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**Social Enterprise in Asia: Context and Opportunities<sup>\*</sup>**

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## **Social Enterprise in Asia: Context and Opportunities**

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**ABSTRACT:** *Asia is the birthplace of several successful and large Social Enterprises (SEs) such as Grameen Bank, BRAC and PDA. While extensively covered in the media, these entities are the exception rather than the norm. These SEs were, and some remain, lucky to receive unquestioned government and donor support. Not all the SEs in Asia is in the same position. Unfortunately most of the SEs are mid-sized; with neither have the unlimited access to capital nor the required recognition of their impactful work. At the same time, SEs in Asia operate within contexts that, while impossible to generalise across the whole region, provide some unique opportunities for growth.*

*In an increasing number of instances, SEs are accomplishing the region's socio-economic goals in both the for-profit and not-for-profit sectors. Moreover, Asian SEs are finding increasing opportunities to raise capital, in line with the emergence of an exchange or financial platform specifically for SEs, a rise in Islamic banking and Shariah compliant funds and increasing government interest in incubating social enterprises as a new sector. While SEs have had, and are likely to continue to have, significant impact on their communities, they have received little attention from academia. There is a dearth of analytical research aimed at understanding the causes and impacts of Asia's explosion of social innovation, or of the direction such innovation is likely to take. This paper aims to provide such a comprehensive overview.*

*In particular, this paper will contextualise the efforts to develop a methodology for measuring social impact of sustainable SEs in Asia. By defining the motivations of financial platforms, institutional and retail impact investors, government regulators, clients and operators of SEs in Asia, and how these might differ from those in Europe or the United States, this paper will not only provide a clearer general understanding of the environment in which the Asian SEs thrive and operate, it will also analyse to what ends and how different stakeholders are likely to process the information stemming from such measurement. This work will therefore provide the foundational understanding of how the flow of capital and indeed the entire social enterprise sphere is likely to develop in Asia in the years to come.*

### ***Background note***

This paper is part of a larger project undertaken by the Programme on Social Innovation and Change (PSIC) at the Centre on Asia and Globalisation (CAG) of the Lee Kuan Yew School of Public Policy at the National University of Singapore. PSIC is dedicated to the research, study and promotion of sustainable SEs within Asia.

This project, funded by the Rockefeller Foundation, will critique existing “best-in-class” social impact measurement methodologies and propose the effective social valuation method for sustainable SEs in Asia. Given that the funders, investors or the recipients so far have not effectively measured the social accomplishments of these SEs, the development of an appropriate, meaningful and comparable methodology is crucial. Integral to the success of such a methodology would be the support and uptake of all players in the ecosystem. This paper, by providing the foundational understanding of the pressures, demands and opportunities of the ecosystem within which Asian SEs operate, allows an exploration of *how* such a methodology will be used within key users in the Asian context.

### ***Authors***

This paper is co-authored by Prof Durreen Shahnaz and Dr. Dr Patricia Tan Shu Ming.

Prof Durreen Shahnaz is the Head of PSIC and Adjunct Associate Professor at the Lee Kuan Yew School of Public Policy (LKY School) – Graduate School of Public Policy at the National University of Singapore.

Prof Shahnaz has been a change maker throughout her career which has spanned the private, public and social sectors. In private sector, as the head of three regional media companies (Hearst Magazines, Readers’ Digest, Asia City Media), Prof Shahnaz worked vigorously to incorporate social responsibility in these companies’ work.

Prof Shahnaz also has a track record as a successful social entrepreneur. She founded, ran and sold a social purpose business called oneNest in New York. oneNest provided a B-to-B platform focused on creating online and offline wholesale opportunities for artisans and enterprises making handmade goods around the world. Over the years oneNest became the primary supplier to UNICEF’s global catalog -- a business worth over USD\$150 million. Through its marketplace of thousands of small gift stores as well as large retail stores and catalog companies, oneNest created markets for thousands of artisans around the globe. At one point, the company alone was responsible for lifting thousands of weavers from the brink of starvation when it assisted them to sell over USD\$500,000 worth of silk hand-woven shawls after the devastating earthquake in the weavers’ home state of Gujarat, India.

Before embarking upon the entrepreneurial path, Prof Shahnaz worked at Grameen Bank (Bangladesh), Morgan Stanley (New York) and the World Bank (Washington, D.C.).

Prof Shahnaz recently founded and is the Chairman of Impact Investment Exchange (IIX), a regional social stock exchange based in Singapore. IIX is a trading platform for sustainable for profit and not-for-profit social enterprises and social purpose businesses from Asia.

Prof Shahnaz holds a BA from Smith College (double major in Economics and Government); and a joint graduate degree – MBA from Wharton School, University of Pennsylvania (Finance) and MA from School for Advanced International Studies at Johns Hopkins University (International Economics and International Relations).

Dr Patricia Tan Shu Ming is Director of the COMO Foundation, the corporate philanthropy of the COMO Group. The Foundation supports income-generation, education and skill development programmes for at-risk women and girls in developing countries. Dr. Tan will be evaluating the social valuation methods, testing them and co-authoring the white paper with Prof Shahnaz.

Dr Tan's career has focused on two areas: cooperation between the public and private sectors for social good, and the role of ideas and values in shaping corporate identity. In the area of public/private cooperation, Dr Tan's academic interests have focused on institutions charged with shaping public understanding of abstract issues such as science, technology and ethics.

In the area of ideas and values and how they shape identity, her doctoral thesis looked at the role universities played in efforts to remove the stain of Nazism from post-war Germany. She took these skills to the corporate world and worked for the London and Singapore offices of Interbrand, a consultancy that works with companies and government agencies in aligning their business activities to their values and brand.

Dr Tan has brought these two fields of interest together at the COMO Foundation, which she helped to establish in 2003. Working with the management of the COMO Group, which includes the Club 21 chain of companies ([www.club21global.com](http://www.club21global.com)) and COMO Hotels and Resorts ([www.como.bz](http://www.como.bz)), she spearheads philanthropic initiatives, employee engagement activities and corporate social responsibility.

Dr Tan was educated in Singapore, the United States, and England. She obtained her bachelors and masters degrees from Stanford University and her doctorate from Oxford. She was Singapore's Rhodes Scholar for 1997.

**Key words** – social enterprise, Asian social enterprise, social impact, social impact measurement, social valuation, GIIRS, IRIS, SROI, Social return

## ***Introduction***

Asia is the birthplace of several successful and large Social Enterprises (SEs) such as BRAC (originally Bangladesh, now in 14 countries worldwide), Grameen Bank (originally Bangladesh, now spawned 13 related companies), Self-Employed Women's Association of India (SEWA, with over 600,000 members) and the Population And Community Development Association (Thailand). While extensively covered in the media, these entities are the exception rather than the norm. Most SEs in Asia, as in the rest of the world, are small-to-mid-sized, with neither unlimited access to capital nor the required recognition of their impactful work.

As the body of analytical research on SEs in general continues to grow, there remains a gap in understanding the causes and impacts of Asia's explosion of social innovation, as well as the direction such innovation is likely to take. This paper aims to provide such an overview. In particular, it addresses the key developments needed for the sector to mature, namely the harnessing of capital through impact investment, the institutionalization of methodologies for measuring and communicating social return and capacity building to make the SEs grow and market ready.

This paper is structured into three main sections:

1. Context: Although the current surge of interest in SEs may suggest that social enterprise and entrepreneurship are emerging phenomena, SEs, primarily in micro-finance, have existed for over three decades. This section traces the diverse sources of funding for such enterprises, highlighting some of the key challenges and opportunities. This section also explores the environment known as the 'Ecosystem' within which Asian SEs operate. This Ecosystem is changing

rapidly and requires proper harnessing. The confluence of several emerging trends, which are diversifying sources of capital for social enterprises, may set the stage for a significant boost to social enterprise activity in Asia. This also section describes the significant stakeholders, their roles and motivations in shaping the SE landscape.

2. **Impact Measurement** – a key driver for growth, this final section will contextualize the important task of impact measurement from the perspective of the stakeholders as covered in Section 1. It will end with a brief outline of an ongoing project to test three methodologies in the Asian context, and discuss to what ends and how different stakeholders are likely to process the information stemming from such measurement.
3. **Capacity Building** – an appropriate social impact measurement will identify the deficiencies that the SEs need to overcome in order absorb capital growth and expand its social impact. Thus, the need for improved social and financial performance will be met by appropriate capacity building in a variety of organizational issues such as planning, management, leadership, governance, transparency and outcome measurement.

By examining the history and context of SEs in Asia, as well as addressing the key concerns regarding impact measurement by the key active stakeholders, this paper suggests that:

1. The time is ripe for transformational growth in the social enterprise sector in Asia.
2. Transparency, enabled by understanding of both the driving missions and business models of social enterprises, are crucial to such growth.

3. Information, conveyed along consistent, digestible and comparable metrics is necessary to develop the “ecosystem” surrounding the sector.
4. Although benchmarking, analysis and accreditation are important, the sector needs to build an authoritative identity as a distinct field, based on proven credibility, engagement, capacity building and economic and social value creation.

### **Context**

Asia is uniquely positioned to suffer the great global challenges of the 21st century. Containing 60% of the world’s population, its dense populations are vulnerable to economic downturns, social upheaval and environmental degradation. Yet, Asia is also the incubator of some of the most innovative approaches to these challenges. Asia’s social enterprise sector has grown to be as vast and diverse as the individual countries and challenges it spans.

### ***Early Social Enterprises in Asia***

When market-oriented approaches to social problems were first mooted, there was no capital available for social enterprises. Entrepreneurs (social or otherwise) either used their own funds or applied for bank loans (requiring collaterals) to start social enterprises. The only other option (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 social enterprises is historically grounded and has been immense. Even today, most social enterprises in Asia are established as not-for-profit Non Government Organizations (NGOs - legally they are registered as societies or trusts), in order to communicate their social goals as well as to tap upon available

funds As northern countries became more economically and socially stable, more funds found their way to the “third world”, particularly for “development”. The tax systems of Northern countries allowed for funds to flow into the NGO sector in Asia, funding social mission achievement. Consequently, Asia is 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 the achievement of social missions. In Bangladesh alone there are over 20,000 NGO. This number is several times larger in countries like India or Indonesia.

Another source of funding for social ventures is religion. 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 part of the Islamic tradition. Though much of the giving is to the religious institutions, they have been deployed for a range of social missions, including the establishment of *madrasahs* to provide basic education for the masses. The same is true for other religions in the region – including the Hindus, the Jains, the Parsis, the Christians, the Sikhs and the Buddhists.<sup>1</sup>

To these traditional methods of funding few years ago a new source of capital was added – the market. Market sources were (and to some extent still are) initially limited to business activities initiated by NGOs. This included organizing fund raising events (marathons, concerts, sales) and identifying products and services that they could sell in order to reduce their dependency on donations and grants. Probably the best examples of this form of activity are Child Relief and You (CRY), which produced greeting cards and stationery to support child rights advocacy work or Aarong, the retail arm of BRAC,

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<sup>1</sup> <http://www.asiapacificphilanthropy.org/>

which works with over 50,000 women across Bangladesh and generates an annual turnover of over USD 60 million.

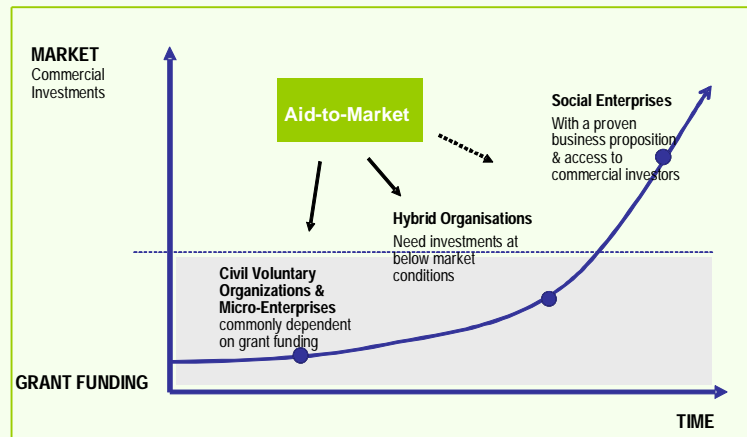
Reliance on philanthropy and foreign aid has its limitations. As seen across the globe, grants and donations are infrequent and unpredictable. They create enormous dependency on donors, and are often too small to allow scaling-up efforts. Furthermore, many are highly restrictive. The initial efforts 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, the market oriented efforts of NGOs have run counter to their tax treatment, reflecting the received understanding that engagement on commercial terms was somehow antithetical to their mission or “altruistic goals”. Across Asia, for example, tax laws require NGOs to keep assets in savings accounts instead of allowing them to invest funds more productively. Some countries have begun taxing the revenue-making activities of NGOs. Case in point, in Bangladesh, for example, such activities are subject to taxes, though micro-finance activities are exempt from taxes.

### ***From Hybrid to Focus***

The aid and donation dependency of NGOs in Asia is slowly but surely changing. As the graph below illustrates, 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, financially sustainable and graduating from a donor dependency to financial independence. There is also recent trend in South Asia in particular where a number of financially successful NGOs are changing their legal status and becoming for-profit SEs.

## Growing Social Enterprises From Aid to Market

Lifecycle concept – transitioning from grant dependency to commercial viability



Source: GEXSI

Figure 1: From grant to revenue

As NGOs, who continue to rely on traditional charity, struggle to reconcile the dual philanthropic and commercial perspectives, the social enterprise sector has grown to occupy a distinct space.

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 the achievement of the region's socio-economic goals is being accomplished by a new breed of sustainable SEs in both the for-profit and not-for-profit sectors.

This new breed of sustainable SEs are helping tackle problems that have eluded all the traditional development aid efforts. In the context of Asia, Microfinance Institutions (MFI) are leading the pack in terms of size of sector, public recognition and maturity.

Microfinance’s success has now accelerated the interest and learning curve of social enterprises across the spectrum that, with the proper exposure to the market, can also play a role in areas like poverty alleviation and economic development in a commercially and socially sustainable manner.

**What is a Social Enterprise?**

- “Blending business with social justice” – *R Horton, Columbia Business School*
- “Entities that may accept greater risk or lower financial returns in pursuit of social and/or environmental value creation. These are also called ‘ double or triple bottom line businesses’, ‘social purpose enterprises’, ‘non profit business ventures’ or ‘mission-based-for-profit businesses’” – *J Emerson (creator of Blended Value Map)*
- “A SE is any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business” – *Virtue Ventures LLC*
- Entities that provide services and products that the society values but which for one reason or another is not provided by private or public enterprises
- A social mission-oriented for profit OR business-oriented nonprofit – *Jeffrey Robinson, Rutgers University*

For the purpose of this study, a Social Enterprise is:

- Specific positive social impact is primary reason for entity’s existence (vs. ancillary or secondary development, such as a company’s CSR program)
- business model reflects responsible entrepreneurship and growth for staff and overseers, beneficiaries/customers, overall community/environment
- has a market orientation
- embraces for-profit as well as not-for-profit approaches

Today, the Asian SE sector cuts across industries including:

Clean energy	Health	Microfinance
Education	Housing	Small-medium enterprises
Environment	Insurance	Telecommunications
Fair trade	Info technology/	Transportation/Infrastructure
Fast-moving consumer goods	IT-enabled services	Water/Sanitation
Food security	Media	

<b>Clean Energy</b> D.light (India) Rural Light (Philippines) Selco (India)	<b>Education</b> O School (Singapore) Let it Help (Philippines)	<b>Environment</b> Social Enterprise Com-Win Inc. (South Korea) EcoWise Waste Management Pvt. Ltd. (India)	<b>Fair Trade</b> Fair Trade Company (Japan) Mahaguthi (Nepal) Elevyn.com (Malaysia) Barefoot (Sri Lanka) Doi Tung (Thailand) Kazi Organic Tea (Bangladesh)
<b>Food Security</b> Naveen Gram (India) Micro Drip (Pakistan)	<b>Health</b> Sehat First (Pakistan) Ziquitza Healthcare (India) PDA (Thailand)	<b>Housing</b> Kashf Holding Pvt. Ltd (Pakistan)	<b>Info Tech / IT- Enabled Services</b> CellBazaar (Bangladesh) C.K.Technologies Pvt. Ltd. (India) DNet (Bangladesh)
<b>Insurance</b> First Micro Insurance Company (Pakistan)	<b>Media</b> OpenDream (Thailand)	<b>Telecommunications</b> Philippines Mobile Telecenters (Philippines) Drishtee (India)	<b>Water / Sanitation</b> Saafwater (Pakistan) Aqua-Aero Water System (India)

Table 1: Some effective social enterprises in Asia

### ***Evolution of Funding Sources***

According to Jacqueline Novogratz, CEO of Acumen Fund, SEs need capital because they (1) tend to work in markets where people make \$1-\$3 per day and they have to make all their decisions within that income level; (2) the geographies where they work often have poor infrastructure, such as roads, electricity and water; and (3) they are often creating markets and this requires trust from the community, and building trust takes time.<sup>2</sup>

Social venture capital did not come to Asia until the early part of this decade and even when it came, it came in a trickle. As in the US and several parts of Europe, social venture capital (which later transformed into impact investment) was not about grants and

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<sup>2</sup> Jacqueline Novogratz, “A third way to think about Aid”, TED talk recorded on June 2009 available at [http://www.ted.com/talks/jacqueline\\_novogratz\\_a\\_third\\_way\\_to\\_think\\_about\\_aid.html](http://www.ted.com/talks/jacqueline_novogratz_a_third_way_to_think_about_aid.html)

donations, but about investment, albeit “soft” investment. A good example is the Acumen Fund. Acumen’s investments typically take the form of loans and loan guarantees repayable in 5-7 years and grants constitute only about 3% of Acumen’s transactions. In some investments, Acumen takes minority equity positions. However, even Acumen’s shift to taking investment positions and including mission-driven for-profit enterprises into its portfolio are relatively recent phenomenon. However, these changes are part of a widespread acknowledgement of SE as a distinct sector.

In the United States, angel investors and venture capitalists (partially borne from the dot-com and other high-wealth creation companies in the 1990’s) entered the market looking to invest in innovative start-ups. Following the western trend, India (one of the first Asian countries to see the emergence of for-profit social enterprises and continues to lead the pack) saw its first social venture capitalists in 2002. Aavishkaar India Micro Venture Capital was set up to provide financial and managerial support to rural and semi-urban entrepreneurs in India.<sup>3</sup> Aavishkaar takes equity positions for their investment, and have been known to build deep and successful partnerships with SEs. Clearly, this is an example of where for-profit and nonprofit business methods have converged successfully.

Over this period, government financial support to these enterprises also developed.

Recognizing the positive impact of SEs, governments have begun to contribute towards fostering the sector. In India, for instance, there are at least three large federal sources for financial assistance: (a) Council for Advancement of People's Action and Rural Technology (CAPART); (b) Small Industries Development Bank of India (SIDBI); and

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<sup>3</sup> <http://www.aavishkar.org/>

(c) National Innovation Fund (NFI). The CAPART works under the Ministry of Agriculture and provides funds for rural and agricultural development. The SIDBI was established to fund small and micro enterprises that contribute to the process of economic growth, employment generation and balanced regional development” in the country. The NIF provides institutional support in scouting, spawning, sustaining and scaling up grassroots green innovations and helping their transition to self supporting activities. The Malaysian government has similar financial assistance available for small and medium enterprises.<sup>4</sup>

The Thai government too has set up the National Village and Urban Development Fund for investment, employment and income generation in the country. Along the same lines is Singapore’s Social Innovation Park Ltd (SIP) a not-for-profit organization that incubates social entrepreneurs and innovators worldwide to bring positive innovations to lives and societies.<sup>5</sup>

Finally, screened funds for social responsibility, precursors to actively impact-oriented funds, gained a foothold in Asia through the growth of Islamic Finance and Shariah-compliant funds. Over the last decade, several efforts have been made to strengthen Islamic finance especially in South East Asia. Recently, Taurus Ethical Fund, India’s first Shariah-complaint fund was established. Islamic finance is based on ethical principles of justice and on the “human dimension of the economy”<sup>6</sup> and the principles behind Shariah-compliant funds are simple; these open-ended funds avoid investments in businesses prohibited by the Shariah code. These include business activities and

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<sup>4</sup> <http://www.smidec.gov.my/>

<sup>5</sup> <http://www.socialinnovationpark.org>

<sup>6</sup> <http://www.islamic-banking.com/>

investments related to pork, alcohol and related chemicals, tobacco, casinos and gambling, certain financial dealings such as pawn-broking, advertising and media (newspapers are allowed), pornography and differed trading of gold and silver as cash contracts. Standard & Poor's (S&P) Shariah indices use the same methodology, and rate Shariah-compliant companies. To select companies for the S&P analysis, each company's audited annual report is reviewed to ensure that the company is not involved in any non-Shariah compliant activities.<sup>7</sup> Islamic banking remains a rich and unique potential source of capital for social enterprises.

### ***Current Challenges***

A lot of individual activity by itself, however, is not enough. As The Monitor Group states in its recent report: "A great product idea married to a noble mission is rarely enough to make meaningful progress in the face of massive social challenges like improving the lives and livelihoods of billions worldwide living in impoverished conditions."<sup>8</sup> This may be particularly true in Asia, where there are countless innovative social enterprises making significant impact in their individual communities – but receiving little attention from Asian financial institutions. Investigations in India and the Philippines – as well as in South Africa, Brazil, Kenya, and other countries – reveal no shortage of market-based approaches that claim to be profitable or financially self-sustaining. On closer inspection, however, many are struggling financially and most serve a few thousand people, a drop in the ocean given the millions living in conditions

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<sup>7</sup> Standard & Poor's (2007): 'S&P Shariah Indices – Index Methodology'. Available at: [http://www2.standardandpoors.com/spf/pdf/index/Shariah\\_Methodology.pdf](http://www2.standardandpoors.com/spf/pdf/index/Shariah_Methodology.pdf)

<sup>8</sup> Monitor Group (2009): 'Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty', p.11.

of extreme poverty. Only a tiny fraction of market-based initiatives are reaching numbers of people commensurate with the scale of the problems they aim to address.<sup>9</sup>

While media frequently covers the achievements of successful and large SEs such as Grameen Bank or BRAC, these entities are the exception rather than the norm. Over the years, a small handful of very large SEs in Asia (of which Grameen Bank and BRAC are a part of) was lucky to receive substantial government and donor support. Not all the SEs in Asia are in the same position. Unfortunately most of the SEs neither have the same unlimited access to capital nor have they attracted the same recognition of their impactful work.

Most of the SEs in the region are mid-sized and at a stage where, with the proper capital infusion and qualification/quantification of their social impact, they can expand their overall impact. Many are “investor-ready,” with proven sustainability (not current start-ups) with both the capacity to (a) provide financial and social reporting and (b) issue bonds or equity securities, but (c) often struggle to secure reliable funding streams that will allow them to go to scale. Examples of a few such enterprises include: Radda Centre in Bangladesh, which has created a sustainable medical hospital model in the slums of Dhaka; Doi Tung, an effective and sustainable afforestation and income generation organization in former poppy-producing Northern Thailand; and Bina Swadaya in Indonesia, which creates community-based ecological tour packages that help to promote the tourism economy and environmental awareness, while preserving the fragile local ecosystem.

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<sup>9</sup> *Ibid*, p.14.

### ***Emergence of Impact Investing***

As the growth opportunities of Asian SEs are identified, it is equally important for us to identify investors who will play a key role in getting them to the next level of growth.

The Global Impact Investor Network (GIIN) defines “Impact Investments” as those that “seek to generate both financial return and social and/or environmental value – while at a minimum returning capital, and, in many cases, offering market-rate returns or better.”

GIIN brings together impact investors and intermediaries who have the capacity to invest at scale, making multi-million dollar investments and aggregating funds large enough to access institutional capital. These actors include large-scale family offices, institutional investors, pension funds, investment banks, wealth managers, impact investing funds, retail investment aggregators, and private foundations that can steer billions of dollars of capital, support collective action, set standards, and back new businesses and funds.<sup>10</sup> They are actively interested – and are engaging their capital – into “businesses and funds that can harness the positive power of private enterprise.”<sup>11</sup>

Importantly, Impact Investing differs from the screened funds of “socially responsible investing” (SRI), which, like Shariah-compliant funds, seek to avoid investments in “sin” industries such as tobacco. Nevertheless, investors embracing SRI may one day involve into impact investors, seeking to “do good” above and beyond “doing no evil.”

The development of GIIN demonstrates the growth in interest in private-public partnerships. It also reflects a growing willingness of investors to look beyond the bottom

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<sup>10</sup> ‘Impact Investment Exchange Business Plan’, p. 18.

<sup>11</sup> <http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/aboutus/index.html>

line and to provide capital to such entities with a financial and social and/or environmental return. Fueling this trend in the market are recent initiatives such as Impact Investment Exchange ([www.asiaiiix.com](http://www.asiaiiix.com)), an Asian social stock exchange to act as a regulated capital-raising platform for sustainable SEs. Along with other financial platforms, the exchange is receiving attention from financial institutions and regulators in both the private and public sectors.

Although the appetite for viable social return (along with a financial return) is present amongst investors, the ability of this new impact investing industry (a vital catalyst for sustainable SE growth) to deliver the required capital is not inevitable. Industry leaders on both the impact investment and SE side need to articulate the successes and build infrastructure to increase its efficiency and create products that respond to investors' demand for transparency and liquidity.

### ***The Ecosystem***

The success of a SE to attract ongoing capital for growth will lie in pulling together an effective ecosystem to support investment. As illustrated below, the ecosystem will comprise not only SEs and Impact Investors, but also government ministries, research providers, rating agencies, brokerage firms, law firms, bankers, and multinational organizations. It will be essential for all these players to come together in the ecosystem in order to create a cohesive environment to nurture and grow the SEs. All these players will complement each other in both the local and international context.



Figure 2: The stakeholders for successful impact investment

In the context of a comprehensive ecosystem, the United States and European countries are far ahead of their Asian counterparts. In most western countries, the impetus to assist in impact investing and cultivating the SE sector has come from the government. In the process are comprehensive regulatory changes that are already showing positive impact on the sector.

For example, while for-profit businesses and investors who seek to create social value are often left to force-fit their aspirations, often uncomfortably, into existing non-profit or for-profit legal structures, legal innovation is gathering steam in these countries. The 1995 Dutch reform that provides personal capital gain tax breaks to environmentally-beneficial investments is serving as a model for similar regulatory reform efforts elsewhere. The UK government created a distinct corporate status for 'Community

Investment Corporations’ in 2005. In France and South Africa, recent legislation will compel investors to place some of their capital in impact investments. The grassroots efforts to create a B Corporation (a new classification of company that uses the power of business to solve social and environmental problems) and the L3C2 legal form in the United States are similarly starting to build momentum for a new regulatory regime that will meet the interest of impact investors and sustainable SE seeking growth capital.<sup>12</sup>

In Asia, the growing acknowledgement of the unique mission-oriented direction of both social enterprises and impact investment is coupled with a desire for flexibility so that the sector can grow. “Expansion” of the field, rather than technical “refinements”, was highlighted as essential if they are to continue addressing global challenges in innovative ways in the recent workshop for SE ecosystem at the Lee Kuan Yew School of Public Policy.<sup>13</sup>

### **Impact Measurement**

As SEs emerge as an increasing credible alternative to both traditional for-profit and not-for-profit organizations, balancing impact with sustainability and performance with mission alignment are important fundamental challenges for SEs against this backdrop of opportunity. The issue of how to measure and balance financial and social returns remains a key issue requiring stakeholder engagement, research and development.

The acceptance by the ecosystem of a “language” to describe social impact, and credible methodologies for its measurement, is a vital factor in the development of the SE sector and impact investment in Asia. Work in social impact measurement must be

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<sup>12</sup> Bugg-Levine, Anthony (2009): ‘Impact Investing: Harnessing Capital Markets to Drive Development at Scale’, in: *Beyond Profit Magazine*, May/June 2009 issue, p. 20.

<sup>13</sup> Notes from Social Impact Measurement Workshop at the LKY School, October 7, 2009.

grounded in a clear understanding of the environment in which the Asian SEs thrive and operate. Additionally, attention is needed to understand the internal operations of SEs that may differ from those of traditional businesses. Methodologies must be tested for their ability to capture overall socio-economic impact, while providing enough information to investors and intermediaries so they may perform subsequent analyses on the SE's performance. Finally, since investing is grounded in trust, the language and methodologies for social impact measurement must be embraced by SEs, investors and government regulators, key stakeholders in granting final legitimacy.

The importance of metrics in financial reporting and analysis is well known, and although the path towards standardization and harmonization of financial metrics has been long and slow, no one will object to the assertion that recognized and utilized tools such as standardized reporting languages are at the crux of the process of fostering mature and efficient financial markets. The same holds for the market for social impacts. Without metrics, there will be no basis upon which one may judge whether an enterprise is truly a social enterprise. Unless consistent and credible metrics are developed, it is unlikely that the social enterprise ecosystem will continue to grow and mature, and without consistent and credible metrics for social impact, it is difficult to make social impact relevant to wider sets of stakeholders.<sup>14</sup>

The previous section defined the motivations of financial platforms, institutional and retail impact investors, government regulators, clients and operators of SEs in Asia, and how these might differ from those in Europe or the United States. This section

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<sup>14</sup> Cf. Write up from the Social Capital Markets Conference 2009 (SoCap09). Available at: [http://socialentrepreneurship.change.org/blog/view/after\\_socap09\\_the\\_five\\_issues\\_holding\\_social\\_entrepreneurship\\_back](http://socialentrepreneurship.change.org/blog/view/after_socap09_the_five_issues_holding_social_entrepreneurship_back)

discusses to what ends and how different stakeholders are likely to process the information stemming from such measurement.

### ***Measuring What Matters***

The lack of consistent methodologies for assessing the social impact, as well as the drivers and metrics of such impact, is one of the key issues currently hampering growth in this sector. Following the financial downturn in 2008, social entrepreneurship has been seen as one of the main areas of investment where optimism is warranted. However, as social entrepreneurship matures into a distinct sector, the lack of standardized metrics is now getting increased attention. Without metrics for measuring the outcomes that lead to social impacts, we can have no methodology for assessing social impact, the very “reason for being” of these organizations. Both the metrics and methodologies for measuring social impact need to be credible and widely recognized in order to gain purchase as a valuable tool for social enterprises and its stakeholders. In this paper, metrics provide the underlying “language” and parameters for measurement, while the methodology is applied a given set of metrics to give meaning to what is being measured.

Why measure at all? In addition to merely distinguishing those SEs that are truly mission-driven, measuring social impact will enable investors to rate, compare and even value the SEs in which they are interested in investing. Investors are always seeking data on their investments. The more institutional investors know about a potential investment’s risk and return, the more readily they can make sound investment decisions.<sup>15</sup> According to Lisa Hagerman and Janneke Ratcliffe, more active an investor

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<sup>15</sup> Hagerman, L. and Hebb (2009): ‘Balancing Risk and Return in Urban Investing’, in: Clark G. *et al* (eds): *Managing Financial Risks: From Local to Global*.

becomes in ‘double-bottom line’ investing, the more they demand better social measures as a condition for investing. As social measures improve, they enable investors to differentiate between two investments with similar financial track records, and the social measures become the deciding factor for the investor.<sup>16</sup>

On the social enterprise side, fluency in the language of measurement will help SEs better communicate their work to their investors. Understanding the methodologies used for evaluation will also help them plan for growth and manage their limited resources. This both lays the groundwork for future growth as well as ensures close adherence to mission, preventing the “mission drift” that critics accuse SEs of experiencing in the wake of rapid growth.

## The Importance of Social Impact Measurement

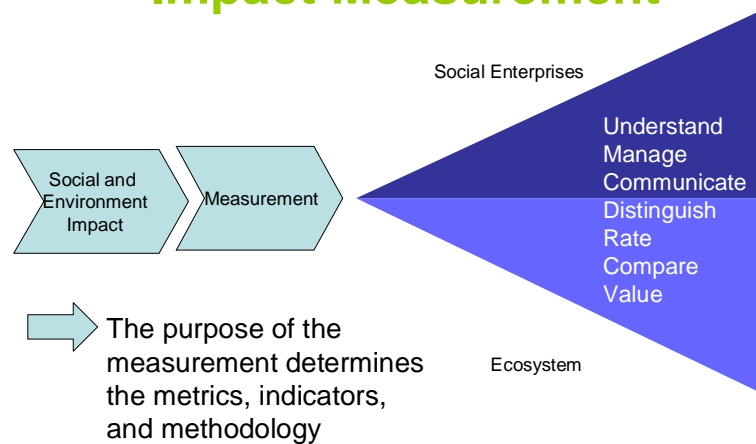


Figure 3: Why measure social impact

<sup>16</sup> Hargerman, Lisa and Janneke Ratcliffe (2009): ‘Increasing Access to Capital’, in: *Community Development Investment Review*, Vol. 5.2

How the stakeholders within the ecosystem use impact measurement will determine the suitability of one methodology over another. Comparability, the translation of an organization's unique social achievements into scales or standards that may be used to compare it against other SEs, is greatly desirable. The degree of discernment, however, may vary depending on how the methodology is used. For example, if measurement is intended to distinguish SEs from ordinary enterprises with good sustainability policies, then a suitable methodology may result in benchmarking so as to set minimum standards or requirements for a social enterprise in a vetting exercise. If measurement is to demonstrate performance, then the methodology may convert the metrics into a scale indicating how successful an SEs has been in achieving its social and environmental goals, without necessarily setting minimum standards or requirements for certification or entitlement. Valuation, the attachment of pecuniary measures to the social value added by the operations of an enterprise, may be another purpose of social impact measurement. Other stakeholders may attempt to combine some or all of the above into a scale or rating.

Given the multitude of ways in which social impact measurement can add insight into the work and potential of the SE, it is no surprise that key actors and stakeholders have focused a lot of attention on metrics and methodologies over the last couple of years.<sup>17</sup> Large-scale funding has been channeled at attempts to develop methodologies,

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<sup>17</sup> See e.g.: Methods: 'Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures', p. 30. Available at: [www.riseproject.org/DBL\\_Methods\\_Catalog.pdf](http://www.riseproject.org/DBL_Methods_Catalog.pdf); Monitor Institute (2009): 'Investing for Social & Environmental Impact – A Design for Catalyzing an Emerging Industry'. Available at: [http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvImpact\\_FullReport\\_004.pdf](http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvImpact_FullReport_004.pdf); Mark Kramer *et al* (2007): 'From Insight to Action: New Directions in Foundation Evaluation', April 2007 issue. Available at: [http://www.fsg-impact.org/images/upload/From%20Insight%20to%20Action\(3\).pdf](http://www.fsg-impact.org/images/upload/From%20Insight%20to%20Action(3).pdf); *Beyond Profit*, May/June 2009 issue; Paul Brest *et al* (2009): 'Calculated Impact', in: *Stanford Social Innovation Review*, Winter 2009 issue, pp.

create awareness about these methodologies and their relevance, and at promoting their application in a variety of areas. However, as seen above, it is unlikely that a single “one size fits all” methodology is likely to emerge to fulfill all informational and analytical demands of all stakeholders in the ecosystem. Each methodology has its own strength and weaknesses, each focuses on its own set of objectives, and each targets a given set of metrics. Thus, while there are significant areas of convergence and overlap between them, they often serve quite different purposes, and typically provide different measures of social impact. In the next section we will turn our attention to three such methodologies in order to highlight their individual strengths and weaknesses, and assess the extent to which they provide meaningful measures of social impact for different stakeholders.

### ***Leading Contenders***

Out of this wide range of methodologies, three stand out:

1. GIIRS, a recent collaborative effort spearheaded by the Rockefeller Foundation
2. Social Return on Investment, developed originally by REDF (formerly the Roberts Enterprise Development Fund), a San Francisco-based philanthropic
3. Methodology for the Analysis and Rating of Impact Investments (MARII), developed by Investing For Good, a UK-based a specialist investment adviser

### ***GIIRS/IRIS***

The Impact Reporting and Investment Standards (IRIS) is a reporting taxonomy developed jointly by the Acumen Fund, Rockefeller Foundation, and B Lab in

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50-59; Mark Kramet *et al* (2009): ‘Breakthroughs in Shared Measurement and Social Impact’. Available at: [http://www.fsg-impact.org/ideas/item/breakthroughs\\_in\\_measurement.html](http://www.fsg-impact.org/ideas/item/breakthroughs_in_measurement.html).

conjunction with PricewaterhouseCoopers (PwC) and Deloitte & Touche. IRIS's goal is to act as a complement to a standardized financial reporting language, acting as a functional and efficient standard for reporting on the wider social and environmental impacts of enterprises and organizations. The IRIS taxonomy draws heavily on the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB),<sup>18</sup> and it is reasonable to believe that the synergies between the widely used IFRS and IRIS, as well as the promotion of IRIS by influential actors such as the Acumen Fund, PwC, and Deloitte will ensure wide and rapid adoption of the IRIS taxonomy.

Complementary to the IRIS taxonomy is the Global Impact Investing Rating System (GIIRS). GIIRS represents an effort to define and promote a rating system that may be relied on by investors, intermediaries, broker/dealers, advisors, and companies seeking mission-aligned investments in growth capital and liquidity.<sup>19</sup> The hope is that such ratings will provide the comparability amongst disparate companies, akin to credit ratings provided by organizations such as Standard & Poor's or Moody's Corporation. GIIRS seeks to provide potential and actual investors with an independent and objective basis for measuring and assessing the wider social impact of companies, enterprises, and organizations. It is however important to emphasize that any GIIRS rating is complementary to ratings based on financial data, and the GIIRS rating only takes into account the social and environmental impact of enterprises.

The GIIRS methodology is draws on data reported using the IRIS taxonomy to provide an overall star rating (x/5), as well as a more detailed breakdown of key

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<sup>18</sup> <http://iris-standards.org/>

<sup>19</sup> 'GIIRS – Global Impact Investing Ratings System', p. 1. Available at: [http://www.rockfound.org/efforts/impact\\_investing/GIIRS\\_Final\\_Doc.pdf](http://www.rockfound.org/efforts/impact_investing/GIIRS_Final_Doc.pdf)

performance areas, such as an individual star or percentage rating for the leadership, accountability, environmental or community impact of the SE in question.<sup>20</sup> The rating methodology also allows for aggregating reports over time so as to illustrate any growth or improvement in the metrics. The ratings themselves are calculated by GIIRS, an independent non-profit institution, using surveys and weights developed by B Corporation. It is currently being tested by a number of actors, and improvements to its rating methodology are likely to come before its official launch by end of 2009. In its present form, the ratings are calculated in a very prescriptive manner by giving points within each category (Governance & Leadership, Community, Employees, Environment, Consumers), according to how many of a set of desirable features are present in the organizational and operational model of the enterprise being rated.

The GIIRS rating in its current form only measures output – not outcomes – and has to some extent forsaken dynamism and flexibility in its measurement in favor of standardization. As a result, the data required to obtain a rating is minimal, thus making it a very low-cost exercise and likely to be easily vetted, but the real foundation of the rating is equally minimal.

### *Social Return on Investment*

Conceived by REDF, San Francisco, Social Returns on Investment (SROI) also measures the wider social benefits pertaining to the operations of an organization or an enterprise. SROI has gained massive purchase in the UK with official support from the Scottish Government and the Office of the Third Sector, and with joint efforts of the SROI Network, the New Economics Foundation, Charities Evaluation Services, National

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<sup>20</sup> Cf. our own online beta testing of the GIIRS methodology.

Council for Voluntary Organizations, and New Philanthropy Capital.<sup>21</sup> A SROI measurement essentially consists of a cost-benefit analysis and aims to provide monetary values for the total social costs and benefits involved in a given project or an organization's activities as they accrue to the different stakeholders involved. As such, where GIIRS provides a star rating for an organization or an investment portfolio, SROI provides a pecuniary measure for social returns on investment. The SROI Network has published a fairly comprehensive and very easy to read handbook for undertaking a social valuation exercise, and the methodology is freely available for dissemination and application by anyone.<sup>22</sup>

As a social valuation methodology, SROI is much more dynamic and flexible than GIIRS. It does not rely on a standardized reporting taxonomy and rigid measures, and as such is also less vulnerable to target 'gaming' by enterprises – it will not yield a given rating based on the number of boxes ticked in a standardized reporting format. However, the data collection required for a thorough and reliable SROI valuation is potentially much more onerous than the GIIRS measure, and it improbable and perhaps undesirable that a standardized and automatic system be developed for SROI valuations. Rather, a SROI valuation requires a significant amount of labor by an individual trained in economics in order to convert the data reported into a coherent social valuation. Similarly, auditing a SROI valuation and its underlying fundamentals is much more laborious than what is required for assurance of a GIIRS rating. In this vein, SROI may only become a credible tool for measuring social impact if consistent measures grounded

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<sup>21</sup> Methods: 'Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures', p. 30. Available at: [www.riseproject.org/DBL\\_Methods\\_Catalog.pdf](http://www.riseproject.org/DBL_Methods_Catalog.pdf) See also: <http://www.thesroinetwork.org/>

<sup>22</sup> See: <http://www.thesroinetwork.org/>

in econometric rigor are employed in the final valuation based on the reported data. Herein lies the main challenge: In principle, an SROI may be performed based on standardized reporting such as the IRIS taxonomy, whereas the valuation and ex-post assurance of outcomes may prove costly or infeasible on a large scale. However, a well-executed SROI that passes common credibility and validity concerns no doubt provides a much more informative and objective measure of the social value and impact of a given investment than the GIIRS star rating.

Another important distinction between GIIRS and SROI is that the latter does not allow comparison across enterprises. The insight that SROI provides about the SE's social impact is specific to the organization. Although SROI reports its analysis in the form of a valuation, SROI scores are not fungible.

#### *Methodology for the Analysis and Rating of Impact Investments (MARII)*

The third methodology we are looking at in this study is the Methodology for the Analysis and Rating of Impact Investments (MARII) developed by Investing for Good, a UK-based organization offering investment advice, research and consultancy services.<sup>23</sup> Given its genesis, MARII is much more focused on investor needs, compared to GIIRS and SROI. In contrast to the other two methodologies, MARII also assesses performance on both the financial and social impact front and it focuses more attention on the investor than the investee.

MARII allows the social enterprise itself select, quantify, and report the leading indicators of its wider social impact, based on which MARII Analyst performs a qualitative analysis of the indicators, reporting standards and reliability, and finally grade the results. These indicators are then used together with other indicators of the quality of

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<sup>23</sup> See: <http://www.investingforgood.co.uk/>

the enterprise in question, such as measures of the governance and organizational typology, transparency and accountability, and risks and trends pertaining to its operations.<sup>24</sup> As such, the MARII methodology is as demanding as SROI in terms of ex-post analysis labor, and requires ex-ante data collection and reporting over and above what is captured by IRIS. It is however plausible that some of this data is already collected regularly by many enterprises, albeit not formally reported or subjected to assurance. MARII is a flexible and dynamic approach, with equal importance attached to the econometric rigor of the measurements used in the final analysis as that found in SROI, with an underlying standardized methodology.

The outcome of a MARII analysis is called a CRI rating – assessing the Confidence, Return, and Impact of the investee, with a 1-2-3 rating for the individual components. A full CRI assessment may only be done if the enterprise is both mission-driven and open to investments; it may not be applied to a specific program or project that forms part of a larger organization as is the case for SROI, nor may it be applied to just any given organization as is the case with both SROI and GIIRS. Value of output attaches importance to the perspective of the beneficiaries, whereas mission fulfillment prioritizes the perspective of the enterprise. Wider implications considers medium- and long-run valuations of the mission fulfillment and output, discounting for deadweight effects, multiplier effects, and impact risks, while rewarding innovation and game change effects.<sup>25</sup>

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<sup>24</sup> Investing for Good (2006): ‘Analysing for Good - The Investing for Good Methodology for the Analysis and Rating of Impact Investments (MARII): Concept, System, and Results’.

<sup>25</sup> Investing for Good (2006): ‘Analysing for Good - The Investing for Good Methodology for the Analysis and Rating of Impact Investments (MARII): Concept, System, and Results’.

### *Early Assessment*

A preliminary assessment of the above three methodologies and their relative strengths and weaknesses reveals distinct approaches to impact measurement, and it is clear that their differences in input variables, reliance on self-reporting, degree of second- or third-layer analysis, and output metrics show that they are not so much in competition with each other as addressing fundamentally different aspects of impact assessment. They also differ in terms of which stakeholders stand to benefit the most from the measurement exercise, and as such different methodologies may be favored by different actors in the social enterprise ecosystem.

In terms of practicality, GIIRS represents perhaps the most thorough compromise out of the three methodologies in the context of the needs of the SE ecosystem in Asia at present. It is the lowest cost exercise both in terms of the input variables and its reliance on self-reporting and the manner in which the output metrics are produced. As such, it is the most likely candidate for widespread application in the short term both in the context of a possible mandated impact assessment either as an incorporating or listing requirement on a social exchange, as well as in the context of self-evaluation and learning for the enterprises themselves.

However, the heavy reliance on self-reporting and current lack of verification and auditing processes, especially in the context of Asia, raise serious concerns around over-reliance on GIIRS itself as a reliable tool for prospective impact investors. Furthermore, the lack of a dynamic analysis process ex-post reporting makes GIIRS perhaps best suited as a means for setting minimum standards and requirements, thus also serving as an initial road-map for social enterprise start-ups. It has never been the intention for GIIRS

to be a comprehensive analytical tool for thorough impact assessments and investment portfolio analysis, and it is unlikely to evolve into such in the future.

### *Testing in the Field*

Currently the Programme on Social Change and Innovation at the Lee Kuan Yew School of Public Policy in Singapore is involved in the study of the practicality of social impact measurement such as GIIRS and capacity building for six social enterprises from three countries – India, Bangladesh and Thailand. In order to test the vigor of the social impact measurements, the social enterprises have been chosen based on their size, the sector they work in, their ability to attract and manage investments and funds and their willingness to participate in the study. The enterprises chosen include for-profits as well as not-for-profits, private companies and NGOs, and cover a range of sectors – from microfinance to sustainable energy to organic food products to eco-tourism services.

In Bangladesh, one of the organizations included in the study is Kazi Tea, which is a private firm that started with the goal of generating work for unemployed and unskilled work force at remote parts of Bangladesh. Today, Kazi Tea produces high quality organic tea and employs over 4,000 farmers from the region. The other organization in Bangladesh is Development Research Network or D.Net as it is known. D.Net is a not-for-profit organization, which uses information and communication technology (ICT) for economic development of Bangladesh.

In India, SELCO India is a for-profit company that provides sustainable energy solutions and services to under-served households and businesses in rural and semi-urban parts of south India. The second organization is the Bullock Cart Workers Development

Agency (BWDA) based in Tamilnadu in south India. BWDA is an NGO that provides microcredit and education services to rural women in south India.

In Thailand, the enterprises chosen are both large NGOs. The PDA (Population and Community Development Association) is an NGO that works on a range of social missions including rural microcredit, health, HIV/AIDS, income generation for the poor, education and nutrition in rural Thailand. Doi Tung Development Project is the second organization chosen for the study. Doi Tung uses eco-tourism, cafeterias, environment friendly lifestyle products, organic food etc. to provide employment and improve incomes in the Doi Tung region of Thailand.

This is an ongoing study, results of which will have tremendous impact on the increase of capital infusion in the SEs sector in Asia. At a recent Roundtable of government regulators at the Lee Kuan Yew School, funds, banks, intermediaries, investors and social enterprises, the urgency for capacity building of social enterprises in the area of impact measurement and reporting was clearly articulated. From the initial reaction it appears as though the investor, reporting and regulatory bodies are leaning towards GIIRS, which gives the SEs an instrument for self-assessment. This would allow self-regulatory process, the first step towards capacity building for SEs as they prepare for capital absorption.

### **Capacity Building**

In a recent round table of Socially Responsible Fund managers in the UK it was declared that SEs are missing out on tens of millions of dollars because they do not have the proper structures in place to receive investment. According to this reports from this meeting, these fund managers wanted to put more money into high-impact investments,

but were often unable to do so because potential investees lacked corporate governance, legal structures that facilitated investment and an effective mechanism to measure their price.<sup>26</sup> This analysis of the situation in the UK could be equally applied to Asia, where the situation is perhaps even direr.

The evolution of the SE sector, by addressing the need for social impact measurement, has revealed key areas in which capacity building for SEs is urgently needed, namely in applying contemporary private sector and organizational development tools, constructs, and practices. SEs need to strengthen their operational, financial, marketing management, human resources, leadership, governance, social outcomes measurement and accountability; decision-making, strategic planning and communications.<sup>27</sup> Below is a closer look at the capacity building process of the SEs in Asia:

1. **Operational Efficiency:** SEs need to leverage their core competencies and introduce cost-efficiencies into their business processes, while instilling market discipline, strategic thinking, and flexibility. They also need to implement systems such as cost accounting, information systems.
2. **Tracking and Measurement:** directly related to the need for measurement and evaluation of performance, SEs need to be clear about how they create social impact/social value and clearly focus on their stated desired outcomes. Since measurement methodologies tend to be both process-

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<sup>26</sup> Ainsworth, David (2009): 'Social enterprises 'miss out on millions''. Third Sector, October 13, 2009. Available at: <http://www.thirdsector.co.uk/Channels/Finance/Article/944769/Social-enterprises-miss-millions/>

<sup>27</sup> Alter, Kim (2007): 'Social Enterprise Typology', p. 86.

oriented and outcome-oriented, SEs are taxed with doing the right thing (outcome) in the right way (process).

3. Financial Management: SEs need to financial discipline, employing rigor in their record-keeping and reporting, and adopting financial standards that can audited in a regular basis.
4. Leadership and Human Resource Management: Since compensations in SEs are lower than in for-profit entities, SEs tend to attract people working for the social impact their work is having rather than personal financial gains. Hence understanding, reporting and communicating social impact is as important internally as it is externally. SEs also need to balance the “heart” with the “head” as they employ, manage and motivate their staff. This means keeping the social mission alive, while instilling the business discipline required for growth. This necessitates hiring business professionals, functional managers, and industry experts whose experience and perspective influence the social service side of the organization, and work to improve overall efficiencies, accountability, and results.<sup>28</sup>
5. Cultural Strategy: SEs need to shift from often opaque, unorganized behavior to more transparent and efficient operations. This process of the this change will require the leadership to instill innovative thinking, entrepreneurship, change management and result oriented business practices – all of which will result in further social outcomes and eventual socio-financial sustainability.

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<sup>28</sup> Ibid, page 89

While the topics mentioned above are not by any means a comprehensive list, it is a general overview of the capacity building required across the SE ecosystem in Asia.

### **Conclusion**

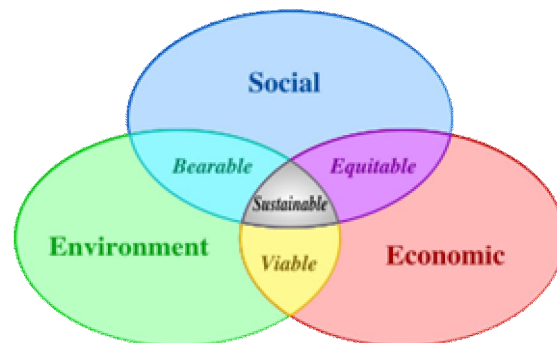
While much work remains, Asian SEs, through their diversity and innovative approach to entrenched social problems, have the potential to make a significant impact. As discussed earlier, SEs in Asia are already tackling issues ranging from the environment to social equality to poverty alleviation. We have seen examples of social innovations such as micro-credit, alternative technology, fair trade, eco-tourism, rural education and health care reform which have already demonstrated considerable success. Additional areas where social enterprises can provide innovative solutions are emerging as a response to global crises such as effects of climate change, political conflicts or economic crisis.

Where the SEs themselves hold the potential for impact, the rise of impact investing, and in particular several new platforms such as the creation of a social stock exchange, provides the timely opportunity for tremendous growth in the sector. The maturation of a thriving ecosystem, involving not just enterprises and investors, but also regulators, intermediaries and academia, is crucial to such growth.

To this end, identifying a language of metrics and methodology (or methodologies) of social impact measurement is a vital task. A suitable social impact measurement method will bring transparency and discipline to the sector, communicate social mission achievement, and justify innovative business models. This will enhance the attractiveness and capital absorption capacity of these SEs. As the diagram below demonstrates, the desire to raise capital and the passion to expand the

social/environmental impact will bring the SE closer to economic, social and environmental sustainability.

## Sustainability of Social Enterprises



*Impact Investment integrates financial, social, and environmental considerations into decision making*

Source: 'Targeting Sustainable Development in Asia through Scale and Impact', LKY Research Colloquium; Community Development Investment Review, 5.2 (2009)

### Figure 4: SE sustainability enables capital absorption

In order for SE in Asia to gain credibility as a distinct field, it needs to build an authoritative identity based on proven credibility and engagement with stakeholders across the ecosystem. Capacity building, both in social impact measurement as well as in general areas of management, remains a key challenge for the sector, but it is one that is by no means insurmountable. With increased capacity will come increased generation of both social and economic value, the *raison d'être* of the sector. By generating such value, and with metrics and methodologies to communicate their impact, the sector can establish credibility where success stories are paired with robust economic returns.

If such capacity can be instilled across the board, Asian social enterprise, as a sector, will be ready for impact investors. Conversely, impact investors will be more confident that SEs will be able to absorb capital responsibly. Regulators will embrace the distinctiveness of their work, and, most importantly, the sector will be able to achieve the systemic social change to which it aims, at a scale that truly makes a difference.

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**Internet Resources:**

<http://www.asiapacificphilanthropy.org/>

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<http://www.islamic-banking.com/>

<http://www.rockfound.org/>

<http://socialentrepreneurship.change.org/>

<http://www.thesroinetwork.org/>

<http://www.thirdsector.co.uk/>