Financing the Long-tail

Catalysing ASEAN debt-based social investment
The research focuses on the region as a whole with country data on Cambodia, Indonesia, Philippines and Thailand. There are also clear movements of social enterprise investment in other Southeast Asian countries; however, it is not in the scope of this research.
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Social enterprise movement in Southeast Asia is a relatively new phenomena, however, in less than a decade we are witnessing the rise of social enterprises and their support ecosystems throughout Southeast Asian nations. Most practitioners in these nations define social enterprises as organisations setup to address specific social or environmental challenges. It must has a clear business model to deliver social impact as well as generating income for sustainable growth.

To see ASEAN social enterprises in a big picture perspective, the landscape fits a pattern of the famous “Long tail” curve. On the grander scale, at the head of the curve, there is relatively few established social enterprises at larger size, follow by a number of medium size enterprises, after which, the sea of smaller enterprises follows. This section of the curve consists of smaller, albeit many growing, social enterprises. This is the long tail of social enterprise movement.

In fact, this is what the demand for social investment in ASEAN social enterprise market looks like. However, most of the discussion on
impact investment focus almost exclusively on the relatively short section of the whole demand curve. Social venture capital and equity-style venture philanthropy funds only address the early section of the curve, especially how to move social enterprises up leftward closer to the head-section of the curve. Most of social enterprises in the region will not directly benefit from such exclusive focus, particularly when the equity-focused investment strategy is mostly isolated from other investment strategies. This is partly because relatively few social enterprises are investment-ready and have high-growth scalability model required by typical equity investment strategy.

When placing the ASEAN social investment landscape into our Long-tail framework, we could clearly see that it’s a very head-heavy landscape. A very large amount of resources and efforts, and increasingly so, are being put at the head of the curve. Most of the funding are primarily for those social enterprises at the growth stage and upward, of course there is also a rather small amount of resources at the seed-startups or low-growth level.

There are two type of intersecting groups of social enterprises at the long-tail. Those in early stage (pre-growth) and those without real interest in growth beyond community-level size. Unfortunately, thousands of these social enterprises mostly lie somewhere outside investment capital dedicated for social enterprises. Most of them find it difficult to access capital as they are not yet ‘investment ready’ for traditional impact investment or they are entirely not at all fundable from equity-type social investment requirement. Researches in Thailand, Vietnam and Indonesia clearly confirms this situation, most of social
enterprises are too small, without highly business model and have capacity challenges preventing them from entering growth stage.

Perhaps not less importantly is to realise that thousands of ASEAN social enterprises, if not more, are all delivering their social and environmental impact, no matter how small individually, these do actually aggregate into sizeable quantum of impact.

The only key viable financial instrument left to capture truly capture the long-tail is debt. In fact, if we look at the majority of financing solution for most companies of all types is actually debt. The same will be true for social enterprise investment market, the main financing instrument will be debt. Once early stage and low growth social enterprises have access to loans, they will establish their track records so that they could easier integrate into the normal financing channels such as banks. For those progressing into growth stage, it will provide them with essential trust-worthiness in accessing growth capital as well.

Catalysing Strategy

1. Extend and leverage existing social investors into debt-based investment strategy. There are ways for the existing pool of diverse social investors groups to explore debt-based investment strategy that will also fit their interest. Different type of social investors also bring their expectations on their required financial returns of capital, from grant markers’ zero percent all the way to 15-25% or more required by typical impact investors. The right combination and collaboration among different type of
social investors can help address the required returns challenge.

2. Information infrastructure. The second key condition that must be addressed is the perceived risk by the social investors. This is truly critical, as the higher perceived risk leads to higher interest rate and lower the willingness to lend. What significantly determine the perceived risk level is the availability and quality of the information on investable social enterprises. To lower the information asymmetry and its search cost, there is a clear need for information infrastructure for ASEAN social enterprise investment market. Ideally, there need to be good and verifiable data on ASEAN social enterprises, their overall profiles as well as their financial and impact performances.

3. Another key catalysing strategy is to deliberately foster and create various debt-based social investment instruments to address the needs of ASEAN market, particularly in specialised loan funds and guarantees instruments.

Social investment in Southeast Asia is still a pioneering work, especially in catalysing debt-based social investment. To finance the growing long-tail, that will contribute to the health of the whole social enterprise ecosystem, requires a group of risk taking social finance pioneers to bring about the required change.
The Movement

*The rise of social enterprise movement in Southeast Asia*

Social enterprise as a sector is a relatively new phenomena in Southeast Asia. There was little or no discussion on the concept of social enterprise before the past decade in most of the Southeast Asian countries, although the concept of social entrepreneurship, especially the ‘social innovation-focused’ definition champions by Ashoka, a U.S.-based social entrepreneurs support organisation, had been already established for few decades in the the region already.

However, within the past five years, the region sees a rapid growth in the interest of using ‘social enterprise’ as a strategy for delivering sustainable and scalable impact across thematic areas. Although each country has a slightly different elements of definition, however, the key common characteristics are those enterprise which

- setup to address specific social & environmental challenge.

- employs clear business model in providing the social solution while generating revenue, thus, not relying on
philanthropic contribution over the medium to longer term.

- delivers measurable social and/or environmental impact.

- is sustainable, replicable and scalable at a certain level

The development of social movement in ASEAN is at once local, regional and global. Most of ASEAN countries, especially Indonesia, Philippines, Singapore, Vietnam and Thailand, have home-grown ecosystems with various actors catalysing the movement such as through incubation programs, early-stage funds, government support programs and capacity development activities.

However, many of the country’s ecosystem builders, such as ChangeFusion in Thailand, CSIP in Vietnam, UnLtd Indonesia, Xchange in Philippines among others, are being connected at the regional level by global organisations such as the British Council, UnLTD UK, Oxfam and Rockefeller Foundation.

This regional networks provide a rapid learning platform whereby innovation in one country spread into others, both at aspirational and content level. For examples, social enterprise policies and regulations in Southeast Asian Countries are heavily influenced and cross-examined by regional networks of local social enterprise ecosystem builders and social entrepreneurs themselves.

In less than half a decade, most of Southeast Asian countries do have emerging early stage sector of social enterprises and related government policies & regulations. Although the sector might be
fragmented and still at early stage, it had grown beyond recognition in a relatively short time.

*Diversity of origins, purposes and structures*

Social enterprises in Southeast Asian countries are recognised to come from various sources of origin. For example, in the policy papers in both Thailand and Vietnam\(^2\), there are at least four origins of different type of social enterprises. Those that originate from the following type of settings; non-profit organisation, community/micro enterprise, smaller & medium size business and large-scale corporation. As the concept of ‘social enterprise’ is being recognised, these various groups approach social enterprise differently.

There is also an emerging trend of hybrid social enterprise structure. For example, non-profit organisation can setup a subdivision that is a social enterprise unit. This could be either contain within the same non-profit structure or to spin off legally as a separate business. While a social enterprise that is legally registered as a commercial business entity, might set up a non-profit organisation to protect and carry their social mission as a hybrid group of organisations. Large scale corporations can also setup a social enterprise division within the same business organisation or can spin it off as a separate social enterprise entity. There are many examples of these hybrid structures across the region.

Many of these hybrid structures are driven by legal and regulatory limitation of each country. For example, in some countries, non-profit

\(^2\) a. Thailand Social Enterprise Promotion Master Plan, unpublished.

b. British Council (2012)
legal entity is not allow for trading activity, whereas a social enterprise sub-unit house under the same corporation might create different risk and mis-expectation among stakeholders of large-scale corporation. Beyond legal and governance technicality, there are other complicated issues on the aspirations, objectives and strategies that are behind the setup these different type of social enterprise and its hybrid structures.

Amidst the complicated landscape of this mostly uncharted territory, it is possible to simplify the situation which will allow for the proper planning and execution of various investment strategy to catalyse the growth of social enterprise sector in ASEAN. The most critical point is to be able to distinguish different aspirations, objectives, domains and backgrounds of social enterprises in order to determine their appropriate financing strategy.

For example, many social enterprises arise from the non-profit sector might not have the aspiration and fit with traditional equity-based impact investment that emphasises on growth and the need to increase profit margin to scale and be able to pay the expected return on equity. Many social investment practitioners had faced such dilemma, although the targeted social enterprises had the right performance indicators and structures to absorb equity investment, however, the management teams are not very clear on what equity investment might really mean for their future operations or they are to quick to take the investment as they need the cash. Many of these troubled deals proved to be very difficult afterwards, with the main root-cause as the lack of strategic fit between the social enterprise and the equity investment made. However, such cases does not mean that they are not bankable or investable, but rather
than a more delicate structuring of deals accordingly to the real preferences of both social enterprises and investees are needed.

Most of the social investment practitioners that experienced such difficulties do not blame either party for the trouble, but strongly emphasise the need to spend enough time and effort understanding and appreciating the real purpose, preferences and background of each party. There is a clear the need to collaboratively design the investment arrangement that will work, particularly in bringing about more financing partner that could contribute complimentary type of investment, such as patient-capital, venture philanthropy-based investment or debt capital.

This appreciative and collaborative approach to social investment is particularly critical to the investment in thematic areas that have many complications, uncertainties and regulatory risk, such as sustainable agriculture as well as environmental issues.

As there is a diversity of social enterprise type in the region, as well as their hybrid nature as discussed, the social investment needed to finance them would also requires to be more differentiated, flexible and allow for hybrid financing strategy and structure as well.
The SE Long-tail

Deriving the demand for ASEAN impact investment

There are few overall characteristics of social enterprise sector across different ASEAN countries. These characters determine the general demand for social investment in the region. Common characteristics include;

- Mostly smaller in size
- Relatively few of those with larger size
- Pipeline fragmentation

ASEAN social enterprises are are small in size and in their early stage, the data is clear, 76% of social enterprises in Indonesia are in their early stage, over 50% of Thai SEs employs less than 20 persons, the same pattern can also be observed in Vietnam and Cambodia. Social enterprise as a movement had only been established and known in these countries in less than a decade, with the rapid rise of the public interest only in the past 5 years. Therefore, most of social enterprises are relatively new, although there is a clear base and overlap of cooperatives
and community enterprises. However, the original generality of cooperatives and community enterprise movements are not specifically focuses on intentionally design their enterprises to address specific social and environment challenges in the same degree as the social enterprise concept.

In contrast to other region such as South Asia and Africa, social enterprises in Southeast Asia are not primarily focus on delivering important basic infrastructure such as water, energy, education or even micro-finance in the relative scale comparable to those regions. There are also no comparable tradition of very large and strong non profit sector organisations that evolve into massive social enterprises such as the case of GRAMEEN, BRAC or SEWA. This is partially due to fact that Southeast Asian governments are fairly responsive to the provision of public services, especially during the continuous growth period until the end of 1990s. ASEAN civil society sector tradition and its relative size and influence is also nowhere comparable to those in South Asia, perhaps except in Philippines.

These historical trends result in a situation where there is little public service enterprises and those social enterprises originated from nonprofit organisations are not at the scale observable in South Asia. However, ASEAN social enterprises are highly integrated in urban issues or linking rural and urban settings together, there are many emerging trends that ASEAN social enterprises are thriving especially in digital technology, fashion & cosmetics, fair trade and organic agriculture, sustainable tourism and many more.

There is clearly a rapidly growing numbers of new social enterprises in the region from all sectors across thematic areas. Support
infrastructure and policies from private sector, social sector and governments are forming gradually in most of ASEAN countries.

The landscape of ASEAN social enterprises, therefore, is dominated by smaller and early stage enterprises. There are also a group of established social enterprises at the larger scale, but these are relatively few. However, based on interviews with many social enterprise support organisations, there is a fragmentation in the growth pipeline. The space between large established social enterprises and those small / early stage social enterprises are relatively empty.

A common metaphor, expressed by at least three social enterprise supporters in the region, is of the un-sustainable fishery situation. All the big fishes are relatively few and mostly fished (invested or matured), there is large number of smaller fishes with little support system in a harsh ecosystem. As these smaller fishes are not growing fast enough and not as many, there is little to be seen at the mid stream and down stream. If the situation is left to normal course of nature, ASEAN social enterprises will not be able to realise their full potential anytime soon while the hype-up interest in impact investment and existing funds will not be able to meet the high level of expectation and might risk bad reputation as another unrealised promises. The current situation and setup of ASEAN social enterprises and social investment ecosystems are risky and unhealthy. As most of support infrastructure resources are being setup at down-stream with little or no support in up-stream and mid-stream areas, most of the fishes might have little chance of surviving to reach the down-steam. We will explore this in more details in the next section.
ASEAN SE landscape: Most of social enterprises in the region are at early stage and small in size

Indonesia

The BCG study\(^3\) established that there are close to five hundreds social enterprises that fit the international definition, with over a thousand more of aspiring social enterprises coming from various sectors and organisational types. Almost half of them are concentrated in Java. Most of social enterprises are at seed and startup stages. Accordingly to British Council report, 76% are in early stage. Many of these social enterprises are community-level enterprises, and therefore, focus on delivering social solution & impact on their community operations. A large part of these community-focused enterprises are not necessary have an interest to grow and scale-up their operations beyond their immediate communities. Therefore, they are not scalable in a traditional sense (as their scale is their community), however, their models are highly replicable into other community and they can also extend to serve their communities in other dimensions.

There is 24% of social enterprises in Indonesia that are crossing into growth and scale-up stages. Many of these enterprises are working in sustainable agriculture, renewable energy, micro-finance as well as sustainable forestry. Markets for the products of these social enterprises are both at local and international levels.

Examples of social enterprises include; Ruma, leveraging technology to provide small shop owners in lower income and distant areas to be

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\(^3\) The Boston Consulting Group (2015)
able to sell air-time, basic phone and payment service. Provisi Education, provides teacher training and educational performance improvement programs in distant and underprivileged schools paid by private sector sponsors. Telapak, a cooperative that goes beyond campaign for anti-forest logging with the entry into community-based sustainable forestry products with FSC certification. Javara, a social enterprise that sources, produces and sells organic agriculture products in partnership with communities across Indonesia for local and international markets.

**Philippines**

Philippines has a good social enterprise movement that was established for over a decade. The Philippine Social Enterprise Network was setup since 1999. It is estimated that there are at least 30,000 social enterprises in the country, with most as cooperatives and associations while there are around 500 micro-finance institutions.\(^4\) Most of the social enterprises are concentrated in and around Manila while there are growing in number in other areas such as Cebu and Davao.

As a movement, there is a strong emphasis on how social enterprise is a tool to address the poverty challenge. This can be observed through different poverty-related social enterprise initiatives such as “The Poverty Reduction Through Social Entrepreneurship Coalition” as well as the draft Bill proposed to the congress, The Poverty Reduction through Social Enterprise Bill in 2012. Many cooperative-based social enterprises as well as those enterprises setup by new generation of social entrepreneurs also focus on creating better economic livelihood for the poor, e.g. through better agricultural supply-chain organising as well as

\(^4\) British Council (2013)
creative business solutions such as modernising micro convenient stores (sari-sari) sector at community level. There is an emerging concept of Social Enterprises with the Poor as Primary Stakeholders (SEPPS), these social enterprises engage the poor not only as workers, suppliers and clients but also as partners in their development. A 32 SEPPS survey shows the combined reach of 2.5 million poor.\(^5\)

Examples of social enterprises that are exploring creative opportunities include; Happinoy, improving the micro convenient stores access to market via modernising and organising their supply chain, creating depot and distributor system. Rags2Riches create fashion products such as bags and pillows with global distribution network, leveraging their core-competency in creative fashion design, they were able to help poor mothers to produce the products. Human Nature, a cosmetic social enterprises sourcing from community-produced organic ingredients. It had become a successful and growing local brand with 26 branches, selling over 16 million products in less than 5 years.

**Thailand**

Thailand has few established social enterprises for several decades, these enterprises are setup by non-profit organisations to finance their social activities, such as Population and Community Development Association (PDA) that setup several business units such as restaurants and hotels. The royal family is also critical to the introduction of social enterprise concept into Thailand. Several of the royal projects have multiple businesses linking community production of food & crafts to

\(^5\) Dacanay, Marie Lisa (2014)
urban market, such as Doi Tung social enterprise within Mae Fae Luang Foundation that develops local coffee chain and fashionable crafts shops.

However, Thailand’s social enterprise movement truly started half a decade ago with the partnership between social sector, private sector and the government to establish social enterprise policy and public discussion. The Thai Social Enterprise Promotion Board was setup in 2009 with a specialised government body, the Thai Social Enterprise Office (TSEO), to support social enterprises and develop various promotional policies.

TSEO’s policy paper estimated potential social enterprises in Thailand to be in tens of thousands, with the largest part as community enterprises and cooperatives. Most of social enterprises in Thailand are also in early stages or are small in size, with a small proportion at the later stage. TSEO did a survey of 361 organisations with high degree fit to a more focused definition of social enterprise, the survey found that more than half have income less than USD 60k, while 12% have income higher than USD 1.6M. Half of them employs 20 persons or less, while 6.1% employs more than 100 persons. 32% is concentrated in Bangkok and surround areas. A notable trend of large corporations, especially listed companies in the Stock Exchange, creating their own social enterprises as a separate business entity is on the rise.

Examples of social enterprises include; Doi Tung that works with marginalised hill-tribe population in the North of Thailand to produce coffee and colder-climate fruits as well as fashion products for the urban market via coffee chain & retail access. Open Dream develop hi-tech internet-based solutions such as mobile applications and games to address social issues from sex education to real-time & cross-border
disease surveillance solutions. Local Alike works with grassroots communities to organise community-based tourism programs and connect them to corporate trips and international markets. Lemon Farm is a retail chain that connects organic and community-produced food and cosmetics products to urban customers.

**Vietnam**

In Vietnam, Centre for Social Initiatives Promotion (CSIP) - a local social enterprise supporter, identified over 200 active social enterprises in Vietnam that generally fit international definition of social enterprise. However, Vietnam has over 35,000 potential social enterprises, particularly on agriculture sector, education / vocational training, health and environment. Most of social enterprises are concentrated in Hanoi and Ho Chi Minh City. Their legal status are non-profit organisation, business and cooperative.

As in other ASEAN countries, Vietnamese social enterprises are consisted mostly of smaller scale with few established enterprises at larger scale. However, by the end of 2014, the Vietnamese parliament approved legal definition of social enterprise as adjustment to the Enterprise Law. The legal status requires 51% re-investment into its operations and the pursue of social and environmental mission, social enterprises that fit such definition will be receiving various rights and benefits from the government.

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6 CSIP (2014)

7 British Council (2012)
Examples of social enterprises include; Evergrowth Cooperative, a USD 3.6M annual income cooperative that provides dairy calves, feeds, inputs for dairy production, gives training and then purchases and processes milk from farmers. Mekong Quilts is a craft-based social enterprise that employs over 340 women in Vietnam and Cambodia, their products range from traditional and lifestyle crafts to bamboo bikes. Medical Technology and Transfer Services (MTTS) provides affordable medical equipment for pediatrics with special focus on newborn babies, their revenue is over USD 500k.

There are many emerging creative social enterprises that provides innovative solutions to various social and environmental issues; Di Chung provides ride sharing platform. Eco-link provides fair-trade and organic tea. Koto provides trainings and job development opportunities for marginalised youth through their restaurants and training centres. Solar Serve provides affordable and appropriate solar-based energy solutions for the poor.

Cambodia

The social enterprise movement in Cambodia is in a very early stage, there are at least 80 social enterprises mapped out by Social Enterprise Cambodia - a social enterprise promotion initiative. These social enterprises are identified base on the criteria of both aiming to deliver both social and economic values. However, there are at least 260 revenue generating non-profit organisations in Cambodia and many of these are aspiring to become social enterprises. Most of Cambodian social

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8. William Smith and Emily Darko (2014)
enterprises are in restaurants, crafts, agriculture, technology, micro-finance and education. There is a growing movement of organisation championing social enterprise model both from local organisations as well as international organisations or expatriate-founded social enterprises.

Examples of social enterprises include; Digital Divide Data, a Cambodia-focused multi-million USD social enterprise that trains and develops local Information Technology capacity for lower income population and then providing digital outsourcing services such as data input to clients internationally. Hagar international focuses on destitute women, rehabilitation and skills for sustainable jobs. It runs 6 social enterprises from restaurants & cafes to catering services in providing training and employment opportunities for the destitute women. Sonas World provides village-level weavers with comprehensive services of small group organising, training, micro-finance, product development support and market access facilitation. There is a trend of many emerging social enterprise startups that deliver products and services to address social and environmental issues, however, most of them are very young and concentrated around major cities of Siem Reap and Phnom Penh.

Seeing the big picture; the long-tail of social enterprise movement.

To see ASEAN social enterprises in a big picture perspective, the landscape fits a pattern of the famous “Long tail” curve. On the grander scale, at the head of the curve, there is relatively few established social enterprises at larger size, follow by a number of medium size enterprises,
after which, the sea of smaller enterprises follows. This section of the curve consists of smaller, albeit many growing, social enterprises. This is the long tail of social enterprise movement.

The long-tail of social enterprises are very diversify. There are several organisational structures such as non-profit, for profit business entity and cooperatives. Thematic areas are ranging from those with massive business opportunities all the way to critical social or environmental issues with great difficulty for monetisation. Areas of high growth business opportunities include issues such as affordable health, affordable housing, sharing economy models, renewable energy, sustainable forestry, sustainable agriculture & fishery and sustainable tourism. Those important issues with difficulty in exploring financial opportunities includes human rights, legal support for the poor and marginalised, independent media and more. The success of some social enterprise models, particularly on those community-level social enterprises, might not necessarily need to scale its own enterprise but
rather to create effective chain of replications into different other locations.

The diversity and the large number of social enterprises in the long-tail, if appropriately facilitated and developed, could lead to no less social impact compare to those larger size social enterprises at the curve-head. The long-tail when aggregated, can also deliver development impact that is much more diversify, distributed and resilient in nature. The tail can also grows in both height (upward on the curve) and size (to the right of the curve). The larger and longer the tail would also allow more enterprises to move towards the head of the tail, thus, creating a healthy ecosystems of social enterprises sector in the region. A healthy long-tail means a more sustainable pipeline growth.

In fact, this is what the demand for social investment in ASEAN social enterprise looks like. However, most of the discussion on impact investment focus almost exclusively on the relatively short section of the whole demand curve. Social venture capital and equity-style venture philanthropy funds only address the early section of the curve, especially how to move social enterprises up leftward closer to the head-section of the curve. Most of social enterprises in the region will not directly benefit from such exclusive focus, particularly when the equity-focused investment strategy is mostly isolated from other investment strategies. This is partially because relatively few social enterprises are investment-ready and have high-growth scalability model required by typical equity investment strategy.

10 This is not a traditional economics demand curve which focus on different level demand with the change in price level.
Social impact financing is required throughout the demand curve in order to have a healthy social investment ecosystems for ASEAN social enterprises. Social finance is a tool to empower social enterprises to grow and deliver their impact, however, fragmented financing ecosystem creates systemic challenges. As social enterprise as a concept becomes increasingly popular, there is an evermore increase expectation on how social enterprise movement could grow and deliver their promised impact. Yet, without interconnected financing mechanisms appropriate for different level and strategy of growth, the survival rate can be too low for the entire movement to be healthy, particularly to deliver on what is expected by all stakeholders.

As we will explore in the next section, over-capitalising the head of the curve with little experiments here and there at different part of the long tail, such as fragmented incubation programmes, will not deliver a sustainable pipeline in the medium to longer run. It is a task of the pioneering social investment practitioners to collaborate for a better and healthier design of social finance ecosystems, that could truly facilitate the growth of social enterprise sector in Southeast Asian countries.
Of Diversity & Spectrum

Understanding the diversity & spectrum of social finance

Social finance, especially in term of financing social enterprises, is in itself quite a new concept with multiple interpretations. Taking a practical and ecosystem approach, Rob John, a pioneer in social finance research in Asia, summarised the spectrum of entrepreneurial social finance with the following chart.
Start with traditional philanthropy on the left side, Rob calls this reactive philanthropy that gives grants to support charity or non-profit based social enterprises with minimum engagement level. By engagement, he means the level of support beyond funding such as strategy, organisation development, impact measurement and other non-financial support. Then there is strategic philanthropy that also explore the use of debt in supporting charity-based social enterprises with slightly higher level of engagement.

Venture philanthropy, however, is a social investment strategy to support entrepreneurial social enterprises with strong emphasis on how to grow and scale their social impact and sustainability. The engagement level of non-financial support is fully expected. The use of social

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11 Rob John (2013)
investment instruments are broader, including grant, debt and quasi-equity.

By Quasi-equity, it means the type of debt contract that is equivalent to equity in some ways, for example, the debt contract allows the social enterprises to pay interest accordingly to percentage of future revenue streams (such as profit or income) rather than a fixed interest rate. This creative approach allows social enterprises to be more confident in taking debt, especially during earlier stage where income streams are not easily calculated. For lender, while there is a down-side risk of not getting pay at all during bad year (unless the contract defines minimum payment), there is also an up-side gain if the performance is better than projected in term of getting repaid sooner both for the principle and the agreed total interest payment. There is a growing use of this approach in ASEAN social investors & incubators.

After venture philanthropy, there is impact investment whereby Rob differentiated between social first or finance first investment objective. For social first investors, they expected the enterprise to primarily deliver on their promised impact and social solution and are typically willy to take more risk. Although they want their investment back, Rob argues that many of them are willing to take a small financially negative return of -15% all the way to making a basic return of up to 5%. Those finance first social investors are more focused on making sure that the financial returns are being met as first priority, while the promised impact must also be delivered. They typically required 5-10% return although in practice, some promised their own investors somewhere excess of 20%. It’s important to note that the reason some are social first or impact first is primarily due to the pool of their own investors as well as the
expectation they set during their own fund raising. Both strategies required a substantial amount of engagement support as discussed with venture philanthropy.

When viewed as a connected system of funding, typically venture philanthropy is used to finance earlier stages social enterprises from seeds to startups stage, as well as financing non-profit based social enterprise in scaling up their organisation as they can’t usually generate the kind of returns expected by impact investors. Theoretically, after social enterprises reach the growth and scale-up stages, they can then access impact investors’ capital. After which they could then access normal financing from the banks and capital markets.

In reality, however, the ecosystem of social finance in ASEAN region is not fully connected. There are many more social enterprises that are not yet graduate from startup to growth stage, and funding at startup level is truly limited. Many social enterprises at growth level, might not fit the criteria of typical impact investors due to many factors such as thematic areas might not be in the traditional development issues. This issue will be further explored in the later section. However, the need for a more fully connected ecosystems, with investment criteria more appropriate to real market situations, is truly important to the sustainability of social enterprise movement and its social investment ecosystem.
Practitioners in Southeast Asian social investment ecosystems.

There is a growing group of social investment practitioners that have regional outreach for their investment. Most of them are coming from outside of the ASEAN region, there is very few known home grown regional practitioners in Southeast Asia.

**Seed-Startup level**

At the regional level, there are several social enterprise business plan competitions to stimulate and support completely new or very early stage ASEAN social enterprises. Global Social Venture Competition (GSCV), the ASEAN chapter at Thammasat university in Thailand, is the pioneer is the regional pioneer. GSVC Southeast Asia is active since 2007, many leading social enterprises in the region, especially those setup by new entrepreneurs, are emerging from this annual competition. British Council, as a global practitioner, collaborates with many local partners to launch local social enterprise competition and events to feature early stage social entrepreneurs in several countries.

At the local level, UnLtd Thailand, an incubation programme under ChangeFusion, already supported 36 teams of new social entrepreneurs at seed-startup level. UnLtd Thailand is a free social franchise of UnLtd UK that supported early stage enterprises in the UK with a focus on supporting the social entrepreneurs along their startup processes. UnLtd Thailand provides USD 1,700 as seed grant fund to explore the new business and social impact model. Then it provides a quasi-equity of USD 7,000 for half a year, then social entrepreneurs compete for
another for another quasi-equity loan of USD 16,000. Each stage is coupled with incubation activities and mentorship.

UnLtd Indonesia explores similar strategy with both USD 5,000 seed-grants and loan appropriate to the needs of the enterprises, it already supported 10 social enterprises at early stage to date. UnLtd Indonesia connects their portfolio social entrepreneurs with other partners in growing their capacity and market opportunities as well as building their capacity to be investment ready for other impact investors. Both UnLtd Thailand and UnLtd Indonesia receive intellectual and capacity support from UnLtd UK. Kinara is another angel-round impact investor (up to USD 30,000 per deal) in Indonesia that already invested in 6 social enterprises. Kinara works with social entrepreneurs and their teams to improve their business capacity from marketing, distribution, finance, legal and other capacity issues. This support will allow the enterprises to be more ready for impact investors at later round.

In Vietnam, Centre for Social Initiatives Promotion (CSIP), setup in 2008, was the first to directly supporting over 50 social enterprises through incubation activities and financing, most of them at the seed-startup stage. CSIP acts also as intermediary between social enterprises and other social investors and non-financing partners. CSIP works with British Council and the government to develop various support infrastructure for social enterprises in Vietnam from public awareness raising to making social enterprise a type of business entity under the business law. Spark is also an incubator focusing on startup and growth stage social enterprises, providing both business development grants and capacity development services. To date, it supported 18 social enterprises.
**Growth and later stage levels**

LGT Venture Philanthropy (LGT VP), a Litchensutein-Based fund, is one of the earliest practitioners in the region. It covers a broad range of investment needs. However, the core-investment program is upward of several hundred thousands USD. It also develops acceleration program that focuses on earlier stage social enterprises with growth potential to receive its investment up to USD 50,000. To date, 8 ASEAN social enterprises Philippines, Thailand, Vietnam already joined the acceleration program and are invested.

Insitor Management also operates both impact fund and seed fund that covers Cambodia, Indonesia, Laos, Myanmar and Vietnam. Insitor Seed Fund supports those early-stage social enterprises with equity, mezzanine and debt, while Insitor impact fund invests from USD 250,000 upward.

Both LGT VP and Insitor Management are leading a trend in starting off with financing to support growth and scale-up level social enterprises, with investment needs of several hundreds of thousands towards several millions but then develop investment mechanism to come to early stage level.

Similarly, Accion Venture Lab, a global practitioner, also invest in social enterprises focusing on financial inclusion and micro-finance, it invests with the range of USD 100,000 - 300,000 in financial inclusion social enterprises in Malaysia, Myanmar and Philippines.

ResponsAility, a swiss-based social finance firm, provides investment of from 500,000 in agriculture supply chain social enterprises, especially trade finance, working capital and fix assets. It already covers Indonesia.
Bamboo Finance, a Swiss-based private equity firm, also have a Singapore office and seeking deals of USD 3-5 million, it invested in one Southeast Asian social enterprise.

New regional player in 2015 with an investment range reaching to the earlier stage social enterprises is PhiTrust. It is a French-based impact investment firm with a strategy to both invest directly as well as investment through and partner with local impact investment intermediaries. PhiTrust already registered their Asian office in Singapore as a base for their regional operation.

There is a growing group of country-focused growth stage impact investment organisations. ARUN is a Japanese-based social investment fund, it employs an investment circle model where around one hundred investors invest USD 6,400 each and also bringing their expertise to provide the investees with capacity support. ARUN focuses on Cambodia’s self-sustaining and growing social enterprises. It already invested in 6 social enterprises. For later stage growth social enterprises, Uberis Capital is a social investment fund that is based in Cambodia. It also invests in Laos.

In Indonesia, global impact investors are active in seeking deals and investing in Indonesian social enterprises. Tridos bank invests in Indonesian MFIs. Grassroots Business Fund, Omidyar Network, ResponsAbility, Unitus Impact & LGT VP are all active in the region, accordingly to BCG report on Indonesian social enterprise ecosystems, they collectively allocated over USD 7 million for Indonesia. However, beyond Kinara there is not a specific social enterprise fund setup by Indonesians for growth stage social enterprises as of today. Grassroots Business Fund, a spin-off from the World Bank’s IFC, invests in high
impact businesses with capital and business advisory support. It looks for those growth stage enterprises with USD 3.5 million committed capital for Indonesian operations, it has 2 active clients in Indonesia.

For Philippines, Peace and Equity Foundation (PEF) had been supporting over 30 early stage social enterprises with over USD 2.1 million of loans, guarantees and equity since 2009. Xchange is a impact-first private impact investment firm that already invested in 6 social enterprises, it has flexible financial instruments tailored to the needs of the enterprises. It brings also capacity support such as accounting, legal and technology as well as linking social enterprises with professional mentors support.

In Thailand, ChangeVentures invested in 5 social enterprises at the growth stage with equity and loan from few thousands to USD 300,000. It is helping social enterprises to access to scalable markets as well as implementing good accounting and management practices. ChangeVentures also facilitate investment with other investors for the portfolio social enterprises. Jud Reum Ton is a new social investment company that is managing investment from high net-worth individuals for social investment. It’s worth mention that Thailand’s impact investment are dealing with many life-style, technology & creative industry social enterprises, that are qualitatively quite different than traditional impact investment areas, such as digital health apps, social innovation design firm, digital education platforms.

ChangeFusion, a non-profit promoting social enterprise support infrastructure in Thailand, collaborates with For Khon Thai Foundation and BuaLuang Asset Management Company (a part of Bangkok Bank Group) in launching Thailand’s first socially responsible investment
mutual fund, B-KIND. B-KIND invests in listed companies that pass a level of Environment, Social and Governance (ESG) standards. It structures 0.8% of the fund for venture philanthropy which partially is for social enterprises. B-KIND can also invest into social enterprises up to 15% of its fund size (currently USD 65 millions), however, the partners believe it will take several more years before the social enterprises are ready to take in public funding from a mutual fund. Last but not least, Thai government, in collaboration with two state banks, launched a USD 65 million loan facility for social enterprises and community businesses in Thailand.

For Vietnam, most of major global impact investors are active. There are also a growing group of international fund with specific focus on Vietnam operations. Oxfam had launched impact investments initiative that also covers Vietnam with country-level investment team. From its 8 million pounds fund, it aims to support social enterprises that directly improve the livelihood of small-scale farmers, women and youth. It is working with local early stage supporter such as CSIP in delivering financial and non-financial support. It has 3 levels of support, 1st fund of investment ranging 10,000 - 50,000 pounds, 2nd fund of investment up to 750,000 pounds and 3rd fund of investment up to 1.5 million pounds. Villgrow, an Indian social enterprise incubator, is entering Vietnam as first country in their Southeast Asia expansion. The fund, once setup, will support social enterprises with up to USD 250,000 in investment.
Investing in the Long-tail

Rapidly growing but increasingly fragmented ecosystems across the region

In just a decade, there is a fast growing ecosystems of social investors in Southeast Asia. Practically in almost all ASEAN countries there are different support mechanism for multiple level of social enterprises. There are home-grown social enterprise incubators / startup-level support organisations in Indonesia, Philippines, Thailand and Vietnam. However, except in Philippines and Thailand, most of growth-stage funding are coming from global social investors. In fact, there is a deepening gap between the early stage startups level funding and growth stage funding. While there is an increase interest and funding coming for the growth stage social enterprises (a.k.a. less risky) as the concept of impact investing become increasingly popular, however, startups level funding are not seeing much increase in each country.

Most of incubators such as UnLtd Thailand, UnLtd Indonesia and
CSIP provide short term, usually less than a year of effective funding period. After which the social enterprises are expected to grow and generate enough income to attract impact investors. While few social enterprises made it, most of them needs much more time as well as follow-on investment to grow into impact investment-ready enterprises. On a practical term, incubation/accelerations-level funding provides too short a run-way for the social enterprises to be ready for their flights. This is due to the fact that most of the incubators also received their funding on an annual basis from other foundations and corporate social responsibilities budget which are not easily made into multi-year support programme.

To make the matter worst, there is a development that some impact investors that experimented with lower-amount startup funding, such as LGT VP Impact accelerator programme, are exiting from this out-reach strategy. Many universities and organisations running local incubation programs, such as in Thailand, are not continuing their programs as they found that supporting early social enterprises is much more complicated than they had anticipated. The gap between incubation funding and the 2-3 years requirement before the social enterprise are ready for impact investors at growth stage are critical and not being adequately addressed. This is where debt-based instrument could be of great use, as it can provide a bridge finance for the social enterprises while providing the investors / funding sources with a stream of income and returns much earlier than the typical equity investment. Many social investment practitioners argues that the gap is between USD 25,000 - 150,000.
A head-heavy and neglected tail social investment landscape

When placing the ASEAN social investment landscape into our Long-tail framework by laying it over the demand for social enterprise investment curve from the earlier section, we could clearly see that it’s a very head-heavy landscape. A very large amount of resources and efforts, and increasingly so, are being put at the head of the curve. Most of the funding are primarily for those social enterprises at the growth stage and upward, of course there is a rather small amount of resources at the seed-startups or low-growth level.

As impact investment trend becomes even more recognised, more investment will usually comes at the head of the curve. This is due to the
fact that it is the least risky area in the social enterprise landscape as well as the most familiar terrain for traditional investment professionals. The head of the curve fits well the socially focused private equity and venture capital mindset, framework and tools from the world of commercial finance. While there is clearly a need for such approach and the kind of equity-focused social finance, however, in the current market condition, there is a possible case to be made that there is already an excess supply of equity-based approach social finance in ASEAN social enterprise investment market. A superficial observation might holds that there is now a large funding pool for ASEAN social enterprises, perhaps close to a hundred million USD. However, most of this type of money is in no where appropriate to a majority of social enterprises available in the market. Of course, one can argue that the supply of equity-based investment is not only for the market today but rather it is in anticipation of the availability of growth-stage social enterprises over the next 3-5 years. This line of argument is correct although it should be pointed out that the supply doesn't necessarily creates its own demand in this case, i.e. the pipeline of growth-stage social enterprises do not happens on its own.

Therefore, at a deeper and more differentiated level, while there is an excess supply of growth / scale-up stage investment capital, however, at the same time there is a supply deficit of seed-startup stage / low-growth categories of investment capital. As discussed earlier, social investment funds tend to grow upward on the head of the curve, this is in contrast to the actual growth of social enterprise supply that usually will grow rightward towards the tail of the curve. As the social enterprise movement becomes even more prominent, new & smaller enterprises will be setup and they will be growing the tail of social enterprise landscape.
Without a deliberate attempt to grow the investment rightward, there will be a growing disconnection between the growth of investment capital and the real growth of social enterprise landscape. This is a dismal pattern that could lead to a bubble situation and will eventually burst. Alternatively, an increase number of social investment funds are seeking to turn those high growth or mid-size SMEs into social enterprises or re-conceptualise their funds towards high impact enterprises or inclusive businesses. While there is nothing wrong is such strategy, the fact that most of these high impact SMEs and inclusive businesses do not have their primary objective of addressing social or environmental issues, need to be taken into consideration.

Before going after an extended group of high impact enterprises, it is important to note that the whole ecosystems, dedicated to the social enterprise investment mentioned so far, had collectively funded perhaps only two hundreds social enterprises regionally. Therefore, the current social investment funding is in no way enough to cover the demand of social enterprises that are in thousands if not ten of thousands as discussed in earlier section. As those social enterprises are at the rightward side of the tail rather than the head of the curve. As more and more funds are stacking up on the head-side, the long tail is being almost completely neglected by traditional impact investors. There is little or nothing along the long-tail, few incubators and seed/startup stage or low-growth financing supporters are far too few. A local social investment intermediary said that the early stage social enterprise supporters are like few tiny oasis along the vast desert-like wasteland along the long-tail of social enterprise landscape.

12 Small and medium enterprises
Metaphorically, as the head becomes too heavy, without the healthy tail to support and channel good pipeline of social enterprises towards the head, the overly heavy head, consisted of stacked impact investment funds, could collapse.

**Driving the investment down the long-tail to foster collective impact and growth**

There are two type of intersecting groups of social enterprises at the long-tail. Those in early stage (pre-growth) and those without real interest in growth beyond community level size. Thousands of these social enterprises lie somewhere outside investment capital dedicated for social enterprises. Most of them find it difficult to access capital as they are not yet ‘investment ready’ for traditional impact investment requirement or they are entirely not at all fundable from equity-type social investment capital at all. Researches in Thailand, Vietnam and Indonesia clearly confirms this situation, most of social enterprises are too small, without highly scalable business model and have capacity challenges preventing them from entering growth stage. This does not mean they will not eventually grow, it is rather to be clear that they will require both time and resources to do so. These common characteristics define the nature of ASEAN social enterprise long-tail.

Perhaps not less importantly is to realise that thousands of ASEAN social enterprises, if not more, are all delivering their social and environmental impact, no matter how small individually, these do actually aggregate into sizeable quantum of impact. This is progressively true particularly for those community-level social enterprises that might
not grow in size individually beyond the community level, however, collectively they all are replicating and learning from each others to generate scalable impact. There are many thematic areas that would fit this more ‘cluster’ mode of distributed impact scalability, such as community-level renewable energy, sustainable tourism, waste management, local crafts and many more. Therefore, it is important to note that organisational incapacity to growth does not necessary mean no scalable impact. In fact, if social enterprises in the long-tail could cluster themselves into specific thematic areas to foster partnership, exploring possibility to shared resources as well as delivering collective impact, they could make their clusters stronger within the tail and move leftward in collective growth of both impact and income.

Given the nature and characteristics of social enterprise long-tail. What would be an appropriate financing instruments?

It is clear that traditional equity approach to impact investment would usually not be appropriate to pre-growth social enterprises. Beyond that, it will not fit most of social enterprises without ‘high growth, high scale’ model. In Vietnam, CSIP surveys found that the average returns from impact investors are 18-25% and most of them are seeking USD 1 million up size deal while few are willing to work with social enterprises with at least USD 300,000 up. This ruled out most of social enterprises in Vietnam at present. LGT VP Accelerator Programs that has regional reach and seek investment deals as low as USD 50,000, they found that 35% of their accelerator-level applicants were too early-stage, and/or did not yet have a viable business model/solution, while
19% did not have a clear path or intention to scale.\(^\text{13}\)

The only key viable financial instrument left to fully capture the long-tail is debt. In fact, if we look at the majority of financing solution for most companies of all types is actually debt. The same will be true for social enterprise investment market, the main financing instrument will be debt. It is without doubt that debt or loan poses its own limitation and challenges. Early stage social enterprises typically neither have enough available financial data nor collaterals to qualify them for traditional debt market or typical bank loan. But as with micro-finance, we need creativity and innovation to drive the market forward. Once early stage and low growth social enterprises have access to loans, they will establish their track records so that they could easier integrate into the normal financing channels such as the banks. For those progressing into growth stage, it will provide them with essential trust-worthiness in accessing growth capital as well. The good news is that we have already seen some emerging examples and initiatives that will catalyse the market for debt-based social enterprise investment in ASEAN region.

There are at least three key conditions that we need to address with debt-based impact investment.

- First is the required returns, i.e. the interest rates expected to be paid back to social investors when the default risk is very low.

\(^{13}\) LGT Venture Philanthropy (2015)
- Second is the perceived risk by the social investors. The higher the perceived risk, from default risk to operations risk, the higher the expected interest rate will be as well as the lower the willingness to lend.

- Third is the related cost in the loan-making process, from search cost to identify social enterprises, due diligence and loan administration-monitoring expenses.

It is these three challenges that we will address and explore strategy in catalysing the debt-based social investment in the next section.
Catalysing Strategy

In addressing the key conditions outlined in the previous section, there are three interrelated elements in the strategy to catalyse debt-based social investment in ASEAN region.

1. **Extend and leverage existing social investors into debt-based investment strategy.**

As mentioned, debt-based social finance for social enterprises in the region is still not wide-spread. Yet it is critical to address the investment needs at the long-tail that the equity-based social investment strategy can’t cover. However, there are ways for the existing pool of diverse social investors groups to explore debt-based investment strategy that will also fit their interest. Different type of social investors also bring their expectations on their required financial returns of capital, from grant markers’ zero percent all the way to 15-25% or more required by typical impact investors. The right combination and collaboration among different type of social investors can help address the required returns challenge.
**Grants makers**

For development agencies, foundations and corporate social responsibility programs, they can explore using loan as a part of their financing instruments. Many seed/startup social enterprises incubators in the region mentioned that although they want to explore using loan. However, this might require their own funders to be more flexible with their financial capital support. For example, typical ASEAN foundations and CSR programs are not familiar with using loans to support their social projects. Therefore, they might not allow the incubators to use their fund as loans to social enterprises.

This situation is a mis-opportunity to maximise the potential social impact of their funding. If they explore and allow the use of loan, they might be able to double, triple or multiply their social impact as their fund are being recycled as loan funds within the incubators or the support programs. There might be legal issues, but with a minor legal consultation with experts, there usually many possible solutions to be found.

Venture philanthropists had been using this strategy for sometime with multiple clear examples. Conceptually, grant makers lose 100% of their financial returns, exploring different type of loan strategy could help them capture the economic values back and recycle their funding for increase impact. They can set their expected returns from the original minus 100% all the way to 0% (i.e. get their principle back).

As a general practice, the funding is established as a loan contract with the social enterprises or to be setup as a grant-supported revolving fund with the intermediary or within the social enterprise themselves.
Examples are UnLtd Thailand and UnLtd Indonesia that use small grant to support seed-stage ideas but use loans to support startup-level social enterprises. In both cases, their source of funds are philanthropic but a part of their use of fund is loan.

For UnLtd Thailand, in order to accommodate the worry for early stage social entrepreneurs of not able to pay a fixed interest rate due to their uncertain income streams, the loan is structured as a quasi-equity loan. This means the interest rate is not setup as a fixed rate but rather as a percentage of their annual profit or income. AirAsia foundation, a part of ASEAN low cost airline pioneer, explore support contract whereby a part of the sustainable forest coffee social enterprise’s profit is dedicated as a loan fund to support poor forest coffee farmers in the future, thus, creating a build-in structure for funding the network of forest coffee farmers.

This debt-based support strategy, such as the use of quasi equity or revolving fund, can also helps grant makers to make clearer justification in supporting a for-profit social enterprises with grant funding, as it can be demonstrated that the long term social benefit will be continuous and ever-growing.

Grant makers’ debt-based support capital will be crucial in addressing the long-tail as it will be taken as risk capital needed at the general seed-round / angels stage for potentially high growth social enterprises comparable to commercial financing. For those social enterprises without strong interest in growth, particularly those operating at community-level, this will provide necessary track records of loan receiving and repayment behaviour needed for them to access traditional bank lending, particularly when grant makers are working closely with
banks and community-focused financial institutions.

Asian Venture Philanthropy Network (AVPN), a sister network of European Venture Philanthropy Association (EVPA), has gains tremendous tractions in Asia. There are already 243 members with 23 ASEAN members, although many of them are interested in ASEAN social enterprises. AVPN consists of private & public foundations, philanthropists and corporations engaging in philanthropy, 95 members are investing in social enterprises and out of these 71 of them are focusing on concept to startup stages social enterprises. In their past several annual conferences, there were clear interest and sharing of cases for using debt as social investment strategy. Sensitising AVPN members will be a natural place to foster the growth of debt-based social investment among philanthropy-focused organisations.

**Impact investors**

For impact investors, there are several possible options to go into financing the long-tail.

Firstly, for fund managers, there might be the need to revise the investment theory to fit the current situation of the market, which will determine how the funds are being structured as well as the corresponding expectations from their own investors. The best way is to seek and communicate to their own investors, to make them understand the current needs of the social enterprise market, particularly the need to invest into the long-tail in order to develop quality pipeline for larger fundable deals later. This is particularly more plausible for for the ‘impact-first’ investors. With a more market-aligned required returns and a more flexible investment strategy (such as a deliberate consideration of
the equity-debt mix) endorsed by their own investors, impact funds can then be much more creative and adaptive to the needs of the social enterprises in the region.

Secondly, impact investors can use loan as an engagement strategy with social enterprises that have high potential to grow into their core investment program. After a thorough deal diligence process, the only way to truly understand and to see the performance quality of the social enterprise is to invest in them. To invest in these enterprises at a smaller ticket size via loans or convertible notes, i.e. loan contract that is later convertible to equity position at a certain discount rate, helps lower the risk of various kind of mismatch in strategic direction, capacity, impact & financial performance. It would allow the impact investors to be in a much better position to understand and continuously influence the management team before making a larger equity investment. An example is LGT VP accelerator program running across multiple ASEAN countries, LGT VP invests via smaller size convertible debt before making follow on investments.

Local impact investment firms such as Xchange in Philippines and ChangeVentures in Thailand are also using both debt and equity to meet the need of social enterprises. ChangeVentures deliberately gives out a successive program of small loans that progressively become larger over half a year or a year in order to adjust the expectation and strategy of the social enterprises before making the equity investment. This allow both the social enterprise management team and the social investors to collaborate more in growing the enterprise while continuously develop a much more realistic financial projection, sales plan and operations plan early in the relationship. Many practitioners of the strategy mentions
that using debt in this way is similarly to having a pre-wedding period that is truly useful in aligning the social enterprises and the impact investors.

Thirdly, loan as investment instrument provides income stream to the fund itself. Although in many case the amount is not large, however, it builds strong track records for both investees and the fund itself. In fact, it could lower the perceived risk of the fund over its long duration compare to traditional equity-only strategy that will only get returns at the exit or the partial sales of equity along a typical 5-8 years investment horizon. A commitment to repay annually or more, also sets a tone for responsible behaviour of the social enterprises as well.

There are several impact investors that are already practicing this, few are even deliberate on their design with respect to this strategy. Phitrust, a french-based social investment fund with ASEAN operations, aims to fund half as equity and half as debt. This allows them all the benefits discussed in this section, especially it allows them to create its own consistent and continuous income stream for the fund which strengthen trust & reputation among the pool of social investors they target.

2. Information infrastructure

The second key condition that must be addressed is the perceived risk by the social investors. This is truly critical, as the higher perceived risk leads to higher interest rate and lower the willingness to lend.
What significantly determine the perceived risk level is the availability and quality of the information on investable social enterprises. In a market without such information available, the perceived risk is bounded to be very high. This is a classical case of asymmetric information in economics. Currently the only way to find trustable ASEAN social enterprises data is to tap into human networks of those social investment practitioners as well as incubators in the region. Information available in these networks are mostly tacit knowledge & data that are not easily navigate and difficult to verify. This makes the search cost very high for social investors, especially those new to the landscape.

To lower the information asymmetry and its search cost, there is a clear need for information infrastructure for ASEAN social enterprise investment market. Ideally, there need to be good and verifiable data on ASEAN social enterprises, their overall profiles as well as their financial and impact performances.

Beyond their own data what might be truly useful is their relationship data, for example, who had supported them via incubation program, grants, loans and equity. Other important relationship data points include board members, team members, clients & business partners information.

Community level meta-data such as recommendations, ratings or endorsement, from their trade partners and existing investors-lenders, both at organisation and team levels can also be critical. This community feedbacks data is crucial in social investment platform in the same way it is transforming traditional retreats as well as entrepreneurial investment in commercial sector.
In fact, the notion “Long Tail” was made popular by Chris Anderson as his observation on how information technology is transforming consumer markets.\textsuperscript{14} His main argument is that as both production and distribution of goods are becoming ever more digitised, the online retail shelves are increasingly approaching limitless. Amazon.com, Netflix and other online retailers hold millions of items on their virtual shelves. Consumers can access both popular items (Head of the demand curve similar to what we had discussed) as well as those items that are very niches or unique to a small number of fans (the Long Tail). When all these items are available online, it drives consumer demand towards the tail. Thus, creating a new and emerging market of less popular items that when aggregated are very sizeable. The degree of which these market aggregation at the Long Tail will be as large or larger than the traditional market for popular items are highly debatable. However, it is clear that there are an increasingly growing and sizeable market at the Long Tail that didn’t exist before the advent of digital retailers.

Anderson argues that in driving the consumers down the tail, items must be both available and searchable / filterable. As buyers dig deeper into the Long Tail, there is high noise to signal ratio, i.e. it becomes increasingly difficult to spot high quality albeit unique items that fit specific buyers’ preferences. The further into the tail, the higher need for technological capacity to filter signal from noises. This is where information structure, search engines and collaborative filtering based on distributed community feedbacks data, such as ratings and recommendations, is crucial to make the market function.

\textsuperscript{14} Chris Anderson (2006)
Although social enterprise investment market is not a consumer market, there is multiple lessons we can learn from how information technology and users’ feedbacks can revolutionise consumer markets. The need for information infrastructure & platforms that list social enterprise information can be viewed from this perspective. By making the data available for all potential social investors, the social investment market will be more democratised and distributed. In driving the social investors down the long-tail of social enterprises, not only that the social enterprises data must be available, but also that it needs to be both searchable and filterable. This goes back to the earlier point on how we need not only social enterprise’s own data, but also their relationship data as well as community feedbacks data as discussed. These three dimensions of data will be critical for searchability, filterability and traceability of digital-based social enterprise investment landscape.

Through these type of platforms, social enterprises can list their critical information, ecosystem players from buyers to investors can contribute their relationship and feedbacks to those social enterprises. This will allow global, regional and local social investors from different of structure and interest to be able to search and identify social enterprises with good verifiable online track records as well as finding partners or co-investors to participate in the deal.

Such information platforms will also have many challenges such as incentives for both social enterprises and social investors to share their information on the platform often enough so that it become collectively and continuously useful. Cost in developing and maintaining are high and not easy to make sustainable. Again, with creativity, ingenuity and
collaboration within the social investment ecosystems, there is always a possibility.

There are several trends and initiatives along this line to be capitalised on. For example, there is an Asian social enterprise investment information platform www.impactconnect.asia, the platform is hosted by many early stage social enterprise supporters, intermediaries and incubators in the region. It is supported by the Rockefeller Foundation. It features several dozens social enterprises with growth potential in Asia filtered by local intermediaries. The data also have profiles, relationship data as well as communal feedbacks data similar to what was mentioned earlier. The platform aims to grow into more than 100 early stage and high potential social enterprise listing by 2016. Users can track and follow each social enterprise, team member, social investors and receive automatic notification when there are changes in those data.

Beyond a general information platform, there is also a rising trend of market-place information platforms that use crowd funding to support social enterprises startups in the region. In Indonesia, Kitabisa.com is a crowd funding site for social causes. It raised over USD 350,000 to date. While in Thailand, Taejai.com is also a crowd giving platform that already raised USD 260,000 for social projects. Many social enterprises from both countries had raised their funds through these crowd funding platforms.

There are global platforms that are active in the region such as Kiva.org that are also raising loan to specifically fund social enterprises in ASEAN countries as well as StartSomeGood.com that focus primarily on social impact projects and enterprises. There is also a new crowd
lending platform GandengTangan.org setup in Indonesia, it specifically aims to provide seed-startup debt capital for social entrepreneurs, UnLtd Indonesia is supporting the platform and it is gaining traction with several successful fund raising campaigns by early stage social entrepreneurs. Japan-based crowd funding platforms, such as Readyfor.jp, which already list social projects from ASEAN region, will be also another possible source of crowd funding channel for social enterprises in the region.

Crowd funding for social enterprise finance, progressing from donations to debt and equity, would therefore be a very important trend in ASEAN social finance as it is connecting social enterprises directly with the willing public, thus, raising awareness of social finance in ASEAN societies as something they can directly participate. These crowd funding platforms, especially when they are more gearing towards social enterprises, will also serve as important information infrastructure in the region.

These emerging platforms that records social enterprise data points could lead to many financial innovations that are rapidly rising such as the use of these online data points for credit scoring, shared credit records / bureau which will become a strong base to drive more social investors into the long-tail. This will brings higher trust level and understanding of the opportunities as well as lower the perceived risk. The availability and quality of information infrastructure will partially lower related cost in the loan-making process by different practitioners, from search cost to identify social enterprises and due diligence expenses.
3. Specialised debt-based instruments

Another key catalysing strategy is to deliberately foster and create various debt-based social investment instruments to address the needs of ASEAN market.

**Specialised loan funds**

As discussed earlier, clustering early stage or smaller social enterprises into thematic groups at the long-tail could result in specialised strategy to finance that thematic groups as they tend to share similar cost-structure, revenue strategy, financing strategy and relationship to their value-chain.

For example, there are several best practice models of specialised loan funds for sustainable agriculture, affordable eye care and affordable housing. The transfer of learning and workable models from other region into ASEAN market will be a strategy worth exploring.

In sustainable agriculture, a clear example is Root Capital, a non-profit social investment fund is active in South America and Africa. Root capital specialises in agriculture value-chain financing such as trade finance and fixed assets financing. It lowers its risk in trade finance operations partly by restructure the contract in such a way that the buyers pay them directly and they channel the payment net of their interest and other cost back to farmer groups.

Root capital provides USD 50,000 to 2 million loan for rural small and growing agriculture businesses that are meeting sustainable
environmental standards in protecting rural ecosystems. In 2014, it enters Indonesian market with USD 550,000 loan to an organic coffee cooperative.

Although it is a larger ticket size and not situate within the long-tail, Root capital’s model is truly usable and critical for ASEAN social enterprise market focusing on sustainable agriculture. A gradual entry of Root capital into Southeast Asia as well as the replication of its innovative model could bring a workable model to finance the ASEAN long-tail that could address a clearly scalable market.

There is another rising trend of social entrepreneurs peer-to-peer financing model. Few social enterprise support networks in Southeast Asian countries are learning from the case of Korea where Korean social entrepreneurs themselves contribute funding appropriate to the maturity level of the participating social enterprises, in creating their own peer-to-peer loan fund. There are few initiatives in Indonesia and Thailand to explore the replication of the model.

The government can play a role in developing and facilitate specialised loan funds for social enterprises. In Thailand, the government created, in 2015, a ‘Social enterprise investment bond’ whereby two of the government banks issued USD 66 million bonds that contributed to specialised loan funds for both banks to give lower than market rate loan for social enterprises accredited by the Thai Social Enterprise Office.

The two government banks are the Government Saving Bank and the Bank for Agriculture and Agricultural Cooperatives. This provides clear example for other ASEAN government to engage in facilitating debt-based impact investment in their own local market.
Guarantees

A variety of guarantee instruments is very important to bring access to debt capital for a large pool of social enterprises without collateral assets, these social enterprises are not usually qualify for normal bank loans. Guarantees can provide an innovative strategy for non-profit funders, philanthropic foundations and governments to leverage their existing assets to generate more impact by using a portion of that as guarantees for social enterprises directly or for loan funds. There are several global practitioners active in Southeast Asia that have significant experiences in creating guarantees and similar mechanism else where in other regions.

Oxfam had experience in Nepal where it provides guarantee fund against which Kumari Bank gives loans for small holder farmer groups and enterprises. As the farmers repay their debt, they gradually become normal bank clients, thus opening more spots for other small holder enterprises.

Ashoka had experience structuring a loan fund for affordable eye-care called the Eye Fund in South Asia based on Aahavind Eye Care model. It facilitated Deutsche bank to provide a base layer within the fund that allow to take in 84% first loss, thus effectively a guarantee strategy that lower the risk for impact investors in other layers of multi-tier stacked fund.

It is important to catalyse the application of these exceptional experiences from other regions into Southeast Asia context. Global organisation with such experiences can work with local or regional partners to develop these guarantee instruments.
There are also local and regional initiatives exploring guarantees for social enterprises. In Thailand, the Thai Social Enterprise Office had work on strategy that brought the Thai Credit Guarantee Corporation (a specialised financial institution under the Finance Ministry) to work in partnership with the other two government’s banks to provide loans for social enterprises.

Impact Investment Exchange Asia (IIX), a Singapore-based social investment intermediary, and its non-profit sister organisation, Shujog, are working with Oxfam and other partners to design and capitalise guarantee facility that will support ASEAN agriculture value-chain impact enterprises to access investment capital.

Concluding remark

Debt-based social investment in Southeast Asia is critical to the sustainability of social enterprise movement, as it could address the sustainable growth in the long-tail of social enterprises in the region. The three catalysing strategies discussed are just among possible strategic directions that stakeholders in the social enterprise investment landscape could collaborate. Social investment in Southeast Asia is still a pioneering work, especially in catalysing debt-based social investment. To finance the growing long-tail, that will contribute to the health of the whole social enterprise ecosystems, requires a group of risk taking pioneers to bring about the required change.

Business as usual attitude will neither lead to a better ecosystems nor a growth of debt-based social investment to finance the long-tail. A
collective leadership among the key pioneering social finance entrepreneurs are necessary to place social finance in its proper function, i.e. the empowerment of social enterprises to deliver and scale their impact. Social finance exists to support social entrepreneurs in order to unleash their full potentiality and bring Southeast Asia towards the new trajectory of both social and economic sustainability.
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constraints and opportunities – evidence from Vietnam and Kenya