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THE SOCIAL ENTERPRISE LANDSCAPE IN ASEAN

A Synthesis Report

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ACRONYMS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
GDP	Gross domestic product
IDE	Impact-driven enterprise
IFC	International Finance Corporation
MaGIC	Malaysian Global Innovation & Creativity Centre
MasSIVE	Malaysia's Social Inclusion & Vibrant Entrepreneurship
MSME	Micro, small, and medium size enterprise
NGO	Nongovernmental organization
raiSE	Singapore Centre for Social Enterprises
SDGs	Sustainable Development Goals
SE	Social Enterprise
SME	Small and medium enterprise
UK	United Kingdom
UNDP	United Nations Development Programme
US-ACTI	US ASEAN Connectivity through Trade and Investment
USAID	United States Agency for International Development

I. EXECUTIVE SUMMARY

Social enterprises are businesses that seek to achieve social and/or environmental impact through the trading of goods and services. As such, they provide an opportunity to mobilize private sector capital for the public good.

When developed to its potential, the social enterprise sector can generate significant economic contribution to ASEAN. Through their triple bottom-lines, social enterprises can enable millions of people in ASEAN to improve their socioeconomic status as well as the quality of their lives. This in turn can enable ASEAN governments to save billions in social assistance and generate tax revenue from these people. Currently support for social enterprises varies significantly across countries in ASEAN, with Malaysia, Singapore, Thailand, and Viet Nam providing considerable support either in terms of funding support or legislation support.

This study provides an overview of the ecosystem for social enterprise development in the region that ASEAN Member States can use as background information when drafting recommendations for national and regional strategies to foster social enterprise in ASEAN. Separate chapters cover the policy framework, ecosystem, and social finance needs with a final chapter on challenges, opportunities and recommendations.

Key recommendations include:

1. Encourage governments to come up with supportive policies such as
 - a. create a pro-business environment by streamlining business registration and permit acquisition,
 - b. enact policies to recognise social enterprises e.g. accreditation, legal definition,
 - c. offer tax exemptions and incentives to social enterprises, and
 - d. encourage government agencies and private organizations to invest in or buy from social enterprises.
2. Improve financial access by working with a spectrum of funders to close the funding gap for early stage social enterprises
3. Create regional networks of both social enterprises and government agencies to encourage cross-fertilization within ASEAN
4. Strengthen capacity building and networking for social enterprises
5. Expand social entrepreneurship education

2. BACKGROUND AND STUDY LIMITATIONS

2.1. Background

This mapping study on the social enterprise (SE) landscape in the Association of Southeast Asian Nations (ASEAN) is commissioned by the USAID ASEAN Connectivity through Trade and Investment (US-ACTI) project. The study provides an overview of the ecosystem for social enterprise development in the region that ASEAN Member States can use as background information when drafting recommendations for appropriate national and regional strategies to foster social enterprise in ASEAN. Specifically, the study covers the policy framework, ecosystem, and social finance needs in the SE sector. It also covers the challenges and opportunities faced by the SE sector and features some recommendations to further expand and strengthen the sector.

2.2. Study Limitations

The study was conducted primarily through desk research and semi-structured interviews with selected social enterprises and ecosystem players across the ASEAN region. In total, the research team conducted 20 interviews across 8 countries. Interviewees were selected to ensure a good representation of insights from the different stakeholders. However, we were limited in this study by our access to the stakeholders.

We have not been able to verify all the information obtained from publicly available sources or provided by the interviewees. As much as possible, we triangulated information across the sources to check for validity.

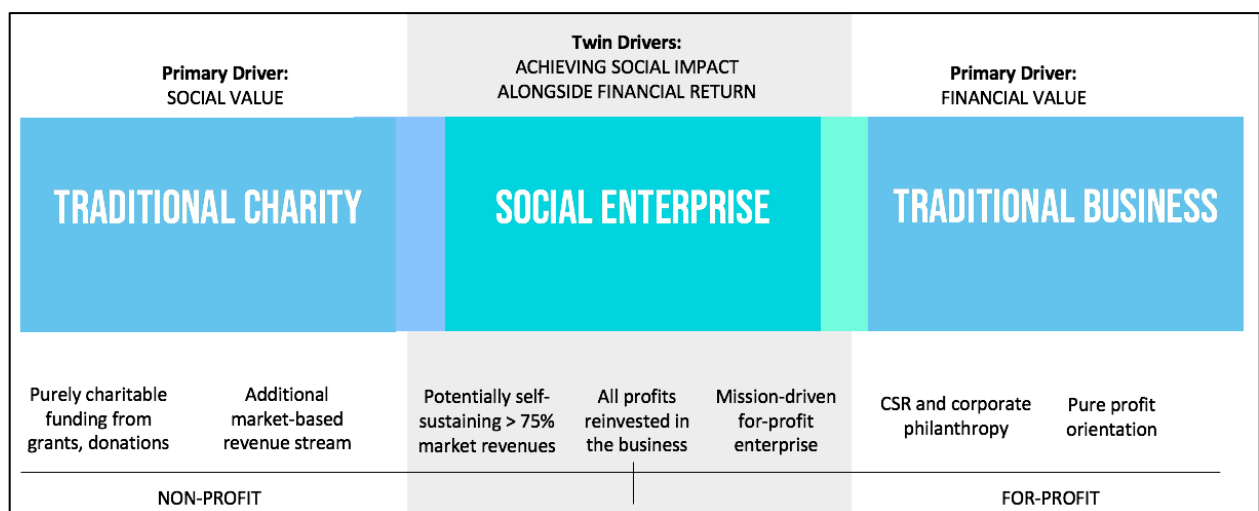
In addition, a comprehensive survey was also sent to each of the ASEAN countries through the ASEAN Secretariat. The survey was sent out in July 2017 and after several extensions and reminders, three surveys were returned. Due to the low return rate as well as the incomplete responses received, the comparative information on the social enterprise sector across ASEAN is incomplete.

3. SOCIAL ENTERPRISE ACTIVITY IN ASEAN

3.1. Definition

There is no consensus on the definition of social enterprises across ASEAN. Generally, social enterprises are defined as businesses that seek to achieve social and/or environmental impact through the trading of goods and services. They sit in the middle in the spectrum of organizations that range from traditional charities whose primary driver is social value to traditional corporations driven primarily by profits (Prakash and Tan 2014) (Figure 3.1). Unlike pure-social or pure-profit organizations, social enterprises have double or triple bottom-lines to meet. They seek to be social change agents while also being financially self-sustaining.

Figure 3.1: Spectrum of Organizations



Source: Reprinted from Prakash and Tan, 2014, "Landscape of Social Enterprise," p. 10.)

Note: CSR = corporate social responsibility.

While a traditional business seeks profit for its shareholders/owners, a social enterprise tends to seek profit from its business activities as a means to achieve social impact. The social change is intended to be self-sustainable and free of the need for continuous outside funding. This makes it a promising tool for social change in ASEAN. The promotion of social enterprise can stimulate economic growth while also contributing to various sustainable development goals.

3.2. History of Social Enterprise in ASEAN

The term "social enterprise" has been gaining traction and recognition in ASEAN for the past decade or so. However, the concept that underlies such entities is not new in ASEAN. Throughout the history of ASEAN, there have always been businesses whose operations are heavily motivated by social values. Many of these businesses operate to serve people at the bottom of the pyramid and social objectives are key focuses of these business owners. In addition to these businesses, some conventional charities have also incorporated market-based strategies in their bid to be more self-sustaining and move away from dependence on

donations. Many of these organizations may not necessarily be classified or self-identify as “social enterprises” since this term is a relatively new to the region.

One of the earliest recognized forms of social enterprises in ASEAN is the cooperative. Cooperatives are associations of people that come together to meet shared economic, social, environmental and/or cultural needs and objectives. In some ASEAN countries, such as Indonesia and the Philippines, cooperatives remain the most significant group of organizations in the social enterprise sector.

In recent years, as some of the ASEAN countries have prospered and advanced from low-income economies to lower-middle income economies, foreign aid flowing into these countries has declined. This has driven many nongovernmental organizations to transit to social enterprise models or spin off social enterprise arms in their bid to be sustainable and move away from reliance on donor funding. Social awareness is also inspiring citizens in ASEAN to start social enterprises.

3.3. Social Enterprise and ASEAN objectives

Social enterprise is gaining significance in ASEAN and is increasingly viewed as one of the tools to sustainably assist the poor and vulnerable groups as they strive to improve their socio-economic status. In fact, the ASEAN Secretariat has identified social enterprise as a means to help ASEAN achieve sustainable rural development and poverty eradication in the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020 (ASEAN Secretariat 2017).

ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020

Sub-goal: Sustainable rural development and poverty eradication in ASEAN.

Objective 1:

Improved vulnerable groups’ and poor households’ access to and/or control of productive natural resources, financial and support services, and social protection as a foundation to building capable, resilient, and self-sustaining households and communities.

Objective 2:

Enabled poor and vulnerable groups to participate in the socio-economic opportunities including through financial innovation and strengthening **social enterprise**.

Objective 3:

Strengthened convergence of rural development and poverty eradication initiatives at the local, national, and regional levels through improved coordination mechanism, policy coherence and effective localization of Rural Development and Poverty Eradication programs and actions.

(Extracted from ASEAN, 2017, *ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020*, p. 3.)

Social enterprises can play a significant role in ASEAN's goal to achieve sustainable rural development and poverty eradication. Social enterprise is explicitly mentioned in the second objective to enable poor and vulnerable groups to participate in socio-economic opportunities. This can be achieved by various social enterprises working in varied sectors of the economy such as education and health. The same objective also calls for financial innovation. Many microfinance institutions and fintech (financial technology) enterprises in ASEAN are exploring cutting edge financial innovation for the poor and vulnerable groups to help them gain access to financial products so they can more actively participate in the economy and accumulate wealth.

Social enterprise also plays a role in the first objective. Many social enterprises are set up to provide vulnerable groups and poor households with access to services such as health care and utilities. Their aim is to improve social protection for these groups of people by reducing their economic and social risk with employment and access to essential services, among other measures. The positive outcomes achieved by social enterprises are multiple and interlocking. For example, a social enterprise that increases access to electricity enables households to produce more at night or under poor daylight, thus strengthening their participation in the economy. The increased income then enables those households to save and be more resilient to health and economic risks. The increased income also assists them in moving out of poverty and advancing up the economic ladder. It also allows these households to increase their consumption, which further stimulates economic growth for their country.

3.4. Situation in ASEAN

Currently, because there is no consensus on the definition of social enterprises, most social enterprises are self-identified or loosely classified as social enterprises through their membership in various social enterprise networks. Other than cooperatives, there are relatively few legally recognized or accredited social enterprises; this is because only three countries in ASEAN (Malaysia, Thailand, and Viet Nam) have legal definitions or accreditation schemes. Even in these three countries, the majority of social enterprises are not legally recognized or accredited, because these are relatively recent governmental initiatives and the threshold to be recognized or accredited is relatively high.

The extent of the social enterprise sector across ASEAN varies greatly depending on the country. The four countries in ASEAN that have the most number of social enterprises are Indonesia (over 200,000¹), the Philippines (over 164,000²), Thailand (over 116,000³), and Viet Nam (over 165,000⁴). Many of the SEs counted are cooperatives. On the other end of the spectrum, the scope of the social enterprise sector in Brunei Darussalam and Lao PDR is perceived to be small with just a handful of social enterprises. In between, Cambodia, Malaysia, and Singapore have a few hundred to tens of thousands social enterprises. It should be noted that the scale of the sector reported by individual countries may not entirely be comparable due to varying definitions of what constitutes a social enterprise.

The majority of social enterprises in ASEAN are small, employing just a handful of employees. This is similar to the situation even in developed social enterprise markets like the United Kingdom (UK) where more than 50 percent of social enterprises have less than 10 workers

¹ Ahsan, Abdillah, and Emy Nurmawanti. 2016. *Cooperatives in Indonesia: Recent Conditions and Challenges*.

² British Council Philippines. 2017. *Reaching the Farthest First: The State of Social Enterprise in the Philippines*.

³ AVPN. 2017b. *Social Investment Landscape in Asia: Insights from Southeast Asia*.

⁴ ADB, 2017. Are Social Enterprises the Inclusive Businesses of Tomorrow?

(Asian Development Bank [ADB] 2017). Many are struggling with financial sustainability and face significant challenges to scaling up (e.g., skill set and financial access).

Social enterprises operate across a range of sectors, very much influenced by the structure of the overall economy. There are many social enterprise activities in the agricultural sector in countries like Indonesia, the Philippines, and Thailand compared to an urban economy like Singapore, where there are hardly any. The distribution of social enterprises in a country reflects not only the severity of the need within each sector, but also the overall entrepreneurial ecosystem (ADB 2017). Social enterprises are constantly evolving and innovating with time and the changing needs of the society. Compared to a decade ago, in addition to the traditional social enterprises, there are now increasingly more social enterprises using technology and crowdfunding to drive social change. For example, Crowde in Indonesia is a crowd-investing platform that enables farmers to raise working capital through either a loan or profit sharing scheme; Jaga-me in Singapore provides an online platform to match caregiving and health care professionals to clients.

It is estimated that social enterprises currently represent a small fraction of the ASEAN economy. However, these numbers may just be the tip of the iceberg as there are many enterprises, especially micro, small, and medium enterprises that meet the general characteristics of a social enterprise but do not self-identify as such. Thus, the economic impact as well as the social and environmental impacts of social enterprises are currently underestimated.

3.5. Country Summaries

This section provides an overview of the social enterprise landscape in each country.

Brunei Darussalam

The government dominates social welfare provision in Brunei Darussalam as it aims to meet the lifelong basic needs of all Bruneians. The main social issues are poverty, especially female poverty, and youth unemployment.

With the relative dominance of the government in resolving social issues, the social enterprise sector is very small. The ecosystem is underdeveloped and many categories of SEs do not have any dedicated players.

The government does not have any policies specific to SEs. However, the government has policies to encourage small and medium enterprises (SMEs) and entrepreneurs. The government though recognizes the importance of SEs. For example, the Deputy Minister of Culture, Youth, and Sports has mentioned that creating a conducive environment for social enterprises to grow is in line with government's objectives. Events and talks to promote social entrepreneurship are now periodically organized.

Brunei Darussalam is a rich economy and is looking to diversify its economy. With increasing recognition and promotion of social enterprises, there are opportunities for the social enterprise sector to develop. Given the extensive involvement of the government in the Bruneian society and economy, there is scope for the government to play a catalytic role: for example, by teaching social entrepreneurship to more students, outsourcing to social enterprises, and/or seeding investment in social enterprises.

Cambodia

Cambodia is a lower-middle income country, and has had encouraging economic growth. It has a vibrant SE sector compared to countries at similar income levels. The number of SEs is estimated to be up to 1,847. Many of them are nongovernmental organizations (NGOs) with trading activities. As such, the vibrancy of the SE sector is closely linked to the large NGO sector in Cambodia. As grant funding has fallen dramatically in recent years, many NGOs start SE arms to bring in revenue.

There are no policies specific to SEs as a whole. However, NGOs and their business activities are often exempt from tax, and cooperatives and microfinance institutions are recognized in government legislation.

The sector has great potential because Cambodia's population is young and entrepreneurial, and there are still numerous unmet social needs. However, many enterprises, including social enterprises, are informal. This limits their access to business partners, investment, and markets.

Recommendations include more government support, more support for rural and local entrepreneurs, increased funding at smaller sizes, and social entrepreneurship education.

Indonesia

Indonesia is the most populous country in ASEAN and one of the top impact investment destinations in the region. The country has a young and rapidly growing social enterprise sector. The most popular form of social enterprises is the cooperative, especially in the agricultural sector. Cooperatives account for an estimated 1.7 percent of gross domestic product (GDP)¹. Financial services such as microfinance is another popular area of social enterprise activity, and the microfinance market in Indonesia is estimated to have over 200 million potential clients.

The outlook is bright in terms of the potential for social enterprises in Indonesia to contribute economically and socially. The growth of the middle-class is likely to boost consumption of socially-conscious products, and the large size of the bottom of the pyramid market represents opportunities for businesses to serve the poor directly by providing goods or services. Further, in recent years, more individuals and groups have started to provide support services for the social enterprise ecosystem. Capacity builders, impact investors, and network providers have established themselves in the country, consequently providing stronger support for social enterprises. The Indonesian social finance ecosystem is also transitioning to a growth-oriented stage, which should increase investment support for social enterprise.

Key challenges faced by social enterprises include talent retention, market development, access to financing, and business registration issues. These challenges are similar to those faced by entrepreneurs starting a business in the country.

Hence, recommendations include creating a more business friendly environment and more targeted government support for social enterprises. These steps would also help ameliorate the challenges currently caused by the limited number of local investors and the limited number of businesses operating at sufficient scale to attract impact investors.

Lao PDR

Lao PDR is a lower-middle income economy. There is limited information on its SE sector. It is presumed that the sector is small with most SEs at the seed stage and other early stages of

development. There is no specific policy support for SEs. There are some organizations and government departments that encourage entrepreneurship, although none are focused on social entrepreneurship.

Given the growing economy and unmet social needs in Lao PDR, the SE sector has potential to grow. Social entrepreneurship can be a way to meet unmet social needs sustainably, reduce inequalities, and further promote economic growth.

More research needs to be done on the SE sector in general and how SEs can help vulnerable groups such as the minorities in particular.

Malaysia

The Malaysia government published a social enterprise blueprint in 2015 and policy support has grown rapidly since then. According to the government-funded SE center MaGIC, Malaysian social enterprises are relatively young and small in size, with a majority founded in the past six years. The sector is currently not large, but it is growing rapidly.

MaGIC (the Malaysian Global Innovation & Creativity Centre) is active in grooming SEs and is spearheading various efforts to grow the social enterprise sector. Various ecosystem players have also been brought together by MaGIC to form Malaysia's Social Inclusion & Vibrant Entrepreneurship (MasSIVE), a movement to improve ease of access, forge collaborations between key stakeholders to accelerate industry growth, and help ignite policy changes to further ensure inclusion.

In July 2017, Malaysia launched the Impact-Driven Enterprise (IDE) Accreditation Program to validate and recognize the efforts of social enterprises that generate positive social impact. The program strives to facilitate and encourage private and public-sector actors to engage social procurement as part their work. IDEs receive advantages in relevant procurement contracts by impact partners; IDEs also receive capacity building support. As of May 2018, there are at least 63 IDEs and many impact partners participating in the program, including corporations, international development agencies, and government agencies.

Many of the efforts by MaGIC started in recent years and are still in early stages of their implementation. As a result, the full impact has yet to be realized. However, even with that in mind, it is clear that Malaysia is on the path to be a trailblazer for ASEAN in terms of policy support and fostering an enabling ecosystem for SEs.

Myanmar

With its recent economic opening, Myanmar is the last ASEAN economy to industrialize. As such, it has a great economic growth potential. It is experiencing an entrepreneurship boom that is partly driven by young business graduates who are part of the country's very young population, with a median age of 30. The development of the social entrepreneurship sector in Myanmar is part of this economic growth. While the concept is from abroad, social enterprises existed in Myanmar before the current boom. Agricultural cooperatives and microfinance institutions are the largest groups of social enterprises. There are over 30,000 cooperatives and over 100 microfinance institutions.

The social entrepreneurship landscape in Myanmar is rapidly growing, and social enterprises beyond cooperatives and microfinance firms are developing. The social entrepreneurship sector is also driven not only by NGOs, but also by a wide variety of other players including small enterprises and associations. In addition, the entry into the sector of capacity builders and funders has increased the momentum for social businesses to form. Local groups such as

Social Enterprise Development Association Myanmar (SeDAM) and the Myanmar Young Entrepreneurs Association are advocating for the concept of social entrepreneurship in the country. The sector is increasingly receiving attention from the government, with government officials attending various social entrepreneurship events.

Key challenges faced by social enterprises in Myanmar include the acquisition of business skills, talent acquisition, poor public awareness of social enterprises, and limited access to financing such as bank loans. Many social enterprises are also below the minimum funding level for impact investment funds, and local investors are largely absent. To fully realize the economic and social potential of social enterprises, policies can target these issues.

The Philippines

The Philippines has seen robust economic growth in recent years. However, disadvantaged groups still suffer from high income inequality, lack of services such as education, and high crime rates. The country has a vibrant and growing social enterprise sector, with active and varied players in every part of the ecosystem. There are estimated to be over 160,000 SEs, most of them cooperatives. Some of the SEs are relatively large scale, unlike in some other ASEAN countries.

Many social enterprises in the Philippines help their beneficiaries by providing employment. Outside the capital, Manila, opportunities are relatively untapped and starting to attract new generation SEs, especially in conflict-riven or ex-conflict areas.

There is no targeted policy support yet for social enterprises, but there are two proposed bills that contain a range of support measures such as legal recognition, a dedicated government department, and preference in public procurement for SEs. If the Philippines passes these two bills, it can establish one of the most conducive policy environments for social enterprise in ASEAN.

Major obstacles facing the sector are the regulatory environment (considered disadvantageous to SEs), lack of access to finance, a lack of effective impact measurement mechanisms, and low public awareness.

Singapore

Singapore is an affluent city-state with relatively comprehensive social service provision. Many social enterprises focus on providing employment for marginalized groups as well as products and services missing in the market. Unlike in many ASEAN countries, most of the social enterprises are local and are not connected to or supported by international development agencies. The number of SEs is small, estimated at less than 500. The majority were incorporated after 2012, suggesting a young and growing social entrepreneurship landscape.

Singapore has a strong social entrepreneurship ecosystem and is a hub for regional impact investment. The government provides strong support through ecosystem players such as the Singapore Centre for Social Enterprises (raiSE) which was established in 2015. Although it does not accord any legal status or preferential tax treatment to social enterprises, many funds and grants are available to social enterprises via various government agencies.

raiSE identified three major challenges for Singaporean SEs: customer acquisition and market development, lack of public awareness, and access to financial support. The survivability of social enterprises beyond the first two to three years of existence also remains a challenge. Many social enterprises have difficulty sustaining their operations in the competitive business environment while also generating social returns.

Thailand

The social enterprise sector in Thailand is one of the most vibrant in ASEAN. Thailand is one of the few ASEAN countries with a legal definition for social enterprises. The recent social entrepreneurship movement in Thailand began with the development of the National Master Plan (2010–2014). A Royal Decree on Tax Exemption (No. 621) B.E. 2559 was passed in 2016 with tax incentives and a legal definition for social enterprises. The currently-pending Social Enterprise Promotion Bill promises further support for social enterprises when passed into law. The corporate sector is also supportive of social entrepreneurship. For instance, the Stock Exchange of Thailand offers incentives for companies to shift their corporate social responsibility approach towards social entrepreneurship. Thus it can be said that social enterprises in Thailand benefit from a relatively conducive business environment, as well as a vibrant ecosystem with numerous enablers.

Despite this, the economic potential of the sector has yet to be realized, as many social enterprises are small and in the seed stage or other early stages of development. There appears to be extensive room for economic growth within the sector, and supportive policies can ensure that Thailand can continue to be one of the most active social enterprise landscapes in Southeast Asia.

Social enterprises face several challenges in Thailand. Beyond the usual business challenges of talent acquisition and market development, there appears to be a funding gap in social finance. Social enterprises often lack the capacity to absorb the amounts investment investors look to make. In addition, the current criteria for legal recognition of social enterprises may be too restrictive for some social enterprises. For example, the current criteria limit the ability to pay shareholders and investors.

Viet Nam

Since liberalizing its economy in 1986, Viet Nam has seen rapid economic growth. The social enterprise sector, however, has been comparatively slow to develop. In 2008, the Center for Social Initiatives Promotion, the first support organization for social enterprises, was established. With the decline in international aid available to Viet Nam as a result of its strengthening economy, social enterprises have been gaining momentum as NGOs consider setting up SE arms to reduce their reliance on donations.

In 2015 with the passage of the Law on Enterprises of Viet Nam, the country became the first Southeast Asian nation to formally recognize social enterprises. There are, however, still relatively limited benefits associated with that legal status, although registered social enterprises are allowed to receive foreign aid.

The difficulties faced by social enterprises in Viet Nam include limited public awareness, lack of tangible government support, and difficulty in accessing financial resources. However, the SE sector in Viet Nam has potential to grow due to economic growth, the diversity of existing SEs, a young economy, and relatively widespread adoption of mobile technology. Recommendations include government incentives to accompany the legal definition, closing the funding gap, capacity-building, and network-building.

4. POLICY FRAMEWORK

4.1. Introduction

The research team for this project assessed the state of policy framework to encourage social enterprise growth in each ASEAN country.

We identified the following as the three key basic components of an effective SE policy framework, and assessed the status of each component in each ASEAN Member State:

Specific legal definition

The specific legal definition is the definition of social enterprises in official legislation. It would usually be accompanied by an official registry of SEs. With a clear demarcation between SEs and non-SEs, the government has a legal basis for further incentives. Social enterprise accreditation scheme by government agencies is also broadly included under here.

Tax exemptions and incentives

The government can exempt or reduce SEs' tax burden. SEs often have tighter bottom lines due to the cost of their positive social and environmental impact commitments. This means that if they have to compete on the same terms as commercial businesses, they might lose out and not be able to sustain the positive impact desired. Therefore, to encourage such the efforts for positive social impact, governments can help the bottom lines of SEs by reducing their tax burdens.

Incentives to invest in or buy from SEs

Governments can incentivize companies and organizations to invest in or buy from SEs. This can be through tax incentives, awards, preferred public procurement, and other means.

We have indicated the state of development for each of components in each country with numbers from 1 to 4. A rating of "1" denotes that the policy instruments are absent and have not been planned in any policymaking body as far as we know. A rating of "2" denotes that the relevant policy instruments have been proposed or planned in policymaking bodies but have not been implemented yet. A rating of "3" denotes that the instruments in question have been implemented. A rating of "4" denotes that policy instruments have been in place for a considerable number of years and are widely utilized by SEs. For reasons explained below, none of the countries scored 4 in any of the categories.

Clearly, these policy instruments are not the only tools available to encourage SE development. Governments can help SEs through funding, by encouraging ecosystem support, or by adopting pro-enterprise policies in general. Those measures are discussed in the next section of this report. Governments can also regulate social investment or impact measurement. However, no ASEAN country has taken these steps. Therefore, we concluded that the three components mentioned above are the most relevant policy instruments for this study.

When judging the overall policy framework, it is important to keep in mind that definitions and incentives are interlocking in nature. Legal definitions without accompanying incentives are useful for self-promotion efforts by SEs, but such stand-alone definitions would not have as much impact on SEs' bottom lines or attract as many SEs to register.

That said, government support usually starts with a legislative definition. This is crucial to SE sector development. In a Thomson Reuters poll (Thomson Reuters 2016), nine of the top ten countries in terms of government support also ranked among the top ten places for social entrepreneurs. The importance of these linked efforts is clear. For example, in the U.K. it has been noted that “the speed and scale of (SE sector) development has been due, in large part, to the role of government as catalyst and facilitator” (British Council 2015). Therefore, if a country establishes either a legal definition or an incentive system but not the other, the impact is likely to be minimal.

4.2. The situation in ASEAN

Most ASEAN nations have not implemented policy instruments to encourage social enterprise growth. And plans for such instruments are nascent at best.

Malaysia, Thailand, and Viet Nam were the first to either have a legal definition or accreditation scheme for SEs. However, the Vietnamese definition is not accompanied by incentives and is said to have had a limited impact. Malaysia’s accreditation scheme only started in July 2017 so its impact remains to be seen. If Viet Nam and Malaysia achieve positive results in boosting the SE sector by having a legal recognition and/or accreditation scheme, more ASEAN governments might adopt similar policy instruments. This especially applies to the Philippines, which has draft legislation to recognise social enterprises and is awaiting approval from the Senate.

Thailand is in a unique position in this respect. It passed the Royal Decree on Tax Exemption (No. 621) B.E. 2559 in 2016, with a legal definition for social enterprises and tax incentives. However, it is not clear that how successful the implementation has been. The Stock Exchange of Thailand has though provided additional incentives for the SE sector, but as argued above, these will not have as much impact until there is successful implementation of the legislation to support SEs in an effective manner.

Singapore, on the other hand, has supportive policies for enterprises that also benefit social enterprises. In the 2016 Thomson Reuters global poll mentioned above, Singapore is ranked second-best, after South Korea, for government support of SEs even though it does not have separate legal recognition or accreditation scheme for social enterprises.

4.3. The situation in each country

This study has assessed each country’s current situation with regard to the three policy instruments mentioned above. After a summary of the numerically assessed findings (Figure 4.3), this section provides a brief description of the situation in each ASEAN Member State.

Brunei Darussalam

Brunei Darussalam has not implemented any of these instruments. There is no draft legislation or high-level push for these policy instruments as far as we know.

Cambodia

Cambodia has not implemented any of these instruments. There is no draft legislation or high-level push for these policy instruments as far as we know.

However, NGOs, which dominate the social entrepreneurship landscape in Cambodia, benefit from generous tax exemptions when related to specific social missions. Therefore, the greater need is for incentives for the public and/or private sector to buy from and invest in SEs.

Figure 4.3 SE Policy Instrument Status, by Country in ASEAN

Country	Specific legal definition of SEs	Tax exemptions and incentives for SEs	Incentives to invest in or buy from SEs
Brunei Darussalam	1	1	1
Cambodia	1	1	1
Indonesia	1	1	1
Lao PDR	1	1	1
Malaysia	3	1	3
Myanmar	1	1	1
Philippines	2	2	2
Singapore	1	1	1
Thailand	3	2	3
Viet Nam	3	1	1

Source: Author's Research

LEGEND	
1	Absent
2	Absent, Initial Phase, Discussion/Planned
3	Present, Early Stage
4	Present, Established/Mature Stage

Indonesia

Indonesia has not implemented any of these instruments. There is no draft legislation or high-level push for these policy instruments as far as we know.

The Indonesian government has just started to encourage social enterprises. Although the current efforts are in the form of ecosystem support rather than legislation, the increased government interest can be a basis for advocates to push for beneficial policies.

Lao PDR

Lao PDR has not implemented any of these instruments. There is no known draft legislation or high-level push for these policy instruments.

Malaysia

Although Malaysia only published a social enterprise blueprint in 2015, policy support has grown rapidly since then.

In late 2017, Malaysia rolled out an accreditation scheme, the IDE (Impact-Driven Enterprise), accompanied by support for relevant public procurement contracts. Over 60 IDEs were accredited as of May 2018. However as the scheme is new, the impact remains to be seen.

Under the National Entrepreneurship Development Plan, the government plans to establish a Social Enterprise Policy which will lay a clear direction for SEs, clarify their legal status, and regulate impact measurement. Malaysia seems on track to blaze new trails for ASEAN in SE-related policy development and implementation.

Myanmar

Myanmar has not implemented definitions or incentives applicable to all SEs. A law and policy relating to cooperatives are in place. There is also a Microfinance Law, which has provided a way for many microfinance institutions to become legal entities, promoting growth of microcredit in the country.

The Philippines

The Philippines has two draft bills that relate to SEs. The Poverty Reduction through Social Enterprise (PRESENT) Bill suggests an official definition, a capacity building program and the establishment of a Social Enterprise Council to develop social enterprises. The Social Value Bill, modelled after the UK's Social Value Bill makes "social value" an addition criterion for government procurement.

To create an SE-enabling policy environment, the Philippines would need to pass these bills and effectively implement them.

Singapore

Singapore has not implemented any of these instruments. However, government support for the SE ecosystem is strong. Social enterprises can be registered as a member of *raiSE*, the Singapore Centre for Social Enterprise, and receive recognition as a Business for Good. This is not yet an accreditation scheme and it has relatively relaxed criteria meant to support the growth of the sector. Registration with *raiSE* is the avenue many social enterprises take to differentiate themselves from other enterprises.

The public sector is among the top three revenue sources for Singaporean SEs (*raiSE* 2017). So, if the public sector is encouraged to procure more from SEs through a social procurement act, that will further boost SEs. Incentivizing private companies to invest more in SEs will improve access to financial support. These factors indicate that, even though Singapore's more informal approach has benefitted SEs, it would still be advisable for the government to enact the policy instruments described in this report.

Thailand

In 2016, Thailand passed the Royal Decree on Tax Exemption (No. 621) B.E. 2559 with a legal definition for social enterprise. The core criteria for legal recognition are the following:

- 1) Be established under Thai law, with the objectives of operating a business for the sale of goods or provision of services;

- 2) Aim to promote employment at the location of its social enterprise, or solve problems or develop local communities, societies, or the environment; and
- 3) Not emphasize maximizing profits for shareholders or partners, with at least 70 percent of its profit invested back into the business, or for the benefit of farmers, the poor, the disabled, the disadvantaged, or other common benefits as prescribed by the minister of finance.

(Extracted from Supakijjanusorn and Annez, "A Legal Framework to Promote Social Enterprises in Thailand.")

To enjoy incentives such as corporate income tax exemption on net profits, a social enterprise must meet even stricter criteria, including investing 100 percent of its profits in the business or for the benefit of farmers, the poor, the disabled, the disadvantaged, or other common benefits as prescribed by the finance minister (Supakijjanusorn and Annez 2017). Such strict criteria have made some SEs reluctant to register under the government's definition.

A Social Enterprise Promotion Bill has been drafted and is pending. If passed, it would establish a National Social Enterprise Committee, a National Social Enterprise Office and a Social Enterprise Fund. There would also be new definitions and promotion measures for social enterprises, and the use of the title "social enterprise" by unregistered businesses would be prohibited.

Viet Nam

Viet Nam was the first Southeast Asian country to legally recognize social enterprises. The two core criteria that a legally recognized social enterprise needs to have are

- 1) Its objective is to solve social and environmental issues for community benefit; and
- 2) At least 51 percent of its annual surpluses are reinvested and used for registered social and environmental goals.

However, Viet Nam does not have any accompanying incentives to support SEs except that they are allowed to receive donations.

5. ECOSYSTEM

5.1. Introduction

This section provides an overview of the social enterprise ecosystem in ASEAN. The social enterprise ecosystem refers to the environment within which the social enterprises operate. The ecosystem may be different from that of traditional enterprises due to the social enterprises' unique goal of doing good while being sustainable or profitable at the same time.

Ecosystem players,⁵ including professional and support services providers, capacity builders, research institutes, network providers, fund providers, and competition organizers provide an array of support and services to create an enabling environment that helps the social enterprise sector thrive. The development of ecosystem players is tied closely to the development of the social enterprise sector. A vibrant ecosystem tends to support a vibrant social enterprise sector. Policy makers are also integral to the ecosystem. Due to their very significant role, they are covered separately above in the policy framework section of this report.

5.2. The situation in ASEAN

The ecosystem in ASEAN has evolved rapidly over the past decade. Some players have been established locally with significant support from the policy makers such as raiSE (Singapore) and MaGIC (Malaysia). Many others have been established through the efforts of private corporations and individuals, such as ChangeFusion (Thailand), the DBS Foundation (Singapore), and myHarapan (Malaysia). In addition, other SEs are supported by foreign players—either through funding or the establishment of local offices in ASEAN. Examples of these foreign players include Bamboo Capital Partners, the British Council, the Omidyar Network, and Patamar Capital.

The role and influence of the different categories of players are discussed below.

Professional and support service providers

Many social enterprises are very lean operationally and have to seek support from outside providers in areas such as marketing, legal, management consulting, and finance. Professional and support service organizations provide SEs with an array of business development services and facilities. In so doing, they play an important enabling role for a thriving social enterprise sector.

Service providers are very varied in their specialties. They can be legal firms, marketing companies, audit and accounting companies, or management consulting firms. Many provide services to other sectors of the economy in addition to supporting SEs.

Capacity builders

Capacity builders play a crucial role in developing the knowledge, skill, and business acumen of social entrepreneurs and their staff. They can be incubators/accelerators, social entrepreneurship educators, or facilitators of learning and exchange platforms.

Across ASEAN, a wide variety of capacity builders are running a diverse collection of incubation and acceleration programs to help SEs scale up and reach the next level. These

⁵ Categories adapted from European Commission (2015) *A Map of Social Enterprises and their Eco-systems in Europe* and raiSE (2017) *The State of Social Enterprise in Singapore*.

include ChangeVentures, MaGIC, raiSE, SHE Investment, UnLtd Indonesia, and Xchange. There are also corporations, such as Banpu Public Company and Singtel, that run incubation and acceleration programs as part of their corporate social responsibility efforts.

Social entrepreneurship educators are organizations that have programs to educate students and/or public on social entrepreneurship in order to create better awareness and understanding of the sector. Many of these educators are higher learning institutions within ASEAN such as Ateneo de Manila University, Ngee Ann Polytechnic, Srinakharinwirot University, and Vietnam National University. Some of their students go on to become advocates, consumers, or even founders of new social enterprises.

Lastly, facilitators of learning and exchange platforms for social enterprises are organizations that have a mechanism for learning and sharing information. Examples include the British Council, Platform Usaha Sosial, and Social Enterprise Cambodia.

Research institutes

Research institutes provide independent knowledge and insights to the social enterprise sector. They are crucial for identifying and addressing sector/market gaps, needs, challenges, and opportunities and for keeping SEs informed. In ASEAN, this category of ecosystem players is just emerging; few ASEAN countries have established players.

For many of these research institutes, SE-related research is only a small fraction of their total work on the broader economy. Currently active institutes include the Cambodia Development Resource Institute and Thammasat University. Experience in the ASEAN countries shows that as the SE sector gains traction in a country, research institutes set up to focus on the sector emerge. One example is the Asia Centre for Social Entrepreneurship and Philanthropy, a research center established in 2009 within the National University of Singapore.

Network providers

Social enterprise networks are umbrella organizations that support social enterprises. They often play an advocacy role to advance social entrepreneurship. They speak on behalf of the SE sector to make their voices better heard in policymaking circles and to advance policy proposals that benefit the sector.

Many also provide a wide range of support services like mentorship programs and offer a vibrant network of capacity builders/sector role models that social enterprises can tap into to scale their business and social impact. Networks play a crucial role in helping social enterprises reach out to peers and external parties for collaboration.

Some network providers like MaGIC and raiSE receive significant government funding because they serve the public good. Others, such as Impact Hub Phnom Penh and the Philippine Social Enterprise Network, are entirely privately led and funded.

Fund providers

Most social enterprises are started with funds from their founders. It is in the scaling up phase that social entrepreneurs more commonly start seeking external funding. Fund providers play an essential role to provide start-up and expansion capital to social enterprises. The players in this segment are varied as they range from organizations that provide grant money (with no expected return) to organizations that provide debt and/or equity funding to social enterprises. They include banks, impact investors, corporations, and foundations.

Across ASEAN, notable fund providers to social enterprises include Angel Investment Network Indonesia (ANGIN), Banpu Public Company, DBS Bank, Garden Impact Investment, Kinara, LGT Impact Ventures, MaGIC, myHarapan, Omidyar, raiSE, Patamar Capital, and Uberis Capital. As compared to the other categories, this category of ecosystem players seems to have more players with foreign support or influence.

Competition organizers

There are increasingly more competitions for social enterprises in ASEAN. These competitions often seek to find promising social enterprises taking innovative approaches to solve social issues. Many competition organizers provide incubation and networking support for shortlisted social enterprises and also award grant money to the winning social enterprises. With their marketing campaigns, these competitions enhance the visibility of the sector and promote a culture of social entrepreneurship.

Some of the better-known competitions across ASEAN include the following:

- The Southeast Asia version of the Global Social Venture Competition run by Thammasat University;
- The DBS–NUS Social Venture Challenge Asia, which has received over 3,000 applications and given out US\$ 645,000 in funding since 2014 (DBS–NUS Social Venture Challenge Asia 2018); and
- The Mekong Challenge, an annual entrepreneurship competition for university students across the Mekong Region.

5.3. Situation in each country

This study has assessed each country's current situation with regard to its SE ecosystem. After a summary of the numerically assessed findings (table 5.3), this section provides a brief description of the situation in each ASEAN Member State.

Brunei Darussalam

The SE ecosystem in Brunei Darussalam is at a nascent stage of development with no major players currently involved.

Cambodia

Cambodia has an emerging ecosystem. There are a few entities from different categories of ecosystem players. The more prominent players are Arun Capital, Development Innovations, and Impact Hub Phnom Penh.

Indonesia

Indonesia has a vibrant ecosystem with good support and services for its growing number and variety of social enterprises. There is a good mix of players across all the categories of ecosystem players. Players include Angel Investment Network Indonesia, Ashoka Indonesia, Endeavor Indonesia, Kinara, Platform Usaha Sosial, UnLtd Indonesia, and YCAB Foundation.

Lao PDR

The SE ecosystem in Lao PDR is at a nascent stage of development with no major players currently involved.

Table 5.3 SE Ecosystem Status, by Country in ASEAN

Country	Overall SE Ecosystem Sector
Brunei Darussalam	1
Cambodia	2
Indonesia	3
Lao PDR	1
Malaysia	3
Myanmar	2
Philippines	3
Singapore	3
Thailand	3
Viet Nam	2

Source: Author's Research

LEGEND	
1	No major players and is in a nascent stage.
2	Some emerging players and there is room for improvement.
3	Vibrant with good support and services.
4	Matured with excellent support and services

Malaysia

Malaysia has a vibrant ecosystem with good support and services. Support from the government has led to the creation of MaGIC, which is spearheading various efforts to grow the social enterprise sector. There are a number of capacity players, such as Agensi Inovasi Malaysia, the Good Shop, InspiraC, Khazanah National Berhad, myHarapan, and Tandemic, that are supporting social enterprises. MaGIC has also brought together various ecosystem players to form Malaysia's Social Inclusion & Vibrant Entrepreneurship (MasSIVE) movement to improve ease of access, forge collaborations between key stakeholders to accelerate industry growth, and help ignite policy changes to further ensure inclusion (Malaysia Business Online 2018).

Myanmar

Myanmar has an emerging SE ecosystem. The more prominent players in Myanmar include the British Council Myanmar, the Myanmar Young Entrepreneurs Association, Office Cubed, and the Social Enterprise Development Association Myanmar. There are also new players like Opportunities NOW and Rockstart Impact.

The Philippines

The Philippines has a thriving ecosystem with a good mix of players across all of the categories. Since 1999, the Philippine Social Enterprise Network has served as a coalition of NGOs and social enterprises to promote social entrepreneurship and market development through a number of means such as development of replicable models and strategies, exchange of experiences, and advocacy. Other prominent players include the Ateneo Center for Social Entrepreneurship, Baba's Foundation, the British Council Philippines, Gawad Kalinga Enchanted Farm, the Institute for Social Entrepreneurship in Asia, Kickstart Ventures, the Poverty Reduction Through Social Entrepreneurship (PRESENT) Coalition, and Xchange.

Singapore

Singapore has a vibrant ecosystem with good support and services. There are many prominent players such as Asia Centre for Social Entrepreneurship and Philanthropy, DBS Foundation, Garden Impact Investment, Impact Investment Exchange, the National Trades Union Congress (NTUC), and raiSE.

Thailand

Thailand has a vibrant ecosystem backed by many corporations. The prominent players include Banpu Public Company, ChangeFusion, Ma:D Club for Better Society, the Stock Exchange of Thailand, Thammasat University, and the Yunus Center at the Asian Institute of Technology.

Viet Nam

The SE ecosystem in Viet Nam is still emerging. The prominent players include the British Council Vietnam, the Center for Economic Development Studies, the Center for Social Initiatives Promotion, Hatch!, and Patamar Capital.

6. SOCIAL FINANCE

6.1. Introduction

Social finance is a way of managing money in which decisions are based on values and assessed in a holistic way, taking into account the returns to society and the environment on top of the usual financial return (European Commission 2016).

6.2. Situation in ASEAN

The social finance landscape in ASEAN is in the early stages of development. The volume of funds disbursed is low and the deal structures of the financial instruments being used are basic compared to more mature markets like India and the UK. Within ASEAN, the top three impact investment destinations of interest are Indonesia, the Philippines, and Viet Nam (UNDP 2016). These are the more populous countries within ASEAN—all with a large young population and maybe more social needs. Regulatory challenges and mismatches of supply and demand left many ASEAN countries in the situation of the missing middle gap. In this gap, on the supply side, there are few social enterprises in the investment-ready stage and many in the seed/early stages. On the finance side, there are few impact investors willing to fund the seed/early stages and more impact investors willing to fund the investment-ready stage.

To better understand the financing situation for SEs, this study examined the sources of funding, the financing instruments, and the supply-demand landscape for social enterprises.

Sources of Funding

Financing for social enterprise comes from a variety of sources (adapted from the 2016 UNDP paper on Social Finance and Social Enterprises) including the following:

- i. **Personal capital** is funding from the social entrepreneurs themselves (self-financing).
- ii. **Friends and family** are often the first funding sources for many social entrepreneurs. This funding is often the easiest to obtain and often involves minimal documentation (if any at all).
- iii. **Philanthropists** provide traditional grants or venture philanthropy grants (discussed further below). Philanthropists can be foundations or high net worth individuals. Examples in ASEAN include Asia Philanthropic Ventures and the Tanoto Foundation.
- iv. **Crowdfunding** is an emerging avenue to raise funding for the social enterprises in which funding is raised through small contributions from large numbers of investors. This is often done through online platforms. The capital raised can take the form of donations, equity investment, or debt. Platforms in ASEAN include Crowde.co, Give.asia, Kitsabisa.co.id, and Taejai.com.
- v. **Angel Investors** are individuals with significant capital who start investing in an enterprise during the earliest stages of its development. Angel investors often also provide mentorship. Angel investors are present in ASEAN. Some countries even have organized angel investor groups to facilitate collective action such as sourcing, due diligence, and syndication. One example is the Angel Investment Network Indonesia.

- vi. **Government schemes** provide another source of funding. Many of these schemes in ASEAN are not specifically for social enterprises but rather support small and medium sized enterprises (SMEs), a category that includes social enterprises. An example in Indonesia is the Revolving Fund Agency for Cooperatives and SMEs, a task force established by the Ministry of Cooperatives and SMEs. This agency uses government funds to make low-interest (below market rate) loans to cooperatives and SMEs. In Singapore, Enterprise Singapore provides an array of support schemes for SMEs, including productivity solution grants, capability development grants, and market readiness grants.
- vii. **Impact investors** can be individuals, venture capitalists, or family offices who fund social enterprises to generate a combination of financial returns and social and/or environment returns.
- viii. **Impact investment managers** are professional firms that source for deals, conduct due diligence, and execute impact investment deals. In ASEAN, there are a significant number of foreign impact investor managers such as Bamboo Capital Partners, Omidyar Network, Patamar Capital, responsAbility, and Root Capital. Asian-based impact investment managers are relatively few in number. They include Arun and Garden Impact Investment.
- ix. **Intermediaries** link investors, managers, and other stakeholders to social finance deals. They provide advice and help in structuring deals and managing funds. Intermediaries can include investment banks, wealth managers, independent financial advisors, brokers, dealers, international organizations, and consulting firms (UNDP 2016). Intermediaries in ASEAN include Impact Investment Exchange Asia and UBS.
- x. **Banks** are an important source of capital for social enterprises, especially for mature stage social enterprises that have the collateral needed to secure bank funding. Since banks provide financial services, many social enterprises have client relationships with banks for their day to day operations. However, many early stage social enterprises are often unable to access finance from banks due to their lack of collateral.
- xi. **International multilateral organizations** such as the Asian Development Bank and the International Finance Corporation (IFC) support various initiatives related to social enterprises and inclusive businesses. They directly invest in noteworthy social enterprises or provide capital through intermediaries. For example, in 2016, the IFC announced its participation in the Falcon House Partners fund, an Indonesian private equity fund focused on companies with consumer-facing products and with a commitment to sustainable companies.

Financing Instruments

The financing instruments available to social enterprises include the following (adapted from UNDP 2016):

- i. **Grants and donations** are the tools of traditional philanthropy and require no repayment. They usually come from government agencies, foundations, or corporate

social responsibility funds of corporations. They can be project-based and competitively won, often coming with some form of public recognition for the donor. Across ASEAN, such funders include Banpu Public Company, the DBS Foundation, MaGIC, raiSE, Singtel, and the Tanoto Foundation.

Grants also come in the form of **venture philanthropy**. Venture philanthropy grants do not require repayment; grantees are treated as venture capital recipients in terms of the selection process, reporting requirements, objectives, and capacity building support. Venture philanthropy grants fund innovative social enterprises' early operations and are typically made together with impact investments. LGT VP is an example of such a funder.

- ii. **Debt** is a loan that must be repaid with a return. The most commonly available form of debt is commercial lending, which is collateralized as offered by banks and impact investors. Many social enterprises in ASEAN have difficulty accessing this type of loan because they lack collateral. A survey in the Philippines among social enterprises identified commercial loans as the least common form of financing, probably due to demanding access costs in the form of requirements involving collateral, strong business plans, revenue prospects, and established credit worthiness (British Council 2017). Noncollateralized commercial loans are less common and, given their riskier nature, also require higher rates of return. Other types of loans include revenue share loans (usually offered by impact investors), and accounts receivable loans offered by trade financing companies. These two types of loans are less common in ASEAN.
- iii. **Equity** is a means of financing in which investors receive ownership shares in the entity in exchange for the capital they invest. Impact investors and angel investors usually provide equity financing.
- iv. **Convertible notes** are a form of debt that can be converted into equity at a discount at certain trigger point. This instrument is often used by impact investors who are not able to determine the value the social enterprise at the time the investment is first made or by foreign-based impact investors who cannot directly inject equity into the social enterprises (UNDP 2016).

Supply and Demand

The financing environment for SEs also involves understanding how the playing field looks from both supply side (funders) and the demand side (SEs).

i. Supply

With the growing wealth in the region, there are increasingly more funders, such as high net worth individuals, venture philanthropists, impact investors, and commercial banks, willing to fund social enterprises. Impact investment products rolled out by intermediaries such as UBS are also often oversubscribed (Tan & Lam 2018). It seems that the landscape is awash with ready funds and potential funds looking for the right impact investment deals.

ii. Demand

Research and interviews with social enterprises across ASEAN for this study indicate that there is clearly a high demand for financing as financing is often mentioned as one

of the top challenges for SEs. In the Philippines, securing funding is identified as the most pressing issue for social enterprises and challenges to accessing capital are identified as the most common barriers to growth. Financial challenges are particularly prevalent amongst start-up and early stage social enterprises (British Council 2017). In Singapore, access to financial support is also identified as one of the top three challenges faced by social enterprises (raiSE 2017).

The relative availability of funds looking for investing opportunities does not seem congruent with the fact that many social enterprises are facing challenges in obtaining the funding they need. This incongruity is caused by imperfections in the social finance market. The abundance of funding is only for investment-grade social enterprises, while most SEs in ASEAN have not yet reached that stage and are instead in the start-up and other early stages of development (Tan and Lam 2018).

6.3. Situation in each country

This section provides a brief description of the social financing situation in each ASEAN Member State.

Brunei Darussalam

Brunei Darussalam does not seem to have a social finance landscape since its social enterprise sector is in its infancy.

Cambodia

Cambodia has an emerging social finance landscape. There are a few upcoming investment-grade social enterprises and a few impact investors—mostly foreign-based entities such as Arun and the Insitor Impact Asia Fund.

Indonesia

Indonesia has a developing social finance landscape. Compared to the ASEAN average, Indonesia has more social enterprises that are ready for investment. There are also many foreign-based impact investors and more local impact investors active in the country.

Lao PDR

Lao PDR does not seem to have a social finance landscape since its social enterprise sector is in its infancy.

Malaysia

Malaysia has a developing social finance landscape. It has some social enterprises that are ready for investment. There are also government-backed impact investment mechanisms as well as local and foreign impact investors operating in the country.

Myanmar

Myanmar has an emerging social finance landscape. There are a few upcoming investment-grade social enterprises and a few impact investors, mostly foreign-based.

The Philippines

The Philippines has a developing social finance landscape. Compared to the ASEAN average, the Philippines has more social enterprises that are ready for investment. There are also many

foreign-based impact investors as well as a steadily increasing number of local impact investors.

Singapore

Singapore has a developing social finance landscape. It has relatively few social enterprises that are ready for investment. The supply of funds for impact investment is relatively abundant and those funders have a regional focus, which means these funds are available to SEs throughout ASEAN. For example, a number of foreign-based impact investors have set up office in Singapore to invest regionally, such as Bamboo Capital Partners and the Omidyar Network. There are also local-based impact investors/intermediary such as Garden Impact Investment and Impact Investment Exchange Asia.

Thailand

Thailand has a developing social finance landscape. It has a number of investment-grade social enterprises and a number of local impact investors.

Viet Nam

Viet Nam has a developing social finance landscape. Compared to the ASEAN average, it has more social enterprises that are ready for investment. There are some foreign-based impact investors, such as Patamar Capital, and a few local impact investors as well.

7. CHALLENGES, OPPORTUNITIES, AND RECOMMENDATIONS

7.1. Challenges

Social enterprises face a number of challenges in the ASEAN region. Key among them are business registration, customer acquisition and market development, funding gaps, insufficient public awareness, scalability, and talent acquisition and retention.

Business registration

Social enterprises in ASEAN are businesses by nature and thus they need to get business registration. However, business registration in some ASEAN countries like Cambodia, Indonesia and Myanmar can be relatively challenging to obtain due to bureaucracy as the Ease of Doing Business Index by the World Bank indicates. Without being formally registered as a business, social enterprises in ASEAN often find it difficult to access social finance and other forms of support. Furthermore, in countries such as Malaysia and Viet Nam, social enterprises cannot be accredited until they have registered as a business.

Customer acquisition and market development

To sustain and/or expand their operations, social enterprises must constantly acquire new customers. This is especially true for enterprises whose services or goods are not procured by their customers on a recurring basis. Many social entrepreneurs tend to focus more on their creation of social/environment impact and find it harder to do this.

The number of customers a SE has often depends on the ability of the SE to communicate both social and economic value to potential clients. This, in turn, depends on both public awareness of the social enterprise and the quality of its staff. However, many SEs in ASEAN are small businesses with limited resources and may not have the know-how necessary to effectively communicate their value in ways that support effective customer acquisition and market development.

Funding gap

Across ASEAN, the lack of access to financial support is constantly mentioned as one of the top challenges for social enterprises. Generally, it is observed that there is lack of access to financial support for small social enterprises and ample access to funding for investment-grade social enterprises. However, the reality on the ground is that small and medium sized social enterprises dominate the sector in ASEAN while there are relatively few investment-grade social enterprises.

Small and medium sized social enterprises in the ASEAN region are often in the early stages of business development during which revenue generation is usually limited. These fledgling enterprises normally are seeking relatively small amounts of funding, but they have difficulty accessing commercial loans that require collateral. The small ticket sizes of their funding needs are also unattractive to funders as the costs of conducting due diligence can outstrip the potential earnings from small investments (UNDP 2016). The lack of access to financial

support is particularly acute for social enterprises seeking funding of less than US\$ 200,000 (ASEAN CSR Network 2017).

On the other end of the spectrum, there is a relative wealth of funds chasing the more established social enterprises that have a viable revenue model due to the more predictable return on their operations. For potential funders in this market segment, the issue is an inadequate supply of investment-grade social enterprises.

Public awareness

Across the countries and social enterprises surveyed, lack of public awareness is often mentioned as an obstacle for expansion. The public may not be aware of and/or understand the multiple bottom lines of social enterprises. They may not understand the social and/or environmental impact generated and are unwilling to pay more for the higher costs that social enterprises incur in taking steps to generate these positive environmental or social impacts.

Scalability

Many social enterprises in ASEAN face difficulties in scaling up their operations. The reasons are multifaceted and include the lack of access to social finance, difficulty in replicating and scaling up success, as well as challenges in customer acquisition and market development.

Talent Acquisition and Retention

Talent acquisition and retention is challenging across a number of ASEAN countries and was mentioned by a number of our interviewees. Some reasons given include the difficulty of matching market wages, the small pool of talent with the specific skill sets required, and the difficulty in promoting the SEs in order to attract talent. A job-hopping culture among the working population presents further challenges in talent retention.

7.2. Opportunities

The challenges do not tell the full picture. A number of opportunities offer hope for continued growth for social enterprises in the ASEAN region. Key opportunities include those created by the growing middle class, an active ecosystem that enables the social enterprise sector, the growing social finance sector, increasing awareness, and the potential of social enterprise sector.

A growing middle class

Southeast Asia as a whole is experiencing strong economic growth and relative political stability. Across many ASEAN countries, the middle class is growing quickly. As of 2012, estimates suggested that there were more than 190 million people in the middle-income bracket. By 2020, this number is expected to more than double to over 400 million people (Nielsen 2014). This rising affluent group is likely to drive the consumption of socially-conscious products and services produced by SEs.

An active ecosystem that enables the social enterprise sector

The social enterprise ecosystem in ASEAN is rapidly expanding. The number of enablers (e.g., incubators, capacity builders, and network providers) has been growing. Together with enhanced government support, the ecosystem has spurred the development of social enterprises, contributing to the growth of the sector.

A growing social finance sector

Multiple international impact funds are setting up offices and operating in more than one country in ASEAN. More significantly, local funders from across the whole spectrum of impact investment players are also showing growing interest in the sector. These factors have led to rapid growth in the number of funders across the region as well as the diversity of the types of funders available SEs, including grant makers, impact investors, venture philanthropists, and angel investors. This development has the potential to cater to the varying funding needs of SEs.

Increasing awareness

While public awareness of social enterprises is low, it has been growing in ASEAN, partly driven by the increase in reporting by the traditional media as well as social media. Socially conscious consumers are starting to place importance on the social and environment impacts generated by social enterprises and are become increasingly selective regarding the products they choose to consume. This has translated into some public support for the products of social enterprises. In addition, governments are starting to recognize that social enterprises can play a significant role in solving social issues in their countries. This is exemplified by the role that social enterprise has in the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

In addition, the global advocacy for the Sustainable Development Goals (SDGs) have fueled the need for awareness by businesses to think about their social and environmental impact, using frameworks such as the triple bottom line approach. Many corporations, grant makers, and impact investors now consider the SDGs when making their funding decisions, and this has opened up new opportunities for SEs in ASEAN.

Potential of the social enterprise sector

The SE sector in ASEAN has considerable potential. For comparison, in the UK, which is commonly viewed as having a dynamic social enterprise sector, official estimates suggest that there were about 284,000 social enterprises in 2012 (European Commission 2014); and in 2015 they contributed £55 billion to the economy an amount equal to 3 percent of GDP (Cabinet Office 2015). This percentage is even higher in the European Union, reaching about 10 percent of GDP (European Union n.d.). Limited statistics are available on the social enterprise sector in ASEAN. However, given that the total GDP of ASEAN in 2016 was US\$ 2.55 trillion (ASEAN Secretariat 2017), 3 percent to 10 percent of GDP would translate to between US\$ 76.5 billion and US\$ 255 billion. These figures suggest the SE sector in ASEAN has significant economic potential—potential which is currently mostly unfulfilled.

Besides the potential economic contribution to ASEAN, more significantly, social enterprises through their triple bottom-lines will contribute to many sustainable development goals and enable millions of people in ASEAN to improve the quality of their lives. SEs will also bring benefits to the ASEAN governments by reducing the cost of social assistance as millions of people may not need welfare help, increasing revenue through taxes as these people become tax generators as well as reducing the need for government intervention or the provision of essential goods and services (Shahmash 2010).

7.3. Recommendations

Concrete action in several areas could have an immediate impact on efforts to realize the substantial benefits a strong social enterprise sector has to offer. These include building a pro-business environment, closing the funding gap in the SE sector, expanding and enhancing regional networks and cross-fertilization within ASEAN, strengthening capacity building and networking for social enterprises, and expanding social entrepreneurship education.

Building a pro-business environment

Social enterprises' business operations are vital to them. Without a pro-business environment, SEs find it hard to run their operations in ways that generate social and environment impact as well as contribute to economic growth in ASEAN. On the World Bank's Ease of Doing Business index, four ASEAN countries—Cambodia, Lao PDR, Myanmar, and the Philippines—are ranked below the median (World Bank 2018). The business registration process can be long, tedious, and complicated. Registration can also be expensive. It would thus be good if these countries worked to create a pro-business environment by streamlining business registration and permit acquisition in line with the enhanced policy and regulatory environment goal in the ASEAN Economic Community 2025 Consolidated Strategic Action Plan. A pro-business environment would also go a long way towards promoting inclusive growth to provide the poor and the vulnerable with equitable access to economic and other opportunities (strategic measure B.2.9 of ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020).

Government and policy support

Across ASEAN, interviewees for this study reiterated the view that policy support will play a significant role in the development of the social enterprise sector. SE-friendly policies include tax exemption, preferential status for public procurement, and incentives for corporations that buy from and invest in social enterprises.

Recognition for social enterprise is also recommended by some interviewees in order to distinguish social enterprises from other enterprises. Recognition could come in the form of a legal recognition like Thailand and Viet Nam or an accreditation scheme like Malaysia. However, for such recognition to work, it will have to come with incentives for social enterprises or their investors.

Besides crafting social enterprise-friendly policies, government can also provide financial support through grants and investments to improve access to finance for social enterprises.

These measures directly link to the goals of increasing access to finance as well as enhancing policy and regulatory environment of the ASEAN Strategic Plan for SME Development 2016–2025 as well as strategic measures B2.8 and B2.9 of the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

ASEAN Economic Community 2025 Consolidated Strategic Action Plan

The ASEAN Economic Community (AEC) aims to achieve high economic growth in the region by increasing trade, investment, and job creation. The AEC seeks to strengthen and reinforce five characteristics of the ASEAN Economic Community by 2025 in the Consolidated Strategic Action Plan. One of the five characteristics is “a resilient, inclusive and people-oriented, people-centered ASEAN” (ASEAN 2017). To achieve that, driving equitable economic development to micro, small, and medium enterprises (MSMEs) as outlined in the ASEAN Strategic Action Plan for SME Development 2016–2025 is of great significance.

The key goals and outcomes of the ASEAN Strategic Action Plan for SME Development 2016-2015 are illustrated below:



(Reprinted from “ASEAN Strategic Plan for SME Development 2016–2025,” ASEAN Secretariat, 2015, p. 7.)

Closing the funding gap

Besides through direct government support, the funding gap for social enterprises can be also bridged by foundations, venture philanthropists, commercial banks, and impact investors. Foundations and venture philanthropists should be encouraged to support early-stage social enterprises with funds and capacity building initiatives to enable them to reach the investment-grade stage. Besides providing grants, guaranteeing loans so that social enterprises can access commercial loans should also be considered.

Policymakers can encourage such initiatives by relaxing rules or constraints that allow foundations to only contribute to non-profits. They can also help by being open to new ideas for social finance innovations such as crowdfunding and other initiatives to close the funding gap. By developing and enhancing the institutional framework for access to finance, policymakers can enhance the ability of social enterprises to access finance.

These measures directly link to the goals of increasing access to finance as well as enhancing policy and regulatory environment in the ASEAN Strategic Plan for SME Development 2016–2025 as well as the strategic measures B2.8 and B2.9 of the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

Regional networks and cross-fertilization within ASEAN

While a few SEs in ASEAN have expanded their operations beyond the borders of the country in which they were established, the potential for cross-fertilization within the ASEAN Economic Community is largely untapped. Some organizations interviewed suggested that cross fertilization could be expanded by offering incentives to SEs to venture to other ASEAN nations, preferential treatment in terms of SEs employing citizens from other ASEAN countries, and regional networks/platforms for SEs to network within ASEAN.

Even for SEs that remain only in their home countries, sharing of best practices and cross fertilization of ideas can be beneficial. This can even enable social enterprises to adapt, replicate, or franchise successful social enterprise models that have been proven effective in other ASEAN countries to solve similar social issues.

This suggests the need for a regional platform for cooperation among social enterprises as well as a regional network for intergovernmental cooperation in social enterprise policy and regulation. These measures directly link to the goal of enhancing market access and internationalization of the ASEAN Strategic Plan for SME Development 2016–2025 as well as the strategic measures B2.1 and B2.6 of the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

Strengthening capacity building and networking for social enterprises

In recent years, incubators, accelerators, and social enterprise competitions have sprouted in ASEAN. However, many social enterprises remain in the early stages of business development, and face difficulties progressing to the next level. Capacity building should be strengthened and be more targeted to help these social enterprises progress to investment grade. Currently, many of these efforts remain generic and lack the capability to effectively help social entrepreneurs. Mentors experienced in entrepreneurship can be brought in. Documenting successes as well as failures to share learnings would also be helpful. Impact measurement capacity building workshops could be created to meet the emerging need for such training for social enterprises.

These recommendations directly link to the goal of promoting entrepreneurship and human capital development of the ASEAN Strategic Plan for SME Development 2016–2025 as well as the strategic measure B2.6 of the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

Social entrepreneurship education

To drive awareness and interest in social enterprises, social entrepreneurship education should be developed and made readily available in ASEAN. This education could be in school targeting youth and can also take the form of education for the public. These steps would

make it easier for more people to take up social entrepreneurship and would thereby drive the growth of the sector.

These measures directly link to the goal of promoting entrepreneurship and human capital development of the ASEAN Strategic Plan for SME Development 2016–2025 as well as the strategic measure B2.6 of the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020.

8. CONCLUSION

The social enterprise sector currently constitutes a relatively small part of the ASEAN economy. With their mission to achieve social and/or environmental returns while also being economically self-sustaining, social enterprises sit at the intersection of the for-profit and the charity sectors. They are promising agents to improve the socio-economic status of the millions of vulnerable and poor people in ASEAN, and also to drive economic growth.

A thriving social enterprise sector can enable ASEAN to achieve a number of objectives outlined by the ASEAN Framework Action Plan on Rural Development and Poverty Eradication 2016–2020. Specifically, it can help to provide more equitable access and opportunities for all ASEAN citizens; promote social development and environment protection; and enhance the capacity and capability of her poor and vulnerable groups to protect themselves.

However, for SEs to reach their potential as agents helping to achieve sustainable development goals, there is a need for concerted effort by policymakers to create an enabling environment for the growth of the sector. This can be achieved by government and policy support, pro-business environments, increased access to finance, regional networks and cross-fertilization within ASEAN, targeted capacity building and networking for social enterprises, and social entrepreneurship education.

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