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June 2019

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United Nations Development Program (UNDP) Thailand

UNDP is the lead development agency of the United Nations, working to support countries' work towards achieving the Sustainable Development Goals or SDGs.

In recent years, UNDP Thailand has been strategic in strengthening the social innovation ecosystem within the country by facilitating communication among the public sector, private sector and civil society to encourage collaborative efforts towards achieving SDGs. Major initiatives include the Thailand Social Innovation Platform and Youth Co:Lab, which aim to convene ecosystem builders for exchanges and collaboration and to incubate social innovators for social change respectively.

UNDP Thailand is currently exploring possibilities to facilitate acceleration and scale-up of social impact investment as part of the effort in helping social enterprises grow and achieve SDGs.

ChangeFusion

ChangeFusion is a Bangkok-based non-profit institute under the Thai Rural Reconstruction Movement Foundation under the Royal Patronage with the mission to grow social enterprises for creative and sustainable change.

ChangeFusion provides incubation, business development and financial support to social enterprises and has more than 100 social enterprises in its network currently. On top of that, ChangeFusion has also introduced several innovative financing models such as the social crowd funding platform, taejai.com and new types of mutual funds such as BKIND and the Thai Governance Fund through the collaboration with key partners across different sectors in order to mobilise resources on a wider scale to support social enterprises.

Social impact investment is one of the crucial support required in scaling social enterprises and still has much room to grow in Thailand. ChangeFusion is dedicated to exploring new mechanisms and strategies to foster the growth of the impact investment sector through collaborations.

This study is conducted by ChangeFusion under the supervision the UNDP.

Abbreviations

CSR	Corporate Social Responsibility
NIA	National Innovation Agency
NGO	Non-Governmental Organisation
MIT	Massachusetts Institute of Technology
SDG	Sustainable Development Goals
SE	Social Enterprise
SET	Stock Exchange of Thailand
SETH	Social Enterprise Thailand Association
TSEO	Thailand Social Enterprise Office
UNDP	United Nations Development Program
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	United Nations International Children's Emergency Fund

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1. Executive Summary

In recent years, there has been a gradual increase in number social enterprises (SEs) in Thailand and more people are becoming interested in this emerging sector. The government is also starting to realise the importance of the role of SEs in driving social changes and has already planned various supporting schemes into the draft SE Promotion Act. However, social impact investment would need to grow in sync with SEs in order to bring the sector forward. As there is still little information on the social impact investment landscape, this study is conducted to identify the existing players in the space so as to identify the gaps and opportunities to scale social impact investment in the country.

The study had investigated 2 target groups that are directly related in terms of social impact investment, i.e. investors - intermediaries who are the provider of various kinds of support and SEs who are the receiving end of these supports. An online survey was conducted with 14 responses collected from the investors and intermediaries and 41 responses from SEs.

Here are some of the key findings:

- Most investors and intermediaries are currently providing support in the forms of human capital, e.g. mentorship, and grants to early stage SEs (i.e. seed and venture stage) whereas those who provide loans and equity investments are still very limited.
- Social impact remains the top concern in the consideration of provision of grants, loans and equity investment.
- Top impact categories for both investors and intermediaries and SEs are education, agriculture and community development.
- Around a quarter of investors - intermediaries and over half of the SEs do not have impact assessment in place yet.
- The lack of a robust pipeline of investible SEs is quoted by investors - intermediaries as the major obstacle for the growth of social impact investment.
- 90% of the respondent SEs were set up by social entrepreneurs and are operating as registered company. A majority of them have been operating for less than 5 years and are currently in their growth stage in which their business is generating a consistent source of income and have passed breakeven point.

- Grant is the most common form of support received by the SEs previously and they are still indicated by the SEs as the most needed form of support in their current stage.
- SEs in growth stage are starting to considering seeking equity investment but the main obstacles are 1) the lack of time to engage investors, 2) the lack of confidence in securing a deal and 3) having no connection to investors.
- The current “missing middle” capital gap can be reduced by capacity building for both SEs and investors. Capacity building for SEs would focus on business operation and market expansion to help improve their investment readiness. As for the investors especially those who are new to the SE sector, they will need to understand the nature of SEs and their needs so that they would be able to set realistic expectations for their investments and formulate support packages that would facilitate their investments.
- Furthermore, innovative investment tools and an increase in coordination among investors and intermediaries would enable resources to be utilised more efficiently and help bridge the gap.

2. An Introduction to the social impact investment landscape in Thailand

Even though Thailand has successfully evolved as an upper-middle income country since 2011¹, a handful of social issues are dragging the country back on further progress.

Highlights of the major social and environmental issues:

- Thailand is ranked the third most unequal nation in the world, with a constantly widening gap between the rich and the poor²
- High prevalence of stunting (16.3%) among children under 5 years of age³
- The public healthcare system is heavily underfunded and the situation is expected to worsen as Thailand will fully enter into ageing society in 2025⁴

- High energy-related CO₂ emissions per capita and high vulnerability to climate change³
- Rapid loss of forest due to large scale deforestation³

In response to these social and environmental challenges, the Thai government has already strategised a new economic model, Thailand 4.0, to transform the country into a value-based economy driven by innovation and technology in the next 20 years, supplemented by various development initiatives to achieve both social and environmental well-being. However, government policy alone is not enough given the complexity of the problems and changes in policies often take time.

SDG Dashboard for Thailand (2017)



Source: sdgindex.org (2017)

1. <http://www.worldbank.org/en/news/press-release/2011/08/02/thailand-now-upper-middle-income-economy>
2. <https://www.bangkokpost.com/news/general/1193341/thailand-third-most-unequal>
3. Bertelsmann Stiftung and Sustainable Development Solutions Network, SDG Index and Dashboards Report 2017, 224-225
4. <https://tdri.or.th/en/2018/01/soaring-healthcare-costs/>

Members of the business sector have been actively engaged in corporate social responsibility (CSR) activities thanks to the requirement by SET for all listed firms to disclose CSR in either an annual registration statement or a separate sustainability report since 2014⁵. Thailand had even topped the chart for CSR activities in Asean in 2016 according to a study conducted by National University of Singapore (NUS) and the Asean CSR Network⁶, showing a strong commitment within the corporate sector towards giving back to the society. Yet, CSR programs could be volatile and budget is often contingent to economic conditions and the companies' business performance. Thus, CSR still has its limits in providing sustainable solutions.

As for the social sector, although there continues to be a number of strong, well-recognized NGOs in Thailand and also the presence of international NGOs such as Oxfam and various UN agencies including UNDP, UNICEF and UNESCAP, the sector has been struggling to secure funding in the last decade since overseas development assistance has dwindled considerably as Thailand climbed up the income ladder. Furthermore, the government has taken an increasingly direct role in financing activities at grassroots level⁷. On top of that, a large part of the public charitable giving goes to

religious causes and institutions.

Despite the efforts made by various sectors to tackle the social and environmental problems, there are still considerable gaps in which the problems are yet to be addressed. Social enterprises (SE) have emerged in recent years as a new tool to drive social changes and to fill some of these gaps.

SEs, with their business nature, are able to solve social and environmental problems and deliver impacts sustainably and flexibly as they are less bound by the availability of donations or external funding.

Since the establishment of the Thai Social Enterprise Office (TSEO) in 2010, there has been an increase in awareness on SE and various SE incubation programs such as Banpu Champions for Change, UnLtd Thailand, School of Changemakers, etc., had produced a steady stream of SEs into the ecosystem. As the value of SE became more widely recognized, more supporters from different sectors have joined the space in recent years. The draft SE Act that aims to further promote the growth of SEs and social impact investment in Thailand is also expected to be passed in 2018.

It has been estimated that there are about 116,000 SEs in the

5. <https://www.sciencedirect.com/science/article/pii/S2452315117300954>

6. <http://www.nationmultimedia.com/national/Thai-firms-top-in-region-for-CSR-activities-30291268.html>

7. From Charity to Change - Social investment in selected Southeast Asian countries. Lien Centre for Social Innovation. (2014)

country⁸, with a majority in their early stages and most of them are of the community-enterprise type as counted by the original government report. According to Nuttaphong Jaruwannaphong, the ex-director of TSEO, there are roughly two hundred viable SEs that entered the initial government registration process.

Various kinds of support would be needed to propel their growth in order to form a robust pipeline of SEs for the country. In general, social impact investment is still nascent to Thailand with very limited information available.

In order to deepen knowledge of this emerging sector, ChangeFusion, with the generous support of United Nations Development Program (UNDP), therefore conducted a mapping study of the social investment landscape in Thailand in order to identify the existing players and types of resources available and also the gaps and opportunities in scaling up social investments in Thailand.

8. <https://www.theguardian.com/social-enterprise-network/2012/sep/07/social-enterprise-thailand-strong-government>

3. Overview

Objective

The aim of this study is to map both the supply and demand side of the social impact investment ecosystem in Thailand by

- 1) identifying key investors or supporters and the types and amount of resources they provide, as well as their investment priorities and risk tolerance;**
- 2) investigating the challenges faced by SEs and their needs**

in order to identify the gaps and opportunities in scaling social impact investment in the country.

The study results would serve as a basis for the formulation of strategy for UNDP to drive the growth of social impact investment in Thailand.

Scope

The information presented herein relates to national and international organisations that directly support and/or invest into SEs in Thailand (i.e. supply side) and SEs that are based in Thailand (i.e. demand side).

In order to understand the continuum of capital comprehensively, various forms of support including non-financial support, grant, loan and equity investment have been investigated.

As the study focuses on support and investment initiatives targeted at SEs to scale their businesses and impacts, support for non-profit organisations and traditional foundations that are purely grant-taking and without any established business model have not been included.

Methodology

The study was conducted in 2 phases:

Phase 1

Identifying key players

21 Investors/intermediaries have been selected from ChangeFusion's network and referrals from partners to participate in the study.

76 SEs from ChangeFusion's network and those of partners such as Social Enterprise Thailand Association (SETH) have been invited to participate in the study.

Phase 2

Online survey

2 separate sets of survey was designed for the 2 target groups. A total of 55 responses have been received.

15 Investors/intermediaries have responded to an online survey containing 31 open and closed questions about their involvement with various forms of support given to SEs, resource allocation, and their perception on the challenges and opportunities of the sector.

41 SEs have responded to an online survey containing 21 open and closed questions regarding the current state of their enterprise, the most critical challenges encountered and the forms of external support required.

4. Key data from impact investors, intermediaries

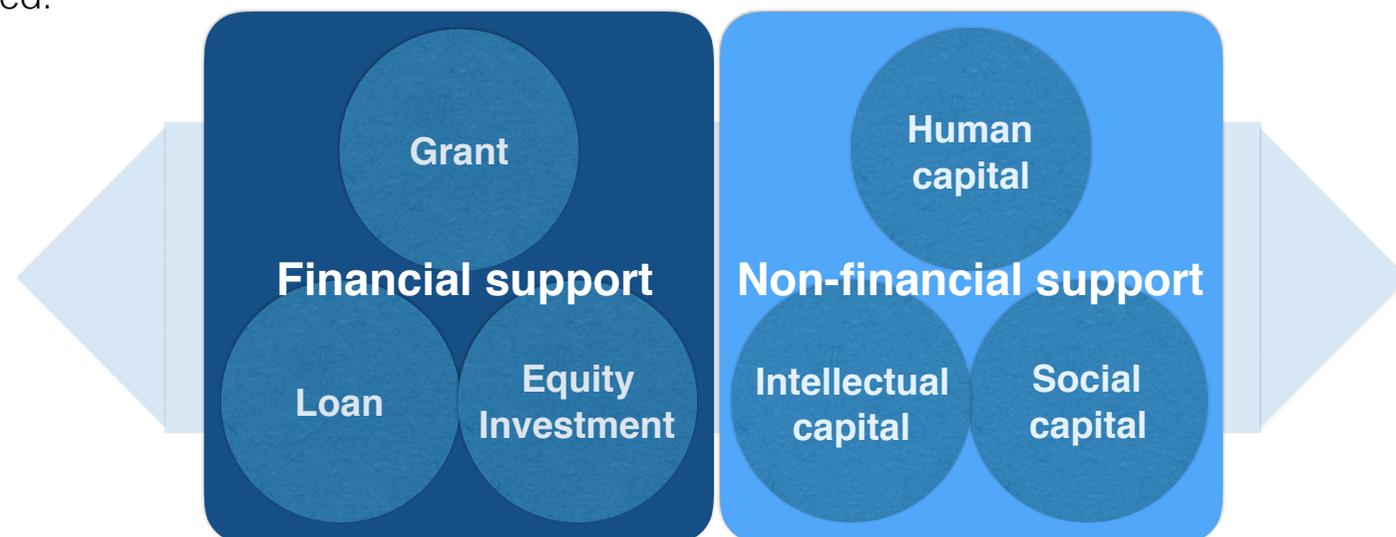
A. Overview of the continuum of capital

SEs in their different growth stages in the business lifecycle have unique capital requirements. There is a range of non-financial and financial capital support funders and investors could deploy to nurture their growth through various stages, and these support work together to form a continuum of capital.

In order to have a holistic understanding of the continuum of capital, the main types of support as listed below and their respective providers have been investigated.

- Non-financial support
- Financial support
 - Grant
 - Loan
 - Equity investment

MAIN AREAS OF ANALYSIS



A. Overview of the continuum of capital

Investors/intermediaries that participated in the study



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A. Overview of the continuum of capital

Types of investors & intermediaries identified

Small pool of investors and intermediaries with diverse nature.

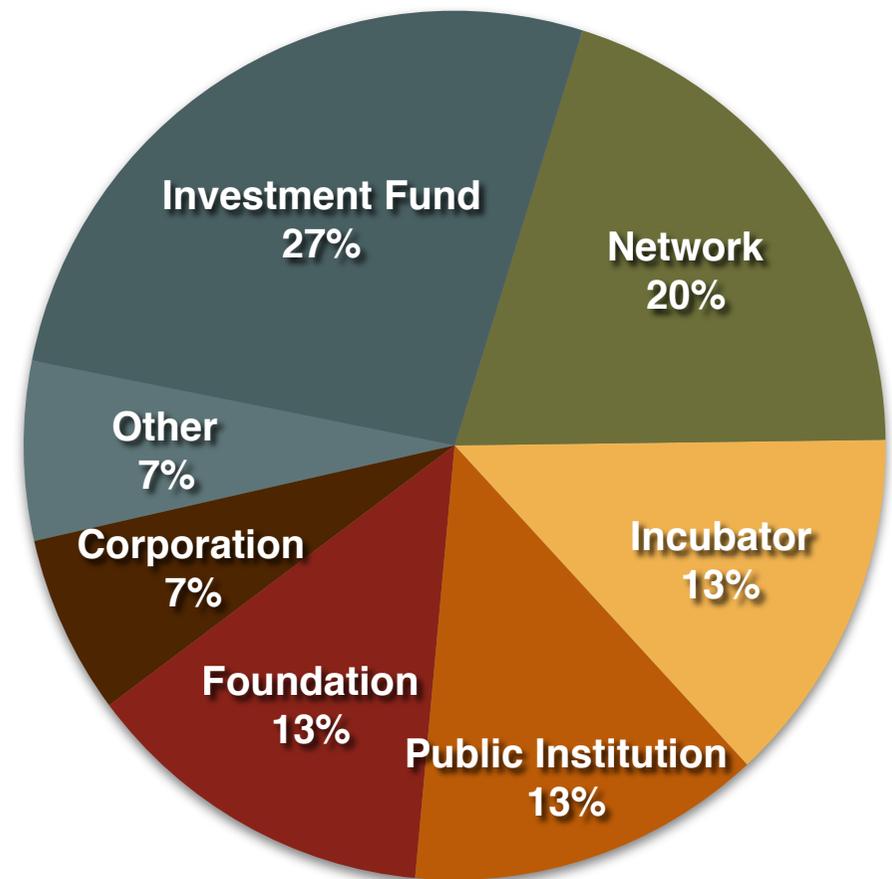
Among the 15 respondents, four are investment funds of different nature, including mutual fund, peer-to-peer loan and venture capital.

Three are network holders that have connection to a wide range of social projects, social enterprises and SMEs. Two are incubator and accelerator who mainly provide business development and capacity building support to SEs.

The rest includes public institutions, foundations and a corporation and the Stock Exchange of Thailand that provide incubation and seed funding to SEs through their outreach programs.

Five of them are international organisations with local offices in Thailand.

TYPES OF ORGANISATION

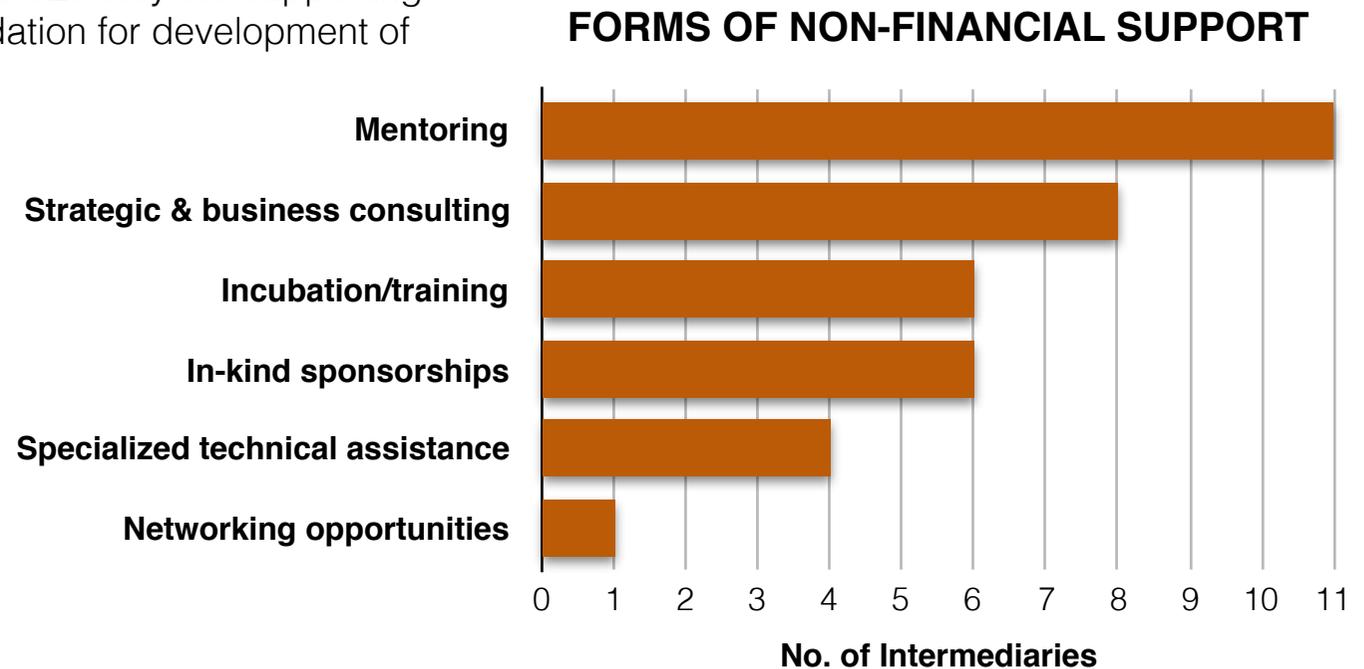


Non-financial support

Most respondents have provided non-financial support to supplement their financial support for SEs.

12 out of 15 respondents have previously provided non-financial support to SEs, with the most common forms being mentorship and strategic and business consultation.

Provision of non-financial support enables investors and intermediaries to better understand the SEs they are supporting and helps build trust and a solid foundation for development of other forms of support in future.



A. Overview of the continuum of capital

Grant

11 out of 15 respondents have previously provided grants to SEs.

Grantors	Stage supported	Average amount given	No. of SEs supported in 2017	No. of SEs to be supported in 2018
Ma:D Esan	Seed	1 - 50,000 Baht	5 - 10	5 - 10
Social Technology Institute	Seed	1 - 50,000 Baht	1 - 5	1 - 5
UNDP Thailand	Seed, Venture	50,001 - 100,000 Baht	>20	10 - 20
Banpu	Seed, Venture	50,001 - 100,000 Baht	5 - 10	5 - 10
True Incube	Seed, Venture	100,001 - 500,000 Baht	5 - 10	Unable to specify yet
Ashoka Thailand	Venture	>1,000,000 Baht	1 - 5	1 - 5
AirAsia Foundation	Venture	500,001 - 1,000,000 Baht	5 - 10	5 - 10
Stock Exchange of Thailand	Venture, Growth	100,001 - 500,000 Baht	>20	Unable to specify yet
School of Global Studies (Thammasat)	Growth	50,001 - 100,000 Baht	1 - 5	5 - 10
BKIND Mutual Fund	Seed, Venture, Growth	500,001 - 1,000,000 Baht	5 - 10	5 - 10
National Innovation Agency	Seed, Venture, Growth, Mature	500,001 - 1,000,000 Baht	>20	>20

A. Overview of the continuum of capital

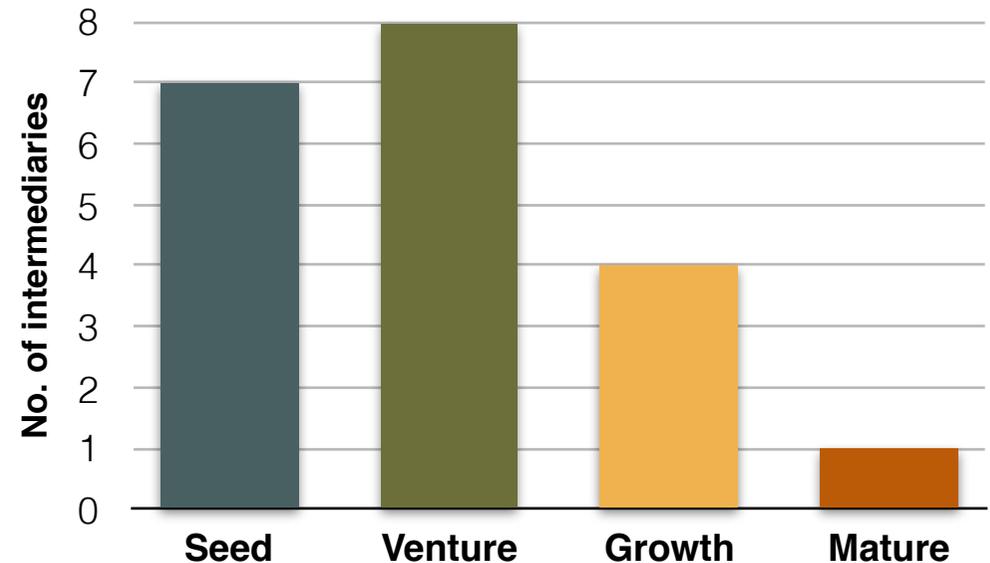
Grant (cont'd)

In general, grants are targeted at SEs in the seed and venture stage and are mostly coupled with incubation programs and mentorship.

Half of them have supported an average of 5-10 SEs in 2017 in terms of grants and the rest in the range of either 1-5 or more than 20. Seven of them plans to maintain the same level of support for 2018 which is basically continuing their current grant programs.

Three respondents who run incubation programs targeted at seed stage SEs provided grants in the range of 50,000 to 100,000 Baht to each SE they supported, as opposed to the larger sums, i.e. in the range of 500,000 to 1,000,000 Baht, given by investor or intermediaries targeting those in the later growth stages.

STAGES OF SE CONSIDERED FOR GRANTS



Defining different stages of SEs

Seed - Ideation stage, prototype development and testing, yet to have a legal status

Venture - Business is launched and have established operation

Growth - The business is generating a consistent source of income and is continuously taking on new customers, passed breakeven point.

Mature - The business is seeing stable profits, may push for further expansion or exit the business

A. Overview of the continuum of capital

Grant (cont'd)

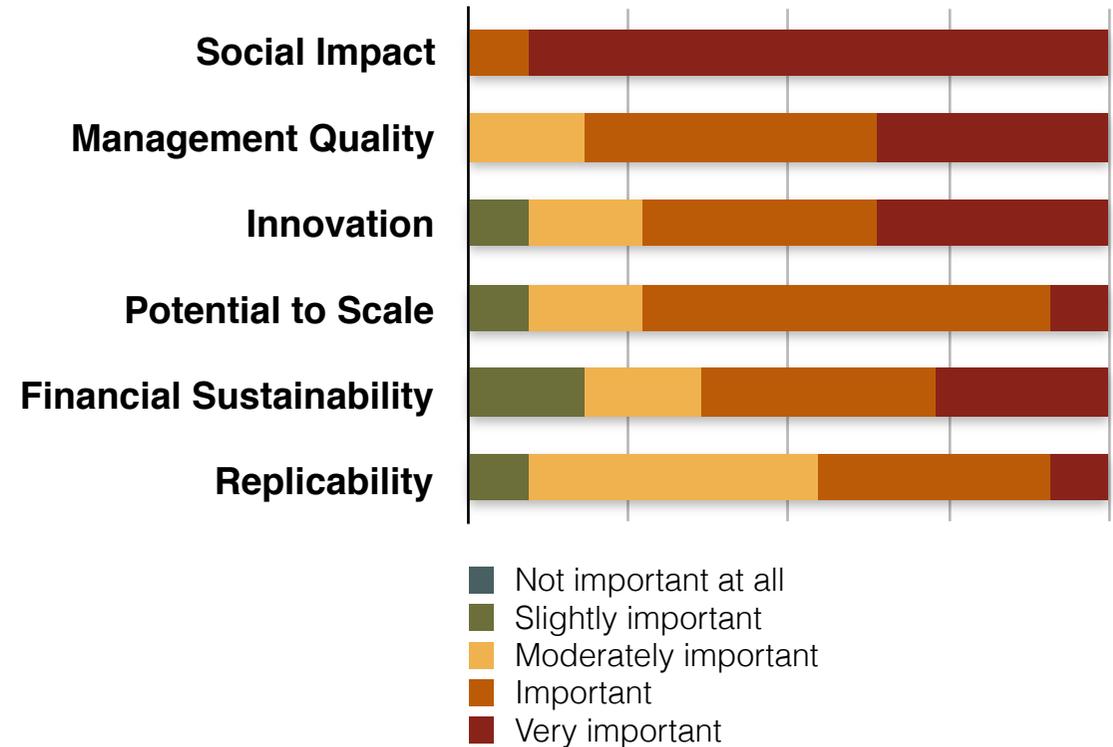
Social impact is the utmost concern among all investors and intermediaries in making grants.

Social impact, management quality and innovation are the 3 most important criteria in considering SEs for grants. Often, grantors would also assess whether the grantees have the capability of sustaining the business beyond the grant period.

The 3 most common reasons for rejecting grant applications are:

- 1) Impact focus of the applicant does not align with the grant (64%)
- 2) The applicant does not seem to have the capacity to deliver the impact (64%)
- 3) The applicant is unable to demonstrate financial sustainability beyond the grant period (55%)

MAIN CRITERIA CONSIDERED IN SELECTING SE FOR GRANT



A. Overview of the continuum of capital

Loan

3 out of 15 respondents have previously made loans to SEs.

Name of organization	Kiva	ChangeVentures	MaD Esan
Growth stage targeted	<ul style="list-style-type: none"> • Seed • Venture • Growth 	<ul style="list-style-type: none"> • Venture • Growth 	<ul style="list-style-type: none"> • Seed
Main selection criteria	<ul style="list-style-type: none"> • Social impact • Potential to scale • Innovation • Ability to repay 	<ul style="list-style-type: none"> • Social impact • Potential to scale 	<ul style="list-style-type: none"> • Social impact
No. of SEs supported in 2017	<ul style="list-style-type: none"> • 5 	<ul style="list-style-type: none"> • 3 	<ul style="list-style-type: none"> • 9
Average loan size per SE	<ul style="list-style-type: none"> • > 1m Baht 	<ul style="list-style-type: none"> • 200k-1m Baht 	<ul style="list-style-type: none"> • 10k-15k Baht
No. of SEs to be supported in 2018	<ul style="list-style-type: none"> • 1-5 	<ul style="list-style-type: none"> • 1-5 	<ul style="list-style-type: none"> • 5-10

A. Overview of the continuum of capital

Loan (cont'd)

All 3 organisations have distinctive approaches in screening for applicants and giving out loans.

Kiva

Kiva is a US-based crowdfunding impact investor and in Thailand they provide loans to SEs and microfinance institutions (MFIs). Kiva offers two forms of debt finance to SEs. The first type of loan comes in the form of a revolving credit limit so that the SE can lend smaller amounts to individual borrowers in the communities they are working with to support their development. The second type of loan is a short term working capital loan to support the capital expenditure and trade finance requirements of SEs.

Currently, SEs who wish to apply for loans from Kiva have to have a minimum annual revenue of 100,000 USD which is a major barrier for SEs in the country since many of them are still unable to reach the requirement. Staff from Kiva also noted that the demand for loans from Thai SEs has been low.

ChangeVentures

ChangeVentures is the investment arm of ChangeFusion. Loans is usually given to SEs in ChangeFusion's network, especially those who had received non-financial support, e.g. incubation and mentorship, from ChangeFusion previously. In this way, it would be easier for ChangeVentures to assess their growth potential and ability to repay. ChangeVentures would also provide loans to SEs who have the potential to become strategic partners and receive equity investment in future.

Loans provided by ChangeVentures are usually used to finance working capital of the recipient SEs, especially during business expansion.

MaD Esan

Loans from MaD Esan is coupled with their "Long Mue Tham" (Let's take action) program which is a 3-month incubation program for seed stage SEs started in 2017. Small loans were given to the social entrepreneurs to kick start their ideas and build prototypes for market testing.

Loans were given out in small amounts since MaD Esan had limited capital and also the founder of MaD Esan would like to challenge the social entrepreneurs to come up with creative solutions base on limited resources.

Non-financial supports such as mentorship and in-kind sponsorships from MaD Esan's partners were also provided during the program.

A. Overview of the continuum of capital

Equity investment

4 out of 15 respondents have previously made equity investments in SEs.

Name of organization	ChangeVentures	Stock Exchange of Thailand	True Incube	MaD Esan
Growth stage targeted	<ul style="list-style-type: none"> Venture Growth 	<ul style="list-style-type: none"> Venture Growth 	<ul style="list-style-type: none"> Seed 	<ul style="list-style-type: none"> Seed
Main selection criteria	<ul style="list-style-type: none"> Social impact Potential to scale Management quality Financial sustainability 	<ul style="list-style-type: none"> Social impact Management quality Financial sustainability Potential to scale Innovation 	<ul style="list-style-type: none"> Management quality Financial sustainability Social impact Potential to scale 	<ul style="list-style-type: none"> Social impact
No. of SEs supported in 2017	<ul style="list-style-type: none"> 1-5 	<ul style="list-style-type: none"> >20 	<ul style="list-style-type: none"> 1-5 	<ul style="list-style-type: none"> 3
Average investment size per SE	<ul style="list-style-type: none"> 1m - 5m Baht 	<ul style="list-style-type: none"> 100k - 500k Baht 	<ul style="list-style-type: none"> 100k - 500k Baht 	<ul style="list-style-type: none"> 30k Baht
Financial return expectation	<ul style="list-style-type: none"> Market rate return Concessional return 	<ul style="list-style-type: none"> Capital preservation 	<ul style="list-style-type: none"> Capital preservation 	<ul style="list-style-type: none"> Capital preservation
Common reason for rejecting proposal	<ul style="list-style-type: none"> N/A (All investees are invited & selected by CV) 	<ul style="list-style-type: none"> Lack expertise Too early for investment Lack traction 	<ul style="list-style-type: none"> No clear business model 	<ul style="list-style-type: none"> No clear business model
Plan for 2018	<ul style="list-style-type: none"> Increase the amount of impact investment 	<ul style="list-style-type: none"> Look for more SEs to invest 	<ul style="list-style-type: none"> Reduce the amount of impact investment due to reallocation of budget to another impact fund 	<ul style="list-style-type: none"> Maintain at the same level as 2017

A. Overview of the continuum of capital

Equity investment (cont'd)

Despite significant variation in investment sizes, all three investors adopted a long-term investment approach on their investees.

ChangeVentures

Similar to loan provision, SEs that receive equity investment from ChangeVentures are mostly those who had been supported by ChangeFusion previously so that ChangeVentures would have a clear grasp of the SEs' performance, potential and needs.

ChangeVentures' equity investments in SEs takes on a long-term patient capital approach and is ready to hold equity for an extended period, i.e. ten years or more.

ChangeVentures also aims at establishing a diverse portfolio by selecting to invest in SEs that are working in different impact areas so that SEs in the portfolio can leverage on one another's strengths to deliver collective impact and share resources to achieve greater efficiency.

Stock Exchange of Thailand (SET)

SET had set up the SET social impact platform since 2016 with the aim to connect SEs to available resources in the corporate sector more effectively. All SEs in Thailand are welcomed to apply for membership of the platform and there are a total of 69 member SEs at present. Various kinds of support ranging from mentorship, business matching, grant, and equity investment are provided, with investment being their latest initiative. SET together with several other listed companies invest in the selected member SEs through the SET social impact platform.

As SET and its partners have only newly started this initiative, they are still in the process of experimenting with different investment strategies to identify the most effective approach in supporting the SEs.

True Incube

True Incube started their investment in SEs since 2017. Since their existing incubation program is not specifically targeted at SEs, True Incube collaborated with several partners such as ChangeFusion and UNDP to reach out to their SE networks. It demonstrated how different organizations can collaborate and share resources to support SEs.

True Incube's investment approach starts by giving out grants up to 200,000 Baht. After a follow up period of three months, True will consider whether to make equity investment in the grantees.

True Incube is currently building a social enterprise investment fund and is in the process of seeking suitable investment opportunities.

A. Overview of the continuum of capital

Equity investment (cont'd)

MaD Esan

Equity investment in SEs had mainly been a continuation of MaD Esan's "Long Mue Tham" incubation program. After the SEs graduated from the program, MaD Esan would screen for those who had the potential to pursue further growth and provide additional capital. Other SEs in MaD Esan's network who are able to demonstrate strong growth potential would also be considered for investment.

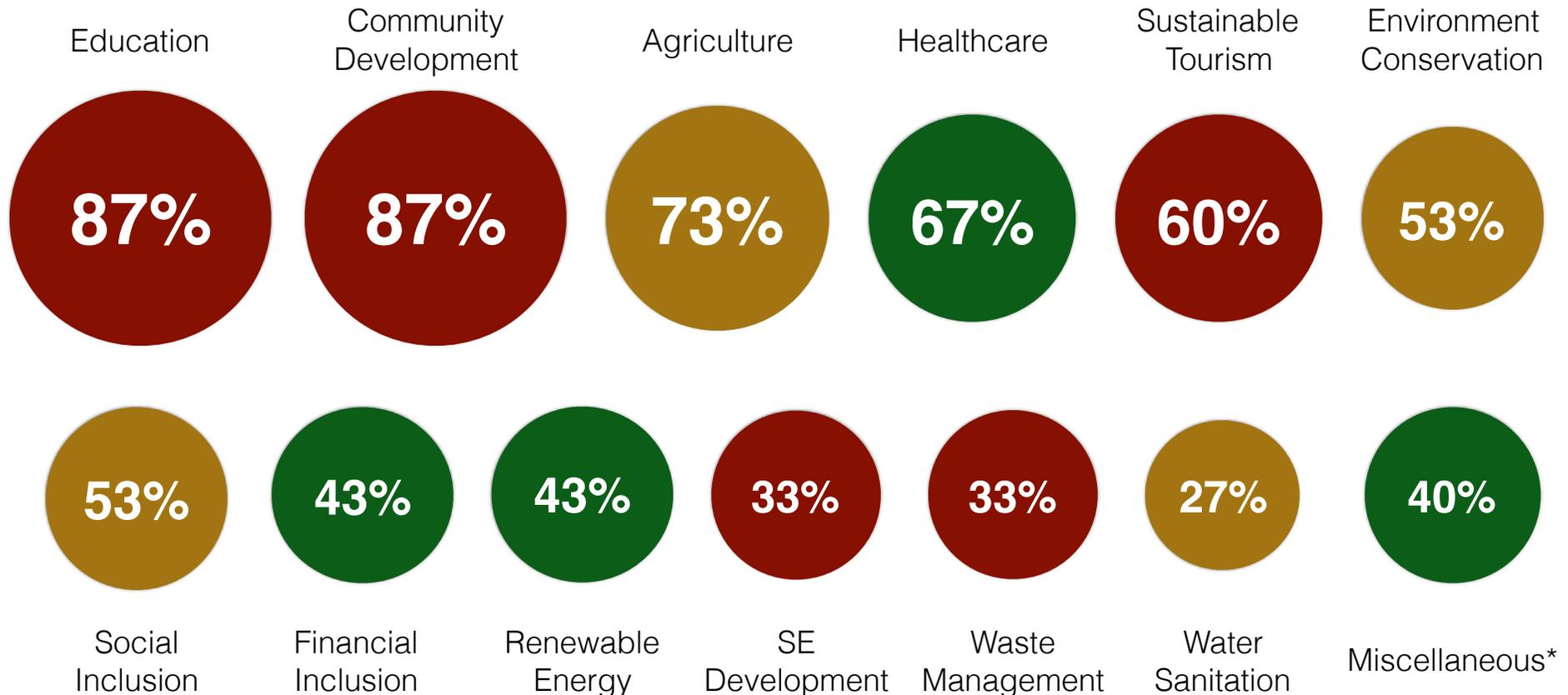
In spite of their much smaller investment size, MaD Esan takes on a similar approach to ChangeVentures. The capital invested is viewed as long term investment, without the expectation for quick returns.

MaD Esan has also been active in supplementing its investments with non-financial supports, e.g. connecting the SEs with local authorities and resources.

B. Perspectives and priorities of investors

Impact focus

Top impact focus areas are education, community development and agriculture. In general the priorities are in line with the most pressing issues highlighted in the SDG Dashboard of Thailand.



* Housing, anti-corruption, disaster service, urbanization, etc.

B. Perspectives and priorities of investors

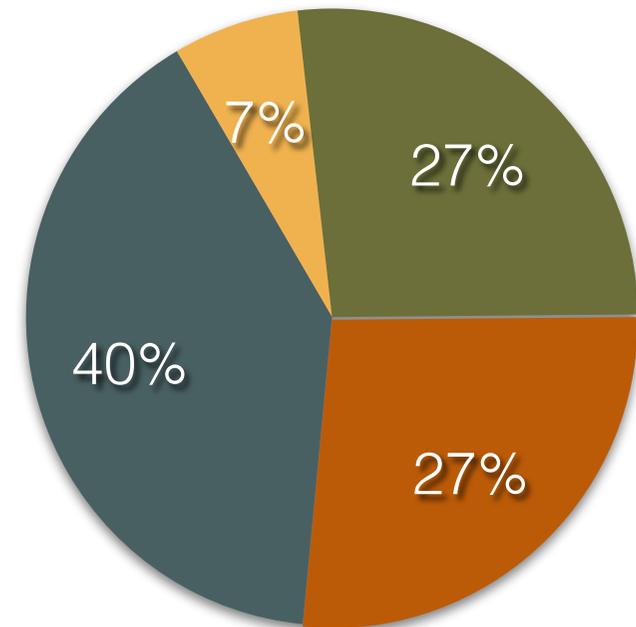
Impact assessment

A majority of investors and intermediaries still do not have the internal capacity to conduct impact measurement and monitoring.

5 out of 15 respondent investors and intermediaries have developed in-house methodology in measuring impact and most of them have supported or invested in SEs for over three years. Only one respondent had quoted applying existing assessment tools in their impact assessment process. In general, customised in-house framework is likely to be more suited for their communication with SEs and decision making.

Those who are relatively new to the space, i.e. those who had only become supporters or investors in the past 1-2 years, either rely on the support of external experts or haven't established their impact assessment process so far.

IMPACT ASSESSMENT BY INVESTORS/INTERMEDIARIES



- In-house methodology
- Use existing assessment tool
- Consult specialist
- No impact assessment

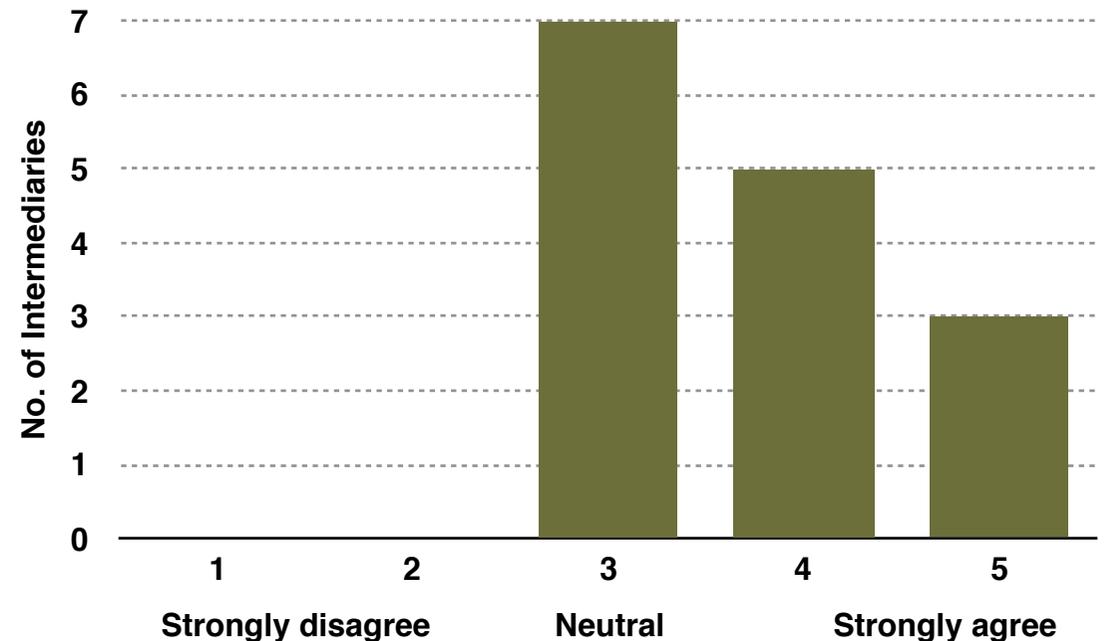
B. Perspectives and priorities of investors

Use of SDG framework in social impact investment

Half of the respondents agree to various extents the SDG framework would be useful in facilitating the impact investment process.

Pros	Cons
<ul style="list-style-type: none">• The SDG framework is useful in framing social and environmental challenges.• It educates investors which key areas to focus on when providing funding• As the SDG framework is widely accepted across sectors, it helps solicit interests and support from the private sector and also facilitates communication between SEs and funders	<ul style="list-style-type: none">• Currently SDGs are still mostly communicated in the context of national policy and macro societal changes. More specific details in each area will be needed to facilitate understanding• SDGs alone may not be an effective indicator for investment as there are other variables that indicate what type of investment is effective• SDGs are more a tool for communication to raise awareness than investment index

“Do you think the SDG framework is useful in facilitating impact investment process?”



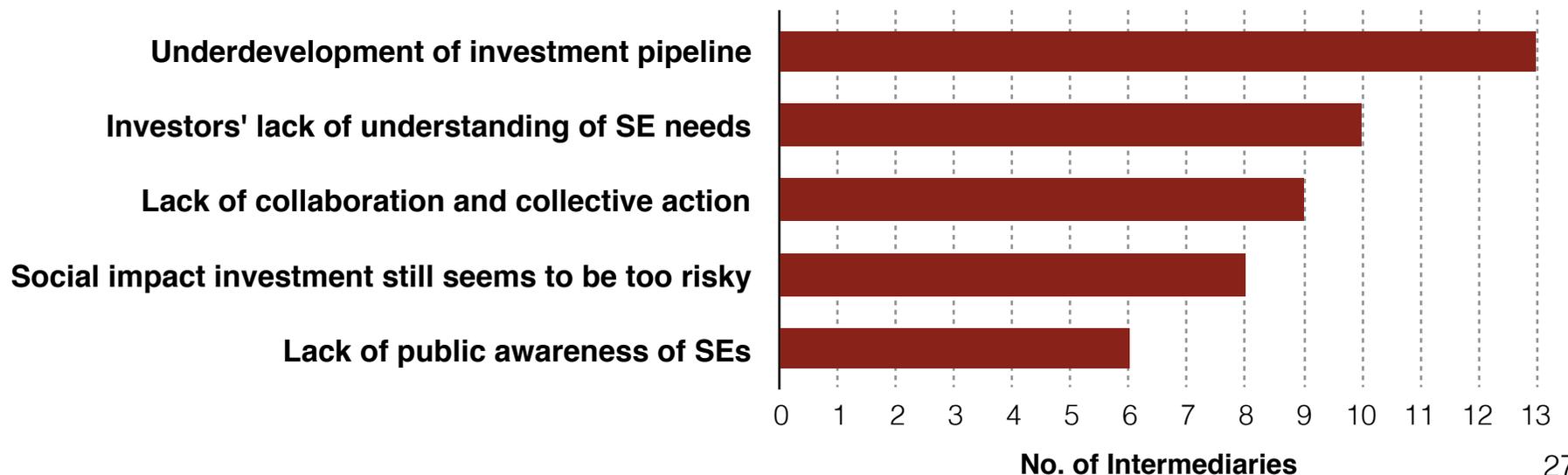
B. Perspectives and priorities of investors

Key challenges faced by social impact investment

The lack of investible SEs is quoted by investors and intermediaries as the major bottleneck for social impact investment at present.

Indeed the number of SEs has been gradually increasing in recent years but many of them are still struggling to grow and scale. If investors or venture capitalists apply the same standards and thresholds of startups to SEs, it will still be a long way before any SEs will be investment ready. It is also pinpointed in the second challenge that investors lack the understanding of SE needs, resulting in the gap in between. More innovative financing methods would be needed to help bridge the gap.

KEY CHALLENGES FOR SOCIAL IMPACT INVESTMENT



B. Perspectives and priorities of investors

Key opportunities for the growth of social impact investment

The growth of number of SEs and general awareness is expected to address the investment pipeline issue and draw in more supporters and investors in near future.

The increase in number of SEs is likely to bring about more success cases which would raise the interests and confidence in investing in them. The increase in awareness would also be beneficial to the SEs as it would be easier for them to reach out to various sector for support.

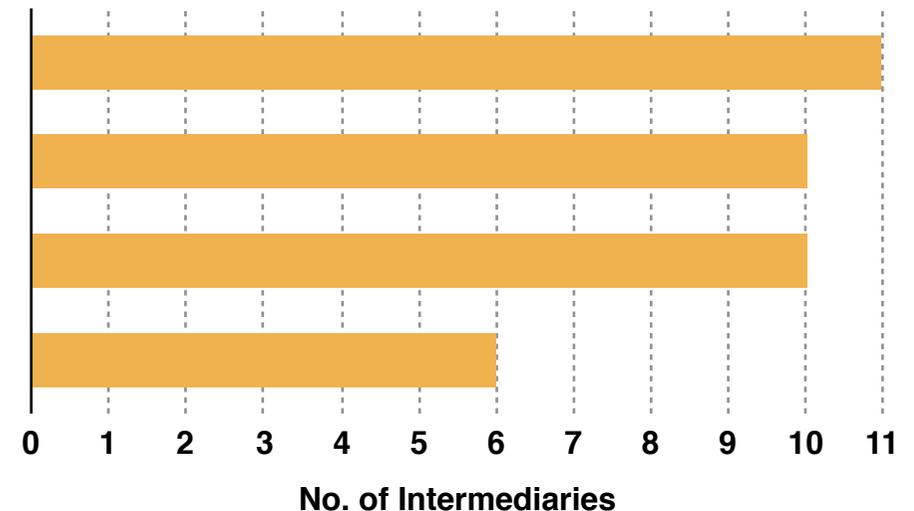
Increase in awareness and interests in SEs

Increase in no. of SEs incubated by various programs

Growing trend of using SEs to solve social and environmental problems

Increase in awareness of SDGs and the need to fulfil the goals

KEY OPPORTUNITIES FOR SOCIAL IMPACT INVESTMENT



5. Key data from social enterprises

A. Current state of SEs

According to the latest draft SE Act, a social enterprise (SE) is defined as an organization that is:

- 1) with a clear social mission since its inception to tackle social or environmental problems
- 2) able to earn revenue through the provision of products or services that does not cause any harm to the society or environment
- 3) financially sustainable
- 4) reinvesting no less than 50% of the net profit to achieve its social or environmental goals

However, as there is no official SE certification in place yet, SEs from SE incubation program and SE networks that have preliminary screening of their members were invited to participate in this study. Yet, they may not fit all the government criteria listed above.

A. Current state of SEs

Currently, SEs in Thailand can be classified into the 6 main categories below:

Founder	Description	Examples
Community-based social enterprise and network	Local enterprise, local tourism, cooperatives and local financial organization	Klong Pia Micro-Finance, Saja Micro-Finance (Kru Sop Yodkaew)
Non-governmental organization	Social enterprise founded and /or share held by NGO	Doi Tung Royal Project, Cabbage & Condoms shop
Governmental and state enterprise	Social enterprise founded and /or share held by the government and/or state enterprise	Abhaibhubejhr Hospital Foundation
Social entrepreneur	Social enterprise founded by social entrepreneur	OpenDream Co.,Ltd, Local Alike
Corporate	Social enterprise founded by corporate	Lemonfarm shop by Sangkom Sukkapap Co.,Ltd
Others	Social enterprise founded and/or share held by religious institutions, academic institutions	Thai Tribal Crafts Fair Trade (TTC), Rung Arun School

SEs that participated in the study

- Klong Dinsor
- a-chieve
- Relationflip
- The Burrow
- Ruayboon
- Happy Field Happy Farm
- Happy Farmers
- Pak Done
- Folkcharm
- 141 Social Enterprise
- Hand up Volunteer
- Ricult
- Opendream
- Farm-TO
- Local Alike
- Nokhook Group
- Plant-D
- Grassroots Innovation Network
- Social Health Enterprise
- TP Packaging Solution
- Wanita
- Green Style
- Farmsook Icecream
- Toolmorrow
- Ecolotech
- Buddy HomeCare
- Steps with Theera
- BeGreening
- GoWentGone
- Green Growth Organics
- วิสาหกิจเพื่อสังคมโตวันโตคืน
- เทียร่า ชั้นทอง วิสาหกิจเพื่อสังคม
- Tasty Treasure
- Go Organics
- กลุ่มกิจกรรมเพื่อสังคมและสิ่งแวดล้อม “กล่องวิเศษ” Klongwises
- วิสาหกิจชุมชนเกษตรกรรมชาตินาปลูกบุญ Rice of Merit
- Transformagent
- Trawell
- Mayday!
- Once Again Hostel
- Hand Enterprise

SE category

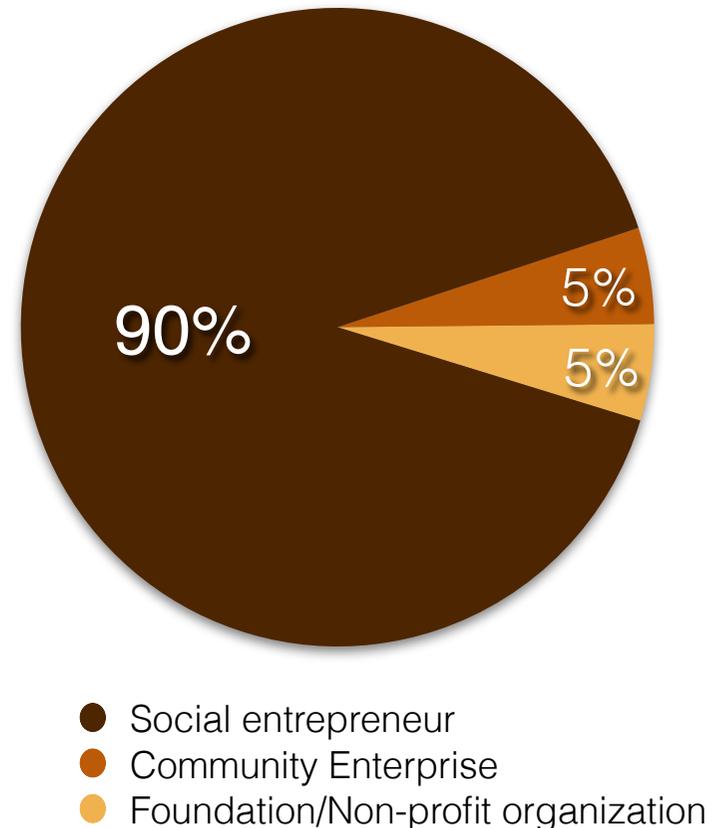
37 out of 41 respondent SEs were founded by social entrepreneurs.

The rest composed of 2 community enterprises and 2 SEs set up by local foundations.

SEs founded by social entrepreneurs is the prime focus of the investigation on the demand side of impact investment due to the following reasons:

- 1) Their startup nature leave them less likely to be able to leverage internal resources than those set up by NGOs, state enterprises and corporations and therefore are most in need of external support and investment.
- 2) They are mostly founded by the younger generations whom should be the focal point of investment in order to drive long term societal growth.
- 3) The startup ecosystem in Thailand had grown rapidly in the last 5 years and the trend had infiltrated into the SE sector, which was observed by a continual growth in number of SE started by social entrepreneurs and intermediaries that provide support to them. This group of SE is expected to experience highest growth in near future.
- 4) This group of SE is also the group which most of the respondent investors and intermediaries are working with or supporting currently.

SE FOUNDERS



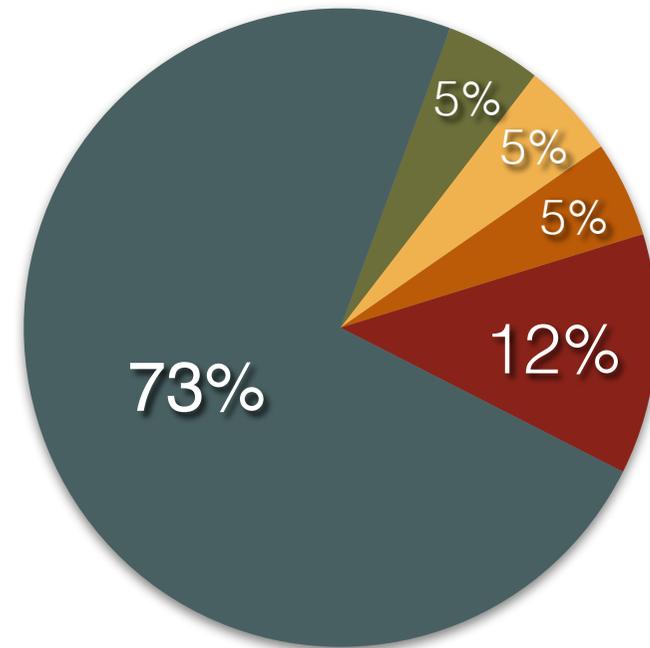
Legal status

As SE still do not have a legally recognised status, a majority of the respondent SEs are operating under the legal status as registered company.

30 out of the 41 respondents have registered as limited company.

4 respondents are currently operating without registering for any legal status yet. They are either still trying to figure out the most appropriate business model or still having minimal revenue that does not obligate registration at their current stage.

LEGAL STATUS



- Registered company
- Commercial registration
- Community enterprise
- Foundation/non-profit organization
- Not yet registered

A. Current state of SEs

Current growth stage

93% of the respondent SEs are either in their venture or growth stage.

A majority of SEs are relatively young with less than 5 years of operation, showing that the SE sector in general is still in its nascent stage. It is also linked to the increase in awareness of SE after the set up of TSEO in 2010 and numerous SEs, especially those set up by young social entrepreneurs, had entered the space since then.

Base on the sample surveyed, the growth patterns vary. Some may follow the path of usual startups and may leverage technology to expand their reach rapidly whereas some may take on a more labour intensive model and prefer to grow organically at a slower pace.

Defining different stages of SEs

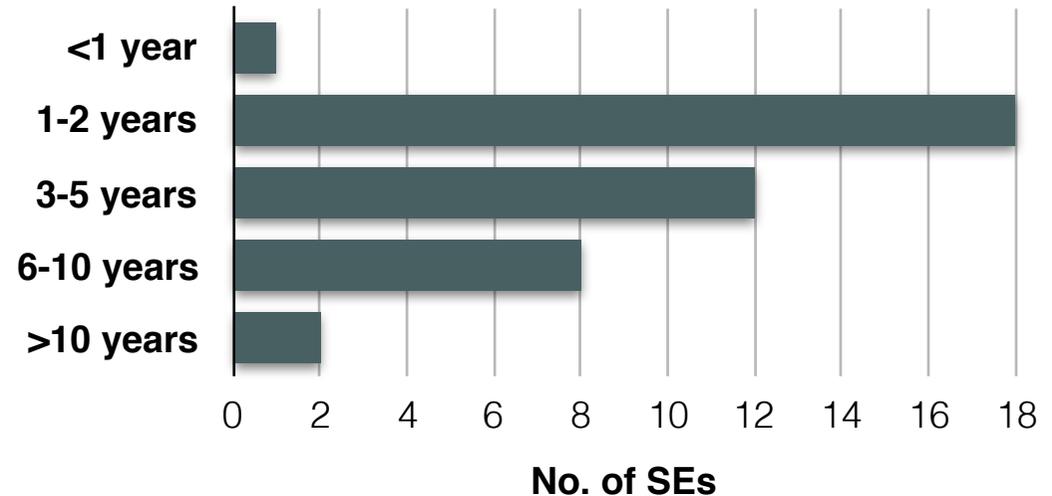
Seed - Ideation stage, prototype development and testing, yet to have a legal status

Venture - Business is launched and have established operation

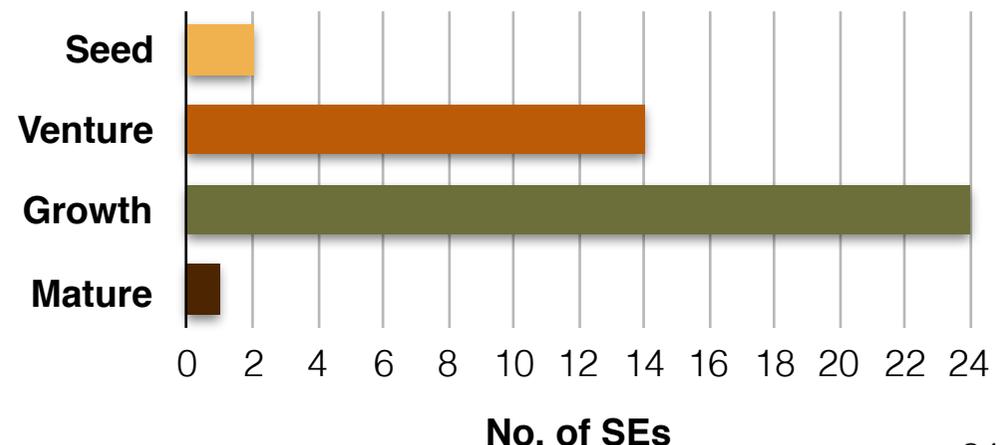
Growth - The business is generating a consistent source of income and is continuously taking on new customers, passed breakeven point.

Mature - The business is seeing stable profits, may push for further expansion or exit the business

YEARS IN OPERATION



CURRENT GROWTH STAGE



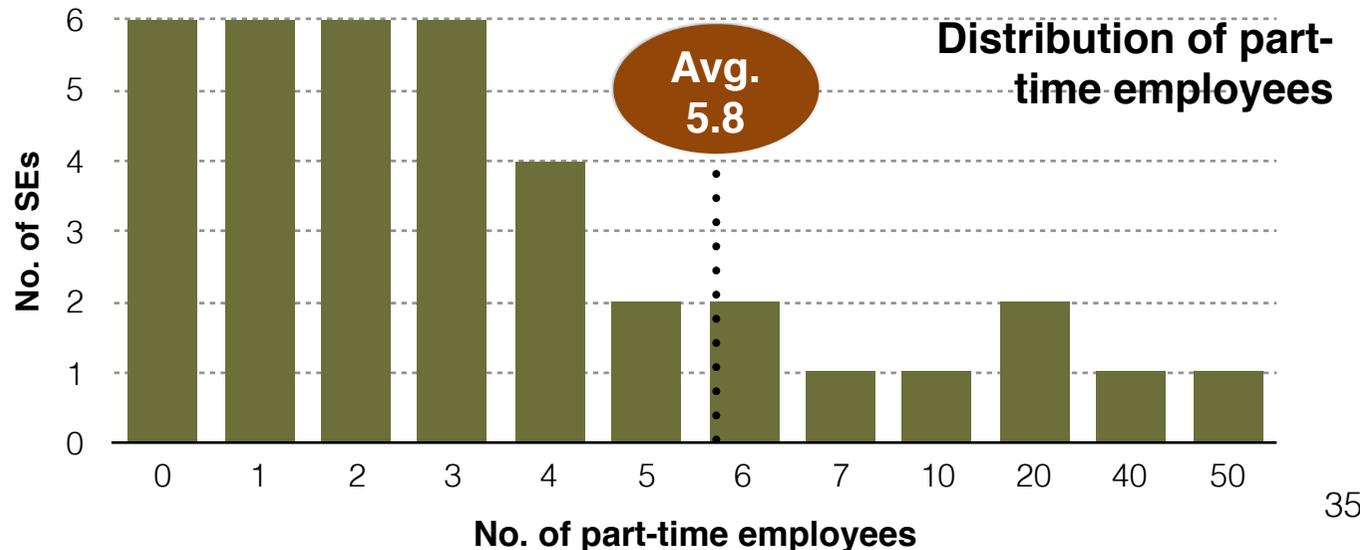
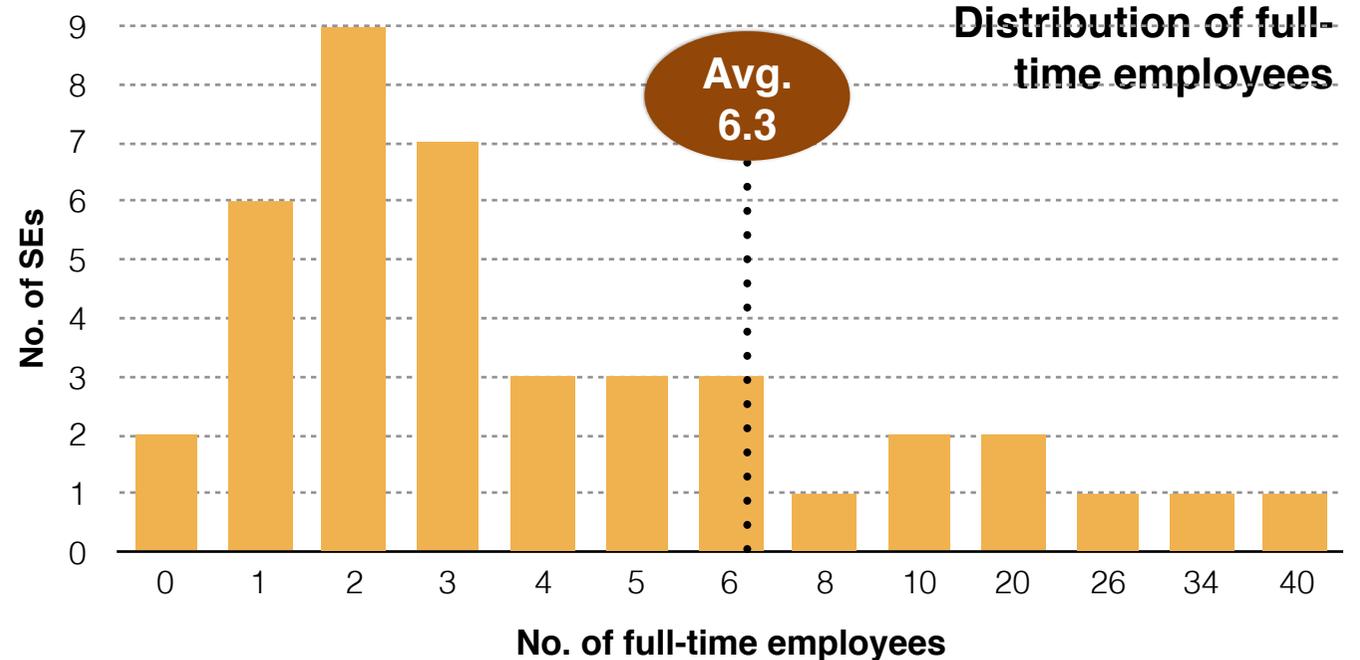
A. Current state of SEs

Size of team

80% of the respondent SEs have small teams of full-time and part-time staff in the range of 1-5 employees each, which corresponds to their current state of business.

SEs that have a relatively larger team of full-time employees (i.e. in the range of 10-40) are mainly service providers in the growth stage and all have an annual income of over 3 million Baht.

SEs that have large part-time team (i.e. in the range of 20-50) are mainly engaged in labour intensive production or services, such as those who hire villagers in communities as their producers.

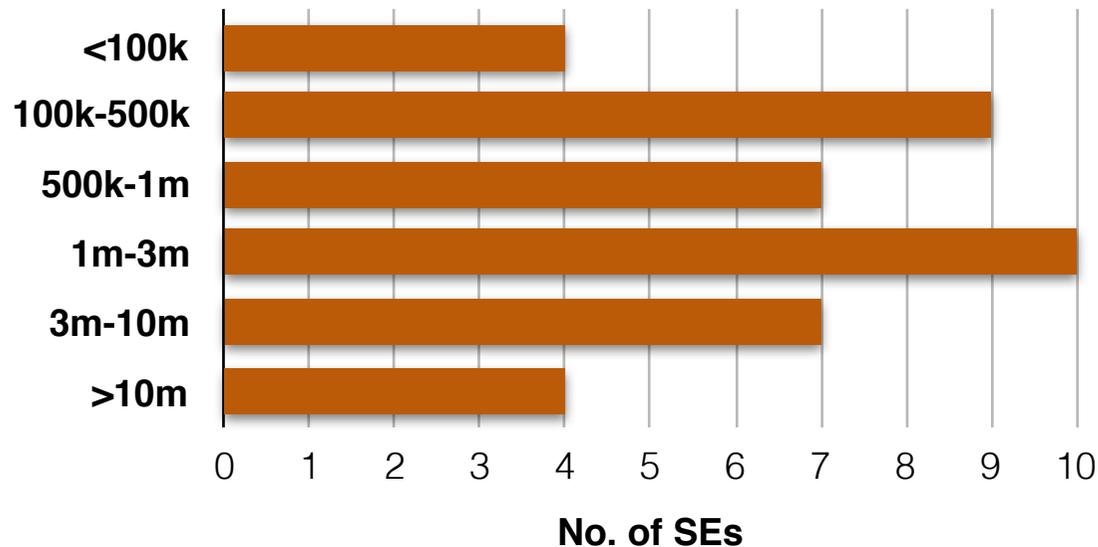


Revenue status

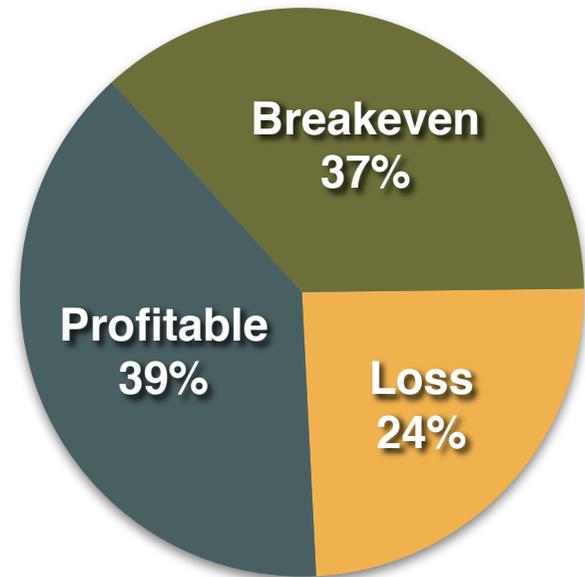
76% of the respondents were able to achieve either positive net profit or breakeven in 2017.

Majority of those who are still running at a loss are in their venture stage (i.e. launched their business but has not passed breakeven point yet) with annual revenue less than 500,000 Baht.

ANNUAL INCOME RANGE

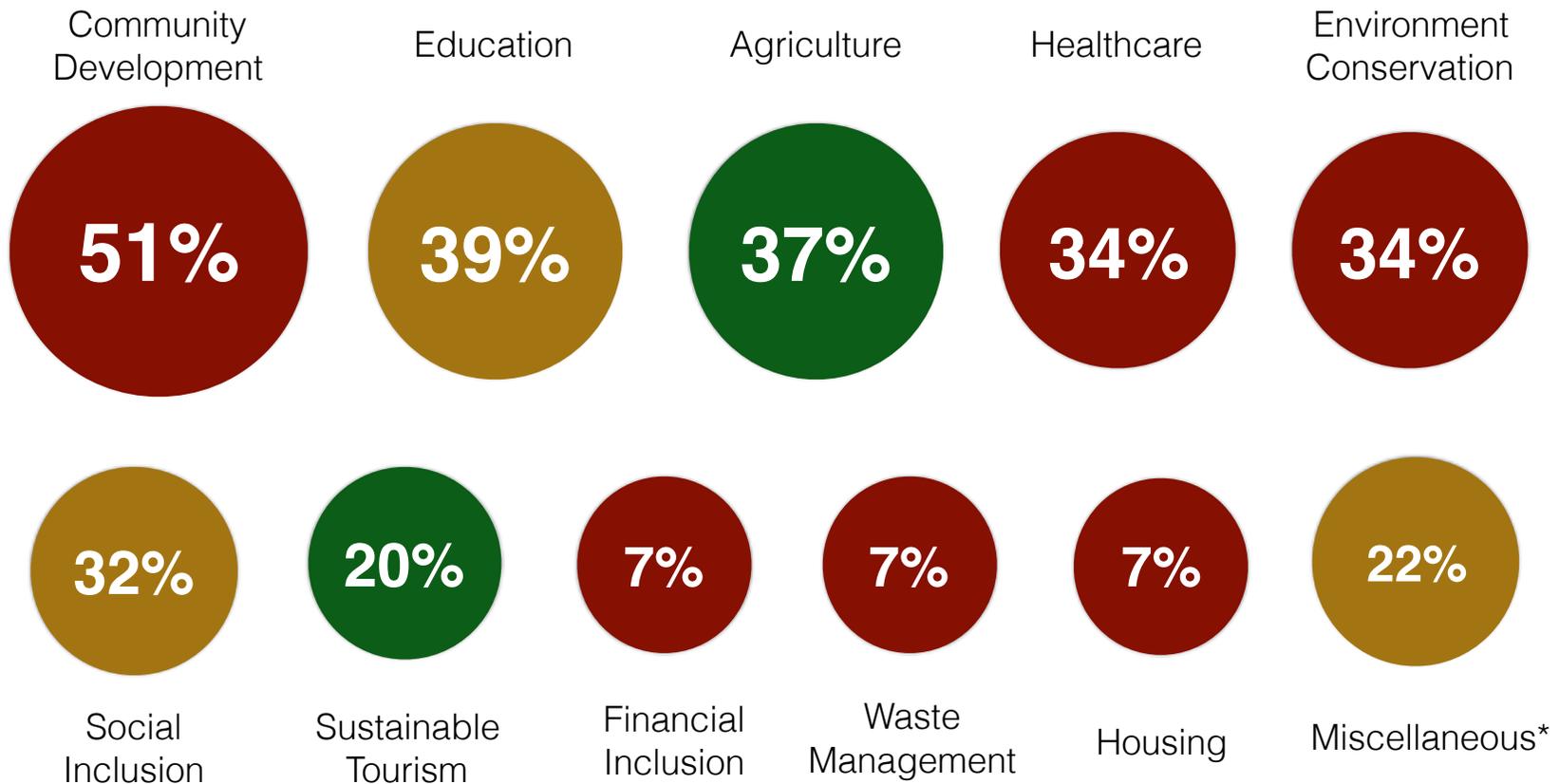


BUSINESS PERFORMANCE IN 2017



Impact focus

Top impact focus areas are community development, education and agriculture which coincide with the top areas of interests of the impact investors and intermediaries.



*Renewable energy, water sanitation, civil engagement, etc.

Impact assessment

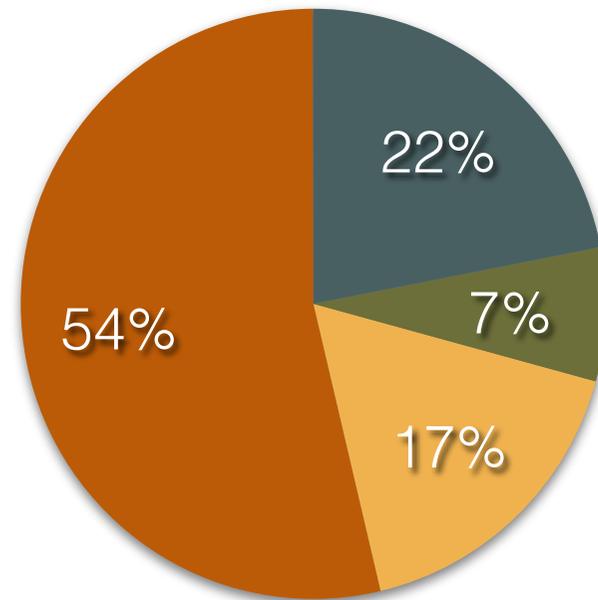
22 out of 41 respondent SEs have not had impact measurement in place yet. It is mainly due to the lack of time and resources (69%) followed by the lack of knowledge to implement impact assessment (47%).

In addition, a majority of investors and intermediaries have not been adamant on the requirement for impact report, causing SEs to place impact measurement on a lower priority than it should be.

For those who have kept track of their impacts, 11 respondents reported that they have set up a few major indicators to monitor their impacts with 3 of them adopting existing assessment tool such as Impact Bento which is developed by ChangeFusion to facilitate the process.

7 respondents received assistance from external experts to assess their impacts.

IMPACT ASSESSMENT BY SE

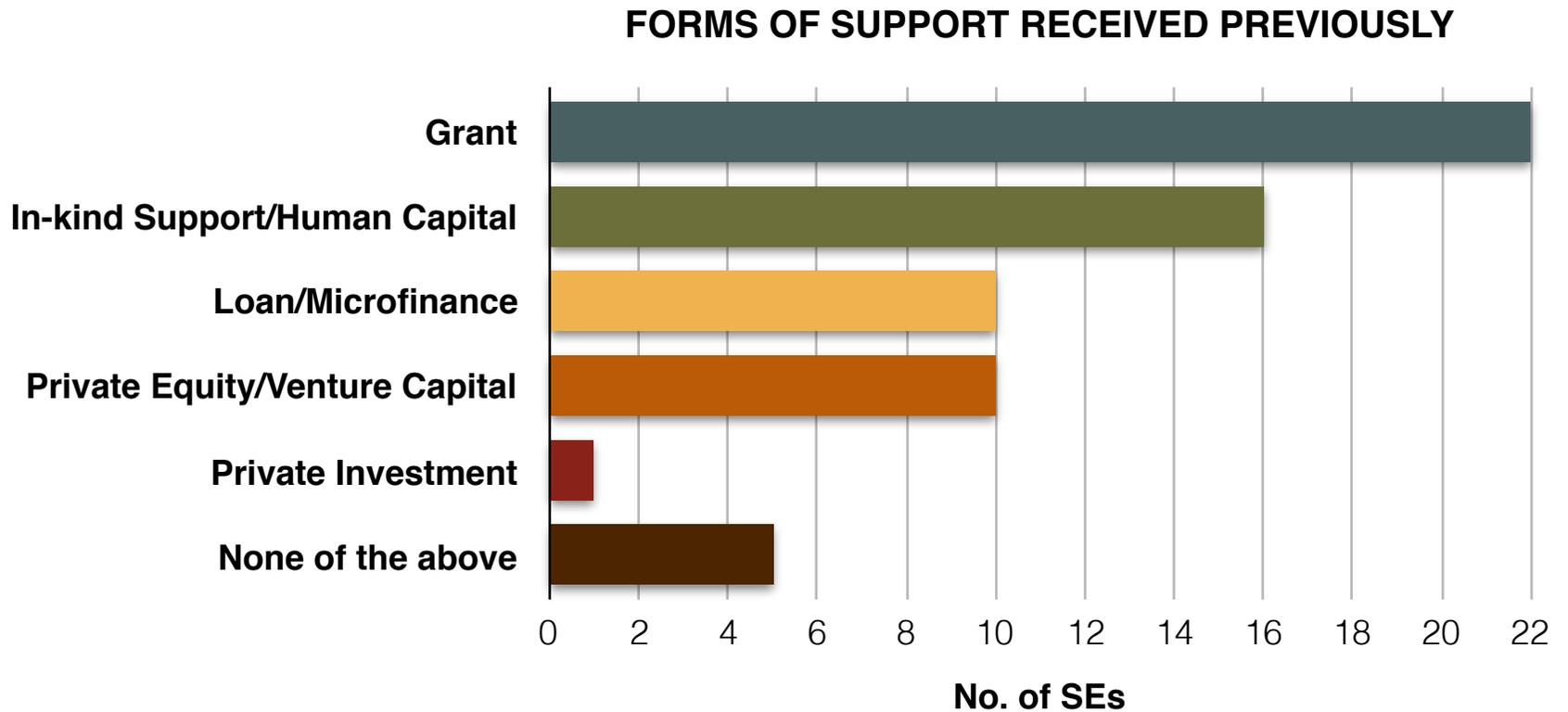


- In-house methodology
- Existing assessment tool
- Consult specialist
- No impact assessment

B. Support provided to SEs and their needs

All forms of support received previously

88% of the respondent SEs have received some forms of support before with grant being the most common, followed by human capital support and loan and micro-finance.



B. Support provided to SEs and their needs

Various forms of support received in 2017

Grants remain the most common form of support extended to SEs in 2017 in the range of 80,000 to 11,000,000 Baht. Only 2 SEs with an annual revenue over 10 million Baht had received equity investment.

	Grant	Loan	Equity Investment
No. of SEs supported	17	1	2
Sources of funds	<ul style="list-style-type: none"> • Thai Health Promotion Foundation • BKIND Mutual Fund • National Innovation Agency (NIA) • Banpu Champions for Change • G-Lab, Thammasat University • True Incube • Oxfam • CU Innovation Hub • Bill & Melinda Gates Foundation • Massachusetts Institute of Technology (MIT) • Government Savings Bank • Booking Booster (booking.com) 	<ul style="list-style-type: none"> • Bank for Agriculture and Agricultural Co-operatives 	<ul style="list-style-type: none"> • RD Capital • Not revealed

Forms of supports needed

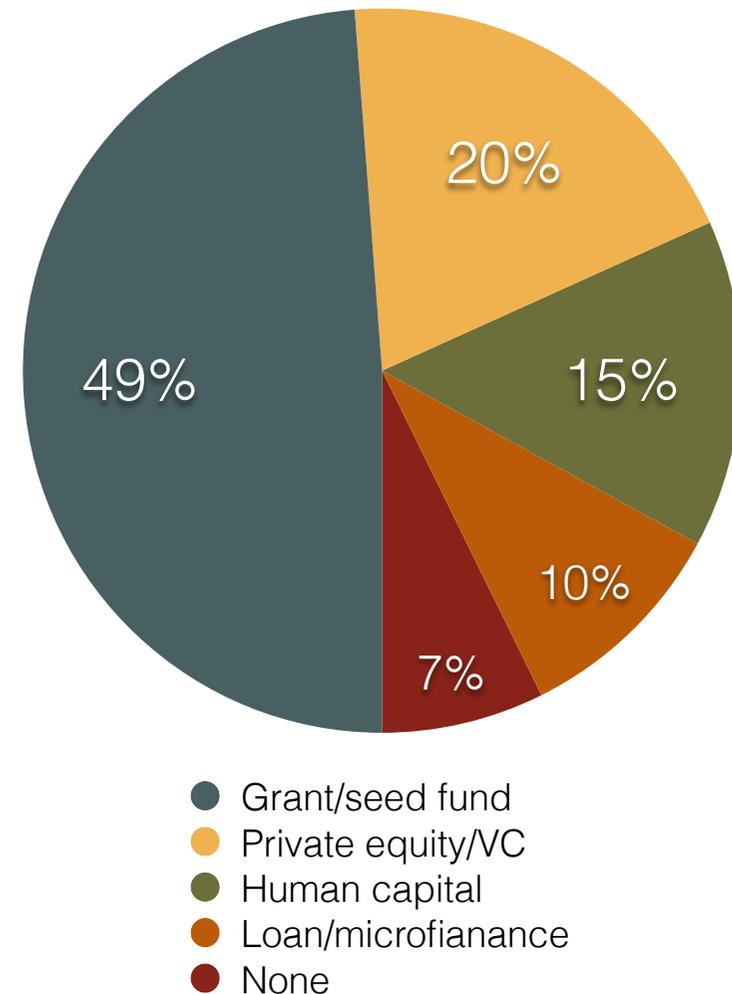
Half of the respondent SEs selected grant and seed funds as the most needed form of support.

The preference for grants is probably due to a higher availability of grants in the current landscape and the relative ease in accessing them than the other forms of support.

Private equity or venture capital was chosen by a fifth of the respondents as the most needed form of capital. Among them, 75% has already reached breakeven or attained positive net profit in 2017.

The third most needed is in-kind support or human capital. Most of those who indicated this category as their most urgent need has already received grants in 2017. It reveals the importance of the combination of financial and non-financial support in fostering a comprehensive growth.

MOST NEEDED FORM OF SUPPORT



B. Support provided to SEs and their needs

Equity investment needed

34 out of the 41 respondent SEs indicated the need for equity investment with a majority seeking investment size above 1 million Baht.

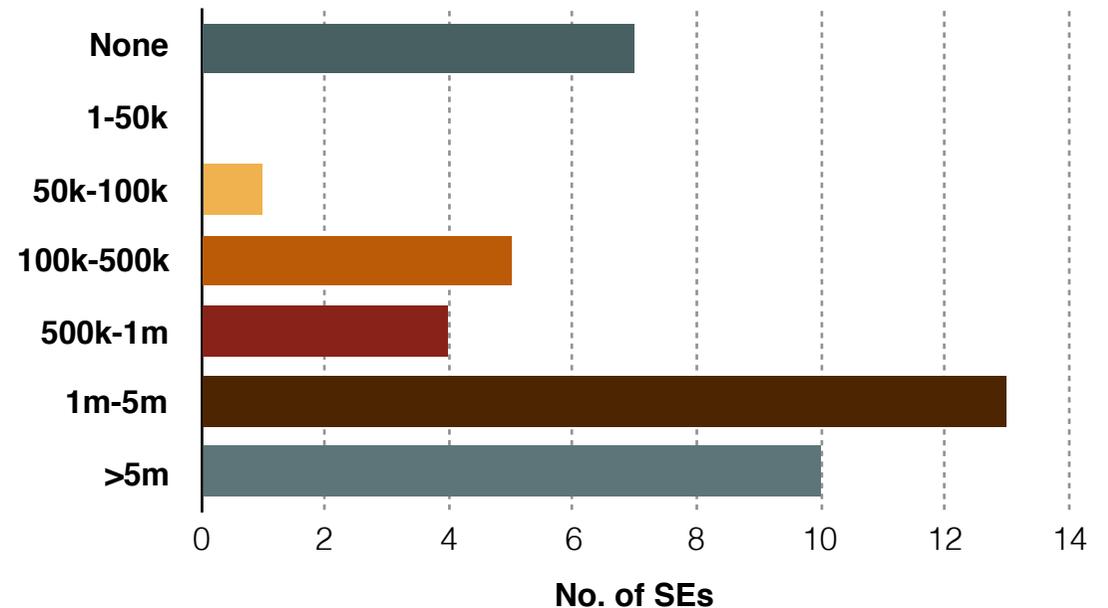
Compared to the number of SE that had received private equity investment or venture capital before (i.e. 10), there is still a relatively wide gap between demand and supply.

Top reasons for NOT seeking equity investment:

- 1) Time pressure/lack of resources to engage investors (37%)
- 2) Require other forms of support instead (27%)
- 3) Believe chance of securing investment is small (22%)
- 4) Do not know where to find investors (22%)

In general, equity investment in SEs is still new in Thailand. The requirements from each investor also vary and are often not sufficiently communicated to the SE communities. So SEs may not have adequate information to fully assess the obligations and costs involved with equity investments as well.

AMOUNT OF INVESTMENT REQUIRED

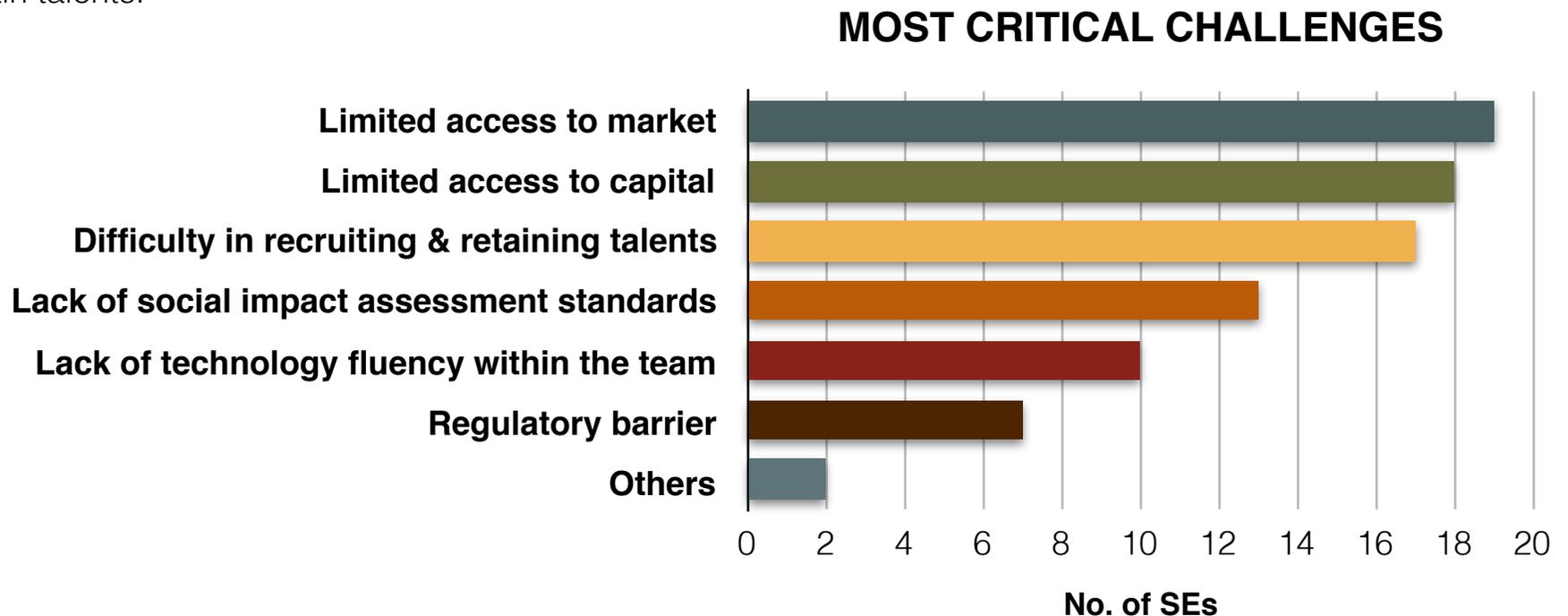


Most critical challenges

Limited access to both market and capital are the most critical challenges faced by the respondent SEs.

The limit in sales and marketing skills and capacity among many social entrepreneurs and their teams has been a major barrier in keeping them from expanding sales.

When the SEs reach the growth stages, they are often stuck in the “missing middle” gap of capital where the thresholds for loan and equity investment are often too high for their scale of businesses. The slow pace of growth of the business of some has also prevented them from using attractive salaries to recruit and retain talents.



6. Main learnings

A. Current situation

1. Support concentrated on early stage SEs

- Base on the sample surveyed, most of the support was given in the forms of grant and human capital support.
- There are still limited number of investors or intermediaries who extend loans to or make equity investments in SEs, resulting in a lack of support for the SEs who would like to pursue further growth or to scale.
- Many of the respondent SEs also cited the lack of access to capital as one of the most critical challenges they face.
- As social impact investment is still in its nascent stage with limited examples and track record in terms of loan and equity investment, existing or potential supporters may still be reluctant to venture into investment tools other than grant.



A. Current situation

2. Social impact is the most important consideration criteria for the provision of support or investment

All investor and intermediaries have regarded social impact as highly important in screening SEs for grants, loans and equity investment.

However, ***as a quarter of the investors and intermediaries and over half of the respondent SEs have not had any impact assessment in place yet***, it would be difficult to carry out an objective and fair assessment and the social impact criteria would be less than substantial.



B. Gaps and challenges

1. The “missing middle” capital gap

Currently most of the support are focused on the early stage SEs in the form of grant. As SEs proceed to the later growth stages, they often find it difficult to access other forms of capital, such as loan and equity investment because of their high entry thresholds and it often becomes the stage where SEs got stuck.

For loans, the major banks in Thailand are still treating SEs as normal businesses as SE does not have a legally recognised status so far and many of them are operating as registered companies. Very often, SEs are put into the dilemma of not having sufficient capital to invest in assets in the first place and then they are short of collateral to apply for loans. They are also concerned about the high cost of finance associated with loans as well. More concessions targeting SEs or more innovative loan products would be needed to tackle the problem.

As for equity investment, patient capital in which investors are willing to forgo quick returns in anticipation of more substantial return in the long run would be most needed for the current landscape as most SEs are still in the early growth stages with steady growth and are juggling resources to balance both their business and impact performance. Indeed, several existing cases of equity investments have been provided in such form by angel investors. Yet, such cases remain limited. As the interests in social impact investment continues to grow and more players are expected to put in their capital in future, it would be crucial to education new investors about the nature of SEs and how they could keep their return expectation realistic. Otherwise, if the investor enters the space without a proper understanding of impact investment and expect their investees to perform at the same level as the usual start-ups, they may not be able to find any eligible SEs for investment or their investment may become a burden to the investees instead.

B. Gaps and challenges

2. The underdevelopment of investment pipeline

There has been an increase in number of SEs in recent years due to both the increase in public awareness and the creation of SEs through various SE incubation programs. However, a majority of them are still in their early growth stages. Even those who came out of the incubation programs are often not ready for investments yet. They would need to go through additional capacity building and also considerable expansion in their businesses in order to be eligible. Currently the support given to SEs beyond the incubation stage is fragmented. There are some mentorship programs available. Yet, there is a general lack of systematic approach in grooming the SEs for further investments.

Existing incubators may consider designing more structured support schemes for their alumni to help prepare them for potential investments. They may also engage potential investors in their program as mentors so that the potential investors would have a better understanding of the potential investees and such process will help build trust between them.

3. Lack of collaboration and collective action

As discussed, most of the investors and intermediaries have been providing support in the form of grants and human capital which sometimes may result in an overlapping of resources. Currently there is little coordination among them. However, through collaboration, different players may leverage their strengths to provide a more comprehensive and balanced support to SEs in different growth stages. For instance, incubators may integrate their program content and SE pipeline with accelerators to ensure continuous support for those in their pipeline and efficient use of resources. Similarly, grantors or investors may also collaborate with intermediaries to offer support packages that encompass both financial and non-financial assistance.

C. Opportunities

1. Mainstreaming

The Thai government has demonstrated an increase in interest in SE in recent years. In the latest draft of the SE Act, there are clearly specified tax incentives for social impact investors who invest in SEs. The incentives are expected to stimulate more interests in social impact investing and bring in new investors.

In addition, although the SE Act has not yet been passed, it has already encouraged more dialogue on the topic and interests in SE in the Thai society. As more people become aware of the concept of SE, especially the young generation that is increasingly interested in entrepreneurship, it is expected that the number of new SEs will continue to grow, which will likely be able to address the problem of insufficient investible SEs in the current landscape.

2. Leverage existing SE networks

In response to the pending SE Act and the consultation process, associations of SEs, such as Social Enterprise Thailand Association (SETH), have been set up. Some existing intermediaries such as ChangeFusion, Ashoka and the Stock Exchange of Thailand also have extensive SE networks. On top of that, they also have ample experience and insights in supporting SEs. Hence for new investors and intermediaries entering the social impact investment space, they could possibly tap into these networks as a start.

3. **SDG framework to facilitate impact assessment and communication**

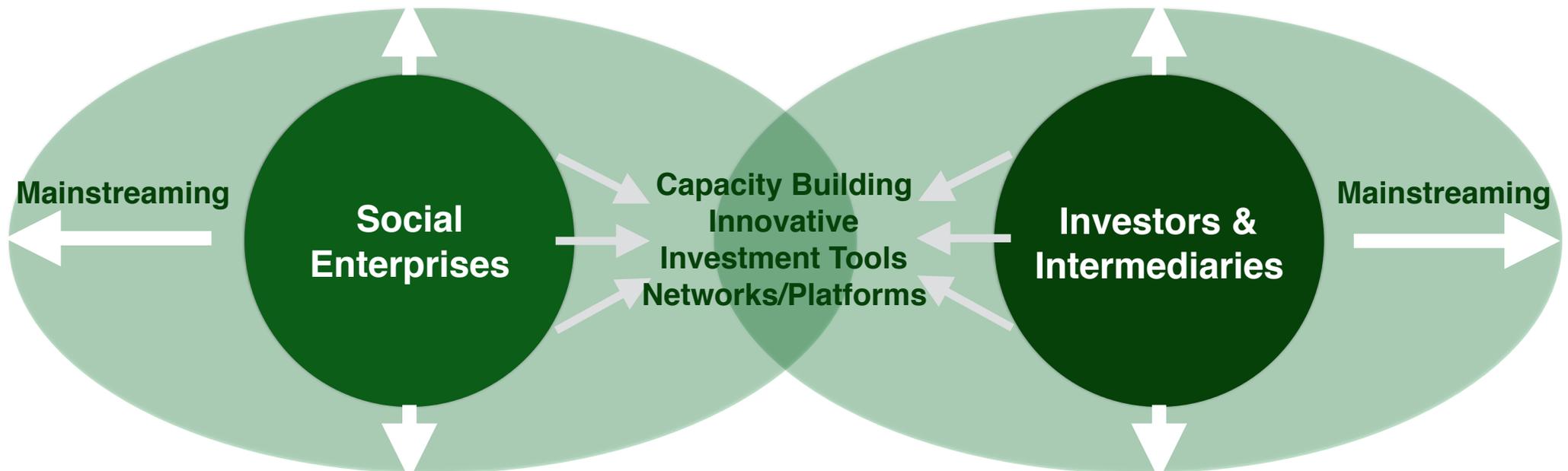
As social impact is one of the top priorities of the investors and intermediaries, and a majority of SE have not yet kept track of their impacts, the SDG framework would be a useful reference for a start since it has already clearly defined across-the-board social and environmental problems. Still, more refined indicators will need to be identified and measured accordingly in order to be able to claim one's relevance to the SDGs.

SDGs are generally understood by the private and public sector. Therefore the reference to SDG framework would increase the ease of communication of impacts between SEs and investors and facilitate SEs to appeal to private sector for support either through the provision of financial or non-financial capital or the purchase of their products or services.

D. Summary

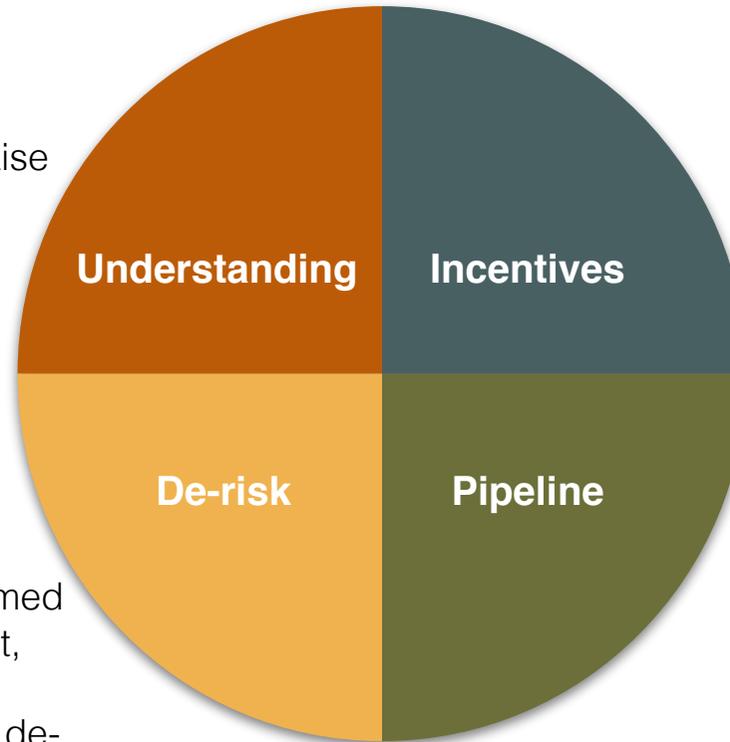
Bridging the gaps and opportunities

The current missing middle between SEs and investors are mainly caused by the unreadiness of SEs and the reluctance of investors due to the lack of understanding and available tools that fit the SE context. The mainstreaming of SEs is expected to expand both sectors and foster an increase in capital flow between them. Still, much capacity building is needed for both sides to further reduce the gap. Investors can leverage existing networks to reach out to potential investees whereas SEs may adopt the SDG framework in their impact measurement process to facilitate communication with investors. More collaboration among investors and the introduction of more innovative investment tools will also help to bring the sector forward.



7. Way forward

An overview on how to bring the social impact investment sector forward



- Ensure investors have proper understanding of the nature and lifecycle of SEs and realistic investment expectations
- Publication on success cases to raise awareness and encourage other investors to follow.

- As most SEs are still in their early stage, investment in SEs is still deemed risky. Initiatives from the government, e.g. SE Fund, that provide blended financing support for SE could help de-risk the investment.
- Investors may also consider co-investing their resources to lower the risk for each of them.

- Incentives from government policy, e.g. tax reduction for social impact investment would encourage more investors to consider investing in SEs.
- Stringent impact measurement and monitoring and transparent report done by SEs would increase ease of investors in tracking the performance of their investment and attract more investors to invest.
- Investors may collaborate with incubators and accelerators to engage potential investees early on which will also help reduce the risk in investment.



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