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Robert Bosch Stiftung



SOCIAL INVESTMENT LANDSCAPE IN ASIA

INSIGHTS FROM NORTH AND SOUTH ASIA



Published by the Asian Venture Philanthropy Network and Sattva in May 2017

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ABOUT THE REPORT

AVPN has identified the need for a comprehensive overview of the Asian philanthropy and social investment landscape to offer social investors a guide to the opportunities for social investment in Asia. The *Social Investment Landscape in Asia* will be an invaluable resource for funders and resource providers as they assess the opportunities and challenges for philanthropy and social investment in the region. It is designed to be a guide for both new social investors looking to enter the Asian market and existing social investors exploring cross-border or cross-sector opportunities within the region. The Landscape is another way to further AVPN's mission to increase the flow of financial, human and intellectual capital to the Asian social sector.

The report provides a holistic view of the current and emerging philanthropy and social investment landscape in Asia. It also features in-depth profiles of 14 Asian regions which include:

- An overview of key demographic and macroeconomic conditions
- Key development issues facing the country
- Background and context to the social economy in the region
- Overview of the legislative environment
- Key social investors, recent developments and investment trends
- Opportunities, challenges and recommendations

The 14 regions are:

- | | |
|-------------|---------------|
| ■ Cambodia | ■ Malaysia |
| ■ China | ■ Myanmar |
| ■ Hong Kong | ■ Philippines |
| ■ Indonesia | ■ Singapore |
| ■ India | ■ Taiwan |
| ■ Japan | ■ Thailand |
| ■ Korea | ■ Vietnam |

If you have any comments or would like to get involved in future reports, please contact knowledge@avpn.asia.

ACKNOWLEDGEMENTS

We thank the following individuals and organisations for sharing their experiences:

Cathy Sheng	China Social Enterprise and Social Investment Forum (CSEIF), China
Dana Doan	LIN Center for Community Development, Vietnam
Deepali Khanna	Rockefeller Foundation, Thailand
Dharini Mathur	IFC, India
Ding Li	Non-profit Incubator (NPI), China
Elizabeth Knup	Ford Foundation, China
Eric Savage	Unitus Capital, India
Eugenia Lo	SOW (Asia) Foundation Limited, Hong Kong
Jana Svedova	Synergy Social Ventures Limited, Hong Kong
Jan Zellmann	Evergreen Labs, Vietnam
Jason Loughnane	DAWN, Myanmar
Josephine Price	Anthem Asia, Myanmar
Karthik Varada	The Sasakawa Peace Foundation, Japan
Kevan Hayes	Kaizen Company, USA
Lehui Liang	Social Ventures Hong Kong, Hong Kong
Naga Prakasam	Indian Angel Network/Acumen, India
Nanako Kudo	Japan Social Impact Investment Foundation, Japan
Natasha Shih	The Sasakawa Peace Foundation, Japan
Nini Daing	myHarappan, Malaysia
Nisha Onta	Women Organizing for Change in Agricultural and Natural Resources (WOCAN), Thailand
Pauline Tan	NUS, Singapore
Rahil Rangwala	Michael and Susan Dell Foundation, India
Ray Chen	B Current Impact Investment Inc., Taiwan
Sunder Ramaswamy	Asia Foundation
Sunit Shrestha	ChangeFusion Institute, Thailand
Susli Lie	YCAB Ventures, Indonesia
Tang Yao	Leping Social Entrepreneur Foundation, China
Toshihiro Nakamura	Kopernik, Indonesia
Wonyoung Kim	Crevisse Partners, South Korea
Weina Zhang	NUS, Singapore
Xin Hu	Leping Social Entrepreneur Foundation, China
Yoshitaka Ohara	Habataku Inc., Japan

We are also grateful to the following AVPN staff members and associates who helped with connections, comments and discussions:

Naina Subberwal Batra
Caroline McLaughlin
Patricia Chu
Allison Hollowell
Clive Ye
Ashima Suri
Clara Feng
Emilie Roelle
Ken Ito
Sunkyung Han
Jasmine Chew
Agnes Arbon
Farhana Hamid Butt
Syarif Hamdi
Valerie Koh
Alfred Poon

We are grateful to the following Sattva team members and advisors for their constructive comments, reviews, and discussions that have shaped this publication:

Srikrishna Sridharmurthy
Rathish Balakrishnan
Sundeep Vira
Ian Fernandes
Naga Prakasam

Finally, we thank the following individuals for their constructive comments at various stages:

Ada Chirapaisarnkul	Thai Young Philanthropist Network (TYPN)
Arif Ekram	Foundation Center
Claire Dufour	Nexus for Development
Lauren Bradford	Foundation Center
Vivian Gee	Friends-International
Zhihan Lee	BagoSphere

LIST OF ACRONYMS

A	ADB	Asian Development Bank	
	ANGIN	Angel Investment Network Indonesia	
	ASEAN	Association of Southeast Asian Nations	
B	BCG	Boston Consulting Group	
C	CAF	Charities Aid Foundation	
	CBO	Community Based Organisation	
	CIA	Central Intelligence Agency	
	CSR	Corporate Social Responsibility	
E	ESG	Environmental, Social, Governance	
	ETF	Exchange Traded Fund	
F	FDI	Foreign Direct Investment	
G	GCI	Global Competitiveness Index	
	GDP	Gross Domestic Product	
	GNI	Gross National Income	
	HNWI	High Net Worth Individual	
I	ILO	International Labour Organisation	
	INDC	Intended Nationally Determined Contributions	
M	MNC	Multinational Corporation	
	MSCI	Morgan Stanley Composite Index	
N	NGO	Non-Governmental Organisation	
	NPO	Non-Profit Organisation	
O	OEC	The Observatory of Economic Complexity	
	OECD	Organisation for Economic Co-operation and Development	
P	P2P	Peer-to-Peer	
	PISA	Programme for International Student Assessment	
	PPP	Purchasing Power Parity	
	SDG	Sustainable Development Goal	
S	SE	Social Enterprise	
	SIB	Social Impact Bond	
	SME	Small and Medium-sized Enterprise	
	SPO	Social Purpose Organisation	
	SRI	Socially Responsible Investing	
	U	UNDP	United Nations Development Programme
		UNEP	United Nations Environment Programme
UNESCO		United Nations Educational, Scientific and Cultural Organization	
W	USD	United States Dollars	
	WEF	World Economic Forum	
Y	WHO	World Health Organisation	
	YCAB	Yayasan Cinta Anak Bangsa	

FOREWORD

The Robert Bosch Stiftung has been active in Asia for over a decade. We focus on topics such as governance, civil society and media. In our programmes and initiatives, we mainly aim at identifying, promoting and connecting changemakers in the nonprofit sector. Changemakers, whose activities create sustainable impact and who build sustainable networks.

In Europe and Asia the philanthropic sector has been growing steadily over the past years. In an expanding sector, new and existing nonprofit actors need tools and opportunities to professionalise, share knowledge and raise impact and efficiency of their activities. To tackle these challenges, provide impulses, and contribute to the sharing of best practices, the Robert Bosch Stiftung published the studies "Shape the Future. The Future of Foundations" (2014) and, in cooperation with Dasra, "Funding in the 21st Century. Trends and Priorities in the Foundation Sector" (2016). Both addressed the question of how foundations could and should position themselves in a fast-growing, rapidly changing, increasingly volatile and globalised environment.

Complementing these findings with a regionally focused perspective on Asia, the Robert Bosch Stiftung supported AVPN's development of "The Social Investment Landscape in Asia". Asian middle classes are rapidly growing – and they do not only serve as a keystone for economic and political development in the region but also pave the way for an Asian social investment sector that is experiencing an unprecedented growth with great dynamics. Having a comprehensive overview of the main characteristics, trends, gaps, challenges and areas of opportunity in the Asian social sector is of great value for foundations, philanthropists and other (social) investors that seek to create relevant and successful projects with sustainable impact.

The Landscape provides an in-depth review of the social sector in 14 Asian countries and city-states from both a "macro perspective" across Asia and a "micro perspective" by region. It analyses demographic and key macro-economic data and maps the social investment environment including the legislative frameworks, key social issues and implementation gaps regarding the Sustainable Development Goals (SDGs), the role of the governmental and non-governmental sector, key social investors and investment trends, and identifies opportunities and challenges for social investors. To further enhance its practical value, the Landscape concludes with key recommendations, thus serving as a useful guide that allows funders to make more effective funding and investment decisions in the Asian social sector.

This body of work forms an important basis to understand how social investors can position themselves to maximise their impact. We hope that it will find a wide circulation, contributing to the practical work of philanthropic actors in Asia.

*Uta-Micaela Dürig
CEO, Robert Bosch Stiftung*



FOREWORD

Since 2011, AVPN has been committed to building a vibrant and high impact philanthropy and social investment community across Asia. AVPN has identified the need for a comprehensive overview of the Asian philanthropy and social investment landscape to offer social investors a guide to the opportunities for social investment in Asia. The Social Investment Landscape in Asia will be an invaluable resource for funders and resource providers as they assess the opportunities and challenges for philanthropy and social investment in the region. It is designed to be a guide for both new social investors looking to enter the Asian market and existing social investors exploring cross-border or cross-sector opportunities within the region. The Landscape is another way to further AVPN's mission to increase the flow of financial, human and intellectual capital to the Asian social sector.

Asia is one of the most dynamic regions in the world and home to many rapidly growing economies, which have resulted in great societal challenges associated with this growth as well as remarkable opportunities for philanthropy and social investment. Asia's diversity in terms of socio-economic environments and stages of development means there is no one-size-fits-all solution to the establishment of an impactful social economy. Recognising this, the Landscape seeks to provide a holistic and contextual understanding of the 14 economies in Asia, namely:

-
- Cambodia
 - Indonesia
 - Philippines
 - Malaysia
 - Myanmar
 - Singapore
 - Thailand
 - Vietnam
 - China
 - Hong Kong
 - India
 - Japan
 - South Korea
 - Taiwan.
-

We are grateful to the Robert Bosch Stiftung for their generous partnership and Sattva Media and Consulting Pvt Ltd for the research support, as well as our members and advisors who have contributed in various ways to the Landscape.

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EXECUTIVE SUMMARY

Social investment – financing and support for the social impact sector by a multitude of actors, instruments and methodologies¹ — is gathering momentum and the social economies — the ecosystem of investors, entrepreneurs and enablers collectively pursuing social impact — in Asia are seeing significant engagement and innovation in the last 5-8 years.

As creating social impact requires all stakeholders, social investing requires the involvement of a range of players, including but not limited to the government in the region, High-Net Worth Individuals (HNWIs), the next generation of investors, retail investors, crowdfunding platforms, giving circles, foundations, impact funds, corporate businesses and financial institutions.

Although the size of the industry is contested², its contours are coming into focus through the most recent industry surveys, indicating growth:

- The 2017 GIIN survey focusing on North America and Europe with a small percentage in Sub-Saharan Africa and Latin America stated USD 114 billion of Assets under Management managed by 208 impact investors.³
- The 2016 AVPN survey based on 111 members surveyed reported USD 2.17 billion of financial capital deployed across all sectors and markets.⁴
- The 2015 EVPA review of five-year data reported an overall growth for the sector through 108 organisations having allocated EUR 6.5 billion since starting their operations, which is a 30% increase compared to Fiscal Year (FY) 2013.⁵

Asia is in the middle of a historic transformation. ADB estimated that: “If [Asia] continues to follow its recent trajectory, by 2050 its per capita income could rise six-fold in purchasing power parity (PPP) terms to reach Europe’s levels today, it would make some 3 billion additional Asians affluent by current standards.”⁶ However, national policy makers across Asia realise that this trajectory requires balancing the demands of

1. AVPN 2016, 10 questions social investors need to ask
 2. Dennis Price, Impact Alpha 2017, How much money is there in impact investing?
 3. GIIN, 2017, The Annual Impact Investor Survey 2017

4. AVPN, 2016, Annual Report
 5. EVPA 2016, The state of venture philanthropy and social investment (VP/SI) in Europe – the EVPA survey 2015/2016
 6. ADB, 2011, Asia 2050 – Realizing the Asian Century



growth with reducing inequalities and exclusion. Each country and region in Asia faces different challenges and needs to find different solutions to realising growth while fostering inclusivity and equality.

The United Nations Sustainable Development Goals (SDGs) have highlighted the scale and urgency of socio-environmental-economic issues globally as well as nationally. The SDGs provide a cohesive framework to address the challenges. Social investors have started to rally around them to focus and maximise the impact of their support.

The aim of this report is to understand and document the existing and emerging landscape for social investing in 14 regions in Asia spanning:

- North and South Asia including China, Hong Kong, India, Japan, South Korea and Taiwan.
- Southeast Asia including Cambodia, Indonesia, Philippines, Malaysia, Myanmar, Thailand, Singapore, and Vietnam.

We present insights from qualitative research examining the essential characteristics of the social

economy - 'attractiveness' of the region for investment, development challenges being tackled, the influence of legislative environments and governments in triggering the social sector, key actors in the social investment landscape and their journeys, recent trends and developments such as crowdfunding, the ecosystem for social impact, and a snapshot of the opportunities and challenges.

COUNTRY	SDG Rating							
 Singapore								
 Japan								
 China								
 Malaysia								
 South Korea								
 Thailand								
 Vietnam								
 Cambodia								
 Philippines								
 Indonesia								
 India								
 Myanmar								
SDG Goal								

The SDG dashboard published by the UN is a measure of the progress made by each country towards the goals and targets laid out in the UN SDGs. Poverty reduction across most countries has been impressive. However, India, Myanmar, and Cambodia still have over a quarter of the people living below the poverty line.

While emerging economies such as India, Cambodia, Myanmar, Indonesia, Philippines and Vietnam have

to address pressing social challenges in healthcare, sanitation, education and water, developed economies such as Japan, South Korea, Taiwan and Hong Kong are tackling ageing, growing inequalities, declining workforce, labour productivity and gender equality. Environmental issues are uniformly red on the dashboard across countries, from issues of energy access and infrastructure in emerging economies, to climate risk mitigation and natural resources management in the island countries of Asia.

7. The four quantitative thresholds in SDG gaps are determined to designate colours: best and worst scores, the threshold for SDG achievement, and the threshold between a red and yellow colour rating. For example, if a country receives a red rating for one of the indicators of SDG 3 and a yellow rating for all of the other indicators for SDG 3, the overall

colour rating for that country for SDG 3 is assigned "red." The minimum colour rating draws attention to the most urgent challenges facing each country for each SDG. Detailed explanation in methodology section.



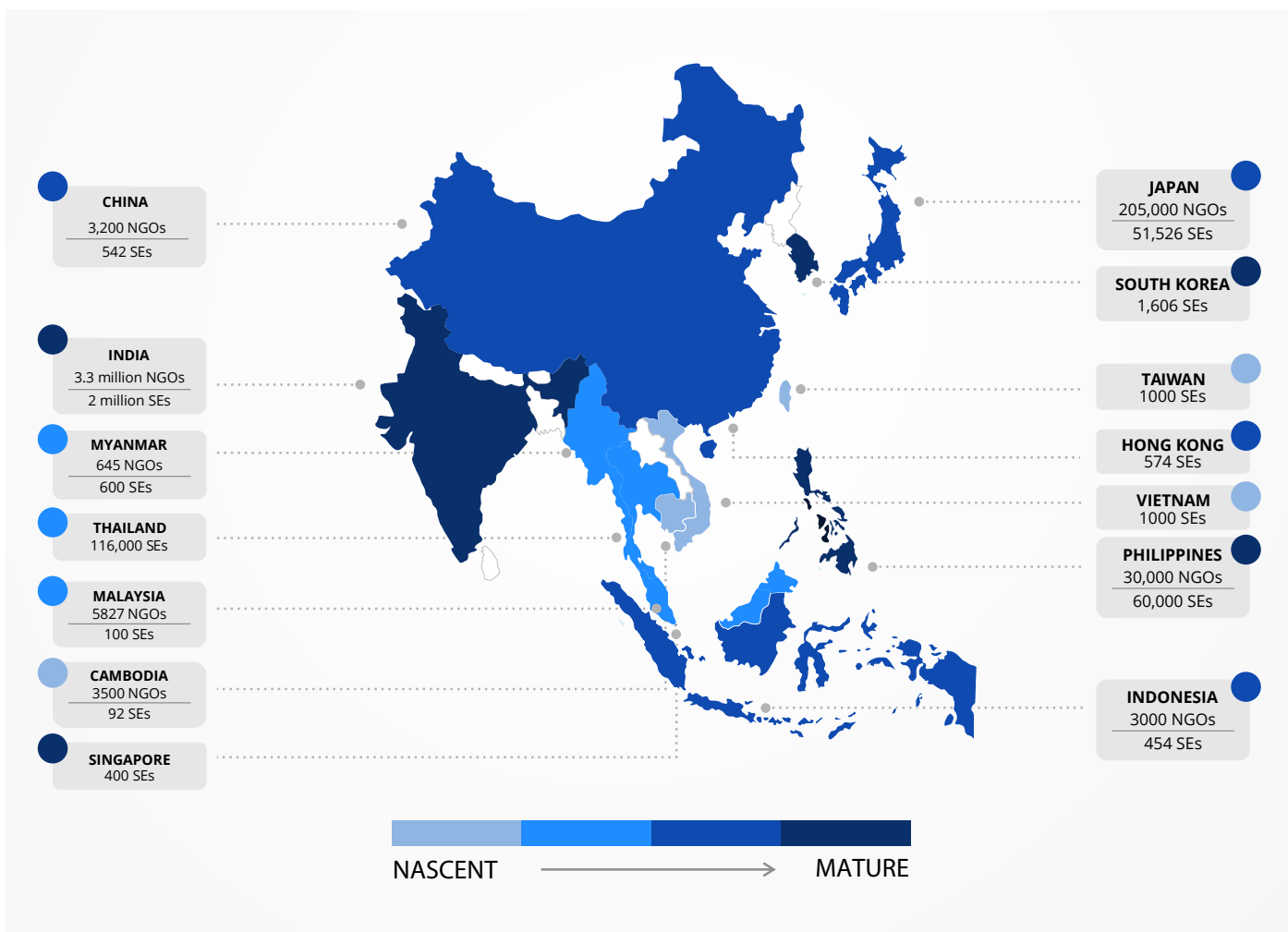
SDG gaps across the 14 regions. Source: sdgindex.org (2016)⁷

INSIGHTS FROM THE 14 SOCIAL ECONOMIES

1. Social economies exist on a scale from nascent to mature

The stage of growth of the social economy in a region⁸ is characterised by the presence, contribution and maturity of all actors in the ecosystem — government, Social Purpose Organisations (SPOs), social investors

and enablers. We rated this on a scale from nascent to mature. Frontier markets such as Cambodia and Myanmar have nascent social economies, while the other end of the spectrum, India, South Korea and Singapore have mature economies, followed closely by rapidly growing economies such as Hong Kong, Indonesia, and China.



14 social economies from nascent to mature. Rating described in methodology.⁸

2. Managed funds are vehicles to foster engaged social investment

Most of the 14 social economies are in their growth phase. Social enterprises (SEs) in these regions are in their early to mid-stages of growth, viable pipelines are small, and deal volumes are low. Social investors in these social economies play the crucial role of nurturing the ecosystem and supporting the establishment of an investable pipeline of SEs.





International investors such as Insitor Fund SCA, LGT Impact Ventures, Michael & Susan Dell Foundation, development agencies such as USAID and local investors such as ChangeFusion (Thailand), XChange (Philippines), Narada Foundation (China), Lotus Impact (Vietnam), B Current Impact Investment Inc. (BCI2) (Taiwan), Aavishkaar (India) are actively involved in creating incubators and accelerators, providing hands-

on assistance and mentorship to entrepreneurs, and taking the venture philanthropy approach to support SEs.

The emergence of local funds is a trend in developing social economies as it brings local capital and expertise to engage closely with social impact. Examples of recent funds include:

- Lotus Impact in Vietnam works closely with entrepreneurs and seed-stage businesses to provide seed capital and incubation support.
- Cambodia’s Clean Energy Revolving Fund operated by Nexus for Development supports investments from agri-food SMEs in clean energy technologies while SWITCH-Asia’s “MEET-BIS Cambodia” programme promotes energy efficiency in the tourism sector.

8. Rating system described in methodology.

4	 Enabling environment with a separate structure for SEs	South Korea
3	 Friendly environment with multiple structures and some tax benefits	Hong Kong India Philippines Singapore Taiwan
2	 Neutral environment, no or basic tax benefits	Cambodia China Japan Malaysia Thailand
1	 Restrictive legal environment to set up SPOs	Indonesia Myanmar Vietnam

Legislative environment for SPOs. Rating: Sattva-AVPN framework⁹

- BCI2 is a local Taiwanese impact fund, founded by 42 angel investors with entrepreneurial and professional backgrounds, across regions, from Silicon Valley to Asia.
- India Innovation Fund is a Securities Exchange Board of India registered venture capital fund that invests in innovation-led, early stage Indian firms.
- Aavishkaar's Frontier Fund focuses on Indonesia, Bangladesh, Sri Lanka and Pakistan and aims to support 15-18 companies with a ticket size of around USD 1-5 million.¹⁰

3. Governments play a key role in fostering the social economy

The regulatory environments for SPOs and investors in the regions examined span the spectrum from being restrictive, as in the case of Myanmar, Vietnam and Cambodia, to neutral, as is the case with Japan, India and Indonesia, to hassle-free and friendly, as is the case with Hong Kong, Singapore, South Korea and Philippines. The ease of the process of registering an SPO is a big contributor to the number of informal (unregistered) SPOs that might operate in a country, while investor regulations around the nature of funding is a key influencer in the instrument used for funding (grant, debt, or equity).





South Korea is the only East Asian country that legally recognises social enterprises (SEs) and offers multiple incentives including payroll subsidies for three years, sales channel development and preferential procurement from SEs in addition to funding and ecosystem-building support for the growth of SEs. The government is the largest social investor and incubator in South Korea. The Korea Social Enterprise Promotion Agency (KoSEA), a state-run incubator for SEs, the Korea Social Investment Fund (KSIF), the Seoul Social Economy Support Centre, as well as a range of SME financing products and preferential access to public procurement bidding, have been established.

The social economies in Thailand, Hong Kong, Taiwan, Philippines and Singapore have been enhanced through progressive policies, CSR mandates, dedicated offices for advisory and facilitation around social entrepreneurship, large-sized seed funds, incubators and capacity building institutions.

- **Hong Kong:** Of the 574 SEs documented in 2015, two thirds of them (248) were started by seed capital provided by the government via the USD 64 million Social Innovation and Entrepreneurship (SIE) Fund. The Social Enterprises Promotion Unit strengthens SEs through cross-sector collaboration, incubation and enhancing public awareness.

9. Sattva-AVPN ratings for the social economy are described in the methodology section.

10. VCCircle, 2015, Aavishkaar raises USD 45 Million to mark first close for USD 75 Million South and South East Asia Fund

4	 4. Strong support in the form of policies, incentives, incubation and acceleration	Hong Kong Singapore South Korea
3	 3. Government recognises SEs and offers incentives	China India Malaysia Taiwan
2	 Basic recognition of SEs	Indonesia Japan Philippines Thailand Vietnam
1	 No recognition or support	Cambodia Myanmar

Government support for SEs across regions. Rating: Sattva-AVPN framework ¹¹

- **Philippines:** Two proposed bills currently pending in the Philippine Senate which seek to introduce a legal structure and several incentives for SEs — the Poverty Reduction Through Social Enterprise (PRESENT) Bill and the Social Value Bill — potentially have transformational direct impact on the country's SE landscape. In 2011, the Philippine House of Representatives passed the "Corporate Social Responsibility Act of 2011, which directed "all business organisations established and operating under Philippine laws to contribute on a voluntary basis."
- **Singapore:** Launched in 2015 and funded by the Ministry of Social and Family Development and the Tote Board, raiseSE currently administers a total funding of SGD 30 million which it distributes to qualified SEs in grants.
- **Taiwan:** 2014 was declared 'the year of SEs' and the government introduced various measures to fund, support and promote SEs, including a 3-year promotion plan. The plan aims to achieve this vision by deregulation, networking, financing and incubation.
- **Thailand:** The Stock Exchange Thailand (SET) plays an active role in furthering corporate social responsibility (CSR) through raising awareness and reporting mandates.
- **India:** The government's 2% CSR mandate in 2013 has brought over 16,000 Indian companies into

the purview of the Act, establishing an avenue to obtain new capital, resources and expertise towards social impact.

4. Trendsetters in strategic philanthropy are emerging among HNWI and family offices

Altruism drives many philanthropists and their families. An analysis of Asian philanthropists' giving across the 14 regions provides evidence of multiple motivations to give: realising religious and ethical conventions, preserving family traditions, supporting native lands in times of crisis, or providing for lesser endowed communities across countries and regions.

While much of HNWI and family foundation philanthropy is confined to traditional giving, a positive trend is a movement towards social investing as the next generation begins to lead the family business.

There are certain common trends seen among countries: although Vietnam has a culture of religious giving, philanthropy has not grown beyond small acts of individual charity, while in China and Thailand, the most dramatic change in the philanthropic landscape has come recently by way of the younger generation of philanthropists. Malaysia and Indonesia see

11. Sattva-AVPN ratings for the social economy are described in the methodology section.

4	 Informed giving along with social investment through equity, Social Responsible Investing (SRI)	Hong Kong	India	Singapore			
3	 Evidence of informed giving, sustained giving to multiple causes or venture philanthropy approach	Indonesia	Japan	Myanmar	Philippines		
2	 Evidence of sustained, well-managed charitable giving	Cambodia	China	Malaysia	South Korea	Taiwan	Thailand
1	 Charitable contributions/religious contributions	Vietnam					

Philanthropic contribution across regions. Rating: Sattva-AVPN framework

substantial contributions through religious funding. In countries with a legacy of wealth such as Singapore and Hong Kong, family foundations play a more prominent role.

Several innovations are seen among Asian family offices and philanthropists. For example, RS Group in Hong Kong is unique in its “Total Portfolio Approach” to asset allocation. The Putera Sampoerna Foundation in Indonesia has invested in creating and nurturing

local communities. Zuellig and Ayala Foundation in the Philippines are pioneering the venture philanthropy model in their own unique ways, while Tata Trusts and a host of philanthropists and family offices in India are significantly broadening the horizons of giving by supporting under-funded causes, taking the venture philanthropy approach or foraying into impact investing.

4	 Active international and local investors and presence of innovative funds and partnerships	Philippines	Singapore			
3	 International and local players with presence of grant, debt, convertible debt and equity investments	China	India	Indonesia	Japan	
2	 Presence of international players, with deal flow of 5-10 deals in the last year or evidence of seed funding	Cambodia	Hong Kong	Myanmar	South Korea	Vietnam
1	 Presence of social investing approach, however no clear classification of investors	Malaysia	Taiwan	Thailand		

Social investor contribution across regions. Rating: Sattva-AVPN framework ¹²

12. Sattva-AVPN ratings for the social economy are described in the methodology section.

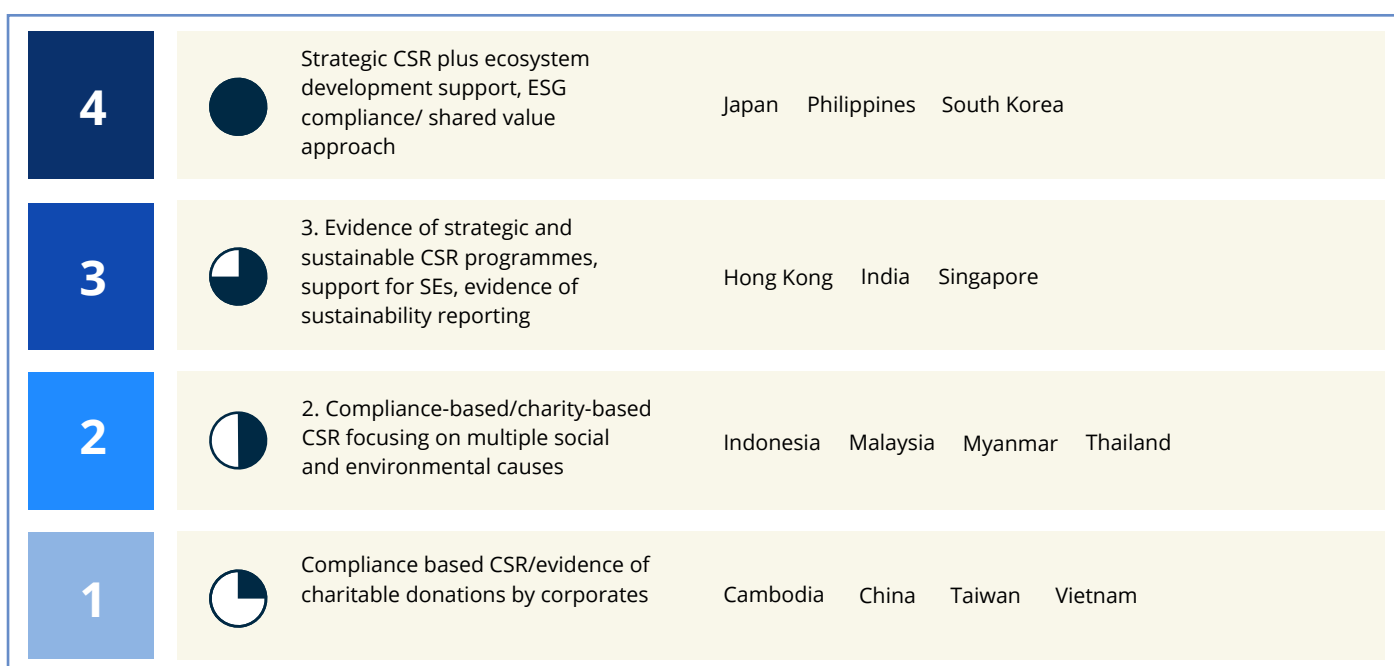
5. Corporate social responsibility's potential still needs to be realised

Corporate philanthropic contributions in the form of Corporate Social Responsibility (CSR) are ubiquitous and present in all 14 regions. However the integration of CSR with business leading to shared value approaches is less common. Japan and South Korea have several examples of corporates establishing venture philanthropy approaches and setting up equity funds for impact investing. Manufacturing companies in India have multiple cases of strategic and sustainable CSR which bring equitable value to all stakeholders. The impetus towards CSR in Cambodia, Vietnam, and Singapore are largely driven

estimated at USD 23.4 billion in 2017, 4% of GDP.

Zakat collectors such as Dompot Dhuafa and Rumah Zakat in Indonesia, are leading the process of well-managed funds and strategic philanthropy. In Malaysia, the world's largest Islamic finance market, Islamic sukuk bonds are a unique innovation with tremendous opportunity to grow socially responsible investing (SRI) in the mainstream capital market.

Religious giving is informal, but is often the starting point for philanthropy as with Taiwan, China, India, Myanmar, and Singapore. Myanmar's giving landscape, in particular, is characterised by religious giving.



Corporate sector contribution across regions. Rating: Sattva-AVPN framework

by international trade imperatives, while MNCs are driving international CSR best practices in countries such as Myanmar and China. At the same time, mandatory CSR has not produced clear outcomes so far, as with Thailand and China.

6. Religious giving is a major source of local philanthropy

In Malaysia and Indonesia, religious giving through *zakat* has wide prevalence and is often the largest pool of grant capital for SPOs. In 2013, zakat represented over 20% of the Malaysian government's social spending excluding health, contributing to 0.25% of the GDP, while in Indonesia, the potential of zakat is

7. Responsible investment is emerging as a strong mainstream market force for impact

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.¹³

Responsible investing mechanisms have emerged in recent years, especially in advanced economies such as Japan, Hong Kong, South Korea, Taiwan, Malaysia and Singapore. These mechanisms have taken the

13. Principles of Responsible Investment, 2017, What is responsible investment



forms of ESG bonds, socially responsible exchange-traded funds (ETFs), corporate sustainability indices and green bonds, providing an infusion of mainstream capital for socio-environmental funding.

For instance, in September 2015, the Japanese Government Pension Investment Fund (GPIF), the world's largest pension fund, with a pool of USD 240 billion, became a signatory of the United Nations Principles for Responsible Investment (PRI), and is making ESG-related decisions in various investments. It is anticipated that this move will spark greater ESG interest among Japan and regional investors in Asia.

The global green bonds market has grown rapidly in the last few years, with an estimated USD 42 billion raised in 2015.¹⁴ In Asia, although the green bonds market is nascent, countries such as China, Hong Kong and Japan have been active in issuing bonds that invest in renewable energy companies, green infrastructure and real estate development. China alone issued USD 36.9 billion worth of green bonds in 2016, dominating the global market in climate-friendly infrastructure investment.¹⁵

8. Intermediaries are critical catalysts in building social economies

The social economies in most of the studies 14 regions have advanced significantly due to the support of intermediaries.

In particular, intermediaries play the key roles of incubating and building capacity among SPOs, promoting cross-sector collaborations, actively forging partnerships between diverse stakeholders and building a knowledge and evidence base in the region. Workshops, conferences, startup weekends and business competitions support investors in discovering high-potential SPOs and promote knowledge-exchange for furthering impact.

While international organisations such as the British Council, Ashoka and USAID have played substantial roles in triggering the SE movements in the studied 14 regions, local players have helped sustain and grow the ecosystem with their contributions. Intermediaries such as Centre for Social Initiatives Promotion (CSIP) and LIN Centre for Community

14. Hong Kong Financial Services Development Council, 2016, Hong Kong as a Regional Green Finance Hub
15. Climate Change News, 2017, China is taking the green bond market by storm

Development (Vietnam), Non-Profit Incubator, China Social Enterprise and Investment Forum (CSEIF) and Leping Social Entrepreneur Foundation (China), UnLtd and YCAB (Indonesia), ChangeFusion (Thailand), Phandeeyar (Myanmar), Asia Philanthropy Circle (Singapore), Root Impact & KoSEA (South Korea), XChange (Philippines), SVP and JVPF (Japan), Ashoka and Sankalp (India), MyHarappan (Malaysia) are notable intermediaries who have contributed significantly to the growth of the social economy in their respective regions.

9. Partnerships move social economies forward

Collective impact¹⁶ is a way to tackle deeply entrenched and complex social problems of all stakeholders using five elements: (i) common agenda, (ii) common progress measures, (iii) mutually reinforcing activities, (iv) communications, and (v) a backbone organisation. In the study of the social investment landscapes across 14 regions in Asia, we found collaborations that followed one or more of these principles, bringing together diverse stakeholders in a sustained manner towards a common purpose. Giving circles such as the ones found in Singapore, Hong Kong and India, which raise resources for non-profits while helping their members grow in terms of maturity as donors are one example. Pooled-in CSR capital such as the Philippine Business for Social Progress model that mobilises corporate funding to implement effective CSR programmes, or even collaborations between government, corporations and civil society such as the SE funds in South Korea or the blended finance approach of Japan, India and Indonesia, are other examples of innovative and highly scalable movements in philanthropy.

Another example is the mutual fund BKIND in Thailand, which is an initiative between ChangeFusion Thailand, Ashoka, Khon Thai Foundation and the Bangkok Stock Exchange. The fund also allocates 0.8% to invest in NGOs and SEs following a venture philanthropy approach.¹⁷

Other models are the Collective Impact Initiatives by Credit Suisse in Hong Kong and Malaysia, which focus on education and fostering access to education in these social economies.¹⁸

These models have helped the social economies of the respective regions grow significantly by providing new means of accessing capital, expertise, and furthering knowledge.

In conclusion

While there is no one-size-fits-all solution to building a high-impact social economy, the key findings outlined above highlight some common foundational elements:

- Government recognition and support,
 - Active presence of managed social investment funds,
 - The growth of strategic philanthropy,
 - The movement towards integrated and sustainable CSR,
 - Increasing adoption of responsible investment,
 - Strong presence of ecosystem enablers, and
 - The drive towards multi-stakeholder partnerships
- all embedded in Asia's long-standing tradition of religious giving.

Asia is at a critical juncture grappling with societal challenges associated with rapid economic growth. The social economy, rooted in the principles of collaboration and collective impact, holds a tremendous potential to drive social and environmental transformation in Asia towards sustainable and inclusive prosperity. The different stages and characteristics of social economy development in Asia can be a source of synergy that catalyses cross-border and cross-sector giving and social investment, as well as enables peer learning. For new investors and investors already present in the region, exciting developments are on the horizon.

16. Kania and Kramer, 2011, Collective impact

17. AVPN, 2015, Changefusion – Mutually Building the Mutual Fund

18. Business Times, Syndicating for good 2015, <http://www.businesstimes.com.sg/hub/philanthropists-forum-2015/syndicating-for-good>

CHINA

China is best known as the world's most populous nation and second largest country by land area. Its 9.3 million square kilometre land dominate the map of eastern Asia¹. Since Deng Xiaoping led the epochal step into market reforms in 1978, China has graduated rapidly from a centrally planned to a market-based economy and experienced rapid economic and social development.²

With its world-leading population of well over 1.3 billion, China has the world's biggest domestic market in terms of the number of potential consumers. Its GDP is growing at around 6.6% per year. While China's valuable advantages of low cost and high productivity of labour today are shared by other developing nations as well, it remains highly competitive economically. Within China, the development of the western provinces, particularly Sichuan (an agricultural production base with rising industrial strength and vast reserves of natural gas), offers new market-growth opportunities.³

In 2014, China was the world's largest recipient of FDI, with an inflow of USD 1.23 trillion.⁴ In 2016, it was third on the list, below the United States and Hong Kong. China was ranked as the world's second most attractive economy to multinational companies for 2016–2018, after the US.⁵ Its top export partners are the US, the European Union, Hong Kong and the Association of Southeast Asian Nations (ASEAN).⁶

1. World Bank, 2016, China - Land area

2. World Bank, 2017, China Overview

3. Santander Trade Portal, 2017, China: Foreign Investment

4. The State Council, 2015, China becomes world's largest FDI recipient amid mixed global outlook

5. UNCTAD, 2016, World Investment Report 2016

6. Statista, 2016, China's exports by country in 2016

FACT FILE

Population
2016

1.37 billion

GDP (PPP)
2016

USD 21.29 trillion
World Rank 1

World Giving Index Rank
2016

140
(144 in 2015)

- % giving money - 6
- % volunteering time - 4
- % helping a stranger - 24

Poverty
2011

6.1%

Per capita GDP (PPP)
2016

USD 15,399
World Rank 78

COUNTRY CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	6.6%	The economy grew 6.6% in 2016, slightly lower than the 2015 rate of 6.9%. For 2017 GDP growth is projected to be between 6–6.5%.
Governance (2015)	-0.4	China ranked above 36% of all the countries in the 2015 World Bank's Worldwide Governance Indicators. ⁷
Consumer Market (2015)	USD 6.9 trillion	Consumer spending increased 8% from 2014 to 2015. China's strong retail growth has been driven by population growth, increasing disposable income and an expanding economy. ⁸
Labour Force (2016)	806 million	The national workforce increased slightly by 0.2% from 2015 to 2016. Nonetheless, China's working age population saw its biggest decline by a record 4.87 million in 2015. ⁹
Infrastructure (2016)	4.7	China ranked 39 among 138 countries, in terms of infrastructure, in the WEF's 2016 Global Competitiveness ranking. Infrastructure development has been one of the top priorities for the government. ¹⁰
Financial Access (2014)	79% of the population	Access to finance increased by 24% from 2011 to 2014. ¹¹ The rural population, which includes most of the poor in China, saw their access to finance increase 20 percentage points during the period. By 2014, 74% of rural adults were formally banked. ¹²
Digital Access (2015)	50% of the population	Internet penetration increased from 47.9% in 2014 to 50.3% in 2015. ¹³ There are 92 mobile-cellular subscriptions per 100 inhabitants.
Ease of Doing Business (2016)	78/190	China's Ease of Doing Business rank improved from 80 in 2015 to 78 in 2016. However, China's business environment generally lacks predictability, and its legal and regulatory system is described as opaque. ¹⁴

Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016)

Note: Computation in this section is described in the Methodology.

■ Favourable
 ■ Moderately favourable
 ■ Unfavourable

7. World Bank, 2015, Worldwide Governance Indicators

8. Agriculture and Agri-Food Canada, 2014, Consumer and Retail Trends

9. Wall Street Journal, 2016, China's Working-Age Population Sees Biggest-Ever Decline

10. McKinsey & Company, 2013, Chinese infrastructure: The big picture

11. World Bank, Financial Inclusion Data

12. CGAP, 2015 New Accounts in China Drive Global Financial Inclusion Figures

13. International Telecommunication Union, 2015, Percentage of Individuals using the Internet

14. Koehler Services, 2011, How to Effectively Enter the China Market

Number of Millionaires

2015

1,333,000

(0.1% of population)

Global Competitiveness Index

2016

28

(28 in 2015)

Source: CIA, Charities Aid Foundation (CAF, 2016), Credit Suisse (2016), OECD (2016), World Economic Forum (WEF, 2016), World Bank (2017).

DEVELOPMENT GAPS IN CHINA

While China has made great strides in economic development since 1978 and lifted millions of people out of poverty, its economic gains have not been broad-based and equitably shared. Although China's official Gini coefficient, a commonly used measure of income inequality, registered a dip from 0.49 in 2008 to 0.46 in 2015, it is still a remarkable increase from less than 0.3 in the 1980s.¹⁵

The country's 13th Five-Year Plan (2016–2020) aims to address environmental and social imbalances, setting national targets for reducing pollution, increasing energy efficiency, improving healthcare, and expanding social protection. The Plan's annual growth target is 6.5%, a number that reflects the rebalancing of the economy and growing focus on quality of growth — while staying on course to achieve a doubling of GDP during 2010–2020.¹⁶


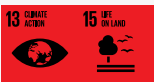



SDG DASHBOARD

Source: sdgindex.org (2016)



15. The Economist, 2016, Inequality in China – Up on the farm
16. World Bank, 2017, China Overview

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	SDG GOALS	GAP	GOVERNMENT FOCUS
Agriculture		The agriculture sector contributed 8.83% of China's GDP in 2015 ¹⁷ while employing 28% of the workforce. ¹⁸ In 2013, 86% of farms were 1.6 acres in size, compared to the average size of 441 acres in the US. ¹⁹ Increasing number of elderly farmers and low yields are posing formidable threats to the country's food security. ²⁰	The government has encouraged private investment in large-scale farming, and will itself invest USD 450 million in the sector by 2020 to improve agricultural technology, reform agricultural management and promote sustainable agricultural practices. ²¹
Climate action		In 2016, China ranked 85 out of 171 countries on the World Risk Index, placing it in the high- to medium-risk category. ²² China emitted 8,948 million metric tonnes of carbon dioxide equivalent, making it the largest carbon dioxide emitter in the world in 2015. ²³	The 2015 National Climate Change Adaptation Plan focuses on improving disaster risk warning systems, introducing higher engineering standards for new infrastructure, and arriving at comprehensive climate risk assessments. ²⁴ China's Intended Nationally Determined Contribution (INDC) seeks to reduce its CO ₂ emissions by 60–65% from the 2005 levels by 2030. The forest carbon goal aims at increasing forest carbon stocks to create a roughly 1 gigatonne carbon sink, equivalent to taking 770 million cars off the road. ²⁵
Small and medium-sized enterprise (SME) growth		SMEs accounted for 60% of China's GDP and provided 80% of urban employment in 2013. ²⁶ In 2013, only 23.2% of bank loans were extended to SMEs, and SMEs only had access to 4.7% of short-term loans for working capital. ²⁷	In August 2014, the State Council released a 10-point statement on reducing financing costs for enterprises including SMEs and guidelines on Accelerating the Development of Modern Insurance Industry to encourage the development of credit guarantees and insurance for SME loans and to build a more accessible SME financing environment. ²⁸
Social security		The number of Chinese aged above 65 is expected to rise from roughly 100 million in 2005 to more than 329 million in 2050 — more than the combined populations of Germany, Japan, France, and Britain. ²⁹	The 13th Five-Year Plan of the Ministry of Human Resources and Social Security focuses on promoting adequate and high-quality employment, establishing a more equitable society, reforming the wage income distribution system, and strengthening basic public services. ³⁰ China aims to increase basic old-age insurance coverage to 90% from the current 82% and lift about 56 million of the rural population out of poverty by 2020. ³¹
Climate action		In 2015, China consumed 3,101 Mtoe, ³² more energy than any other country. ³³ In 2014, 87% of China's energy came from fossil fuel. ³⁴	The 13th Five-Year Plan focuses on curbing coal consumption, increasing the share of non-fossil-based energy in the country's energy mix as well as wind and solar capacity. ³⁵ The share of renewables in China's total energy production increased from 16.6% in 2000 to 24% in 2015. ³⁶

Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

17. World Bank, 2015, Agriculture value added (% of GDP), China

18. World Bank, 2015, Employment in Agriculture, China

19. Cheung Kong Graduate School of Business, 2017, Down on the farm: Agriculture in China today

20. Cheung Kong Graduate School of Business, 2017, Down on the farm: Agriculture in China today

21. The State Council, 2016, China's plan to promote modern agriculture; Cheung Kong Graduate School of Business, 2017, Down on the farm: Agriculture in China today

22. United Nations University's Institute for Environment and Human Security, 2016, World Risk Report 2016

23. Enerdata, Global Energy Statistical Yearbook, 2016, CO₂ emissions

24. WEF, 2016, Where will climate change impact China most?

25. World Resource Institute, 2015, A Closer Look at China's New Climate Plan (INDC)

26. OCBC, 2014, China's SMEs Development

27. Tsai, K., 2015, Financing Small and Medium Enterprises in China: Recent Trends and Prospects beyond Shadow Banking

28. Asian Development Bank, 2014, Asia SME Finance Monitor

29. The Atlantic, 2016, China's twilight years

30. Ministry of Human Resource and Social Security of the People's Republic of China, 2016, Outline of 13th Five-Year Plan

31. National Development and Reforms Commission, 2016, The 13th Five-Year Plan

32. The tonne of oil equivalent (toe) is a unit of energy defined as the amount of energy released by burning 1 tonne of crude oil.

33. Global Statistical Yearbook, 2016, Energy consumption

34. World Bank, 2014, Fossil fuel energy consumption (% of total) - China

35. The Diplomat, 2016, China's 5 Year Plan for Energy

36. Global Statistical Yearbook, 2016, Share of renewables

37. Lee, R., 2012, The Emergence of Social Enterprises in China: The Quest for Space and Legitimacy

THE SOCIAL INVESTMENT LANDSCAPE IN CHINA

The recent and rapid growth of the non-profit sector in China can be attributed in part to a push by the Chinese government to encourage social organisations that tackle challenges such as unemployment, marginalisation and poverty. Before the concept of social enterprise (SE) became popular in China, Chinese SEs mainly took the form of self-help community groups that provided job opportunities to marginalised communities including women, the disabled, and victims of disasters.³⁷

Several factors have contributed to the emergence of SEs in China:³⁸

- Stellar economic growth in urban cities has exacerbated socio-economic inequalities between rural and urban China. New social problems such as rural unemployment, an ageing rural population and rural-urban migration have not been adequately addressed by the government.
- The government has shifted from direct provision of social services to subvention or subsidy of services.
- Rising affluence has led to an increase in the number of socially conscious consumers and producers.
- International efforts have helped to foster China's social entrepreneurial spirit. For example, the International Forum on Social Entrepreneurship hosted by the Skoll Centre for Social Entrepreneurship at Zhejiang University in May 2007 and the British Council's Social Enterprise Programme in 2009 are some of the prominent triggers.

SEs in China are relatively young: a 2012 survey finds that 54% of the SE respondents were under 3 years old, of whom 21% were less than 1 year old.³⁹ 95% of social entrepreneurs said they got involved after 2006, with the Sichuan earthquake of 2008 being a major driving force for participation.

China had about 670,000 registered social organisations as of the end of June, including 5,038 foundations, according to the Ministry of Civil Affairs.⁴⁰ By the end of 2015, registered social organisations had received 61 billion yuan (USD 9.12 billion) in donations. 4 B-corps are registered in China: First Respond, Sing-bee, Gung Ho! Pizza and People's Architecture Office.⁴¹

Legislative environment

China's non-profit registration process witnessed significant reforms in March 2013. The new laws relax registration requirements for different legal structures including industrial associations, charities, community service organisations and organisations promoting technology, obviating the need to find a government agency to act as the supervisor prior to starting up.



38. Lee, R., 2012, The Emergence of Social Enterprises in China: The Quest for Space and Legitimacy

39. FYSE, 2012, China Social Enterprise Report

40. Xinhuanet, 2016, China's charity law to take effect

41. Bcorps in China

Before 2013, the requirement of finding a government affiliate often proved too cumbersome for non-profits, leading many to register as a private company or remain informal.⁴²

In 2016, China passed the Charity Law, the first comprehensive national law for charitable organisations. The new law, consisting of 12 Acts and 112 provisions, eases restrictions on fundraising and operations of non-profits and provides tax concessions when raising money from corporations and directions around online fundraising, among others.⁴³

The second new law passed in 2016, the Management of Foreign Non-Government Organizations Activities in China, states that all foreign foundations, charities,

advocacy organisations and academic exchange programmes must register with Public Security Bureaus for authorisation to conduct their activities and have approved Chinese sponsors.⁴⁴

There is no dedicated legal structure for SEs in China. Non-profit or charitable entities usually take on one of these legal 3 structures: social organisations, foundations, and private non-enterprise entities. Non-profits in these 3 forms are prohibited from distributing financial returns to their members and sponsors. Only Chinese residents and legal 'person entities' can be founders or members.⁴⁵ Alternatively, SEs may register as commercial entities.



42. China Daily, 2014, Reforms give NGOs a level playing field

43. Library of Congress, 2016, China: Charity Law Adopted

44. China Law Translate, 2016, Foreign NGO law

45. AVPN, 2014, Getting Started in Venture Philanthropy in Asia - Legal Profile Framework for China



STRUCTURE	PURPOSE
NON-PROFIT LEGAL STRUCTURES⁴⁶	
Social organisation	It is defined as an organisation founded by Chinese residents and entities for the purpose of realising the common will of their members. Funds contributed to these organisations is called "initial funding." Funding has to be in the form of donations and grants and these organisations cannot provide any financial returns to their funders.
Foundation	Foundation is a not-for-profit organisation funded with assets donated by individuals or other legal person entities for public welfare purposes. Foundations can be divided into public fundraising foundations and non-public fundraising foundations.
Private non-enterprise entity	Private non-enterprise entity is a social institution established by individuals, enterprises, institutions, social organisations or other social forces with private capital (as opposed to state-owned assets) for the purpose of providing social services. A private non-enterprise entity could be in the form of either an independent legal person entity, a partnership, or an individual unit.
FOR-PROFIT LEGAL STRUCTURES⁴⁷	
Company	Companies have a legal person status and are independent from their investors. Companies may accept funding in debt and equity.
Partnership	Partnerships are unincorporated business organisations where individuals or institutional partners make contributions, operate and work together. Partnerships may accept funding in contribution (capital contribution, contribution in kind or labour services) or debt.

46. AVPN, 2014, Getting Started in Venture Philanthropy in Asia - Legal Profile Framework for China
 47. AVPN, 2014, Getting Started in Venture Philanthropy in Asia - Legal Profile Framework for China

DEMAND, SUPPLY AND SUPPORT ECOSYSTEM IN CHINA

		DEMAND			
		Charities/Non-profits	Social Enterprises	Businesses with Sustainability Focus	Businesses
SUPPLY	Foundation/ Trust/Family Office	Beijing United Charity Foundation (Grant)			
		C&A Foundation (Grant)			
			China Social Entrepreneur Foundation (YouChange) (Grant)		
		Epic Foundation (Grant)			
		Ford Foundation (Grant, Equity)			
			Narada Foundation (Debt, Grant)		
		Sun Culture Foundation (Grant)			
			SOW (Asia) Foundation Limited (Equity)		
			Tencent Foundation (Debt, Grant)		
			The Yeh Family Philanthropy (Grant)		
		Yifang Foundation (Convertible Debt, Equity, Grant)			
	Corporate		DBS Foundation (Grant)		
		Hainan Airlines (Grant)			
			JP Morgan Chase & Co. (Grant)		
			Lenovo (Grant)		
			Retail Solutions Inc (Grant)		
	Impact Fund			China Impact Fund (Equity, Debt)	
				Lanshan Social Investment (Equity)	
				Leping Social Entrepreneur Foundation (Grant, Equity)	
			LGT Impact Ventures (Grant, Equity)		
			SA Capital (Equity, Debt)		
			Synergy Social Ventures Limited (Convertible Debt, Equity, Grant)		
			Transist (Equity)		
			Tsing Capital (Equity)		
			Xinh-Yu Fund (Equity)		
			YouChange (Equity)		
Financial Institution			CFPA Microfinance Management Ltd (Debt)		
			CreditEase (Debt)		
			HSBC Private Bank (Debt)		
			Union Bank of Switzerland AG (Debt)		
Crowdfunding/ Fundraising Platform		Give2Asia (Grant)			
Support		Incubators, Accelerators & Capacity Builders <ul style="list-style-type: none"> Ashoka Beijing Huizeren Volunteer Development Centre British Council East Asia and China Region BoP Hub Ltd. China Social Enterprise and Investment Forum (CSEIF) Leping Social Entrepreneur Foundation Innovate 99 New Venture China (NVC) business Accelerator Non-Profit Incubator Accelerator Philanthropy in Motion Limited Social Venture Group Shunde Social Innovation Centre 	Networks & Platforms <ul style="list-style-type: none"> AVPN Asia Environmental Innovation Forum (AEIF) British Council East Asia and China Region China Foundation Centre (CFC) China Social Enterprise and Investment Forum (CSEIF) China Venture Capital and Private Equity Association 	Research & Knowledge <ul style="list-style-type: none"> Biejing Normal University Center for Civil Society Studies at Peking University Center for the Third Sector, Shanghai Jiao Tong China Global Philanthropy Institute (CGPI) Guanghua-Yintai Center for Philanthropy and Social Impact Non-Profit Incubator One Foundation Philanthropy Research Institute Peking University- Legal Research Centre Social Enterprise Research Centre Social Enterprise Institute Tsing Hua University 	Legal & Implementation <ul style="list-style-type: none"> ForNGO Trustlaw-Thomson Reuters Foundation

Key Actors in the Social Economy in China Source: AVPN-Sattva analysis, China Foundation Centre, FYSE (2012), Harvard Kennedy School (2016), Hurun (2016), The Institute for Environment and Development (2016), press articles, UBS (2015)

KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

New wealth has led to a dramatic change in philanthropy

China has a long-standing tradition of community-based giving and volunteerism. Yet, the most dramatic change in the philanthropic landscape happened recently by way of growth in new wealth. In 2016, China had 251 billionaires, second only to the US's 540. China added the most new billionaires to the list (70) in 2016.⁴⁸ The China Philanthropy Project at the Harvard Kennedy School's Ash Center for Democratic Governance and Innovation found that new wealth-holders increasingly grappled with questions around the most meaningful ways to contribute back to society, the worthiest causes to give to and ways to create sustainable impact through philanthropy.

Among the younger generation, philanthropy is seen as the best way to give back to society, followed by paying taxes. Over 60% of under-30 high net worth individuals (HNWIs) are philanthropic, while among HNWIs above the age of 45, it is over 70%.⁴⁹

Education as a cause dominates philanthropic giving in China. In 2015, the top 100 Chinese philanthropists donated USD 3.8 billion to causes, with 57.5% of total giving going towards education, while environment, despite being an acute challenge, ranked last in funding received with only 0.9%.⁵⁰

Recent reports offer other interesting insights into the characteristics of HNWI giving: the wealthiest prefer to donate closer to home provinces, resulting in remote rural areas receiving much less amounts of funding; 97% give to local causes;⁵¹ and most address immediate social needs such as medicine and disaster relief as opposed to long-term issues.⁵²



48. Forbes, 2016, Forbes' 30th Annual World's Billionaires Issue
49. Hurun, 2016, Hurun News
50. Harvard Kennedy School, 2015, China's Most Generous

51. China Research Center, 2017, Why Giving is Harder than Earning: Philanthropy in China
52. Hurun, 2016, Hurun Philanthropy List 2016

In 2016, Pony Ma of Tencent Holdings pledged USD 2.1 billion worth of Tencent shares to charity and Chen Yidan, the co-founder of Tencent donated USD 615 million to Wuhan college, becoming China's most generous philanthropists.⁵³ Other than Jack Ma of Alibaba Group who gives to four causes including social welfare, education, environment, and disaster relief, most Chinese philanthropists support one or maximum two causes.⁵⁴

Inhibited by a distrust of social purpose organisations (SPOs), Chinese philanthropists often establish their own operating foundations to conduct charitable work by themselves, or hand out cheques directly to beneficiaries.⁵⁵

Corporate social responsibility (CSR) movement underway

A 2015 survey of 425 corporates, NGOs and government agencies noted that the understanding of CSR is largely limited to corporate philanthropy.⁵⁶ 82% of the respondents were either neutral or disappointed about the current state of CSR development in the country. Geographically, first-tier cities such as Beijing and Shanghai and the Eastern and Southern China regions see the most developed CSR implementation. Anti-corruption, consumer issues and environment are among the least addressed CSR issues. In contrast, CSR programmes have focused predominantly on impact on local economic development, community engagement and labour conditions.

Nonetheless, multinational corporations (MNCs), state-owned enterprises (SOEs) and large Chinese corporates are leading CSR efforts in keeping with public expectations, particularly following the 2008 Sichuan earthquake. Many MNCs have started to customise their CSR programmes to local needs. For example, Twinings focuses on encouraging young people to become farmers and adopting sustainable agricultural practices in an effort to tackle both environmental issues and the ageing rural population.⁵⁷ In 2006, the State Grid Corporation released the first-ever CSR report by a Chinese SOE.⁵⁸ Sinopec, Sinosteel, China National Petroleum Corporation, China Minmetals have followed suit to

showcase sustainability practices.⁵⁹ Large Chinese corporations have also started to integrate CSR into their operations. Lenovo, for instance, launched a venture philanthropy programme in 2009 that has provided USD 900,000, IT products, volunteers and training to build the capacity of 32 non-profits and SEs.⁶⁰

The 13th Five-Year Plan, with an emphasis on anti-corruption and green growth, is expected to provide the critical boost to strategic and integrated CSR implementation in China.⁶¹

Private foundations are the driving force of social investment

China had 4,243 registered foundations as of 2015, including 2,765 private foundations, with total assets amounting to USD 16.9 billion.⁶² Most private foundations are operational entities, often funded with gifts from corporates or HNWIs. A crucial difference between public and private foundations in China is that private foundations cannot raise public funding. Out of the 2,765 private foundations, only an estimated 100 are funders of non-profits and SEs in China.⁶³

Private foundations have been at the forefront of social investment in China. In 2011, 24 foundations signed a jointly formulated regulation called Nine Codes of Conduct for the Cooperation between Charity and Business that allows charities to engage in commercial activities to generate sustainable income.⁶⁴ Traditional foundations such as Narada Foundation and YouChange Foundation invest in SEs within these guidelines, thus being among the earliest social investors in China.⁶⁵ Established in 2010 by renowned economists and entrepreneurs, Leping Social Entrepreneur Foundation focuses on nurturing leading SEs and advocating social investment.

China has since seen a rapid growth in home grown social investors including: Yifang Foundation, Yu Venture Philanthropy, Transist, Lanshan Social Investment, China Impact Fund, SA Capital, Advantage Ventures, Xinh-Yu Fund and Tsing Capital. Private equity (PE) funds such as Lanshan Social Investment

53. Hurun, 2016, Hurun Philanthropy List 2016

54. Harvard Kennedy School, 2015, China's Most Generous

55. Hurun, 2016, Hurun Philanthropy List 2016

56. CSR Asia, 2015, A Study on Corporate Social Responsibility Development and Trends in China

57. China Daily, 2016, Social responsibility: Chinese and MNCs are leading the way

58. WEF, 2015, Is corporate social responsibility China's secret weapon?

59. WEF, 2015, Is corporate social responsibility China's secret weapon?

60. Stanford Social Innovation Review, 2017, Making Strides in Social Innovation

61. China Daily, 2016, Social responsibility: Chinese and MNCs are leading the way

62. China Foundation Centre, 2015, China Foundation Transparency Index

63. Interview with Non-Profit Incubator (NPI) on 11 April 2017

64. Shanghai University of Finance & Economics Social Enterprise Research Centre, Peking University Centre for Civil Society Studies, the 21st Century Social Innovation Research Centre and the University of Pennsylvania School of Social Policy & Practice, 2013, China Social Enterprise and Impact Investment Report

65. Shanghai University of Finance & Economics Social Enterprise Research Centre, Peking University Centre for Civil Society Studies, the 21st Century Social Innovation Research Centre and the University of Pennsylvania School of Social Policy & Practice, 2013, China Social Enterprise and Impact Investment Report



J.P. Morgan: Supporting SEs in China

In 2015, J.P. Morgan launched an initiative to support SEs in China. J.P. Morgan and Ai You Foundation partner to help scale up SEs that support environmental protection, services for the elderly and disabled, and the development of rural communities.⁶⁶ The programme has already staged its first training camp, bringing together more than 60 NGOs and SE leaders, and focusing on skills such as strategic planning, business management, social media communications and branding. Each SE will have access to at least 3 potential investors or donors and support from 10 business professionals during the course of the programme.

and Advantage Ventures actively invest in high-growth SEs with an impact-first approach, while venture capital firms such as Tsing Capital pursue a triple bottom line.⁶⁷ International social investors including the Ford Foundation, SOW Asia and LGT Impact Ventures are also active in China.

Incubation, non-financial support for SEs and ecosystem building initiatives are also on the rise:

- YouChange Foundation, for example, offers grants to SEs across sectors including agriculture, education, microfinance, livelihood and poverty

66. JP Morgan, 2015, Firm supports social enterprise in China
 67. Shanghai University of Finance & Economics Social Enterprise Research Centre, Peking University Centre for Civil Society Studies, the 21st Century Social Innovation Research Centre and the University of Pennsylvania School of Social Policy & Practice, 2013, China Social Enterprise and Impact Investment Report

Recent investments in China (2015-2016)

Social enterprise	Investor	Sector	Instrument	Amount	Details of work
United Photovoltaics Group Ltd	Asia Climate Partners and ORIX Asia Capital Ltd.	Energy	Equity	USD 167 million	United PV is engaged in the investment and operation of solar power plants in China.
Maihuolang Information Technology (51mhl.com)	Shenzhen New Industry Venture Capital, Weiji Investment, and Qianhai Great Wall Fund.	Agriculture	Equity	USD 150 million	51mhl.com is a rural e-commerce platform for agricultural specialty foods, farm supplies, electric motorbikes and parts and household appliances.
Nongfenqi	Bertelsmann Asia Investments (BAI)	Financial Access	Equity	USD 14 million	Nongfenqi is a rural internet finance services platform that provides installment payment services to large farming groups and collaborative communes on their agricultural equipment purchases
The Beijing Huayi Health and Drug Research Institute	Bill & Melinda Gates Foundation	Health	Grant	USD 35 million	The Beijing Huayi Health and Drug Research Institute works to identify new drug candidates for diseases that disproportionately affect the worlds poorest populations.

Source: Crunchbase, Foundation Center

alleviation. YouChange also provides access to network, mentoring, fundraising, legal support, strategic consulting and access to facilities.⁶⁸

- The Leping Social Entrepreneur Foundation raises about USD 3 million annually from philanthropic donors, out of which USD 1 million gets distributed among Leping's SEs to support their non-income generating activities such as training and new service development. The remaining USD 2 million is used to fund ecosystem building initiatives such as establishing Social Venture Partners China based on the venture philanthropy model.⁶⁹
- China Social Enterprise and Investment Forum (CSEIF), the largest SE network in China, facilitates communication and collaboration among its SE members, and prepares them to receive investment. CSEIF incubates SEs across education, skill training, elderly care, environment, energy,

agriculture, microfinance and poverty alleviation, as well as organises conferences and awards to foster the development of the SE sector.⁷⁰

Municipal governments adopt venture philanthropy

Municipal governments have been pioneering experiments to outsource social services to non-profits and SEs following the venture philanthropy approach. In 2009, NPI partnered with the Shanghai Bureau of Civil Affairs to organise the Shanghai Community Venture Philanthropy Competition, the first large-scale venture philanthropy experiment led by a municipal government in China.⁷¹

Three years later, the Shanghai Bureau of Civil Affairs and the Shanghai Charity Development Foundation launched a venture philanthropy fund of USD 750,000

68. AVPN, China Social Entrepreneur Foundation
69. Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries – Case Study: Leping Group, China

70. Interview with CSEIF on 14 April 2017
71. Stanford Social Innovation Review, 2012, The Social Enterprise Emerges in China

to support SPOs and projects aimed at elderly care. Shenzhen, Dongguan, Nanjing, Suzhou, Ningbo, among others, followed suit within a short period of time.⁷²

A growing number of incubators for SPOs including SEs have been established by local governments.⁷³ The Social Innovation Centre in Shunde District, Foshan City was established with a USD 4.5 million government investment. The Social Enterprise Industrial Park in Suzhou covers an area of 2,800 square metres. These incubators typically provide rent subsidies, seed funding and registration assistance.

Green bonds fund clean energy solutions

China battles intense air pollution and clean water problems as it tries to balance economic development with environmental concerns. Green bonds investing in renewable energy solutions have emerged as a viable tool to mobilise global investment around green infrastructure development. Green bond issuance in China has grown significantly since late 2015 when the Agricultural Bank of China issued the first green bond in the London market.⁷⁴ The country issued USD 36.9 billion worth of green bonds in 2016, accounting for 39% of global issuance.⁷⁵



Non-Profit Incubator (NPI): China's exclusive non-profit incubator

NPI is China's first and one of the largest non-profit incubators established in 2006. NPI provides comprehensive support to grassroots non-profits and SEs in the form of subsidised and free IT support, space, logistics, training, and most importantly, a well-established network of government officials, businessmen, donors and mentors.⁷⁶ Since 2012, the incubator has also focused on promoting the growth of the SE sector. NPI has mobilised USD 50 million in funding for NGOs and SEs to date and incubated more than 500 NGOs and SEs.⁷⁷ NPI has also recently started providing CSR advisory and implementation support for corporates in China, seeking to enhance the effectiveness of CSR and garner more corporate support for SEs.⁷⁸ In 2016, NPI launched a USD 4.2 million social venture seed fund.

72. Stanford Social Innovation Review, 2017, Making Strides in Social Innovation
 73. Stanford Social Innovation Review, 2017, Making Strides in Social Innovation
 74. Reuters, 2015, China Agricultural Bank sells \$1 bln debut "green bond" in London
 75. Climate Bonds Initiative, 2016, China Green Bond Market 2016

76. On The Ground, 2016, Non-Profit Incubator (Shanghai, China)
 77. Interview with NPI on 11 April 2017
 78. Interview with NPI on 11 April 2017

The social economy in China is growing rapidly, driven by social investors, municipal governments and enablers

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		SEs can adopt for-profit or non-profit legal structures. The 2013 and 2016 laws have paved the way for easier registration, operations and tax concessions for SPOs.
	Government support for SEs		Municipal governments in Shanghai, Shenzhen, Dongguan, Nanjing, Suzhou, Ningbo, among others, have played an important role in fostering social entrepreneurship by setting up venture philanthropy funds and/or SE incubators.
	SEs across sectors		Social entrepreneurs in China are active primarily in the fields of education, economic development through fair trade and social inclusion of the disadvantaged. ⁷⁹
	Presence, size, and maturity of SEs		Despite the rapid growth of SEs in China to about 3,200, ⁸⁰ few have managed to scale. ⁸¹
Investors	Philanthropic contributions		China has seen significant contributions from philanthropists and private foundations. In 2015, the top 100 philanthropists contributed USD 3.8 billion to causes. However, China has consistently ranked among the lowest in the CAF World Giving Index.
	Presence of social investors		China has experienced a rapid growth in homegrown social investors such as Narada Foundation, YouChange Foundation, Leping Social Entrepreneur Foundation, Yifang Foundation, Yu Venture Philanthropy, Transist, Lanshan Social Investment, China Impact Fund, SA Capital, Advantage Ventures, Xinh-Yu Fund and Tsing Capital. International investors active in China include the Ford Foundation, SOW Asia and LGT Impact Ventures.
	Corporate sector		Implementation of integrated CSR remains limited to MNCs, major SOEs and leading private corporates.
Enablers	Incubators, accelerators, and capacity-builders		Notable enablers including NPI, CSEIF, YouChange, Leping Social Entrepreneur Foundation offer incubation and acceleration services, mentoring, training and access to resources.
	Networks and platforms		AVPN, CSEIF, Narada Foundation, YouChange, Asia Environment Innovation Forum, British Council, China Foundation Centre are among the most active networks and platforms.
	Knowledge and research		Research in the field of philanthropy and social entrepreneurship is growing, with publications by Peking University, China Global Philanthropy Institute, the Beijing Normal University One Foundation Philanthropy Research Institute, Social Enterprise Research Centre, FYSE and NGO Research Centre of Tsing Hua University. ⁸²
	Partnerships		NPI and CSEIF have partnered with corporates and municipal governments. Stakeholders work predominantly alone and there is not much evidence of multi-stakeholder partnerships in China. ⁸³
	Impact Measurement		Most enterprises tend to following internal practices of impact measurement.

79. SERORIS, 2014, The State of Social Entrepreneurship in China
 80. FYSE, 2012, China Social Enterprise Report
 81. Interview with CSEIF on 14 April 2017

82. Constellations International, 2015, Social Enterprise in China
 83. UNDP, 2015, Unleashing the potential of philanthropy in China

OPPORTUNITIES

- The Shanghai social incubator set up with the assistance of NPI has catalysed the creation of over 200 similar incubators around China, in some cases replicated by local governments.⁸⁴
- In 2015, China launched the Social Enterprise Certification during the China Charity Fair (CCF), the largest national charity event held on an annual basis.⁸⁵ This certification is an unofficial accreditation initiated and supported by five heavy-weight Chinese organisations including two academic institutes - Peking University and China Global Philanthropy Institute; a research centre - Social Enterprise Research Centre; a foundation - Narada Foundation and CCF's organising committee - Mshan. Although at present the SE certification is not recognised by the government, the accredited SEs will enjoy financial and non-financial supports from the community. This may provide a catalyst to more substantive legal recognition of SEs in the future.
- Many municipal governments in China including Shanghai, Shenzhen Dongguan, Nanjing, Suzhou, Ningbo have adopted the venture philanthropy approach in outsourcing social services to SPOs, which may constitute a significant boost to the development of China's social economy.

CHALLENGES

- The government has passed the Management of Foreign Non-Government Organizations Activities in China law, which places multiple restrictions on the activities of international NGOs and the funding they provide to local NGOs in China.⁸⁶
- There is no legal recognition of SEs in the country, despite increasing support for the SE sector among many municipal governments.
- Despite its growing wealth, China came up right at the bottom of the CAF World Giving Index 2016, at rank 140 out of 140 countries. While there is evidence of individuals helping out strangers in times of need, China ranks low on volunteering and individual donations to causes.

- Venture philanthropy and impact investment have not permeated the majority of foundations in China. As noted above, a distrust of SPOs is still prevalent among foundations.
- SEs are currently clustered in first-tier cities, particularly Beijing, Shanghai and Shenzhen. Rural SEs and those operating outside the main ecosystem lack access to mentorship, resources, incubation and acceleration services, which may restrict their level of growth.
- China ranks among the lowest globally in the Global Reporting Initiative (GRI) with independent third party assurance for carbon data at 9% compared to global average of 62%, lowest rate of reporting of carbon emissions at 56% compared to global average at 82% and only 3% of the companies reporting their emissions targets.⁸⁷

RECOMMENDATIONS

The following recommendations emerge from interviews and landscape analysis:⁸⁸

- **Development gaps**
 - Education remains the most funded area in China, leaving a significant gap in funding for other critical socio-environmental challenges such as environmental protection, sustainable urbanisation, renewable energy and even healthcare.
- **Social investment**
 - A sizeable funding gap exists in early-stage enterprises as angel investing and high-engagement philanthropy are still emerging,

"The social enterprise sector is growing greatly in popularity in China. Supporting grants in developing new research, knowledge, social finance and networks is essential for the ecosystem to grow"

Elizabeth Knup, Ford Foundation China

84. Constellations International, 2015, Social enterprise in China

85. AVPN, 2016, China's Social Enterprise Certification

86. Qz, 2017, China's latest crackdown against foreign forces

87. KPMG, 2015, Survey of Corporate Responsibility reporting

88. Interviews with NPI on 11 April 2017, CSEIF on 14 April 2017, Ford Foundation on 27 April 2017, Fuping Development Institute on 17 April 2017

which necessitates the need to raise awareness about venture philanthropy and impact investment among HNWIs, foundations and family offices in China.

- The evolution of China's social economy needs to be embedded in the country's historical, political and socio-economic contexts. New social investors entering the country could partner with local actors to gain a deep understanding of the ecosystem.
- International and local social investors could consider engaging and collaborating more closely with HNWIs, foundations and family offices as partners to provide capacity building support to SEs.
- Philanthropists and private foundations could allocate part of their portfolio to support SPOs or set up incubators and support ecosystems in rural and Western China, where the ecosystem is significantly underdeveloped.
- Developing more practical local guides around social investment in China could encourage and educate new investors in getting more engaged with the ecosystem.
- **Ecosystem support**
 - An approach such as the one adopted by Social Venture Partners (SVP) China could provide regular mentorship and handholding support for SEs. There is a need for more networks such as SVP given the size of China.
 - Human capital remains a significant challenge for SEs. A near-term solution for attracting talent into the SE sector could be to translate the existing interest to give back among philanthropists and professionals into mentorship opportunities for SEs.
 - Knowledge creation and further research on the social economy can provide evidence of success models, thus encouraging more strategic philanthropy and social investment practices.
 - Creating greater awareness among philanthropists to convert a part of their existing philanthropic portfolios into social investment would increase the financial resources available to SEs. Philanthropy advisories could reach out further to HNWIs, family foundations and family offices to orient them on the benefits of venture philanthropy and impact investing. Networks and platforms can play a lead role in forging

partnerships and facilitating co-investments among philanthropists, private foundations and other players.

- Commercial enterprises are increasingly interested in contributing to local causes. Bringing together commercial enterprises and SEs would promote cross-sector learnings, proliferate new skills and ways of thinking in both ecosystems and encourage partnerships.

"SEs in China have evolved from non-profits and hence business thinking is limited. We are helping social entrepreneurs develop critical business thinking, and building platforms where investors can discover and support outstanding social enterprises. Decision-makers are still hotly debating the definition and intent of SEs. This is a barrier we must break down in order for the ecosystem to grow."

Cathy Sheng, CSEIF

RECOMMENDED READING

- Shanghai University of Finance & Economics Social Enterprise Research Centre, Peking University Centre for Civil Society Studies, the 21st Century Social Innovation Research Centre and the University of Pennsylvania School of Social Policy & Practice, 2013, China Social Enterprise and Impact Investment Report
- UNDP, 2015, Unleashing the potential of philanthropy in China

HONG KONG

It was no surprise when, in January 2017, for the 23rd year running, Hong Kong was acclaimed as the freest economy in the world.¹ China has actively endorsed the region's longstanding 'market driven with minimal government interference' policy. The result is an environment that enables businesses to flourish, in which 92.8% of GDP is driven by services and just 7.2% by industry. GDP is projected to grow at 1.07% in 2017, which complements consumer spending of USD 54,132 million in the last quarter for the year 2016-17.²

Ever since the British transferred sovereignty of Hong Kong to China in 1997, it has been governed under the principle of "one country, two systems". As part of the terms of the handover, China committed to giving the region large autonomy in social and economic terms for 50 years. Although the Hong Kong Special Administrative Region is to a meaningful degree self-governing, it is not independent from Chinese politics.

The region was the second largest recipient of foreign direct investment (FDI) in the world in 2015,³ attracting USD 175 billion. This was an unusual 53% rise from 2014, owed partly to the restructuring of two large conglomerates.

Hong Kong is not only the fourth most densely populated region in the world, with 6,845 people per square kilometre,⁴ but is also rapidly ageing. The median age is 44 years, significantly higher than the world median of 29.6 years.⁵

1. CNBC, 2016, Hong Kong is world's freest economy; US slips on freedom score
2. Ieconomics, 2016, Hong Kong - Consumer Spending
3. United Nations Conference on Trade and Development (UNCTAD), 2015, World Investment Report 2015
4. Statistic Times, 2016, Countries by Population Density
5. UN Department of Economics and Social Affairs, 2015, World Population Prospects



FACT FILE

Population

2016

7.17 million

GDP (PPP)

2016

USD 429.65 billion

World Rank 44

World Giving Index Rank

2015

20

- % giving money - 63
- %volunteering time - 15
- % helping a stranger - 56

Poverty

2015

19.7%

Per capita GDP (PPP)

2016

USD 58,322

REGIONAL CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	1.4%	The economy advanced 1.4% in 2016, slower than the 2.4% growth in 2015. In 2017, GDP growth is projected to be between 1.5 and 2%.
Governance (2015)	1.5	Hong Kong ranked above 93% of all the countries in the 2015 World Bank's Worldwide Governance Indicators.
Consumer Market (2015)	USD 249 billion	Consumer spending increased by 3% from 2014 to 2015, and disposable incomes and spending have risen overall. ⁶
Labour Force (2016)	4 million	The national workforce decreased by 0.3% from 2015 to 2016. Hong Kong's labour force is expected to shrink further due to the ageing population.
Infrastructure (2016)	6.7	Hong Kong ranked first among 138 countries in terms of infrastructure in the 2015 WEF's Global Competitiveness Ranking. The region's logistics, utilities and telecommunications infrastructure, are of superior quality, while mobile and internet telecommunications systems are among the most advanced in the world. ⁷
Financial Access (2014)	96% of the population	Access to finance increased by 8% from 2011 to 2014. The Hong Kong government is focusing on resolving difficulties faced by ethnic minorities in opening bank accounts. ⁸
Digital Access (2015)	85% of the population	Internet penetration increased by 3% from 2014 to 2015. ⁹ Mobile-cellular subscription rate is also extremely high that is, 229 subscriptions per 100 inhabitants.
Ease of Doing Business (2016)	4/190	Hong Kong's Ease of Doing Business rank improved from 5 in 2015 to 4 in 2016. Government investment incentives, a strong communications infrastructure and good business support services make Hong Kong an attractive destination for business. ¹⁰

Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016)

Note: Computation in this section is described in the Methodology.

■ Favourable
 ■ Moderately favourable
 ■ Unfavourable

6. Euromonitor International, 2015, Consumer Lifestyle in Hong Kong, China

7. InvestHK, World-class business infrastructure

8. CNBC, 2015, Hong Kong's labor pool may be about to shrink

9. International Telecommunication Union, 2015, Percentage of Individuals using the Internet

10. Hawksford, 2016, Doing Business-Singapore vs Hong Kong

Number of millionaires

2015

107,000

(1.49% of population)

Global Competitiveness Index

2016

9

(7 in 2015)

Source: Census and Statistics Department of Hong Kong (2016), Charities Aid Foundation (CAF, 2016), CIA, Credit Suisse (2016), IMF (2016), OECD (2016), World Bank (2017), World Economic Forum (WEF, 2016)

DEVELOPMENT GAPS IN HONG KONG

In a similar vein to other developed nations, Hong Kong is grappling with the issue of an ageing population with the 10th highest median age in the world.¹¹ Unemployment is expected to increase, having already risen to 3.42% of the total labour force in 2016 from 3.28% in 2015.¹² Air pollution is another cause for concern for Hong Kong. In 2013, the government recognised air pollution as being the “greatest daily health risk to the people of Hong Kong.”¹³ Cancer-causing pollutants in the air have increased to unacceptable standards continuously over the last 15 years.

In an effort to address the issues surrounding Hong Kong’s demographics, high population density, and vulnerability to climate risks, the government has developed the “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030”, a strategic plan for inclusive development which focuses on: (i) providing a quality living environment, (ii) conserving the natural landscape, (iii) enhancing economic competitiveness, (iv) meeting housing and community needs, (v) providing a safe and environmentally friendly transport system, (vi) promoting art, culture and tourism, and (vii) strengthening links with Mainland China.¹⁴



11. By Map, 2016, Media Age for all Countries

12. World Bank, 2016, Unemployment, total (% of total labour force)

13. The Guardian, 2017, Where the wind blows: How China's dirty air becomes Hong Kong's problem

14. Hong Kong Planning Department, 2015, Hong Kong 2030+

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	GAP	GOVERNMENT FOCUS
Climate action	Hong Kong tops Asia as the city with the highest natural disasters risk, according to the 2015 Sustainable Cities Index from Arcadis, ¹⁵ Hong Kong's total greenhouse gas emissions increased by 57% between 1990-2012.	The Hong Kong 2030+ Plan includes urban design and feasible green infrastructure. Hong Kong has agreed to reduce carbon intensity by 50-60% from 2005 levels by 2020. ¹⁶
Education	The region slipped from rank 2 to 9 according to the 2015 Programme for International Student Assessment (PISA) ranking. Schools with the highest and lowest socio-economic status in Hong Kong show a 4½-year learning difference with other school students of the same age. ¹⁷	The Hong Kong government has launched free vocational education-oriented programmes for secondary school children and professional development training programmes for teachers and principals. The government also provides student scholarships and subsidised after-school activities. ¹⁸
Small and medium-sized enterprise (SME) growth	92% of the region's GDP comes from the services sector, and 98.4% of service business units are SMEs in Hong Kong. However, one-in-five SMEs were dissatisfied with the availability of finance as of 2016. ¹⁹	The government provides several loans and funding schemes to support SMEs. ²⁰ The Support and Consultation Centre for SMEs (SUCCESS) provides free business information and consultation services. ²¹
Social security	The proportion of elderly people aged 65 and above is expected to rise markedly from 15% in 2014 to 28% in 2034. ²²	The government introduced a minimum wage of USD 3.61/hour in 2011, which was subsequently increased to USD 3.87/hour in 2014. The government also puts aside HKD 220 billion in the government's land fund and a third of budget surpluses as down payment for future expenses related to the elderly. ²³ Elderly Health Centres provide health assessment, physical check-up, counselling, curative treatment and health education services to the elderly. Senior citizens are financed through the Social Security Allowance Scheme.

Note: Development indicators and SDG dashboard are not published separately for Hong Kong. Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

15. Arcadis, 2015, Hong Kong Natural Disaster Risk

16. South China Morning Post, 2017, PolyU announces the Fourth Hong Kong SME Business Sustainability Index

17. South China Morning Post, 2016, Hong Kong slips to new low in international ranking for student performance in science

18. E|Insight, 2017, Education budget hits HK\$78.6bn

19. The Asset, 2016, Why many SMEs are unhappy in Hong Kong

20. Trade and Industry Department, SME Funding Schemes

21. Go Globe, 2015, Small and Medium Enterprises in Hong Kong – Statistics and trends

22. Census and Statistics Department, 2015, Hong Kong Population Projections

23. South China Morning Post, 2015, "Hong Kong has a population ageing problem"

THE SOCIAL INVESTMENT LANDSCAPE IN HONG KONG

As of 2015, according to the Hong Kong Council of Social Services (HKCSS), there were over 574 registered social enterprises (SEs).²⁴ While social enterprises do not exist as a separate legal entity in Hong Kong,²⁵ the term “SE” has been prevalent in Hong Kong for over a decade. Over the last 5 years the sector has grown remarkably, aided by strong government support. Initially, the ‘Work Integration Social Enterprise’ (WISE) was

the most common form of SEs in Hong Kong. WISEs provide meaningful employment for socially disadvantaged groups, facilitating their integration into society.²⁶ In the last 5 years, there has been an increase in the numbers of ventures addressing a plethora of societal needs ranging from protecting the environment to caring for the elderly. It should be noted that most new social ventures are in the early to growth stage.²⁷

Legislative environment

Supply side

Hong Kong has an open and liberal investment landscape and foreign investment into both for-profit and non-profit ventures are welcomed in the region.²⁸

Demand side

SEs and non-profits can be registered in the following ways:

STRUCTURE	PURPOSE
Company limited by guarantee	A Company limited by guarantee has no share capital and does not pay out any dividends. Members of the company guarantee to contribute a predetermined sum stated in the Articles of Association in the event whereby the company winds up. ²⁹ This structure is commonly used for non-profit entities. ³⁰
Company limited by shares	Most limited companies incorporated in Hong Kong are private companies limited by shares. ³¹ SEs registered with this structure have the ability to raise equity investment.
Society	A society must register with the Societies Office of the Hong Kong Police Force.
Charity	A charity must be established for public benefit and for purposes which are exclusively charitable according to law. Charitable purposes are classified into four areas: relief of poverty; advancement of education; advancement of religion; and other purposes of a charitable nature beneficial to the Hong Kong community. Charities are eligible for tax exemptions from the Inland Revenue Department. ³² Donations made to an ‘Approved Charity’ are tax deductible for donors who are taxpayers in Hong Kong, subject to a ceiling. Application to the Inland Revenue Department for Approved Charity status takes approximately six to eight weeks. ³³

An SE registered as a charity with the Hong Kong Inland Revenue Department and that is profitable is eligible for tax exemption if:

- Profits are used solely for charitable purposes and cannot be distributed to members.
 - Profits are not expended substantially outside Hong Kong.
 - The trade or business is exercised in the course of carrying out of expressed objects of the institution
- (for example, a religious body might sell religious tracts).
- The work in connection with the trade or business is mainly carried on by persons for whose benefit such institution or trust is established (for example, a society for the protection of the blind might arrange for the sale of handicraft work made by the blind).³⁴

24. Social Enterprise Business Centre, 2015-16, SE FAQs

25. AVPN, 2014, Getting started in venture philanthropy in Asia (Hong Kong SAR profile)

26. Chinese University of Hong Kong, 2014, Research Study on the Social Enterprise sector in Hong Kong

27. Interview with Social Ventures Hong Kong on 27 April 2017

28. Export, 2016, Hong Kong-Macau - Foreign Investment

29. Companies Registry Hong Kong, Incorporation of a Local Limited Company

30. AVPN, 2014, Getting started in venture philanthropy in Asia (Hong Kong SAR profile)

31. InvestHK, Company type and name

32. Inland Revenue Department, Tax Guide for Charitable Institutions and Trusts of a Public Character

33. AVPN, 2014, Getting started in venture philanthropy in Asia (Hong Kong SAR profile)

34. Inland Revenue Department, Tax Guide for Charitable Institutions and Trusts of a Public Character

DEMAND, SUPPLY AND SUPPORT ECOSYSTEM IN HONG KONG

		DEMAND				
		Charities/Non-profits	Social Enterprises	Businesses with Sustainability Focus	Businesses	
SUPPLY	Foundation/ Trust/Family Office	Bill & Melinda Gates Foundation (Grant)				
		British Council East Asia and China Region (Grant)				
			Brighten Management Limited (Convertible Debt, Equity)			
		Epic Foundation (Grant)				
		Ford Foundation (Grant, Equity)				
		Lee Kum Kee Family Foundation (Grant)				
		Manan Trust (Grant)				
		National Geographic Society (Grant)				
		Porticus Asia (Grant)				
		Retail Solutions Inc. (Grant)				
		Rockefeller Foundation (Grant)				
			SOW (Asia) Foundation Limited (Equity)			
		State Street Foundation (Grant)				
		The FIL Foundation (Grant)				
		The Hong Kong Jockey Club Charities Trust (Grant)				
The Yeh Family Philanthropy (Grant)						
Corporate		Fossil Group (Grant)				
		Johnson & Johnson (Grant)				
		Microsoft Operations Ltd. (Grant)				
		MTR Corporation (Grant)				
		RR Donnelley (Grant)				
		Salesforce.com Foundation (Grant)				
Impact Fund		RS Group (Grant, Debt, Equity)				
		Social Impact Partners Limited (Convertible Grant, Grant)				
		Synergy Social Ventures (Convertible Grant, Equity, Grant)				
		Social Ventures Hong Kong (Grant, Equity)				
		Village Capital (Equity)				
Financial Institution		International Finance Corporation (Debt, Equity)				
		Asian Development Bank (Grant, Debt)				
		DEG (Grant, Debt)				
Crowdfunding/ Fundraising Platform		Credit Suisse, HSBC, UBS AG, JP Morgan Chase, Macquarie, DBS Bank, BNP Paribas (Debt, Equity)				
			WeLend Social Lending (Debt)			
Support						
		Incubators, Accelerators & Capacity Builders <ul style="list-style-type: none"> Global Social Entrepreneurship Network (GSEN) Good Lab HKCSS - HSBC SE Business Centre Leping Social Entrepreneur Foundation 	Networks & Platforms <ul style="list-style-type: none"> LGT Impact Ventures Social Ventures Hong Kong SOW Asia Foundation Limited UnLtd Hong Kong 	Research & Knowledge <ul style="list-style-type: none"> ANDE Hong Kong Asia Value Advisors Limited AVPN British Council Give2Asia Hong Kong Venture Capital Association (HKVCA) Impact Investment Exchange(IIX) Sharing Value Asia Simply Giving Social Ventures Hong Kong 	Legal & Implementation <ul style="list-style-type: none"> Business for Social Responsibility (BSR) Department of Public Policy, City University of Hong Kong Hong Kong Financial services Development Council Social Ventures Hong Kong The Chinese University of Hong Kong (CUHK) The University of Hong Kong 	<ul style="list-style-type: none"> Asia Value Advisors Limited Egon Zehnder International Tricor Hong Kong

Key actors in the social economy in Hong Kong with a few examples of investing across entities. Source: AVPN-Sattva analysis, Coutts (2015), UBS-INSEAD (2011), press articles

KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

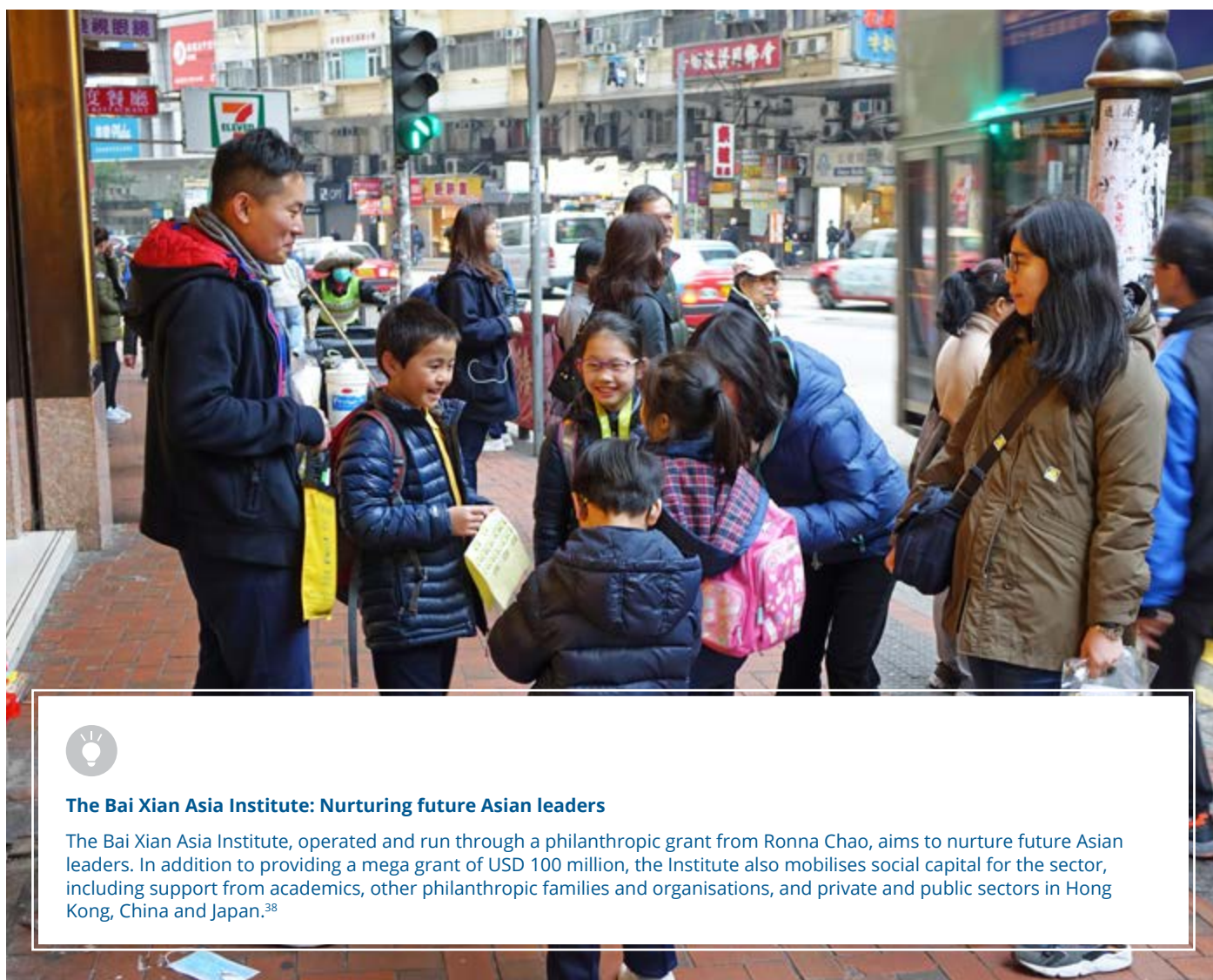
Substantial government support and backing for the social economy

Of the 574 SEs documented in 2015 by HKCSS, two thirds of them (248) were started by seed capital provided by the government via the USD 64 million Social Innovation and Entrepreneurship (SIE) Fund.³⁵ The SIE fund has been a pivotal source of start-up fund for SEs. Two of the most prominent government start-up finance programmes are the 'Enhancing Self-Reliance through District Partnership' Programme and the 'Enhancing Employment of People with Disabilities through Small Enterprise' Project, offering NGOs seed funding to set up SEs. In addition, the Social Enterprises Promotion Unit was established to strengthen SEs through ecosystem initiatives such as promoting cross-sector collaboration, nurturing social

entrepreneurs through incubation and enhancing public awareness of SEs.³⁶

Strong philanthropic giving with USD 2.67 billion in grants in 2014

Hong Kong registered 128 donations above a million dollars each in 2014,³⁷ with a total value of USD 2.67 billion, greater than the combined total for Britain, Russia and Singapore in the same year. While the average size of grants was USD 20.9 million, there were 5 mega grants awarded in the same year: (i) Joseph Tsai, the co-founder of Alibaba Group, donated USD 1.18 billion to set up his private philanthropic trust, (ii) the Morningside Foundation gave a USD 350 million grant to the Harvard School of Public Health, (iii) the Hong Kong Jockey Club Charities Trust donated USD 167 million while (iv) the Galaxy Entertainment Group and (v) Ronald Chao, Vice-Chairman of Novel Enterprises, both set up corporate foundations.



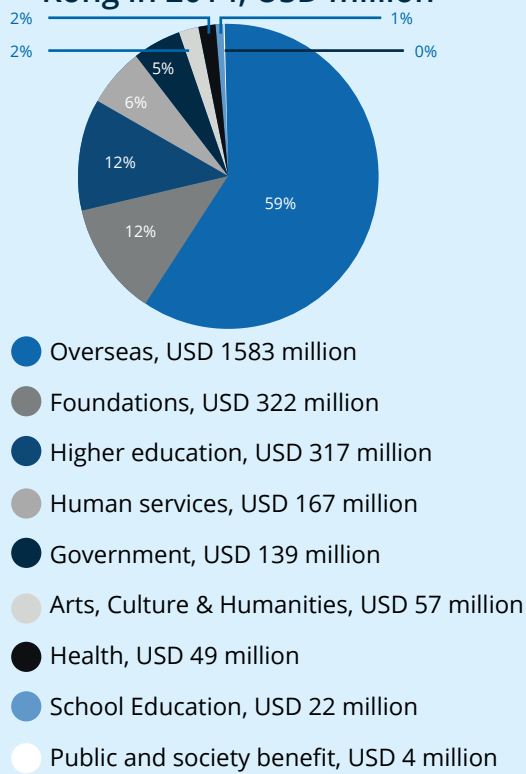
The Bai Xian Asia Institute: Nurturing future Asian leaders

The Bai Xian Asia Institute, operated and run through a philanthropic grant from Ronna Chao, aims to nurture future Asian leaders. In addition to providing a mega grant of USD 100 million, the Institute also mobilises social capital for the sector, including support from academics, other philanthropic families and organisations, and private and public sectors in Hong Kong, China and Japan.³⁸

35. Social Innovation and Entrepreneurship Development (SIE) Fund
36. Home Affairs Department, Support to Social Enterprises in Hong Kong

37. Coutts, 2015, Hong Kong – Family Philanthropy
38. Coutts, 2015, With Ronna Chao

Philanthropic donations from Hong Kong in 2014, USD million



Focus of philanthropic funding in Hong Kong
 Note: Overseas donations reflect grants to countries outside Hong Kong, Taiwan and China.
 Source: Coutts Philanthropy Report (2015)

A commonly observed pattern is that donors who gave mega grants are those with a long history of engagement with the philanthropic sector, with structured philanthropy, a clear vision and mission and a long-term philanthropic goal. Repeated giving has enabled them to be more trusting and slowly increase their sizes of giving. The focus of giving has been primarily education and healthcare, with a large share of investment flowing outside of Hong Kong to establish education and health institutions.

Interviews reveal that only a few family foundations are open to committing parts of their portfolio to impact investing or risk capital for pilots.³⁹ For instance, the RS Group uses a blended value approach by utilising both investments and philanthropic capital towards social and financial returns. Another trend is the second generation transitioning into leadership roles, which brings in a more progressive approach to investing due to their global exposure. According to the 2011 UBS-INSEAD study on family philanthropy in Asia, a leading family in Hong Kong has created three different funds, with separate but mutually supportive

management teams to address the orientations of different family members: (i) the founder oversees contributions to educational institutions and for scholarships, (ii) the second generation members oversee a fund with a broader mandate that includes healthcare and disaster relief, and (iii) a second generation family member oversees a portfolio that invests in and provides grants to social enterprises with earned income strategies.⁴⁰

Emerging green finance market

The global green bonds market has grown rapidly in the last few years, with an estimated USD 42 billion raised in 2015.⁴¹ Although nascent at the moment, Hong Kong is uniquely placed to lead the green financing trend in Asia given its status as one of the global financial hubs, the region's track record and scale.⁴² Aside from providing support for its environmental projects through local finance, Hong Kong could potentially attract entrepreneurs in green industries, both established companies and new entrants, to raise capital and seek listings.

The following are recent green finance initiatives:

- In June 2015, the first labelled green bond by wind energy firm Xinjiang Goldwind Science & Technology was issued in Hong Kong to fund sustainable design projects. The 3-year USD 300 million green bond received orders of USD 1.4 billion and was nearly five times oversubscribed.⁴³
- The Hang Seng Corporate Sustainability Index Series is the first index series of its kind to focus exclusively on the Environmental, Social and Governance (ESG) performance of Hong Kong and Mainland China stocks. All companies are rigorously assessed by the Hong Kong Quality Assurance Agency (HKQAA).⁴⁴

In 2014, Hong Kong ranked 17 on sustainability disclosure among 46 stock exchanges on the basis of listed firms' ESG reporting, up from 23 in the previous year, which the Hong Kong Exchange said may be related to the implementation of the ESG guidelines.⁴⁵ These ESG mandates have also increased awareness among corporates on the importance of integrating social and environmental initiatives in their day-to-day operations.⁴⁶

39. Interviews with AVPN members based in Hong Kong, 2017

40. UBS-INSEAD, 2011, UBS-INSEAD Study on Family Philanthropy in Asia

41. Hong Kong Financial Services Development Council, 2016, Hong Kong as a Regional Green Finance Hub

42. South China Morning Post, 2016, ESG is new buzzword for listed firms, investors in HK, Asia as regulations tighten

43. Hong Kong Financial Services Development Council, 2016, Hong Kong as a Regional Green Finance Hub

44. South China Morning Post, 2016, ESG is new buzzword for listed firms, investors in HK, Asia as regulations tighten

45. South China Morning Post, 2016, ESG is new buzzword for listed firms, investors in HK, Asia as regulations tighten

46. Interview with Social Ventures Hong Kong on 27 April 2017



Hong Kong has instituted multiple indices and initiatives to encourage business sustainability practices

- The ESG reporting mandate for corporates moved from a voluntary disclosure to a “comply or explain” approach in December 2016, bringing 1,852 companies under the reporting purview.⁴⁷
- HKCSS and the Hong Kong Productivity Council released the fourth annual SME Business Sustainability Index and gave awards to encourage CSR by SMEs.⁴⁸
- The Hong Kong Business Sustainability Index examines top 50 companies in Hang Seng Index on the basis on value, process and impact.⁴⁹ On a scale of 100 points, Hong Kong companies scored an average of 41.7 points in 2016, implying that CSR is very much on a learning curve.⁵⁰

Impact investors take a venture philanthropy approach to build pipeline

With the majority of SEs in the early to growth stage, impact investors in Hong Kong are adopting a venture philanthropy (VP) approach towards supporting organisations and the ecosystem, offering grants, soft loans and substantial non-financial support for

social entrepreneurs. The quality of incubation and acceleration services for SEs has been a stated gap in the ecosystem. Multiple investors expressed a significant need for partnerships and co-investment between VP organisations that provide technical assistance and impact investors who look at value creation.⁵¹

47. CSR Asia, 2016, CSR Asia weekly News

48. South China Morning Post, 2017, PolyU announces the Fourth Hong Kong SME Business Sustainability Index

49. The Hong Kong Polytechnic University, The Index & the Assessment Model

50. South China Morning Post, 2015, Hong Kong companies 'lagging behind on corporate social responsibility'

51. Interviews with Synergy Labs on 27 April 2017, Social Ventures Hong Kong on 27 April 2017 and SOWAsia on 26 April 2017

**RS Group: Bridging the gap between the for-profit and non-profit worlds**

RS group started as a family office in 2008. The organisation has since focused on a “Total Portfolio Approach” to asset allocation which bridges the non-profit and for-profit worlds by generating both financial and ‘extra-financial’ returns, through social and environmental benefits. It encompasses a wide range of activities across the financing spectrum from grants and loans for charities, equity investment in SEs to Sustainable and Responsible Investments.⁵²



52. RS Group, Our Approach, <http://www.rsgroup.asia/approach/>

Recent investments in Hong Kong (2015-2016)

Social enterprise	Investor	Sector	Instrument	Amount	Details of work
65 NGOs	Hong Kong Jockey Club	Various	Grant	USD 1.52 million	The grant will help expand The Hong Kong Jockey Club Community Project Grant (CPG), which benefits 1.1 million local residents in need of services.
Pangaea Global AIDS Foundation	United States Department of Health and Human Services	Health	Grant	USD 200,000	The investment is to be used to scale up high quality treatment counselling, education and support to people living with HIV.

Source: Foundation Center (2016), Crunchbase





**Social Ventures Hong Kong (SVhk): Partnering for Impact**


A venture philanthropy organisation established in 2007, Social Ventures Hong Kong applies a dual-engine model to address local urban and social issues: investments are made by SVhk Capital and capacity building is implemented by the SVhk Foundation. SVhk has incubated more than 20 portfolio ventures that employ or engage with 700+ employees, 500+ professional volunteers, and partner with 2,000+ organisations to improve 5,300+ lives directly, create 1.4 million+ opportunities for participation in activities and events organised by SVhk and its portfolio ventures, and transform HKD 150 million of assets into social impact.⁵³ Drawing upon the membership base of 800+ committed professional volunteers, SVhk has contributed more than 20,000 hours to non-profits and SEs. SVhk is now actively engaged in co-opting corporates and family foundations to become social investors and fund early to growth stage enterprises.⁵⁴

53. Social Ventures Hong Kong, Impact report 2011-14

54. AVPN, 2015, Capacity Building: Social Ventures Hong Kong moving social enterprises up through the dual engine and impact assessment

The social economy in Hong Kong is rapidly growing with strong government support, long-standing domestic philanthropy and a vibrant enabler ecosystem

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		The process of registering SEs and non-profits is fast and hassle-free.
	Government support		The process of registering legal entities for SEs and non-profits is clearly defined by the Companies Registry. Application for Approved Charity status with the Inland Revenue Department is also a clear process.
	SEs across sectors		SEs can be found across an array of sectors including: ageing, health, education, housing, sustainable living and environment.
	Presence, size, and maturity of SEs		There were 574 SEs recorded in 2015. The majority of SEs need mentorship and seed capital to become investment-ready.
Investors	Philanthropic contributions		Significant philanthropic giving amounting to USD 2.67 billion in 2014 came from private foundations, high net worth individuals (HNWIs) and family offices. 59% of this funding went to overseas organisations.
	Presence of social investors		Notwithstanding the presence of multiple international and local social investors, current investing volumes are low. ⁵⁵
	Corporate sector		While responsible business thinking has started to take root, the 2015 Sustainable Business Index shows a lag in CSR performance in Hong Kong. ⁵⁶ The total number of SMEs in Hong Kong exceeds 320,000, yet the number of SMEs active in CSR is still limited. ⁵⁷ The top CSR and business sustainability performers are still confined to a small pool of large companies such as HSBC Holdings, MTR Corporation and Swire Pacific Ltd. ⁵⁸
Enablers	Incubators, accelerators, and capacity-builders		Examples of enablers in Hong Kong include: Incubators & Accelerators - UnLtd Hong Kong, SVhk, HSBC Social Enterprise Business Centre, Leping Social Entrepreneur Foundation; Competitions - Hong Kong Social Enterprise Challenge, DBS-NUS Social Enterprise Awards; Corporate pro-bono programmes - SVhk, SOW Asia. 
	Networks and platforms		ANDE, AVPN, SVhk, British Council, Hong Kong Venture Capital Association, Asia Value Advisors are notable networks and platforms. 
	Knowledge and research		Universities and colleges such as the Chinese University of Hong Kong (CUHK) are taking the lead in conducting courses and undertaking research on social issues and social entrepreneurship. 
	Partnerships		Notable partnerships between corporates, foundations and impact investors include SVhk, which collaborates with the RS Group and the Bai Xian Asia Institute. ⁵⁹ 

 Partnership Opportunity

55. Interview with SOW Asia on 26 April 2017
56. South China Morning Post, 2015, Hong Kong companies 'lagging behind on corporate social responsibility'
57. South China Morning Post, 2017, PolyU announces the Fourth Hong Kong SME Business Sustainability Index

58. Oxfam, 2016, Blue Chip CSR survey: nearly a third of companies lag behind
59. Interviews with Synergy Labs on 27 April 2017, Social Ventures Hong Kong on 27 April 2017 and SOW Asia on 26 April 2017

OPPORTUNITIES

- The outgoing Chief Executive of the Hong Kong government Leung Chun-ying has been active in promoting SEs as vehicles to sustainably address societal needs. The Chief Executive's stated public support of SEs can bring about greater traction around beneficial policies and incentives for the social economy.
- Superior quality of infrastructure, high digital access (229 mobile subscriptions per 100 people) and high financial access (96% of the population) serve as a foundation for building technology-based social innovations.
- Hong Kong has a significant pool of business professionals, many of whom are inclined to volunteer. Their expertise can be tapped on to strengthen the capacity of SEs.
- The rise of green finance, including ESG bonds, green bonds and the business sustainability indices, offer opportunities to infuse mainstream capital into SE growth as well as create awareness among corporates around social responsibility.
- The trend of progressive second generation family members assuming greater responsibilities in family businesses is bringing in informed approaches to family giving.
- Hong Kong ranked 17 among 46 Stock Exchanges on ESG reporting in 2014. The ESG reporting mandate and sustainable business indices have attracted public attention and enhanced awareness among businesses on the importance of integrating social impact into business strategy and operations.

CHALLENGES

- Thriving domestic philanthropic culture, as shown in the USD 2.67 billion grants made in 2014, provides an impetus for social investment. However, 59% of this capital went out of Hong Kong.
- Few family foundations are open to committing their portfolio to social investing or as risk capital to funding early-stage SEs.

- Over a third of Hong Kong companies lagged behind in CSR in 2016, as the Business Sustainability Index surveys reveal.
- The lack of human capital remains a significant hurdle for SEs as the majority find it difficult to attract and retain high quality talent.

RECOMMENDATIONS

The following recommendations emerge from interviews and landscape analysis:⁶⁰

- **Development gaps:**
 - Affordable housing and environmental issues are high-gap areas where private sector interventions can make a significant difference.
- **Social investment:**
 - There is a sizeable funding gap in early-stage enterprises as angel investing and high-engagement philanthropy are still emerging.
 - Philanthropic organisations and social investors investment could enable SEs to build up human capital and organisational capability by partnering with incubators such as SVhk and SOW Asia.



60. Interviews with Synergy Labs on 27 April 2017, Social Ventures Hong Kong on 27 April 2017 and SOW Asia on 26 April 2017

- Social impact bonds (SIBs) have been touted as effective pay-for-performance investment models in Hong Kong; however none have been instituted. SIBs can play a significant role in funding education in rural Hong Kong in a similar vein to India.⁶¹
 - Family foundations could take a more holistic approach to social investment, learning from organisations such as the RS Group that adopts a highly evolved 'Total Portfolio Approach.'
 - Greater role clarity will help different investors along the social investment spectrum leverage their strengths and become more effective.
- **Ecosystem support:**
 - A concrete legal structure should be put in place to recognise SEs, thereby strengthening their credibility to investors and consumers.
 - Human capital remains a significant challenge among SEs in Hong Kong. A near-term solution for attracting talent into the SE sector could be to translate the existing interest to give back among corporate employees into mentoring opportunities for SEs.
 - Depending on the background of the social entrepreneurs, substantial efforts might be required to build up their financial acumen and execution capability. A hands-on mentoring culture among social investors in Hong Kong, whereby investors play the role of team members, would contribute towards this.
 - Investors should also take on incubating roles in the early stages to help high-potential SEs to become investment-ready.
 - Knowledge creation and further research on the social economy can provide evidence of success models, thus encouraging more strategic philanthropy and social investment practices.
 - Creating greater awareness among family businesses to convert a part of their existing philanthropic portfolios into social investment would increase the financial resources available to SEs. Networks and platforms can play a lead role in forging partnerships and facilitating co-investments among family businesses, corporates and other social investors.



"We are now working with big corporations to create 'Business 2.0' — injecting social impact into their long-term strategy and business. The US and UK are used to the idea that every business is a social business – we are excited to see how this wave could change the entire dynamics of the social ecosystem here in Hong Kong."

- Lehui Liang, Social Ventures Hong Kong

RECOMMENDED READING

- Chinese University of Hong Kong, 2014, Research Study on the Social Enterprise sector in Hong Kong
- HKFSDC, 2016, Hong Kong as a Regional Green Finance Hub
- Lien Centre for Social Innovation, 2015, Singapore, the Impact Investing Hub of Asia? A Comparison with Hong Kong
- UBS-INSEAD, 2011, Study on Family Philanthropy in Asia

61. Hong Kong Business, 2013, Financing Hong Kong's future through social impact bonds

INDIA

The Indian subcontinent is diverse in terms of its people, language and cultural traditions.¹ With 2,973,193 square km and 1.2 billion people, India is the 7th largest country in terms of area² and the 2nd largest in terms of population.³ The country's population has a median age of 27.6 years.

India had the 3rd highest GDP of USD 8.721 trillion measured in purchasing power parity (PPP) in 2016 and is projected to overtake the United States of America (USA) by 2050 to go into 2nd place.⁴ Trade accounts for about half of India's GDP, and its biggest export partners are The USA, United Arab Emirates, Hong Kong and China (2016).⁵ Foreign direct investment (FDI) in India in 2016 grew by 18% to USD 46.4 billion, at a time when global FDI inflows fell by 13%. The USA was the top source of FDI, and India stood as the 10th most attractive FDI destination in the world.⁶

Services are the major source of economic growth, accounting for nearly 53% of GDP value added in 2015⁷ and employment in urban areas of 58.7% and 16.1% in rural regions in 2011.⁸

The Indian middle class has been hailed for its growth potential and over the 2015-2030 period, the median income per household is projected to increase by 89.8% in real terms to reach USD 10,073.⁹

1. BBC, 2017, India profile
2. World Atlas, 2017, The largest countries in the world
3. World by Map, 2016, Data
4. PWC, 2017, Shift of global economic power
5. World's top exports, 2017, Export partners
6. Livemint, 2017, FDI inflows to India
7. World Bank, 2017, Services Value Added % of GDP
8. International Labour Organization, 2016, India Labour Market Update
9. Euromonitor, 2015, <http://blog.euromonitor.com/2015/09/top-5-emerging-markets-with-the-best-middle-class-potential.html>



FACT FILE

Population
2016

1.266 billion

GDP (PPP)
2016

USD 8.66 trillion

World Rank 3

World Giving Index Rank

2016

91

(106 in 2015)

- % giving money - 22
- % volunteering time - 21
- % helping a stranger - 43

Poverty
2012

29.8%

Per capita GDP (PPP)
2016

USD 6,616

World Rank 123

COUNTRY CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	7.6%	The economy grew 7.6% in 2016 and 2015. In 2017, forecast of GDP growth is between 7.5 and 8%.
Governance (2015)	-0.2	India ranked above 49% of all the countries.
Consumer Market (2015)	USD 4098 billion	Consumer spending is projected to increase due to the growth of household incomes, emerging cities, and nuclear families. ¹⁰
Labour Force (2016)	511 million	The labour-force to population ratio for India is 54% and low in comparison to the rest of the world due to low female labour force participation rate (LFPR, at 31%). ¹¹
Infrastructure (2016)	4.0	India was ranked 81 among 138 countries in terms of infrastructure. ¹² The biggest issues are the country's transportation, education, power and telecommunications infrastructure.
Financial Access (2014)	53% of the population	53% of the population above 15 years of age had a bank account in 2014. ¹³ Financial inclusion of people in poverty, in rural areas and of women are large areas for development.
Digital Access (2015)	26% of the population	In 2015, 26% of the population had access to the internet. ¹⁴ Mobile-cellular subscriptions stands at 78 subscriptions per 100 inhabitants. ¹⁵
Ease of Doing Business (2016)	130/190	India's Ease of Doing Business rank improved slightly from 131 in 2015 to 130 in 2016. Significant challenges remain in terms of enforcing contracts, paying taxes, dealing with construction permits and starting a business. ¹⁶

Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016)

Note: Computation in this section is described in the Methodology.

■ Favourable
 ■ Moderately favourable
 ■ Unfavourable

10. BCG 2017, The new Indian: The many facets of a changing consumer <http://www.confindustriaibergamo.it/area-di-interesse/internazionalizzazione/documenti/kpmg-india-strategy-presentation>

11. Institute for Human Development, 2014, India Labour Employment Report 2014

12. WEF, 2016, Global Competitiveness Index
13. World Bank, 2014, Financial Inclusion Data
14. ITU, 2015, Global ICT Facts and Figures

15. World Bank, 2017, Mobile cellular subscriptions
16. World Bank, 2016, Ease of Doing Business



Number of millionaires

185,000
(0.01% of population)

Global Competitiveness Index
 2016

39
(55 in 2015)

Source: CIA, Charities Aid Foundation (CAF, 2016), Credit Suisse (2016), OECD (2016), World Bank (2017), World Economic Forum (WEF, 2016)

DEVELOPMENT GAPS IN INDIA

India has leveraged the framework of the United Nations' Sustainable Development Goals (SDGs) Agenda 2030 to chart out comprehensive socio-economic-environmental development plans and targets to achieve the goals.¹⁷

Goals for education outcomes, skill development, housing, water, power for all, and sanitation, constitute the foundations of India's social welfare plans. Poverty alleviation is about inclusion and empowerment of the poor through financial access, digital access, direct transfer of benefits, and insurance and pension for the elderly. Drawing on the rapid growth of digital and mobile applications,

India seeks to strengthen the sector of individual enterprises, micro-entrepreneurs and micro-finance while increasing agricultural productivity, market linkages, manufacturing and services which will propel the engines of growth and prosperity. Environmental goals focus on a new capacity of 175 GW of renewable energy over the next seven years starting 2016, energy efficiency, a tax on coal, a huge afforestation programme, reforming transportation, and cleaning up cities and rivers.¹⁸

Prime Minister Narendra Modi has launched schemes such as Skill India, Digital India, Make in India, and Startup India on the growth side, with programmes on education, gender sensitivity, sanitation, and financial inclusion on the social welfare front.¹⁹

SDG DASHBOARD












Source: sdgindex.org (2016)



17. NITI Aayog, Mapping of the SDGs, targets, CSS, interventions, nodal and other ministries
 18. NITI Aayog, at PM's statement at the UN Summit for the adoption of Post-2015 Development Agenda

19. World Bank, 2015, While India's Economy has Turned the Corner, Wider Reforms are Needed to Boost Economic Growth

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	SDG GOALS	GAP	GOVERNMENT FOCUS
Healthcare and WASH	 	In 2013, the infant mortality rate (IMR) was 40 per 1000 births, which is much higher than the global average of 31.7. ²⁰ In 2014, 41.92% of the population had access to sanitation. ²¹	Through the National Health Mission, by 2030, maternal mortality rate is targeted to be reduced to less than 70 per 100,000 live births and the goal is to end preventable deaths of new-borns. ²² Through the Swachh Bharat mission, the new government has improved access to sanitation from 41.92% in 2014 to 63.96% in 2016. ²³
Education		By implementing the Right to Education Act, India has achieved universal access to education and as of 2014 the gross enrolment ratio was at 107.92%. ²⁴ However, in 2016, only 47.8% of children in rural government and private schools in grade 5 could read at the level of grade 2. ²⁵	By 2030, The Ministry of Human Resource Development through Sarva Shiksha Abhiyan wants to ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes. ²⁶
Energy Access		India's Total Energy Consumption in 2014 was 805kWh per capita. ²⁷ In 2014, 79.2% of the people had access to electricity. ²⁸	The Deen Dayal Upadhyaya Gram Jyoti Yojana, the National Solar Mission of providing continuous power supply to rural India and the India Energy Policy together seek to provide reliable and affordable energy access to all by 2030. ²⁹
Poverty alleviation -Agriculture	  	In 2011-12 the National Sample Survey Office (NSSO) data on consumption expenditure survey revealed that more than 1/5th of rural households in agriculture were living below poverty line. ³⁰ The employment to population ratio was 52% in 2015, however the GDP contribution by agriculture was only 17.45%. ³¹	Through a combination of productivity improvement, irrigation coverage, and diversification into high value crops, the government plans to grow the sector by 14.86% per year in order to double farmer incomes by 2022. ³²
Poverty alleviation - Skill development	 	75.8% of the labour force did not have any skill training during 2011-12 while the proportion of workforce with formal training was only 3.05%. ³³	The Pradhan Mantri Kaushal Vikas Yojana is a skill development initiative that has a target to train 10 million Indian youth from 2016 to 2020. The government targets to skill 400 million people in India by 2022. ³⁴
Gender equality		India ranked 131 among 146 countries in the Gender Inequality Index in 2015. ³⁵	Beti Bachao Beti Padhao, operational since 2015, ³⁶ is a government scheme to address the issue of an almost stagnant child sex ratio, ³⁷ and equity in education.
Social security	 	8% of India's labour force in the informal sector has social security coverage. Over 91% of workers, close to 395 million workers, are in the informal sector. ³⁸	Since its inception in 2006, the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) has enrolled over 50 million beneficiary households. The Rashtriya Swasth Bhima Yojana, the national health insurance scheme, has over 4.1 million active cardholders. ³⁹

Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

20. NITI Aayog, 2013, Infant Mortality Rate (IMR) (per 1000 live births)
 21. Swachh Bharat Mission, at <http://sbm.gov.in/sbmdashboard/Default.aspx>
 22. NITI Aayog, 2016, Sustainable Development Goals (SDGs)
 23. Swachh Bharat Mission, at <http://sbm.gov.in/sbmdashboard/Default.aspx>
 24. UNESCO, at India
 25. Pratham Annual State of Education Report, 2016, Enrolment and Learning Report Card

26. NITI Aayog, 2016, Sustainable Development Goals (SDGs)
 27. World Bank 2015, Electric power consumption
 28. World Bank, 2014, Access to Electricity
 29. NitiAayog, Mapping of the SDGs, targets, CSS, interventions, nodal and other ministries
 30. NITI Aayog, 2017, Doubling Farmers Income
 31. World Bank, 2015, Agriculture, value added (% of GDP)
 32. NITI Aayog, 2017, Doubling Farmers Income
 33. NITI Aayog, 2015, Skill Development and Productivity of the Workforce

34. PradhanMantriYojana Schemes, at <http://www.pradhanmantriyojana.co.in/kaushal-vikas-yojana-pmkvy/>
 35. UNDP, 2016, Gender Inequality Index
 36. BBBP, Government of India
 37. India Online, 2016, Sex ratio in India
 38. National commission of Enterprise in the unorganized sector, 2009, The Challenge of Employment in India
 39. RSBY, at <http://www.rsb.gov.in/>

THE SOCIAL INVESTMENT LANDSCAPE IN INDIA

India has a vibrant civil society that has sustained momentum on solving several critical social issues since the early 1960s. Charity and social entrepreneurship are deeply rooted in the Indian ethos.

Historical milestones in the social enterprise sector in India include the Amul Dairy Cooperative started back in 1946 by Dr. Verghese Kurien, 1960s Fabindia's community owned producer companies, and SELCO founded in 1995 with its work in rural India for solar energy.⁴⁰ These paved the way for the 2 million NGOs in India.⁴¹ Social Enterprises (SEs) work across sectors in India: a survey of 258 SEs in India revealed that 53%

of the SEs are engaged skills development activities, 30% in education, 28% in agriculture/fisheries/dairy, 26% in financial services and 26% in energy and clean technology.⁴²

Legislative environment

Demand side

In India, a social enterprise can be registered as either a for-profit or non-profit legal entity. While for-profit organisations are regulated under the Ministry of Corporate Affairs, non-profit organisations are registered under various Registration Acts of the Central and State Governments.

STRUCTURE	PURPOSE
FOR-PROFIT LEGAL STRUCTURES	
Sole Proprietorship	It is a type of enterprise owned, managed and controlled by one person. The liability of the owner is unlimited. ⁴³
Partnership Firm	A partnership is defined as a relation between two or more persons who have agreed to share the profits of a business carried on by them or any of them acting for all. The owners of a partnership business are individually known as partners and collectively as a firm. ⁴⁴
Private Limited Company	In a private limited company, the shareholders right to transfer shares is restricted. The number of shareholders is limited to fifty. An invitation to the public to subscribe to any shares or debentures is prohibited.
Limited Liability Partnership	The Limited Liability Partnership (LLP) Act, 2008 provide an alternative to the traditional partnership business, with unlimited personal liability on the one hand, and the statute-based governance structure of the limited liability company, on the other, so that businesses can organise themselves and operate in a flexible, innovative and efficient manner. ⁴⁵
NON-PROFIT LEGAL STRUCTURES⁴⁶	
Section 8 and Section 25 Companies	Section 8 and Section 25 companies are governed under the new Companies Act, 2013. Most of the substantive provisions of Section 25 of the old Act have been incorporated into the new Companies Act under Section 8. A Section 8 company can be set up for the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object.
Trust	A public trust generally means an expression or constructive trust for either a public, religious or charitable purpose or both and includes any religious or charitable endowments set up for the aforesaid purposes. Different states in India have different Trusts Acts in force; in the absence of a Trusts Act in any particular state, the general principles of the Indian Trusts Act 1882 are applied. ⁴⁷
Society	A registered society is an association of seven or more persons for any literary, scientific, or charitable purpose. Few states have also enacted state-specific legislations to administer registration of charitable societies.

40. Asia Development Bank, 2012, India Social Enterprise landscape report

41. British Council, 2016, The state of social enterprise in India

42. British Council, 2016, The state of social enterprise in India

43. India Business, 2013, Forms of business enterprise

44. Archive India, at http://www.archive.india.gov.in/business/starting_business/org_partnership.php, accessed on April 2017

45. India law Journal, http://www.indialawjournal.org/archives/volume2/issue_2/article_by_bhavesh_sukhada.html, accessed on April 2017

46. AVPN, 2014, Getting started in venture philanthropy in Asia

47. Department of planning, 2012, Non-profit institutions

Supply side

Legislative environment for foreign social investors. Social venture funds enjoy a “pass through” benefit under the relevant sections of the Income Tax Act such that income accruing to the social venture fund would be deductible in the hands of the investor. Offshore social venture funds are required to seek regulatory approval before making direct grants to eligible Indian organisations. They also lack the ability to provide debt financing as foreign funds unless registered as Foreign Portfolio Investors (FPI). Similarly, India based social venture funds with foreign participation which are not Indian managed and sponsored may require regulatory approvals, compliance with pricing norms and may be subject to performance conditions in certain sectors.⁴⁸

Section 80G for charitable contributions:

Anyone who pays taxes — individuals, companies or NRIs — is eligible for tax deductions under Section 80G, provided that the donor and the charity both meet certain criteria.⁴⁹

- The charity or the institution donated to must be registered under Section 12A of the Income Tax Act, 1961 and hold an 80G certificate.
- Not all donations and contributions are tax deductible. For example, donations made to political parties or foreign charitable trusts do not fall under the ambit of Section 80G.
- Donations made from taxable income alone are eligible for exemption.
- Tax benefit can be claimed on donations made in cash and cheque and not in kind.⁵⁰



48. AVPN, 2014, Getting started in venture philanthropy in Asia

49. Big Decisions, <https://www.bigdecisions.com/article/claim-deductions-under-section-80g-for-charitable-contributions>

50. Big Decisions, <https://www.bigdecisions.com/article/claim-deductions-under-section-80g-for-charitable-contributions>

DEMAND, SUPPLY AND SUPPORT ECOSYSTEM IN INDIA

		DEMAND →			
		Charities/Non-profits	Social Enterprises	Businesses with Sustainability Focus	Businesses
SUPPLY ↑	Foundation/ Trust/Family Office	Azim Premji Foundation (Grant)			
		Bill & Melinda Gates Foundation (Grant)			
		Deshpande Foundation (Grant)			
		EkStep Foundation (Grant)			
		Michael and Susan Dell Foundation (Grant)			
		Paul Hamlyn Foundation (Grant)			
		Rockefeller Foundation (Grant)			
		Tata Trusts (Grant)			
Corporate	Bharti Foundation (Grant)				
	Dr. Reddy's Foundation (Grant)				
	EdelGive Foundation (Grant)				
	Mahindra & Mahindra Ltd. (Grant)				
	Oil and Natural Gas Corporation (Grant)				
	Piramal Foundation (Grant)				
	Tata Steel (Grant)				
YES Foundation (Grant, Equity, Debt)					
Impact Fund			Aavishkaar (Equity)		
			Acumen (Debt)		
			Ankur Capital (Equity, Debt)		
			DFID Impact Fund (Equity, Debt)		
			Elevor Equity (Grant, Equity)		
			Grassroots Business Fund (Grant, Equity)		
			India Innovation Fund (Equity)		
			Insitor Fund SCA (Equity)		
			Intellegrow (Equity, Debt)		
			Omidyar Network (Grant, Equity)		
			Social Venture Partners India (Grant, Equity)		
			Unilazer Ventures (Grant, Equity)		
			Unitus Capital (Convertible Debt, Debt, Equity)		
		Unitus Seed Fund (Equity, Debt)			
		Villgro (Grant, Debt, Equity)			
Financial Institution			Asian Development Bank (Grant, Debt)		
			Diwan Housing Finance Corporation Ltd. (Debt)		
			International Financial Corporation (Equity, Debt)		
			National Bank for Agriculture and Rural Development (Grant, Debt)		
		World Bank Development Marketplace (Grant)			
Crowdfunding/ Fundraising Platform		Give2Asia (Grant)			
			Impact Guru (Grant, Debt)		
			Ketto (Grant)		
			Milaap (Grant, Debt)		
Support		Incubators, Accelerators & Capacity Builders	Networks & Platforms	Research & Knowledge	Legal & Implementation
		<ul style="list-style-type: none"> Centre for Innovation Incubation and Entrepreneurship (CIIE) Dasra Deshpande Foundation EdelGive Foundation Insitor Fund Integrating Human to Quality Intellectap Nadathur S Raghavan Centre for Entrepreneurial Learning (NSRCEL) N/Core Rural Technology and Business Incubator SIDBI Innovation Incubation Centre Sankalp Forum Sattva Consulting Selco UnLtd India Villgro Innovations Foundation 	<ul style="list-style-type: none"> Ashoka India AVPN Honey Bee Network Impact Investors Council (IIC) Indian Angel Network Indian Private Equity and Venture Capital Association NASSCOM Sankalp Forum The Indus Entrepreneurs (TIE) UnLtd India Villgro 	<ul style="list-style-type: none"> British Council East Asia and China Region Charities Aid Foundation Dasra Impact Guru Indian Institute of Management Indian School of Business Indian School of Development Management Partnership for Change Sattva Consulting Tata Institute of Social Sciences - CSR Hub Toolbox India Foundation Vardaan Advisors Private Limited 	<ul style="list-style-type: none"> Alternative Law Forum Dasra Human Rights Law Network INVENT Samhita Social Ventures Sambodhi, CKinetics Sattva Consulting CKinetics

Key actors in the social economy in India with a few examples of investing across entities. Source: Dasra (2015), Bain (2016), Intellectap (2014), GIIN-Dalberg (2015), Sattva-AVPN analysis, Sattva (2015), press articles

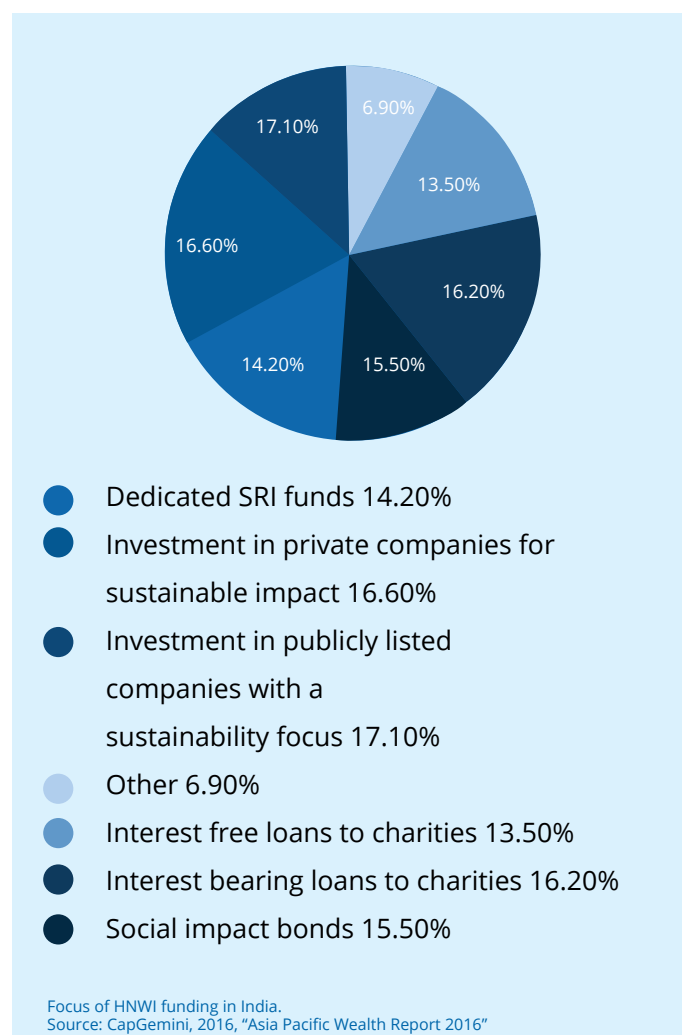
KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

Indian philanthropists broaden the horizons of giving

Indian high net worth individuals (HNWIs) are among the most engaged and sophisticated of funders, both in how they view philanthropy, and the informed approaches that they have taken to move the needle on social impact in India. Philanthropic funding from private individuals in India recorded a six-fold increase in the last 5 years: approximately USD 5.6 billion in 2016, up from approximately USD 934.36 million in 2011.⁵¹ This trend is expected to increase in the future, as more than 40% of HNWIs gives aim to increase their contribution towards philanthropy between 2015-2020.⁵² The increase in philanthropy has been backed by strong macroeconomic growth — the number of ultra high net worth Individual (UHNWI) households has doubled since 2011, and their net worth has tripled from 2011-2016.⁵³

Notable HWNI philanthropists in India include HCL founder Shiv Nadar, Infosys co-founder Nandan and his wife Rohini Nilekani, Wipro Limited Chairman Azim Premji, Reliance Group Chairman and Managing Director Mukesh Ambani, Piramal Group lead Ajay Piramal, Unilazer Ventures Ronnie Screwvala, Infosys co-founder Kris Gopalakrishnan, Former Chairman of Tata Sons, Ratan Tata, Biocon Chairman Managing Director Kiran Mazumdar Shaw. The Forbes 'Asia's 2016 Heroes of Philanthropy' mentions Vineet and Anupama Nayar, founders of the Sampark Foundation in India, Adar Poonawalla, CEO of Serum Institute of India, Amit Chandra, CEO, Bain India and his wife Archana Chandra, CEO of Jai Vakeel Foundation,⁵⁴ Sunil Bharti Mittal of the Bharti Foundation, Anu Aga of the Thermax Foundation and Ashish Dhawan of Central Square Foundation and the Philanthropy Center at Ashoka University. Education remains the favourite cause for Indian philanthropists to support, followed by healthcare and community development.⁵⁵

When it comes to social investing, HNWIs in India allocate over 40% of their investment portfolio, which is disbursed through the following investment strategies.⁵⁶



Bain & Company characterises the journey of the current generation of Indian philanthropists into four archetypes: (i) striving seekers, who are have recently started exploring giving, (ii) professional partners, whose investment through time and skills may be worth far more than their capital, and hence become their tools to drive impact, (iii) capital contributors, who take a less hands-on approach and exercise a more thoughtful deployment of their capital to the right causes and (iv) enlightened evangelists, who are champions of their chosen causes and bring in their networks, social and political capital to bolster the ecosystem.⁵⁷

Whether it is supporting under-funded causes, taking the venture philanthropy approach or foraying into impact investing, Indian philanthropists have significantly broadened the options for philanthropic engagement in India.

51. Bain and Company, 2017, India Philanthropic Report 2017

52. Bain and Company, 2015, India Philanthropic Report 2015

53. Bain and Company, 2017, India Philanthropic Report 2017

54. Forbes, 2016, Heroes in Philanthropy

55. Hurun, 2016, India Philanthropy List 2016

56. Capgemini, Asia-Pacific Wealth Report 2016

57. Bain and Company, 2017, India Philanthropic Report 2017

Family and philanthropic foundations are adopting venture philanthropy approaches

Foundations in India – international, family and corporate – are at different stages of their growth and evolution. International foundations such as the Michael & Susan Dell Foundation, Ford Foundation, the Rockefeller Foundation, Bill & Melinda Gates Foundation have been engaging with development issues in India for over two to three decades, are professionally managed, employ qualified professionals who can work with multiple stakeholders, and look to achieve strategically aligned goals, typically aligned with SDGs or national priority areas. Family foundations on the other hand tend to be founder-centric.⁵⁸ 62% of India's family foundations are run by individuals or families, with only 38% being professionally managed.⁵⁹

While family foundations typically work on geographic or philanthropic areas of interest of the founder, corporate foundations tend to either function as own operational foundations of corporates, or manage strategic philanthropic operations on behalf of the corporate group. Apart from education, focus areas for foundations in India include health and sanitation, livelihoods, women's empowerment and social entrepreneurship.⁶⁰

Increasingly, there is evidences of strategic approaches and venture philanthropy among local foundations:

- **The Tata Trusts** is amongst India's oldest philanthropic organisations. Through grant-making, direct implementation and co-partnership strategies, the Trusts support and drive innovation in the areas of natural resources management; education; healthcare and nutrition; rural livelihoods; enhancing civil society and governance; media, arts, crafts and culture; and diversified employment. The Trusts engage with government bodies, international agencies, and private sector organisations to nurture a self-sustaining ecosystem that collectively works across all these areas.⁶¹
- **Edelgive Foundation (EG)**, the strategic philanthropy arm of Edelweiss Group, has three

social focus areas – women empowerment, livelihood and education. It uses a venture philanthropy approach by providing a great deal of non-financial support and is committed in the growth of its investees. Over a three to five-year period, EG disburses grants as well as supports various capacity building initiatives - be they around organisational development, impact measurement or technological improvements, with many of them being led by the company's employees. The Foundation has developed a strong co-funding platform that provides due diligence and monitoring support to funding partners. This enables other corporates and foundations to join EdelGive in supporting its partner NGOs.⁶²

- **Bharti Foundation**, the Bharti Group's philanthropic arm, has been focused on one social issue since its inception — realising human potential in rural India through transforming education. The Satya Bharti School programme, regarded as a transformational education initiative running in 254 rural schools over 10 years, is now pivoting its model by partnering with governments across States in India, to provide expertise and know-how to nurture holistic learning environments for children.⁶³

Corporates provides a strong backing for social impact through mandated CSR

Section 135 of the Indian Companies Act, 2013 mandates corporates to spend at least 2% of their average net profit of the past three years on CSR activities as specified in Schedule VII of the Companies Act. Fiscal 2016, the third year of implementation of the CSR obligation, saw 1,158, or 77% of the eligible 1,505, formally reporting CSR, with spending edging up to 1.64% of the 2% in fiscal 2016, compared with 1.3% (by 1,024 companies) in fiscal 2015. Education and healthcare received the bulk of CSR spending. Spending on technology interventions has seen more than an eight-fold increase to USD 20 million from a mere USD 2.3 million in fiscal 2015.⁶⁴

The CSR law is regarded as a one-of-its-kind landmark

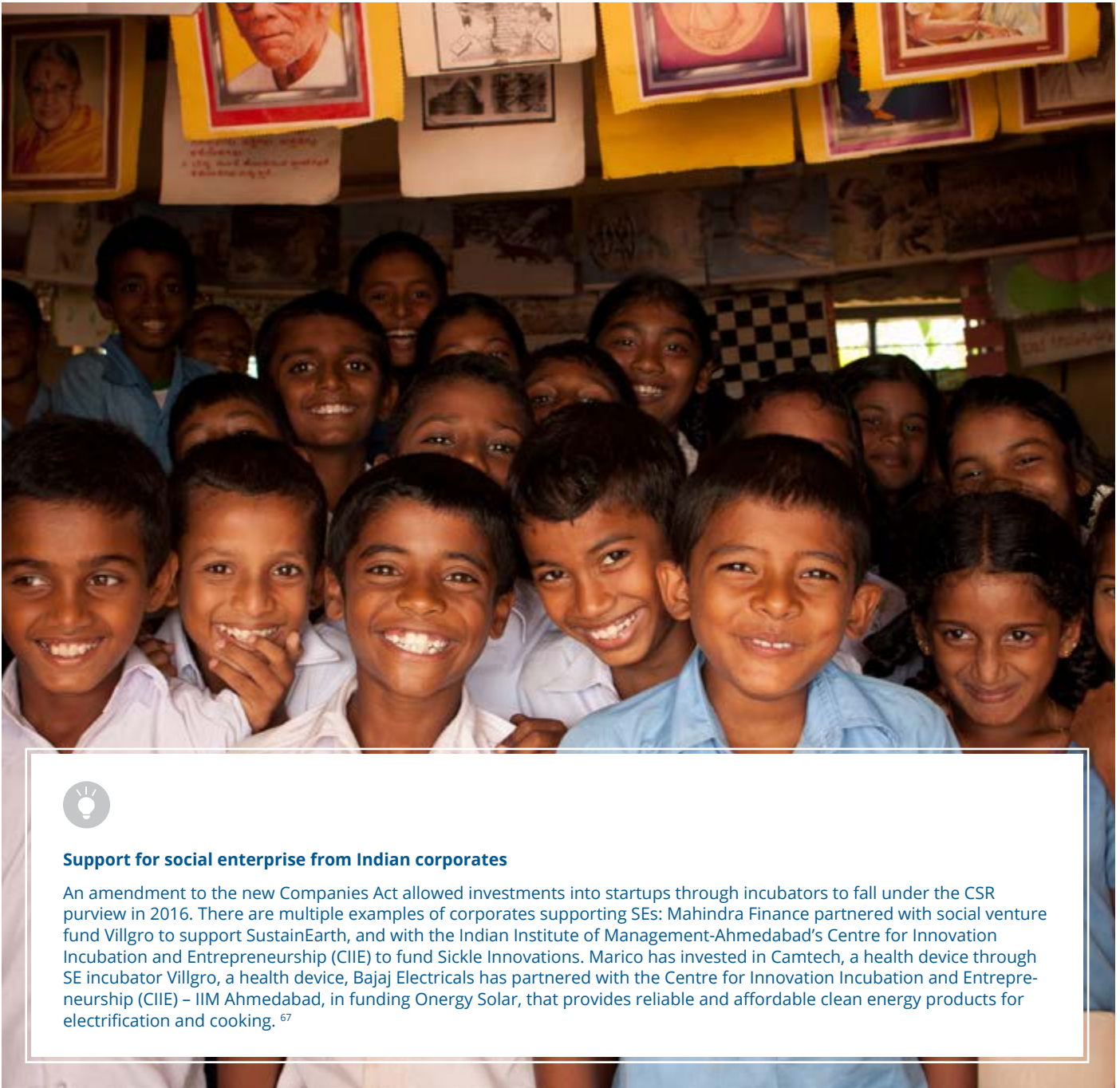
58. Dasra, Beyond Philanthropy towards a collaborative approach in India
59. UBS-INSEAD, 2011, UBS-INSEAD Study on Family Philanthropy in Asia
60. Dasra, Beyond Philanthropy towards a collaborative approach in India
61. Tata Trusts, at <http://www.tatatrusts.org/article/inside/about-tata-trusts>

62. AVPN, at <https://avpn.asia/organisation/edelgive-foundation/>
63. Sattva, 2016, CSR best practice case studies (unpublished)
64. CRISIL Foundation, 2017, Altruism rising The CRISIL CSR Yearbook

legislation in Asia, perhaps in the world, where mandated CSR has been so strongly de-linked from business outcomes. The CSR law has succeeded in bringing the attention of corporate boardrooms and corporate professionals towards informed approaches to supporting social impact. Over and above the funding, which even at full potential is barely 3% of a central government department's budget, the CSR law has a significant potential to garner corporate expertise, networks and innovation in nation-building.⁶⁵ There are several examples of innovative

and sustainable CSR programmes carried out by corporates: from manufacturing companies such as the Vedanta Group, TVS Motors, ITC or LafargeHolcim over banks such as Axis Bank, ICICI Bank, YES Bank to telecom companies such as Airtel or Vodafone and MNCs such as Accenture, Coca-Cola, Cisco and Dell.⁶⁶

While CSR spending and interest are increasing continuously over the years, there is much work to be done to increase the effectiveness of spending and measuring the impact of the work carried out.



Support for social enterprise from Indian corporates

An amendment to the new Companies Act allowed investments into startups through incubators to fall under the CSR purview in 2016. There are multiple examples of corporates supporting SEs: Mahindra Finance partnered with social venture fund Villgro to support SustainEarth, and with the Indian Institute of Management-Ahmedabad's Centre for Innovation Incubation and Entrepreneurship (CIIE) to fund Sickle Innovations. Marico has invested in Camtech, a health device through SE incubator Villgro, a health device, Bajaj Electricals has partnered with the Centre for Innovation Incubation and Entrepreneurship (CIIE) - IIM Ahmedabad, in funding Energy Solar, that provides reliable and affordable clean energy products for electrification and cooking.⁶⁷

65. Livemint.com, 2016, Firms recognizing benefits, impact of CSR
66. CII, 2016, CSR compendium

67. Economic Times, 2015, Mahindra Finance using CSR money to fund social startups SustainEarth and Sickle Innovations

India has an active impact investing landscape

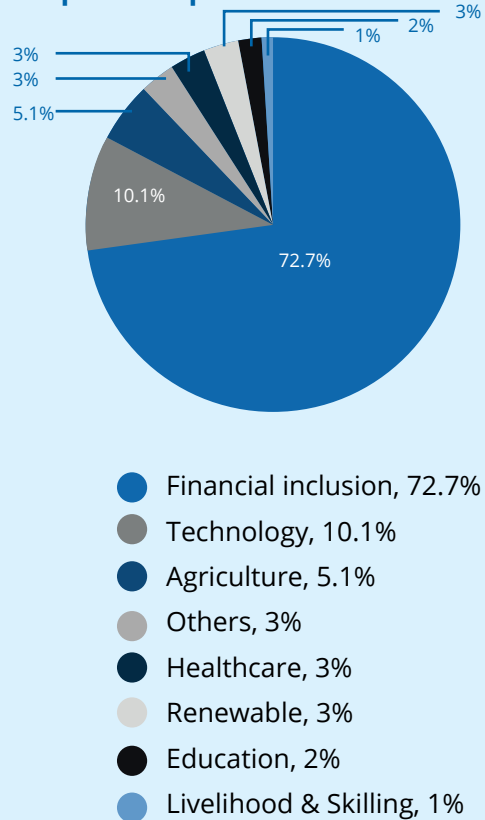
In 1997, Grassroots Innovations Augmentation Network (GIAN) became India's first non-profit social venture capital fund. It marked the beginning of what is now an extensive network of social enterprise enablers.⁶⁸ India saw its first impact investment in 2001 when Acumen Fund invested in Aravind Eye Hospital. In the same year, Vineet Rai established Aavishkaar – India's first for-profit impact fund. The presence of the Acumen Fund and Aavishkaar in India spurred the demand for early-stage investments in for-profit SEs.⁶⁹ India has active presence of international investors including Omidyar networks, LGT IV, Acumen Fund, Insitor Fund SCA, Grayghost Ventures and local funds including Social Ventures Partners India, DFID Impact Fund, Unitus Capital, Intellegrow, Ankur Capital, Unitus Seed Fund, India Innovation Fund, Elevar Equity, Aavishaar and Grassroot Business Fund India.

A 2014 report characterises the Indian impact investing sector by 4 pillars: innovations rooted in local context; investing that adopts an entrepreneur-led approach; ecosystem focused on accountability; and impact investors with the ability to unlock mainstream capital.⁷⁰

As of 2016, USD 1.6 billion of capital has been invested in 220+ impact enterprises across Indian early, growth and venture stage SEs. Impact funds have made investments of USD 435 million while mainstream venture capital and private equity investors have invested around USD 906 million. Impact investors' portfolios have a higher concentration of capital in enterprises with a presence in Western and Southern India. Impact enterprise distribution across India also indicates a similar concentration. Enterprises in three states - Maharashtra, Tamil Nadu and Karnataka – have cornered the largest share of impact investments. Healthcare, agri-business and clean energy are the leading sectors outside of financial inclusion, attracting investments of USD 341 million.⁷¹

With an active market, expectations among investors is also growing — impact investors expect an internal rate of return (IRR) of 20-25%, and there is pressure among SEs to start generating quick financial returns.⁷²

Impact capital across sectors



Source: 258 organisations (Impact investors, DFIs) and impact investments made between 2013-2016 as recorded by Venture Intelligence.

Crowdfunding in India

Apart from impact investing, crowdfunding is starting to pick up as an alternate source of funding for social causes. Several organisations are helping to pool money for social causes ranging from education, energy, health and sanitation, from individuals. Milaap.org, a crowdfunding platform, has mobilised nearly USD 2.5 million worth of funds from 22,000 individuals for various impacts. Micrograam is a crowdsourcing micro-credit platform that leverages technology to empower entrepreneurs in India's rural hinterland with access to loans. Borrowers are rural entrepreneurs who are typically looking for short term small loans to start or grow their enterprise.⁷³ The platform has raised USD 4.06 million to date.⁷⁴

An estimate gives the size of the Indian crowdfunding industry at USD 45.94 million in 2017.⁷⁵ Equity crowdfunding is not legalised in India yet.⁷⁶

68. British Council, 2016, Social Value Economy A Survey of the Social Enterprise Landscape in India
69. British Council, 2016, Social Value Economy A Survey of the Social Enterprise Landscape in India
70. Intellectap, 2014, Invest. Catalyze, Mainstream. The Indian Impact Investing Story
71. Intellectap, 2014, Invest. Catalyze, Mainstream. The Indian Impact Investing Story

72. Interview with Unitus Capital in April 2017

73. Sattva, 2015, Breaking new ground at the BoP

74. Micrograam, 2017, at <https://www.micrograam.com/>

75. Yourstory, 2017, at <https://yourstory.com/2017/02/trends-indian-crowdfunding-global-map/>

76. ZingoHub, 2016, at <https://edge.zingohub.com/is-crowdfunding-legal-in-india/>

Emergence of innovative pooled capital to support impact

In the recent times, there have been several noteworthy innovations in India's social impact funding and support landscape:

- Dasra's Giving Circles bring together pools of capital from 10 individuals, with each person donating USD 20,000 per year for three years. This arrangement has created a pool of USD 600,000 in each circle to fund focused issues such as adolescent health or nutrition. 85% of this capital is deployed as expansion grants to the
- NGO. The remaining 15% is used to support Dasra in delivering 250 days of non-financial support through mentoring and technical advice to each investee over the three-year funding cycle.⁷⁷
- The Educate Girls Development Impact Bond (DIB) is a pioneering mechanism to encourage private investors to fund development projects that are 100% focused on the outcomes achieved. The Educate Girls DIB will help improve education for 18,000 children, 9,000 of them girls, in 166 schools in Rajasthan, India.⁷⁷
- India Innovation Fund is a Securities Exchange Board of India registered venture capital fund that invests in innovation led, early-stage Indian firms.⁷⁹



77. NUS, 2013, Innovation in Asian Philanthropy

78. Instiglio, 2015, The Educate Girls Development Impact Bond: A new finance model for international development

79. India Innovation Fund, Investing in early stage technology driven firms in India

The social economy in India is one of the most advanced in Asia, supported by investors and enablers

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		Currently no legislation in India explicitly mentions, defines or promotes social enterprises. However, there are multiple legislations in effect, that have led to creation of social enterprises. For example, MSME Development Act 2006, Societies Registration Act 1860, Section-8 in the Companies Act, 1956, revised in 2013. ⁸⁰
	Government support for SEs		To support SEs, the government has promoted subsidies, credit linkages, capital subsidies in health, education, agriculture, irrigation, affordable housing and clean energy. ⁸¹ The government has amended the CSR law to bring funding to SEs through corporates. ⁸²
	SEs across sectors		Diverse industry with 50% concentration in microfinance institutions followed by agri-business and clean energy. ⁸³
	Presence, size, and maturity of SEs		Estimates place the number of SEs in India at around 2 million. Multiple investments have been made at early, venture and growth stage of SEs, signifying the size and maturity of SEs. ⁸⁴
Investors	Philanthropic contributions		HNWIs contribution increased six-fold from 2011 to 2016, to reach USD 5.6 billion. Philanthropists are among the most engaged and mature of funders. Philanthropic foundations implement innovative approaches in India. Total funds for the development sector have grown at a rate of approximately 9% over the past five years (2011-2016), increasing from USD 23.3 billion to approximately USD 34.25 billion approximately.
	Presence of social investors		There are over 50 impact funds and investors operating in India. ⁸⁵ They are mainly located in four cities – Bengaluru, Mumbai, New Delhi, and Chennai. Investors have invested in seed-stage, early, venture and growth-stage startups.
	Corporate sector		India's top-tier 100 companies spent over USD 1098 million in FY16. ⁸⁶ There is evidence of strategic CSR, venture philanthropy and support for social enterprises.
Enablers	Incubators, accelerators, and capacity-builders		India is home to almost 200 social incubators. ⁸⁷ Dasra Social Impact and CIIE for instance conduct capacity building programs for entrepreneurs. Other noteworthy organisations are Villgro, Intellectap, Deshpande Foundation, Rural Technology and Business Incubator (RTBI) and Nadathur S raghavan Centre for Entrepreneurial Learning (NSCREL), IIM-Bangalore and N/Core. Global players such as UnLtd India also provide capacity building.
	Networks and platforms		AVPN India, Dasra Philanthropy Week, The Indus Entrepreneurs (TIE), Ashoka India and Desphande Foundation run networks and platforms bringing SEs together with the rest of the ecosystem. India also has a range of fellowships in the social impact sector such as Gandhi Fellowship, Jagriti Yatra, Young India Fellowship, LAMP fellowship, to name a few. A high number of events and competitions are held to raise awareness of SEs. Academic institutions such as the Indian Institute of Management (IIM) are taking a lead role in growing public awareness of SE through competitions. UnLtd India, Sankalp Awards, Tata Enterprise Challenge, ISB iDiya are other notable competitions for SEs.
	Knowledge and research		Universities such as Indian Institute of Management (IIM), Indian School of Business (ISB), Tata Institute of Social Sciences (TISS), Xavier School of Management (XLRI) and several other business schools conduct research around the social economy. Research is also carried out by industry bodies such as Confederation of Indian Industries and Federation of Indian Chambers of Commerce & Industry (FICCI), and consulting companies such as KPMG, PwC, and advisory firms such as Sattva, Dasra and Samhita.
	Partnerships		Cross-sectoral partnerships are found across investor classes: multiple examples of CSR and Corporate Foundations with the government and civil society, giving circles such as Dasra, angel networks such as the Indian Angel Network, and between businesses and civil society.
	Impact Measurement		International foundations such as Rockefeller Foundation, Bill & Melinda Gates Foundation (BMGF), and Michael & Susan Dell Foundation (MSDF) are creating advanced and customised approaches to impact measurement. Third party assessments are common among corporates who have been running CSR and sustainability programmes for 5-10 years and above. ⁸⁸ The Annual Status of Education Report (ASER) of Pratham is another example of assessment of learning outcome gaps at a national level. ⁸⁹ TISS Hub, Sattva, Samhita, Sambodhi are organisations offering independent third-party assessments.

80. British Council, 2015, Social Enterprise: An overview of the policy framework in India

81. British Council, 2015, Social Enterprise: An overview of the policy framework in India

82. Sattva, 2016, Incubators and Corporate Social Responsibility in India – What's happening?

83. GIZ, 2014, Financial Innovations for Social Enterprise Financing

84. British Council, 2015, Social Enterprise: An overview of the policy framework in India

85. British Council, 2016, Social Value Economy A Survey of the Social Enterprise Landscape in India

86. KPMG India, 2017, India's CSR reporting survey 2016

87. Sattva, 2016, Incubators and Corporate Social Responsibility in India – What's happening?

88. AVPN, 2016, A guide to effective impact assessment

89. ASER, at <http://www.asercentre.org/>

OPPORTUNITIES

- Flagship initiatives of the current government such as Startup India, Digital India and the drive towards better financial access through the Pradhan Mantri Jan Dhan Yojana provide a rich foundation upon which SPOs can innovate to reach last-mile communities with better products and services.
- The National Institute for Transforming India or the NITI Aayog, the premier policy 'Think Tank' of the Government of India, established in 2015, provides both strategic and directional inputs. The think tank works closely with the government ministries, the states and other stakeholders, paving the possibility for bringing in new approaches and collaborations between government, private sector and civil society for impact.
- India has a thriving entrepreneurial ecosystem that has been nurtured significantly by philanthropists, investors and enablers, juxtaposed with a young demographic, many of whom are interested in giving back to society. Tapping into the entrepreneurial mind-set of the 700 million among the middle-class of India, can be transformational in defining its inclusive growth path.
- Three years since the passing of the landmark CSR legislation, there has been heightened interest

among corporates to collaborate for sustainable growth. CSR provides a significant opportunity for SPOs to raise new capital, but more importantly, leverage the business expertise and networks of corporates, to help build systems, effectiveness and scale among non-profits and social enterprises.

CHALLENGES

- Regional inequalities abound in India, rendering the landscape challenging in terms of achieving social outcomes. The social economy is still predominantly urban, with CSR and impact investment directed towards the West and Southern parts of India.
- Skill development (only 3% of India's workforce has had any form of training) and employability are enduring challenges to be overcome for the country to move forward.
- Solving problems at scale in a country that houses one-sixth of the world's population remains one of the biggest challenges.





RECOMMENDATIONS

The following recommendations emerge from interviews and landscape analysis:⁹⁰

● Development gaps:

- While none of the areas can be described as being adequately funded or addressed considering the large population, energy access, water, women's empowerment, food security and investment in the North-Eastern, Northern and Eastern parts of the country are key gaps.

● Social investment:

- Investors need to be based locally in order to be informed and grounded in their approach to funding.
- Early stage funding for SEs is scarce. Incubators and accelerators could play a significant role in this space by providing seed funding and capacity building.

- Co-investing models are rare in India despite the prolific presence of investors of all classes, from philanthropists to impact investors. Building avenues for co-investment can increase efficacy of funding.
- Social impact bonds (SIBs) have been touted as effective pay-for-performance investment models; creating more SIBs would help address under-funded areas with private investment.
- Corporate foundations and CSR programmes could take a more holistic approach to social investment, learning from philanthropists and family foundations.
- **Ecosystem support:**
 - A concrete legal structure should be put in place to recognise SEs, thereby strengthening their credibility to investors and consumers.
 - Human capital remains an enduring challenge among SPOs. A near-term solution for attracting talent into the SE sector could be to translate the

90. Interviews with Michael and Susan Dell Foundation, Rockefeller Foundation, Unitus Capital, NSRCEL, Indian Angel Networks and IFC

existing interest to give back among corporate employees into mentoring opportunities for SEs.

- Depending on the background of the social entrepreneurs, substantial efforts might be required to build up their financial acumen and execution capability. A hands-on mentoring culture among social investors, whereby investors play the role of team members, would contribute towards this.
- Investors should also take on incubating roles in the early stages to help high-potential SEs to become investment-ready.
- Knowledge creation and further research on the social economy can provide evidence of success models, thus encouraging more strategic philanthropy and social investment practices.
- CSR funding in SEs can play a transformational role in building new and innovative market solutions to social challenges. Policy enhancements can ease the environment for the same.

“Initiatives need to complement the government’s approach to inclusive development. Energy access is a critical gap in India; with energy availability, you can tackle multiple development challenges effectively. Commercial and social investors across the spectrum could work together to amplify impact. These are exciting times in India, with so much cutting edge innovation taking place in the development sector.”

Deepali Khanna, Rockefeller Foundation

“Early stage funding for social enterprises is scarce in India, which is why the role of incubators and accelerators is critical. Debt is an underutilised funding instrument in India and we hope to see it being used better. Strategic thought leadership is missing at various levels and that is what we need more of to drive the social economy forward.”

Rahil Rangwala, Michael and Susan Dell Foundation

JAPAN

The island nation of Japan has the most developed economy in Asia. In 2015, it had the highest total wealth in the region at USD 25.9 trillion. Japan and China joined the United States and Germany as the four wealthiest nations, with around 60% of the world's richest individuals in 2016.¹ The country has more millionaires than any other Asian country, and therefore a unique potential for growth in philanthropy.²

Japan's economy suffered a downturn in 2016. The government of Prime Minister Shinzo Abe is working to stimulate economic growth through various policies collectively and colloquially known as "Abenomics", while battling local headwinds such as the world's highest proportion of people aged 65 and above,³ a pronounced gender gap in employment, a shrinking workforce, faltering productivity, and the largest government debt in the world.⁴

The Organisation for Economic Co-operation and Development (OECD) has urged Japan to strengthen its innovation performance by collaborating with other nations, narrowing the gap between large companies and SMEs, reducing the gender gap in work conditions, and improving government finances in order to be able to drive inclusive growth.⁵

In trade and investment, Japan displays a heightened interest in Southeast Asia — for the past five years. Japan's foreign direct investment (FDI) outflows to the ASEAN-6 countries, namely Singapore, Thailand, Malaysia, Indonesia, the Philippines and Vietnam, averaged USD 20 billion per year between 2011-2015.⁶ About 56% of Japanese firms intend to invest in the ASEAN region in the coming three years, compared to 48% planning to expand in China.⁷ As the emerging economies of ASEAN move from agrarian to industrialised, and their populations from poor to middle-income, ASEAN represents a significant opportunity for Japan to support development and raise living standards in these nations.⁸

1. Barrons, 2016, Asia surges to the top of the world's wealthiest

2. Cappgemini, 2016, Asia-Pacific Wealth Report

3. World Bank, Population ages 65 and above (% of total)

4. The National Interest, 2016, Asia's top 5 economies in 2030

5. OECD, 2017, Japan Policy Briefing

6. DBS Group Research, 2017, Japan: Rising direct investment in Southeast Asia

7. DBS Group Research, 2017, Japan: Rising direct investment in Southeast Asia

8. PricewaterhouseCoopers, 2015, Japan Rebooted

FACT FILE

Population
2016

126.7 million

GDP (PPP)
2016

USD 5.24 trillion

World Rank 4

World Giving Index rank
2016

114

(102 in 2015)

- % giving money — 23
- % volunteering time — 23
- % helping a stranger — 25

Poverty
2013

16.1%

Per capita GDP (PPP)
2016

USD 41,275

World Rank 27

COUNTRY CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	0.5%	The economy grew at the same rate of 0.5% in 2015 and 2016. In 2017, GDP growth is projected to be between 0.5 - 1%.
Governance (2015)	1.3	Japan ranked above 90% of 215 countries in the 2015 World Bank's Worldwide Governance Indicators. ⁹
Consumer Market (2015)	USD 2741 billion	Consumer spending decreased slightly by 0.4% from 2014 to 2015. Japan is the world's second-largest retail market and is witnessing dramatic shifts in the attitude and behaviour of consumers. ¹⁰
Labour Force (2016)	65 million	Labour force decreased slightly by 0.5% from 2015 to 2016. Japan faces a labour shortage caused by two major demographic trends: a shrinking population due to a low fertility rate and the post-war generation who are leaving the labour force for retirement.
Infrastructure (2016)	6.3	Japan ranked 5 out of 138 countries for infrastructure in the 2016 WEF's Global Competitiveness ranking due to its advanced infrastructure which is regularly expanded and upgraded. ¹¹
Financial Access (2014)	97% of the population	Japan's financial inclusion percentage is one of the highest in Asia. ¹²
Digital Access (2015)	91% of the population	91% of the population had internet access in 2015, ¹³ up from 89% in 2014. 64.9% of people in Japan owned a smartphone as of 2016 and most digital and internet activity is shifting to phones. ¹⁴
Ease of Doing Business (2016)	34/190	Japan ranked 34 (32 in 2015) out of 190 countries in the 2016 Ease of Doing Business ranking. The government aspires to improve Japan's ranking so that it is among the top three among OECD countries. ¹⁵

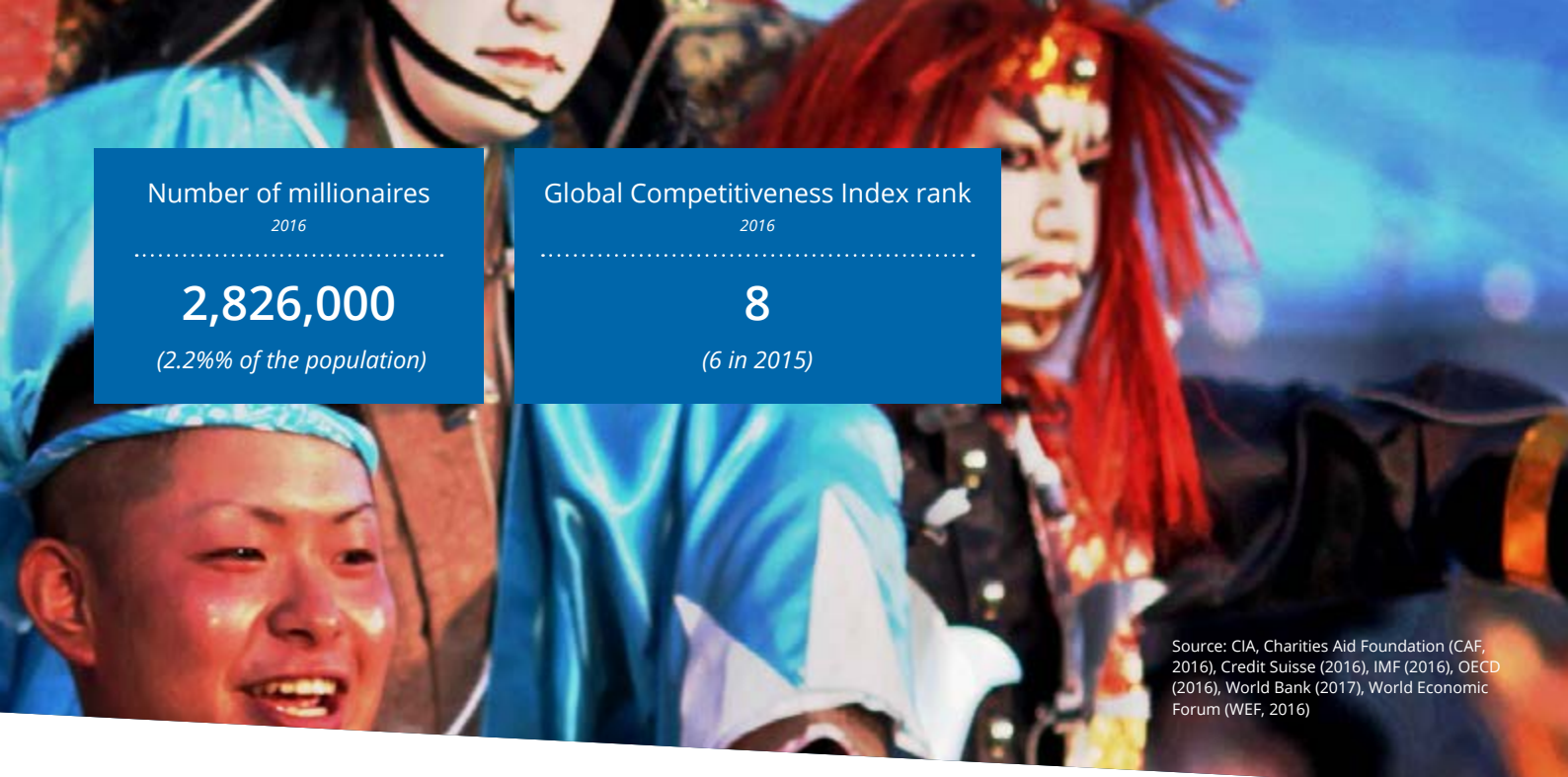
Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016) Note: Computation in this section is described in the Methodology.

■ Favourable
 ■ Moderately favourable
 ■ Unfavourable

9. World Bank, 2015, Worldwide Governance Indicators
10. McKinsey Quarterly, 2017, The new Japanese consumer
11. WEF, 2015, Global Competitiveness Index

12. World Bank, Global Findex Database
13. International Telecommunication Union, 2015, Percentage of Individuals using the Internet

14. Emarketer, 2016, Slow, Steady Smartphone User Growth in Japan
15. VOX, 2015, Using the World Bank doing business rankings to inform economic reforms in Japan



Number of millionaires
2016

2,826,000

(2.2% of the population)

Global Competitiveness Index rank
2016

8

(6 in 2015)

Source: CIA, Charities Aid Foundation (CAF, 2016), Credit Suisse (2016), IMF (2016), OECD (2016), World Bank (2017), World Economic Forum (WEF, 2016)

DEVELOPMENT GAPS IN JAPAN

On 11 March 2011, the Great East Japan earthquake struck Japan and triggered the tsunami and the meltdown of Fukushima's nuclear power plant. Over the last six years since the earthquake, the economy has gradually recovered.

In 2013 Japan experienced a spike in growth on the basis of Prime Minister Abe's economic revitalisation agenda using the "Three Arrows" — monetary easing, flexible fiscal policy, and structural reforms to correct rising inequalities.¹⁶ During the 2015 downturn, Abe revised his government's policies in order to raise nominal GDP by 20% to USD 5.32 trillion by 2021,

stem population decline by raising the fertility rate, and provide more support to workers with children and ageing relatives.¹⁷ "Womonomics", another aspect of "Abenomics", works to remove obstacles to female employment, notably by increasing the availability of affordable childcare and balancing the culture of long working hours.¹⁸

Being highly vulnerable to natural disasters such as earthquakes and typhoons, Japan has developed some of the best disaster management practices in the world.¹⁹ Following the earthquake in 2011, greater attention has been given to investment in decentralised renewable energy projects.

SDG DASHBOARD






Source: sdgindex.org (2016)



16. Council on Foreign Relations, 2017, Abenomics and the Japanese Economy
17. The Guardian, 2015, Abenomics 2.0 - PM updates plan to refresh Japanese economy

18. OECD, 2017, Economic survey of Japan 2017
19. World Bank, 2016, Japan shares best practices in disaster preparedness

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	SDG GOALS	GAP	GOVERNMENT FOCUS
Climate action		Japan emits 9.8 tonnes of carbon dioxide per capita per year, the sixth-highest amount of emissions rate globally. ²⁰ In 2016, Japan ranked 17 out of 171 countries in terms of risk with a high exposure rank of 4. ²¹	Japan's Intended Nationally Determined Contributions (INDC) by 2030 is to reduce its greenhouse gas (GHG) emissions by 26% from 2013 levels. ²²
Gender equality		Japan occupied rank 111 out of 144 in terms of gender gap in 2016. ²³ Women's wages were 30% lower than men's wages for the same job in 2015. ²⁴	Japan's education goals for 2030 are to address gender-inclusive education, skill development, and human security. "Womenomics" includes plans to extend childcare leave, ²⁵ provide skills training, and enact pro-women tax reforms such as tax deductions for dependent spouses. ²⁶
Poverty alleviation		As of 2017, poverty has risen to 16.3% in Japan, ²⁷ which is the highest in the past 30 years. Japan has the highest rates of child poverty in the developed world, ranking 34 out of 41 industrialised countries. ²⁸	The government's livelihood protection law established schemes for job training, housing assistance, family finance advice, and study assistance for children. ²⁹ Japan has policies for state assistance for out-of-school children and is encouraging small-scale nurseries. ³⁰
Small and medium-sized enterprise (SME) growth		Japanese SMEs contributed to 50% of GDP and employed 70.2% of the total workforce in 2015. ³¹ SME growth is key to reducing relative poverty.	Japan has a comprehensive SME ecosystem with institutional infrastructure in the areas of human resources, management support, and finance. This includes SME Universities, the Chamber of Commerce and Industry, and the Japan Finance Corporation, respectively. ³²
Social protection		Japan has the oldest population in the world with the median age of 46.5 as of 2015. ³³	The Basic Law on Measures for the Ageing Society enacted in 1995 ³⁴ and the law to assist those experiencing hardship enacted in 2014 regulate long-term care at home, use of generics in medicine and health insurance system to bring about a balance between government and private healthcare. ³⁵

Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

20. Statista, 2016, CO2 emissions by country
 21. United Nations University's Institute for Environment and Human Security, 2016, World Risk Report
 22. Japan's GHG emissions in 2013 were at 1.395 billion tons of carbon dioxide.
 23. WEF, 2016, Gender Gap Report
 24. Bloomberg, 2015, A Pay Gap Persists as Even More Japanese Women Join the Workforce
 25. Financial Times, 2017, Japan gives tax break to help women work
 26. Live Mint, 2017, Learning from Japan's Womenomics
 27. In Japan, relative poverty is defined as a state at which the income of a household is at or below half of the median household income. According to the OECD, the mean household net-adjusted disposable income for Japan is USD 23,458.

28. Deutsche Welle, 2016, Japan - a wealthy nation with poor children; The Guardian, 2017, Japan's rising child poverty exposes true cost of two decades of economic decline
 29. Japan Times, 2017, Uphold basic living standards
 30. SSIR, 2017, Solving Japan's childcare problem
 31. ADB Institute, 2015, SMEs Internationalisation and Finance in Asia
 32. METI, 2013, Japan's policy on SMEs and micro-enterprises
 33. United Nations Department of Economic and Social Affairs, 2015, World Population Prospects
 34. Cabinet Office, Government of Japan, 1995, The Basic Law on Measures for the Ageing Society
 35. National Institute of Population and Social Security Research, 2014, Social Security in Japan 2014



THE SOCIAL INVESTMENT LANDSCAPE IN JAPAN

Charitable giving in Japan is heavily influenced by culture and religion. The Japanese consider themselves a no-donation society where aid for the underprivileged comes from within the family.³⁶ Conspicuous display of wealth is not applauded in Japan; many individuals give anonymously.

For the social economy of Japan, 2011 was a transformational year. The Great East Japan earthquake took more than 15,000 lives. The number of non-profits and mission-driven enterprises has grown dramatically since then and today Japan has 51,526 registered non-governmental organisations (NGO)³⁷ and 205,000 social enterprises (SEs).³⁸

Not only has the number of social purpose organisations (SPO) increased, mainly in the three disaster-stricken prefectures, but the origin and the ap-

proach of funding shifted towards social investment. Previously assistance came from governmental and international institutions, private companies and NGOs, and a large share from individual giving. The aftermath of the earthquake saw the rise of corporate philanthropy, impact investing, and venture philanthropy in the country.³⁹ The scale of the social impact investment market in Japan has nearly doubled in the last few years, from approximately USD 150 million in 2014 to approximately USD 300 million in 2016.⁴⁰

Legislative environment

Demand side

In December 2008, the Japanese government enacted three new laws relevant to the philanthropic investment sector. The Association and Foundation Law, the Law on Recognising Organisations as Public Interest, and the Law to Consolidate Relevant Laws. Put together, these laws significantly changed the legal framework for not-for-profit organisations in Japan.

36. John, R., P. Tan and K. Ito, 2013, Innovation in Asian Philanthropy

37. Cabinet Office, Government of Japan, Changes in the number of certified nonprofit corporations

38. Cabinet Office, Government of Japan, Changes in the number of certified nonprofit corporations

39. Nippon Foundation, 2016, The Current State of Social Impact Investment Landscape in Japan

40. Japan National Advisory Board, 2014, The Social Impact Investment Landscape in Japan

There is no specific legal category for SEs; an SE may register as any one of the following types of entities.

STRUCTURE	PURPOSE
NON-PROFIT LEGAL STRUCTURES	
Charitable organisation	A charitable organisation is a certified non-profit that gather public support. These include public interest corporations, general non-profit corporations, approved specified non-profit corporations and specified non-profit corporations. ⁴³
Cooperative	As of 2012, there were nine different cooperative laws covering the 36,000-plus cooperatives. Cooperatives benefit from a reduced corporate tax rate.
Social welfare and education organisation	In 2013, there were 27,000 such organisations which provide services such as child and eldercare, assistance to persons with disabilities, and education.
Association and foundation	About 8,000 associations and foundations are registered. These are permitted to accept equity investments. ⁴⁴
FOR-PROFIT LEGAL STRUCTURES⁴⁵	
Kabushiki Kaisha or KK (joint stock corporation)	A KK is a limited liability company incorporated pursuant to the Companies Act. A KK is the most common form of business entity in Japan. A KK may distribute its profit to its shareholder(s) or buy back shares from its shareholder(s) subject to having distributable profit calculated pursuant to the Companies Act. There are no restrictions on its purpose or activities. Corporation tax is imposed on its profit, if any.
Godō Kaisha or GK (limited liability company)	A GK is a limited liability company which may function internally as a partnership but externally as a company. A GK is also incorporated pursuant to the Companies Act. The Companies Act allows the member(s) of a GK to design the internal decision-making process by its Articles of Incorporation. There is no restriction on its purpose or activities. Corporation tax is imposed on its profits, if any.
Kumiai or NK (partnership)	An NK is a partnership formed pursuant to the Civil Code. An NK is formed by a contractual agreement whereby the parties (NK partners) agree to contribute money, services or other valuables in order to achieve cooperative objectives. An NK must have at least two NK partners at all times. Unless a managing partner is appointed, an NK is managed by all the NK partners.

A KK, GK and NK can accept funding in the form of donations/grants, debt, and equity. However, they cannot enjoy tax benefits in respect of donations/grants.⁴¹

The Cabinet Office defines and regulates SEs as follows:⁴²

- The main objective of the business is the resolution of social issues.
- Profits are largely to be reinvested into the business and not paid out as investment or dividends to shareholders (condition for for-profit corporations only).
- Of the profits, the ratio paid out as dividends to investors and shareholders is to be 50% or less (condition for for-profit corporations only).

- The income from business needs to be 50% or more of the total income.
- Of the business income, revenue from public insurance (medical/nursing care) is to be 50% or less. Of the business income (revenue from sources other than subsidies, membership fees, and donations), the revenue from projects commissioned by the government is to be 50% or less.

In addition, in 2016 the first two Japanese companies received the “B Corporation” certification,⁴⁶ namely Silk Wave Industries and Ishii Zouen.⁴⁷

Supply side

Foreign investment in Japanese companies and businesses are regulated under the Foreign Exchange and Foreign Trade Law. Certain reporting or

41. AVPN, 2014, Getting Started in Venture Philanthropy in Asia

42. Cabinet Office, Government of Japan, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

43. The Japan Association of Charitable Organisations, 2017, Charitable and Non-profit Organisations in Japan

44. Japan NPO Center, 2017, Legal framework

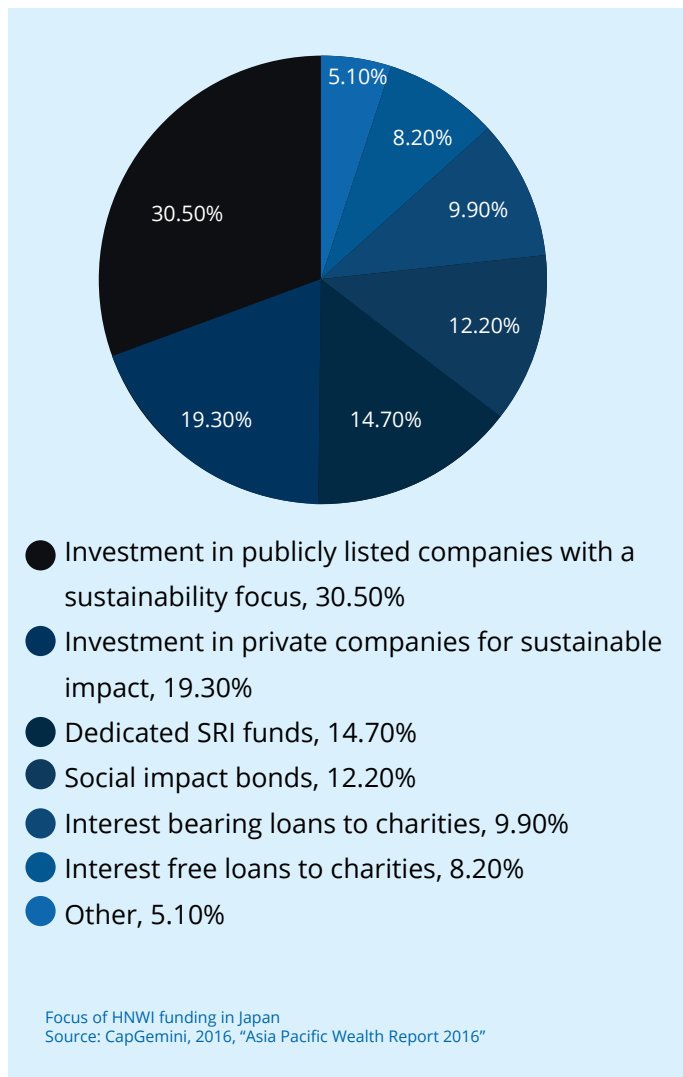
45. AVPN, 2014, Getting Started in Venture Philanthropy in Asia

46. B Corps are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. More at: <https://www.bcorporation.net/>

47. B Lab, 2017, Find a B Corp - Japan

approval requirements may apply to “direct inward investments” depending on: (1) the jurisdiction in which the investor is located (i.e., whether it is an approved country or not); (2) the industry in which the target company or business operates (i.e., whether the industry in question is a regulated industry or non-regulated industry); or (3) in the case of asset acquisitions, the nature of the particular asset involved.

The main business entities or structures available for foreign corporations to operate in Japan include a Corporation, Limited Liability Company, Registration of the foreign corporation as a branch, Representative office and general and silent partnerships. The common investment strategies for Japan include Wholly Owned Subsidiary, and Joint Venture Company.⁴⁸



KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

High net worth individuals (HNWIs) invest primarily in sustainable businesses

Most Japanese HNWIs invest in public listed companies with a sustainability focus, businesses with an environmental, social and governance (ESG) focus and socially responsible investments (SRIs).⁴⁹ Three prominent Japanese philanthropists giving through their foundations are Kazuo Inamori, founder of Kyocera, Soichiro Fukutake, Chairman of Benesse Holdings, and Masayoshi Son, Founder and CEO of Softbank. Their giving is large compared to the rest of the ecosystem. For instance, Masayoshi Son gave USD 125 million after the tsunami in 2011.⁵⁰ Other commonly perceived philanthropic heroes are Ryoichi Jinnai, founder of the consumer lender Promise; Yusaku Maezawa, president of the e-commerce major Start Today and singer-actor Ryotaro Sugi.⁵¹

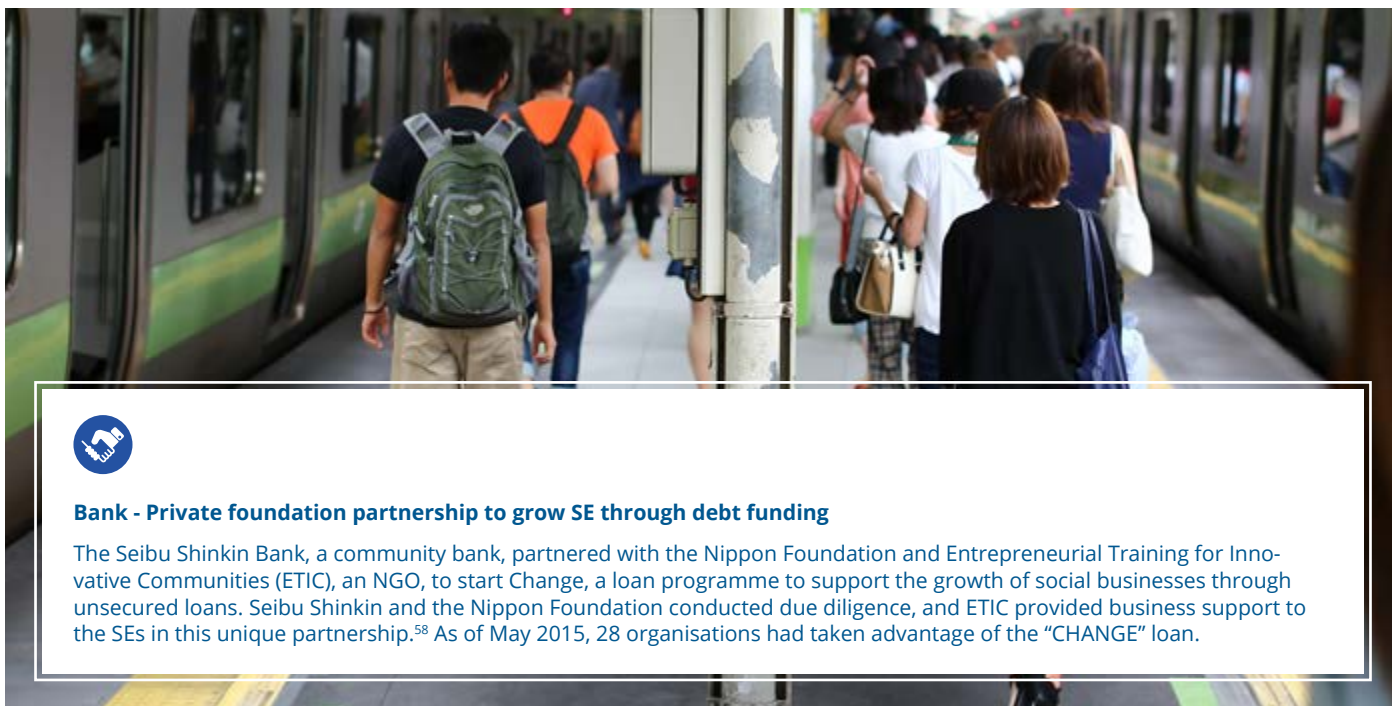
Grant funding in Japan is led by local foundations

Private foundations set up by businesses or HNWIs include the Inamori Foundation, Nippon Foundation, Toyota Foundation, Mitsubishi Corporation Disaster Relief Foundation, Fukutake Foundation, Honda Foundation, and Sasakawa Peace Foundation. These are key philanthropic organisations with a rich tradition of investing in social and environmental issues for over a decade.⁵² There are over 820 local foundations nation-wide.⁵³ These are often relatively small individually and have combined assets of USD 15 billion. In comparison, the Bill and Melinda Gates Foundation has USD 30 billion in assets.⁵⁴

Corporate social responsibility (CSR) is the norm in Japan. There are 420,000 corporates in Japan, so the pool is potentially large and amenable. Most of the large corporations including Sony, Panasonic, Canon, and Ricoh have CSR divisions under business management. In 2015, corporate giving translated to 1.4% of corporate ordinary income, which leaves room for improvement.⁵⁵ Mitsubishi and Benesse have

48. Cornell University, 2005, Doing Business in Japan
49. CapGemini, 2016, Asia Pacific Wealth Report 2016
50. The Verge, 2012, Mayoshi Son Softbank CEO profile available
51. Forbes, 2015, Asia's 2016 Heroes of Philanthropy

52. Interview with Sasakawa Peace Foundation on 30 March 2017
53. John, R., P. Tan and K. Ito, 2013, Innovation in Asian Philanthropy
54. Bill and Melinda Gates Foundation, Foundation Fact Sheet
55. Japan Fundraising Association, 2015, Giving Japan 2015



Bank - Private foundation partnership to grow SE through debt funding

The Seibu Shinkin Bank, a community bank, partnered with the Nippon Foundation and Entrepreneurial Training for Innovative Communities (ETIC), an NGO, to start Change, a loan programme to support the growth of social businesses through unsecured loans. Seibu Shinkin and the Nippon Foundation conducted due diligence, and ETIC provided business support to the SEs in this unique partnership.⁵⁸ As of May 2015, 28 organisations had taken advantage of the “CHANGE” loan.

gone beyond philanthropy to establish equity funds investing in impact-driven enterprises.

Individual social responsibility is a strong area of support

Individual grant-making has increased significantly since 2011. Contributions from 31 million citizens amounted to USD 7 billion in 2014, up from USD 2 billion in 2012.⁵⁶ Japan has also implemented citizen funds, a type of structure in which funds are collected from members of the public and then circulated as grants to SPOs and other organisations involved in activities that serve the public interest. The Kanagawa Children’s Future Fund and Aizu Solar Citizens Fund are examples of citizen funds.⁶¹

Growing innovation in venture philanthropy

As a concept, venture philanthropy (VP) was introduced in Japan in 2003 by Social Venture Partners (SVP) in Tokyo, which supports over 30 SPOs with mid- to long-term funding and management assistance. In 2012, SVP invested JPY 1 million (USD 88,961) in the form of third-party under-writing of share issuances to healthcare SPOs.⁵⁹

Recently, the venture philanthropic approach has gathered pace in Japan mainly through the efforts of the Japan Venture Philanthropy Fund (JVPF), which was launched through a partnership between Social Investment Partners (SIP) and Nippon Foundation⁶⁰ in 2013. JVPF was established with grants from 7-8 founding partners, corporations and the Nippon Foundation. The fund provides grants to SPOs and convertible bonds to SEs, and brings in managerial support to help organisations maximise their impact. In 2015, JVPF started providing equity funding and management support to SEs, with AsMaMa, Inc as its first equity investment.⁶¹

Bulk of social investment comes from low-interest debt finance

Japan established the credit-guarantee scheme for SPOs in 2015, whereby a local credit institution could act as guarantor for an SPO, to enable it to procure a loan from a financial institution. This has opened up financial institutions as major fund-providers for SPOs. Twenty-nine regional banks (45%), 77 shinkin or community banks (29%) and 50 credit unions (32%) have set up new products for SPOs under this scheme.⁶²

56. Japan Fundraising Association, 2012, Giving Japan 2012

57. Nippon Foundation, 2016, The Current State of Social Impact Investment Landscape in Japan

58. AVPN, 2016, ETIC’s development of the social innovation ecosystem in Japan

59. Nippon Foundation, 2016, The Current State of Social Impact Investment Landscape in Japan

60. AVPN, 2015, Capacity Building – Japan Venture Philanthropy Fund – from grants to social innovation

61. Nippon Foundation, 2016, The Current State of Social Impact Investment Landscape in Japan

62. Nippon Foundation, 2016, The current state of social impact investment landscape in Japan

The Japan Finance Corporation, labour banks and credit unions are the three major sources of low-interest debt capital for SPOs. In 2015, the Japan Finance Corporation extended 7,746 loans amounting to USD 540.7 million to SEs. This was an increase of 128.1% and 117.2%, respectively, compared to the previous year and an unprecedentedly high number of loans.

In addition, NPO banks⁶³ such as Mirai Bank and Community Youth Bank continue to provide low-interest loans to SPOs.⁶⁴ Japan has 14 NPO banks investing in SEs.

Impact investment is picking up momentum

A number of impact investment funds have emerged recently such as the Big Impact Fund by BlackRock Japan⁶⁵ and the BlueOrchard Fund.⁶⁶ The Japanese government, through the Ministry of Trade and Industry (METI), provides grants to SEs.⁶⁷ Japan's bilateral aid agency, the Japan International Cooperation Agency (JICA), is also showing interest in impact investing and could develop into a driving force in cross-border investment. The Mitsubishi Corporation, Benesse Corporation and Toyota Tsusho have all established sizeable social investment funds

in the past 2 years. The JCIE SEEDcap programme and Panasonic's NPO Support Fund are other notable examples.

Project KIBOW is Japan's first impact investment fund. Established as a regular foundation after the 2011 earthquake, KIBOW leveraged its knowledge of venture capital and its large network of individual investors to jump-start an impact fund in 2015. The fund is also noteworthy in that it has established a structure to channel corporate interest in impact investing. The fund has committed to provide equity investments to early stage SEs.⁶⁸

Crowdfunding as a burgeoning business

Presently, the market scale of domestic crowdfunding is 68.1% higher than the previous year at USD 332 million, providing a sizeable source of capital for impact investing. At the end of June 2016, there were over 140 crowdfunding platforms, an increase of 40% over the previous year.⁶⁹



Music Securities: Largest crowdfunding platform in Japan

Music Securities is the biggest crowdfunding platform in Japan. Their micro-investment finance platform, Securite, connects individual and corporate investors with SEs across a wide range of sectors including agriculture, tourism, energy, and sports, to poverty alleviation in developing countries. Investment starts at USD 100. Securite has raised USD 44 million, channelling the funds to 169 businesses.⁷⁰

63. NPO banks or 'non-profit banks for citizens' are established with the objective of financing NPOs and individuals engaged in activities related to the local community, welfare or environmental conservation, through funds gathered through voluntary citizen donations. It is also called citizens' finance.
64. Socioeco.org, 2012, Relevance and Challenges of Legal Foundations for NPO-Banks in Japan
65. Nexchange, 2016, Blackrock is setting up a social impact fund. But why Japan?

66. BlueOrchard, 2016, A joint project with Japanese Investors and the appreciation of Japanese Government
67. Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries
68. DealStreetAsia
69. Nippon Foundation, 2016, The Current State of Social Impact Investment Landscape in Japan
70. ChihHoong Sin, 2017, SIBs and their implications for service providers

Social impact bonds and SRIs are gaining traction as vehicles to 'crowd in' mainstream capital

In Japan, government departments and the Cabinet Office are keen to develop SIBs as effective social investing tools to address large domestic issues such as elder and child care. SIBs, which are based on a government partnership with the private sector, are a way for the private sector to invest in critical social needs while reducing the nation's welfare burden.

Three small scale pilots were started in 2015 with the help of grants from Nippon Foundation⁷¹ : (i) a project with Yokosuka City, Kanagawa Prefecture, to arrange for family care environment for children who require protective care, (ii) a project with the Kumon Institute of Education and several local governments, including the cities of Fukuoka and Kumamoto, using Kumon's "learning therapy" method for dementia prevention, and (iii) a project with Amagasaki City, Hyogo Prefecture, to support employment for and the long-term independence of young people.⁷²

Recent investments in Japan (2015-2016)

Social enterprise	Investor	Sector	Instrument	Amount	Details of work
Arcterus	Z-Kai, Asahi	Edtech	Equity	USD 1 million	Arcterus is an edtech startup allowing users to view, share, and rate their experience.
Enechange	Energy & Environment Investment, Hitachi	Energy	Equity	USD 3.7 million	Enechange allows consumers to track and compare the costs of electricity provided by different firms.
ZeroAgri	VC Globis Capital Partners	Agriculture	Equity	USD 3.4 million	ZeroAgri builds products that detect key metrics for plant health such as soil temperature and moisture. That data is transmitted to a small solar-powered device, which connects to an app that farmers use to better care for their crops.

Source: dealstreetasia.com

Another pilot, the Yokohama city SIB pilot, is being implemented by a non-profit service provider and research Institutes based at Meiji University in collaboration with Yokohama municipal government. Funding has come from Goldman Sachs Japan in the form of donations.⁷³

Going forward, the government is considering a full-scale introduction of SIBs, results-based multi-year contracts in the healthcare industry with local governments as well as ongoing formulation of manuals on the project development process.⁷⁴

In 2014, Japan passed the stewardship code for institutional investors, laying down ESG guidelines and defining norms in the engagement of institutions with publicly listed companies. The Japanese code builds on UK's initiative along similar lines. In Japan, it is backed by 180 institutional investors⁷⁵ and has been described as a 'sea change in culture' in Japan.⁷⁶

71. Nippon Foundation, 2015, at <http://www.nippon-foundation.or.jp/en/news/articles/2015/134.html>
72. Social Impact Forum 2017, at <http://koshaken.pmssi.co.jp/upfile/socialimpactforumenglishfinal.pdf>
73. Japan National Advisory Board, 2016, Current State of Social Impact Investment in Japan 2016

74. IPE Global, 2015, ESG investment a Japanese carrot and a stick
75. IPE Global, 2015, ESG investment a Japanese carrot and a stick
76. Japan National Advisory Board, 2014, The Social Impact Investment Landscape in Japan

Examples of socially responsible investing in Japan

- ESG bonds:
 - BlackRock Japan has launched a tracker called the Green Bond Index Fund, that tracks bonds issued to fund projects with direct environmental benefits.⁷⁷
 - Meiji Yasuda Life and Nippon Life have committed USD 7.1 billion and USD 1.7 billion respectively in bonds for 2017–2020, following ESG principles.⁷⁸
- Responsible exchange-traded funds (ETFs): ETFs are based on the MSCI Japan Socially Responsible Index and include large and mid-cap companies with ESG achievements.
 - The UBS MSCI Japan Socially Responsible ETF is available on the London Stock Exchange, Xetra and Börse Frankfurt. The new ETF offers investors access to euro-area corporate bonds issued by firms with strong ESG characteristics.⁷⁹

**GPIF: Trailblazer for ESG investment in Asia**

In September 2015, the Japanese Government Pension Investment Fund (GPIF), the world's largest pension fund, with a pool of USD 240 billion, became a signatory of the United Nations Principles for Responsible Investment (PRI), and is making ESG-related decisions in various investments. It is anticipated that this move will spark greater ESG interest among Japan and regional investors in Asia.⁸⁰

77. FT Adviser, 2017, BlackRock tracks MSCI with green bond fund launch

78. Reuters, 2017, Japanese lifers increase green and sustainable investments

79. ETF Strategy, 2017, UBS launches Eurozone corporate bond ETF with ESG screening

80. Pionline, 2017, GPIF aims to be trailblazer for ESG investment in Asia

The social economy in Japan is rapidly growing with innovative investment models and support structures

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		Japan's non-profit sector is supported by a set of laws including the Association and Foundation Law, the Law on Recognising Organisations as Public Interest, and the Law to Consolidate Relevant Laws. While there is no specific legal status for SEs, SEs are clearly defined and regulated by the Cabinet Office.
	Government support		The government supports SEs through seed funding and credit guarantee schemes. There is a dedicated Cabinet Office to spur the culture of giving.
	SEs across sectors		SEs are active in an array of sectors including elderly care, child care, agriculture, the arts and culture, women's employment, environment and education. Many were established after the 2011 earthquake.
	Presence, size, and maturity of SEs		Japan today has 51,526 registered NGOs and 205,000 SEs. Many are in the early to growth stage.
Investors	Philanthropic contributions		There are over 820 local foundations nation-wide. Local foundations such as the Sasakawa Peace Foundation, the Inamori Foundation and the Benesse Foundation have a rich tradition of philanthropy. Venture philanthropy has also gained significant momentum with the establishment of JVPF in 2013. However, HNWI's share of social investing is among the lowest in Asia. ⁸¹
	Presence of social investors		There is a fair presence of local social investors such as KIBOW, BlackRock, BlueOrchard who provide SEs with support from the early to growth stage.
	Corporate sector		Corporate giving and investing are a dominant force in the social economy in Japan in terms of size, innovation, and maturity of investing.
Enablers	Incubators, accelerators, and capacity-builders		Social Venture Partners Tokyo, JVPF, and Hub Tokyo provide SEs with incubation, networking and mentoring support by mainstream business professionals. AVPN, Japan Sustainable Investment Forum and the Social Business Network regularly convene stakeholders in the social economy to share best practices.
	Networks and platforms		Japan has 10 networks and platforms to connect investors with SPOs and fundraising avenues. Prominent ones include: ANDE Japan, AVPN, British Council, Japan Fundraising Association, Japan Sustainable Investment Forum (JSIF), Social Business Networks, and Toniic.
	Knowledge and research		The Japan Foundation Centre, the Japan NPO Centre, Nippon Foundation, Sasakawa Peace Foundation, Japan Fundraising Association (JFRA) and National University of Singapore have published research on Japan's social investment landscape. Research and knowledge documentation in English, however, is not yet commensurate with the level of activity.
	Partnerships		There are several examples of corporate, government, academic, and network partnerships such as the Nippon Foundation-banks-SE tie-up and the KIBOW fund.
	Impact measurement		The Social Value International (SVI) Network Japan provides training and resources for quantifying social impact. The National Advisory Board also released its impact toolkit in 2015. ⁸²

81. Capgemini, 2016, Asia-Pacific Wealth Report

82. Nippon Foundation, 2016, The current state of social impact investment landscape in Japan



OPPORTUNITIES

- With greater than 90% technology and digital penetration, a tradition of innovation in science and technology, good governance and a rank of 34 in World Bank's Doing Business ranking, Japan provides a favourable macro-environment for social innovation in various fields.
- The Japanese government passed a law in December 2016 to enable the use of funds from dormant bank accounts (legally, accounts that have not been operated for 10 years) for philanthropic purposes, which is a transformational opportunity for social investing.⁸³ In a similar manner to Big Society Capital in the UK, this fund will distribute money via intermediaries through instruments such as grants, loans and equity, beginning in 2019. The annual lending size is expected to be USD 700 million.⁸⁴
- Japan's business interest in ASEAN can cascade to social investing and SE ecosystem support in emerging economies. Funds such as ARUN LLC and organisations such as Habataku are already

providing financial and human capital to countries such as Cambodia, Vietnam and Indonesia, offering partnership opportunities for students, professionals, entrepreneurs and investors alike.

- The credit guarantee scheme of the government has led to multiple banks creating low-interest financial products for SPOs, signalling an opportunity for financial institutions to play a strong role in furthering the social economy. Impact capital from banks is expected to exceed several billion yen in the coming years.⁸⁵

CHALLENGES

- A lack of awareness of social investment has resulted in less-informed giving. Philanthropic giving, especially by private foundations, thus far has been charitable, with only a few players moving towards more informed approaches.
- Despite Japan's high number of millionaires, HNWI wealth for social impact has largely been untapped due to low engagement levels among individuals.

83. Japan Times, 2017, Making use of dormant accounts

84. Nikkie Asian Review, 2016, Japan development agency to issue social impact bonds

85. Nippon Foundation, 2016, The current state of social impact investment landscape in Japan

- There are too few role models of successfully scaled-up SEs to inspire the sector.
- SEs experience a lack of human capital and management skills, which acts as a barrier to scaling up and attracting a greater flow of impact capital.
- Contribution of corporate time and business expertise is insufficient in the social economy; most corporates confine themselves to philanthropic funding, as it is easier to measure and report impact.

RECOMMENDATIONS

The following recommendations emerge from interviews and landscape analysis:

- **Development issues:**

- While agriculture, microfinance, and environment are seeing greater impact investment, education, gender equality, and disability are areas that can benefit from larger funding and attention.

- **Social investment:**

- Ample capital is available, especially given dormant funds and new schemes from banks, but there are few intermediaries that can absorb the funds or deploy them effectively to SPOs. Social investors can divert a portion of their

existing portfolio to funding intermediaries to build their capacity.

- Corporates must think in terms of long-term partnerships rather than CSR through small projects. Involving employees and young professionals in volunteering will help build the necessary leadership qualities.
 - Japan has seen several innovative partnerships between private foundations, banks, the government, and SEs in the last three or four years with the growth of the social economy. Social investors can replicate these models or support existing models with more capital and expertise.
 - SIBs have significant potential to address large local issues such as eldercare and child care provision through the support of the private sector. In addition to the 3 pilots mentioned above, Japan has 4 healthcare SIBs currently running in: Kobe (prevention of diabetes), Hachioji (cancer scanning), Tenri (prevention of dementia) and Higashi-Oumi (local economy revitalization). These SIBs provide evidence on working models and form the basis to take the bonds forward.⁸⁶
 - The trend towards social impact investment with assumed financial return has the potential to continue gaining strength in the future. Venture philanthropy organisations such as JVPF provide working examples of effective venture philanthropy; these models can be replicated for better support for early stage SE.
 - Corporates and foundations can partner with impact funds such as KIBOW to channel some of their funding towards social enterprises.
- **Ecosystem support:**
 - A concrete legal structure should be put in place to recognise social enterprises, which can in turn lead to better public understanding of these entities and more ecosystem support for SEs.
 - SEs require better pro bono support in IT, legal services and financial management. This can come from corporates and business professionals through fellowship programmes.

“Most Japanese investors are new to the concept of impact investing. There is a high need for role-models in investing. The current ecosystem pushes very little, and few support medium to high risk investments. There is a barrier to the entry of new ideas. SEs are young and need capacity-building and support to grow.”

**Natasha Shih and Karthik Varada,
Sasakawa Peace Foundation**

86. Social Impact Investment, 2014, The Social Impact Investment Landscape in Japan

Japan already has a thriving culture of fellowships and exchange programmes in social entrepreneurship such as the Habataku fellowship for Vietnam.

- Public events featuring SE success stories and experience sharing can galvanise interest among family foundations and impact investors in mission-driven enterprises.
- The Japan Centre for NPO Evaluation was established in April 2016. As an independent assessor, it evaluates SPOs that aim to enhance the support environment and improve the operations of non-profit corporations. The Centre provides opportunities for corporations and investors to partner in order to strengthen the operations of SPOs.
- Impact measurement needs more development through research, knowledge, and implementation of pilots.

REPUBLIC OF KOREA

(SOUTH KOREA)

The Republic of Korea (South Korea) is a high-income country, with its gross national income (GNI) per capita having risen from USD 67 in the early 1950s to USD 27,450 in 2015.¹ South Korea is now the 15th largest economy in the world, the 4th largest economy in Asia and a key contributor to the International Development Association (IDA), a fund established by the World Bank to support the world's poorest countries.²

The country attracted foreign direct investment (FDI) of USD 23 billion in 2015, which is projected to grow to USD 94 billion in 2020.³ The gross domestic product (GDP) measured in purchasing power parity (PPP) was USD 1,930 billion in 2017, and is expected to increase to USD 3,539 billion by 2050.⁴

South Korea boasts of one of the world's most technologically advanced economies, with the world's fastest broadband speed and a strong digital economy across commerce, education, entertainment and government. The country has a service-led economy (60.2% contribution to GDP in 2016) with electronics, shipbuilding, automotive and steel being the dominant industries.⁵

Despite its success to date, South Korea is grappling with long-term challenges such as its ageing population (median age of 40.6 in 2015),⁶ an inflexible labour market and heavy reliance on exports. To contend with these issues and sustain growth, the South Korean government is working towards structural reforms that include: promoting entrepreneurship and creative industries, deregulating, and increasing the competitiveness of small and medium-sized enterprises.⁷

1. World Bank, World Bank Open Data

2. Yonhap News, 2016, S. Korea to invest extra \$90 mln into World Bank fund

3. OECD, 2014, FDI Flows

4. Forbes, 2016, South Korea

5. ANZBusiness, 2016, South Korea

6. United Nations Department of Economic and Social Affairs, 2015, World Population Prospects

7. Forbes, 2016, South Korea

FACT FILE

Population
2016

50.92 million

GDP (PPP)
2016

USD 1.93 trillion
World Rank 14

World Giving Index Rank
2016

75

(64 in 2015)

- % giving money - 35
- % volunteering time - 18
- % helping a stranger - 46

Poverty
2013

14.6%

Per capita GDP (PPP)
2016

USD 37,740
World Rank 30

COUNTRY CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	2.7%	GDP grew at 2.7% in 2016. For 2017 GDP growth has been projected to range between 3% and 3.5%.
Governance (2015)	0.7	South Korea performed better than 78% of all countries in the 2015 World Bank's Worldwide Governance Indicators. ⁸
Consumer Market (2015)	USD 744 billion	Household consumption expenditure decreased by 1% from 2014 to 2015. An important trend in South Korea is the steady rise of single-person households, which places a premium on convenience and efficiency. South Korea is Asia-Pacific's third largest e-commerce market. ⁹
Labour Force (2016)	27 million	The Labour Force slightly increased by 0.8% from 2015 to 2016. To make the labour market more flexible, structural reforms regarding competency-based wages, quality employment for the youth and changes to the retirement age are required. ¹⁰
Infrastructure (2016)	6.0	South Korea ranked 10 among 138 countries in terms of infrastructure due to its highly advanced and modern infrastructure. ¹¹
Financial Access (2014)	94% of the population	Access to finance increased by 1% 2011 to 2014. ¹² Owing to its high financial penetration, South Korea is leading the Global Partnership for Financial Inclusion (GPII) launched at the G20 Summit in Seoul in 2010. ¹³
Digital Access (2015)	90% of the population	Internet penetration increased by 2% from 2014 to 2015. ¹⁴ Today South Korea has the second highest internet penetration in Asia and the highest average internet connection speed worldwide. As of 2016, 90% of South Koreans owned a smartphone. ¹⁵
Ease of Doing Business (2016)	5/190	South Korea ranked 5 out of 190 countries in the 2016 Ease of Doing Business ranking. South Korea provides an ideal business environment through its world-class infrastructure, intellectual property rights protection, high quality of life, FDI-friendly government policies and one-stop investment services.

Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016)

Note: Computation in this section is described in the Methodology.

8. World Bank, 2015, Worldwide Governance Indicators

9. PFS, 2016, South Korea E-Commerce Market

10. OECD, 2016, Employment Outlook 2016

11. WEF, 2016, The Global Competitiveness Report

12. World Bank, Global Findex Database

13. GPII, About GPII

14. International Telecommunication Union, 2015, Percentage of Individuals using the Internet

15. PFS, 2016, South Korea E-Commerce Market

■ Favourable ■ Moderately favourable ■ Unfavourable

Number of millionaires
2016

313,000
(0.614% of population)

Global Competitiveness Index
2016

26
(26 in 2015)

Source: CIA, Charities Aid Foundation (CAF, 2016), Credit Suisse (2016), IMF (2016), OECD (2016), World Bank (2017), World Economic Forum (WEF, 2016)

DEVELOPMENT GAPS IN SOUTH KOREA

South Korea's current challenges include an ageing population, poverty among the elderly, urbanisation with concomitant environmental stress, greenhouse gas (GHG) emissions and safe management of toxic chemicals.¹⁶

The Third National Basic Plan for Sustainable Development for the period 2016-2030 was established through consultations with 26 government ministries and agencies and focuses on R&D and sustainable urban planning. The plan outlines 14 strategic targets around four overarching goal areas including: (i) healthy land, (ii) integrated and safe society, (iii) inclusive creative economy and (iv) global prosperity.¹⁷









SDG DASHBOARD

Source: sdgindex.org (2016)



16. United Nations Sustainable Development Knowledge Platform, 2016, Republic of Korea
17. Suh-Yong Chung, 2016, The Localisation of the SDGs in South Korea

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	SDG GOALS	GAP	GOVERNMENT FOCUS
Climate action		South Korea's GHG emissions doubled between 1999 and 2012. ¹⁸ The country accounts for around 2% of global GHG emissions. ¹⁹	By 2030, the government is looking to achieve a 37% reduction in GHG emissions in all economic sectors, with business-as-usual (BAU) levels in 2015 as the baseline. South Korea ranks second worldwide in the carbon trading market. ²⁰
Gender equality	  	South Korea ranked 115 out of 145 countries in the 2015 WEF's Global Gender Gap ranking, ²¹ with a rank of 125 in the sub-category of "Economic Participation and Opportunity."	The government is in the process of establishing day-care centres, putting in place systems for parental leave for women and incentivising companies to adopt women-friendly policies. ²²
Small and medium-sized enterprise (SME) growth	 	South Korea had a total credit gap of USD 28.5 billion for SMEs in 2011, the second highest in Asia after China. ²³	The Business Partnership Programme is a public-private partnership model implemented in collaboration with the South Korea Federation of Small and Medium Enterprises to develop inclusive business models and private finance innovations. Small companies and social enterprises receive support for up to 70% of the project cost, or up to USD 44,000 for a project period of 1 to 3 years. ²⁴
Social security	 	South Koreans aged 65 or older accounted for 12.2% of the total population of about 50 million in 2014. ²⁵ The elderly population is expected to significantly increase to over 30% by 2040. ²⁶ As of 2011, 49% of elderly South Koreans lived in poverty, which is defined as 40% of South Korea's median income. ²⁷	The government has established the Plan for Ageing Society and Population (2015), the Framework Act on Low Fertility and Population Ageing (2014), ²⁸ and the Law for Promoting the Elderly Friendly Industries (2013). ²⁹

Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

THE SOCIAL INVESTMENT LANDSCAPE IN SOUTH KOREA

South Korea has one of the most active and mature social economies in East Asia. This is nurtured, strengthened and supported largely by its government. Widespread poverty in the 1980s led to the formation of community-based enterprises — the

precursors of social enterprises (SEs). The 1997 Asian Financial Crisis further compounded the need for employment guarantees.

South Korea actively sought consultation from other developed economies such as the UK and US between 1997 and 2007 in an effort to obtain knowledge on SEs. The establishment of SEs assisted in reducing un-

18. Climate Action Tracker, 2017, South Korea

19. OECD, 2017, Greenhouse gas emissions

20. Think Progress, 2015, South Korea Launches World's Second-Largest Carbon Trading Market

21. WEF, 2015, The Global Gender Gap Report

22. WEF, 2015, Q&A: How is South Korea closing the gender gap?

23. Yoshino N. and G. Wignaraja, 2015, SMEs Internationalization and Finance in Asia

24. Korea International Cooperation Agency (KOICA), Civil Society Cooperation

25. Yonhap News, 2014, S. Korea has fastest aging population among advanced economies

26. Korea Times, 2017, Aging population to cut growth rate to 1-pct level: expert

27. OECD, 2014, Reducing the high rate of poverty among the elderly in Korea; Wall Street Journal, 2017, Poverty Creeps Up on Elderly in South Korea

28. AARP - The Journal, 2013, Korea's Age Boom

29. The Hankyoreh, 2005, 'Elderly-Friendly' Industries Must Be Done Right

employment through job creation while simultaneously strengthening the delivery of social services. In 2015, there were 1,606 certified SEs in South Korea.³⁰ South Korea is also home to 10 B Corps.³¹

Legislative environment

South Korea is the only East Asian country to have a robust certification process for SEs. The Social Enterprise Promotion Act (SEPA) was enacted on December 8, 2006 and became effective on July 1, 2007.

SEs are defined as:

- Companies that 'perform business activities of producing and selling products and services while pursuing such social purposes as providing vulnerable social groups with social services or jobs to improve the quality of life of the local residents.
- Companies which reinvest profits in the business or the local community putting priority on pursuing social purposes rather than on maximising profits for its shareholders or owners.³²

SEs receive government payroll subsidies for three years, sales channel development, financial support, and preferential treatment in service provision and procurement of goods.



Under the Act, SEs possess the following legal characteristics:³³

STRUCTURE	PURPOSE
Legal structures	<p>An SE can be an association or corporation under the Civil Act, a company or limited partnership under the Commercial Act, a corporation established under any special act, or a non-profit, non-governmental structure.</p> <p>Association or Corporation under the Civil Act – These are formed for religious, scientific, art, charitable or social welfare purposes.</p> <p>Company under Commercial Act – Companies are formed for the purpose of engaging in commercial or profit-making activities and can be registered under four types, namely, partnerships, limited partnerships, limited liability and stock companies.³⁴</p>
Social purpose	The priority of an SE is to realise a social purpose such as providing jobs for the disabled, products or services for the underprivileged.
Profits	An SE must generate income to cover at least 30% of its operating costs. More than two-thirds of its annual income must be ploughed back into operations.
Compliance	SEs must abide by the articles listed under the Social Enterprise Promotion Act (2007).

30. Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

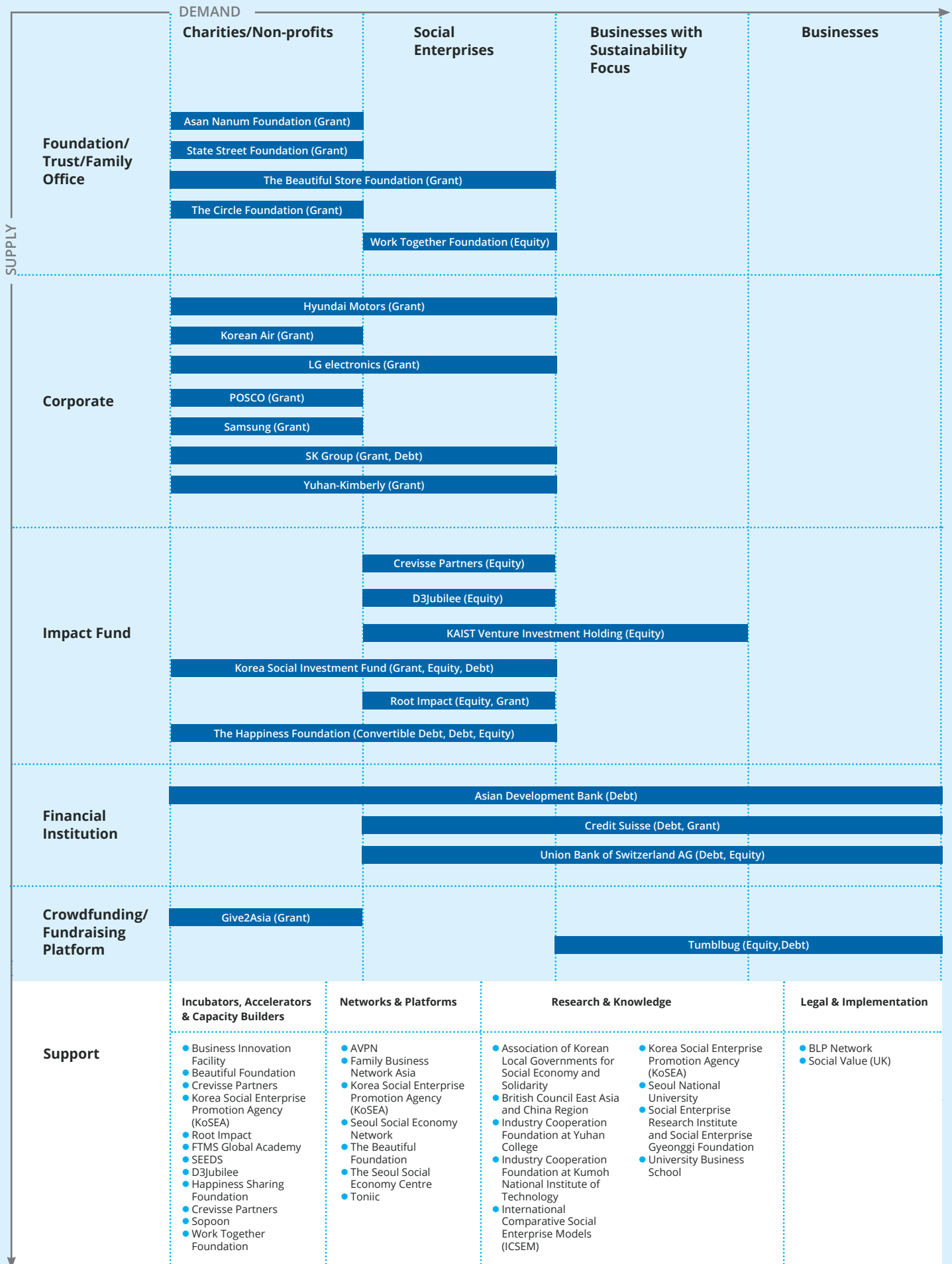
31. BCorpAsia, at <http://www.bcorpasia.org/south-korea/>

32. Korean Social Enterprise Promotion Agency (KoSea), 2017, What is a social enterprise?

33. International Comparative Social Enterprise Models (ICSEM), 2013, Social Enterprise in South Korea

34. The International Center for Not-for-Profit Law, Social Enterprise Promotion Act

DEMAND, SUPPLY AND SUPPORT ECOSYSTEM IN SOUTH KOREA



Key actors in the social economy in South Korea with a few examples of investing across entities. Source: AVPN-Sattva analysis, ICSEM (2013), press articles

KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

Government schemes define the social investment landscape

The government is the largest social investor and incubator in South Korea. The Korea Social Enterprise Promotion Act came into force in 2007, resulting in the establishment of the Korea Social Enterprise Promotion Agency (KoSEA), a state-run incubator for SEs, the Korean Social Investment Fund (KSIF), a social consulting organisation which promotes sustainability amongst businesses, the Seoul Social Economy Support Centre, as well as a range of SME financing products and preferential access to public procurement bidding.³⁵

The Seoul Social Economy Support Centre functions as an ecosystem-building organisation that seeks to develop human resources for SEs, act as an extended sales channel, and establish networks and partnerships.

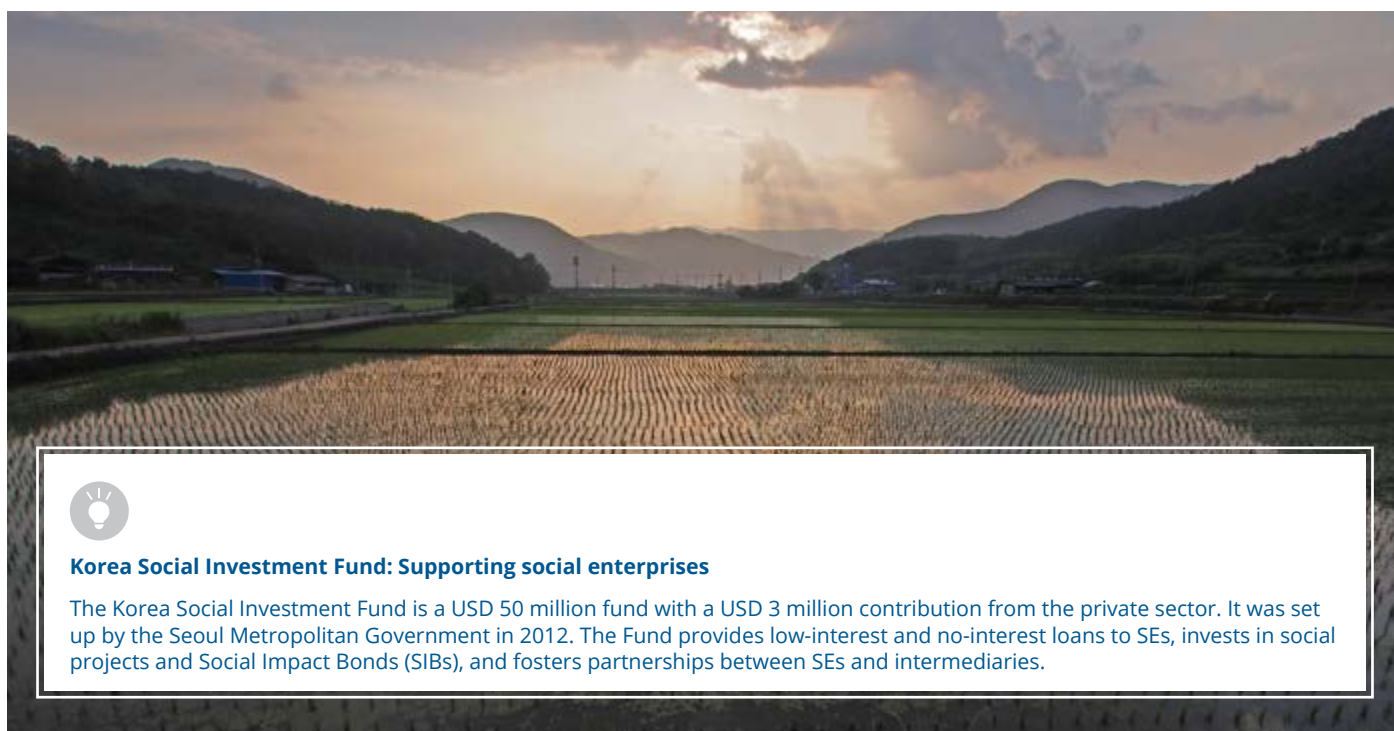
To solve the issue of elderly poverty as well as deploy human resources in SEs, the government also encourages retired professionals with over 3 years of work experience to join SEs. Consequently, entrepreneurs are incentivised to employ vulnerable populations in their companies.

Support for SEs is part of the South Korean government's Second Social Enterprise Promotion Master Plan 2013–2017, which has four focus areas:

- Strengthening sustainability of SEs by providing funding, incentives and consultation.
- Customised support by providing HR resources, sales and marketing support and university fellowships.
- Increasing the role and impact of SEs.
- Enhancing partnerships with corporations and local governments.

Giving culture is impeded by a distrust of NGOs

Korea houses 2.5% of the world's wealth. By the end of 2013, there were at least 167,000 individuals with assets exceeding USD 1 billion. In 2014, 44.3% of high net worth individuals (HNWIs) contributed to social causes, yet most said that they "could give more if they trusted NGOs."³⁶ The trust deficit in NGOs coupled with the absence of tax benefits often hinders further philanthropic contributions.



Korea Social Investment Fund: Supporting social enterprises

The Korea Social Investment Fund is a USD 50 million fund with a USD 3 million contribution from the private sector. It was set up by the Seoul Metropolitan Government in 2012. The Fund provides low-interest and no-interest loans to SEs, invests in social projects and Social Impact Bonds (SIBs), and fosters partnerships between SEs and intermediaries.

35. Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystem in South East and East Asian Countries

36. Korea Focus, 2014, Korea's Rich People: Analysis

Chaebols spent USD 31.5 million in 2015 on CSR

CSR spending by chaebols (business conglomerates) in South Korea continues to rise every year, even during years of economic recession. A 2015 survey of 255 chaebols pointed to a significant contribution of USD 31.5 million (KRW 2.92 trillion) on projects pertaining to social welfare, disability, child development, education, disaster relief and environmental conservation. Spending as a percentage of annual profits exhibits an interesting trend: while the average was 3.5%, 14% of the surveyed corporates maintained a spending of over 10% of profits or higher and 11% even gave back despite losses.³⁷ South Korea's top 30 corporates, including Hyundai and Samsung, have paved the way for corporate sustainability and CSR in the country with their generous giving.

CSR programmes go beyond charitable models in South Korea; they utilise the inherent strengths of business through innovative means.³⁸ For instance:

- Korean Air has collected 3,200 books in various languages for a multicultural library targeting immigrants, in line with the airline's theme of 'sharing happiness with the local community'.³⁹
- Hyundai Card has revitalised traditional markets in Gwangju, South of Korea, and mentors local entrepreneurs to set up small businesses.⁴⁰

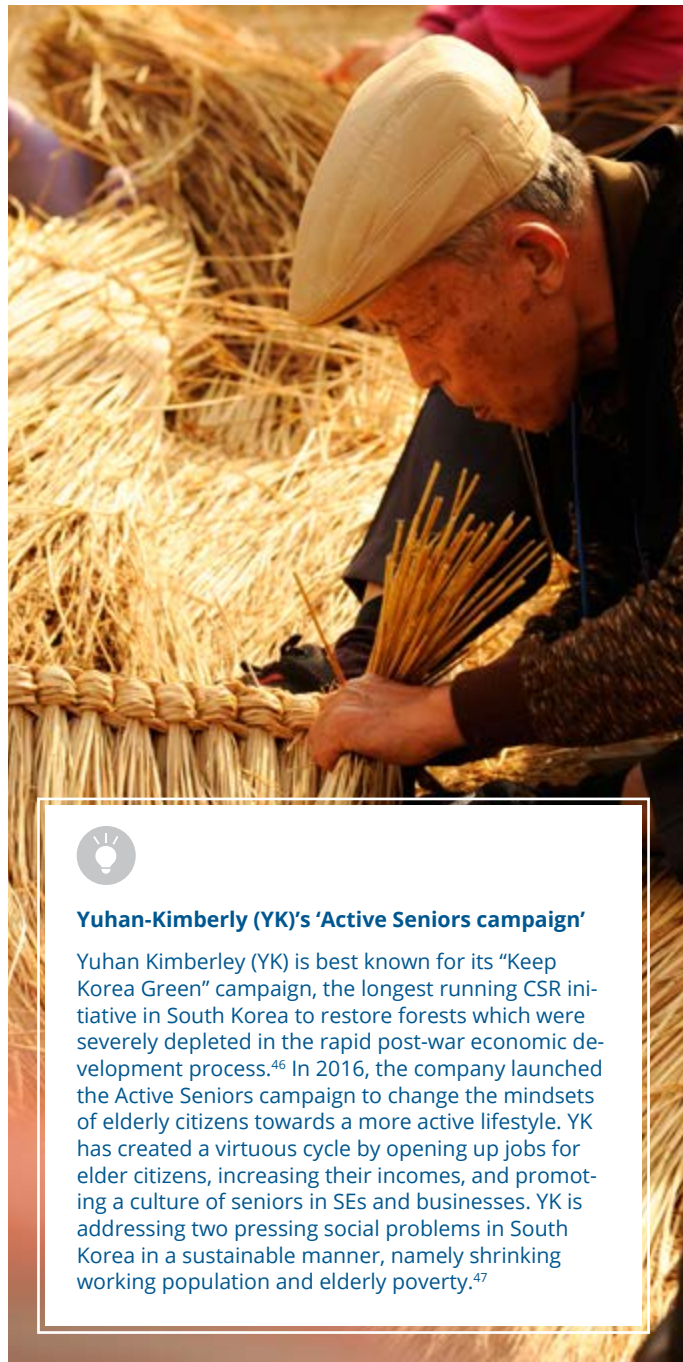
South Korea tops the ranking of countries with the highest compliance to sustainability reporting — more than 90% of South Korean corporates referred to the Global Reporting Initiative (GRI) reporting guidelines in their CSR reports in 2015. Corporates believe that reporting on GRI guidelines may enhance credibility.⁴¹

Innovative social finance finds its place in South Korea

In 2014, a SIB in the form of a partnership between the KSIF, the Department of Women and Family Policy and the Seoul government was launched in South Korea. The proceeds from the bond are being used to provide child welfare services over 3 years to a total of USD 9.4 million (KRW 10 billion).⁴² After deliberations and stakeholder dialogues, the Seoul government is

considering an ordinance for municipal law that would allow the government to pay investors returns based on the social outcomes achieved from the provisions of the government budget.⁴³

Hyundai issued USD 500 million in South Korea's first corporate green bond linked to energy efficient and electric vehicles in 2016.⁴⁴ In total, green bonds worth USD 19.6 billion have been issued in South Korea, making it a favoured destination for green finance.⁴⁵



Yuhan-Kimberly (YK)'s 'Active Seniors campaign'

Yuhan Kimberley (YK) is best known for its "Keep Korea Green" campaign, the longest running CSR initiative in South Korea to restore forests which were severely depleted in the rapid post-war economic development process.⁴⁶ In 2016, the company launched the Active Seniors campaign to change the mindsets of elderly citizens towards a more active lifestyle. YK has created a virtuous cycle by opening up jobs for elder citizens, increasing their incomes, and promoting a culture of seniors in SEs and businesses. YK is addressing two pressing social problems in South Korea in a sustainable manner, namely shrinking working population and elderly poverty.⁴⁷

37. Business Korea, 2016, 44% of Korean Enterprises Increased Spending on Social Contributions
38. Straits Times, 2017, Social projects catch on in South Korea
39. Straits Times, 2017, Social projects catch on in South Korea
40. Straits Times, 2017, Social projects catch on in South Korea
41. KPMG, 2015, The KPMG Survey of Corporate Responsibility Reporting
42. Tomkinson, E., 2014, Seoul Social Impact Bond (SIB)

43. Tomkinson, E., 2014, Seoul Social Impact Bond (SIB)
44. Global Capital, 2016, US laps up Hyundai green bond
45. Climate Bonds Initiative, 2016, Bonds and Climate Change – The State of The Market
46. Forbes, 2013, CSR Development Trends And Outlook In Korea - Institute For Industrial Policy Studies
47. YK, 2016, Sustainability Report

Recent investments in South Korea (2015-2016)

Social enterprise	Investor	Sector	Instrument	Amount	Details of work
SK Chemicals Co. Ltd.	Bill & Melinda Gates Foundation	Health	Grant	USD 1.53 million	SK Chemicals Co. Ltd. aims to provide a low cost pneumococcal vaccine to reduce morbidity and mortality from pneumococcal diseases of infants and children in developing countries.
Frientrip	Crevisse Partners	Technology	Equity	USD 2.51 million in total round with 3 investors	Frientrip is a social activity platform which allows people to gather and enjoy various outdoor/indoor activities together.

Source: cruchbase.com, Foundation Center

Emerging area: Impact investing in social enterprises

There are 5 major local impact investors supporting SE growth in South Korea through grants, debt and equity, namely Crevisse Partners, D3Jubilee, KAIST Venture Investment Holdings, Root Impact and The Happiness Foundation. There is a significant hands-on culture among investors — many of them support

SEs by running incubators and accelerators, and provide regular training and mentoring. Corporates are slowly beginning to invest in SEs. The SK Group, for example, a leading South Korean conglomerate, has launched a USD 9 million private equity (PE) fund for SEs, besides establishing an online platform for them and developing a course in collaboration with the local university on SEs.⁴⁸






Root Impact: Co-working and co-living

Root Impact is an incubator which builds a vibrant community of change-makers based on the model of co-living and co-working. Initiated as a pilot in affordable co-living, Root Impact has discerned that community living can provide a self-nurturing environment for SEs to grow. At present, over 500 SEs are being supported in a co-habitation space.⁴⁹

48. Korean Times, 2015, SK Group committed to sustainable growth
49. Root Impact, www.rootimpact.org

South Korea's social economy is vibrant, advanced, and supported by the government, corporates and impact investors.

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		South Korea is the first Asian country to have a dedicated legal structure for SEs. The Social Enterprise Promotion Act (SEPA) was enacted on December 8, 2006 and became effective on July 1, 2007.
	Government support		The Social Enterprise Promotion Act of 2007 outlines capacity building programmes and mobilises private sector support aimed at SEs. ⁵⁰
	SEs across sectors		There is a diverse presence of SEs across an array of sectors including products and services by the socially vulnerable, environment, technology innovation and sustainable lifestyle.
	Presence, size, and maturity of SEs		There were 1,606 SEs as of 2015. Many of them are at an early stage of growth. ⁵¹
Investors	Philanthropic contributions		While HNWI's engage in philanthropic giving, an expressed distrust of philanthropic organisations and a lack of tax benefits impedes charitable giving. ⁵²
	Presence of social investors		South Korea has 5 major impact investors – Crevisse Partners, D3Jubilee, KAIST, Root social impact and The Happiness Foundation offering grants, debt and equity. Investors play a significant role in nurturing SEs.
	Corporate sector		Large and medium-sized corporations in South Korea invest significantly in CSR.
Enablers	Incubators, accelerators, and capacity-builders		There is a good presence of enablers, including incubators such as Crevisse Partners, KoSEA, SEEDS, Root Impact, Beautiful Foundation, Sopoong and D3Jubilee, and accelerators that provide capacity building services such as KoSEA, Work Together Foundation, SIE, and The Happiness Foundation. 
	Networks and platforms		Notable networks and platforms include The Seoul Social Economy Centre, the Work Together Foundation and AVPN. 
	Knowledge and research		Notable research publications have come out of KoSEA, Industry Cooperation Foundation at Yuhan College, Industry Cooperation Foundation at Kumoh National Institute of Technology, Social Enterprise Research Institute and Social Enterprise Gyeonggi Foundation, University Business School and universities such as Seoul National University. English publications, however, remain limited. 
	Partnerships		The government, corporates and SE enablers have formed multiple partnerships such as the KSIF, YK-Work Together Foundation. The 'One corporate, One Social Enterprise' programme by KoSEA helps SEs gain insight into corporate operations in the fields of sales, financing and market strategies.
	Impact measurement		Organisations use certain indicators to determine the efficiency of their programmes; such as outreach to consumers/producers or reduction of CO ² emissions. KoSEA is working with SK Corporation to establish due diligence standards and impact metrics. ⁵³

 Partnership Opportunity

50. The International Center for Not-for-Profit Law, Social Enterprise Promotion Act
 51. Inter-American Development Bank, 2016: Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries
 52. Korean Portal, 2015, Large Firms Shows Corporate Social Responsibility
 53. Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries



OPPORTUNITIES

- Friendly policies, advanced infrastructure, consistently high rankings for doing business, 89% and 94% of the population having access to the internet and external finance, respectively make South Korea one of the most enabling business environments in Asia.
- South Korea is one of the most SE-friendly countries and SEs are provided with significant government support in the form of funding, incubation, preferential procurement, policies as well as incubation supplies with expertise and resources at low costs.
- South Korea's strong financial environment and innovation economy provide opportunities to create products using green finance, SIBs and other responsible investing instruments.
- The KoSEA has created a global section in its annual social entrepreneurship incubator programme in 2015 to support entrepreneurs wishing to launch their SEs in developing countries such as Cambodia and Vietnam.

CHALLENGES

- Social entrepreneurs struggle to build strong teams due to the lack of staff with expertise in the social economy.
- The key risk of the South Korean social economy is its dependency on the government. The ecosystem may be affected if there are changes in the leaderships of the central and Seoul Metropolitan government. Moreover, SEs often struggle to establish sustainability post the three-year payroll subsidy period.⁵⁴

RECOMMENDATIONS

The following recommendations emerge from interviews and landscape analysis:

- **Development gaps**
 - Environment conservation, gender equality and elderly care are high-gap areas which can benefit from private sector investment.

54. Interview with Crevisse Partners on 28 April 2017



- **Social Investment:**

- Given that the over-reliance on government subsidies has been identified as a key risk for SEs, there is a need for more diversified players including investors, enablers and corporates to support the sector with capacity building services and resources to achieve self-sustainability.
- International investors are advised to immerse themselves in the local context and partner with local organisations in order to gain a deep understanding of South Korea's social economy for more informed decision-making.

- **Enablers:**

- HNWI presence is strong yet underutilised for social impact. Investors and enablers can play a role in building platforms or creating co-investing mechanisms that can de-risk HNWI philanthropy and create a space for building trust between SPOs and HNWIs.
- As is the case with the startup and business ecosystem in South Korea, the SE ecosystem is highly competitive and expectations are high. The pressure on entrepreneurs to become investment-ready in a short span of time once they obtain seed funding is very high. International incubators can help to increase the provision of patient capital among investors in South Korea to support SEs' journey in

building scale while diffusing insights from their experience.

RECOMMENDED READING

- Inter-American Development Bank, 2016, Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries
- International Comparative Social Enterprise Model, 2013, Social Enterprise in South Korea
- McKinsey & Company, 2010, South Korea: Finding its place on the world stage

"The impact investing ecosystem is growing at a very fast pace in South Korea. However, it is still very challenging for investors to find investable impact businesses. As the market is highly competitive, social enterprises must expand and grow quickly to be a part of this movement."

Wonyoung Kim, Crevisse Partners

TAIWAN

Located on the Pacific 'Ring of Fire', Taiwan remains seismically active. It is the 4th most densely populated region in Asia behind Singapore and Hong Kong and is one of Asia's four "tiger economies". The development of export-oriented manufacturing has transformed Taiwan's economy and labour force into one defined by urban and industrial production. 70% of the world's integrated circuits are manufactured today in Taiwan, and Taiwanese companies have excelled at mobile phones, computer hardware and electronics engineering. Poverty in Taiwan has almost been eradicated¹ — the per capita gross national income grew from USD 154 in 1951 to USD 23,325 in 2016² with 1.78% of the population now belonging to the low-income bracket.³

Following the end of martial rule in 1987, Taiwan has established a vibrant democracy. The Democratic Progressive Party won the election in 2016, bringing Tsai Ing-wen, Taiwan's first female President to power. President Tsai Ing-wen has embarked on policies to secure momentum for new development, including the New Southbound Policy which focuses on enhancing business cooperation and exchange between Taiwan and 18 Asia-Pacific countries.⁴

Five major innovative industries are being developed internally for the future growth of Taiwan: smart machinery, green energy, biotech and pharmaceuticals, national defence, and an "Asian Silicon Valley," aimed at developing Internet of Things (IoT) technology and entrepreneurial start-ups.⁵

1. Tech in Asia, 2017, How Taiwan is reinventing itself from manufacturing hub to innovation centre
2. The Borgen Project, 2017, Poverty in Taiwan
3. National Statistics, Taiwan, 2017, Statistical Abstract of National Income
4. Asia Sentinel, 2017, Economic Outlook 2017: Taiwan
5. American Chamber of Commerce in Taipei, 2017, Taiwan's five pillar industries

FACT FILE

Population
2016

23.46 million

GDP (PPP)
2016

USD 1.13 trillion
World Rank 22

World Giving Index Rank
2016

50
(35 in 2015)

- % giving money - 42
- % volunteering time - 17
- % helping a stranger - 58

Poverty
2012

1.5%

Per capita GDP (PPP)
2016

USD 48,095

COUNTRY CONTEXT FOR INVESTORS

FACTORS	INDEX SCORE /RANK	DESCRIPTION
GDP Growth (2016)	1.0%	The economy advanced 1.0% in 2016, higher than the 0.6% growth in 2015. In 2017, the GDP growth is projected to be 1.8%.
Governance (2015)	1.1	Taiwan ranked above 87% of 215 countries in the 2015 World Bank's Worldwide Governance Indicators. ⁶
Consumer Market (2015)	USD 290 billion	Consumer spending increased by 2% in 2015.
Labour Force (2016)	12 million	The workforce has increased by 3% in 2015. However, labour force participation of men has declined due to ageing population. ⁷
Infrastructure (2016)	5.8	Taiwan ranked 13 among 138 countries for infrastructure in the 2016 WEF's Global Competitiveness ranking. ⁸
Financial Access (2014)	91% of the population	The government encourages financial institutions to establish presence in underserved areas. From 2007 to 2016, the Ministry of Finance approved the setting up of 40 branches of domestic banks and credit cooperatives in rural areas. ⁹ Access to finance increased by 5% from 2011 to 2014.
Digital Access (2015)	78% of the population	Internet penetration remained stable at 78% in 2014 and 2015. ¹⁰ Taiwan has seen strong growth in mobile broadband subscribers over the past few years driven by growth of 4G services. 73.4% of the population used smartphones in 2016, which is among the highest in the world. ¹¹
Ease of Doing Business (2016)	10/190	Taiwan's Ease of Doing Business rank improved from 19 in 2015 to 10 in 2016.

Source: CIA, International Telecommunication Union (2015), OECD (2017), WEF (2016), World Bank (2016)
Note: Computation in this section is described in the Methodology.

■ Favourable
 ■ Moderately favourable
 ■ Unfavourable

6. World Bank, 2015, Worldwide Governance Indicators
7. Brookings, 2015, Women and Employment in Taiwan
8. WEF, 2016, The Global Competitiveness Report

9. Financial Supervisory Commission, 2016, Promoting financial inclusion by Financial Supervisory Commission
10. International Telecommunication Union, 2015, Percentage of Individuals using the Internet
11. eMarketer, 2016, Mobile Taiwan: A Look at a Highly Mobile Market

Global Competitiveness
Index Rank

2016

14

(15 in 2015)

Number of Millionaires

2015

414,000

(1.76% of population)



Source: CIA, Charities Aid Foundation (CAF, 2016), Credit Suisse (2016), IMF (2016), OECD (2016), World Bank (2017), World Economic Forum (WEF, 2016)

DEVELOPMENT GAPS IN TAIWAN

Taiwan's total fertility rate of just over one child per woman¹² is among the lowest in the world, signalling future labour shortages, falling domestic demand, and declining tax revenues. Taiwan's population is ageing quickly, with the number of people over 65 expected to account for nearly 20% of the island's total population by 2025.¹³

The new government is looking at preserving the social security net through pension reforms and affordable housing in a sustainable manner, while revitalising the economy through nurturing innovation in five major innovation industries.¹⁴



12. CIA, The World Factbook

13. Hsu, M. and P. Liao, 2011, Financing National Health Insurance: Challenge of Fast Population Aging

14. The Economist, 2017, Turning Taiwan tiger again

GOVERNMENT FOCUS ON DEVELOPMENT GAPS

FOCUS AREA	GAP	GOVERNMENT FOCUS
Climate action	Over the last 30 years till 2016, Taiwan's temperature has risen by 0.29 degrees Celsius per decade, much faster than the global average of 0.07 degrees. ¹⁵ Taiwan is prone to typhoons and earthquakes. ¹⁶	The government partnered with the Pacific Disaster Committee in 2010 to host the Global Hazards Information Network (GHIN), a system for providing access to high quality geospatial information to support risk assessment, early warning, response, and other disaster management activities. ¹⁷
Education	The Education Ministry projected a sharp decline in Taiwan's population of university students, by as many as 310,000 students between 2013 and 2023. ¹⁸	Beginning 2010, a new '12 Year Curriculum' is being implemented, aiming to include annual international student exchange, domestic and overseas volunteer services, international student scholarships, and employment opportunities for graduates. ¹⁹
Energy access	Taiwan depends on imports for nearly 98% of its energy consumption. Energy imports increased from 3.88% of Taiwan's GDP in 2002 to 14.55% in 2012. ²⁰	The Bureau of Energy's National Action Plan on Energy Conservation aims to annually increase more than 2% of energy efficiency and decrease energy intensity by 50% in 2025. ²¹
Social protection	By 2025, Taiwan is expected to become a 'super-aged society' with 20% of the people aged over 65. ²²	Long Term Care 2.0, passed in 2016, has a budget of USD 100 million and covers people with age related disabilities above the age of 65, and has special provisions for those with other physical or mental disabilities. ²³

Note: Development indicators and SDG dashboard are not published separately for Taiwan. Source: ILO, OECD, SDGIndex.org (2016), UNDP, UNEP, UNESCO, WHO, World Bank, wssinfo.org

THE SOCIAL INVESTMENT LANDSCAPE IN TAIWAN

Social entrepreneurship has received unprecedented popularity and media attention in Taiwan over the past five years.

The Taiwanese government looks at social enterprises (SEs) as essential partners in solving unemployment and related social issues. Non-profits have flourished since the early 1990s with many of them adopting a twin approach of housing commercial units within development units such as bakery restaurant of the Children Are Us Foundation and wheelchair business of the Eden Social Welfare Foundation.²⁴

Since 2011, the SE sector has grown tremendously,

with innovative models emerging in the wake of shrinking government social support, rising unemployment and with the backing of an engaged civil society; both from existing charities, as well as new innovations to solve a social problem with a business solution. There are 58,363 non-profit organisations (NPOs) registered under Ministry of Interior. They enjoy benefits such as tax reduction. Most NPOs in Taiwan focus on post-donations for natural and man-made disasters. Religious charities are the most famous ones amongst these.²⁵

SEs in Taiwan are still in an early development stage. There are approximately 800 SEs, of which 200 are

15. Intergovernmental Panel on Climate Change (IPCC), Assessment Reports; American Chamber of Commerce in Taipei, 2016, Is Taiwan ready to confront climate change
 16. Chang, C., H. Lee and Y.C. Lin, Disaster Risk Analysis of Coastal Zones in Taiwan in Response to Sea-level Rise
 17. Nation Science and Technology Centre for Disaster Reduction, 2010, Newsletter - December 21, 2010 / Vol.3 / No.1
 18. ICFE Monitor, 2016, Taiwan's higher education enrolment starts a downward slide

19. Brookings, 2014, Education in Taiwan: Vision and goals of 12-year-curriculum
 20. Brookings, 2013, Taiwan's Severe Energy Security Challenges
 21. Bureau of Energy, Ministry of Economic Affairs, 2016, Taiwan's Master Plan on Energy Conservation and GHG Emission Reduction
 22. CNBC, 2015, Japan: No longer Asia's fastest-aging nation?
 23. American Chamber of Commerce in Taipei, 2017, Long-Term Care for Taiwan's Elderly
 24. International Comparative Social Enterprise Models (ICSEM), 2015, Social Enterprise in Taiwan
 25. Ministry of the Interior, 2017, Public Information Platform for NPOs

corporations and 600 are NPOs.²⁶ Only about 50 of them have “social enterprise” stated in their names.²⁷ SEs can be set up in different forms: corporates, legal body of financial groups or associations, etc. Their different background influences profit distribution and taxation.²⁸

Legislative environment

Non-profits in Taiwan are classified into two types according to the Civil Code: associations and foundations. According to the Civil Code, both associations and foundations belong to the category of ‘Legal Persons.’ Associations are built on natural persons such as trade associations and joint associations, while foundations are built on endowments.²⁹

SEs have been incentivised in Taiwanese public policies, through the “Law for Protecting Disabled People”, “Guiding Principles for Taiwanese Social Welfare Policy” and the “Guiding Principles for Social Gender Equality Policy.”³⁰ The government offers subsidies on rent, manpower costs and other operational costs for social purpose organisations (SPOs). The government

also purchases products and services from SEs as preferred vendors.³¹



STRUCTURE	PURPOSE
NON-PROFIT STRUCTURES	
Charitable association	A charitable association aims to promote public welfare, culture, academics, religion and charity. Charitable associations also can be categorised as Mutual Benefit Organisations (MBO) e.g. alumni associations and association of fellow provincials, and Public Benefit Organisations (PBO), such as Association for the Promotion of Women’s Rights.
Business association	Business associations are empowerment-oriented initiatives in the local community including producing local goods and services. Examples are aboriginal construction workers cooperatives, food producers, organic food and clothing producers.
FOR-PROFIT STRUCTURES³²	
Unlimited companies	The term denotes a company organised by two or more shareholders who bear unlimited joint and several liabilities for discharge of the obligations of the company.
Unlimited companies with limited liability shareholders	The term denotes a company organised by one or more shareholders of unlimited liability and one or more shareholders of limited liability; among them the shareholder(s) with unlimited liability shall bear unlimited joint liability for the obligations of the company, while each of the shareholders with limited liability shall be held liable for the obligations of the company only in respect of the amount of capital contributed by him.
Limited companies	The term denotes a company organised by one or more shareholders, with each shareholder being liable for the company in an amount limited to the amount contributed by him.
Companies limited by shares	The term denotes a company organised by two or more or one government or corporate shareholder, with the total capital of the company being divided into shares and each shareholder being liable for the company in an amount equal to the total value of shares subscribed by him.

26. Small and Medium Enterprise Administration, 2015, Social Enterprises taking off in Taiwan

27. SE Insights, www.seinsights.asia

28. SE Insights, www.seinsights.asia

29. Department of Public Administration and Policy, National Taipei University, 2016, The Manifestation of Social Innovation – Social Entrepreneurship in Taiwan from the NPO Perspective

30. Defourny J. and S.Y. Kim, 2011, Emerging models of social enterprise in Eastern Asia: a cross-country analysis

31. International Comparative Social Enterprise Model, 2015, Social Enterprise in Taiwan

32. Winkler Partners, 2013, Setting up a business for international investors

DEMAND, SUPPLY AND SUPPORT ECOSYSTEM IN TAIWAN

		DEMAND →			
		Charities/Non-profits	Social Enterprises	Businesses with Sustainability Focus	Businesses
SUPPLY ↓	Foundation/ Trust/Family Office		Brighten Management Limited (Convertible Debt, Equity)		
			Rockefeller Foundation (Grant)		
			The Foundation for Talented Youth (Grant)		
			The Tzu Chi Foundation (Grant)		
Corporate		DBS Foundation (Grant)			
		Fossil Group (Grant)			
		Foxconn (Grant)			
		Garena (Grant)			
		Pegatron (Grant)			
		Primax Electronics (Grant)			
		Shin Kong Life Insurance (Grant)			
		Taiwan Benefit Company (Grant)			
Impact Fund			Avenue Capital (Debt, Equity)		
			B Current Impact Investment Inc. (BCI2) (Convertible Debt, Debt, Equity)		
			Catalyst Capital Group (Debt, Equity)		
Financial Institution			Asian Development Bank (Grant, Debt)		
			Credit Suisse (Debt, Equity)		
			DEG (Grant, Debt)		
			Madou District Farmers' Association of Tainan City (Debt)		
Crowdfunding/ Fundraising Platform			DIT Startup Equity Crowdfunding (Equity, Debt)		
		Give2Asia (Grant)		OurCrowd (Equity, Debt)	
Support	Incubators, Accelerators & Capacity Builders	Networks & Platforms	Research & Knowledge	Legal & Implementation	
	<ul style="list-style-type: none"> Asia-Pacific B Corporation Association B-Corp Taiwan Good Lab Hub Taiwan iLab New Venture China (NVC) business Accelerator OkoGreen Taiwan Social Enterprise Insights Social Venture Group Sunfar Corporation - 20 for future 	<ul style="list-style-type: none"> AmCham AVPN B Current Impact Investment Inc. (BCI2) British Council East Asia and China Region Himalaya Foundation International Committee on Fundraising Organisations Simply Giving Social Enterprise Insights 	<ul style="list-style-type: none"> Center for Civil Society Studies at Peking University National University of Taiwan Social Enterprise Insights Social Innovation Research Group (SIRG) Social Science Research & Expert Centers Taiwan Design Center 	<ul style="list-style-type: none"> PricewaterhouseCoopers 	

Key actors in the social economy in Taiwan with a few examples of investing across entities. Source: AVPN-Sattva analysis, ICSEM (2013), ICSEM (2015), press articles

KEY SOCIAL INVESTORS AND INVESTMENT TRENDS

Taiwanese government offers substantial support for SEs

There are about 800 SEs in Taiwan, with 600 registered as NPOs and 200 registered as corporations.³³ The Taiwanese government has been outsourcing social welfare services to create a 'social welfare industry' since the 2000s.³⁴ This has led to the formation and strengthening of revenue-generating SPOs offering products and services for the underprivileged. Agri-innovations, fair trade products, cultural preservation, ethnic groups welfare, and welfare initiatives for marginalised groups constitute primary areas of focus among SPOs.³⁵

A series of events and conferences were held across Taiwan in 2012-13 by universities in Taipei and consultancies such as KPMG, to popularise the notion of social entrepreneurship and discuss support from the government and other actors, leading to the SE movement being cemented further.³⁶ 2014 was declared 'the year of SEs' and the government introduced various measures to fund, support and promote SEs, including a 3-year promotion plan. To promote sustainable innovation and growth and encourage young people to engage in SEs, the Executive Yuan established the Social Enterprise Action Plan in 2014 with the vision to create an ecosystem that nurtures innovation, start-up businesses, growth, and the development of SEs in Taiwan. The plan aims to achieve this vision in four ways:

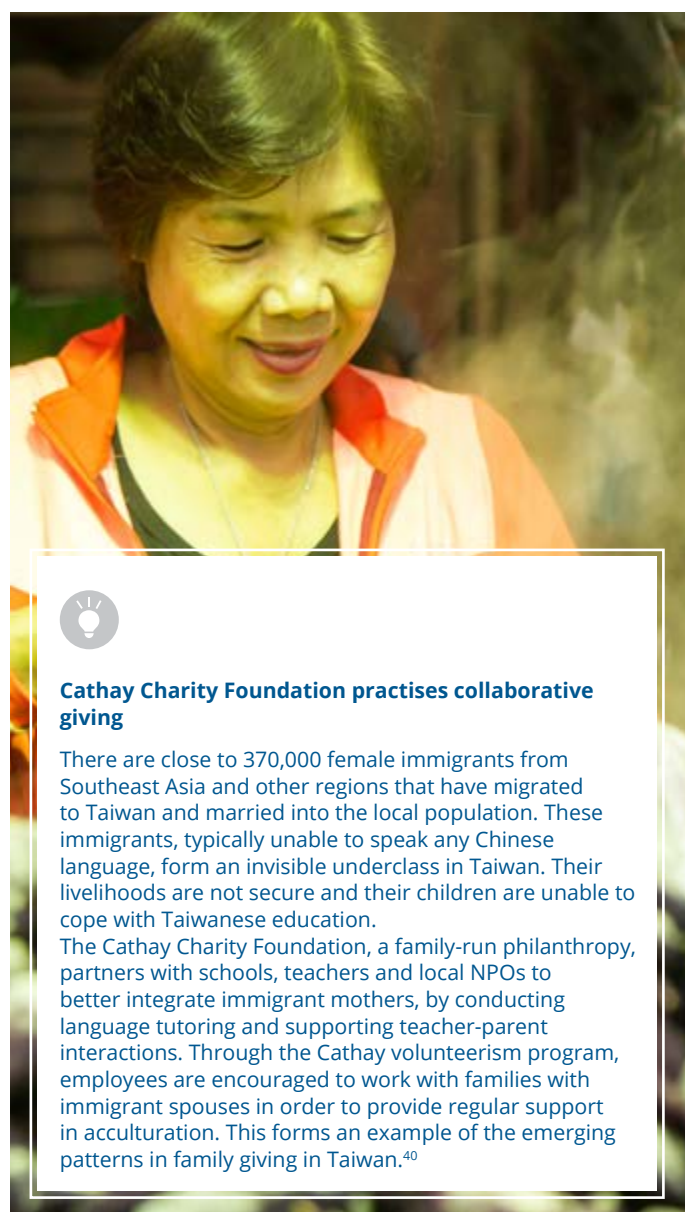
- **Deregulation:** To create a friendly legal environment for SEs.
- **Networking:** To promote and build a social networking platform for different groups of SEs at home and abroad.
- **Financing:** To provide multiple channels of funding through angels, VCs, credit guarantees, etc.
- **Incubation:** To build an incubation mechanism for SEs and establish a professional support system.³⁷

The first B Corp in Taiwan was certified in 2014. Today there are 17 B Corp certified companies and there is

a strong movement being driven by B Corp Taiwan. Proposals to create a separate legislative structure for SEs were pending before the government as of 2016.³⁸

HNWIs and family foundations contribute through religious giving

The majority of Taiwanese people engage in charitable activities for religious purposes. Religious NPOs, particularly Buddhist organisations, have attracted large systematic funding not only from families but also businesses. Most Taiwanese philanthropies contribute to causes within the region, especially towards children and youth.³⁹



Cathay Charity Foundation practises collaborative giving

There are close to 370,000 female immigrants from Southeast Asia and other regions that have migrated to Taiwan and married into the local population. These immigrants, typically unable to speak any Chinese language, form an invisible underclass in Taiwan. Their livelihoods are not secure and their children are unable to cope with Taiwanese education.

The Cathay Charity Foundation, a family-run philanthropy, partners with schools, teachers and local NPOs to better integrate immigrant mothers, by conducting language tutoring and supporting teacher-parent interactions. Through the Cathay volunteerism program, employees are encouraged to work with families with immigrant spouses in order to provide regular support in acculturation. This forms an example of the emerging patterns in family giving in Taiwan.⁴⁰

33. Ministry of Economic Affairs, 2015, Social Enterprises Taking Off In Taiwan

34. Social Enterprise World Forum, 2015, Social Enterprise: economic growth and social justice

35. ICSEM, 2015, Social Enterprise in Taiwan

36. Interview with B Current Impact Investment Inc. (BCI2) on 28 April 2017

37. Small and Medium Enterprise Administration, 2015, Social Enterprises taking off in Taiwan

38. ICSEM, 2015, Social Enterprise in Taiwan

39. Social Enterprise World Forum, 2015, Social Enterprise: economic growth and social justice

40. Social Enterprise World Forum, 2015, Social Enterprise: economic growth and social justice

CSR is an emerging focus among Taiwanese corporates

Current global environmental concerns and maintaining business competitiveness are the two greatest drivers for Taiwanese companies to adopt and practice CSR. Taiwan's position as a strategic market for foreign investment, along with its export-oriented high-tech industry, has increased the pressure on companies to meet international standards, including global guidelines on CSR. In its current state, philanthropy and disaster relief continue to dominate community engagement among corporates. Environment remained the most popular CSR cause for Taiwanese companies, followed by education, culture and social welfare-related spending as of 2013.⁴¹

The government has been a key proponent of CSR in Taiwan by issuing multiple reporting measures and mandates. In 2010, the Taiwan Stock Exchange (TSEC) and Taipei Exchange launched the Corporate Social Responsibility Best Practice Principles, applicable to listed companies on a "comply or explain" basis. Taiwanese companies which have a direct impact on consumers have a mandate to spend 2% of their profits in CSR.⁴² Since 2014 the government has launched the Taiwan Top Salary 100 Index, to promote CSR and expand the use of profit-sharing for the benefit of employees.⁴³ Despite these measures, adoption among companies has been slow. In 2010 (last available data), only 32.7% of TSEC-listed companies and 10.9% of companies listed on the Taipei Exchange released CSR-related reports, 30.2% of which were verified by third parties. A new movement called '20 for Future' was started by the Mr. Wu Chin-Chang, the Chairman of Sunfar, one of Taiwan's largest electronics retailers. Companies that sign up to this alliance promise to donate 20% or more of their profits to charity with a minimum of 2% of the company's capital given as donations.⁴⁴

Crowdfunding is seeing explosive growth in Taiwan

Taiwan is the leading region in Asia for crowdfunding. Since the first project sought crowdfunding in 2011, the number of crowdfunding platforms have increased tenfold, resulting in 1 in 50 people in Taiwan contributing to some crowdfunding campaign by the end of 2016 — the highest per capita ratio in the world. A total of 200,944 people have participated in campaigns so far, raising about USD 15.7 million.⁴⁵ The number of social impact related campaigns on crowdfunding platforms has increased over the last 2-3 years. One such example is the "White Power Movement" led by Taipei Mayor Ko Wen-je which aims to promote medical knowledge and raised more than USD 49,000 through crowdfunding in 2014.⁴⁶ With 10 million active internet users in Taiwan, crowdfunding has significant potential to bring together people and causes for funding.⁴⁷

As of July 2016, there were three equity-crowdfunding platforms in Taiwan, namely Startup Shares, eFUN, and Crowdfund Masterlink. According to equity crowdfunding regulations in Taiwan, it is necessary to apply for a securities broker license. The Financial Supervisory Commission (the financial authority in Taiwan) amended relevant regulations in 2016 for equity crowdfunding.⁴⁸

Impact investing is very new in Taiwan

There has been an increased interest in impact investing. B Current Impact Investment Inc. (BCI2),⁴⁹ launched in 2014, is the first impact fund in the country. Mainstream investors such as Verymulam, Cross Capital, Catalyst Capital Group, Avenue Capital also invest in enterprises that have a social impact although they do not identify as impact investors.

41. Lien Centre for Social Innovation, 2013, Contextualising CSR in Asia: Corporate Social Responsibility in Asian economies

42. Lien Centre for Social Innovation, 2013, Contextualising CSR in Asia: Corporate Social Responsibility in Asian economies

43. ICSEM, 2015, Social Enterprise in Taiwan

44. DOMI Earth, 2017, What is 20 for Future?

45. Crowdfund Insider, 2016, Annual Report on Crowdfunding in Taiwan

46. The NewsLens, 2016, Taiwan crowdfunding cases decupled in the last four years

47. UBS-INSEAD, 2011, Family Philanthropy in Asia

48. Crowdfund Insider, 2016, Recent developments in equity crowdfunding in Taiwan

49. B Current Impact Investment Inc., <https://avpn.asia/organisation/b-current-impact-investment-inc>



B Current Impact Investment Inc. (BCI2) – Taiwan's first impact fund

BCI2 was founded in April 2014 by 42 angel investors with entrepreneurial and professional backgrounds across regions, from Silicon Valley to Asia. By connecting potential social entrepreneurs with impact investors and mainstream businesses as well as other venture capitalists, BCI2 is working to develop investment-ready social business models. To date, the BCI2 co-investment fund has invested about USD 1 million through equity and debt in 6 SEs, with an average ticket size of USD 100,000-200,000. BCI2 is looking at starting a new USD 3-4 million fund in 2017 in more growth-stage enterprises.⁵⁰

Recent investments in Taiwan (2015-2016)

Social enterprise	Investor	Sector	Instrument	Amount	Details of work
Children's Hearing Foundation	Chf Charity Foundation	Disability	Grant	USD 300,000	Children's Hearing Foundation is an SPO helping hearing impaired children.
Greenvines	B Current	Agriculture	Equity	USD 1-2 million (exact amount undisclosed)	Greenvines works towards the provision of healthy and organic food products and other consumer goods.
2021 Social Enterprise	BCI2	Agriculture	Equity	USD 1-2 million (exact amount undisclosed)	2021 Social Enterprise aims to protect agriculture environment in specific and remote areas.

Source: dealstreetasia.com, Foundation Center, technasia.com

50. Interview with BCI2 on 28 April 2017

Taiwan's social economy is characterised by prolific social entrepreneurship activity backed by the government

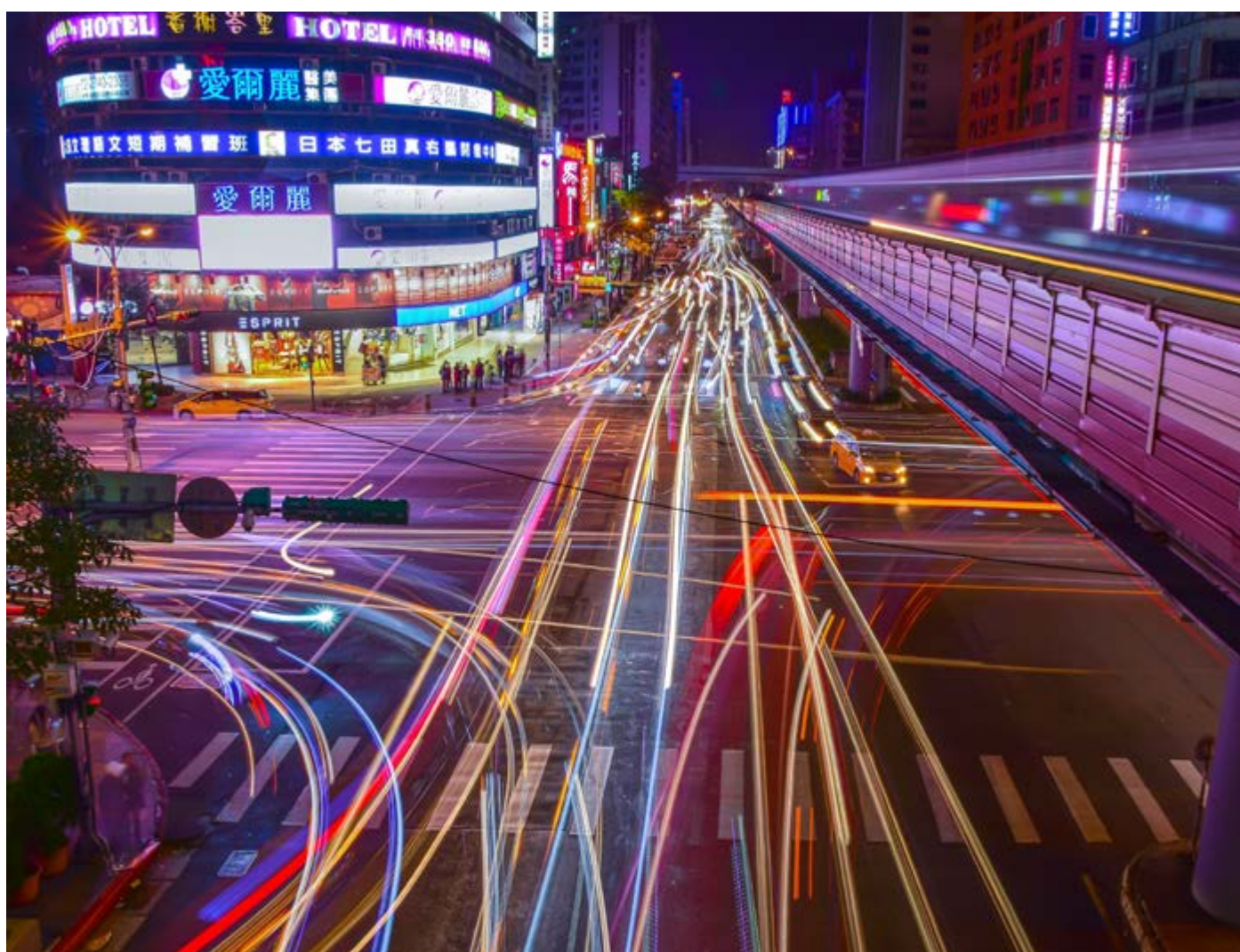
CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Legislative environment		SEs can take the form of non-profits or enterprises. Non-profit legal structures are well-defined in the Civil Code. SEs have been incentivised in Taiwanese public policies, through the "Law for Protecting Disabled People", "Guiding Principles for Taiwanese Social Welfare Policy" and the "Guiding Principles for Social Gender Equality Policy."
	Government support for SEs		The government has played an active role in encouraging SEs through subsidies, purchasing preferences and other operational incentives.
	SEs across sectors		SEs are present across an array of sectors such as differently-abled employment, indigenous groups welfare, sustainable agriculture, energy, education, art and culture.
	Presence, size, and maturity of SEs		There are about 800 SEs in Taiwan. Most of them are in the early stages of growth. ⁵¹
Investors	Philanthropic contributions		It is estimated that the total amount of giving in Taiwan is close to TWD 53.7 billion (USD 1.8 billion) as of 2013. ⁵² Family foundations and HNWI have a reasonable presence.
	Presence of social investors		BCI2 is Taiwan's first impact fund. Mainstream investors such as Verymulam, Cross Capital, Catalyst Capital Group, Avenue Capital also invest in enterprises that have a social impact.
	Corporate sector		Corporate contribution manifests in grants/immediate donations and disaster relief support. Less than one-third of corporates report on their CSR activities.
Enablers	Incubators, accelerators, and capacity-builders		Social Enterprise Insights-iLab is a leading social incubator in Taiwan. ⁵³
	Networks and platforms		BCI2, AVPN, American Chamber of Commerce and British Council run active networks and platforms.
	Knowledge and research		Universities in Taiwan such as the National University of Taiwan play a lead role in researching and analysing the space. The Social Innovation Research Group (SIRG) has published case studies on social innovation. ⁵⁴
	Partnerships		The only documented partnership is the BCI2 fund.
	Impact measurement		No data is available for impact measurement practices.

51. Small and Medium Enterprise Administration, 2015, Social Enterprises Taking Off in Taiwan
52. Taiwan Association for Community Responsibility (APA-TW), 2014, Annual Public Donations of more than 50 Billion

53. AVPN, 2016, Effective Social Incubation - First Insights from Asia
54. Social Innovation Exchange, 2013, SIX Interview Series: Wendy Pan of SIRG Taiwan

OPPORTUNITIES

- Taiwan provides a highly favourable environment for entrepreneurship – with 88% of the population having access to the internet, strong growth in 4G mobile services, high quality human capital, and advanced infrastructure. The mainstream startup support ecosystem has been gathering momentum in Taiwan, as evident from the recent increase in the number of incubators, accelerators and government funds.⁵⁵
 - Impact investing is gaining traction with the establishment of BCI2, a homegrown impact fund.
 - Hong Kong and Taiwan are closely connected to each other, commercially and culturally. They also have complementary social enterprise ecosystems — Taiwan has many social innovators while Hong Kong has a more mature social investing landscape. Hong Kong could cross-
- invest to diversify its portfolio, and SEs in both countries could scale through cross-border trade. The two regions have much to gain from exchanging knowledge and forging partnerships for complementary growth.⁵⁶
 - The new government under President Tsai is deliberating on the Benefit Corporation certification – which is different from the B Corp certification - and the SE law, which when approved, could be a catalyst for the creation of more impact-driven enterprises.
 - Taiwan has approximately 800 SEs, providing a fertile ground to develop social innovations that may benefit the region as well as Asia.
 - Taiwan has an active and vibrant civil society with the younger generation being increasingly engaged in giving back to society, providing the much-needed human capital for the social economy.



55. Tech in Asia, 2016, How Taiwan will become a major Asian startup hub

56. The Guardian, 2013, How Taiwan and Hong Kong can become Asia's social innovation hubs

CHALLENGES

- The dearth of social investors providing patient capital in Taiwan is posing a significant challenge to the majority of SEs which are in the early stages of growth.
- The emergence of SPOs in Taiwan is tightly woven with the outsourcing of public service provision by the government. Long standing government support and state-funded incentives for SPOs have given rise to a culture of over-reliance on grants, which might impede social entrepreneurs from becoming self-sustainable.

RECOMMENDATIONS

- **Development gaps:**
 - The majority of impact investment and grants have been directed towards environmental causes, education and social welfare. Renewable energy and other forms of green innovation, elderly care and women's livelihoods are high-gap areas where private sector interventions could potentially create significant impact.
- **Social investment:**
 - The Taiwanese government has instituted several mechanisms to increase CSR activity, including a 2% mandate on profits and requirements on reporting. Given the early stage of CSR adoption in the region, platforms that bring together social investors across the spectrum with entrepreneurs can result in higher engagement and orientation towards CSR among companies.
 - Research surveys conducted among Taiwanese SEs between 2006 and 2013 indicate that business management talent, innovative financing for high-gap areas, marketing and awareness creation are unmet needs among social entrepreneurs. Bringing in expertise and mentorship from the industry sector could be key to fostering the growth of SEs.⁵⁷
 - In light of recent explosive growth in crowdfunding, integrating social campaigns on crowdfunding platforms with companies' CSR and other philanthropic contributions can help amplify funding.

- With BCI2 and B Corp Taiwan bringing investors together, there are significant opportunities for co-investment and structured mentorship for SEs.
- Taiwan needs more cross-sectoral platforms where local and regional investors can convene to promote social investment approaches, identify high-potential SEs, and forge new partnerships.
- **Ecosystem support:**
 - The presence of high-impact social innovators is one of Taiwan's key strengths, which could be further developed with support from international investors and business professionals across the region. Their expertise and mentorship would contribute towards a vibrant social economy not only in Taiwan but also in Asia.
 - A hub and spoke model for Taiwan has been proposed, where hubs such as Hong Kong could connect with trusted local intermediaries and in turn invest in social innovation in countries such as Taiwan. Foreign investment could help define local standards for social investment, partly through encouraging the involvement of local and regional players.⁵⁸

"There are a large number of proactive SMEs in Taiwan and this gives Taiwan a good base to cultivate social enterprises."

Ray Chen, BCI2

RECOMMENDED READING

- AVPN, 2016, Effective Social Incubation - First Insights from Asia
- ICSEM, 2015, Social Enterprise in Taiwan
- Lien Centre for Social Innovation, 2013, Contextualising CSR in Asia: Corporate Social Responsibility in Asian economies
- UBS-INSEAD, 2011, Family Philanthropy in Asia

57. ICSEM, 2015, Social Enterprise in Taiwan
58. ICSEM, 2015, Social Enterprise in Taiwan

METHODOLOGY

The *Social Investment Landscape in Asia* seeks to provide insights into the top questions that we field regularly from AVPN members, from how to get started, which social causes to support, what kind of social impact activity is seen in the region to what gaps exist, and who they could collaborate with.

Each landscape study is vast: it describes the macro environments, key development challenges, the government's focus, the demand-supply-support ecosystem and the characteristics and trends evident among each class of investors (from grant funders to crowdfunding platforms). Producing the landscape of social investment in each region requires rigorous primary and secondary research. We faced a number of challenges such as data availability, standardisation of terms in the emerging social investment landscape and delineation of key concepts across regions while remaining true to each region's unique context. The availability of literature on the context and background of the different social economies needs special mention as we encountered certain regions that had substantial research and documentation while others had 1-2 reliable sources, rendering comparisons even more challenging.

To overcome these challenges we put together a framework to understand the key actors, influences and characteristics of each social economy and quantified it by giving each factor a score based on the framework. We also sought to provide actionable insights such as opportunities, challenges, partnerships and investment opportunities.

Quantitative data was obtained through databases from international agencies such as World Bank's Worldwide Governance Indicators, the World Economic Forum (WEF)'s Global Competitiveness Index, the WEF's Gender Gap Report, the Charities Aid Foundation (CAF)'s World Giving Index. We also used the Bertelsmann Stiftung – Sustainable Development Solutions Network (SDSN)'s Sustainable Development Goals (SDG) dashboards to understand the critical development gaps in each social economy. Mapping of SDG goals to government focus was then performed based on the Toniic's SDG Impact Theme Framework.¹

1. Toniic, 2017, Toniic SDG Impact Theme Framework

HOW WE ASSEMBLED THE INSIGHTS IN THIS BOOK

The research team used a combination of primary and secondary research methods and a particular process to assemble the information into useful insights.

- We sketched the landscapes by compiling relevant standard indicators, indices and rankings from secondary sources.
- We plotted the key actors and activities from secondary literature and interviews with experts in the different social economies.
- We populated the legislative environment surrounding the social economy through the information obtained in the literature review and interviews.
- We expanded on this understanding by interviewing key actors, ranging from grant-making foundations to impact investors, enablers, and social entrepreneurs, to understand their investment/implementation philosophies, challenges and barriers they face, and key recommendations they have for anyone looking to invest in or support the social economy or specific causes therein.
- We corroborated the information we received from the interviews with the secondary research in order to analyse it for common issues, contexts and evolutions which have led to certain trends.
- We computed the ratings for the 14 social economies based on secondary research, data available and insights from interviews.
- Once we had completed the landscapes, we revisited the social economy ratings to perform a relative regional comparison and adjust the ratings accordingly.
- We also vetted the completed landscape with experts as listed in the Acknowledgments.
- Overall, we aimed to bring the data and analysis together to provide practical recommendations for social investors and enablers across the spectrum.

Throughout each profile, we have attempted to map out recent developments, interesting partnerships and key initiatives that could form a basis for future collaborations. We have also provided snippets from major programmes or organisations, along with references and recommended reading that you can look up to learn more.

DEFINITIONS

Social Purpose Organisations, Social Enterprises and Non-Profits

For the purpose of this research, we cut through the various classifications of social purpose organisations and use three categories:

- Social purpose organisation (SPO) – this is the umbrella

term for non-profits, non-governmental and not-for-profit organisations

- Non-profit – this is the term we use to describe non-governmental, not-for-profit organisations and charities
- Social enterprise (SE) – this is the term we use to describe organisations with a social mission which are aspiring to or are able to generate revenues out of their products and services.

Demand, supply, and support ecosystem for SEs

In this diagram we capture resource providers, SPOs and the support environment. Each category is defined as follows:

DEMAND	
Charities/non-profits	See above for non-profit
Social enterprises	See above for SE
Businesses with a sustainability focus	Businesses that have a positive impact on the global or local environment, society and economy
Businesses	Mainstream businesses
SUPPLY	
Foundation/Trust	Non-profit organisation that funds social causes
Family Office	Wealth management advisory or establishment for high net worth and ultra-high net worth individuals
Corporate	Mainstream company that invests directly in social impact through CSR or through establishing a corporate foundation
Impact Fund	A fund that makes investments made into SEs and businesses with a sustainability focus, with the intention to generate social and environmental impact alongside a financial return
Financial Institution	A financial intermediary or a development finance institution that provides credit to organisations and individuals
Crowdfunding/Fundraising Platform	A website that allows entrepreneurs and/or SPOs to raise funds from investors, contributors and donors. Crowdfunding platforms typically offer one or more of the four options — donation-based, reward-based, debt-based, and equity-based crowdfunding
SUPPORT	
Incubators, Accelerators and Capacity Builders	Organisations that provide facilities, expertise and other forms of non-monetary support to nurture young enterprises and entrepreneurs
Networks and Platforms	Online and offline organisations that bring diverse stakeholders together
Research and Knowledge	Universities, academies, research institutes and organisations that publish on the social economy
Legal and Implementation	Organisations that support the social ecosystem with legal, advisory and implementation support services

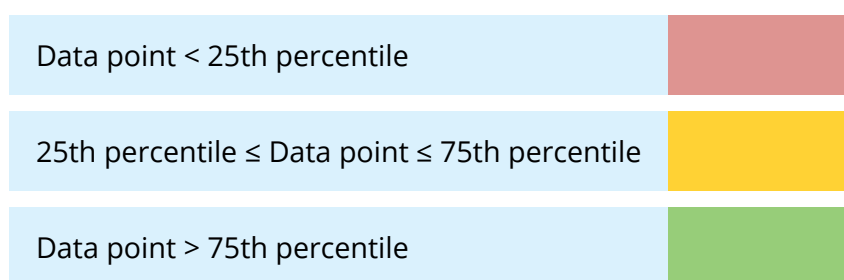
RATING AND MAPPING METHODOLOGIES

Country/Regional context for investors

This introductory overview has been compiled based on the questions that influence investments and have been posed to us repeatedly by interested investors. The data has been collated from organisations such as World Bank, WEF and

the International Communications Union. The index score/rank is the original data point while the description provides further insights from additional sources where available. In addition to this, the index score/rank column is colour coded. All data is relative to all other economies and is colour coded similar to the SDG dashboards to highlight opportunities, areas for growth and well-established areas. The colour code is selected based on three percentiles as below:

COLOUR CODES USED FOR INDEX SCORE / RANK



■ Favourable ■ Moderately favourable ■ Unfavourable

Factor	Year	Source and Data	Definition	Methodology
GDP growth rate	2016	CIA-The World Fact-book	This entry provides year-on-year GDP growth rate adjusted for inflation and expressed as a percent.	The colour code is based on the 2016 GDP growth rate.
Governance	2015	The World Bank-Worldwide Governance Indicators	The Worldwide Governance Indicators report aggregate and individual governance indicators for 6 dimensions of governance: <ol style="list-style-type: none"> 1. Voice and Accountability 2. Political Stability and Absence of Violence 3. Government Effectiveness 4. Regulatory Quality 5. Rule of Law 6. Control of Corruption 	The governance value is the average of values of the 6 dimensions. The colour code is based on countries' overall governance value.
Consumer market	2015	The World Bank-Household final consumption expenditure, PPP (current international \$)	Household final consumption expenditure (formerly private consumption) is the market value of all goods and services, including durable products purchased by households. It includes the expenditures of non-profit institutions serving households. Data are converted to current international dollars using purchasing power parity rates based on the 2011 ICP round.	The colour code is based on countries' household consumption for 2015.

Factor	Year	Source and Data	Definition	Methodology
Labour force	2016	The World Bank-Labour force, total	Labour force comprises people aged 15 and above who supply labour for the production of goods and services during a specified period. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job-seekers.	The colour code is based on countries' labour force for 2016.
Infrastructure	2016	The Global Competitiveness Report 2016-2017	<p>Infrastructure is defined as follows:</p> <p>A. Transport infrastructure (50%)</p> <ol style="list-style-type: none"> 1. Quality of overall infrastructure 2. Quality of roads 3. Quality of railroad infrastructure 4. Quality of port infrastructure 5. Quality of air transport infrastructure 6. Available airline seat kilometres <p>B. Electricity and telephony infrastructure (50%)</p> <ol style="list-style-type: none"> 1. Quality of electricity supply 2. Mobile telephone subscriptions 3. Fixed telephone lines 	The colour code is based on countries' infrastructure score for 2016.
Financial access	2014	The World Bank-Account at a financial institution (% age 15+)	Access to finance is the percentage of the adult population that has access to formal banking institutions.	The colour code is based on countries' access to finance in 2014.
Digital access	2015	International Telecommunication Union (ITU)	Digital access is defined as the percentage of individuals using the internet	The colour code is based on countries' digital access in 2015.
Ease of doing business	2016	The World Bank-Ease of Doing Business Rankings	Ease of Doing Business ranks economies from 1 to 190, with first place being the best. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operations. The index averages the economy's percentile rankings on 10 topics covered in the World Bank's Doing Business.	The colour code is based on countries' ranks for 2016.




SDG dashboard

An SDG dashboard is featured to highlight key development challenges. Taiwan and Hong Kong do not have SDG dashboards published.

The SDG dashboards are extracted from the 2016 report² published by Bertelsmann Foundation and Sustainable Development Solutions Network (SDSN), and represent the status of the 17 SDGs in 149 countries by colour.

The SDGs are highlighted in green, yellow, or red. Green indicates that an SDG threshold has been met, yellow indicates significant challenges remain and red means that the country is far from achieving the SDG.

Four quantitative thresholds are determined to designate colours: best and worst scores, the threshold for SDG achievement, and the threshold between a red and yellow colour rating. For example, if a country receives a red rating for one of the indicators of SDG 3 and a yellow rating for all of the other indicators for SDG 3, the overall colour rating for that country for SDG 3 is assigned "red." The minimum colour rating draws attention to the most urgent challenges facing each country for each SDG.

Government focus

To map the government focus areas to SDGs, we referenced Tonic's SDG Impact Theme Framework³ to present government focus in each of the SDG goals. The goal of the framework is to understand government focus, allow social investors to align their investments with the SDGs and thereby find greater alignment and synergy in global

investment opportunities. To determine the government focus, we analysed the latest government budgets (2016-17 in most countries) and policy strategies to determine national priorities for inclusive development. We examined SDG sub-indicators in order to pick out the worst-performing indicators, gaps in these areas and initiatives that are put in place to solve the problems.

Demand, supply, and support ecosystem for SEs



















The organisations in this diagram have been selected based on secondary research. Next to each organisation in the grid, we also highlighted the financing instruments that each uses. The completed diagram was vetted by experts.



















Social economy ratings













The social economy ratings indicate the current status (stage of evolution) of social investors, SPOs and support system. A simple 1-4 scoring method has been used to uniformly quantify the status so that relative comparisons can be made.

Each factor has a total of 4 scenarios depicted by the 'Harvey Ball' visualisation method. These scenarios have been put together through a process of secondary research and expertise based on Sattva and AVPN's advisory experience in the sector. The entire framework has been vetted with experts, investors and advisors who have been acknowledged in the Acknowledgments section. These scenarios have been delineated keeping the typical progression of a particular factor in mind. Harvey balls are used to reduce ambiguity and conflicting data interpretations given limited data availability on each factor of the social economy.

2. Bertelsmann Foundation and Sustainable Development Solutions Network (SDSN), 2016, SDG Index
3. Tonic, 2017, Tonic SDG Impact Theme Framework

ENTITY	FACTOR	DESCRIPTION	RATING
SPOs	Legislative environment	The process of setting up and options available to register SPOs	 Restrictive legal environment to set up SPOs.
			 Neutral environment, no or basic tax benefits.
			 Friendly environment with multiple structures and some tax benefits.
			 Enabling environment with a separate structure for SEs.
	Government support for SEs	Government recognition and support for SEs in the form of policies, incentives, incubation and acceleration services, funding and platforms.	 No recognition or support.
			 Basic recognition of SEs.
			 Government recognises SEs and offers incentives (credit guarantee schemes/tax benefits/subsidies etc.)
			 Strong support for SEs in the form of policies, incentives, incubation and acceleration services, funding and platforms.
	SEs across sectors	Coverage of SEs across various sectors such as education, health, agriculture, micro-finance, women empowerment, poverty etc.	 SEs tackling employment/basic welfare.
			 Employment/basic welfare to education, healthcare, products and services for the bottom of the pyramid markets.
			 The above plus a focus on environmental conservation, elderly care, sustainable living, and other socio-environmental issues.
			 SEs across social and environmental issues in urban and rural contexts.
	Size and maturity of SEs	Number of registered SEs and stage of growth	 Majority of SEs in seed stage.
			 Majority of SEs in early to growth stage, with on-the-ground traction through pilots and some revenue.
			 Some SEs in breakeven/profitable phase, with evidence of raising equity investments.
			 Some SEs in breakeven/profitable phase, with active deal flow and evidence of a diversity of financing instruments used.
Investors	Philanthropic contributions	Focus and approach of contribution from HNWI and foundations	 Charitable contributions/religious contributions.
			 Evidence of sustained, well-managed charitable giving.

ENTITY	FACTOR	DESCRIPTION	RATING
Investors			 Evidence of informed giving, sustained giving to multiple causes or venture philanthropy approach.
			 The above plus social investment through equity, responsible investing etc.
	Corporate sector	Involvement of the corporate sector in the social impact space	 Compliance-based CSR/evidence of charitable donations by corporates.
			 Compliance-based CSR focusing on multiple social and environmental causes.
			 Evidence of strategic and sustainable CSR programmes, support for SEs, evidence of sustainability reporting.
			 The above plus ecosystem development support, ESG compliance and shared value approach.
	Presence of social investors	Presence of classified social investors and their activities in the region	 Presence of social investing approach, with no clear classification of investors.
			 Presence of international players, with deal flow of 5-10 deals in the last year or evidence of seed funding.
			 International and local players with presence of grant, debt, convertible debt and equity investments.
			 The above along with the presence of innovative funds and partnerships.
Enablers	Incubators, accelerators & capacity builders	Organisations promoting social enterprise growth through seed funding, mentorship, co-working and capacity building programmes.	 One or two incubators, accelerators and/or capacity builders offering cost subsidisation, infrastructure facilities and co-working options.
			 Multiple enablers providing mentorship and access to expertise in addition to facilities and co-working options.
			 Full-fledged exclusive non-profit and social incubators/accelerators with sustained access to expertise, seed funding and access to networks.
			 The above plus ecosystem support enabled through partnerships.
	Networks & platforms	Networks, platforms, conferences and sessions bringing investors and entrepreneurs together	 One or two platforms.
			 Evidence of networks, platforms and/or conferences running for a few years.
			 The above plus cross-sectoral networks and platforms.
			 Networks and platforms across sectors and presence of giving circles or angel investment networks.

ENTITY	FACTOR	DESCRIPTION	RATING
Enablers	Knowledge & research	Data, research, publications, and institutes focusing on building knowledge on the social economy	 Landscape reports published.
			 Reports published covering key actors and trends; some quantitative data available on key actors and investments.
			 Knowledge and research institutions with a diverse pool of practitioners and academics publishing knowledge, dedicated courses on social entrepreneurship.
			 Presence of knowledge platforms and communities of practice.
	Partnerships	Collaborations among different stakeholders	 Evidence of partnerships between 2 entities.
			 Presence of multi-stakeholder partnerships.
			 The above plus partnerships between stakeholders and government.
			 Co-investing funds, cross-sectoral partnerships with a mid- to long-term outlook.
	Impact Measurement (subject to data availability)	Social impact metrics	 Basic programme parameters and KPIs defined and measured.
			 Evidence of third-party assessments.
			 Evidence of SROI/GIIRS/Balanced scorecard and other standardised frameworks in use.
			 Customised advanced approaches being applied and measured.

The framework has been derived from BCG’s SE maturity framework,⁴ Monitor Institute’s definitions,⁵ Acumen’s early-stage impact investing,⁶ Tonic’s reports,⁷ experiences from Sattva’s advisory practice, and AVPN’s report.⁸

4. BCG, 2015, The Art of Sustainable Giving
 5. Monitor, 2009, Investing for Social And Environmental Impact
 6. Acumen, 2015, Early-Stage Impact Investing
 7. Tonic, 2017, Impact Theme Framework
 8. AVPN, 2016, A Guide To Effective Impact Assessment

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Credit Suisse Net National Wealth (2016)	https://www.credit-suisse.com/media/assets/corporate/docs/about.../millionaires.xlsx
IMF World Economic Outlook Database (2016 numbers)	https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/download.aspx
OECD rankings (2016)	https://data.oecd.org/
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ABOUT THE ORGANISATIONS



ABOUT AVPN

AVPN is a unique funders' network based in Singapore committed to building a vibrant and high impact philanthropy and social investment community across Asia. As an advocate, capacity builder, and platform that cuts across private, public and social sectors, AVPN embraces all types of engagement to improve the effectiveness of members across the Asia Pacific region.

The core mission of AVPN is to increase the flow of financial, human and intellectual capital to the social sector by connecting and empowering key stakeholders from funders to the social purpose organizations they support. With over 350 members across 29 countries, AVPN is catalysing the movement towards a more strategic, collaborative and outcome focused approach to philanthropy and social investing, ensuring that resources are deployed as effectively as possible to address key social challenges facing Asia today and in the future.

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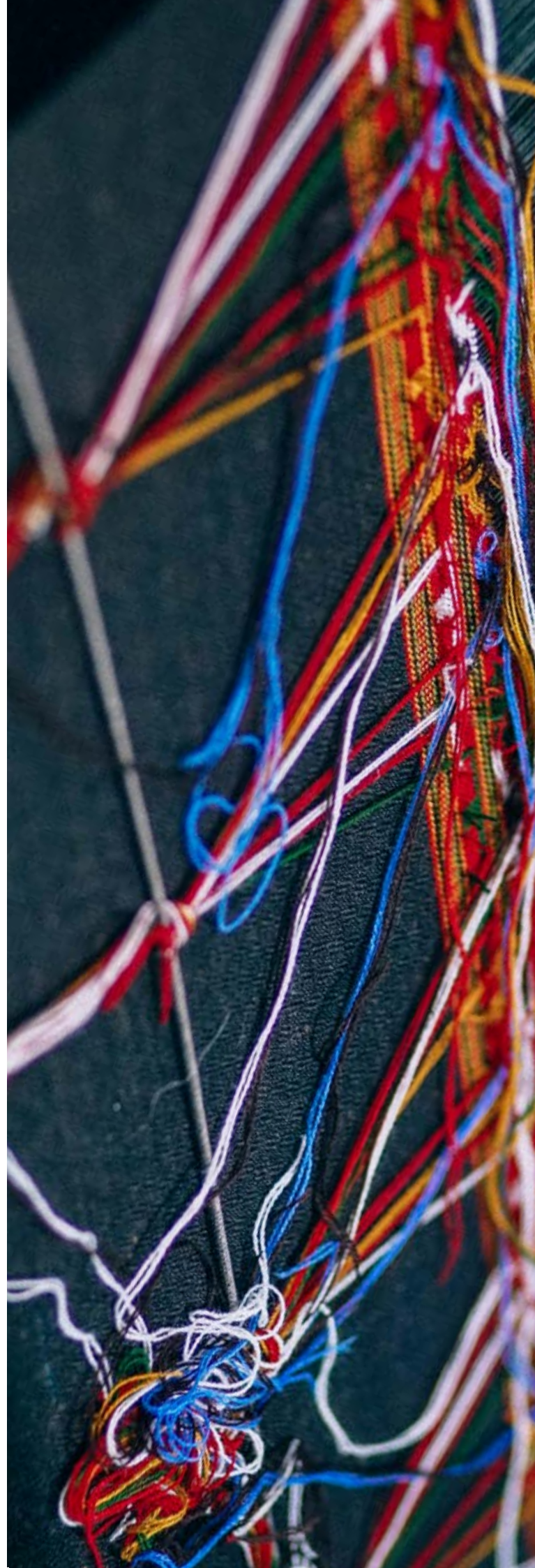
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AVPN is a unique Pan-Asian funders' network catalysing the movement toward a more strategic and collaborative approach to philanthropy and social investment to address key social challenges facing Asia today and in the future.

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