



KORDANT PHILANTHROPY ADVISORS

Kordant Report Series



Social Enterprises in Asia

An Introductory Guide

Over the decades, social enterprises (SEs) have gained increased recognition for their ability to bring about fair and equitable social transformations. Their unique models provide an additional mode of engagement for individuals and institutions interested in addressing social issues. SEs can take the form of a nonprofit or for-profit and vary in size and structure, but what unites all SEs is their business approach to social change. Instead of maximizing profits, SEs apply market

practices to maximizing impact and strive to optimize finances in support of their social or environmental missions.

This report serves as an introductory guide to social enterprise development in Asia. It looks at the role of SEs in social innovation, examines the conditions driving social entrepreneurship, and provides recommendations for philanthropists interested in supporting SEs in Asia.

THE SOCIAL INNOVATION SECTOR

SEs play an integral role in a larger social innovation sector. Put simply, social innovations are creative solutions to society's most pressing problems, designed to be just, affordable, and sustainable (Phills, Deiglmeier and Miller 2008). Given this multifaceted definition, the actors and organizations that make up the social innovation sector can also cut across a wide spectrum of business and society. Aside from SEs, which act as on-the-ground implementers of social solutions, they include: venture philanthropists and impact

investors financing SEs; universities cultivating a pipeline of talent for the sector; consultancies engaging in capacity building and promoting impact measurement frameworks; policymakers creating an enabling regulatory environment; and corporations interested in exploring new, underserved markets for their products and services, among others. Each actor and organization has a critical role to play, with the overall success of the sector dependent on their mutual collaboration.

OVERVIEW OF SOCIAL ENTERPRISES IN ASIA

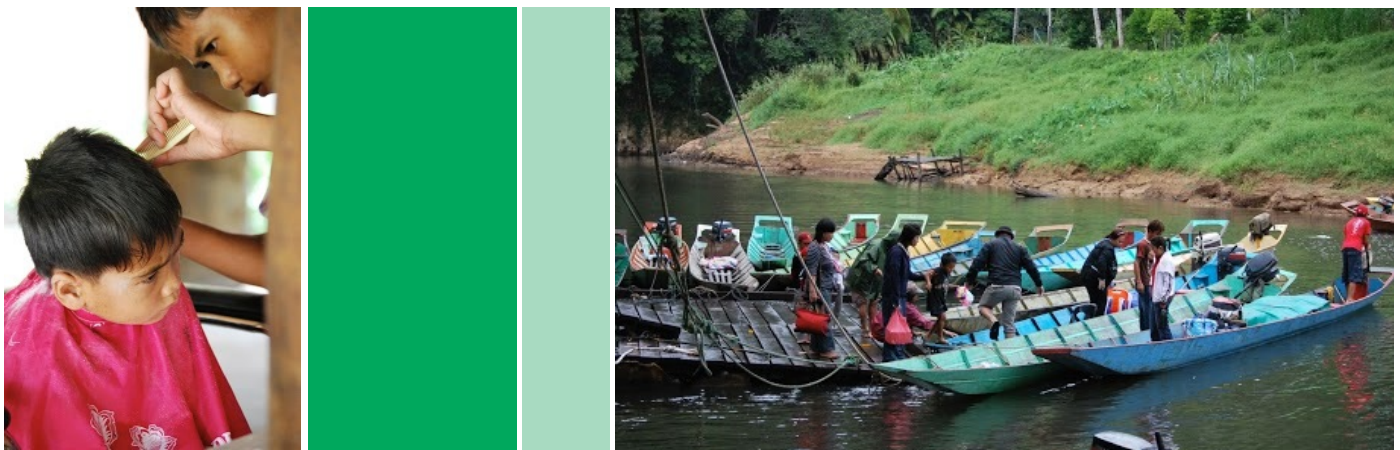
Although early models of SEs have existed in Asia for centuries, the term “social enterprise” was not used to identify such organizations until the 1980s. Around this time, Bill Drayton, founder of the nonprofit organization Ashoka, explicitly linked social innovation to entrepreneurship. Once the term started to gain traction, the individuals initially celebrated as social entrepreneurs in Asia tended to be foreigners or returning expatriates, but homegrown Asian social entrepreneurs are now more common.

Some of the world's largest and most well known SEs, like the Grameen Bank and BRAC Enterprises, got their start in Asia. However, it is difficult to state exactly how many SEs there are in Asia since SEs are so diverse in their nature and scope of activities. Moreover, because of the relatively recent introduction of the term, many organizations may not even self-identify as a social enterprise even though they function as one. Nevertheless, as an indicator of social entrepreneurship's growing momentum in Asia, a recent UBS-INSEAD survey of philanthropists, foundations, and family businesses from ten Asian countries found that over a third of survey

respondents considered social entrepreneurship the single-most important emerging trend in Asian philanthropy (Mahmood and Santos 2011).

Across the continent, Asia is proving to be a highly fragmented but fertile space for SE development. On the one hand, two-thirds of the world's poor live in Asia; the support mechanisms for Asian SEs are still underdeveloped; and its entrepreneurial space lacks cohesion between countries. Asia has over 40 sovereign states and special territories—each with its own idiosyncrasies in culture, governance, and development. Everything from the legal classifications to the stages of social entrepreneurship maturity can differ by country.

On the other hand, Asia is also home to a third of the world's wealth; its talent pool runs deep; and there is a diverse array of actors pushing for greater Asian innovation. The opportunities for innovation in Asia are just as plentiful as there are needs, and the people of Asia are taking greater ownership in solving the social and environmental issues the region currently faces.



LOCAL ECOSYSTEMS

SE development at the country level is driven by a number of interrelated factors, but there are two that stand out in particular. The first is the vitality of a country's civil society (which includes the strength of its nonprofit sector, the freedom of its people to act, the availability of resources that support citizen engagement, etc). The second is the country's business environment (encompassing its ease of doing business, the sophistication of its business culture, and the state of its infrastructure, among other things). An imbalance in either factor can have far-reaching implications for the local SE ecosystem.

For example, the innovation sector in Mainland China has expanded rapidly over the past two decades thanks to a combination of heightened social awareness and ongoing economic reform. But Chinese SEs still face a number of regulatory hurdles that could stall future growth. Regulations in China are complex and demanding, but no specific legal framework exists for SEs, making it difficult for Chinese social entrepreneurs to ascertain how much operational leeway they have. For the sake of a clear working environment, many Chinese social entrepreneurs

are compelled to either register their organization as a commercial business and compete directly with well-financed mainstream businesses, or take a more traditional nonprofit approach and face restrictive government oversight and limited funding opportunities.

In comparison, SE ecosystems in other parts of Asia, like Singapore and Hong Kong, benefit from greater regulatory and multi-sector support for social innovation. Singapore and Hong Kong are both known for their hospitable business environments and world-class infrastructure, and impact investing is also gaining traction in both these city-states. Additionally, Singapore and Hong Kong both have active spaces of civil society and governments that commit a number of resources to furthering SE development. Singapore's Ministry of Social and Family Development currently has at least three funds set aside for SEs: the ComCare Enterprise Fund, the Youth Social Entrepreneurship Programme for Start-Ups, and the Central Co-operative Fund. Hong Kong officially launched the half billion HKD Social Innovation and Entrepreneurship Development Fund in September 2013.

ISSUES & INDUSTRIES

The types of issues that SEs address also depends on the needs and phase of each country's unique development. For instance, Japan may have an advanced economy, but it faces a rapidly aging population and needs to develop a more inclusive labor market if it is to retain its economic clout. Many Japanese SEs, therefore, focus on enabling more women to participate in the country's workforce. Meanwhile, resource rich countries like Indonesia and the Philippines incubate many SEs that focus on environmental stewardship and management of a more inclusive value chain.

India is perhaps the clearest example of how SEs emerge as solutions to a country's unique development situation. In India, some 300 million people lack access to electricity, 98

million lack access to clean water, 650 million lack access to basic financial services, and 70% live in rural areas (World Bank 2010 - 2012). India's population is also very young — more than half are under 25 years old (Rajendram 2013). But India's education system has not yet met the needs of the country's young population, and job growth in recent years has stagnated. Viewed all together, these conditions describe a country that still struggles with basic infrastructure and education services. Not surprisingly, the SEs that have emerged in India have gravitated towards activities in its food-energy-water nexus, with a great number of microfinance, education-focused, and healthcare organizations emerging as well.



Common Types of Social Enterprises

Social enterprises are an evolving concept. As such, the different organizational structures and business models SEs can adopt continue to grow in number. Below is a brief summary of some of the common SE types found in Asia. Please note, however, that this list is far from comprehensive, and many SEs have overlapping models that can be grouped under multiple categories.

1. Social Firms are also known as “Work Integration Social Enterprises.” Their primary function is to create or find quality jobs for disadvantaged and marginalized communities.
Ex. Rags2Riches, a Filipino SE, trains impoverished women in skills development, business management, and financial literacy and helps them supplement their income through its fashion business.

2. Cooperatives are SEs managed by “member-owners” — individuals who come together with a common business objective and share in their enterprise’s profits.
Ex. Huay Pla Lod Agriculture Cooperative is a Thai social enterprise. Its “member-owners” are ethnic minorities from Thailand’s highlands who work together to manage a sustainable supply chain for their agroforestry products.

3. Charity Trading Arms are usually branches or programs of larger nonprofit organizations, established to create a steady revenue stream for their parent organization.
Ex. In Cambodia, Mith Samlanh sells cookbooks and crafts and operates two restaurants and a nail salon to raise revenue for its programs and provide training opportunities benefiting at-risk youths.

4. Community Enterprises are SEs with a localized angle. They leverage a local community’s existing assets (e.g. its cultural capital or natural resources) and build viable business models based off of those assets.
Ex. Impulse Empower Brand works with weavers in the Assamese and Mishng tribes of Northeast India to produce artisan products unique to the region that are then sold at various retailers throughout the world.

5. Social Business Ventures are SEs legally structured as for-profit businesses, but they prioritize their missions above profit maximization.
Ex. Aravind Eye Care System (AECS) provides high quality, affordable eye care to patients in India through an innovative operating model and tiered pricing system.

6. Microfinance Institutions are one of those most well-known types of SEs. They typically offer savings accounts and loans at low interest rates to individuals and small businesses not served by larger financial institutions.
Ex. The Agribusiness Microfinance Institution (LKMA) in Indonesia is a microfinance cooperative serving small farming businesses.

Social Enterprise Spotlights

Canyou



Canyou, meaning “friends of the disabled,” is one of China’s most successful social enterprises. Founded by Zheng Weining, a man born with severe congenital hemophilia, Canyou’s mission is to help disabled individuals realize their full potential by assisting them with living arrangements and career planning. Canyou has 32 social enterprise branches that directly employ disabled individuals in IT, software development, animation, and e-commerce related jobs based on their level of education and ability. Since it launched in 1997, Canyou’s staff has grown to over 3,700 individuals. In 2012, Canyou received the International Social Enterprise award at the UK Social Enterprise Awards.

Friends-International



Friends-International is a nonprofit social enterprise based in Cambodia, with additional operations in Laos, Thailand, Indonesia, the Philippines, Myanmar, Honduras, Mexico, Kenya, and Egypt. Its mission is to protect and re-integrate marginalized children and at-risk youth into society through providing social services, education, training for employment, and building the capacity of families to care for their children. Its wide array of programs includes vocational training businesses that lead to jobs for the students and income generating initiatives for families to help them support their children. What makes Friends-International notable is its ability to mobilize partners from different sectors to join its efforts. Government agencies collaborate with Friends-International to implement social protection programs, and hotels, restaurants and travel industry companies work with Friends-International to promote sustainable tourism. Along with its own revenue generating activities, the public, private, and community investment in Friends-International helps ensure its sustainability. Its programs now reach over 77,000 children and youths each year.

Hapinoy



Hapinoy is a social enterprise dedicated to empowering female micro-entrepreneurs and bringing impact to their communities. The organization’s name is a play on words, combining “happy” and “pinoy” (a colloquial term for “Filipino”). Its social business model is based on growing a network of “sari-sari” stores — small, in-home storefronts typically run by Filipino women. Hapinoy trains these women in business and financial management to operate their sari-sari stores more effectively, and then enables them to provide financial services to clients at the base of the pyramid through mobile technologies. It has thus trained more than 3,000 micro-entrepreneurs and is gradually enrolling them into the mobile financial services program.

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THE CHALLENGES AHEAD

As Asia continues to undergo drastic social, demographic, and economic changes, the evolving SE ecosystem can play a role to ensure that future Asian growth is inclusive and sustainable. SEs reach underserved communities, linking them to products and services that enhance their quality of life and income generation ability. However, a number of issues must be addressed before SEs can become a part of mainstream Asian economies and societies. The primary challenges identified here include: funding, a lack of awareness and collaboration, regulatory environments, evaluation metrics, and capacity building.

Funding

Many Asian social entrepreneurs continue to rely on personal funds or grants from Western foundations as major sources of their financing. While Asian philanthropists and investors are becoming more interested in social and environmental causes, reservations remain about funding social enterprises that address these issues. For philanthropists, the hesitation is partly a reflection of Asia's general philanthropic culture. The older generation of Asia's philanthropists tends to be very hyper-local and influenced by tradition (Mahmood and Santos 2011). Much of their giving is directed towards infrastructure projects, like the construction of schools or temples. On the other hand, the younger generation is more interested in national and international causes and in sectors such as arts, civic rights, and the environment (Mahmood and Santos 2011). Overall, we have found that having a personal connection to the organization and having a line of sight to those that will benefit from the organization's services is important to donors.

For investors, the reluctance to fund social enterprises is rooted in uncertainty, risk aversion, and a lack of incentives. Asian investors are interested in creating business legacies and see themselves as catalysts to the success of a venture. However, SEs need time to launch, iterate, and adapt to ever-changing social and environmental realities. Additionally, it can be especially difficult for investors to gauge success potential and return on investments when SEs must also balance profitability with the social aspects of their missions. Investors may not be willing to commit to a space that still lacks a track record when more secure and profitable commercial investments are at hand. Moreover, the majority of Asian governments have yet to set up incentive structures, such as tax credits or allowances, that encourage local investment in SEs.

Increasing Awareness and Collaboration

To achieve their goals, SEs must do a better job of engaging philanthropists, investors, and the general public in their work. However, reaching a broader audience is not something SE practitioners can accomplish on their own. Actors from across the social innovation sector need to expand marketing and outreach efforts, helping the public understand how SEs fit into development and how people of different professional backgrounds can get involved. A social enterprise may begin with the vision of a sole entrepreneur, but it needs the support of accountants, marketers, consultants, researchers, and others professionals to become a sustainable entity.

Social entrepreneurs and funders also need to increase dialogue among one another in order to improve understanding and build upon each other's efforts. Rather than outright competition, social entrepreneurs and funders could take a more collaborative view of their work. SEs can work with one another to ensure different needs are being met comprehensively, while funders can communicate with each other to ensure funds are distributed efficiently and strategically. Conferences like the Asian Social Entrepreneur Summit or the Sankalp Forum in India can help facilitate best practice discussions between social entrepreneurs. Meanwhile, Singapore-based Impact Investment Exchange Asia (IIX) is working to develop a capital market that connects the many different elements of the SE ecosystem. IIX's incubator program links early-stage SEs to funders, its partner platform helps impact investors identify potential investments, and the social stock exchange allows SEs to list their projects and for investors to trade publicly. While still works in progress, these efforts can establish the foundations that accelerate future social innovation.

Policies & Regulations

Most Asian countries have yet to develop regulations that keep up with the pace of SE growth. Crafting social innovation-specific policies that are nurturing but not overly patronizing can be conducive to the long-term success of SEs. Flexible tools, like office space subsidies or export tax exemptions, can help lower the barriers to entry for new SEs.

For more concrete examples, India and the Philippines are two countries moving towards stronger policy support for SEs. The Indian government's Inclusive Innovation Fund grants startup capital to new social ventures, and SEs are among the types of organizations eligible to receive funding under India's new corporate social responsibility law, which mandates that all companies of a certain size must dedicate 2% of their profits to social causes. Beyond that, the Indian government tries to engage social entrepreneurs at all levels through National, State, Sectoral, and City Innovation Councils. The government has also leveraged existing networks of industry associations to create Cluster Innovation Centres. These centres act as platforms where SEs can connect to research and development organizations, industry experts, government programs, financial institutions, and one another (Schwab Foundation and World Economic Forum 2013).

Meanwhile, in the Philippines, the Poverty Reduction through Social Entrepreneurship (PRESENT) Bill is currently moving through congress. The PRESENT Bill helps SEs secure funding; creates an SE market development program; provides capacity support; promotes SE research and awareness; and establishes tax exemptions and tax breaks for SEs, among other things (Dacanay 2012).

Sector Metrics

While many success stories have emerged from the fields, the overall impact of SEs has yet to be thoroughly quantified. Part of this comes from the difficulty of developing sector metrics that can be systematically applied across multiple contexts. Benchmarking standards need to be objective in order to accurately convey the social return on investments to funders, but with Asia being so diverse, the standards of one country may not apply to another. Additionally, with so much variance among SEs themselves, it may be unfair to hold a small agriculture cooperative to the same expectations as a medium-sized SE developing health-monitoring applications. Nevertheless, despite the inherent difficulties of the task, there has been progress and gradual convergence in the creation of universally acceptable standards. Examples of benchmarking systems gaining wider adoption at this time are the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investment Rating System (GIIRS).

Capacity Building

Succeeding concurrently as a business and a socially impactful organization remains a challenge for many SEs. To effectively meet both objectives, SEs must pay equal attention to their own infrastructure as they do to the issues they address. While many professionals are attracted to social entrepreneurship, increasing salary and organizational capacity will be critical for retaining talent in the sector. Unless social entrepreneurs can see more viable career paths, talented professionals will only dabble in social innovation without committing to this space for long-term impact.



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OPPORTUNITIES & RECOMMENDATIONS

SEs have much to benefit from greater philanthropic involvement, but philanthropists must also be strategic in how they engage SEs if they wish to see the social innovation sector mature. Foremost, philanthropists must be willing to study not just the SEs they are interested in financing, but also the issues those SEs seek to address. This will require the humility to ask questions and learn from the SEs themselves, as well the patience to study ground realities and culturally-sensitive development models. Nonetheless, it is important that philanthropists aspire to map solutions to actual outcomes and prioritize results. The following are additional recommendations philanthropists can consider if they wish to support SEs in Asia.

Technical Training & Staff Support

As younger SEs move beyond proof of concept, they will need to devote more of their resources to sustaining themselves as businesses. Philanthropists should be open to unrestricted funding and providing organizational effectiveness or capacity building grants so that SEs can have the flexibility to accomplish this. Funding short-term, specialized training programs can help, but supporting personnel costs so that SEs can attract and retain the right talent is particularly needed. Allowing SE staff to develop competencies in accounting, human resources, systems management, operations, etc. will enable them to professionalize and scale more quickly.

Mentoring & Networking

SEs stand to benefit from non-monetary support as well. Just as any fledgling startup can gain from the wisdom and insights of experienced business leaders, social entrepreneurs need mentoring, strategic advice, and networking opportunities. In addition to their financial capital, philanthropists can bring their knowledge, experience and connections to help the social entrepreneur and enterprise succeed. Many venture philanthropists, investment firms, and

intermediary groups have started to recognize the importance of mentoring and networking in growing the SE ecosystem, making these a core part of their activities. In Vietnam, for instance, the Centre for Social Initiatives Promotion has a program providing intensive mentoring, resource sharing, and networking opportunities to SEs. Insitor Management, an impact investment firm headquartered in Cambodia, declares that a “hands-on approach” is instrumental to its investment strategy, so its investors often join SEs as active board members.

Funding Instruments & Support for Intermediaries

Philanthropists can work with SEs to select funding instruments that appropriately incentivize growth. For example, depending on a SE’s stage of business maturity, it may be better to offer a guaranteed or interest-free loan rather than a grant. Additionally, philanthropists should look into funding intermediaries that promote participation in the social innovation sector. Funding university programs, business school competitions, incubators and other organizations that provide services to SEs can help inspire and enable more young people to become part of social ventures at different capacities.



CONCLUSION

SEs are proving to be indispensable to Asia's future. Their strength lies in their ability to fill development gaps while generating prosperity across the different rungs of society. They share a deep connection to the communities they serve, and they have an adaptability that allows them to espouse the best qualities of the public, nonprofit, and private sectors. But for SEs to continue scaling and introducing new solutions to society's most dire problems, they will need actors across the greater innovation sector to align their many priorities and commit to building a more cohesive and collaborative working environment. We encourage philanthropists, practitioners, and others to continue pursuing growth in the social innovation sector with compassion and pragmatism in mind.

Featured Funders

Asian Venture Philanthropy Network



The Asian Venture Philanthropy Network (AVPN) is a membership organization based in Singapore. Its 160 members represent the “supply” side of venture philanthropy, encompassing philanthropists, private equity managers, family foundations, impact investors, universities, and other actors from over 20 different countries. AVPN connects its members to a wider network of resource providers for co-investing, partnerships, resource sharing, and learning. Besides its annual conference, AVPN also conducts professional training workshops, bespoke roundtables for members, and other events for networking. It is building up a knowledge centre, providing market data and resources on the region regarding social investing.

Elevar Equity



Elevar Equity is a thesis based equity investor focused on generating outstanding investment returns by democratizing essential services for economically vibrant, entrepreneurial customers living in communities that are disconnected from mainstream markets. Elevar believes that this disconnection — due to oversight, discrimination, poverty or other obstacles — is best solved through access provided by entrepreneur-led, high-volume and low-margin, customer-focused business models. Accordingly, Elevar backs entrepreneurs who bring significant retail execution experience to provide massively scalable financial services, housing, healthcare and education tailored explicitly to the needs of low income communities. The 16 companies that Elevar has invested in to date have served over 11 million households and have created over 40,000 jobs. Elevar has offices in Bangalore, Bogota, Seattle and San Francisco.

LGT Venture Philanthropy



LGT Venture Philanthropy is a global impact investor initiated by the Princely Family of Liechtenstein. Established in 2007, LGT Venture Philanthropy currently supports over 30 portfolio organizations in Latin America, Africa, India, Southeast Asia, and China in the areas of healthcare, education, agriculture and renewable energy. It offers three forms of capital support: financial capital through equity, loans, and grants; intellectual capital through mentoring and its ICats fellowship program; and social capital through their international networks. Funded organizations receive an average of 50,000 to 10 million USD in support. LGT Venture Philanthropy also advises families, foundations and corporates for their own philanthropic engagement and supports them in its implementation.

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FURTHER READING

INSTITUTE FOR SOCIAL ENTREPRENEURSHIP IN ASIA | www.isea-group.net

ASIA CENTRE FOR SOCIAL ENTREPRENEURSHIP & PHILANTHROPY
(National University of Singapore) | www.bschool.nus.edu/acsep

FOUNDATION FOR YOUTH SOCIAL ENTREPRENEURSHIP | www.fyse.org

ASIAN VENTURE PHILANTHROPY NETWORK | www.avpn.asia

ASIA IMPACT EXCHANGE | www.asiaiiix.com

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