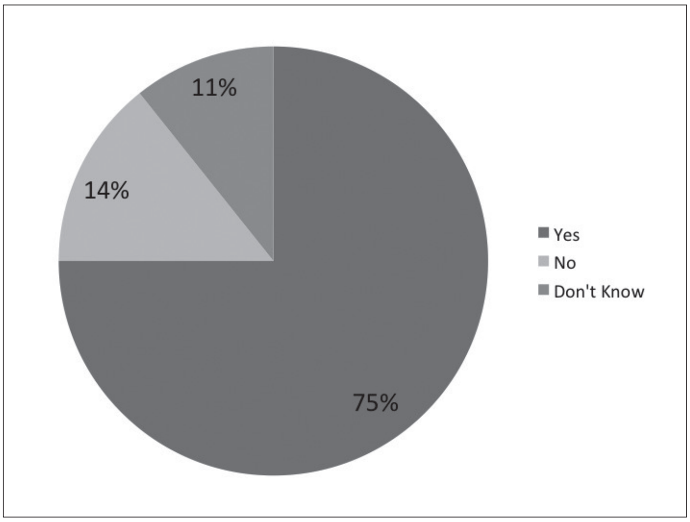


Figure 18: Would consider transacting on a social stock exchange (currently impact investing)

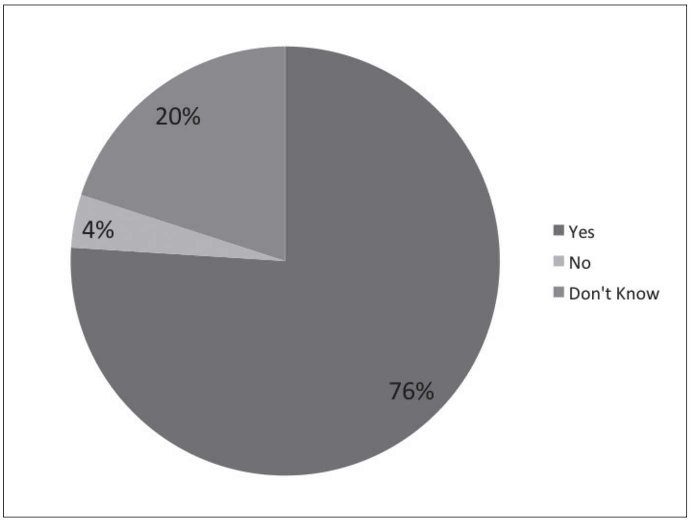


Figure 19: In favor of the development of a social stock exchange (currently not impact investing)

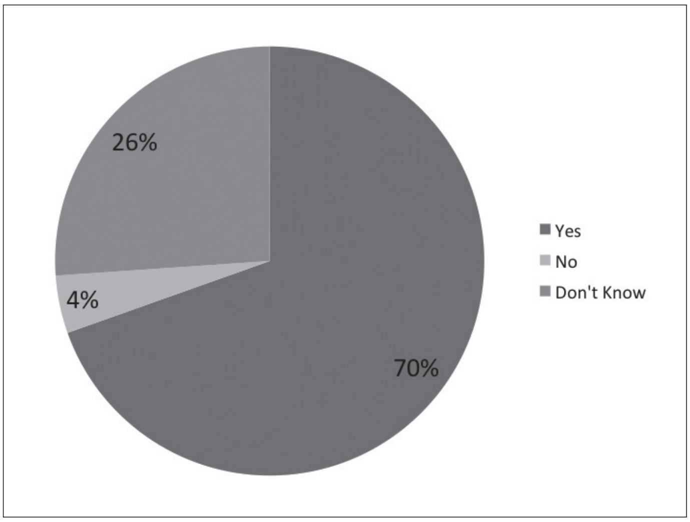
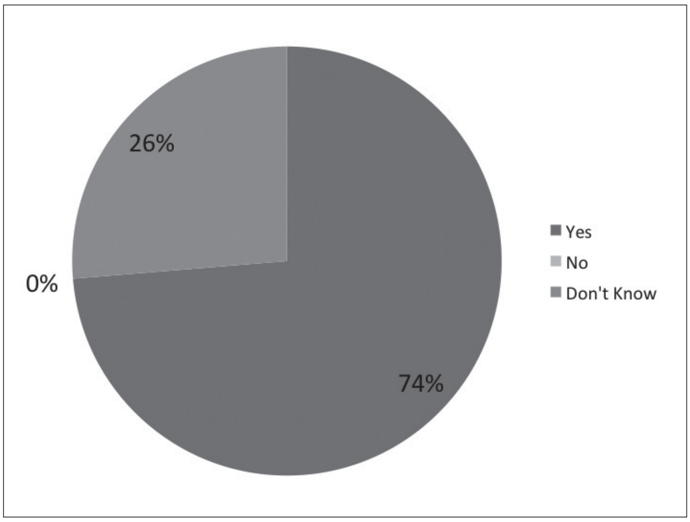


Figure 20: Would consider transacting on a social stock exchange (currently not impact investing)



Reasons for Favoring the Development of a Social Stock Exchange

For both individual investors and institutional investors, the opportunity to achieve both financial return and social impact was the most frequently cited reason to transact on a social stock exchange, with 78% of respondents saying so. A significant percentage of institutional investor respondents, particularly among SVCs and MIVs, also cited the opportunity to utilize a social stock exchange as an exit mechanism for existing investments as a reason to support the development of such an exchange.

When asked to cite the benefits of utilizing a social stock exchange versus making private impact investments, both individual and institutional investors said that transparent reporting of social/environmental impact information was the largest appeal, with 81% saying so. Nearly the same percentage also cited the increased liquidity of a social stock exchange as an important reason for its appeal. And a majority cited the increased transparency of financial information that a social stock exchange would bring to impact investing.

Individual Investors

Beyond achieving financial returns and social impact, a large percentage of individual investors (68%) cited the potential social impact of a social stock exchange as a key reason to transact on such an exchange. Relatively few individuals cited the potential for financial returns or the ability to use the exchange as an exit strategy for existing investments as important benefits of such an exchange.

When asked what financial returns they aim for when making impact investments, only 30% of individual respondents answered that they aim for a full risk-adjusted market rate of return. The other 70% of individual respondents would be satisfied with below market returns, of which 20% would be satisfied simply with the preservation of their principal.

Figure 21: Main reason to transact on a social stock exchange
(individual investors)

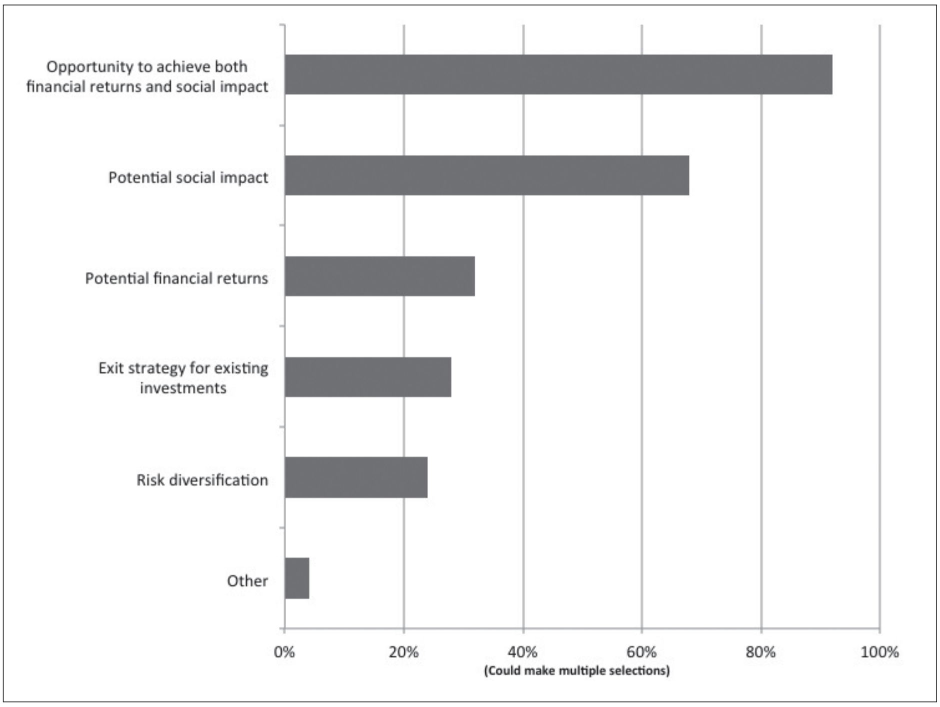


Figure 22: Appeal of a social stock exchange compared to private investments (individual investors)

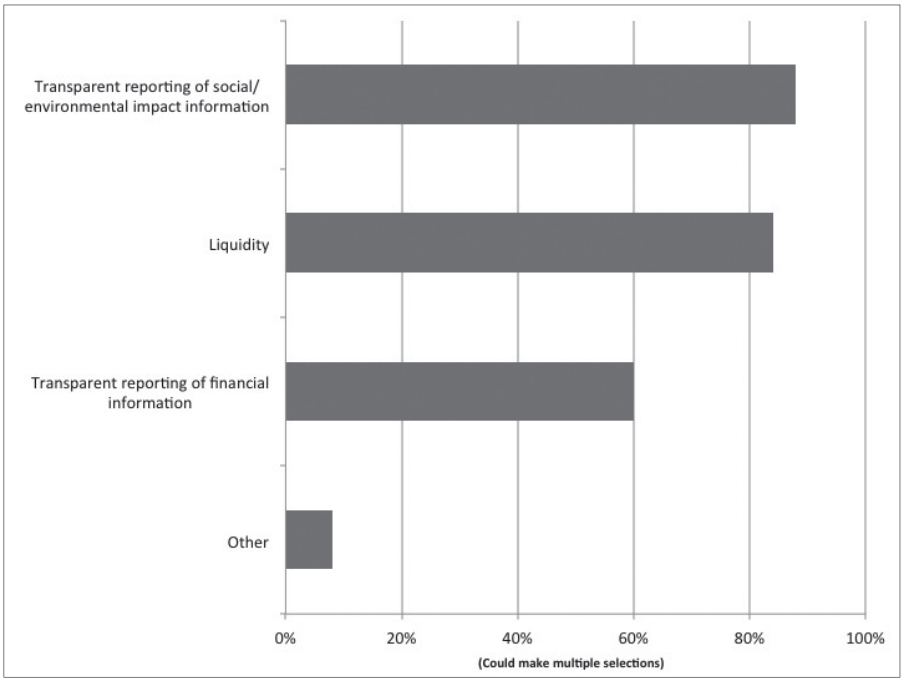
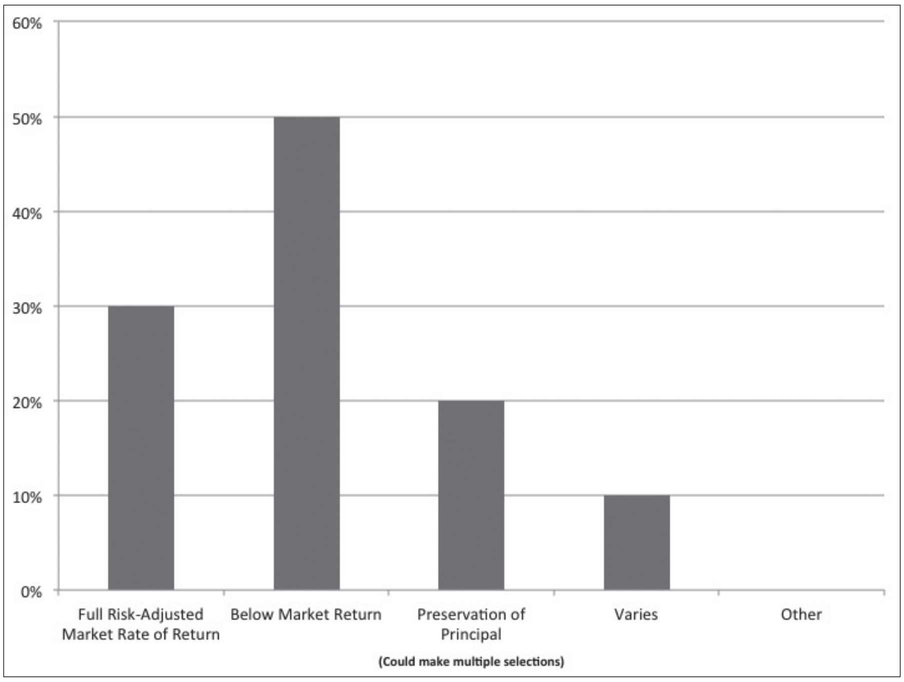


Figure 23: Financial criteria for impact investing (individual investors)



Institutional Investors

By contrast to individual respondents, a significant number of institutional respondents (39%) cited the ability of a social stock exchange to provide an exit mechanism for existing investments as the main reason to transact on such an exchange. Not surprisingly, SVCs and MIVs were particularly inclined to value this aspect of a social stock exchange, with 83% of SVCs and MIVs labeling it as an important criterion.

The financial return requirements for institutional investors also showed a major distinction between types of institutional investors. SVCs and MIVs were in some case willing to trade off financial return for social return, with less than 50% indicating that they always require a full risk-adjusted market rate of return. By contrast, pension funds and traditional fund managers were unanimous in seeking full risk adjusted market rates of return on their impact investments.

Figure 24: Financial criteria for impact investing (institutional investors)

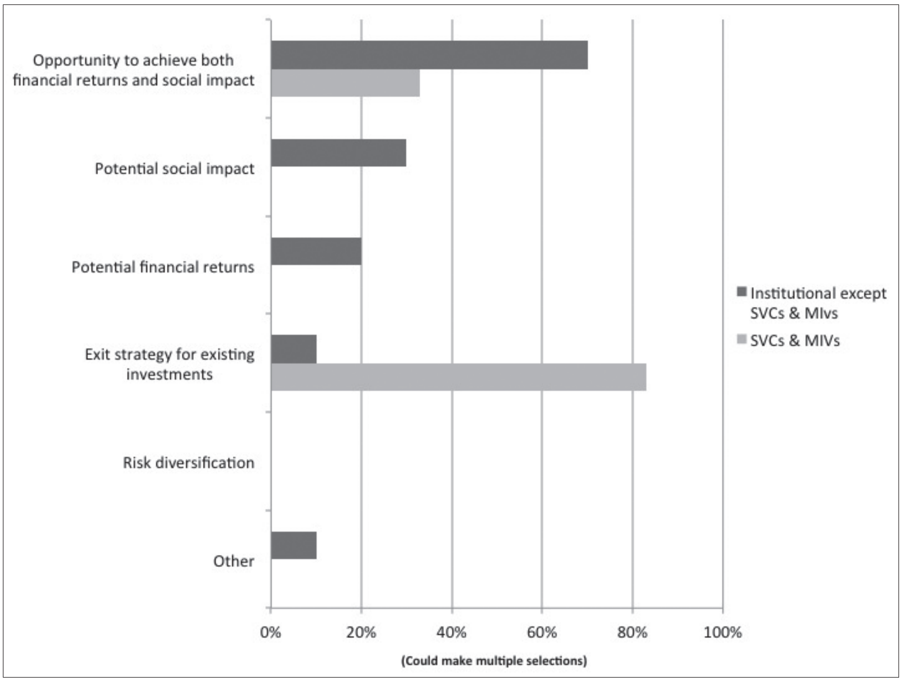
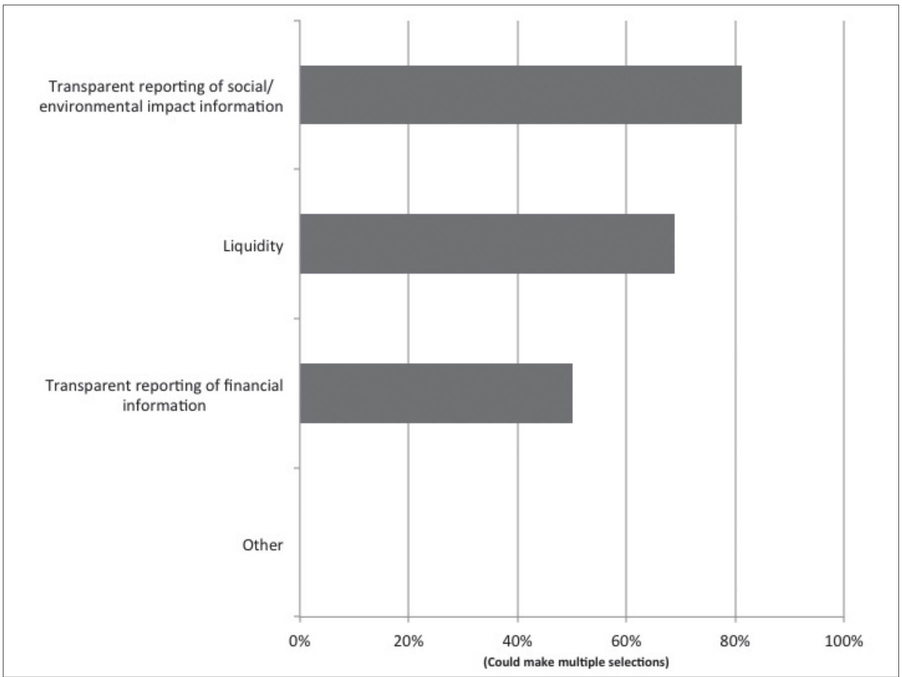


Figure 25: Appeal of a social stock exchange compared to private investments (institutional investors)



Preferences for social impact indicators and assessment methodologies

For impact investors, the social and environmental impact of SEs is a critical investment criterion. SEs are differentiated by their market-oriented approaches to address some of the biggest social and environmental challenges in the world. While their financial performance is crucial to the sustainability of the organization, SEs' mission-driven nature is the main attraction for impact investors. One of the key attractions of a social stock exchange to investors is the ability it offers them to achieve social returns. The importance of social and environmental impact for an impact investor is highlighted by the willingness of many of our respondents to accept lower financial returns in return for high social impacts from SEs. To justify this trade off, however, great importance is placed on the ability to demonstrate the social impact created by impact investments.

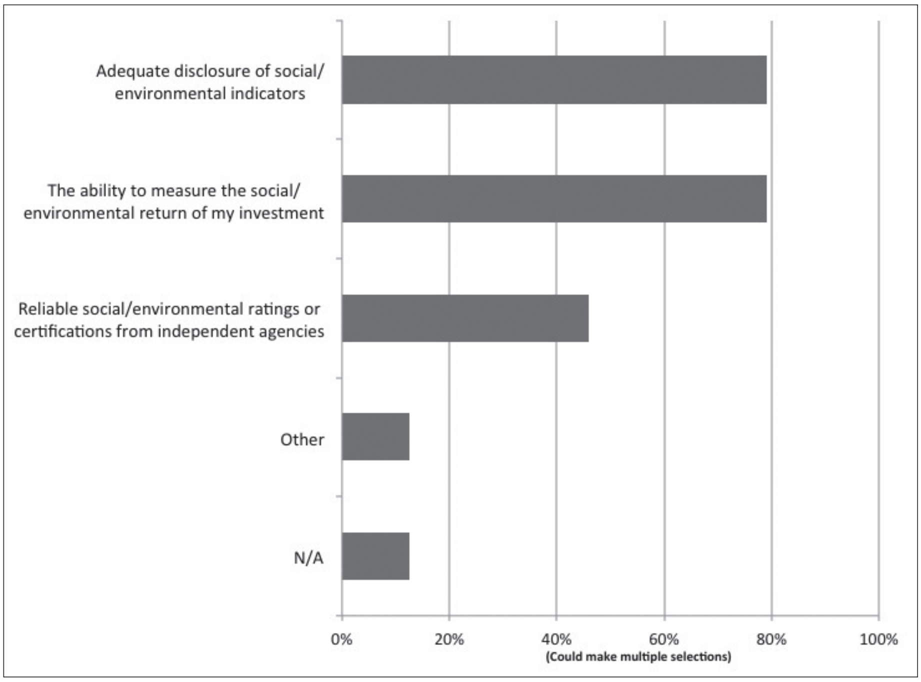
Consequently, over 70% of respondents indicated that they require the ability to measure the social and environmental return of their impact investments. And not surprisingly, the vast majority of respondents (over 90%) believe it is important for a social stock exchange to require listed companies to report on their social and environmental impact.

There were a variety of opinions as to which form such reporting should take. While opinions were divided, the majority of investors expressed a desire for social impact information to be reported using standardized terminology (such as IRIS) and to be audited by independent parties. A significant proportion of respondents favored the use of third party social impact ratings tools.

Individual Investors

Individual investors highly value adequate disclosure of social/environmental indicators for their impact investments, as well as the ability to measure the social/environmental return of their impact investments. However, only 28% of individual investors are currently using a system to measure the social impact of their investments. Individual investors may oftentimes lack the resources and infrastructure of institutional investors to measure the social impact of their investments, but they nonetheless find such measurements to be a crucial requirement for any of their impact investments. As a result, individual respondents were the most likely to say that they relied on the use of social / environmental certifications from independent third parties. However, it is worth noting that no reliable certifications currently exist in Asia, so this must be addressed in the near future.

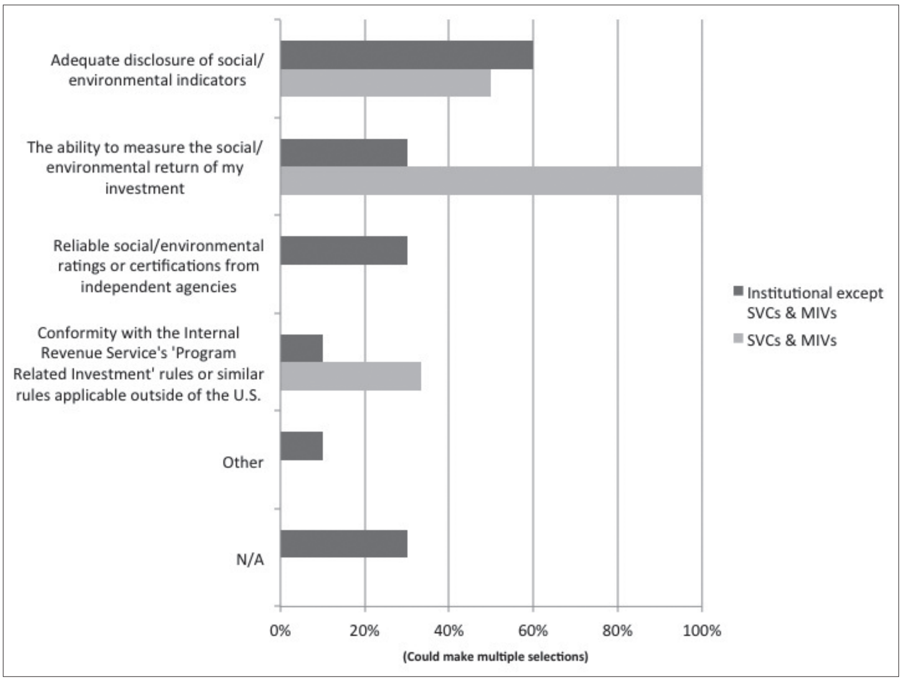
Figure 26: Requirements for social/environmental impact of impact investments (individual investors)



Institutional investors

Though all groups of institutional investors (as well as individual investors) agreed that measures of social impact are important, SVCs and MIVs were most likely to demand the ability to measure the social/ environmental returns of their impact investments. This reflects the solely impact investment-oriented nature of SVCs and MIVs. Furthermore, while SVCs and MIVs care more about having information to conduct their own analyses, other institutions are keener on the idea of having independent social certifications.

Figure 27: Requirements for social/environmental impact of impact investments (institutional investors)



Operational requirements for a social stock exchange

The survey contained a number of questions relating to the requirements and preferences of investors for the operation of a social stock exchange. These questions were designed to elicit responses that would assist in guiding the development of a social stock exchange for the Asia and the Pacific region. The results of the research have provided valuable insight as to the operational requirements that a social stock exchange must meet in order to be useful to impact investors and the preferences of impact investors for such an exchange. A summary of these is provided below.

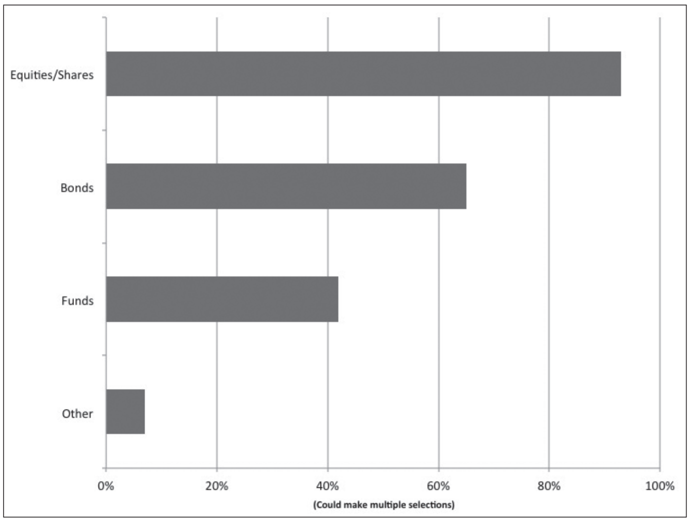
Investors were asked which instruments they would be interested in investing in through a social stock exchange. Over 90% of those who responded indicated an interest in investing in equities, which is not surprising given that equities trading dominates the trading on traditional exchanges. However, a surprisingly high percentage also indicated an interest in investing in bonds (65%) and funds (42%) traded on a social stock exchange.

Over 90% of respondents indicated an interest in investing in equities.

We asked investors which currencies they would be willing to transact in on a social stock exchange. While most investors indicated a preference for trading in hard currencies, 31% said they are willing to trade in local currency (i.e. the currency of the issuer country). This reflects a growing willingness among impact investors, particularly lenders to microfinance institutions, to accept local currency investments.

To determine investors' requirements with respect to the liquidity of the securities listed on a social stock exchange, we asked investors to indicate the minimum size of an investment they would make on such an exchange and the minimum market capitalization of social enterprises they would invest in on the exchange. Approximately 20% of respondents indicated that they would require the ability to make an investment of at least $100,000. And nearly 60% said that their minimum size would be at least $10,000. Mirroring this, approximately 20% of respondents specified a minimum market capitalization of $20 million or more, and 43% specified a minimum market cap of $10 million or more. Naturally, there was significant variation between individual and institutional investors, with individuals as a group being willing to accept much lower investment sizes and market capitalizations.

Figure 28: Instruments interested in trading on social stock exchange (overall)



Investors are quite diverse in their minimum expected frequency of price quotations: 23% expect daily quotations, 26% expect weekly quotations, and 23% would be satisfied with monthly quotations. Financial reporting on a regular basis is important, as respondents want to see a demonstrated track record of positive financial returns and to keep abreast of the financial performance of the companies in which they invest. Investors also expect regular reports on the social and environmental performance of the listed companies to ensure that there has been no mission drift on the part of the SE and their investments continue to yield social and environmental impact.

Concluding remarks

Interest in the impact investing space is growing across the board. Institutional investors, family offices, institutional wealth managers, and high net worth individuals all show a growing willingness to invest in organizations that offer socially responsible investment opportunities, and that nurture sustainable projects in developing countries and hold scope for financial returns. However, for a majority of these investors a primary concern is that it is often difficult to establish and evaluate the true impact their investments will make. As noted above, our findings point to a desire among existing and potential impact investors for increased transparency regarding how SEs define, track and report on their social and environmental performance. Heightened transparency in impact reporting would not only encourage existing impact investors to increase their investment portfolio, but would also inspire more investors to enter the impact investing space.

For the financial analysis of listed enterprises, traditional stock exchanges require all companies to report using standardized financial reporting language. In a similar fashion, there is a strong preference among investors for readily available standardized data on indicators of social and environmental impact of all SEs looking to raise capital via a social stock exchange.

The use of standardized methods to measure and report the social and environmental impact of SEs would reduce the transaction cost for impact investors and provide a means to compare the social returns of SEs. Standardized reporting is important not only because it allows investors to compare the performance of enterprises within a given area, but also to develop more holistic measurement methodologies that allow comparison across spectrum range of social and environmental impact.

Various reporting standards are available to investors for transparent and accountable assessment of enterprises. Those frameworks that are most applicable to Asia and thus the leading contenders for use on a regional social stock exchange are discussed in the appendix.

Impact Investors in Asia

RECOMMENDATIONS

RECOMMENDATIONS

Overview

The results of this research have indicated significant interest among global investors in making impact investments in SEs in Asia and the Pacific. Specifically, responses have shown significant interest in and support for the development of a regional social stock exchange in Asia and a high level of willingness to transact on a regional social stock exchange for access to impact investment opportunities.

The research has also highlighted various preferences of impact investors regarding how such an exchange should be structured. As it works towards the launch of Asia's first social stock exchange, IIX should focus on meeting these operational requirements, creating social and environmental listing criteria that will be accepted by impact investors, and engaging the necessary ecosystem players that will facilitate the listing of SEs. Depending on the type of investor base that the exchange will seek to target (i.e. individual vs. institutional), these requirements may vary, as the research indicated some variation in preferences between different types of investors.

Recommendations for Creating a Regional Social Stock Exchange

One of the strongest results of the research was the importance that a vast majority of respondents placed on robust social and environmental impact reporting by SEs listed on a social stock exchange. Indeed, for many, a primary attraction of a social stock exchange is that it would require such reporting. This highlights the importance of selecting appropriate social and environmental listing criteria as well as social and environmental disclosure requirements.

The results of the research also provide some guidance on the general form that such disclosure requirements should take. Survey questions had relevance for a number of issues: the degree of standardization that should be required in impact reporting; whether reporting requirements should include the requirement for the SE to receive a social rating or certification; and whether there should be a requirement for social impact disclosures to be audited by third parties.

On the first of these, there was broad support among respondents for the idea of requiring use of a standardized report terminology (such as IRIS).[19] Whether the indicators to be reported should be mandated by the exchange or self-selected by the SE, was subject to disagreement, with individual respondents showing a slight preference for the former and institutional respondents showing a slight preference for the latter.

Individual respondents were more supportive of a requirement that SEs undergo a social impact rating than were institutional respondents. However, there was about equal support for mandating a rating as for simply mandating standardized reporting of indicators chosen by the exchange.

With regard to the necessity of an audit, naturally most respondents would feel more comfortable were social impact figures to be audited in all instances, with individual respondents placing more weight on this. Nevertheless, a majority of respondents would be comfortable with some level of review short of an audit of all SEs' reports. The operator of the exchange will need to balance the cost of requiring SEs to audit these results against the benefits, and more analysis may be required on this point.

Another issue on which it will be important to balance costs and benefits is the level of scrutiny to be required of the listing documents. While the largest number of respondents indicated a desire for issuers to file a full prospectus similar to that required for a public offering in highly regulated markets, a significant number were willing to accept an admissions document similar to that required by the AIM in London, and a slightly smaller number were willing to accept an offering document similar to those common in

[19] Impact Reporting and Investment Standards (IRIS) is a common framework for measuring social and environmental impact of investments.

institutional bond offerings. The operator of a social stock exchange will need to balance the costs and benefits of these various approaches, recognizing that the decision may be determined by regulation.

Another robust result of the research was the desire of respondents to trade bonds and funds on a social stock exchange as well as equities. While the vast majority of respondents indicated that they would be interested in trading equities on such an exchange, a majority of investors were also interested in trading bonds, and a majority of individual investors were interested in being able to access funds through the exchange. Our research suggests that a social stock exchange would likely find demand for all three products.

Relevant to trading of bond funds, we asked whether investors would be willing to transact in local currencies in addition to major global currencies. Over a third of institutional investors and nearly a quarter of individual investors indicated that they would be willing to transact in local currencies. This suggests that a regional social stock exchange may want to offer the ability for SEs to list bonds denominated in their local currency as well as in major global currencies.

One challenge of a social stock exchange will be the relatively small size of many SEs and the potential concern that investors may not be willing to transact in very small issues. Our research confirmed this as a concern, particularly for institutional investors. A significant minority of institutional investors indicated an unwillingness to transact in issues with market capitalizations of less than $20 million. While some investors – including some institutions and many individuals – would be willing to accept smaller issue sizes, a social stock exchange may need to target larger issue sizes in order to attract the widest range of investors.

Realizing a Successful Stock Exchange: The role of IIX

The results of our research are expected to inform the efforts of IIX in developing the first regional social stock exchange serving SEs in Asia and the Pacific.

In addition to incorporating these results, IIX should continue working closely with its sister organization Shujog, which engages with SEs and their stakeholders to map social enterprises across Asia and identify the most promising SEs and conducts impact assessments on SEs to help prepare SEs to raise capital. These activities will eventually help IIX source and facilitate deals on the social stock exchange.

A social stock exchange must also engage a broad set of stakeholders capable of conducting the due diligence work necessary for risk mitigation. The ecosystem of market intermediaries, including financial advisors / investment banks, lawyers, accountants, credit rating agencies, consultants and incubators, also plays a crucial role in capacity building for SEs.[20] It is therefore important to assure their buy-in from an early stage in the development of a social stock exchange.

[20] The role and importance of market intermediaries is discussed further in "Market Intermediary Assessment," Impact Investment Shujog (2011): a parallel report prepared for ADB by Shujog "Output 3: Market Intermediary Assessment."

Impact Investors in Asia

APPENDIX

APPENDIX

Defining Impact Investing

Impact investing can be defined as making investments intended to create positive impact beyond financial return.[21]

Over the past decade, an emerging base of investors with a global focus has sought to make investments that generate a double or triple bottom line. These investors are now broadly designated as impact investors – that is, actors making market-based investments that generate social and/or environmental value alongside financial return. Emerging from traditional philanthropy, private investment and venture capital backgrounds, impact investors are driving an innovative movement with cross-sector and cross-regional investment portfolios that focus on creating and scaling social impact.

The convergence of philanthropic social motivations and intimate knowledge of financial markets is fast creating a new asset class – and with it, a new global industry.

One of the earliest publications dedicated to this movement is the Monitor Institute's report, "Investing for Social & Environmental Impact: A Design for Catalyzing an Emerging Industry". With sponsorship from the Rockefeller Foundation, the report coined the term impact investing, and recognized the joining of investing for social impact (as opposed to giving) and the impact that innovative approaches have on traditional investing.

Impact investors distinguish themselves from traditional investors not with the investment vehicles or products they employ, nor the markets or sectors in which they concentrate, but rather through the motivations behind their investment behavior and the factors they consider when making their investment decisions. Impact investors are flexible in their provision of capital in order to suit the needs of the investee in question. A single impact investor may in some cases invest equity capital in one entity, while providing credit or guarantees to another. Impact investors are also willing to provide soft funding to entities that lack asset sizes or revenue streams considered adequate for traditional investors.

Soft funding is sometimes paired with significant direct or subsidized technical support from the investor to the investee.

Impact investors commonly rely on patient capital using a range of instruments that are committed as long-term investments. Investors typically pursue investment opportunities that require a longer time frame to generate return of capital than traditional investments.

Defining Social Enterprise

While there are many definitions of "social enterprise", this report uses the term to refer to an entity that meets the following key criteria:

- Exists primarily to create specific positive social or environmental impact (vs. an ancillary or secondary development, such as a company's Corporate Social Responsibility program);
- Adopts a market orientation;
- Focuses on financial sustainability.

An SE meeting these criteria may be structured as a for-profit or a not-for-profit.

Given the present surge of global interest in SEs, one may think that SE and social entrepreneurship are emerging phenomena. However SEs, primarily in microfinance, have existed for over three decades. Some SEs have overcome barriers to scale and successfully merged an explicit and intrinsic social mission with commercial viability. Faced with challenges such as sunk costs in establishing their organizations, razor-

[21] J.P. Morgan, "Impact Investment: An Emerging Asset Class."

sharp margins in serving marginalized communities and challenging the hegemony of multinational and mega-corporations, and operating with a permanent lack of available capital and credit, SEs such as BRAC and Grameen Bank in Bangladesh have successfully scaled to become multi-million-dollar-enterprises.[22]

SEs may employ market-based solutions to tackle a given social or environmental challenge, but SEs often operate in the intersection of private, public and charitable sectors – relying to a greater extent on the concerted efforts of parties in all sectors. Such SEs may take growth capital from commercial investors as well as impact investors, while also attracting donations from traditional philanthropic organizations, receiving support from governments and corporate social responsibility initiatives.

Social Enterprises in Asia

When market-oriented approaches to social problems were first raised, there was no capital available for SEs. Entrepreneurs (social or otherwise) either used their own funds or applied for bank loans. Bank lending, however, relies heavily on collateral for disbursal, which curbed the availability of funding and restricted the ability to start an SE to all but the upper echelons of society. The only other option, and one that continues to play a large role, was to receive grants. Grants came from two main sources: foundations and religious organizations.

The role of foundations in developing SEs is historically grounded and immense. Even today, most SEs in Asia are established as not-for-profit non-government organizations (NGOs, legally registered as societies or trusts), in order to communicate their social goals and tap available funds. As Northern countries became more economically and socially stable, more funds found their way to the “third world”, particularly for “development” purposes. The tax systems of Northern countries allowed for funds to flow into the NGO sector in Asia. Consequently, Asia is now replete with NGOs of various sizes and shapes that often compete with each other to attract financial support in the form of grants and donations. This continues to be an extremely popular form of financing social missions. In Bangladesh alone there are over 20,000 NGOs, and countries like India or Indonesia have several times this number.

Another source of funding for social ventures is religious organizations. Asian countries such as India, Indonesia, Pakistan, Bangladesh, Malaysia, Singapore and Thailand have substantial Muslim populations, and giving zakat (required yearly donation of one-seventh of one’s wealth) is an important part of the Islamic tradition. Though much of the giving is to the religious institutions, funds have been used to support a range of social missions, including the establishment of madrasahs to provide basic education for the masses. The same is true for other religious followers in the region including Hindus, Jains, Parsis, Christians, Sikhs and Buddhists.[23]

A few years ago, a new source of capital was added to these traditional funding sources: the market. Market sources were (and to some extent still are) initially limited to business activities initiated by NGOs such as organizing fund raising events (marathons, concerts, sales) and identifying products and services that could be sold to reduce dependency on donations and grants. Some of the best examples of these activities are from Child Relief and You (CRY), which produced greeting cards and stationery to support child rights advocacy work, and Aarong, the retail arm of BRAC, which works with over 50,000 women across Bangladesh and generates an annual turnover of over $60 million.

Reliance on philanthropy and foreign aid has its limitations. As seen across the globe, grants and donations tend to be infrequent and unpredictable, they create enormous dependency on donors, and are often too small to support scaling-up efforts. Furthermore, many are highly restrictive. Initial efforts by NGOs to blend social activities with business plans were regarded with skepticism – after all NGOs were supposed to be about “giving”, not receiving. In some cases, market-oriented efforts of NGOs have run counter to their tax treatment, reflecting the idea that engagement on commercial terms was somehow antithetical

[22] It is, however, worth noting that for some of these entities, it took a tremendous scale and decades of donor funding to break even and become financially sustainable social enterprises.
[23] http://www.asiapacificphilanthropy.org/.

to their mission or "altruistic goals". For example, across Asia, tax laws require NGOs to keep assets in savings accounts instead of investing funds more productively. Some countries have begun taxing the revenue-making activities of NGOs. In Bangladesh, such activities are subject to taxes, though micro-finance activities are exempt from taxes.

The aid and donation dependency of NGOs in Asia is slowly but surely changing. Demand from "bottom of the pyramid market", external market forces, macroeconomic challenges and donor fatigue are forcing a lot of the Asian NGOs to become more market-oriented and financially sustainable, graduating from donor dependency to financial independence. There is also a recent trend in South Asia where a number of financially successful NGOs are changing their legal status and becoming for-profit SEs.

As NGOs, who continue to rely on traditional charity, struggle to reconcile dual philanthropic and commercial perspectives, the SE sector is bringing these two ideas together. Existing SEs in the region address issues of food security, housing shortages, environmental degradation, failing health care, educational systems, and poor sanitation both within and beyond national boundaries. Thus, in an increasing number of instances, a new breed of sustainable SEs, in both the for-profit and not-for-profit sectors, is achieving the region's socio-economic goals.

This new breed of sustainable SEs is helping tackle problems that have eluded all traditional development aid efforts. In the context of Asia, microfinance institutions (MFIs) are leading the pack in terms of sector size, public recognition and maturity. The success of microfinance has now accelerated the learning curve of SEs across the spectrum that, with 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.

Social Enterprises in Bangladesh

To understand the SE scene in Bangladesh, one must look at the historical evolution of SEs in Bangladesh. The strong presence of NGOs in Bangladesh dates back to 1971, when Bangladesh (then East Pakistan) gained independence from West Pakistan in a dramatic Bengali uprising against the Pakistan Military Junta. The civil war resulted in the combined death or emigration of more than ten million Bengalis, as well as severe depletion of the country's resources. The newly independent nation became dependent on international aid, and the search for alternative distribution channels for development assistance spurred the emergence of NGOs. The country's development needs today continue to attract the attention of international donors, and the number of officially registered NGOs active in Bangladesh has multiplied several times since the 1970s currently totaling about 26,000. Including non-registered entities, Bangladesh has an estimated 3.5 NGOs per square mile - the highest concentration in the world – and approximately 1,200 of these NGOs devote their efforts to social development.[24]

The Bangladeshi economy has grown in excess of 5% per year since 2003, achieving solid growth even in the midst of the 'global' economic crisis over the past few years.[25] With solid growth in SEs and conventional businesses alike, the key policy challenge is to remove remaining barriers to entrepreneurship, guarantee benefits of growth are delivered to marginalized people, and ensure that growth is economically, socially and environmentally sustainable. Entrepreneurs are increasingly entering other social activity areas such as insurance, savings, information dissemination, social networks and technological expertise, but many existing SEs are trying to solve the problem of entrepreneurial start-up financing. Finding growth capital for SEs to move from being a micro-enterprise to being a self-sustained SME is a persistent challenge, as are acquiring business skills training and mentoring, and fostering links with big business.[26]

Like Thailand and India, there is presently no notion of a limited profit company in Bangladesh. Bangladesh has only two 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 for-profit

[24] Asif Saleh, Field Researcher's Notes, 2010.
[25] CIA World Factbook, 2011.
[26] Bangladesh Social Enterprise Project, Policy Brief, 2011.

activities. Bangladesh thus lacks regulatory cover for innovative enterprises with a social mission wishing to scale up their activities with commercial capital funding. 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, the SE spectrum is certainly evolving in Bangladesh.

First, Bangladesh is home to a vibrant traditional non-profit sector. Much of the aid given to Bangladesh is transferred through service delivery models wherein individual NGOs provide services based on the larger framework of different donor groups. Presently, the existence of these NGOs depends solely on donor grants. This scene, however, is slowly changing as donors start stressing increased self-sufficiency on the part of NGOs and emphasize the importance of long-term, sustainable service delivery. The challenge remains estimating how many such organizations are active at a given time; traditionally, most organizations were established by appealing to the good will of the people in order to achieve a specific social good.

Second, there exist non-profits that have developed income generation activities (non-profit companies). Increasingly, NGOs are evolving into this type of NGO, where income-generating activities are paired with traditional donor-funded activities. As preference has shifted from donor-driven activities to financial sustainability, some NGOs are assuming the structure of traditional businesses. These NGOs may or may not have a social mission, but all profits generated from its activities are reinvested into the organization itself. BRAC enterprise and its various entities such as Aarong, BRAC Dairy, boutique shop Probortona, rights-based photography organization Drik, healthcare service provider Friendship Floating Hospital, and microfinance institutions such as ASA, are registered as NGOs and generate revenue through their activities. However, the relative income of these organizations is typically small compared to their overall budget, and most of their expenses are still subsidized by donor grants.

Third, a new breed of SEs has started operating in Bangladesh. Although there is some confusion regarding precise definitions of an SE, most define it as an income-generating organization with a social objective. Such SEs include large organizations such as Grameen Shakti (green energy), Grameen-Dannon (yoghurt for the poor), Hathay Bunano (training and job creation in rural areas) and Waste Concern. These are just a few examples of enterprises that began to address social needs and are now working toward financial independence. This type of SE started with Aarong in 1978, an entity of BRAC with a for-profit business model and a mission to help rural artisans. Advocacy for widespread adoption of such business models later picked up when Dr. Yunus of Grameen championed these models as the way to efficiently eradicate poverty.

Social Enterprises in India

The term social entrepreneurship has gained prominence in India because it defies traditional expectations of the government as the sole savior of those neglected or victimized by market failure. The Government of India has embraced the development of SEs as a secondary provider of public goods and safety nets and is eager to promote further growth in the sector. As the largest democracy in the world with a federal and highly fragmented public management structure, reforms in the sector have inevitably been regional in scope. Within the decentralized government structures of India, SEs have been embraced as a way to ensure engagement and inclusion of the nation's citizens in developing projects. The government has realized the magnitude of this achievement and is currently promoting policies and schemes to further growth in the social entrepreneurship sector.

By virtue of its size and diversity, India offers innumerable opportunities to social entrepreneurs. Successful initiatives such as Carm Daksh, Milleee, Selco and forums like Sankalp bear testimony to the fact that there is great potential for success. It also demonstrates that SEs are being considered as:

1 distinct from traditional philanthropy, and
2 avenues for impacting people's lives positively through knowledge and empowerment.

Social entrepreneurship courses are being offered by some of the most prestigious business schools in the country, and social entrepreneurs are being awarded and recognized for their efforts. These developments clearly demonstrate the growing expectation that SEs are a key solution to the many developmental problems prevailing in India.

India currently has a vast number of mission-driven organizations that could potentially qualify as 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.[27] Funding has come either through grants or programs implemented by the organizations themselves. Under the regulatory system, systems have been established for non-profit enterprises and charitable organizations, including laws like the Foreign Contribution Regulation Act in 1976,[28] the Trusts Act of 1882,[29] the Societies Registration Act of 1860,[30] sections 12A and 80G of the Income Tax Act,[31] and section 25 of the Companies Act.[32] However, these enactments tend to separate organizations with social missions from commercial organizations, requiring the former to meet certain structural or activity-based conditions to qualify for policy benefits under these regulations.

From 1991 onward, India has reoriented its policies and regulations under the New Economic Policy. India has incrementally liberalized foreign investment and foreign lending to enterprises and revamped policies for technical collaboration and joint ventures. In addition to 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 individualized for foreign venture capital investors,[33] foreign exchange borrowing has been permitted for micro-finance activities since 2005,[34] and regulations were introduced for small and medium enterprises inviting public investments and listing in April 2010.[35]

Although the government is making efforts to address shortcomings in the regulatory environment, there are still several hurdles to overcome. Foreign investments in a partnership or proprietary structure, as opposed to contributions, require prior government approval, and foreign exchange borrowing cannot be used for working capital. In terms of social innovation, the dynamism and creativity of SEs on the ground are not matched by changes in the regulatory environment. Regulations dealing with the functions an enterprise can perform, the process of registration and operation, and the areas in which it can operate constrain new initiatives and need to be revamped to adapt to the changing environment.

Since July 2009, several ministries like the Ministry of Health and Social Welfare, the Ministry of Social Justice and Empowerment, the Ministry of Women and the Child Development, Council for Advancement of People's Action and Rural Technology (CAPART) have collectively initiated the NGO partnership system, NGO-PS. Under this scheme, NGOs, voluntary organizations and SEs can register as commercial companies that also benefit from grants, services and benefits offered by the government. This initiative is a great platform for networking among all stakeholders involved.[36] Simultaneous with these developments, many Indian SEs have adopted revenue-generating models as commercial enterprises, accessed foreign equity and loan investments by including the element of financial return on investments, and allowed for greater flexibility in their business models and missions.

Social Enterprises in Thailand

While the term SE is new to Thailand, its practice is not. Third-sector organizations (TSOs – a term widely used to define SEs in the UK) in Thailand have been using business practices similar to those attributed to

27 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.
28 Full text available at: http://www.mha.nic.in/uniquepage.asp?Id_Pk=289.
29 Full text available at: http://vakilno1.com/bareacts/indiantrustsact/indiantrustsact.html.
30 Full text available at: http://vakilno1.com/bareacts/societyregact/societyregact.htm.
31 Full text available at: http://www.incometaxindia.gov.in/.
32 Full text available at: http://www.mca.gov.in/Ministry/acts_bills.html.
33 Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations 2000 http://www.sebi.gov.in/acts/ForeignVentureCapital.html.
34 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.
35 Chapter XA of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
36 http://ngo.india.gov.in/default.php?.

successful SEs in other countries for decades.[37] As a group of SEs, TSOs generally include organizations that are large, well established, well known, and with good connections to government. Good examples include Doi Tung, which does everything from high-end tourism to organic foods distribution, and the Population and Community Development Association (PDA), which offers a vast array of services from environmental and healthcare programs to microcredit and SME development assistance. However, a recent study by the Social Entrepreneurship Institute showed that many social organizations are not aware of the development of SEs as an entrepreneurial approach to leveraging traditional business models for social and environmental good. The SE sector is thus still relatively small in size and scope, requiring systematic support and advocacy in order to expand and flourish in Thailand.[38]

The general idea of entrepreneurship is deeply rooted in Thailand. In 2007, Thailand was said to have the highest prevalence of entrepreneurship in the world.[39] This indicates an environment brimming with opportunity for social entrepreneurship, facilitated by market openness, entrepreneur media profiles, and a positive attitude toward entrepreneurs. The government believes that growth in the SE sector will contribute greatly toward the sustainable development of Thailand's economy while recognizing the existence of stumbling blocks such as lack of education and training, research and development capacity, intellectual property rights and access to financial support.

To address these issues, the Thai government created the National Social Enterprise Committee in early 2010 to focus on several key areas of SEs, including enhancing perception and knowledge of SE in Thailand, developing the potential of SEs, and increasing channels through which SEs can approach capital and resources. The British Council is an important partner of the government of Thailand and is running a project called Skills for Social Entrepreneurs. The Skills for Social Entrepreneurs forum helped to establish the British Council as one of the Thai government's main partners in the development of SEs. The Prime Minister mentioned the British Council's input in Thailand's agenda for SE development himself during the first meeting of the Social Enterprise Committee.[40] An action plan is now in place for a comprehensive feasibility study on the establishment of a social venture fund, which will involve close engagement with the British Council as the government's international partner of choice in this field.

SEs in Thailand currently have two legal status options:

1 to register as a foundation/TSO,
2 to register as a commercial, for-profit entity.

As in most countries, foundations face more requirements than companies. To acquire legal status as a foundation, an organization is expected to formally register with the government. However, many practitioners in the social sector see the registration process as inefficient. The initial endowment requirement of 200,000 Baht (around US$6,200) for establishing a new organization hinders new organizations from completing the start-up process.[41] The endowment is a de facto sunk cost that could otherwise be used to finance the other initial expenses. This requirement thus excludes many community organizations from registering legally, leaving them in the shadow economy as it is simply not feasible for them to raise and maintain a 200,000 Baht capital funding.

As in many countries, TSOs with a social purpose are not required to pay any income tax on donations received. In addition, when tax-exempt organizations make donations to government hospitals or academic institutions, they are eligible for tax deductions equal to the amount of their donations, but not more than 20 percent of the revenue reduced by other types of tax deduction benefits. Individual donors to tax-exempt TSOs can claim a tax deduction for the full amount of any donations to SEs registered as foundations for

[37] Most data available in Thailand are for TSO's, while little data is available specifically for SEs, including proper legal definition. Therefore SEs in Thailand are discussed in this section as a subset of TSOs.
[38] Social Entrepreneurship Institute (SEI), "Public Policy to promote Social Enterprises in Thailand," 2009.
[39] Bosmaet#al: "Global Entrepreneurship Monitor", p.6. London Business School, 2007. Full text available at: http://www.gemconsortium.org/download.asp?fid=644.
[40] http://socialenterprise.britishcouncil.or.jp/en/about/social-enterprise-thailand/.
[41] Thai Civil and Commercial Code, Part III. Full text available at: http://thailaws.com/.

amounts up to 20 percent of their disposable income. Similarly, corporations receive tax credits for their donations to foundations for amounts up to two percent of their net profit.

This lower tax rate for businesses was found to discourage corporations from supporting market-oriented SEs and instead encourage them to make donations to foundations. However, this tax exemption privilege does not apply to all foundation-structured SEs, but only to qualified tax-exempt organizations that have been approved by the Ministry of Finance (MOF) and are listed in the MOF's Registry. As of November 2009, only 4% of the total number of TSOs in Thailand, just over 680 organizations, is eligible for this tax-exemption status, which is based on several criteria beyond formal registration as a foundation.[42] Some of these criteria include expending 70 percent of the organization's total output for the three preceding years towards social benefit activities, and not less than 65% each year. This is a particularly difficult requirement to meet, particularly for younger SEs. These non-listed organizations have to pay tax on any income received from the sale of goods and services, fees, bank interest, rent, etc. For example, non-listed organizations must pay tax at a rate of 15% on any bank savings interest, whereas listed organizations can claim an exemption. This condition creates a barrier for small, new enterprises to access donations for initial seed funding because individuals and businesses are reluctant to donate to organizations that cannot offer them tax deduction privileges.

However, the most critical constraint with regard to the tax code and how it is implemented in the third sector is that tax rates are calculated based on income and not profit or surplus. For SEs registered as foundations or TSOs, a 2% income tax is applied to any income generated in line with its objectives that is declared at registration. For income-generated activities not in line with its objective, a 10% income tax rate applies. In contrast, companies pay taxes calculated on the basis of profits. Therefore, the more income a SE generates, the more it has to pay in taxes regardless of its operating expenses. In other words, TSOs must compete with other businesses producing the same line of products or services, but must attain a higher margin for their investments to shoulder a greater tax burden, as companies can deduct expenses and are taxed at a flat 30% corporate rate on their profit only. This tax system further discourages non-exempt TSOs in Thailand from trading their goods and services and moving toward a financially sustainable operating model.

Under this system, it is difficult for SEs registered as foundations in Thailand without tax-exempt status to move toward a greater self-financing mode of operation. Regulations presently limit most SEs to using a grant and donation-dependent structure. Tax incentives under the Thai tax code are in need of significant improvement if the country is to encourage Thai individuals and corporations to support the non-profit sector, or to foster the emergence and growth of for-profit social entrepreneurship.

Access to any form of finance is a critical factor determining the start-up success and ensuring the survival of an SE. SEs are limited in their access to mainstream financial resources from the Thai banking system because they usually do not have the collateral that banks require. Thai regulations do not encourage TSOs to borrow money from financial institutions because TSOs are not considered 'businesses', and are therefore not expected to generate income to service loans and repay debts to banks or other financial institutions. TSOs with fixed assets such as land or buildings are allowed to rent out their assets, but this source of revenue is very exceptional for TSOs and often possible only for long-standing organizations.

Alternative finance resources from the government are also limited for most SEs. An organization seeking support from the Community Organizations Development Institute is required to submit a project proposal that targets at least one group from a pre-defined list.[43] However, the list does not cover all the disadvantaged populations in Thailand and does not accommodate innovative social entrepreneurship. Also, to qualify for government funding, organizations must be registered with the government and must have a minimum of one year in operation. This condition is likely a serious constraint for new start-ups in serious need of funding for early-stage operations.

[42] Based on the 2009 TSO survey, available at: http://www.rd.go.th/publish/29157.0.html.
[43] Disadvantaged groups includes children, elderly, disabled, HIV/AIDS infected, homeless, and women. Cf. http://www.codi.or.th/.

Defining Social Stock Exchange

Social stock exchanges are platforms which seek to bring together SEs, which wish to gain increased access to investment capital to grow their businesses and reach their full social and financial potential, and impact investors, who are in search of SEs with scalable social impact and financial return. Social stock exchanges are being developed in various locations around the world, and operate similarly to traditional stock exchanges. They allow investors to purchase and trade securities issued by SEs in the same way traditional stock exchanges enable trading of securities issued by traditional companies.[44]

Shujog's affiliate, Impact Investment Exchange Asia (IIX), is itself an SE developing Asia's first social stock exchange. In doing so, it is creating a new point of intersection for sustainable development and capital markets. Through the exchange, IIX aims to provide Asia's innovative SEs, which pioneer market-oriented approaches to address some of the world's most pressing social and environmental challenges, an easier way to access much needed investment capital.

SEs listed on the exchange will raise capital by selling shares or bonds to investors through the platform. The exchange provides SEs access to a larger pool of investors and investment capital, much larger than would be available to them when raising capital through a private transaction. Additionally, "by comparison to raising capital on a traditional stock exchange, raising capital on a social stock exchange enables the SEs to access a group of impact investors whose investment objectives are aligned with its social mission and which are familiar with and supportive of its business model."[45]

The social stock exchange which IIX is creating aims to be a transparent marketplace where SEs can raise capital from mission-aligned investors. The exchange will benefit impact investors by providing them a source of liquidity, access to investment-ready SEs, and transparent reporting of financial, social and environmental results.[46]

Impact Reporting and Investing Standards

The Impact Reporting and Investment Standards (IRIS), developed by the Global Impact Investing Network (GIIN) in collaboration with industry experts, provides a common language for reporting the social and environmental performance of an enterprise. It facilitates consistent measurement of inputs, outputs and impact of enterprises by standardizing and defining pertinent metrics for describing an organization's governance, legal structure, size, mission, operational activities and product impact. The common social and environmental vocabulary provided in the IRIS taxonomy enables standardized reporting and ready comparison of impact data across sectors and enterprises. By providing a common language, consistent communication between different actors is possible. In turn, it easier for impact investors to understand, evaluate and compare the social and environmental impacts of different mission-driven organizations.

GIIRS

Global Impact Investing Ratings Standard (GIIRS) assesses SEs against a number of criteria and best practices for the SE model, governance, worker practices, community engagement, and environmental impact. GIIRS measures the social and environmental impact of companies and funds using an approach analogous to Morningstar investment ratings or S&P credit risk ratings. GIIRS drives the usage of IRIS taxonomy, and it helps investors reduce due diligence cost by providing them with a standardized tool for social impact measurement. The GIIRS assessment is based on self-reported data that is then verified by a third party actor before qualifying for an official GIIRS rating.

SROI

Social Return on Investment (SROI) was originally developed by REDF (formerly the Roberts Enterprise Development Fund), a San Francisco-based philanthropic fund, to measure the impact of its own investments. The SROI method is a quantitative approach to understanding and managing the social, environmental and

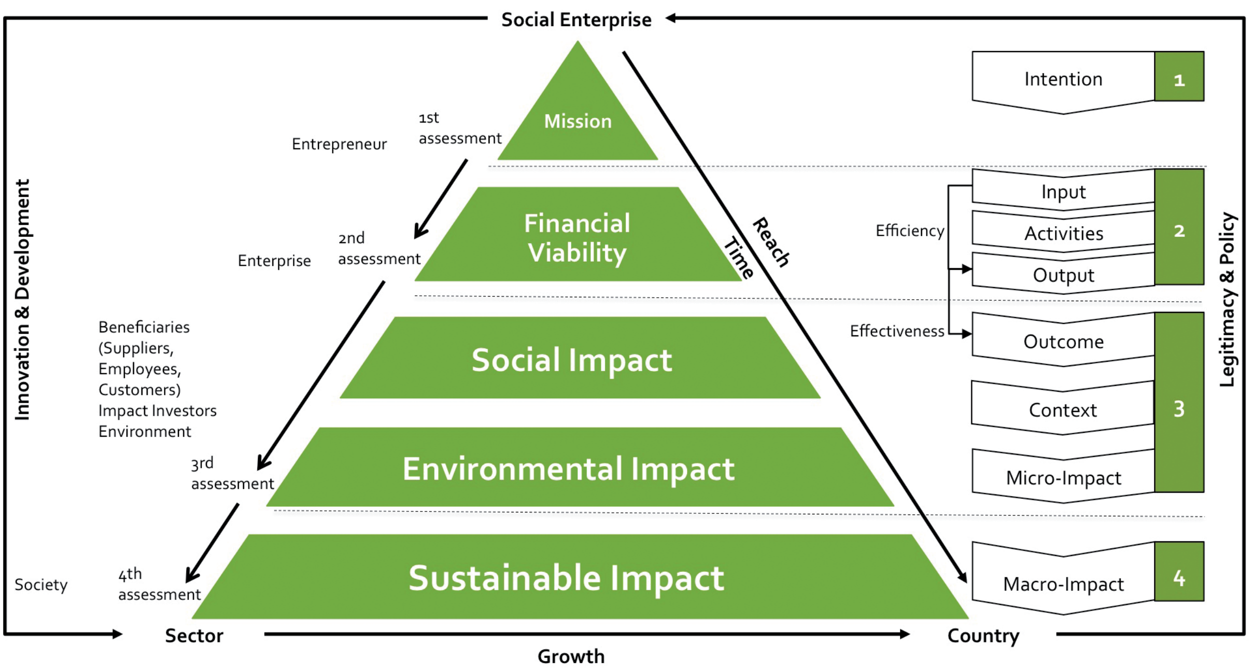
[44] IIX Business Plan, 2011.
[45] New Frontiers of Philanthropy (forthcoming), Chapter 5, 'Social and Environmental Exchanges.'
[46] IIX Business Plan, 2011.

economic value that a project, business, organization, fund or policy is creating. Each SROI assessment is unique and based on the organization's individual set of activities, contexts and stakeholders. Developed from traditional cost-benefit analysis and social accounting, SROI measures the social and environmental value of an enterprise relative to the resources invested in the organization for the achievement of the mission. It focuses on identifying and capturing outcomes that are important to stakeholders but generally excluded from the markets as well as placing a financial value on these outcomes with the same terms used in the markets. Overall, the SROI analysis intends to provide a clear overview of the types of impact created by the enterprise.

Shujog Sustainability Framework

The Shujog Sustainability Framework addresses the issues surrounding customization and contextualization of Shujog's impact assessments and its upcoming impact enterprise certifications. Shujog's impact enterprise certification program will certify social enterprises on the basis of their social, environmental, and financial performance and infrastructure. The certifications will provide impact investors with a quick gauge of the quality of SEs being examined for potential investment. Shujog's impact assessments provide more in-depth analyses of SEs. They add value to SEs by acting as a standardized and credible measure of social and environmental impact for stakeholders, partners, and prospective investors; positioning the SE as a leader in its sector for having a transparent, third-party evaluation of its social and environmental impact; and enabling the SE to raise capital from impact investors, who value such impact assessments. Shujog's impact assessments frame the impact of the SE in the context of country and sector-specific challenges and opportunities. In order to do this, Shujog utilizes its own Shujog Sustainability Framework as a major tool, which can be visualized as the Shujog Sustainability Pyramid below (Figure 29). The Framework employs a broad set of sector, country and SE-specific indicators to assess the sustainability and impact of the SE and the resultant empowerment of its stakeholders. In analyzing an SE's impact value chain, Shujog first assesses the SE's mission, which must be the central focus of what the SE intends to achieve. Then after confirming the SE's financial viability (which is related to the SE's efficiency), Shujog evaluates the SE's effectiveness in realizing its mission by measuring how the SE impacts the lives of its beneficiaries and the environment, as well as the society as a whole. For example, for an SE in rural Bangladesh, social mission, financial stability, and social and environmental impact of the business ultimately lead to the empowerment of the population that is benefiting from the SE's operations. This improved access to basic needs, such as health and education, eventually leads to opportunity creation, financial independence, and political independence for the SE's beneficiaries.

Figure 29: Shujog Sustainability Pyramid



Impact Investor Survey

Introduction to the Survey

The purpose of this survey is to assess investor interest in a "social stock exchange" that would operate in Asia and the Pacific and to understand the requirements that investors have for such an exchange.

Impact Investment Shujog is conducting research as part of a program sponsored by the Asian Development Bank to support the development of a regional social stock exchange in Asia and the Pacific. Such a "**social stock exchange**" would be similar to a traditional stock exchange and would serve as a platform for Social Enterprises in Asia and the Pacific to raise capital through offerings of shares, bonds or other financial instruments. The exchange would target investors seeking to make investments in Social Enterprises that generate financial returns while also promoting positive social and environmental outcomes through a platform that provides for liquidity and transparency. Impact Investment Exchange Asia is currently developing such a regional social stock exchange.

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.

For the purpose of this survey, **impact investing** is defined as investing capital in businesses, funds, or other financial vehicles that actively seek to generate social and/or environmental benefits with the intent of generating both social / environmental benefits and financial returns.

Impact investing (sometimes also referred to as social investing) is a distinct subset of socially responsible investing.

We define **socially responsible investing** as investing while taking into account environmental, social, and ethical aspects of investments in addition to traditional financial criteria. Socially responsible investing strategies may include negative screening (excluding investments in companies in certain industries or which engage in certain practices), positive screening (actively seeking to make investments in companies in certain industries or with certain practices), or activist investment strategies (attempting through investment to influence companies to adopt policies that promote social and /or environmental goals.)

Survey

1. What type of investor are you?
    - Institutional Investor
    - Individual Investor
    - Other

PART ONE (A): TYPE OF ORGANIZATION (FOR INSTITUTIONAL INVESTORS)

2. What type of firm is your organization?
    - Social Venture Capital Fund Manager
    - Microfinance Investment Vehicle Manager
    - Pension Fund Manager
    - Mutual Fund Manager
    - Institutional Fund Manager
    - Other Fund Manager
    - Private Bank
    - Private Client Investment Manager
    - Sovereign Wealth Fund
    - Foundation/Endowment
    - Other

3. What are your firm's total assets under management?
    - $0-100 million
    - $100 million - $1 billion
    - $1-5 billion
    - $5-20 billion
    - $20-50 billion
    - Over $50 billion

4. Where does your investor capital originate from? (Check all that apply)
    - North America
    - Europe
    - Asia
    - Other

5. How would you categorize the source of your investment funds? (Check all that apply)
    - Retail Investors
    - High Net Worth Individual Investors
    - Institutional Investors
    - Endowment
    - Pension Assets
    - Government / Multilateral Agency
    - Other

PART ONE (B): HOUSEHOLD INCOME (FOR INDIVIDUAL INVESTORS)

6. What is your annual household income (in US$)?
   - Less than $50,000
   - $50,000 - $100,000
   - $100,000 - $300,000
   - $300,000 - $500,000
   - $500,000 - $1 million
   - Over $1 million

7. What is your approximate amount of net investable assets (in US$)?
   - Less than $500,000
   - $500,000 - $1 million
   - $1 - 5 million
   - $5 - 30 million
   - $10 - 50 million
   - Over $50 million

Note: *All respondents continue to answer the same questions after this point.*

PART TWO: CURRENT SOCIAL INVESTMENT ENGAGEMENT LEVEL

Socially responsible investing is defined as investing while taking into account environmental, social, and ethical aspects of investments in addition to traditional financial criteria. Socially responsible investing strategies may include negative screening (excluding investments in companies in certain industries or which engage in certain practices), positive screening (actively seeking to make investments in companies in certain industries or with certain practices), or activist investment strategies (attempting through investment to influence companies to adopt policies that promote social and /or environmental goals.)

8a. According to your own or the above definition, are you currently engaged in socially responsible investing?
   - Yes
   - No
   - Don't know

Note: *Those who answer 'No' or 'Don't know' skip automatically to question 9*

8b. What percentage of your total funds available for management is currently invested using socially responsible investment strategies?
   - Less than 1%
   - 1-3%
   - 3-5%
   - 5-15%
   - 15-25%
   - 25-35%
   - 35-50%
   - Over 50%

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.

9. According to your own or the above definition, are you currently engaged in impact investing?
   - Yes
   - No
   - Don't know

Note: *Those who answer 'No' or 'Don't know' will automatically skip to question 13*

10. If your definition of "impact investing" differs from ours, how so?

____

____

11a. What percentage of your total funds available for investment is currently invested in impact investments?
   - Less than 1%
   - 1-3%
   - 3-5%
   - 5-15%
   - 15-25%
   - 25-35%
   - 35-50%
   - Over 50%

11b. What percentage of your total funds available for investment is currently targeted for impact investment?
   - Less than 1%
   - 1-3%
   - 3-5%
   - 5-15%
   - 15-25%
   - 25-35%
   - 35-50%
   - Over 50%

12. What are your financial return criteria for impact investing? (Check all that apply)
   - Full Risk-Adjusted Market Rate of Return
   - Below Market Return
   - Preservation of Principal
   - Varies (please elaborate)
   - Other

13. What requirements would have to be met for you to begin investing, increase your investment size or recommend your clients to invest in impact investments? (Check all that apply)
   - No requirements. Ready to invest/Already investing
   - Increased liquidity of impact investment opportunities
   - Increased transparency of impact investment opportunities
   - More information about the availability of impact investing opportunities
   - Easier access to impact investment opportunities
   - Demonstrated track record of positive financial returns of impact investments
   - For Fund Managers or Advisors, demonstrated investor/client demand
   - Other

14. Looking forward three years, and assuming that the criteria specified above have been met, what percentage of your total funds available for investment would you expect to devote to impact investments?
    - None
    - Less than 1%
    - 1-3%
    - 3-5%
    - 5-15%
    - 15-25%
    - 25-35%
    - 35-50%
    - Over 50%
    - Can't predict- Depends on my clients' / investors' preferences

15. If you are a fund manager, which of the following would you consider using as an investment vehicle from which to make impact investments? (Check all that apply)
    - Pre-existing fund managed by your firm
    - Newly-created fund specifically targeting impact investments
    - N/A
    - Other

16a. Indicate the geographic areas in which you currently make impact investments. (Check all that apply)
- South Asia
- People's Republic of China; Hong Kong, China; Macau, China; Taipei,China
- SE Asia
- Other Asia
- Africa
- Middle East
- Western Europe
- Eastern Europe & Russian Federation
- North America
- Latin America
- None
- Other

16b. Indicate the geographic areas in which you would like to make impact investments in the future. (Check all that apply)
- South Asia
- People's Republic of China; Hong Kong, China; Macau, China; Taipei,China
- SE Asia
- Other Asia
- Africa
- Middle East
- Western Europe
- Eastern Europe & Russian Federation
- North America
- Latin America
- None
- Other

17a. Indicate the social or environmental sectors in which you have made or are currently making impact investments. (Check all that apply)

- Microfinance
- Housing
- Education
- Health
- Urban Renewal
- Job Creation
- Women & Children's Issues
- Fair Trade
- Sustainable Agriculture
- Community Development
- Poverty Alleviation
- Energy/Alternative Energy
- Marine/Ocean
- Forestry
- Water
- Natural Resources
- Waste Management
- None
- Other

17b. Indicate the social or environmental sectors in which you would like to make impact investments in the future. (Check all that apply)

- Microfinance
- Housing
- Education
- Health
- Urban Renewal
- Job Creation
- Women & Children's Issues
- Fair Trade
- Sustainable Agriculture
- Community Development
- Poverty Alleviation
- Energy/Alternative Energy
- Marine/Ocean
- Forestry
- Water
- Natural Resources
- Waste Management
- None
- Other

18a. Indicate the ways in which you currently make impact investments. (Check all that apply)

- Directly
- Through funds
- Through third party Managers/Advisors
- Through funds of funds
- N/A
- Other

18b. Indicate the ways in which you would like to make impact investments in the future. (Check all that apply)

- Directly
- Through funds
- Through third party Managers/Advisors
- Through funds of funds
- N/A
- Other

19a. Indicate the types of impact investments you currently make. (Check all that apply)

- Deposits/CDs/Other Short Term Investments
- Loans
- Liquid Debt Securities
- Guarantees
- Quasi Equity/ Mezzanine Finance
- Private Equity
- Public equity
- Real Estate
- Hard Assets (For example, forestry)
- N/A
- Other

19b. Indicate the types of impact investments you would like to make in the future. (Check all that apply)

- Deposits/CDs/Other Short Term Investments
- Loans
- Liquid Debt Securities
- Guarantees
- Quasi Equity/ Mezzanine Finance
- Private Equity
- Public equity
- Real Estate
- Hard Assets (For example, forestry)
- N/A
- Other

PART THREE: SOCIAL STOCK EXCHANGE: CONCEPTS

Impact Investment Exchange Asia is currently developing a regional social stock exchange to serve as a platform for social enterprises in Asia and the Pacific to raise capital through offerings of shares, bonds or other financial instruments. This social stock exchange will target impact investors seeking to make investments in social enterprises that generate financial returns while also promoting positive social and environmental outcomes through a platform that provides for liquidity and transparency.

The social stock exchange will be similar to a traditional securities exchange in many ways, but will differ in a number of key aspects. Most fundamentally, the exchange will only list securities issued by social enterprises, which are able to meet stringent social and environmental listing criteria. Once listed, it will be mandatory for each listed company to provide detailed periodic social and environmental impact reports in addition to financial reports. It is expected that the value of the traded securities will reflect both the financial and the social performance of the issuer. The exchange will be open to both for-profit social enterprises (which may list shares or bonds on the exchange) as well as not-for-profit social enterprises (which may list bonds on the exchange.)

20. Are you in favor of the development of social stock exchanges?
    - Yes
    - No
    - Don't Know

21. Would you consider transacting or recommending your clients to transact on a social stock exchange?
    - Yes
    - No
    - Don't Know

22. What would be the main reason for you to transact, or recommend your clients to transact, on a social stock exchange? (Check all that apply)
    - Potential financial returns
    - Potential social impact
    - Opportunity to achieve both financial returns and social impact
    - Risk diversification
    - Exit strategy for existing investments
    - Other

23. Compared to making private impact investments through privately negotiated transactions or private funds, what is the appeal of a social stock exchange? (Check all that apply)
    - Liquidity
    - Transparent reporting of financial information
    - Transparent reporting of social/environmental impact information
    - Other

24. What instruments would you be interested in investing in / trading on a social stock exchange? (Check all the apply)
    - Equities/Shares
    - Bonds
    - Funds
    - Other

25. In which currencies would you be willing to conduct transactions? (Check all that apply)
    - US $
    - £
    - ¥
    - Euro
    - Singapore $
    - Local currency (the currency of the issuer country)

PART FOUR: SOCIAL INVESTMENT AND IMPACT CRITERIA

Social Enterprises listing securities on a social stock exchange will be required to report on their social/environmental impact performance as well as on their financial performance

26. Do you currently use a system to measure the social impact of the companies in which you invest?
    - Yes
    - No

Note: *Those who answer 'No' automatically skip to question 28*

27. If yes, which system do you use?

____

____

28. Thinking about the social/environmental impact of your impact investments, which of the following do you require? (Check all that apply)
    - The ability to measure the social/environmental return of my investment
    - Adequate disclosure of social/environmental indicators
    - Reliable social/environmental ratings or certifications from independent agencies
    - Conformity with the Internal Revenue Service's 'Program Related Investment' rules or similar rules applicable outside of the U.S.
    - N/A
    - Other

29. On a scale of 1-5 (5=very important), how important is it for you that a social stock exchange requires listed companies to disclose their social/environmental impact?
    - 1
    - 2
    - 3
    - 4
    - 5

30. How acceptable are each of the following types of social/environmental impact reporting for listed companies on a scale of 1-5 (5=entirely acceptable)?

Note: *Impact Reporting and Investment Standards (IRIS) is a common framework for measuring social and environmental impact of investments. Global Impact Investing Rating System (GIIRS) assesses the social and environmental impact of companies and funds using a ratings approach analogous to Morningstar investment rankings or S&P credit risk ratings.*

____ Reporting of social Key Performance Indicators (KPIs) chosen by the listed company

____ Reporting of social KPIs chosen by the company using standardized reporting terminology (such as IRIS)

____ Reporting of social KPIs as specified by the social stock exchange using standardized reporting terminology (such as IRIS)

____ Reporting of social KPIs sufficient to generate a social impact rating using a standardized system (such as GIIRS)

31. How acceptable are each of the following forms of verification of social/environmental impact data reported by companies listed on a social stock exchange, on a scale of 1-5 (5=entirely acceptable)?

____ Self-reporting by listed companies without independent verification

____ Self-reporting by listed companies, with due diligence review performed by company sponsor / underwriter / financial advisor

____ Self-reporting by listed companies, subject to random periodic audit by independent audit firm

____ Self-reporting by listed companies, subject to audit in each instance by an independent audit firm

PART FIVE: OPERATIONAL REQUIREMENTS FOR A SOCIAL STOCK EXCHANGE

This section is meant to gauge your operational requirements for transacting on a social stock exchange

If you were ever to transact on a social stock exchange…

LIQUIDITY

32. What would be your minimum investment size (in US$) per company/security listed on a social stock exchange?
    - No minimum
    - Less than $10,000
    - $10,000-$100,000
    - $100,000-$500,000
    - More than $500,000

33. What would be the minimum market capitalization/issue size (in US$) of a security listed on a social stock exchange in which you would invest?
    - No minimum
    - Less than $10 million
    - $10 million - $20 million
    - $20 million - $50 million
    - More than $50 million

34. What is your investment horizon/timeframe (i.e., how long would you expect to hold an investment made on a social stock exchange)?
    - Less than 1 year
    - 1 - 2 years
    - 2 - 5 years
    - More than 5 years
    - Can't predict

35. How often, at a minimum, would you need a price quotation?
    - Real-time prices
    - Daily
    - Weekly
    - Monthly
    - Quarterly
    - Not important

MARKET ACCESS

36. Please rank the following as potential locations for a social stock exchange serving Asian issuers and global investors in order of preference (1=most preferred).
    - Singapore
    - Kuala Lumpur
    - Bangkok
    - Hong Kong
    - Mumbai

37. Do you anticipate accessing the market directly (through a stock exchange technical connection)?
    - Yes
    - No
    - Don't Know

38. Do you anticipate accessing the market via a broker?
    - Yes
    - No
    - Don't Know

Note: *Those who answer 'No' or 'Don't know' automatically skip to question 40*

39. If yes, do you have specific requirements for brokers?

FINANCIAL REPORTING

40. How frequently, at a minimum, would you require listed companies to provide financial statement reporting?
    - Quarterly
    - Semi-annually
    - Annually

OFFERING DOCUMENTS

41. What minimum level of offering documents would you require companies undertaking an offering of securities to provide before making an investment decision?
    - Full prospectus (similar to what is required to be filed for a public offering of securities in the U.S., the UK, or Singapore)
    - Admission document (similar to what is required for admission to listing on the Alternative Investment Market (AIM) in the UK)
    - Offering memorandum (similar to what is required for a bond offering to institutional investors in Singapore)
    - Don't Know
    - Other

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