



Technical Assistance Report

Project Number: 43180
Regional—Research and Development Technical Assistance (R-RDTA)
June 2010

Developing a Regional Social Investment Exchange Initiative

(Financed by the Investment Climate Facilitation Fund under the
Regional Cooperation and Integration Financing Partnership Facility)

ABBREVIATIONS

ADB	–	Asian Development Bank
BOVESPA	–	<i>Bolsa de Valores de São Paulo</i>
DMC	–	developing member country
IIX	–	Impact Investment Exchange
NGO	–	nongovernment organization
SSE	–	social stock exchange
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional—Research and development technical assistance (R–RDTA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Multisector (money and capital markets, health finance, education sector development, water supply and sanitation, small and medium-sized enterprise development)
Themes(subthemes)	–	Regional cooperation and integration (trade and investments, other regional public goods); capacity development (institutional development)
Location impact	–	Regional (high)

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. A social stock exchange (SSE), also known as a social investment exchange, is a mechanism for raising funds for social enterprises. Social enterprises are business ventures with a social mission, generating environmental or social benefits, as well as financial returns. Their distinguishing feature is their social purpose, for which profits are reinvested.¹ An SSE aims to link social enterprises seeking capital with investors looking for opportunities to generate both financial and social returns on their investments.² Some simply raise funds online for social enterprises, some feature a rigid vetting process that generates accredited enterprises, and some enable over-the-counter transactions. Although models for an SSE exist, no SSE operates in the Asia and Pacific region.

2. The first operating model of an SSE was set up in June 2003 by *Bolsa de Valores de São Paulo* (BOVESPA), the Stock Exchange of São Paulo, Brazil, as a corporate social responsibility program. Other platforms bringing together investors with social enterprises include the South Africa Social Investment Exchange; the Global Exchange for Social Investment, based in Germany the United Kingdom; and the United Nations Development Programme (UNDP)-sponsored pilot South–South Human Development Stock Exchange.³ The Singapore-based Impact Investment Exchange (IIX) aims to be the first SSE in the Asia and Pacific region. In January 2010, the Rockefeller Foundation provided a \$495,000 grant to IIX for it to carry out research and proof-of-concept analysis before its launch.

3. This regional research and development technical assistance (TA) will support studies that promote links between social enterprises and impact investors. It will determine the feasibility of a pilot regional SSE or an SSE in a single country. The SSE would bring together social enterprises from developing member countries (DMCs) of the Asian Development Bank (ADB) seeking capital, and impact investors seeking financial profits along with social benefits.⁴ It would build on and complement efforts to link social enterprises and impact investors through policy research and knowledge sharing. A fact-finding mission⁵ confirmed the impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference with potential partners. Consultations with civil society organizations and social enterprises in the region revealed interest in the proposed project. This TA report defines the output, methodology, and key activities of the project. The design and monitoring framework is in Appendix 1.

¹ There is no single internationally accepted definition of social enterprises. Harvard Business School defines them as enterprises that focus on the application of management skills to create social value, regardless of whether an enterprise is a for-profit business, a nonprofit organization, or a government entity. The definition of the United Kingdom Social Enterprise Coalition distinguishes between organizations based on ownership, i.e., employee-owned, cooperatives, or community organizations. The Social Enterprise Alliance defines a social enterprise as an organization whose revenue funds its social mission.

² Impact investors aim to address social or environmental challenges while generating financial profit. Impact investments can include investments producing a return of principal capital, market-rate investments, and even investments that produce financial returns greater than market average.

³ The South–South Human Development Stock Exchange solicits charity donations, at \$25 per share, for projects posted on its website.

⁴ The TA first appeared in the business opportunities section of ADB's website on 17 June 2010.

⁵ A fact-finding mission was undertaken in July 2009 to meet with representatives of IIX, the Rockefeller Foundation, the Singapore Economic Development Board, and the Singapore Ministry of Finance on the TA's proposed activities and outputs.

II. ISSUES

4. Some social enterprises started with small loans from microfinance institutions and provide goods, services, employment, or other benefits for disadvantaged and poor people. Promising social enterprises, with the potential to scale up their activities and increase their social impact, have failed to do so because of insufficient access to capital. While Asia and the Pacific is home to several successful large social enterprises or nongovernment organizations (NGOs) that conduct market-based activities, such as Grameen Bank, Bangladesh Rural Advancement Committee, and the Population and Community Development Association, most social enterprises are still small or medium-sized, with low capacity and limited access to capital.

5. A study⁶ by the Monitor Institute estimated that global resources for investments in social enterprises could reach \$500 billion in the next 5–10 years, 1% of professionally managed global assets in 2008. The Ashoka Foundation, which supports social entrepreneurs, estimates that the requirements of markets for social enterprises are considerable.⁷ The global low-income health care market is estimated at \$158 billion; the global low-income housing market is estimated at \$332 billion; and the global low-income food market is estimated at \$2.90 trillion.

6. BOVESPA's SSE has demonstrated how such a platform can generate private resources for social enterprises. Its private donors have contributed more than \$5 million to philanthropic enterprises. Within 1 year of the SSE's establishment, all listed projects received funding.⁸ Financed activities included initiatives to help island dwellers prepare for rising sea levels caused by climate change and to rescue slum children from drug gangs.

7. Scaling up social enterprises in DMCs is difficult. The vast majority are too small or ill-equipped to be listed on stock exchanges and potential investors do not have enough information about them to assess their potential properly. Countless innovative social enterprises make significant contributions to their communities, but receive little attention from financial institutions. Many innovative and profitable approaches have been tried in the region, but their cumulative impact has been limited, partly because of a lack of capital and partly because of a lack of information. An SSE could help to link impact investors with the growing number of social enterprises in need of financing.

8. ADB supports the development of capital markets in DMCs to facilitate and mobilize capital for productive sectors of the economy. A major focus of ADB's assistance is regulatory reform. In Indonesia, for example, ADB supports a capital market development program⁹ to improve information disclosure and enhance market surveillance to protect investors. ADB helps financial intermediaries to support underserved segments of the economy, such as small and medium-sized enterprises, housing finance, and micro enterprises (the same segments that are served by social enterprises). In India, ADB is supporting a program that contributes to the

⁶ Monitor Institute. 2009. *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*. http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvlmpact_FullReport_004.pdf

⁷ V. Budinich. 2010. *The Untapped Opportunity in Unformed Markets*. http://blogs.hbr.org/cs/2010/02/exploring_the_unmarkets.html

⁸ D. Zandee. 2004. *BOVESPA and the Social Stock Exchange: Mobilizing the Financial Market for Development*. New York: Global Compact Office. http://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2004_10_11/bovespa_cs.pdf

⁹ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 2 to the Republic of Indonesia for Capital Market Development Program in Indonesia*. Manila (Loan 2577-INO).

development and expansion of small and medium-sized enterprises.¹⁰ The assistance will fund enterprises that have become too large to tap traditional microfinance, but that are unable to access conventional bank funds.

9. Testing and launching a regional SSE or similar platform will require an appropriate financial infrastructure and regulatory framework, capacity-building support, networking activities, and a regional focus. ADB can help build support for such a facility through research, networking, and knowledge-sharing activities.

III. THE TECHNICAL ASSISTANCE

10. This TA will catalyze efforts currently underway in Asia and the Pacific to bring social enterprises together with impact investors through a stock exchange or similar platform. Such a mechanism would mobilize the region's private financial resources for social enterprises in DMCs. The growth and impact of social enterprises would promote financial sector development and inclusive growth. An SSE or similar platform would enable enterprises to raise capital through shares and bonds, while connecting them to investors willing to purchase or trade their shares or bonds.

A. Impact and Outcome

11. The TA will promote inclusive growth by providing goods, services, and livelihood opportunities to poor and disadvantaged people. The outcomes will be enhanced awareness and development of the region's social enterprise sector and more services mediating between social enterprises and potential investors.

B. Methodology and Key Activities

12. The TA will support research on the size of the market and the readiness of social enterprises in selected DMCs,¹¹ as well as on the interest of potential impact investors. The research will focus on DMCs with a history of social enterprises and civil society organizations. The list of DMCs will be confirmed during the initial stages of implementation in close collaboration with ADB's regional departments. A study to assess the readiness and interest of market intermediaries and facilitators will be undertaken. Impact investment forums and other knowledge-sharing activities organized under the TA will generate support for the SSE.

13. **Output 1: social enterprise market size and readiness.** The TA will support research on the potential market size and readiness of social enterprises for investments in at least three DMCs that have shown promise in social enterprise development. Case studies will illustrate successes and failures of social enterprises. The research will indicate areas of operation, potential for scaling up, and the extent of the underserved market. The readiness of social enterprises to meet typical investment criteria, such as corporate governance, accounting and auditing standards, and financial performance benchmarks, will also be investigated. The research will produce a social enterprise profile for each country that identifies: (i) those enterprises that are ready to absorb capital and have a high likelihood of achieving a listing on an exchange; and (ii) key indicators of an enterprise's readiness to list (including capital,

¹⁰ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Partial Credit Guarantee to India for Micro, Small, and Medium Enterprise Development Project*. Manila (Loan 2617-IND).

¹¹ These may include Bangladesh, India, Indonesia, the Philippines, and Thailand. No work will be undertaken until "no objection" letters have been secured from DMC governments. The participating DMCs will be confirmed during TA implementation.

financial transparency, sound governance, a business model, a plan for use of capital, and management commitment to double bottom line of socially responsible investments and organizational gaps. The research will also recommend policy and legal frameworks for social enterprise sustainability. It will assess regulatory frameworks and policies and study whether they act as barriers or inhibit the formation of social enterprises and their ability to grow and attract capital.

14. **Output 2: impact investment profile.** The TA will prepare a profile of impact investors who may be willing to invest in social enterprises in the region, including their needs and interests. It will estimate the scale of investments available. It will identify indicators that can be used to guide investors in choosing enterprises to support, such as their social return on investment. The research will focus on two groups of investors: those who may use an SSE or similar platform as a means to exit investments in social enterprises (e.g., social venture capital funds), and those who may use an SSE or similar platform as a means to enter investments. For investors exiting investments, the TA will seek to determine the degree to which they view an SSE or similar platform as a viable and desirable exit option and how an SSE can be made attractive to such investors. Investors entering investments include foundations, endowments, public pension funds, sovereign wealth funds, and high-net-worth individuals and fund managers.

15. **Output 3: intermediation research.** The TA will support research through interviews, surveys, and forums to assess the interest of market intermediaries and facilitators in an SSE or similar platforms. These include financial advisors, rating agencies, brokers, law firms, and research organizations. The experience of exchanges and intermediaries in other parts of the world will be also reviewed and integrated into the learning products produced by the TA.

16. **Output 4: forums and awareness-raising activities.** In collaboration with IIX, investment forums will be held to bring together investors and social enterprises, and to share information about opportunities presented by the SSE concept. At least one regional workshop among stakeholders (e.g., regulatory bodies, government agencies, stock exchange officials, investors, and social enterprises) will be supported. The TA will support the production of a communications plan to disseminate knowledge and boost awareness of the SSE concept in the targeted DMCs.

C. Cost and Financing

17. The total cost of the TA is estimated at \$600,000 equivalent. The TA will be financed on a grant basis by the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility.¹² The cost estimates and financing plan are in Appendix 2. IIX and the Rockefeller Foundation will provide complementary and parallel financing for investment forums and regulatory framework studies. This complementary and parallel financing will not be administered by ADB.

D. Implementation Arrangements

18. ADB will be the executing agency for the TA, which will be managed by the Poverty Reduction, Gender, and Social Development Division, Regional and Sustainable Development Department, in close collaboration with ADB Capital Markets and Financial Sectors Division, Private Sector Operations Department. Regional department divisions promoting financial

¹² Established by the Government of Japan and administered by ADB.

market development and the Office of Regional and Economic Integration will also be consulted regularly. A Poverty Reduction, Gender, and Social Development Division team, including two professional members of staff, one national officer, and three operations assistants, will coordinate and manage the consultants' activities and consolidate their outputs. The project will be carried out over 24 months, from June 2010 to May 2012.

19. The TA will require a total of 26 person-months of consulting services. For output 1, an international consultant (5 person-months, intermittent) and three national consultants (total of 12 person-months, intermittent) will be engaged individually. If the TA is unsuccessful in hiring individuals, and the firm undertaking outputs 2 and 3 is qualified and willing, it will be engaged under single source selection. The international consultant will have extensive expertise in social enterprises and impact investments in the region. The three national consultants (based in DMCs) will have expertise in research and in operations of social enterprises in the DMC where research is to be undertaken.

20. Outputs 2 and 3 (estimated contract value of less than \$50,000) will be generated under a single package to be managed by a partner research NGO—Impact Investment Shujog Limited, a Singapore-registered NGO, which is uniquely placed as a pioneer in promoting the SSE concept in the region. Shujog's staff includes individuals with knowledge of social enterprises, and social investing. It has engaged several social entrepreneurs and investment managers who are experienced in both impact investment and social enterprises internationally. Shujog will be engaged for 3 months. Because of the ground-breaking nature of the assignment and the unique position of Shujog single source selection will be used for the package.

21. For output 4, the services of a national consultant (6 person-months, intermittent) based in ADB headquarters will be engaged. The consultant will have expertise in conference management and information dissemination.

22. The consultants will be engaged by ADB in accordance with its Guidelines on the Use of Consultants (2010, as amended from time to time). Disbursements will conform to ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The terms of reference for the consultants are in Appendix 3.

23. The TA will disseminate study results, learning and good practice through a website, workshops, and learning events, bringing together participating countries, development partners, social enterprises, investors, and civil society organizations.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$600,000 to be financed on a grant basis by the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility for Developing a Regional Social Investment Exchange Initiative, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Inclusive growth by providing goods, services, and livelihood opportunities to poor and disadvantaged people</p>	<p>Increase in the number of poor people who would benefit from access to goods and services of social enterprises</p> <p>More employment opportunities for the poor and marginalized</p>	<p>TA impact measurement and mapping surveys</p> <p>TA reports</p> <p>Government enterprise, trade, investments, and employment reports</p>	<p>Assumption</p> <p>An SSE will be supported beyond pilot stage</p> <p>Risk</p> <p>The recent economic and financial crisis dampens investors' interests and level of investments.</p>
<p>Outcome</p> <p>Enhanced awareness and development of the region's social enterprise sector</p> <p>More intermediation services between social enterprises and potential investors</p>	<p>Increased number of social enterprises and investors availing of the intermediation services</p> <p>More capital made available by impact investors</p>	<p>Government enterprise, trade, investments, and employment reports</p> <p>TA reports</p> <p>Social enterprise and investors' registration data</p> <p>Stock exchange reports</p>	<p>Assumptions</p> <p>There is sufficient critical mass of eligible social enterprises that qualify for listing on the proposed SSE</p> <p>The proposed SSE generates investor awareness, interest, and confidence.</p> <p>Risk</p> <p>There is insufficient support from exchange sponsors and the public</p>
<p>Outputs</p> <p>1. Social enterprise market size and readiness</p>	<p>By 2014:</p> <p>Qualitative and quantitative studies on the social enterprise market size and readiness produced for three DMCs</p> <p>Proposed standards drafted for participation of SEs in an SSE or similar platform participation</p> <p>Study on policy and legal framework for establishing social enterprises and ensuring their sustainability in three DMCs</p>	<p>TA reports</p> <p>Proceedings or reports on investment forums and other dialogues and meetings</p> <p>Studies:</p> <p>(i) social enterprise mapping,</p> <p>(ii) impact Investment mapping, and</p> <p>(iii) policy framework for social enterprises</p>	<p>Assumptions</p> <p>DMCs and stakeholders are willing to share information and knowledge and to participate in dialogue and learning events</p> <p>Interest among stakeholders is sustained.</p> <p>Risk</p> <p>Complementary studies by partners are delayed.</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>2. Impact investment profile</p> <p>3. Intermediation research</p> <p>4. Forums and awareness-raising activities</p>	<p>Three country case studies on social enterprise formation and growth produced</p> <p>Profile of impact investors for Asia and the Pacific produced</p> <p>Indicator and monitoring tool for measuring impacts proposed</p> <p>Study produced on interest of market intermediaries and facilitators for an SSE or similar platform</p> <p>One inception meeting held</p> <p>Four investment forums in DMCs held (three country-specific, one regional)</p> <p>Final regional workshop held</p>	<p>Study on interests of intermediaries</p> <p>Back-to-office reports</p>	
Activities with Milestones			Inputs
<ol style="list-style-type: none"> 1. Terms of reference drafted, and researchers and consultants engaged (end Q3 2010). 2. Inception meeting undertaken (end Q3 2010). 3. Investor and social enterprise research (Q3 2010–end Q2 2011) 4. Country forums (Q4 2010–end Q3 2011) 5. Draft final studies (end Q3 2011) 6. Final regional workshop (end Q1 2012) 7. Final study and publication (end Q2 2012) 			<p>Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility</p> <p>\$600,000</p>

DMC = developing member country, Q = quarter, SSE = social stock exchange, TA = technical assistance.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	176.0
ii. National consultants	54.0
b. International and local travel	35.0
c. Reports and communications	10.0
2. Printing and publication ^b	15.0
3. Forums, workshops, and conferences ^c	280.0
4. Miscellaneous administration and support costs	5.0
5. Contingencies	25.0
Total	600.0

^a Established by the Government of Japan and administered by the Asian Development Bank.

^b Including cost for editing.

^c Including honoraria, country briefings, participation of developing member country representatives, and Asian Development Bank staff in international or regional workshops, conferences and forums, participation of other resource persons and other capacity building support.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Output 1: Social Enterprise Study

1. International Consultant (5 person-months, intermittent)

1. The international consultant will have expertise and a solid track record in successful social enterprises, including their formation and operation in the region. He or she will have an advanced degree in economics, business, law, international relations, finance, regulatory regimes, or related fields with at least 10 years' experience in social enterprises and their formation and regulation. Under the supervision of Asian Development Bank (ADB) staff, the consultant will:

- (i) prepare background and analytical papers on the topics assigned by ADB staff related to this TA, including quantitative and qualitative analysis from secondary data, interviews, surveys, and information forums;
- (ii) in close coordination with ADB, taking into account the experience in the region and elsewhere, and with the assistance of national consultants in developing member countries, prepare regional studies on: (a) size of the social enterprise market and readiness of social enterprises to absorb capital (based on measures such as maturity, scale, and readiness to expand); and (b) key needs and organizational gaps of social enterprises (e.g., capital, governance, management commitment);
- (iii) develop a framework for country research covering the areas mentioned above;
- (iv) review outputs of national consultants and provide guidance for the completion of country studies;
- (v) present research findings and participate actively in forums and workshops;
- (vi) revise and finalize papers for publication;
- (vii) review and provide comments on papers prepared by the other members of the study team;
- (viii) assist ADB and its partners in disseminating research outcomes of the technical assistance (TA); and
- (ix) assist in integrating the overall findings and in reflecting these in a single report for the TA.

2. National Consultants (12 person-months, intermittent)

2. The national consultants will be based in participating developing member countries and will have relevant country knowledge, experience with social enterprises, and ability to draw analysis from market data. They will have a degree in economics, business, philanthropy, or related fields. They will:

- (i) prepare background and analytical papers on the topics assigned by ADB staff, related to this TA;
- (ii) undertake country studies in support of the international consultant on: (a) target social enterprises ready to list on a regional social stock exchange (SSE); and (b) key needs and organizational gaps of social enterprises (e.g., capital, governance, management commitment);
- (iii) prepare country case studies that showcase the weaknesses and strengths of social enterprises as well as success stories of bridging the information gap between social enterprises and investors and scaling up enterprises;

- (iv) assist in organizing country investment forums;
- (v) present research findings and participate actively in country investment forums;
- (vi) revise and finalize papers for publication;
- (vii) assist ADB and the partner institute to disseminate research outcomes of the TA;
- (viii) prepare and submit quarterly progress reports.

B. Outputs 2 and 3: Impact Investment and Intermediary Assessment

1. Partner Research Institution (3 person-months, intermittent)

3. The partner research institution will have recognized expertise in research and TA work on impact investing, the social stock exchange concept, and social enterprise development. It will be engaged to organize and coordinate the preparation, publication, and dissemination of research outputs under outputs 2 and 3. It will undertake the following:

- (i) in consultation with ADB, the partner institution will develop the outline for the studies under outputs 2 and 3;
- (ii) prepare and finalize, in close coordination with ADB, the following: (a) a profile of potential impact investors for Asia and the Pacific; (b) an assessment of conditions that a regional SSE must meet to attract impact investors; (c) a study on the interest of market intermediaries and facilitators to support the listing of social enterprises on an SSE and to support SSE operations (e.g., financial advisors, law firms, rating agencies, and research organizations); and (d) others as may be assigned by ADB;
- (iii) organize, present and/or participate in conferences or forums to disseminate research outputs;
- (iv) update ADB staff regularly on the progress of various activities; and
- (v) contribute to the preparation of the final report of the TA.

C. Output 4: Forums and Awareness-Raising Activities

1. National Consultant (6 person-months, intermittent)

4. A national consultant (based in ADB headquarters, 6 person-months, intermittent) will be engaged to support the preparation and management of forums, meetings, and other activities. He or she will have experience in organizing knowledge-sharing events or investment forums. The consultant will be supervised by ADB Poverty Reduction, Gender, and Social Development Division, Regional and Sustainable Development Department staff. He or she will:

- (i) set up and maintain a website for the TA;
- (ii) support and manage forums and facilitate online networking among the consultants and ADB staff;
- (iii) participate in and document meetings and workshops;
- (iv) collect key documents and data related to the TA and summarize them for those working on (or in support of) the TA;
- (v) provide logistical and administrative support for knowledge exchange and the conduct of studies;
- (vi) assist the team leader in overall regional TA administration and the logistics for the studies, forums, meetings, and other activities;
- (vii) assist in the preparation of presentations and publications; and
- (viii) perform other tasks relevant to this TA.