GSG
Driving real impact

Catalysing an Impact Investment Ecosystem

A Policymaker's Toolkit

Working Group Report from
The Global Steering Group for Impact Investment

October 2018

ABOUT THE GLOBAL STEERING GROUP FOR IMPACT INVESTMENT (GSG)

The GSG is an independent global steering group catalysing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently has National Advisory Boards in 18 countries plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind impact investment to deliver impact at scale.

WORKING GROUP MEMBERS	
Sebastian Welisiejko (Argentina)	Ian Simmons (US)
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About The GSG Working Groups

The GSG has commissioned five separate and complementary papers which address key questions and challenges within the impact investment ecosystem. The topics have been chosen by the leaders of the GSG, the National Advisory Board Chairs, the GSG trustees and the GSG partners.

Selections by this group were made based on the topics necessary to foster a well-functioning impact investing ecosystem that creates significant benefits for people and planet period. Significant care has been taken to ensure that the working groups have representatives of a wide variety of sectors and geographies and represent the views of global experts on the topic. Together, they will propel the market towards tipping point by 2020.

In this paper we focus on the role of government in the impact investment ecosystem and highlight how policy making can be catalytic. In the four other papers published as part of this series, we discuss how to widen and deepen the field of impact investment to ensure that a wider variety of actors is represented and the focus on impact remains transparent and measured. We explain how impact-focused financial instruments have been built, examine failures that exist in this process and identify opportunities for replicating success. We provide practical guidance for setting up impact wholesalers.

Finally, we also demonstrate how technology can be used to create social impact and what support impact ventures need for their financial and impact success

About Impact Investment and The Impact Economy

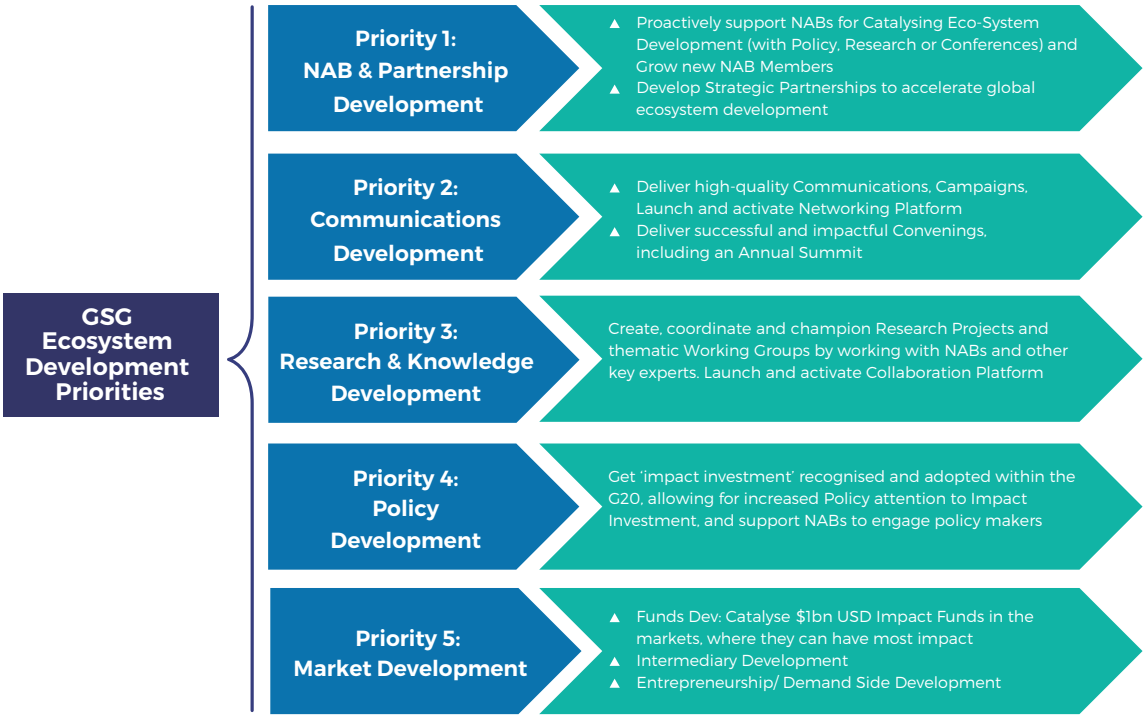
To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions affect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

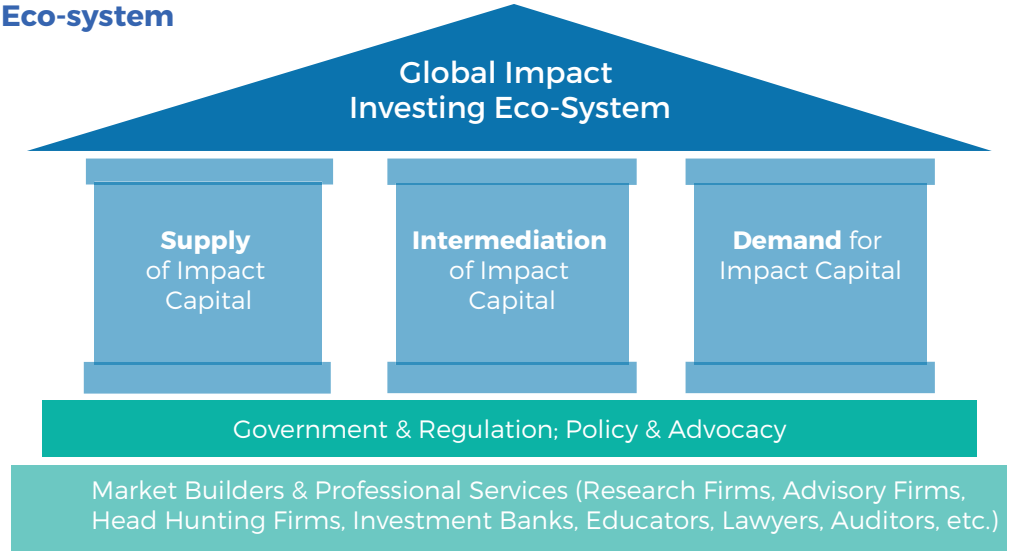
As more people and organisations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet. In the impact economy, businesses use their capabilities to optimise both their positive impact on the world and their financial return. Investors use their resources to optimise business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

GSG Strategy: Ecosystem Development Priorities

GSG WILL OPERATIONALLY ORGANIZE THE DELIVERY OF ITS STRATEGY AROUND FIVE PRIORITIES.



Pillars of the Global Impact Investment Eco-system



Letter from Working Group Chair

Lack of access to high-quality education and adequate healthcare, homelessness, refugee crises, increasing carbon emissions: these are just some of the urgent social and environmental challenges that policy makers face today. It has become clear to many governments around the world that we can no longer rely on the resources of the public sector and philanthropy alone. Mobilising private capital at scale through collaborative action is a crucial part of the solution to these challenges at scale, and an important complement to needed policy changes and to catalyse philanthropy.

Impact investment can optimise risk, return and impact to benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones and measuring their achievement.

The impact investment movement has gained significant traction over the past few years. For institutional investors, the Sustainable Development Goals (SDGs) have provided a helpful lens through which to consider how best to target investment capital for impact. The cultural shift towards environmental sustainability and ethical consumerism driven by the "millennial generation" of citizens also lends weight to this approach.

The last decade has seen governments around the world seeking to catalyse impact investing sectors in pursuit of more effective policy outcomes and sustainable, inclusive economies. Progress has already been made. The number of countries with National Advisory Boards on impact investment which are part of the GSG has now reached 19 plus the EU, increasing from just 8 in 2013. As this report found, this accelerated growth is in part due to sharing of information and expertise among nations, allowing countries to iterate and adapt initiatives undertaken elsewhere to suit their home markets.

A thriving impact investment ecosystem depends upon five important pillars: demand, supply, intermediaries, ecosystem enablers and government. Government plays a pivotal role in catalysing each of the pillars with appropriate policy and market intervention.

Whilst this report acknowledges the importance of all five market contributors, it focuses in particular on the role of government. Through a bottom-up approach, highlighting how policy making in each of the 19 countries has catalysed its impact ecosystem, the report's aim is to facilitate effective knowledge exchange and provide informed and strategic recommendations on potential next steps. For while the current momentum is encouraging, in order to address our pressing social and environment problems at scale, there is still much work to be done.

MICHELE GIDDENS
Co-founder & Partner, Bridges Fund Management

Letter from The GSG Chair

The scale of the world's problems has changed – and so too must our response. Despite generating unprecedented wealth, our current economic system has created great inequalities and left too many people far behind. For the last five years, I have been working with over 300 colleagues across 21 countries to lead the global community to take on an audacious but plausible solution: to bring the impact movement to Tipping Point by 2020.

Beyond Tipping Point lies the *impact economy* in which risk, return and impact inform all decisions, be they made by governments, investors, businesses or consumers. Impact investment plays a crucial role in the creation of impact economies.

I am delighted that our global working groups will be releasing four reports at our 2018 Impact Summit in New Delhi. Their innovative research is the fuel our impact movement needs to journey to Tipping Point. I am deeply indebted to all those who have worked so hard to bring these reports to fruition.

Catalysing an Impact Investment Ecosystem breaks down the role of policy makers as market facilitators, market participants and market regulators. Across these roles, there are no less than 15 tools which governments have used to catalyse the ecosystem. Through this paper, we come to understand how different countries play these different roles, and which countries have generated the most significant benefits from policy-making. Country by country, this paper analyses the policy environment in the NAB countries across Africa, Europe, Asia, North America, South America and Australia. It is the most comprehensive analysis of the policy environment across countries engaged in impact investment and should greatly aid policy makers and government officials.

Our sincere thanks go to Michele Giddens, her Working Group and our NABs for the valuable contribution they have made to policy-making across the world.

SIR RONALD COHEN
Chair, GSG

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Executive Summary

This report focuses on the role of government in the impact investment ecosystem and highlights how policy making across the countries analysed has been catalytic.

The key audiences for this report are policy makers, government officials and those that influence and support them, as they seek to build a thriving impact investment ecosystem in their respective countries.

The Catalytic role of the Government

The last decade has seen governments around the world seeking to catalyse impact investing in pursuit of more effective policy outcomes and sustainable, inclusive economies.

This report aims to facilitate knowledge exchange among countries and provide informed and strategic recommendations on potential next steps. The report is informed by an analysis of the policy-making environment in the member countries of the GSG in relation to impact investment.

The government should consider itself a catalyst for the impact ecosystem, encouraging other players to contribute to the impact economy. We have used the OECD framework which identifies the government roles that can be catalytic to the ecosystem:

- **Market facilitator**: Creating organisations and systems that enable and educate on impact.
- **Market participant**: Supporting the impact investment ecosystem through the commissioning and procurement of impact products and services.
- **Market regulator**: Implementing laws that build support and recognition for the impact ecosystem.

The Path to Policy Making

Across the three government roles, we have identified 15 key policy areas that form a toolbox for policy making. All countries covered by this report are drawing policies from across the toolbox and seem to do so following a similar pattern.

PHASE 1 - FOUNDATIONAL POLICIES

Countries tend to first build the foundation of the impact ecosystem through education and by fostering a favourable environment for impact businesses.

We note that the majority of countries analysed have some **educational programmes** in place, such as university courses, research centre courses and investor trainings, showing a clear intention to build an understanding around the industry.

Similarly, the majority of the countries have **capacity building** programmes, largely in the form of incubators, and **access to capital** programmes. These two are often interlinked.

PHASE 2 - STRENGTHENING POLICIES

Once the foundation is in place, we see governments focusing on policies that strengthen the core of the ecosystem.

All countries in our analysis are implementing or considering the implementation of **outcomes commissioning**. Similarly, the majority of countries are also exploring the implementation of **impact values in their procurement decisions**. This new way of structuring government spending, by creating stronger private-public partnerships, is helping strengthen the demand side of the ecosystem.

Specific legal forms for impact businesses is another policy that several governments are adopting to strengthen the demand side. This policy is often the basis for more targeted policies such as fiscal incentives.

Impact reporting standards is another example of a strengthening policy; with most governments at least considering different initiatives to report on non-financial factors.

To strengthen their intermediaries, governments are looking to create impact investment **wholesalers**. Three countries in our analysis have one, while another four are actively in the process of creating one. While more countries would like to implement one, they are often constrained by funding.

Impact in fiduciary duty is a policy that is being widely explored to strengthen the supply side. This policy is still under development in most of the countries analysed, likely as a result of the need for more education around impact on the supply side.

PHASE 3 - EXPANSIVE POLICIES

Countries with a mature impact ecosystem should continue to expand it to connect the wider market and tackle new challenges at scale.

A common way in which these countries are trying to broaden the reach of the impact investment industry is by opening the market to retail investors. The creation of **pensions with purpose** and **impact stock exchanges** are two ways of attracting retail investors.

Fiscal incentives both in the demand and supply side are starting to be explored. We find that these incentives are most often present in those countries with a specific legal form for impact businesses.

Lastly, **national strategies** are being developed in some countries as a way to have a coherent, agreed path for further industry development.

The Role of the NAB

National Advisory Boards (NABs), which each country of the GSG creates, are very collaborative organisations, often formed by a coalition of market players and ecosystem builders that aim to promote a more sustainable economy.

Policy makers should consider whether the government should be represented on the NAB (e.g. in Finland and France) or to form private sector NAB membership. Our analysis suggests the decision tends to be a reflection of the national character and tradition of policy making in that country. There seems to be no correlation between government representation on the NAB and more effective or faster policy making. While we have included whether the government is represented on the NAB for each country, it is not considered one of the 15 key policies.

The role of the NAB is twofold:

- Spearhead the building of an impact ecosystem at home: NABs tend to play a key role in liaising with the government and other stakeholders to build a common understanding on the opportunities created by a vibrant impact investment ecosystem.
- Learn from and share with other NABs: Connected through the GSG, NABs have the opportunity to interact with each other and share the lessons learned. The effectiveness of this knowledge sharing is clearly shown by the rapid implementation of the policy toolbox by recent joiners.

How to read this Report

The primary audiences for this report are policy makers, government officials and those that influence and support them as they seek to build a thriving impact investment ecosystem in their countries.

Methodology

We have based our findings on the results of a survey built in collaboration with the OECD and McKinsey & Company, twenty interviews with impact investment leaders across the world and desk research of industry-level and national-level reports on the topic of policy and impact investment.

Scope

The report 1) provides governments of the countries analysed with recommendations that could strengthen each impact investment ecosystem; 2) lays out tools for governments globally to catalyse the growth of their impact investment ecosystem; and 3) provides the reader with examples of successful implementation in countries of the GSG. In addition, we hope it provides a useful source for countries to learn from one another and tailor ideas for their own needs.

This report will be complemented by the OECD Social Impact Investment Phase II report, to be published in January 2019, which will provide a more detailed understanding of the role of policy in the context of financing for sustainable development.

The report can also be read in conjunction with "Social impact investing: moving to a tipping point", a report by McKinsey & Company that provides recommendations to the G20 to accelerate adoption of impact investing.

Framework

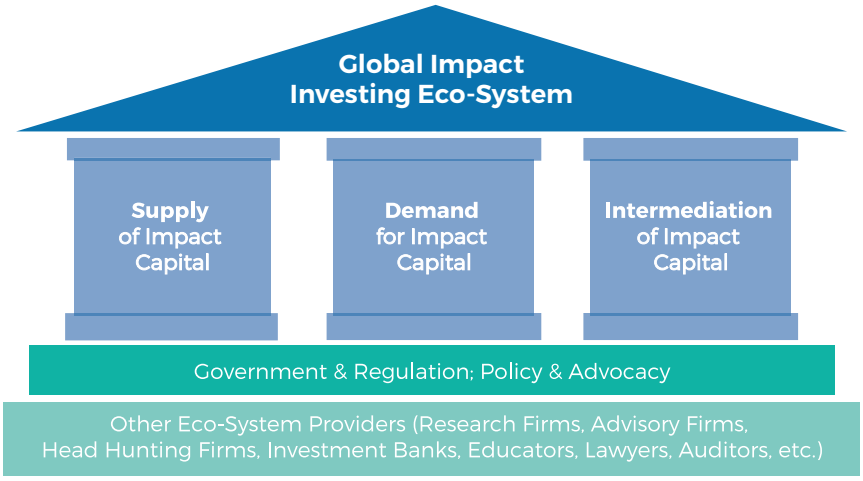
To structure the tools policy makers can use to catalyse their national impact investment ecosystem, the report uses a matrix that combines two frameworks:

1. THE GSG FIVE PILLARS

This framework segments the impact-investment ecosystem in terms of its five main actors:

- **Demand** for impact capital. Representing actors that provide impact solutions and have financing needs to carry out those solutions.
- **Supply** of impact capital. Representing actors that provide funding, directly or indirectly, to impact businesses. These include institutional investors, high net worth individuals and retail investors.
- **Intermediaries**: Facilitate the exchange of impact capital between the supply and demand side. These include funds (often venture capital, growth funds or fund of funds), as well as wholesalers and stock exchanges.
- **Ecosystem enablers**: Includes actors that facilitate the impact ecosystem, without necessarily providing capital. These range from financial advisors to research centres or NABs.
- **Government**: Catalyses the ecosystem through its policy making tools.

FIGURE 1:
GSG five pillars



2. THE OECD ROLES OF GOVERNMENT

This framework looks at the government in terms of its market-building contributions:

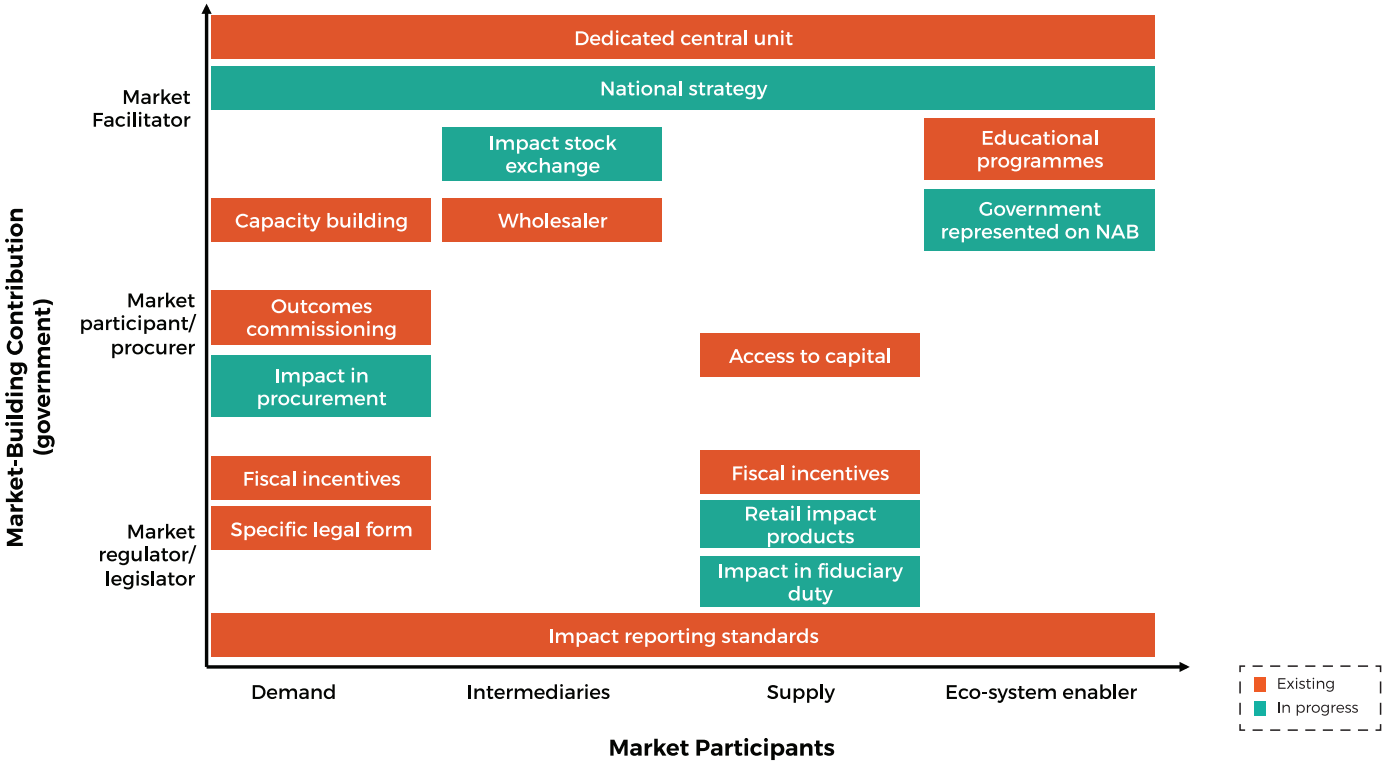
- **Market facilitator**: Creating organisations and systems that enable and educate on impact (i.e., centre of expertise within the government, incubators, research centres).
- **Market participant**: Supporting the impact investment ecosystem through the commissioning and procurement of impact products and services.
- **Market regulator**: implementing laws that build support and recognition for the impact ecosystem.

In the toolbox matrix below, the first four pillars (demand, supply, intermediaries and ecosystem enablers) are on the horizontal axis and the roles of government are on the vertical axis.

The orange squares show established policies, while green squares represent policies in progress. Policies in progress include those under development but where the law has not yet been approved; the idea has not yet been implemented; there is a policy in place, but it is not specifically targeted to impact investments; or the policy is implemented only in a few regions of the country.

FIGURE 2:

Example policy toolbox based on OECD and GSG frameworks



The 15 policy tools are outlined in the next page.

FIGURE 3:

Summary of 15 policy tools

	Tools	Description	Example	Cost
Market Facilitator	Government represented on NAB / Private sector NAB membership (not one of the 15 policy tools)	Participate in discussions with the National Advisory Board to promote collaboration between the government and the private and non-profit sectors	Finland / Chile	
	1. Capacity building	Promote impact businesses by providing them tools to support and grow their businesses, includes incubators and accelerators	Argentina & Uruguay	$$
	2. Dedicated central unit	Establish a centre of expertise within the government, that withstands changing administrations, to develop and oversee impact investing policies	France	$
	3. Educational programmes	Educate current market participants and future generations on impact investing	Italy	$$
	4. National Strategy	Design and implement policies to improve the impact investment ecosystem at a national level	Portugal	$
	5. Wholesaler	Create a wholesaler (fund of funds) to provide catalytic capital to impact-driven investment funds	United Kingdom	$$$
	6. Impact stock exchange	Provide a centralised database and crowdfunding platform that connects investors and impact businesses	Canada	$$
Market participant	**7. Access to capital**	Provide funding, through funding programmes and government-owned funds, to impact businesses or impact-driven funds	Australia	$$$
	8. Outcomes commissioning	Procure payment-by-results contracts and create a government outcomes fund to streamline the payment-by-results procurement system	United Kingdom	$$$
	9. Impact in procurement	Embed social value in procurement decisions by procuring from impact businesses or integrating social and environmental metrics in procurement programmes	South Korea	$$
Market regulator	**10. Impact in fiduciary duty**	Provide retail investors with the opportunity to invest in impact businesses by mandating asset owners to include impact as a consideration in their clients' investment decisions	United States	$
	11. Impact reporting standards	Provide stakeholders with an ability to understand and benchmark the impact of an impact businesses by establishing a standardised approach to impact reporting	Brazil	$
	12. Specific legal form	Define the impact investment universe by providing a clear legal form that focuses on their societal and environmental contribution rather than on their ability to generate profit	South Korea	$
	13. Fiscal incentives (demand)	Incentivise impact businesses by reducing the tax burden or providing other fiscal incentives	France	$$
	14. Fiscal incentives (supply)	Incentivise impact investors by reducing the tax burden or providing other fiscal incentives	United States	$$
	15. Retail impact products	Catalyse the supply side by creating investable solutions in the impact investment field	France	$

Key Learnings

A Policy Toolbox with 15 Key Tools

We have identified 15 key policy tools that governments are using in order to catalyse their impact ecosystem. These are outlined in the chart on the previous page with examples of countries that have successfully implemented them for each of the 15 policies. For more information regarding any of these examples please see the specific country report. We have also included whether government is represented on the NAB for each country, though this is not one of the 15 policy tools.

Government plays a key role as both a participant in the impact investment market and as a catalyst, encouraging other players to enter the impact ecosystem or increase their activity within it. Through our country by country analysis, we have identified a number of trends relating to these 15 policy tools. It is important to note that the analysis comes from a small sample (19 data points). Nonetheless, our learnings are outlined below in respect to role of government as a market facilitator, participant and regulator.

Government as a Market Facilitator

The majority of countries with mature markets have elected to have **central government units**. Having this unit has facilitated the adoption of more of the policy tools and thus, aided the development of the respective ecosystems. We note that the U.S. used to have a central unit that was dissolved with the latest change of administration.

National Advisory Boards (NABs) have taken different views on whether to include government on the board or whether to include government as an observer. From our analysis there seems to be no correlation between having a government representative on the NAB and the density or speed of policy making. The decision seems to be more a reflection of the national character and tradition of policy making in that country.

The common feature we saw in NABs is that they are all highly collaborative organisations made up of a coalition of market players as well as other participants from organisations promoting a more sustainable economy. Through this collaboration, NABs are able to be highly influential, often working closely with the government to help disseminate knowledge and aid effective policy making.

Educational programmes have been implemented in almost all countries, with the remaining countries in the process of developing them. As impact investment has become a larger market, educational programmes have helped to broaden the ecosystem and deepen the knowledge of the sector. Additional human capital into the impact economy is crucial to continue its expansion.

Capacity building seems universally acknowledged as one of the foundational tools that government facilitates. Countries have recognised its importance to help create a pipeline of opportunities for investment. This is demonstrated through the large number of countries, 16 in total, who either already have targeted programmes or are in the process of establishing them.

Wholesale institutions have been favoured among developed countries, while developing countries are still in early stages of considering whether to establish such an institution. South Korea is an example of how quickly countries are now able to set up wholesale institutions, with the official inauguration of the NAB in February 2018 and the wholesaler expected to be established in September 2018.

A **sustainable stock exchange** has only been established in three countries. This initiative to broaden the impact economy has typically been put in place after the ecosystem is already well established.

Government as a Market Participant

Governments should look carefully at how they structure their own spending.

Outcomes-based commissioning has been employed in almost all countries as governments look at funding outcomes while engaging private sector investors. Almost all countries have launched or are launching SIBs, with this market expected to grow.

Regardless of how developed their impact investing market is, countries across the board have acknowledged the importance of incorporating **impact into procurement**, given governments are often the largest purchaser (or one of the largest) of goods and services in an economy. This has been an increasingly important theme for governments as they reflect on the way they spend their money. The UK has been pioneering in their implementation of the Social Value Act.

Countries universally recognise that **access to capital** is a foundational policy tool for the impact investing ecosystem. All countries have funding programmes to support impact businesses either specifically (impact funds) or indirectly (e.g. funds for SMEs).

Government as a Market Regulator

Implementation of reporting **standards** is currently at the forefront of issues that countries see as imperative to solve. Today, countries are thinking about this issue regardless of how developed their impact ecosystem is, recognising its importance as a key initiative. South Africa and Brazil have both been pioneers of non-financial reporting regulation.

Many countries are in the process of passing legislation with regards to the establishment of a **specific legal form** for impact businesses. The data suggests while legal forms are not specifically correlated to the number of policies in the impact ecosystem they are directly correlated to **fiscal incentives**, given that a definition is necessary to qualify for such an incentive. It is worth noting that some of the countries with the most mature impact investing markets (UK, Australia, Canada, US) have gone a long way in building ecosystems without one. Also, new joiners are showing leadership in this space. For example, South Korea who only recently joined the GSG and already has both specific legal forms as well as targeted fiscal incentives.

All countries with mature impact investment markets have been working on fiduciary duty. Notably, certain new joiners are starting to work on issues regarding **fiduciary duty** early on in their market development or have already shown real leadership in the area such as South Africa.

So far, few countries have been promoting **retail products**. This is understandable given that it is still a nascent market and governments want to safeguard consumers. However, in the more mature markets where there is a developed impact economy, countries have recognised this as a large opportunity. France has been a pioneer in the space and the UK has appointed a task force for developing this market.

The table below summarises the policies in place or under development across the 19 GSG countries.

FIGURE 4:
Summary of policies by government role

	MARKET FACILITATOR							MARKET PARTICIPANT			MARKET REGULATOR					
POLICY TOOL NO.		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Government represented on NAB	Capacity building	Dedicated central unit	Educational programmes	National strategy	Wholesaler	Impact stock exchange	Access to capital	Outcomes commissioning	Impact in procurement	Impact in fiduciary duty	Impact reporting standards	Specific legal form	Fiscal incentives for demand	Fiscal incentives for supply	Retail impact products
Australia		Existing	In progress	Existing		In progress		Existing	Existing	In progress	In progress	In progress				
India		Existing		Existing		In progress		Existing					Existing	In progress	In progress	
Japan		Existing		Existing		In progress		Existing	Existing		In progress	In progress				
South Korea		Existing	Existing	Existing		In progress		Existing	In progress	Existing	In progress	In progress	Existing	In progress		
Finland	Existing	Existing		In progress				Existing	Existing			In progress				
France	Existing	Existing	Existing	Existing	Existing			Existing	In progress		Existing	In progress	Existing	Existing	Existing	Existing
Germany	Existing							Existing	In progress							
Italy		Existing		Existing	In progress	Existing		In progress	In progress	In progress		In progress	Existing		In progress	
Portugal		Existing	Existing	Existing	Existing	Existing		Existing	In progress			In progress			Existing	
UK		Existing	Existing	Existing		Existing	Existing	Existing	Existing	Existing	In progress	In progress	In progress		Existing	
Israel		Existing		In progress				In progress	In progress	In progress		In progress	In progress			
South Africa				Existing				Existing	In progress	Existing	Existing	Existing		In progress	In progress	
Argentina & Uruguay	Existing	Existing		Existing			In progress	Existing	In progress	Existing	In progress	Existing	Existing		In progress	
Brazil		Existing	Existing	Existing	Existing			Existing	In progress			Existing	In progress			
Canada		Existing	Existing	Existing	In progress		Existing	In progress	In progress	In progress			In progress			
Chile		Existing		In progress				Existing	In progress				In progress		In progress	
Mexico		In progress		In progress				In progress	In progress	In progress	In progress					
US		Existing		In progress				Existing	Existing	In progress	Existing		Existing		Existing	

Existing
In progress

Country by Country Policy Toolboxes

FIGURE 5:
Australia Policy Toolbox

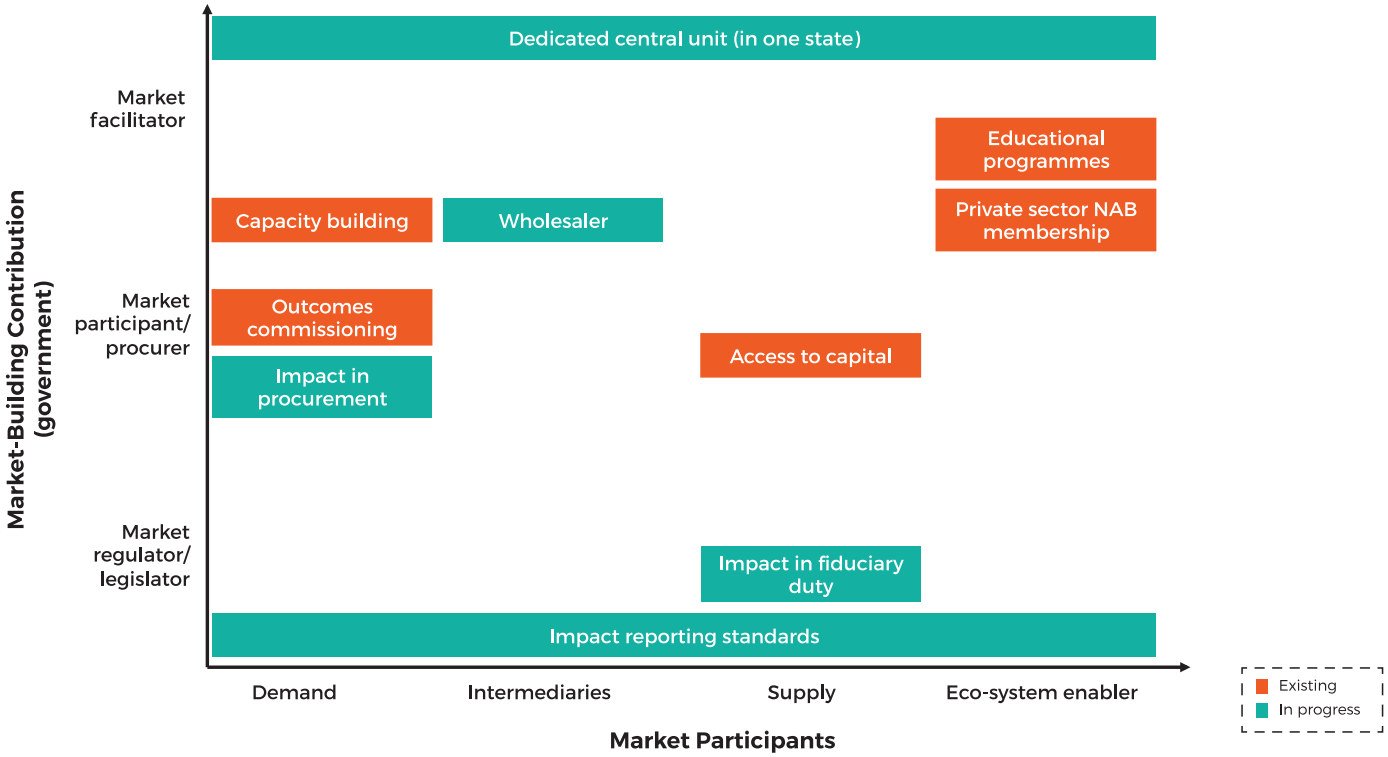


FIGURE 6:
India Policy Toolbox

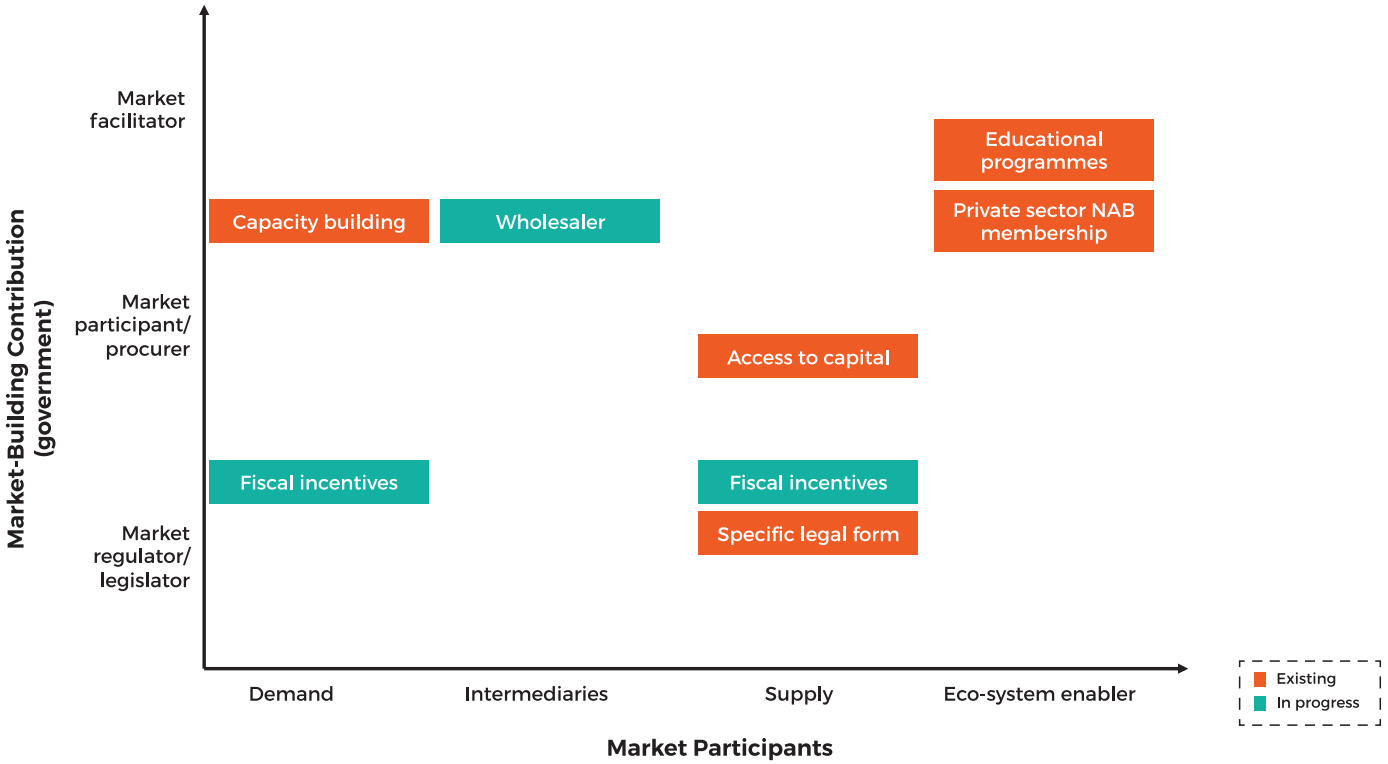


FIGURE 7:
Japan Policy Toolbox

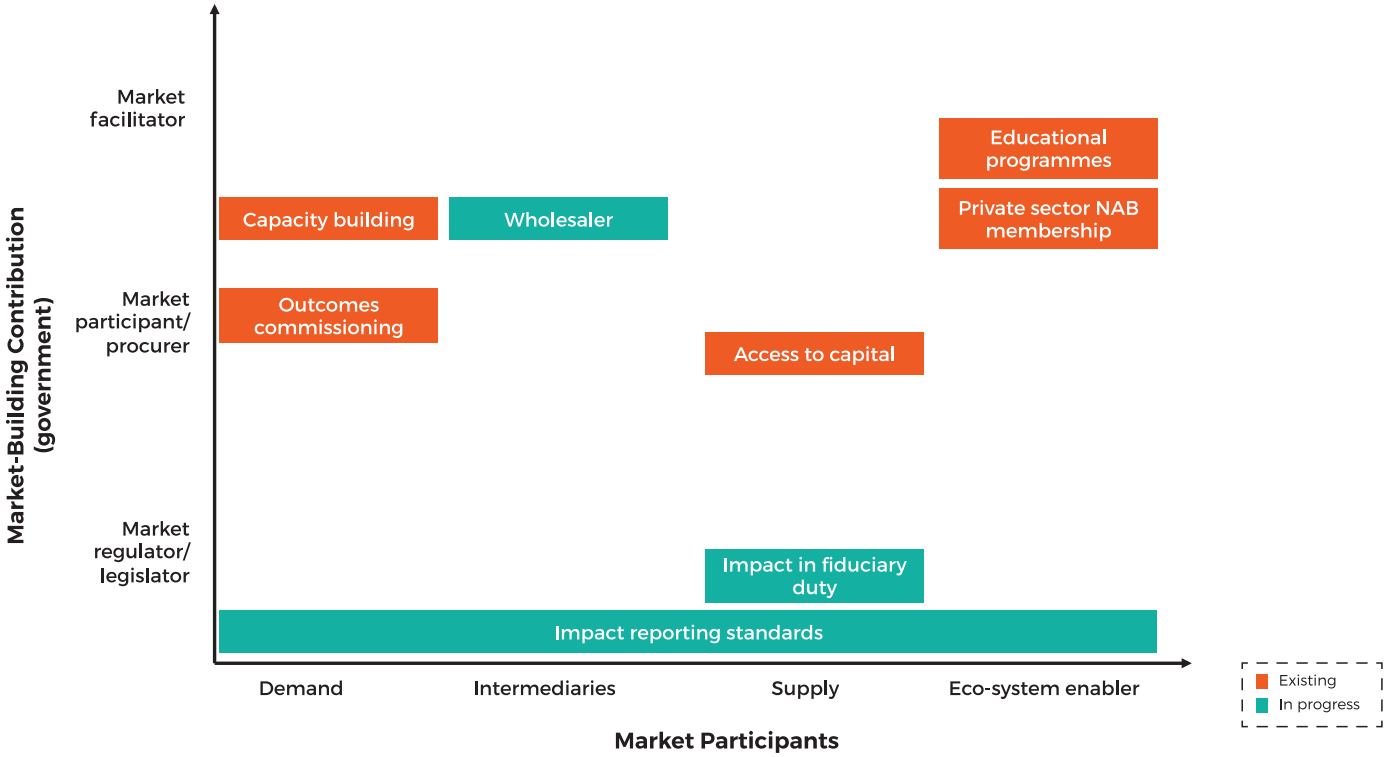


FIGURE 8:
South Korea Policy Toolbox

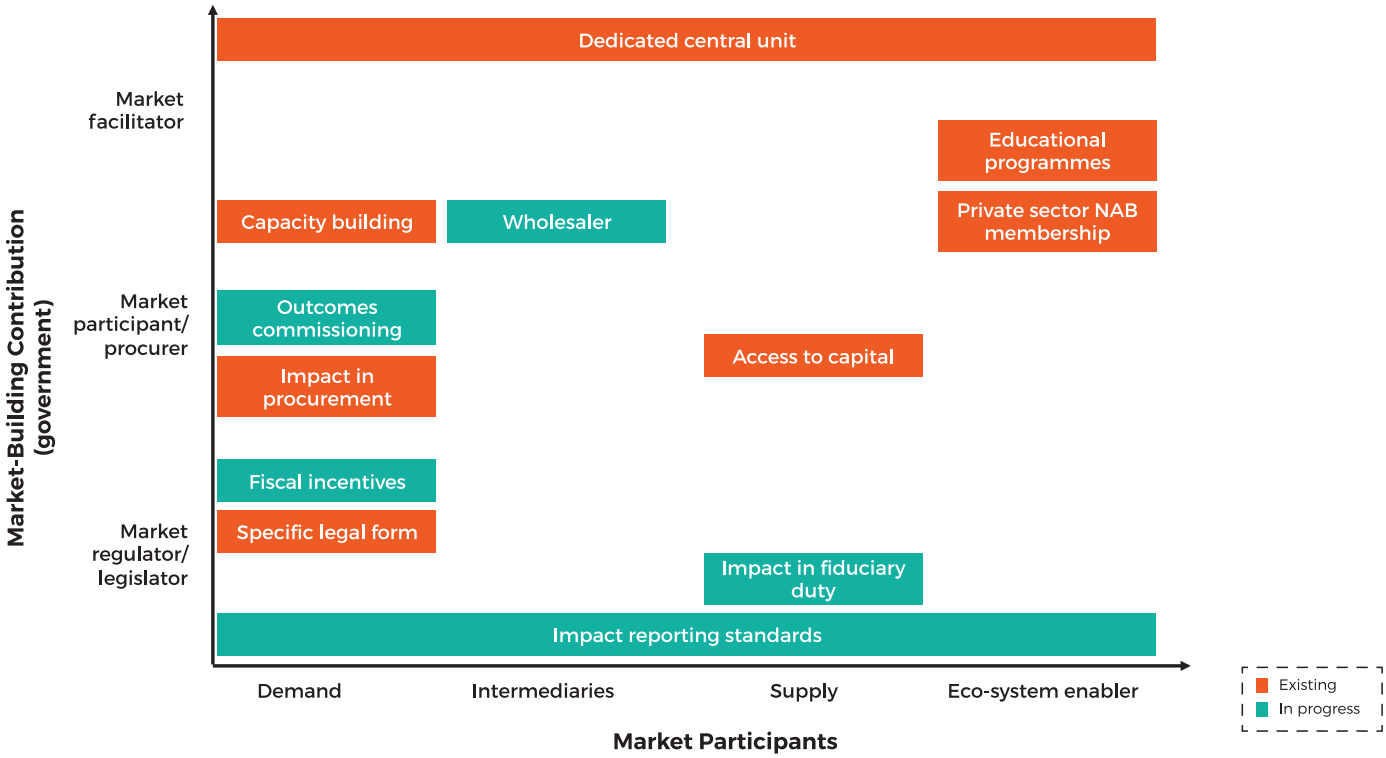


FIGURE 9:
Finland Policy Toolbox

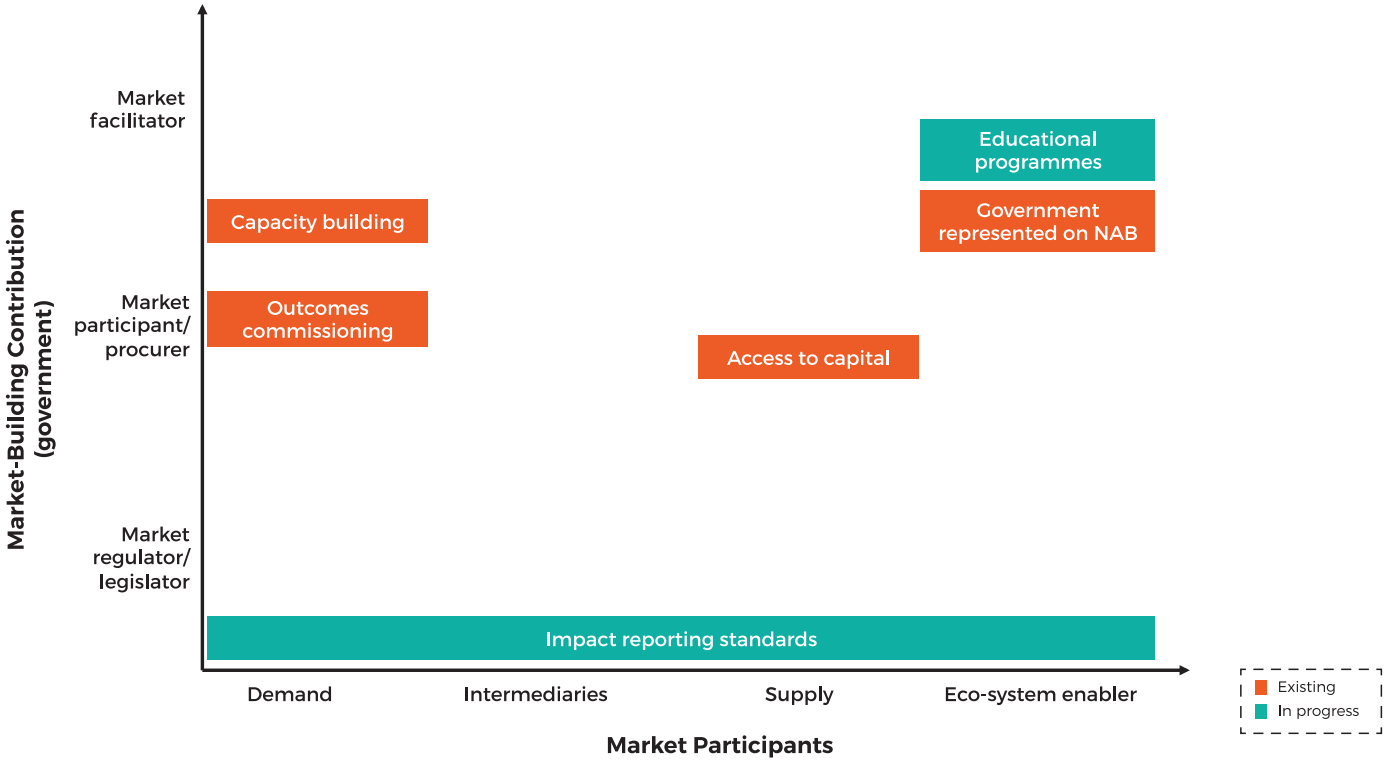


FIGURE 10:
France Policy Toolbox

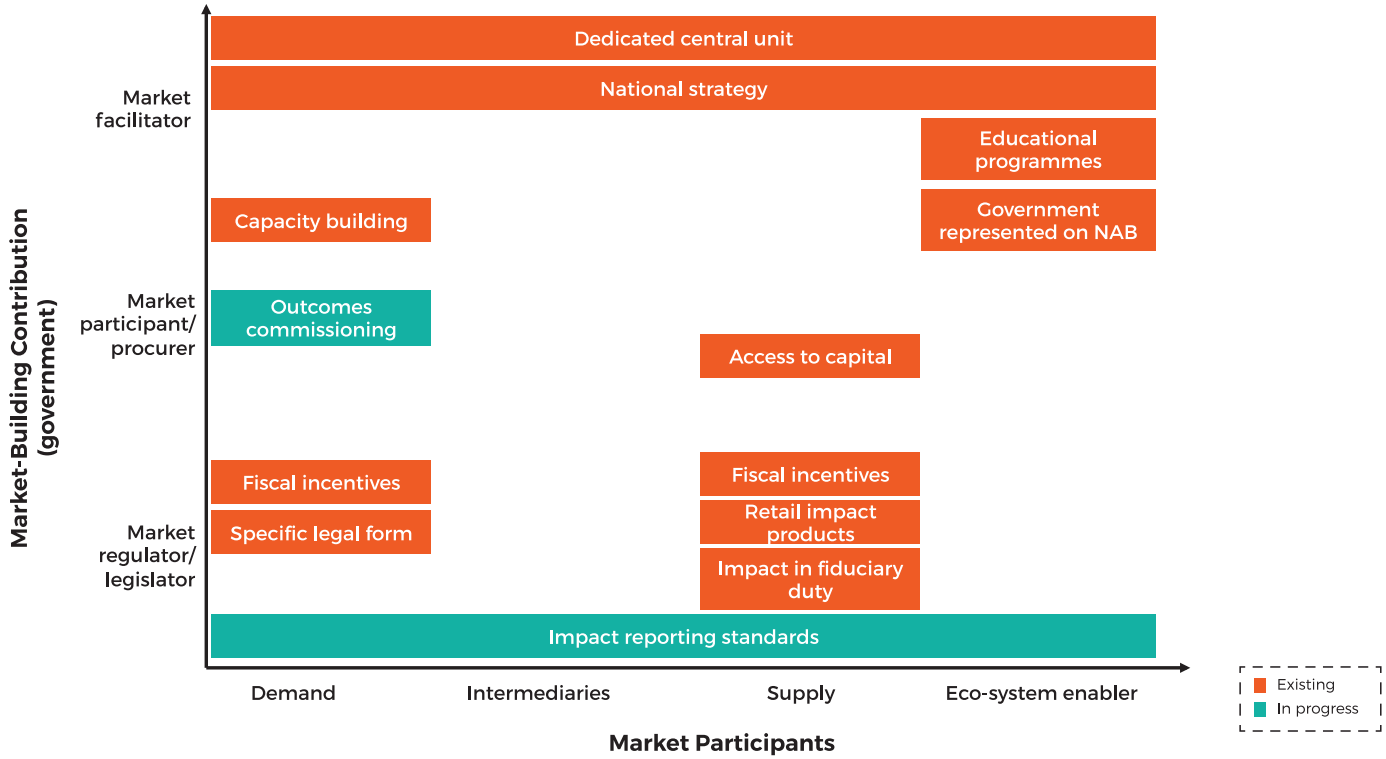


FIGURE 11:
Germany Policy Toolbox

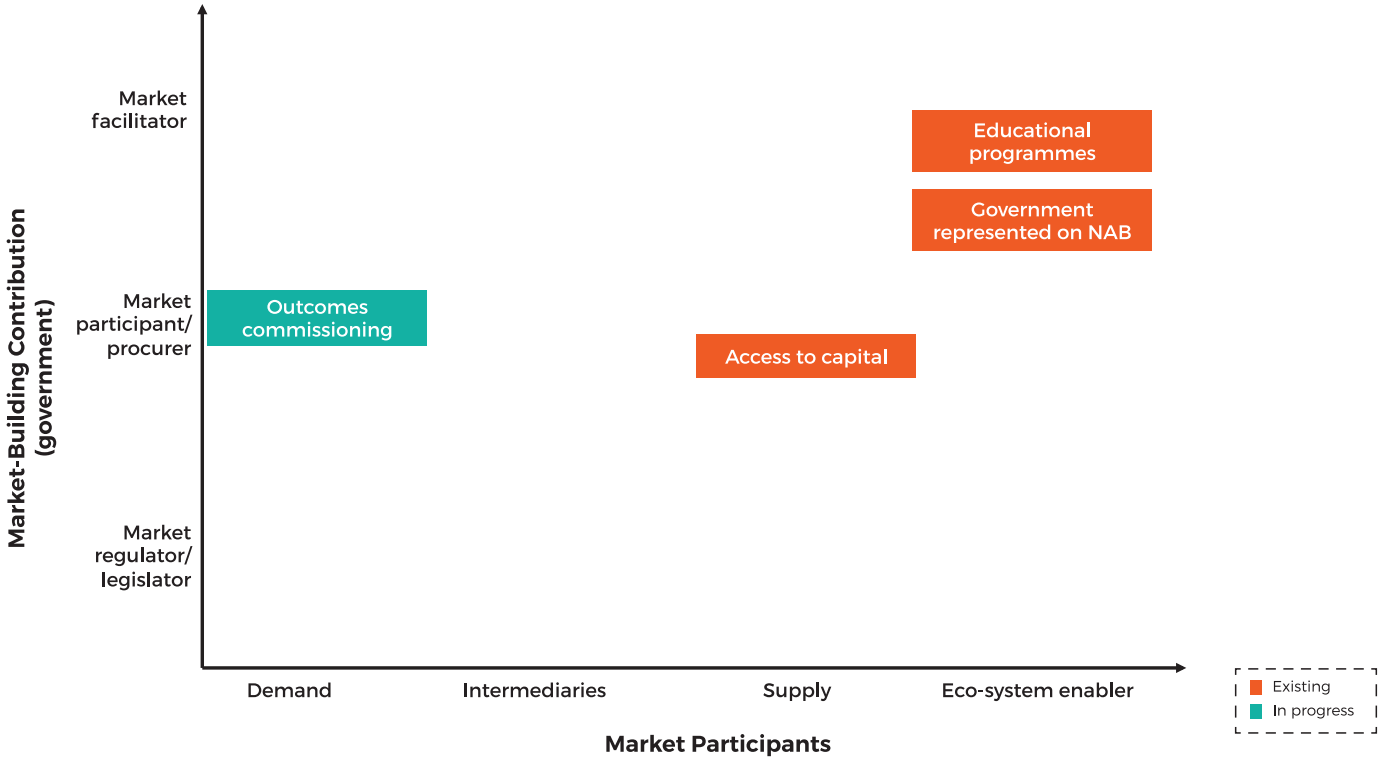


FIGURE 12:
Italy Policy Toolbox

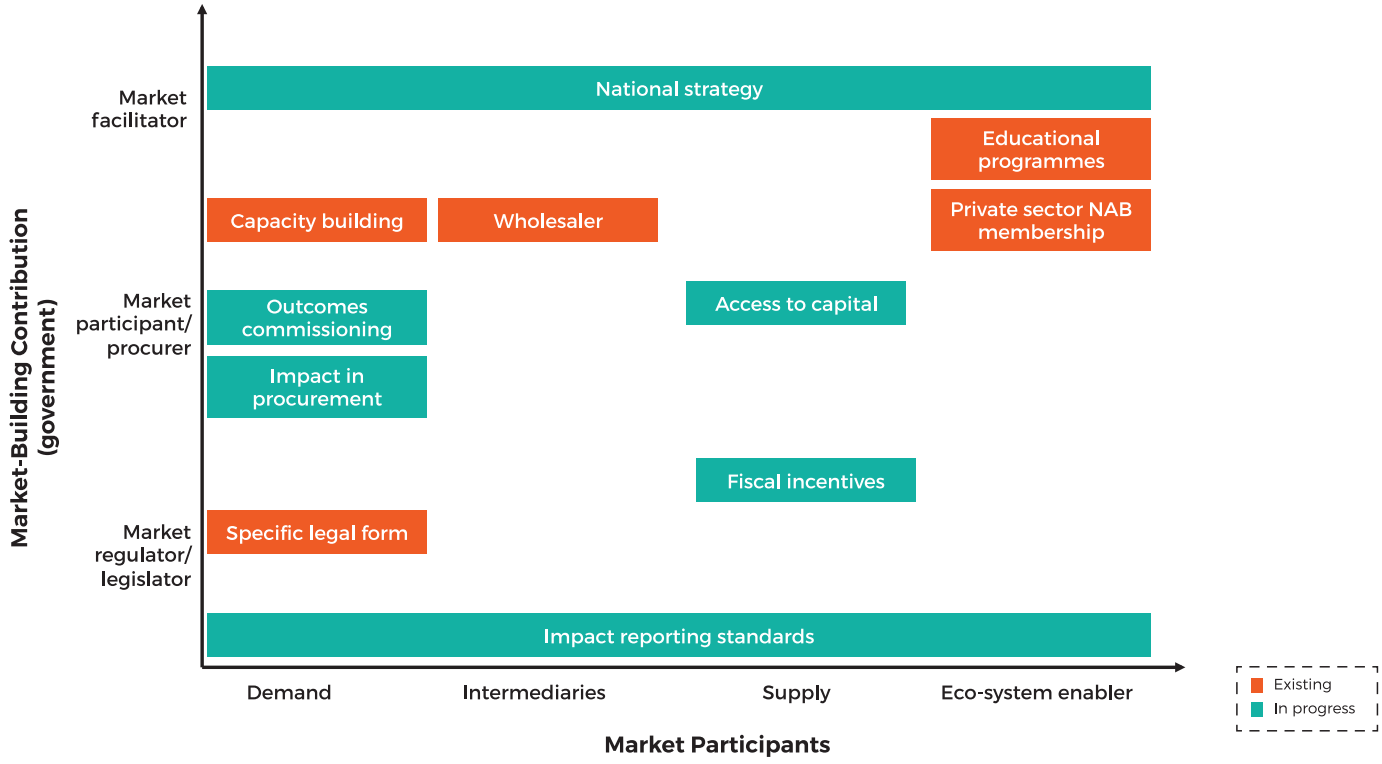


FIGURE 13:
Portugal Policy Toolbox

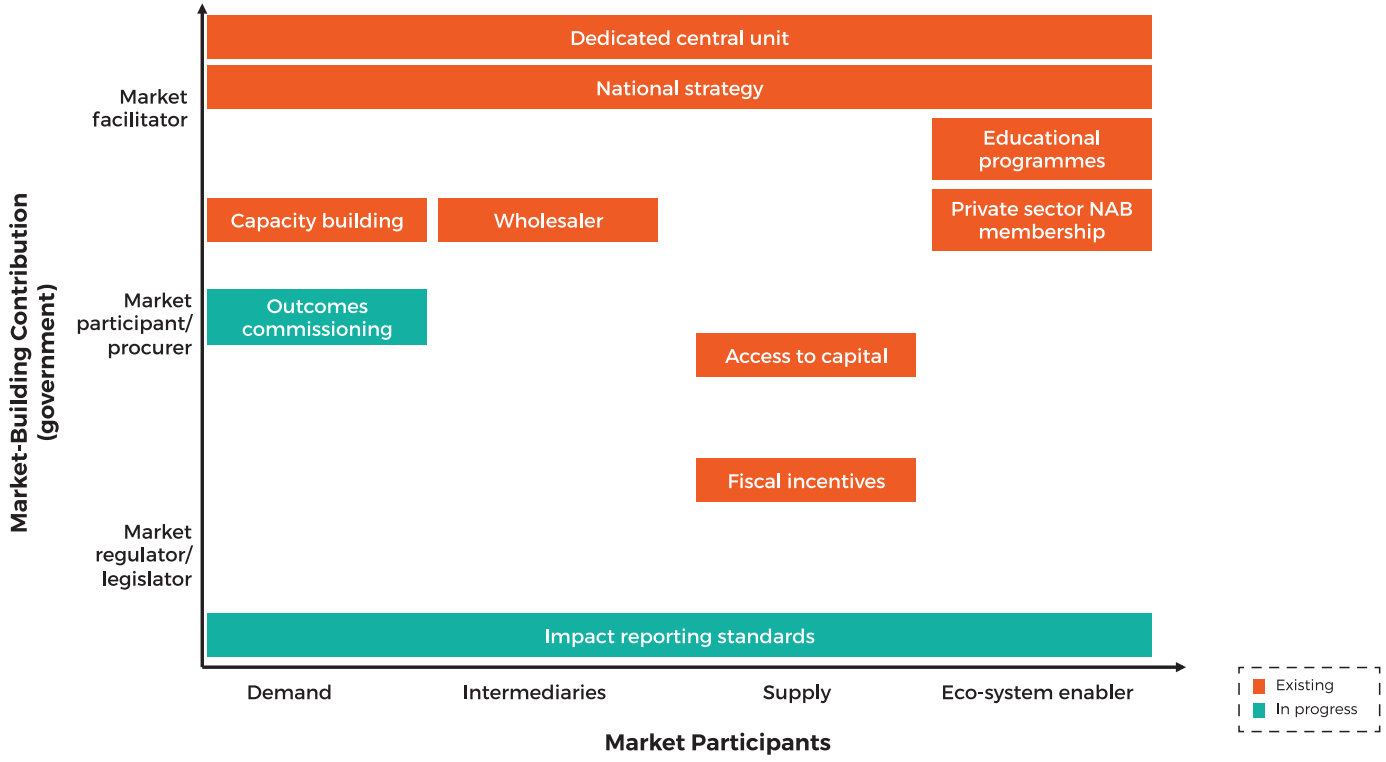


FIGURE 14:
UK Policy Toolbox

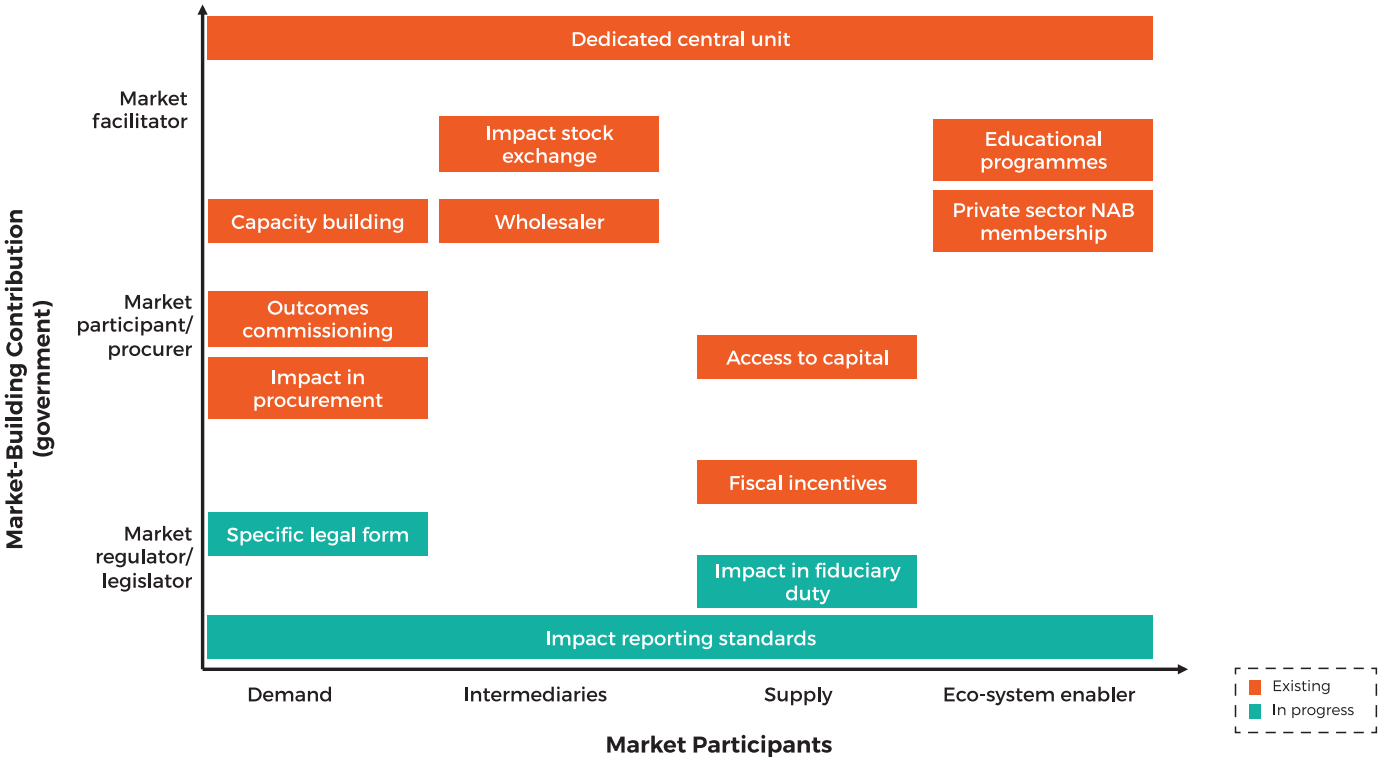


FIGURE 15:
Israel Policy Toolbox

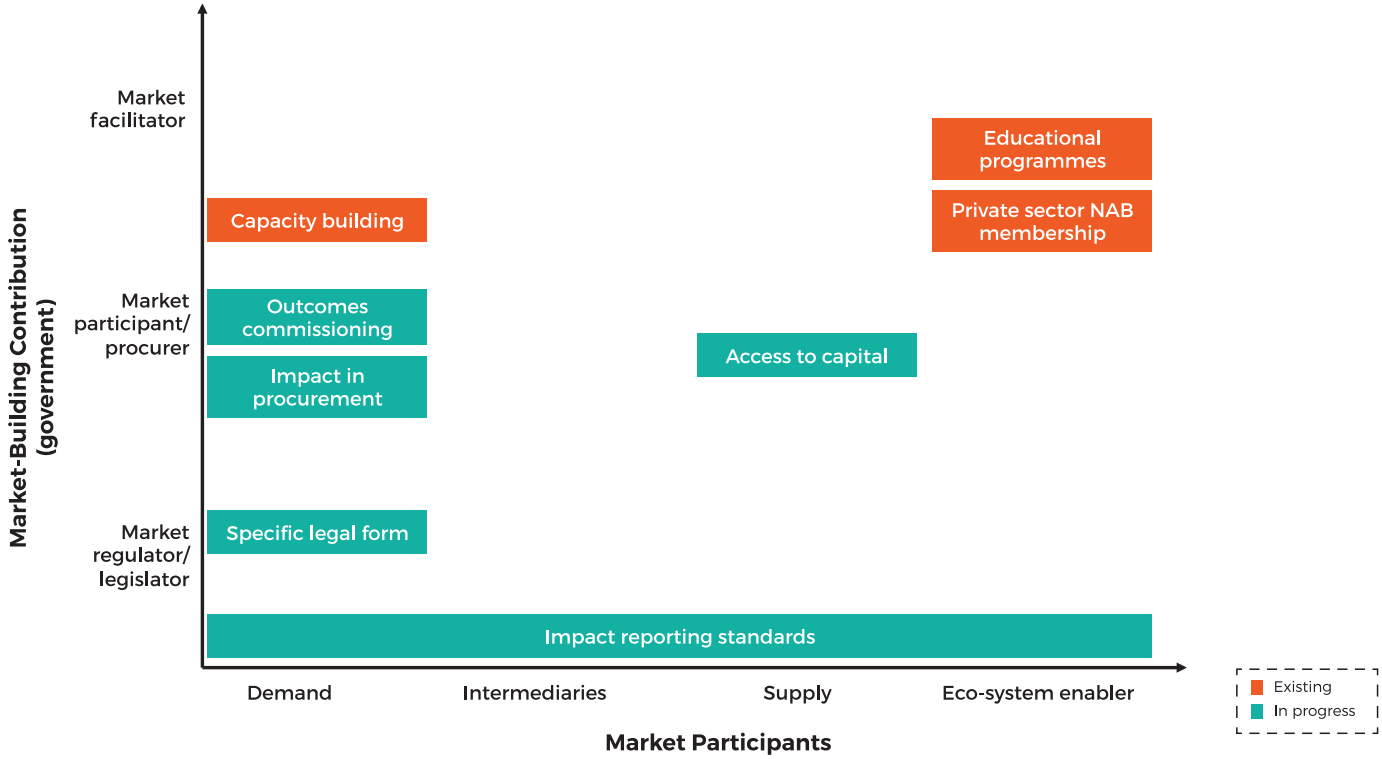


FIGURE 16:
South Africa Policy Toolbox

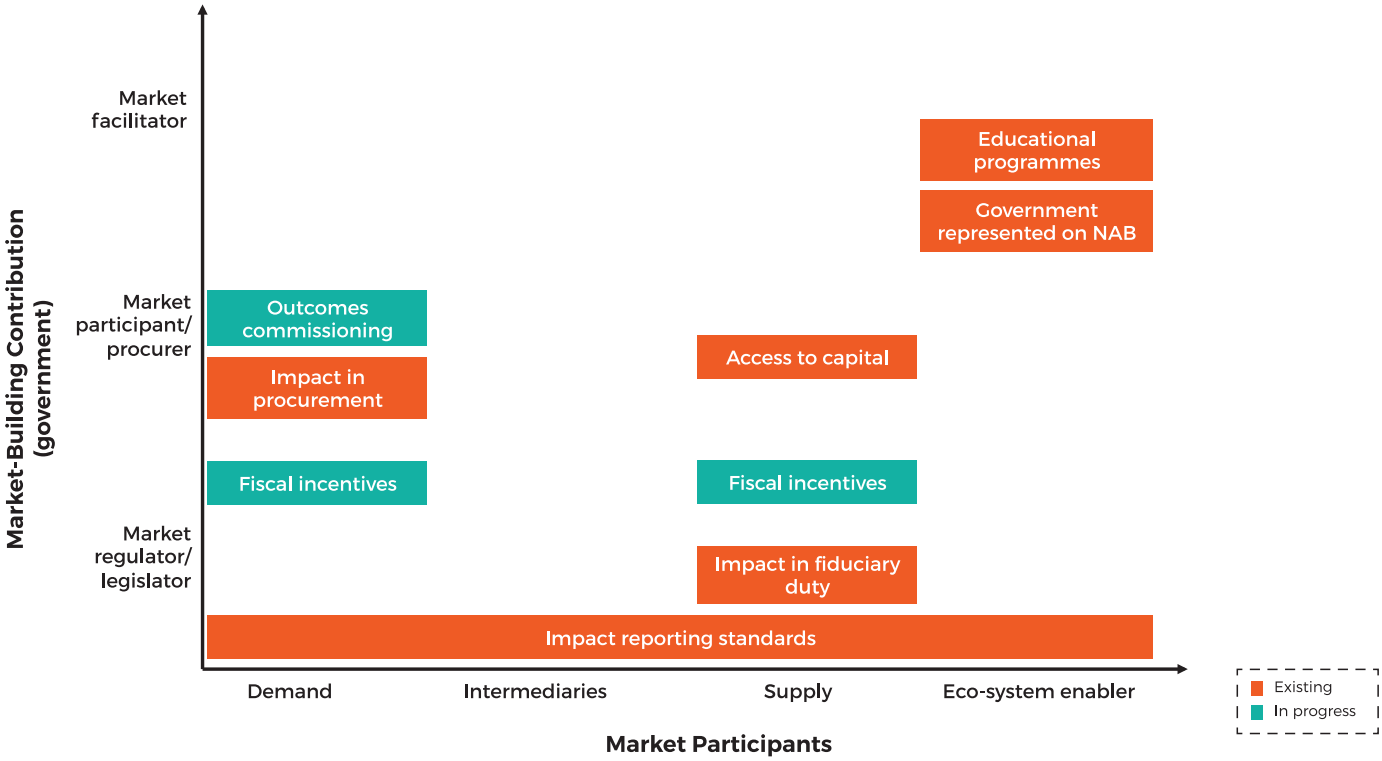


FIGURE 17:
Argentina & Uruguay Policy Toolbox

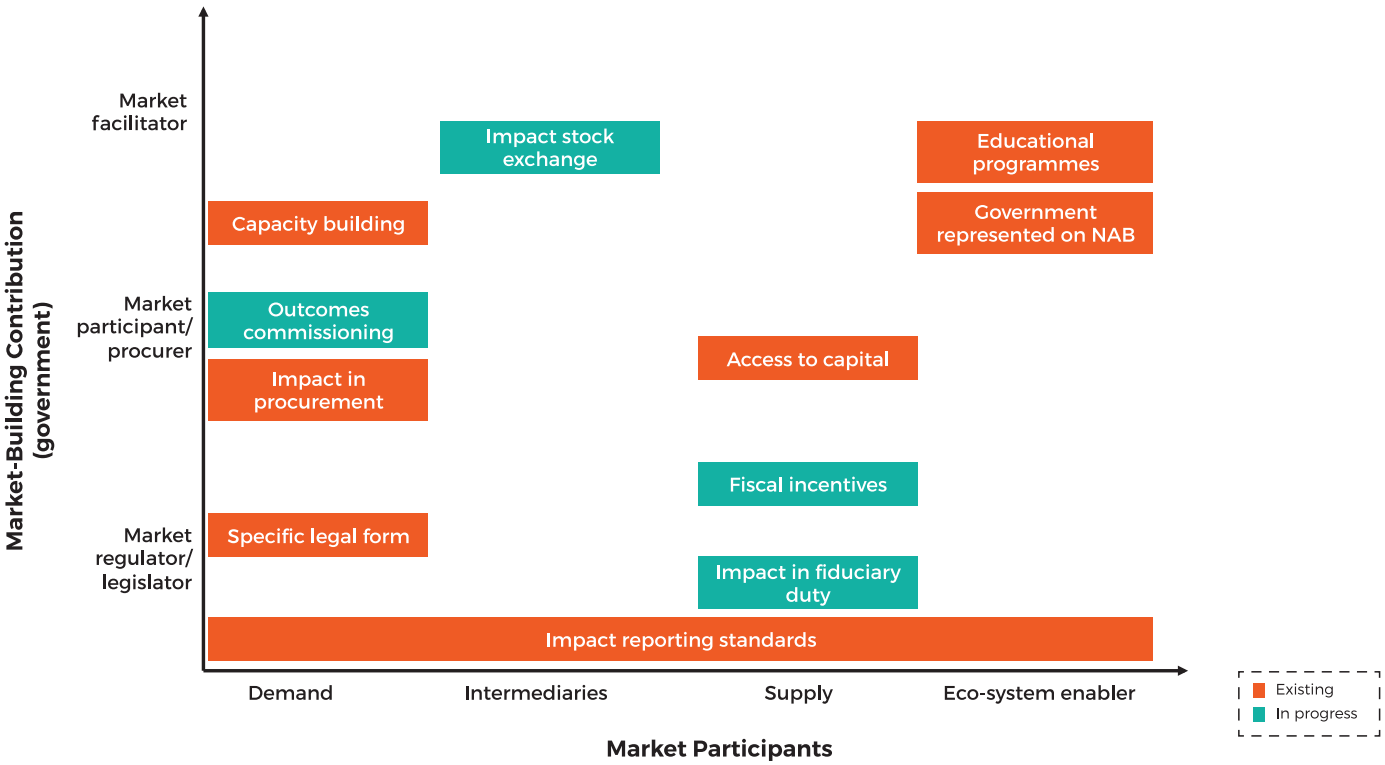


FIGURE 18:
Brazil Policy Toolbox

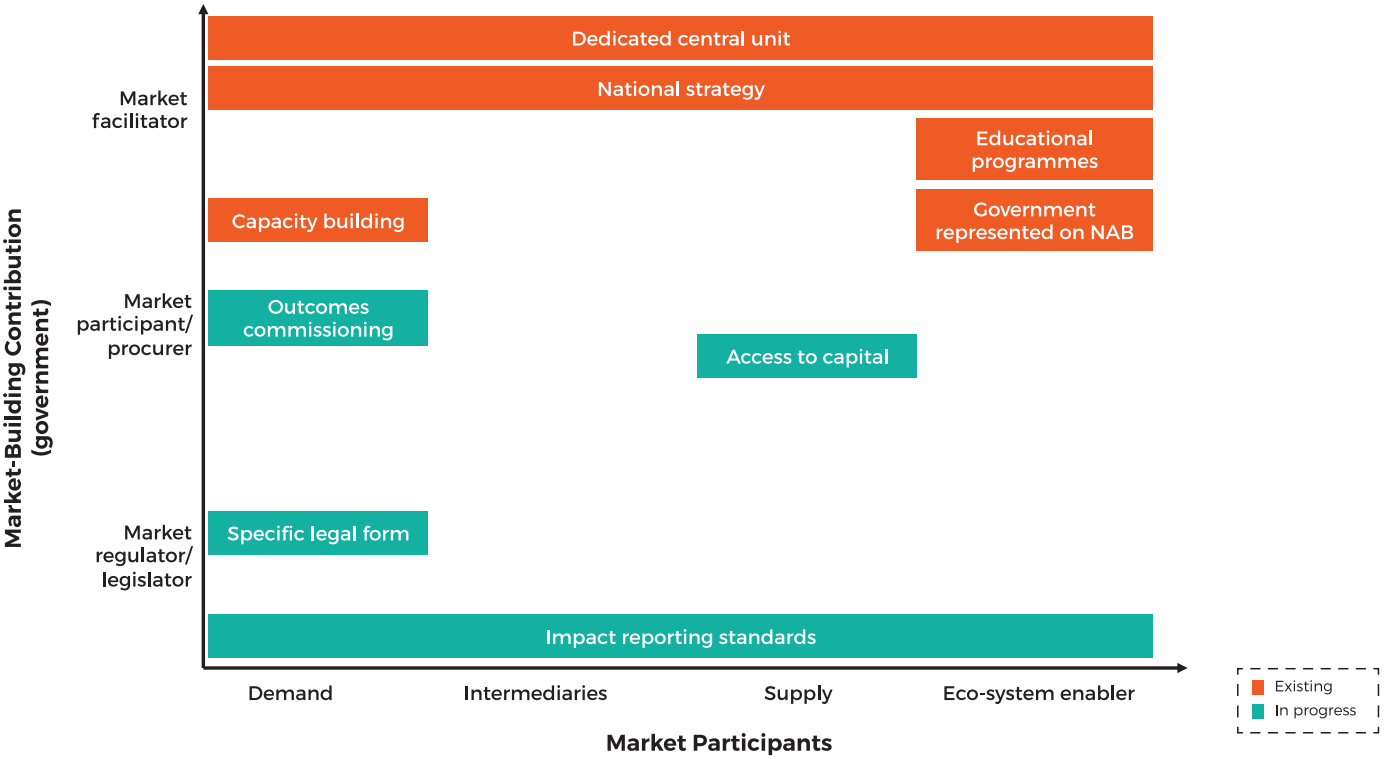


FIGURE 19:
Canada Policy Toolbox

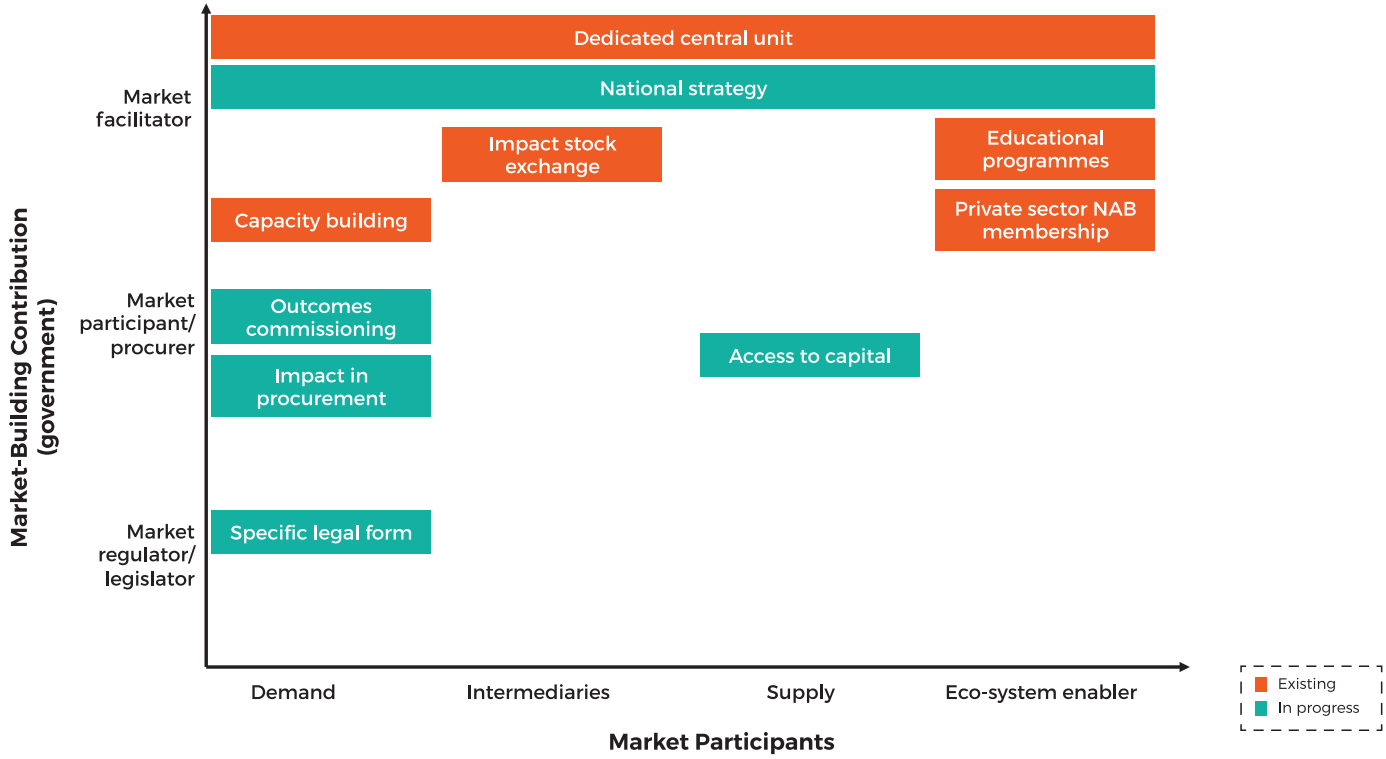


FIGURE 20:
Chile Policy Toolbox

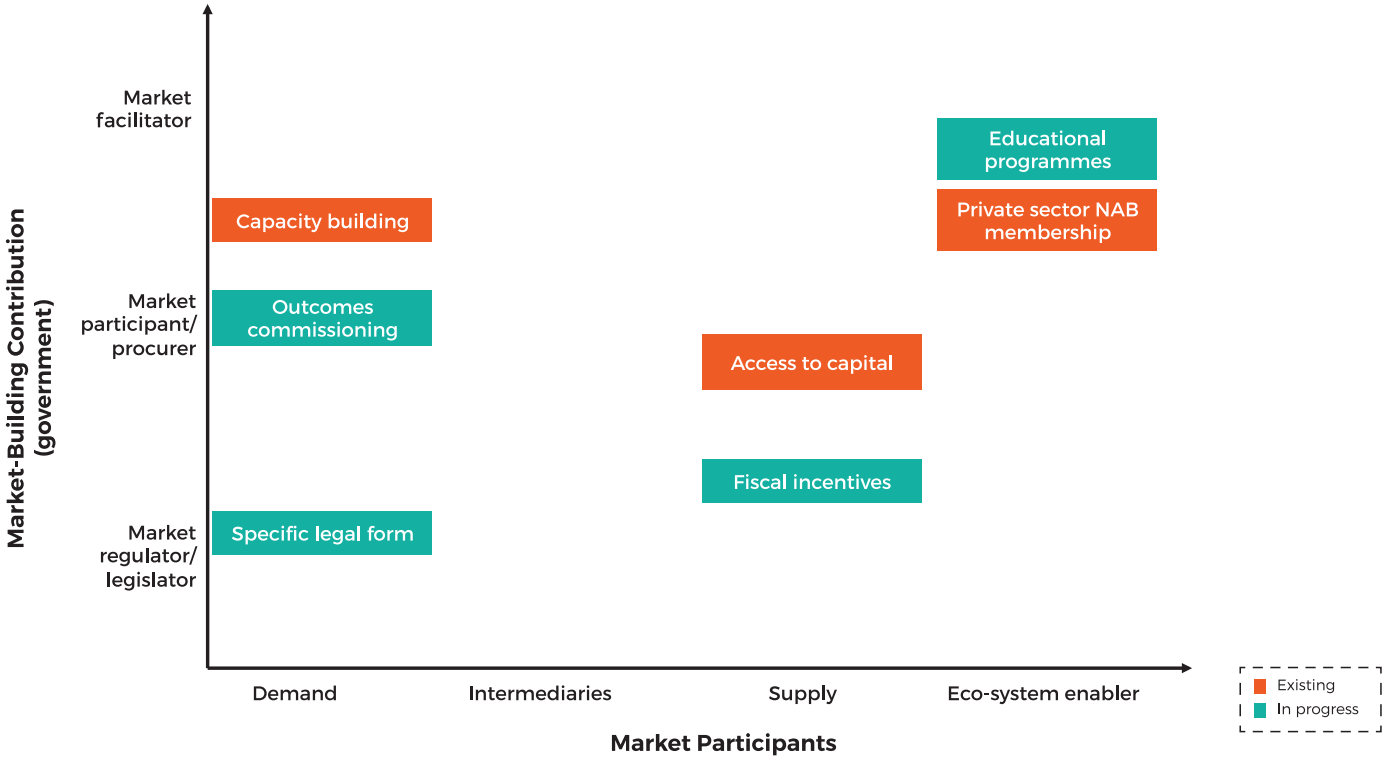


FIGURE 21:
Mexico Policy Toolbox

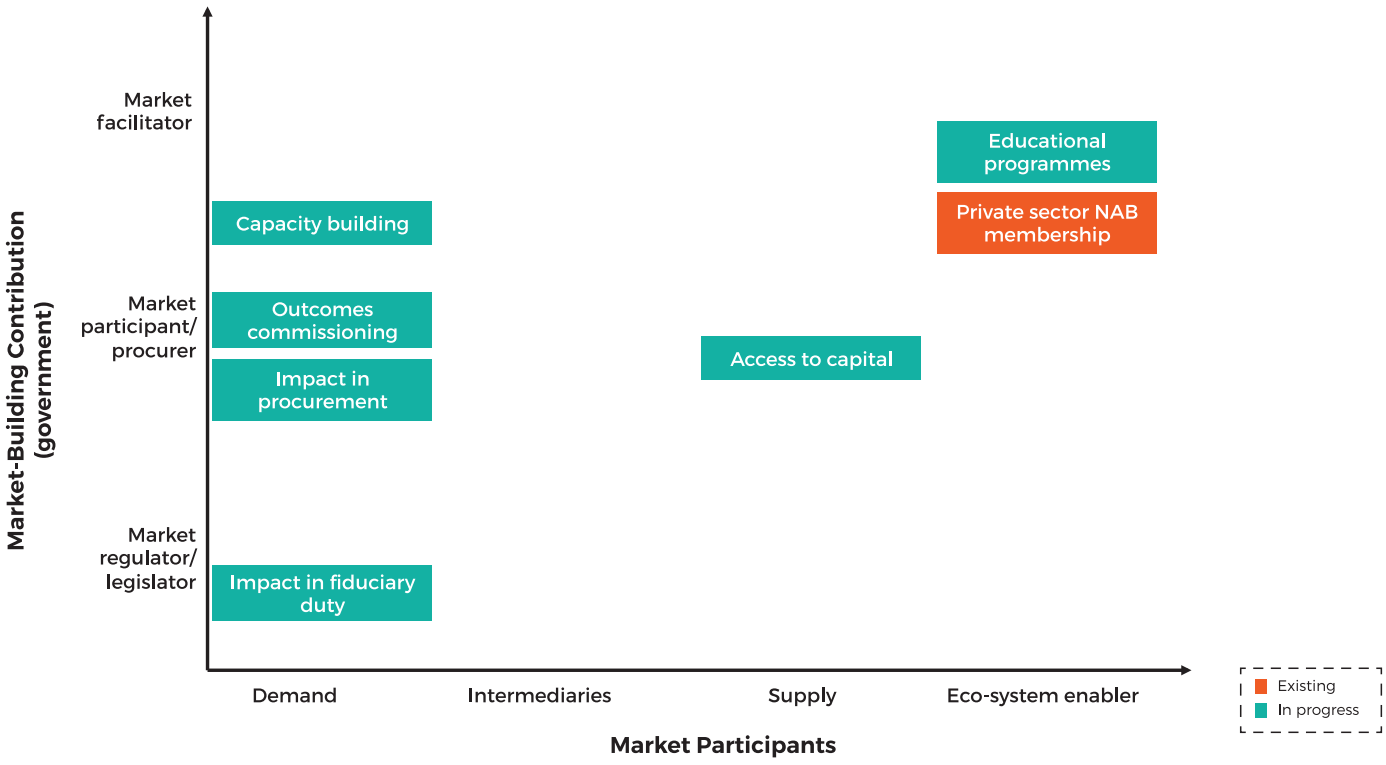
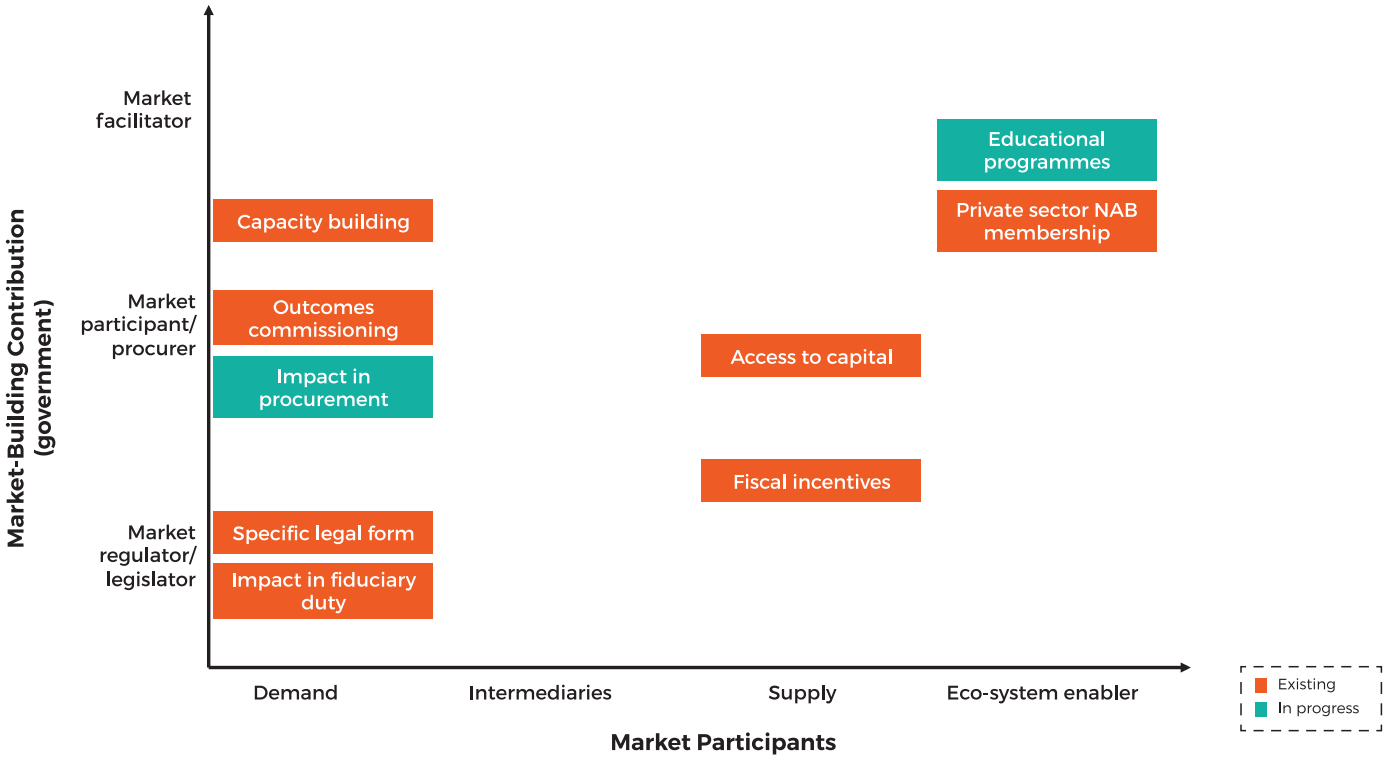


FIGURE 22:
USA Toolbox



Policy Making Action Plan

Although there is no right or wrong order to introduce policies to catalyse the impact investment ecosystem, the countries analysed show some commonality in the order of their policy making.

Among the countries interviewed, having a dedicated central unit and a key point of contact within the government have been identified as key enablers for policy making.

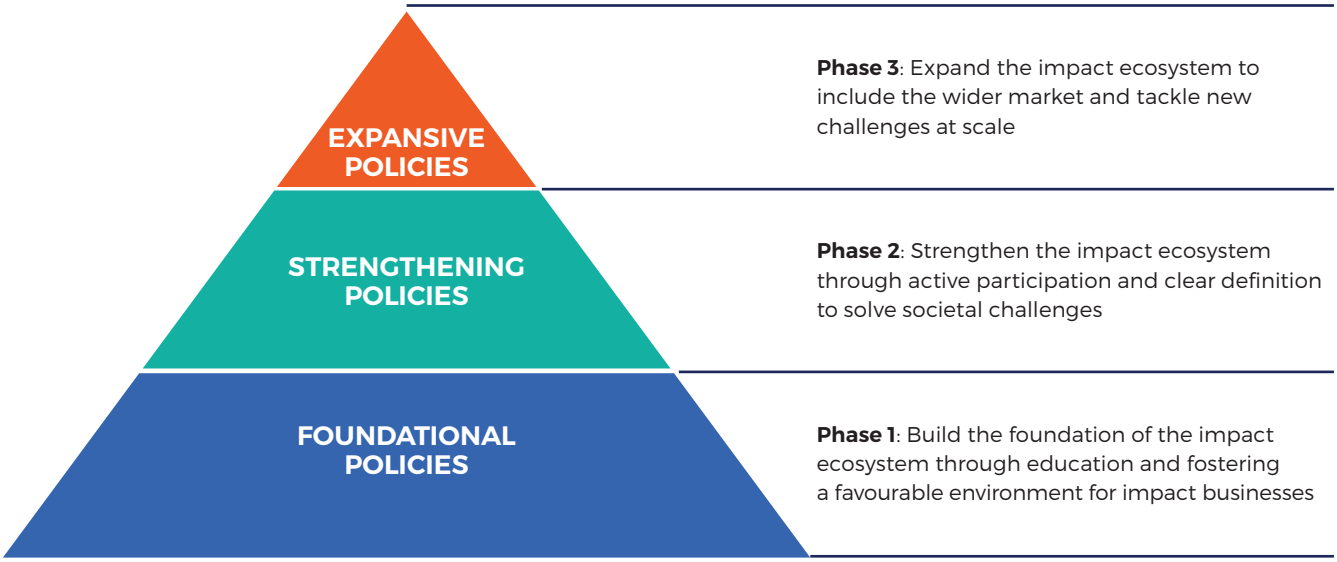
Countries with a dedicated central unit have developed more policies than those without. Moreover, National Advisory Boards in countries without a dedicated central unit believe that the creation of one would be instrumental in unlocking their impact investment ecosystem.

Countries trying to develop and strengthen their impact investing ecosystem should consider creating a dedicated central unit within the government that ideally withstands changes in administration, as an initial step.

Looking at the deployment of the policy toolbox, the analysed countries seem to follow a similar pattern.

The policy making action plan can be divided into the three phases outlined below.

FIGURE 23:
Three phases of policy making



1. Foundational Policies

The first step is to create the foundation of the impact investment ecosystem. This foundation should:

- **Foster impact businesses**: The government should first focus on creating an environment that is supportive of impact businesses. Governments often do so through capacity building, for example, by creating impact focused incubators; or by providing funding for impact business to grow, for example, through government funding programmes targeting impact businesses or impact focused funds.
- **Educate market participants**: For a flowing impact ecosystem all market participants should have a basis of understanding on the societal and cost benefits generated by impact businesses. Educational programmes, research centres, cost databases and investor training are some examples of activities the government can implement to educate market participants. Thanks to the rapid development of the industry, these programmes can be taught today with learnings and examples from across the globe.

2. Strengthening Policies

Once the foundation is in place, the government can focus on policies that strengthen the ecosystem to solve societal challenges.

- **Strengthen the demand side through active participation**: The government can strengthen the demand side by acting as a market participant and procuring from impact businesses. Today, most governments are seeking to do this through outcomes commissioning and by embedding social values in their procurement decisions; for example; by procuring certain services or products only from impact businesses or by considering social and environmental factors in procurement decisions.
- **Strengthen intermediaries by creating a wholesaler**: As the impact ecosystem grows, the need for funding increases. The government can facilitate this by creating a wholesaler that provides capital through a fund of funds model, delegating the impact investment decisions to the selected impact funds.
- **Strengthen the supply side**: The government should engage the supply side by asking trustees to include impact when exercising their fiduciary duty.
- **Definition and reporting**: The government can strengthen the entire ecosystem by providing a common base of understanding. Creating a specific legal form for impact business and setting impact reporting standards are two ways to do this.

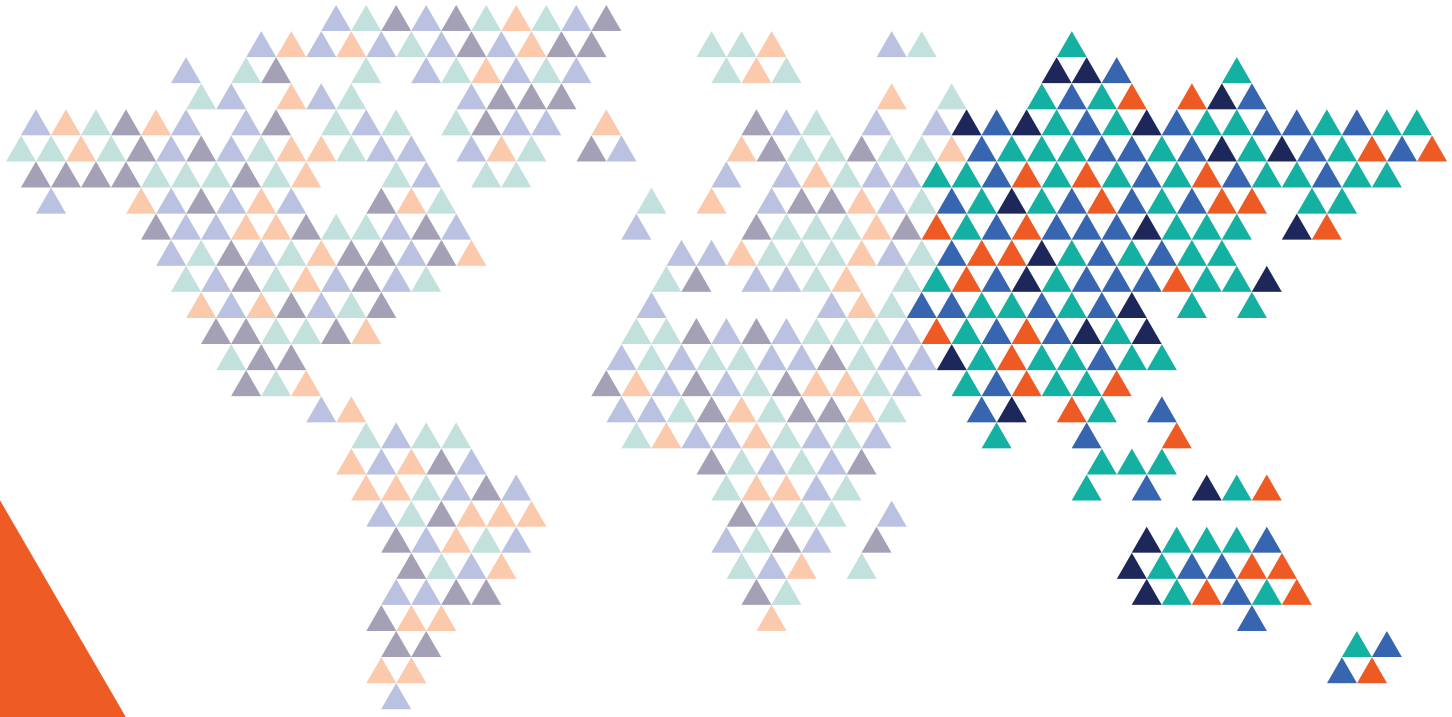
3. Expansive Policies

In mature impact investing markets, the government should continue to expand the impact ecosystem to connect the wider market and tackle new challenges at scale.

- **Create direct connections with retail investors**: The government can do this through impact stock exchanges and creating retail products, such as regulating pension schemes to include impact investments.
- **Incentivise the market**: Providing tax relief and other fiscal incentives to impact businesses and investors.
- **National strategy**: Create and execute a targeted plan to strengthen the weaker links in the ecosystem and deepen the effect of the existing impact policies.

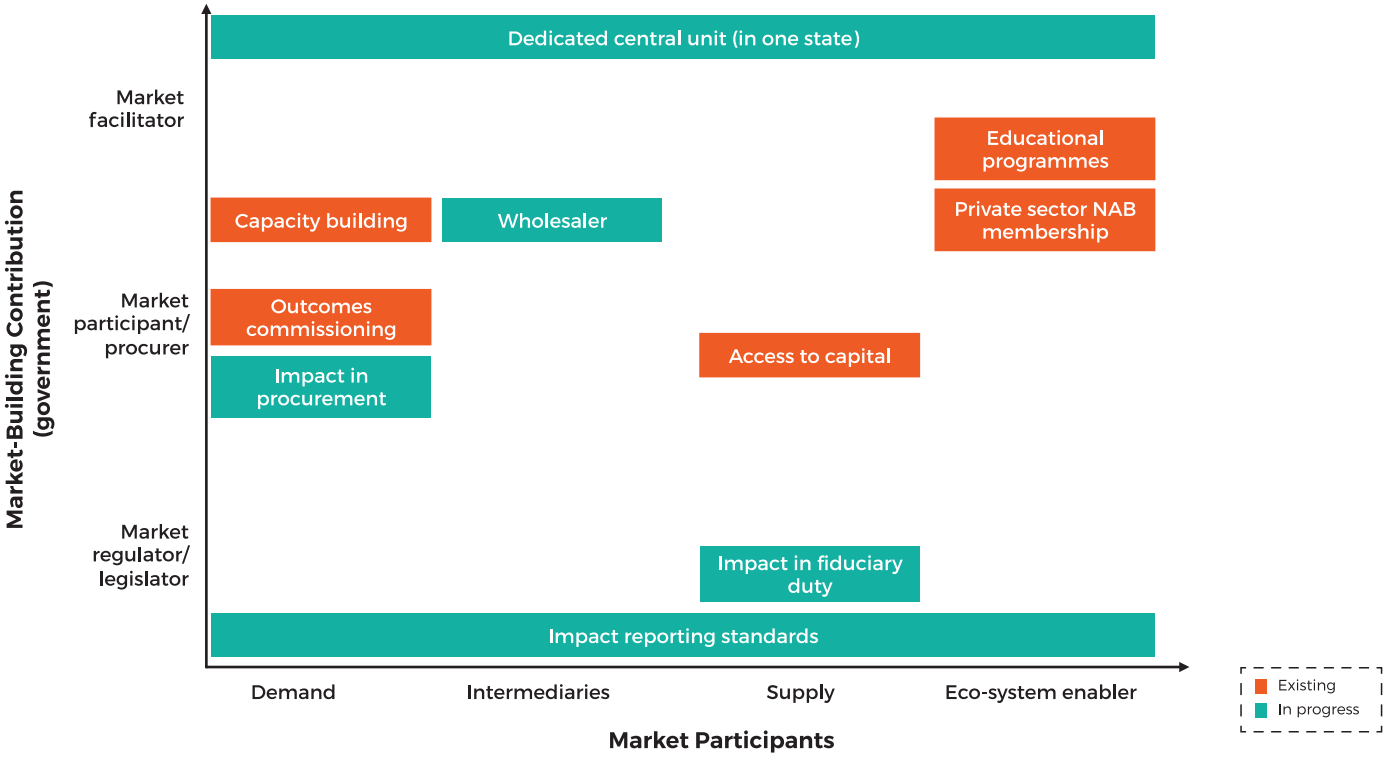
COUNTRY BY COUNTRY ANALYSIS

ASIA AND AUSTRALIA



AUSTRALIA

FIGURE 24:
Policy Toolbox



Overview

Australia has made significant progress since becoming a member of the G8 Social Impact Investment Task force in 2013 and the establishment of the Australian Advisory Board for impact investment (AAB) in 2014. The AAB comprises individuals from the private sector as well as community leads.

Between 2014-2016 Impact Investing Australia (IIA), an independent non-profit organisation, was dedicated to the delivery of the AAB's strategy to grow the market for impact investing in and from Australia. A Social Impact Investing package was announced in the 2017-18 Budget, which included AUD$30m over 10 years to support social impact investments and grow the social impact investing market. Since then, in its 2018-19 budget, the Australian government has announced a further AUD$6.7m of initiatives and that it will "work in partnership with Impact Investing Australia to examine opportunities to leverage sector capital and community sector engagement to build the impact investment market to scale in Australia and tackle that affect Australian families and communities".

State strategies around impact investing have varied. The Government of New South Wales (NSW) for example released a social impact investment policy in 2015 and has the only dedicated Office of Social Impact Investment for its jurisdiction in Australia. It was also the first Australian state to launch a SIB. In the remaining states, policy focus has been mixed, with Victoria in particular focused on enabling investment in impact businesses.

With regards to Federal government strategy, the Social Impact Investing Principles, released by the Australian government, articulate considerations the government should take into account when it is involved in the impact investing market. This is an important policy tool and framework for the government and highlights impact as a key focus at a national level.

Key Initiatives

ACCESS TO CAPITAL

At the national level, the government has been working to catalyse investment in affordable housing. It has established a new independent corporate Commonwealth entity, the National Housing Finance and Investment Corporation (NHFIC), to aggregate affordable housing bonds and a AUD $1bn National Housing Infrastructure Facility (NHIF)[i]. Under the NHIF, AUD $1bn in financial assistance (debt, equity and/or grant funding) is available for local councils to invest in critical infrastructure to accelerate the supply of housing, particularly affordable housing.

In the area of the environment, the Clean Energy Finance Corp (CEFC)[ii] is a statutory authority established by the Australian Government under the Clean Energy Finance Corporation Act 2012. Under the CEFC legislation, the CEFC is responsible for investing AUD $10bn in clean energy projects over 10 years on behalf of the government.

In late 2017, Indigenous Business Australia (IBA), a Commonwealth Government agency, launched a AUD $50m initiative to encourage impact investment in ventures that support Indigenous economic development.

In November 2017, the Australian Foreign Minister announced an AUD $40m Emerging Markets Impact Investment Fund (EMIIF). This financing mechanism is intended to catalyse the private investment needed to spur inclusive economic growth and alleviate poverty in South and South-East Asia with a focus also on investing in women's initiatives.

Lastly, at the state level, the government of NSW has stated that it intends to issue sustainability bonds in the second half of 2018. Proceeds raised will be exclusively allocated to projects that are environmentally or socially responsible.

CAPACITY BUILDING FOR IMPACT BUSINESSES

At the national level, of the approximately AUD $40m committed by the government to support social impact investments, ~AUD $7.5m has been allocated towards a Sector Readiness Fund, modelled on the IIA Impact Investment Ready Growth Grant. This fund aims to grow the impact investing market by providing capability building grants to impact businesses looking to enter this market and become investment-ready.

The Pacific Readiness for Investment in Social Enterprise (Pacific RISE)[iii] is a pilot innovation of the Australian Government. It was implemented by the Department of Foreign Affairs and Trade (DFAT) in 2016. It aims to facilitate a social impact investment market in the Pacific. Initially, Pacific RISE's intention was to work with stakeholders (including investment funds and intermediaries) to learn and understand more about the Pacific and its social impact needs. Pacific RISE has then gone on to identify investment opportunities in impact businesses in the region.

Victoria outlined a social enterprise strategy[iv] in February 2017 in which one of its action areas was building business capacity and skills. This will be achieved through the facilitation of a skills development programme for impact businesses SME founders and managers, and pilot funding to test new initiatives to support the intermediary sector.

OUTCOMES CONTRACTS

Governments in NSW, Victoria, Queensland and South Australia have all commissioned SIBs.

- The NSW government commissioned the first two "social benefit bonds": one to restore children in out-of-home care to their families and one to prevent entry into out-of-home care. Since then, there have been a further 6 investments valued at over AUD $200m supporting better services for 16,000 people and families in NSW. The NSW government is currently piloting other initiatives such as a rate card for homelessness (an Australian first).
- Queensland's Treasury has launched three SIBs in the areas of re-offending, youth homelessness and out-of-home care for Aboriginal and Torres Strait Islander children.
- The Social Impact Bonds Pilot programme in Victoria has generated two programmes surrounding stable housing for young people leaving home care and chronic homelessness.
- The Aspire SIB commissioned by South Australia focuses on homelessness in Adelaide.

The NSW government has created the Social and Affordable Housing Fund (SAHF). This model increases the supply of housing through outcomes-focused contracts with nominated service providers. SAHF has been set up with >AUD $1.1bn in seed funding from the NSW Government. The programme has been successful in attracting new lenders into the sector and facilitating partnerships with the private sector.

CLARIFY FIDUCIARY DUTY

Fiduciary duties of trustees are currently under consideration in Australia. The Financial System Inquiry recommended regulatory changes for philanthropic and superannuation trustees to "provide guidance to superannuation trustees on the appropriateness of impact investment". No changes have been made yet though APRA[v] (regulation authority) has acknowledged that so long as pension funds meet their legislative requirements they should be allowed to consider impact. The government has also commissioned a report by Innovation and Science Australia whose recommendations included to "further strengthen the policy environment to encourage investors to pursue opportunities that provide both social and financial returns". It is notable that Australia has some of the institutional investors with the most developed sustainable and impact practices in the world, such as the Australian Superannuation Fund and QBE.

ENCOURAGE PROCUREMENT FROM IMPACT BUSINESSES

The Victorian government recently put in place Australia's first Social Procurement Framework[vi]. This aims to ensure procurement decisions are not solely focused on price but incorporate a range of financial and non-financial factors. Victorian Government procurement is a large driver of the Victorian economy. In 2016-17, the Victorian Government spent AUD $16bn on goods and services to support service delivery and operations, in addition to a spend of AUD $9.1bn on public construction and infrastructure. Therefore, effective implementation of the Framework throughout 2018-2019 has the potential to significantly expand the impact business market.

STANDARDISE IMPACT REPORTING

Part of the Australian government's commitments to social impact investing includes AUD $6.7m over the next 4 years to build their outcome measurement capacity.

EDUCATIONAL INITIATIVES

The Centre for Social Impact as well as its affiliated universities, have or are developing courses with a focus on the social economy. Other courses are also being developed at other universities including by business schools. Private organisations and not-for-profits, such as Y-Gap, have developed specialist accelerator programmes to also build capacity.

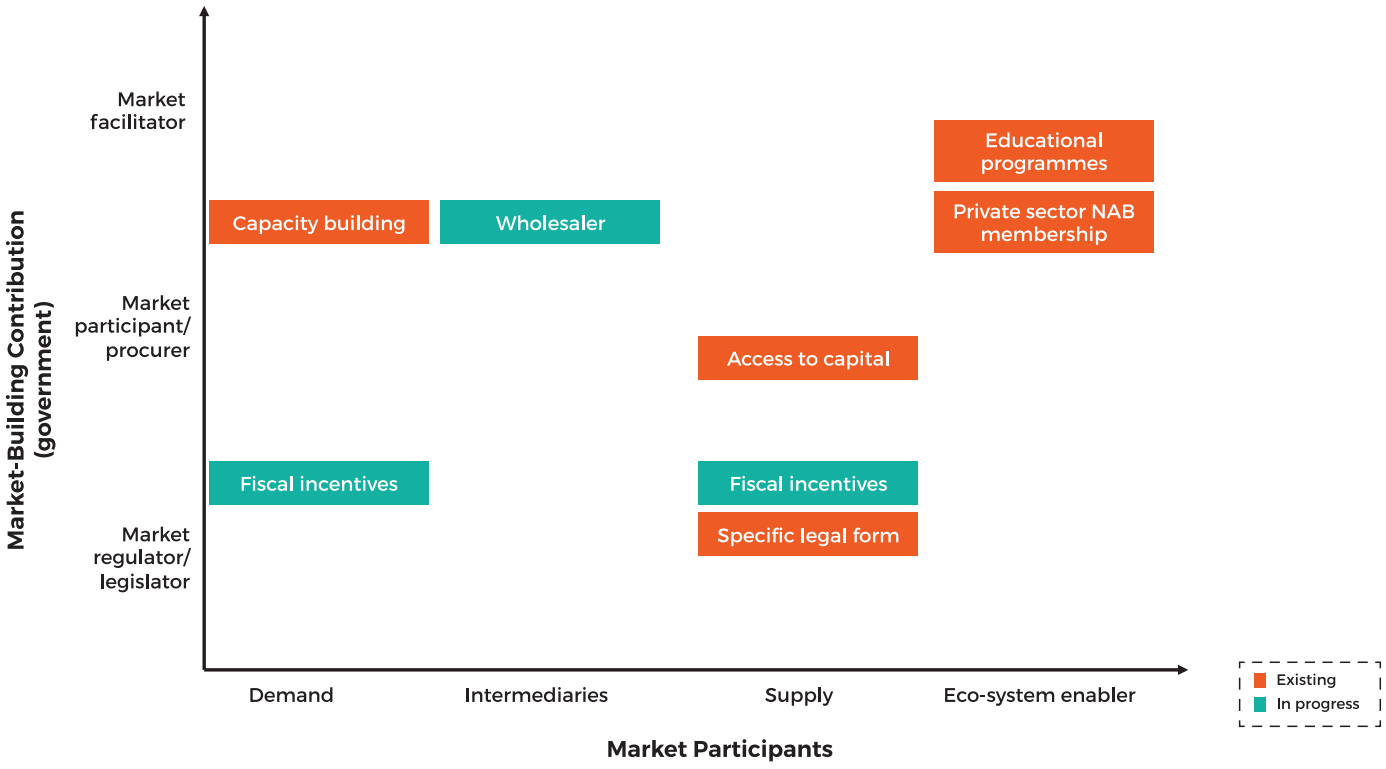
Looking Ahead

KEY PRIORITIES TO 2020

- **Establish Impact Capital Australia, a catalytic wholesale institution**: The Blueprint for Impact Capital Australia (ICA)[vii], Australia's proposed impact wholesale institution was released in 2015 by the AAB and Impact Investing Australia. Since then, work has continued with the release of the policy case and implementation plan in December 2017. This wholesaler would be pivotal in further developing and catalysing the impact ecosystem.
- **Procurement from impact businesses**: Expand Victoria's precedent on the Social Procurement Framework to other states and at a national level for significant impact. This combined with initiatives that support capacity building in contract and investment readiness for impact businesses will help grow this important part of the impact investing ecosystem.
- **Company legal form**: Draft Benefit Corporation legislation has been developed by the sector and government engagement is underway. Having a specific company legal form would help with targeted government policy around impact business development.
- **Clarify fiduciary duty**: Build on the existing recommendations to encourage the incorporation of ESG factors into decision-making, likely through legislation, to help enable investment into impact assets.
- **Fiscal incentives**: There are currently no fiscal incentives in place with regards to impact investment. Once a legal form is established this may facilitate targeted fiscal incentives such as tax benefits.
- **Impact reporting**: Work toward the establishment of a standardised impact reporting framework as well as encouraging the incorporation of non-financial factors to reporting standards.

INDIA

FIGURE 25:
Policy Toolbox



Overview

The Indian National Advisory Board was created in 2014 by The Impact Investors Council (IIC)[viii]. They are a network of impact investors in the country that engages with institutions such as the Ministry of Finance, the Securities and Exchange Board of India and the Reserve Bank of India, to inform government policies, regulations and standards on impact investing.

In the last four years, the Indian government has become increasingly open to collaborating with the private sector to create new ideas for development.

The government, through various programmes and developmental plans, is trying to engage the private sector to uplift the social sector at the state and central government levels. The latest plan, named the Aspirational Districts Plan, aims at reviving the weaker districts across the country; it is an effort by the government to join hands with the private sector and encourage private investments through both the Corporate Social Responsibility (CSR) law and impact investing.

A significant step in India was the CSR law[ix] passed in 2013 by the Ministry of Corporate Affairs. The law requires all companies in India to elaborate a CSR policy and spend at least 2% of their average net profits during the three preceding years in CSR activities. The law currently defines the spend to be made by way of expenditures or grants in the social sector but does not allow investments in securities.

Key Initiatives

ACCESS TO CAPITAL

India's Small Industries Developmental Bank (SIDBI) provides financing for SMEs of around INR10,000 Crore. The Development Bank has also launched a fund of funds, the India Aspiration Fund (IAF)[x], that invests in Venture Capital funds to help meet equity needs of small enterprises, especially start-ups.

Although not directed at impact investment, this fund invests in enterprises in areas such as healthcare, food & nutrition, agriculture, education & skill development, energy and other industries often related to impact investing.

The National Bank for Agriculture and Rural Development (NABARD)[xi] was created as an apex Development Bank by the Government of India with the aim to facilitate credit flow for promotion and development of agriculture in rural areas. The NBARD has been instrumental in channelling funding to rural, social innovations and impact businesses in rural areas.

WHOLESALER

India is in the process of creating the India Impact Fund of Funds (IIFF)[xii], a billion-dollar impact fund with the objective to provide market returns and catalyse growth through debt funding of underserved large segments of MSMEs.

The fund will be designed to support the Indian Government's National priorities of "Make in India", "Skill India", "Swachh Bharat", "Pradhan Mantri Jan Dhan Yojna" and "Digital India". Additionally, the fund will target funding for the priority sectors as outlined in the Priority Sector Lending (see below).

The fund will invest in companies that intend to generate a beneficial social or environmental impact alongside financial return, do not belong to "negative screening", and have the majority of their beneficiaries (more than 66%) as underserved beneficiaries – those with annual income below ₹ 10 Lakh. This includes women and people with disabilities; people located in tier 3-4 towns, difficult to access geographies or under-developed districts.

CAPACITY BUILDING

Most impact business accelerators in India are privately owned. However, government-owned educational institutes, such as IITs (Indian Institute of Technology) and IIMs (Indian Institute of Management), currently run various incubators for the social sector and other innovations.

The government also permits the CSR spent to be made in government-approved incubators.

Atal Innovation Mission is a government-run incubator that is promoting innovation and entrepreneurship across the country.

IMPACT IN PROCUREMENT

There is no social value clause in procurement decisions in India.

Nonetheless, through its developmental goals programme, the government of India has identified 117 districts where developmental issues are most pronounced and is working with the private sector to find solutions for these. The success of these private-public partnerships will be measured on their ability to succeed in social impact metrics, such as the availability of healthcare in the region.

FISCAL INCENTIVES

A strong incentive for impact businesses in India has been the implementation of the Priority Sector lending guidelines, implemented by the Reserve Bank of India (RBI)[xiii].

According to the rule, banks are obliged to provide a specified portion of their lending to "specific" sectors often classified as social impact sectors. These include agriculture, micro & small enterprises, housing for the poor and education for students. These sectors have recently been expanded to include medium enterprises, social infrastructure and renewable energy.

In 2015, India passed the law of tax pass-through status to categories I and II, which allowed capital gains tax to only apply at the investor level and not at the fund level.

This initiative improved investment sentiment in the country both domestically and abroad. Even though it applied to the investment sector as a whole, it had a positive effect in the impact investing industry.

LEGAL STRUCTURE FOR SOCIAL VENTURE FUNDS

India has created a legal structure for venture funds that invest in Impact businesses, called the Social Venture Fund[xiv]. This is a category within the Alternative Investment Funds regulations by Securities and Exchange Board of India (SEBI). These funds are meant to pool domestic and foreign capital, as well as commercial and grant capital, to then invest in a pre-decided social impact policy.

Looking Ahead

KEY PRIORITIES TO 2020

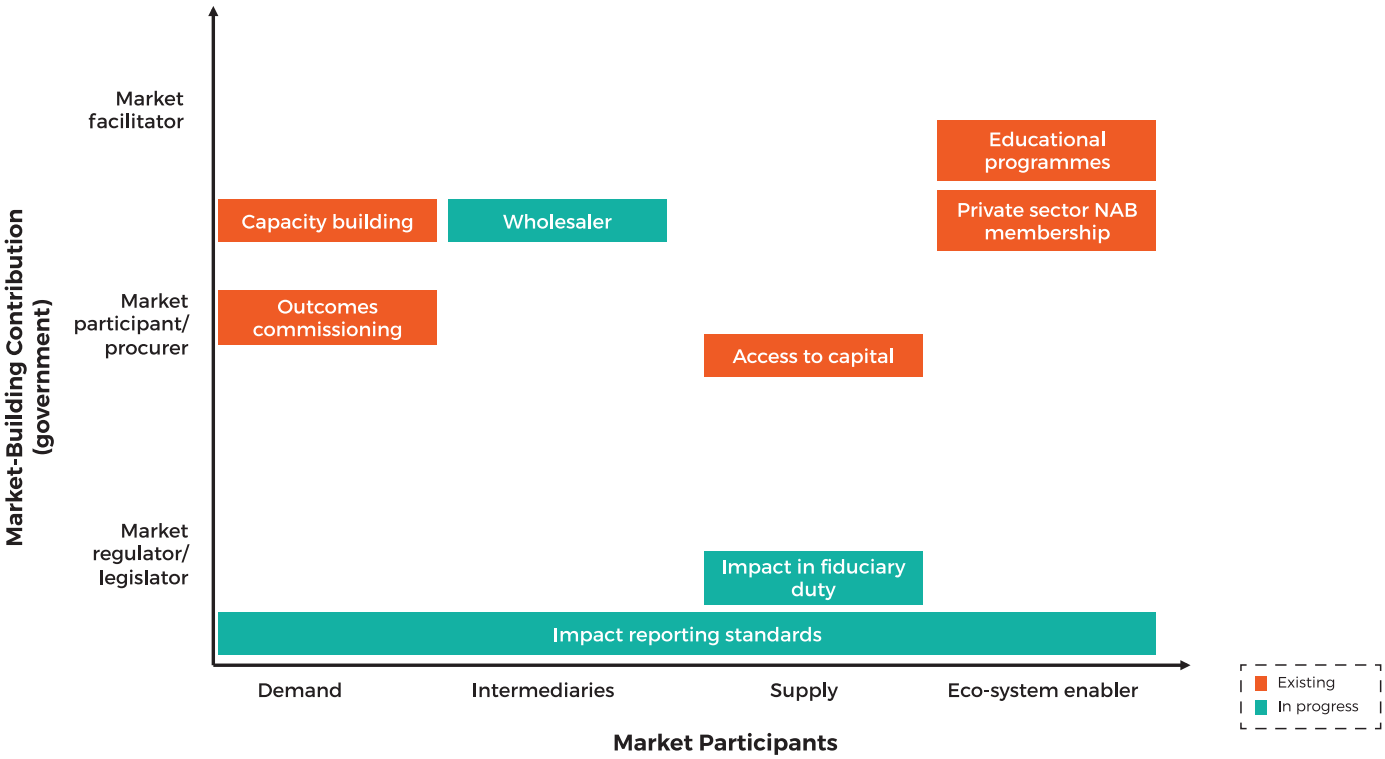
- **Outcomes commissioning**: The government of India is interested in establishing public-private partnerships to help solve developmental issues in the most affected districts of India. The government could consider outcomes-payments as a proven method of financing projects with pre-specified social outcomes.
- **Direct CSR law capital to impact investing**: Further guidance on where the CSR expenditure should go could be beneficial to the financing of impact investment projects. This capital could be a source of financing for the government's projects. An option for the government could be to spend this money in a pool that is directed to the India Aspiration Fund or to outcomes commissioning.
- **Ease regulations on Investment Trusts**: Currently in India, Investment Trusts are not allowed to invest in for-profit impact businesses. A change on this regulation would significantly increase the supply of capital to the industry.
- **Company legal form for impact businesses**: A clear definition of which companies constitute impact businesses, would help clarify ambiguity about other laws.

  A clear definition would allow social incubators, social venture funds and banks providing priority lending to have a specified investment universe. A definition that would encompass both for-profit and not-for-profit enterprises, could help change the regulation on Investment Trust to include all impact businesses.

  In turn, a more clearly defined form would catalyse financing for companies that can help the government with their developmental goals.

JAPAN

FIGURE 26:
Policy Toolbox



Overview

Japan has progressed well since the establishment of the National Advisory Board in 2014. The Ministry of Foreign Affairs, representing the government, and the Nippon Foundation, representing the private sector, became members at the time of 4th Conference of the G8 Social Impact Investment Task force in Paris. Now, the government members have stepped back and the NAB is comprised only of members from the private sector.

Japan's impact investing market has grown through a rise in the number of impact investing funds, and through grant-making foundations and community foundations beginning to enter the space[xv]. A key recent policy, the enactment of the Dormant Account Utilization Bill in 2016, will create a new source of capital for impact businesses and the impact investing sector overall. The Japanese government sees impact investing as a way of easing the burden of structural issues in Japan (ageing population, stress on healthcare system, poverty among children etc.).

In terms of impact investment policy-making in Japan, there is no dedicated central unit within the government.

Key Initiatives

ESTABLISHMENT OF A WHOLESALER USING DORMANT ACCOUNTS

A pivotal law for the Japanese impact investing sector, utilisation of dormant account funds for social causes, was enacted in December 2016. This follows a similar funding strategy to that undertaken in the UK and, more recently, South Korea. The establishment of the wholesaler is expected to be completed by 2019.

The new source of funding will be channeled into the private sector in the form of grants, loans and equity, as well as blended finance initiatives, to tackle social issues deemed too challenging for the government to resolve alone. Specifically, three areas have been raised: child- and youth-related activities, livelihood-related activities for the marginalised, and development of local communities and regional economies.

EXPAND USE OF OUTCOMES-BASED CONTRACTS

Japan expressed an early interest in SIBs, funding a five-year research project on the subject at Meiji University. Over 2015 and 2016, it piloted four social impact-driven projects across four cities. They focused on: the adoption of children; dementia; young people not in education, employment or training; and learning and social skills support for children. East Oumi City launched a small-scale SIB supporting community ventures in 2016, with an investment size of US$ 20,000 (US$ 5,000 × 4 projects). In March 2017, Kobe and Hachioji Cities secured budgets for SIB projects – for the first time in Japan. Sumitomo Mitsui Banking Corporation (SMBC), retail investors and the Japan Social Impact Investment Foundation (SIIF) invested in the SIB in Kobe City which addresses chronic kidney disease. Mizuho was involved in the SIB in Hachioji City which promotes bowel cancer checks.

In Japan's economic growth strategic paper, SIBs have featured as part of key policy frameworks for the past 3 years and the government has adapted legislation twice in that time to facilitate SIB projects. This demonstrates the importance of SIBs to the government as a tool to promote impact investment.

ACCESS TO CAPITAL

The engagement of individual investors in the Kobe SIB was important as it demonstrated a successful case of blended finance in which the grant-money foundation, SIIF, accepts a higher risk investment while individual investors take on a lower-risk segment. Another positive trend has been the growth of equity and debt crowd-funding platforms that create more opportunities for individual investors to engage in impact investing. There are also several public / private partnership funds, some of which target agriculture businesses or community-based businesses in rural areas. These are not specifically recognised as social impact investment but do represent another means of seed / early-stage capital for local and community-based businesses in Japan.

PROMOTION OF IMPACT MEASUREMENT

The Social Impact Measurement Initiative (SIMI), established in 2016, has been a key driver of the promotion of impact measurement in Japan. As of May 2017, over 130 organisations were members, consisting of funds, corporates, non-profits and intermediaries. This initiative was created in partnership with the Cabinet Secretariat. It is not regulated but does provide guidance on universal impact measurement.

CLARIFICATION OF FIDUCIARY DUTY

Funds are currently permitted to incorporate ESG factors into decision-making but the incorporation of what are perceived as more risky impact areas can be viewed negatively. In April 2018, The Government Pension Investment Fund (GPIF), conducted a study with the World Bank on how to measure impact in their ESG investment. This is a small but important step towards thinking of impact versus ESG.

With regards to ESG investment, GPIF signed the United Nations Principles for Responsible Investment (UNPRI)in September 2015. There is hope that this move will act as a market signal and slowly stimulate investors' interest in ESG and eventually impact investments.

CAPACITY BUILDING

There are two main players currently providing capacity building to impact businesses- the Cabinet Secretary and local government. The Cabinet Secretary does not provide continuous programmes but will sometimes provide capacity building to help with training and the creation of new impact businesses into the market. In most cases, the local government has a unit or department which promotes impact businesses in their region. In the private sector, SIIF has been playing a role in capacity building to stimulate investors, such as banks, to improve their impact investing capabilities.

EDUCATIONAL INITIATIVES

There are certain universities in Japan which provide classes on social impact investment.

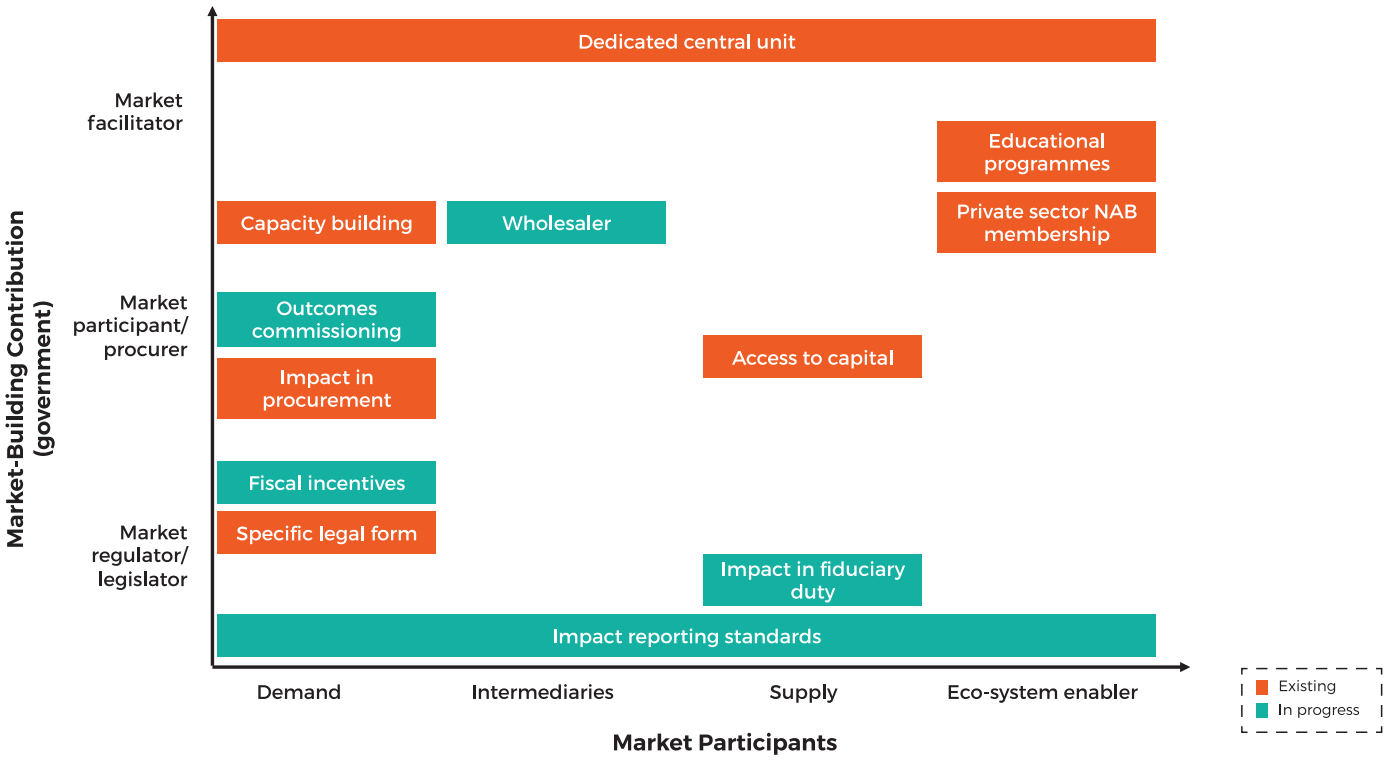
Looking Ahead

KEY PRIORITIES TO 2020

- **Establish central government unit**: Having a central unit within government dedicated to impact investment would help coordinate projects as well as align interests between Ministries.
- **Company legal form**: In Japan there is no legal entity nor certifications specific to impact businesses. Organisations are registered as either for-profit companies or non-profit organisations. This has deterred project implementation, public awareness, fundraising and targeted fiscal incentives. As the number of organisations engaging in impact investing increases, the need for legal and regulatory frameworks to support them will continue to increase.
- **Enhanced capacity-building programs**: As the wholesale fund starts to make investments and issue grants in 2019, targeted capacity-building for impact businesses will be important to ensure the pipeline of investable projects is robust. Accelerator and incubator programmes could be key to help provide these opportunities.
- **Strengthen intermediaries**: Intermediaries play a crucial role in SIBs, particularly in project formulation, impact measurement and fundraising. However, the number of intermediaries are limited in Japan and this can be a barrier to the growth of SIBs. Technical and financial assistance of intermediaries could help the market progress substantially.
- **Implementation of SIBs by central government**: SIB activity thus far has been notable in Japan but limited to pilot activities at the local level. In order to address wider societal issues, leadership by the central government is key. To achieve this, regulatory and systematic guarantees that enable multi-year commitments to outcomes payments should be put in place.
- **Clarify fiduciary duty**: Further clarify the incorporation of ESG factors into decision-making through legislation or recommendations, to help enable investment into impact assets.
- **Procurement from impact businesses**: Government should use outcomes-based commissioning and other social value commission approaches to encourage procurement from impact businesses.
- **Fiscal incentives**: Targeted fiscal incentives haven't been possible in Japan given the lack of legal form for impact businesses. Once a legal form is established this may be an effective way to encourage additional investment into the sector.

SOUTH KOREA

FIGURE 27:
Policy Toolbox



Overview

South Korea has made impressive progress between the establishment of their Impact Finance Task force in 2017 and official inauguration of the NAB in February 2018. The establishment of the NAB resulted from an initial consultation with the government in May 2017. This was followed by several meetings with key stakeholders and culminated in a proposal for an official NAB in January 2018. At that time, the NAB had assembled 56 individuals, 8 of whom are part of the steering group. The NAB is therefore very much supported by the government, and through this close alignment of interests and objectives, South Korea has been able to advance quickly in terms of policy.

The Social Enterprise Promotion Act of 2007 in Korea provided the framework for developing policies and giving social enterprises official legal status. The Ministry of Employment and Labour, through the Korea Social Enterprise Promotion Agency[xvi] (KoSEA) certifies social enterprises with their own legal form, and if they meet the requirements, provides administrative and financial support.

Impact investment as a policy area sits within a few different departments in government. Crucially, since May 2017 a Secretary for Social Economy was established within the President's Office. Given the seniority of this position (only a Senior Secretary stands between the Secretary and the President); this strongly demonstrates the importance of the sector to the South Korean government. Furthermore, there is also a Director of Social Economy within the Ministry of Strategy and Finance and several other Ministries are also involved in policy making. These include the Ministry of Labour, Financial Services Commission, Ministry of SMEs and Start-ups, Ministry of Interior and Ministry of Welfare.

Overall, there is an extensive government system in South Korea involving several hundred government officials and agencies working towards market facilitation of the impact economy. An important part of this facilitation will be for the impact investment market. The South Korean NAB's direct counterpart with whom activities and policies are discussed, is the Director of Social Economy.

Key Initiatives

ACCESS TO CAPITAL / WHOLESALE INTERMEDIARY

The government has pledged US$120m per annum to establish a wholesale institution. The Ministry of SME & Start-up and Financial Services Commission have pledged to create Social Impact Funds, US$100m and US$200m per annum respectively starting from 2018. The government has also helped facilitate additional supply through partnering with the credit union, KODIT, to ensure all social enterprises can get a credit guarantee at a 1%-1.5% reduction in interest rate. Other financial cooperatives, such as National Credit Union Federation of Korea, are also considering impact funds.

ENCOURAGE PROCUREMENT FROM SOCIAL ENTERPRISES

New procurement legislation similar to the Social Value Act in the UK is under way, Special Law for Promotion of Social Economy Business Products and Distribution Channel, proposed by National Assembly Member Suh Hyung Soo. It stipulates that the government, including government agencies, local governments, and public agencies, should procure a maximum of 5% from social economy businesses. This figure currently stands around 1.18% given further capacity building is needed to scale many of these social enterprises to take on government procurement contracts.

FIDUCIARY DUTY

There is currently no legal obligation for financial investors to include ESG into their decision-making. However, the Financial Services Commission implemented a Stewardship Code in 2016, followed by the National Pension Service implementing their own Stewardship Code in 2017 and more widespread adoption thereafter. The Code applies to investment in private companies. Pension funds can exercise the Stewardship Code to verify whether the company is behaving in an ethical manner towards its stakeholders; unethical issues may include misuse of power over small companies or employee discrimination. This highlights an increased sense of responsibility and active engagement by public funds towards corporate governance of their investments.

COMPANY LEGAL FORM

There are four different forms of social enterprises and these include: certified social enterprises (of which there are over 15,000), certified social cooperatives, certified community enterprises and certified self-sustaining enterprises. Each of these is certified by the government and for each there is flexibility surrounding profit or non-profit, limited partnership etc. The legal structure and tax incentives for each entity is different (social enterprises do not pay corporate or income tax for 5 years after realising net profit), and each falls under the remit of a different Ministry.

Alongside the legal form, the government is also considering the possibility of providing a 'social venture' label as a guideline to be able to distinguish whether an enterprise can be categorised a social venture. To note, these will not be certified entities and won't have a legal basis. After an organisation passes this guideline however, they may be eligible for certain support from the government.

CAPACITY BUILDING FOR SOCIAL ENTERPRISES

KoSEA is responsible for accelerator and incubator programmes for social enterprises. The agency has a specific budget for social enterprise incubation and acceleration which has been running for approximately 8 years. The Ministry of SMEs and Start-Up also supports acceleration and incubation of social ventures, which are separate non-certified entities.

There is also private sector driven support towards capacity building for social enterprises, usually through corporates as part of their CSR programmes. These programmes may be met with partial funding support from the government.

EXPAND THE USE OF OUTCOMES CONTRACTS AND DEVELOP THE SOCIAL IMPACT BOND MARKET

South Korea has launched two SIBs (in Seoul and Gyounggi) in the sectors of education and children with special needs. There are additional outcomes-contract projects underway but the lack of legal basis for projects makes it hard for governments to participate. There is currently a law under discussion which would provide the basis for the government to be able to spend its budget on SIBs. Without this change in regulation, governments will continue to have to amend articles within their government charter, making the process less appealing. Nonetheless, the Ministry of Interior and Ministry of Foreign Affairs are both considering the use of SIBs. Ministry of Foreign Affairs, for instance, is looking at SIBs as a means to structure projects from an ODA (overseas development aid) to SIB format using an outcomes-based approach.

EDUCATIONAL INITIATIVES

Undergraduate and Masters programmes in social economy are available at Hanyang, KAIST and Sungonghwe universities.

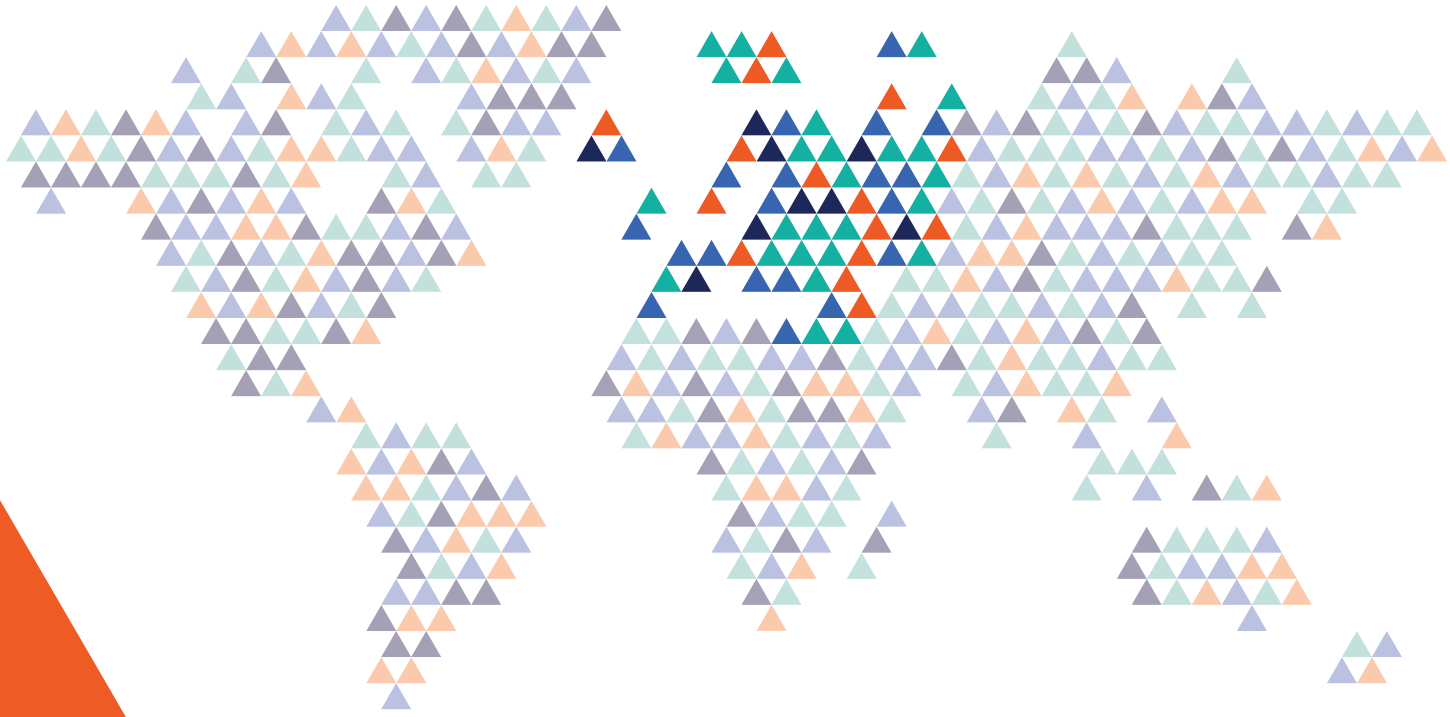
Looking Ahead

KEY PRIORITIES TO 2020

- **Establish wholesaler:** The establishment of a wholesaler is well underway in South Korea. Structurally, the wholesaler will be created as a foundation and is expected to be established in September 2018. The foundation will get funding from different sources; more than half will be private capital, with the remaining funded by government and total assets under management expected to be US$300m over 5 years. This wholesaler would be a pivotal instrument in further developing the impact ecosystem.
- **Impact measurement and standardised reporting:** The NAB plans to work with the Ministry of Strategy and Finance and encourage Ministries to engage their agencies in social sectors to identify common indicators for social values and the SDGs. The goal is to create a platform utilising the IMP framework and have it implemented throughout the public and private sectors. At present, investments are evaluated on an IRR basis and having this institutionalised impact measurement system will be an important factor in embedding social values within decision making.
- **Clarify fiduciary duty:** Encourage the incorporation of impact factors into decision-making through legislation or recommendations, to help enable investment into impact assets. Given the lack of formal legislation and government guidelines for fiduciary duty to reflect impact factors, the wholesaler is resorting to expert committees to monitor impact relating to intermediaries and investments.
- **Promotion / education around impact investment:** Education around the concept of impact investment will be important to build the market for impact investment. The impact investment ecosystem should complement existing government grants and concessionary public financing towards impact businesses. Evidence-building and promotion /education efforts should go hand in hand to develop the adoption of impact portfolios in mainstream funds. Foundations in South Korea have been slow in adopting impact investment and promotional efforts should be focused on the second generation of high net-worth families. Promoting this next generation to view impact investing as an alternative to donations would be of great benefit to the market overall. Courses and degree programmes on impact investing should continue to be developed to stimulate young professionals.
- **Regulation surrounding social impact investing organisations vs. regular financial institutions:** Current regulation does not allow for smaller investors or intermediaries in the market in South Korea. To obtain a license, organisations are bound by legal constraints such as a certain amount of capital and number of certified asset managers or fund managers. For small intermediaries in South Korea this would take time to achieve. To enable smaller intermediaries to invest without these capital requirements, regulation to govern these bodies under a separate law would be beneficial. This would then help to build the market in a shorter time span.
- **Regulation surrounding outcomes-based contracts:** Implementing regulation to allow governments to participate in outcomes-based contracts, including SIBs, would enable significant progress in the market and eliminate current legal amendments to existing manifestos.
- **Fiscal incentives:** Fiscal incentives (such as legislation on tax relief) for investors in impact assets would help encourage additional capital flow into the sector.

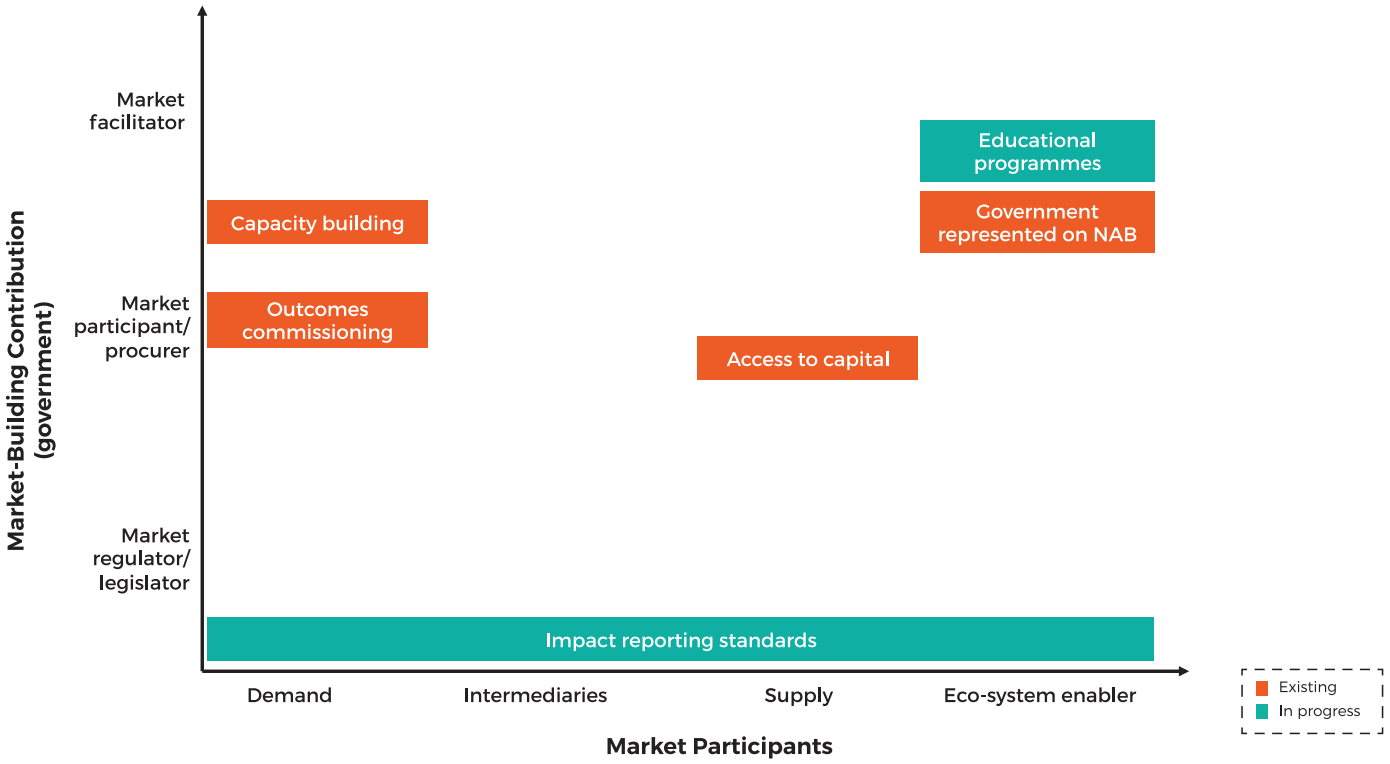
COUNTRY BY COUNTRY ANALYSIS

EUROPE



FINLAND

FIGURE 28:
Policy Toolbox



Overview

Finland has progressed steadily since the inception of the Finnish NAB in 2015, instigated by Sitra[xvii], the Finnish innovation fund. In Spring 2018 the NAB went through several changes of membership. The present NAB is comprised of stakeholders from the private sector (e.g., Elo, a Mutual Pension Insurance Company; FIM, a Finnish asset manager; Taaleri, a financial group whose parent company Taaleri Plc is listed on Nasdaq Helsinki's main market; and Tesi, a venture capital and private equity company), the public sector (Ministry of Finance and Finnish National Agency for Education), academia (e.g. VATT Institute for Economic Research and The National Institute for Health and Welfare) and individuals from other important areas of activity in terms of impact investing. The involvement of the government/public sector within the NAB is crucial in Finland.

Until now the key player with regards to the impact ecosystem in Finland is Sitra. Sitra was established by the Finnish Parliament in 1957. Its intention was to invest and support Finnish businesses. Sitra was given a basic capital endowment from Parliament, along with additional capital until the beginning of the 1990s. Since then, Sitra has received no further funding, using instead the returns which it makes from its own endowment which averages approximately €40m a year. It is under the control of the Finnish Parliament but is economically independent. Sitra is now described as a future fund – a "think and do tank" whose main theme is sustainable wellbeing. Sitra's task is to build a successful Finland for tomorrow. It acts as an intermediary, making domestic investments and funding fixed-term projects to encourage increased societal well-being.

In 2014, Sitra included impact investment as a focus area. This marked the beginning of a market which, until this point, did not exist in Finland. Sitra has since been focused on establishing the impact investing ecosystem and developing relevant financial instruments (mainly SIBs).

The Nordic welfare state is highly sophisticated so the public sector plays a very significant role. For example, in social, healthcare and education systems in Finland. In order to maximise additional value from impact investing, Finland, through Sitra, has been working on building their SIB market as a means to involve the private sector more to benefit society.

Key Initiatives

CAPACITY BUILDING FOR IMPACT BUSINESSES

Sitra has piloted a special impact accelerator programme for impact-oriented service providers. This has involved co-operation between measurable impact businesses and traditional accelerators. Similar programmes for NGOs have also been started through government agencies in charge of grant funding.

In terms of targeted capacity building for impact businesses, there has been growing interest for these programmes. During winter 2018-2019, Sitra plans to support key external organisations which are running impact accelerator programmes, with part funding of max €45,000 each.

EXPAND THE USE OF OUTCOMES CONTRACTS AND DEVELOP THE SOCIAL IMPACT BOND MARKET

There is currently growing interest among municipalities and the government to adopt an outcomes-based approach to services which promote health and wellbeing, e.g. preventing harm, medical problems and ill-health. The Finnish government has supported the idea of piloting the SIB model.

There have been 7 projects running or in preparation so far, including the largest SIB in Europe at €14.2m, related to refugee and immigrant integration (Koto-SIB). The Finnish Ministry of Economic Affairs and Employment, supported by Sitra, introduced a three-year intervention starting in Spring 2017, aimed at finding employment for 2,500 immigrants and thus helping integrate them into Finnish society. Other SIBs have been focused on the following areas: occupational wellbeing in the public sector, children, youth and families, employment, independence of old people, type II diabetes prevention and most recently, the Ministry of the Environment, the Ministry of Agriculture and Forestry and Sitra have started a process to develop the first environmental impact bond in Europe.

In terms of the process for these projects, Sitra organises events and workshops for different stakeholders in the ecosystem. When a government department or municipality decide to undertake a SIB project, Sitra will help by: doing a basic modelling of the project, running the tendering process, e.g. find a fund manager, raising interest among possible investors and most probably investing alongside other investors. SIBs have been an effective tool in encouraging the use of outcomes-based contracts, which is one of Sitra's main objectives. Going forward, Sitra hopes that outcomes-based commissioning, will be more widely accepted and employed.

Currently, grant money distribution as well as government procurement, is based on activities rather than outcomes. Municipalities and the government spend more than €35bn per year procuring services from the private sector. If an outcomes-based approach can be adopted, this should lead to more blended finance opportunities through combinations of money from grants, private investors and government funding, along with more productive use of tax revenue. This objective is therefore closely related to expanding commissioning of outcomes-based contracts.

KEINO, a "Competence Centre for Sustainable and Innovative Public Procurement", made up of 8 key Finnish players[xviii] - Motiva Ltd, the Association of Finnish Local and Regional Authorities, VTT Technical Research Centre of Finland Ltd, The Finnish Funding Agency for Innovation – Business Finland, the Finnish Environment Institute SYKE, Hansel Ltd, KL-Kuntahankinnat Ltd and the Finnish Innovation Fund Sitra, has a main objective for 2018-2021 to procure in more sustainable and innovative ways. Within this consortium, Sitra is in charge of developing social outcomes contracting in procurement.

ACCESS TO CAPITAL

Sitra has been an investor in social impact bonds and has also provided capital for acceleration programmes and capacity-building. Veikkaus, the government-owned gaming company, gives out €500 million a year in grant money through the Finnish government. This grant money goes to NGOs, some of whom are in impact-related activities. There is also a very active group of business angels in Finland who invested approximately €300-350m last year into different start-ups, some of which are impact-related.

EDUCATIONAL INITIATIVES

Sitra has begun conversations with some learning institutions surrounding social marketing programmes. One programme is already in place and they are all expected to have a very strong focus on impact-oriented activities and, therefore, impact investing.

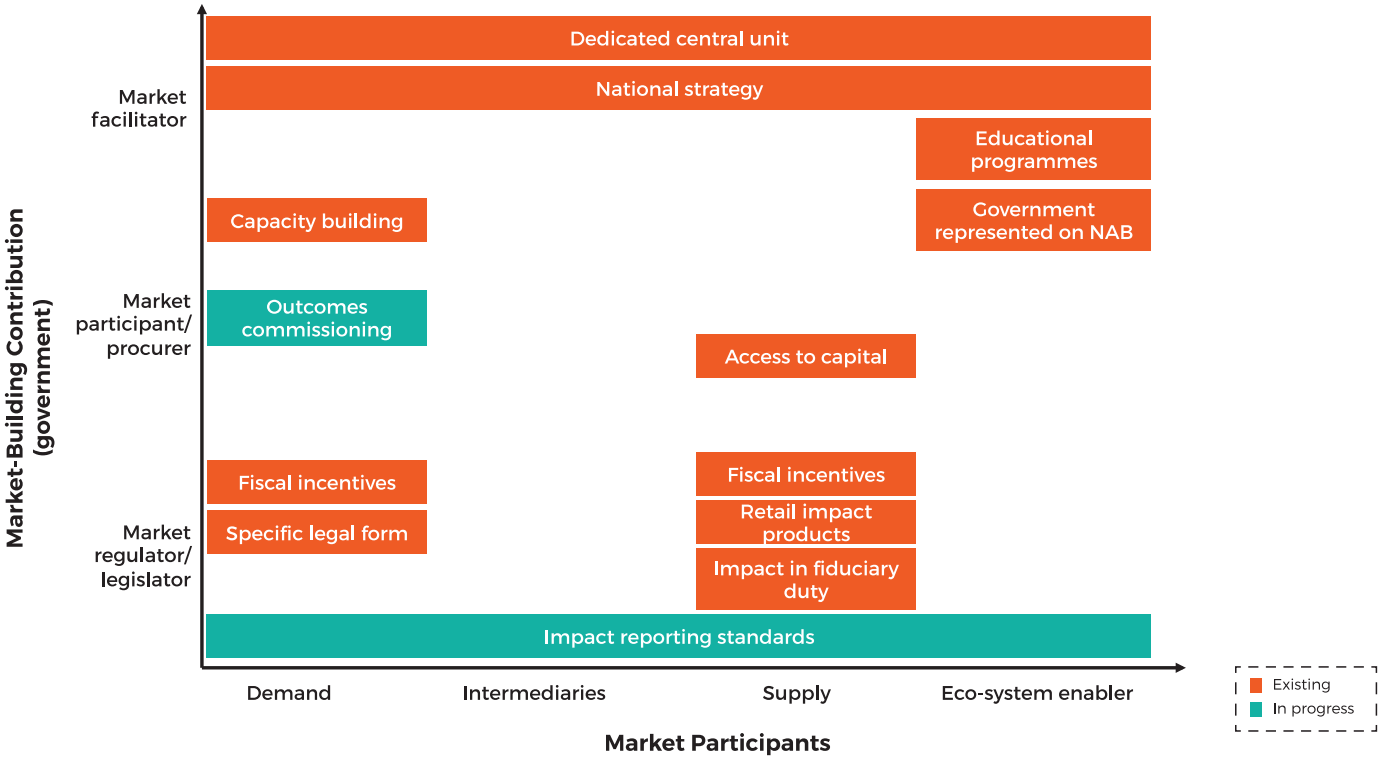
Looking Ahead

KEY PRIORITIES TO 2020

- **Planning for Sitra's reduced role by 2020:** Currently, Sitra has been facilitating many interactions in the market. By 2020 Sitra is intended to have a significantly decreased role in the market. Following this, it will be necessary to have a special unit that will continue to help facilitate the whole ecosystem. The market would benefit from:
  - A dedicated central unit within the government, e.g., within the Prime Minister's Office or Ministry of Finance
- **Promoting the concept of impact investment:** Given the heavy involvement of the government in the welfare state, it is challenging to prove that private money will add additional benefits to society. Involving the private sector can lead to concerns around potential privatisation. Using outcomes-based commissioning to show the benefits to society of this additional capital could help to change the perception of impact investment and help grow the market besides SIBs.
  - Finland should also encourage further educational programmes relating to impact investment in order to promote a deeper understanding of the concept.
- **Impact measurement and standardised reporting:** Improving the way different funds and companies report on impact is one of the main goals of the NAB. The NAB is looking to focus on a system which captures the 'net benefit' to stakeholders (society, investor etc.). Implementing this reporting system will help the market continue to develop in line with global norms.
- **Clarify fiduciary duty:** Funds are currently not required to incorporate ESG factors into decision-making in Finland. Encouraging the incorporation of non-financial factors into decision-making, through legislation or recommendations, may help enable additional investment into impact assets.
- **Procurement from impact businesses:** Government should build on the work by KEINO and Sitra regarding the use of outcomes-based commissioning to promote procurement from impact businesses.

FRANCE

FIGURE 29:
Policy Toolbox



Overview

The French National Advisory Board (NAB) was created for the G8 Taskforce on Social Impact investment in 2013. The Impact Invest Lab, its operational arm, was born in 2016. The work undertaken contributes to help France develop a strong impact investment ecosystem, which has been boosted by a supportive government and regulatory environment. The government has two representatives in the French NAB, one from the Treasury department in the Ministry of Finance and one from the Foreign Affairs Ministry.

One of the country's major achievements within impact investing has been the creation of Solidarity Investment Funds (2001), which invest up to 10% of their portfolio in solidarity labelled organisations. A regulation was implemented in 2008 by the national government that required all corporates to offer at least one Solidarity Investment Fund as part of their corporate savings schemes. This regulation has been instrumental in providing access to impact investing from the mainstream retail market and, in turn, driving a large supply of capital to the impact investing economy.

Key Initiatives

RETAIL IMPACT PRODUCTS

In 2001, the French government created the pension regulation on 90/10 Solidarity Investment Funds[xix], which must invest at least 5% - and up to 10% - of their funding in Solidarity Enterprises (called "ESUS" after the 2014 new legal form, see below). The remaining 90-95% should be invested in listed securities. The typical Solidarity fund will invest between 6-7% of their portfolio in Solidarity Enterprises.

The regulation requires all corporates to offer at least one solidarity-based fund on their pension schemes. The uptake of the offering has been extremely successfully with €7.4bn invested in these funds at the end of 2017.

The strong uptake by retail investors of these schemes has been instrumental in sparking the interest in impact investing in France. One result has been the creation, inside the private equity professional association France Invest, of an impact investing working group composed of over 15 asset managers managing €1.3bn as of 2017.

FIDUCIARY DUTY

Another leading step for France was the creation of Article 173[xx] in the Energy Transition for Green Growth law (2015), which made it compulsory for institutional investors to report on ESG criteria in their investment policies and risk management. All institutional investors must implement this regulation by 2018.

DEDICATED UNIT

The responsibility of impact investing in France is split between two ministries:

- **Ministry of Finance (Treasury Department)**: Responsible for the technical implementation of impact investing policies and the commissioning of outcomes contracts.
- **Ministry of Ecological Transition and Solidarity:** Hosts the High Commissioner for the social and solidarity economy and social innovation (Christophe Itier), created by the new government (May 2017). This commissioner oversees the political implementation of the impact investment policies.

NATIONAL STRATEGY

In January 2018, the High Commissioner for the social economy and social innovation launched the French Impact Strategy. The strategy largely focuses on strengthening the demand side. It works on the premise that with a strong supply of capital, the French impact ecosystem could benefit from widening its investable universe.

CAPACITY BUILDING & ACCESS TO CAPITAL

As part of the French Impact Strategy, three projects have been created to support and finance impact businesses:

- **Pioneers French Impact:** A national accelerator for social innovation that aims at scaling up selected impact businesses. For 2018, the government has selected 22 businesses. It announced that the accelerator would receive €1bn of public and private commitments over the next five years.
- **Seed Fund:** A provider of seed capital (€50m targeted at the end of 2018) and coaching to c.150 young impact businesses. To qualify, the businesses must be less than three years-old and have revenues below €300,000.
- **French Impact Territories:** Will be launched to promote social innovation at a local level. At the moment, they are calling for projects; the winners are expected to be announced in October. The strategy aims to promote public-private collaborations at a territory level, supporting and facilitating new relationships between the different actors in the impact investing ecosystem.

  In 2018, the government, in partnership with "Mouves" (an association of impact businesses), created the Impact Investing Tour, which consists of a series of events around France to connect impact businesses with financial advisors and investors.

  The French government has also provided catalytic capital for impact investment funds. Two notable beneficiaries are:

- **Nov'ESS:** An investment fund for impact businesses launched in 2016 with public capital (Caisse des Dépôts et Consignations) and private capital, amounting to a total of €100m in funding.
- **Impact Coopératif:** A fund targeted towards cooperatives, also funded through private and public (BPI France) funding amounting to €100m.

OUTCOMES COMMISSIONING

In 2016, France called for outcomes contracts (contrats à impact social). Thirteen contracts were identified, of which one was launched in 2017 and four are expected to be signed by the end of 2018. The signed contracts focus on the areas of job creation and education, largely in rural areas.

SPECIFIC LEGAL FORM

In 2014, the Social and Solidarity Economy law was amended to change the legal form of Solidarity Enterprise to Solidarity Enterprise with a Social Purpose (ESUS)[xxi]. The definition of this type of enterprises is in line with the European definition. To qualify, the company must abide by certain criteria, including having a social impact as its main mission (written in the articles of association) and introducing limits on the salaries paid inside the company. Currently there are around one thousand ESUS in France.

FISCAL INCENTIVES

At the enterprise level, there are fiscal incentives as well as financial support and coaching for impact businesses that work in the area of job integration (targeting people that are very far away from employment). However, this support is reviewed by the government each year.

At the investor level, there is a tax relief for investors in Solidarity Funds and impact businesses. The tax relief applies only to investors that hold shares for at least 5 years. The specific tax incentives are negotiated every year and are applied through the fiscal budget.

STANDARDISED IMPACT REPORTING

In 2016, when the government seeded Nov'ESS, it requested the development of an impact methodology that would become open source once implemented successfully.

The methodology received the name of MESIS (Measurement and Tracking of Social Impact). If its implementation is successful, it could become a norm in the country.

Looking Ahead

KEY PRIORITIES TO 2020

- **Implementation of National Strategy**: The "French Impact" National Strategy is a strong initiative to ignite the demand side of the impact investing ecosystem.

  Still in early stages, ensuring its successful implementation and continuity will be very important for developing the ecosystem. A successful strategy could be catalytic for new capacity building initiatives, especially at the local level.

- **Strengthen intermediaries**: France's impact investing ecosystem could also benefit from strengthening its intermediaries. In particular, there is a need for more lending practices and deal structuring suited to the needs of impact businesses and impact investors.

  The government could support this by training and coaching financial intermediaries in impact investing.

- **Creation of an outcomes fund**: The implementation of outcomes-based contracts has been slow in France, with only one launched in the last two years.

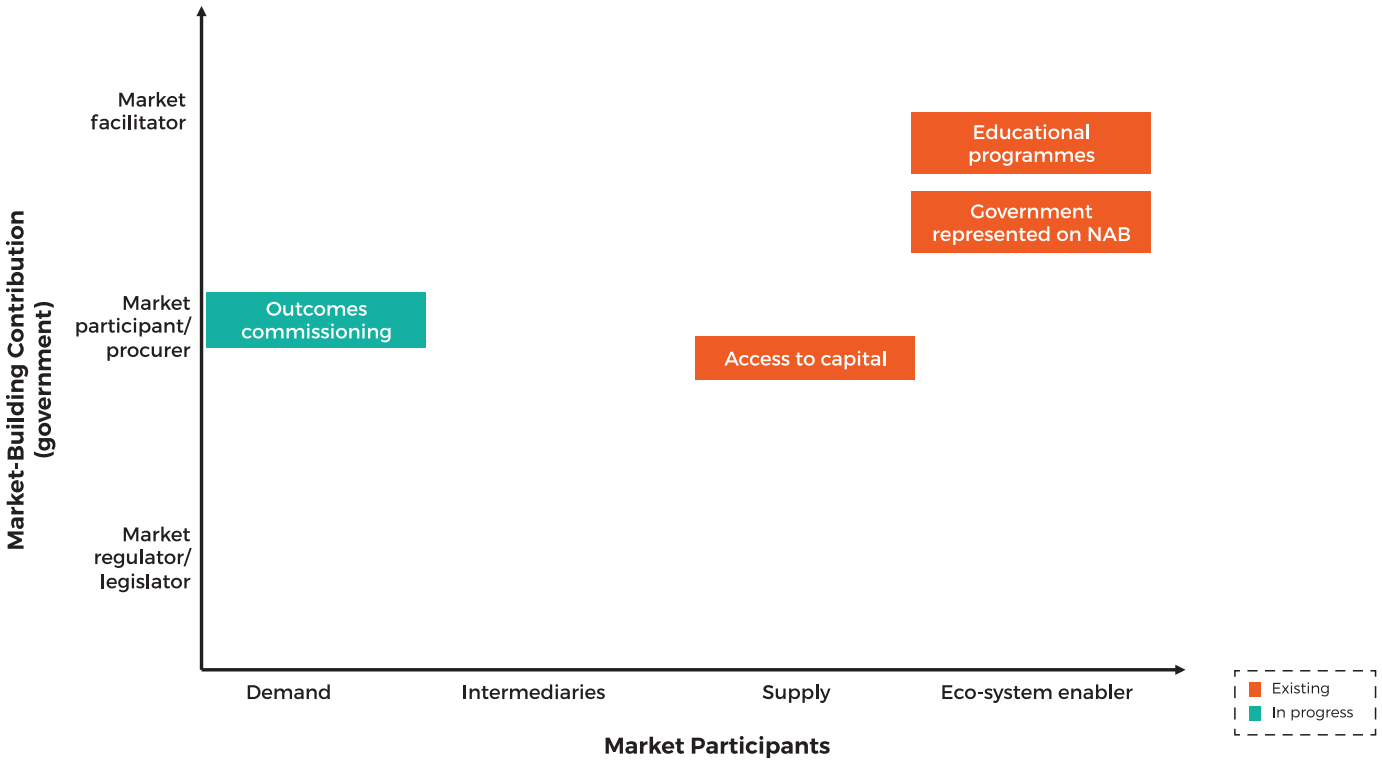
  The creation of a government outcomes fund could help scale and streamline the process.

- **Corporate law reform (PACTE)**[xxii]: France is in the process of reviewing its Civil Code. The reform aims at incorporating the Social and Environmental impact of a company's activity under one article.

  The voting of the reform is due in September 2018. A "Growth Pact for Social and Solidarity Economy" will be presented by the High Commissioner in the autumn reviewing, in particular, fiscal incentives with positive implications on the impact investing ecosystem.

GERMANY

FIGURE 30:
Policy Toolbox



Overview

The German National Advisory Board was created in 2013 and was part of the original G8 Social Impact Investment Taskforce. There is one government representative on the German NAB from the Ministry of Economic Cooperation and Development and one government observer from the Ministry of Labour and Social Affairs.

Germany has a developing impact investing ecosystem. Impact businesses are supported by the "Social Entrepreneurship Network Deutschland" (SEND e.V.)[xxiii] created in 2017 with the support of the German Start-up association and the mission to encourage social innovation.

Moreover, impact businesses in Germany also benefit from a strong supply side, with notable players including:

- **Ananda Ventures and BonVenture** are two large impact funds with European reach.
- **Bertelsmann Foundation** has been instrumental in supporting impact investment both in Germany and abroad. In cooperation with Phineo gAG, Bertelsmann Foundation is currently piloting two SIBs in different German cities.
- **BMW Foundation Herbert Quandt** is another key player for developing an impact investing ecosystem in Germany.
- **High Net Worth families** that invest in impact businesses and other impact investments.
- **KfW and GiZ** are development banks that have also been very supportive of the industry.

With strong non-governmental organisations, such as Caritas, the Protestant Church or the Red Cross, and a well-established welfare government, Germany has implemented policies and practices that would have normally been labelled as impact investing. An example of these is Germany's low lending rates for small enterprises.

With new pressing issues, such as the refugee crisis and the aging population in Europe, the German government could benefit from partnering with the impact investing industry to develop solutions.

Although a central unit within the government has not been recognised, the Federal Ministry for Economic Affairs and Energy has been supportive of the industry. The Ministry launched a study focusing on the challenges of creating and scaling impact businesses. The study was published in a workshop run by the Ministry to bring focus to impact investing.

Key Initiatives

CAPACITY BUILDING & ACCESS TO CAPITAL

Impact businesses in Germany have mostly benefited from European assistance programmes financed through the European Investment Fund (EIF).

- **The EASI-programme,** a European Social Impact Accelerator, has run a number of projects in Germany.
- **The EFSI-programme,** for direct capitalisation of funds, has supported the creation of SIBs in Germany. As a result of this programme, two SIBs have been launched in local communities.

The German development banks, are the strongest government tools for building capacity in Germany's impact investment economy.

- **GiZ** the government-owned development agency, has also looked at tackling issues abroad through the incubation and financing of impact businesses in India and Africa.
- **KfW**, the Development Bank, created a co-finance facility for impact businesses in Germany. However, due to the limited amount of adequate applications by social entrepreneurs, the facility was closed shortly after with little impact being generated.

OUTCOMES COMMISSIONING

There are two SIBs currently being piloted in Germany:

- **The district of Osnabrück** is implementing a project to strengthen prevention in family assistance programmes. It is aimed at families in need of individual assistance due to family-related challenges.
- **The city of Mannheim** together with a number of educational partners, is introducing the learning and support concept "Integrative School Campus" at the primary school Pestalozzi School. Over the course of the project, two age groups will receive intensive and needs-based support from the first to the fourth grade. It aims at providing equal educational opportunities to all pupils.

IMPACT IN POLICY MAKING

The German High-Tech Strategy[xxiv] aims at pushing Germany forward to become a worldwide innovation leader. The mission is to convert good ideas into innovative products and services. Moreover, the strategy prioritises future challenges relative to their ability to improve prosperity and quality of life.

Together with the development of the High-Tech Strategy, the government is establishing thematic priorities in research and innovation. In the process, the government is focusing on areas of dynamic innovation and those that hold potential for economic growth and prosperity. In particular, the government is concentrating on areas that can help address global challenges and thereby, enhance quality of life.

The government has identified six priorities to improve prosperity and quality of life in Germany. Two of these are related to the High-Tech Strategy:

- **The digital economy and society:** With innovative solutions, the German government is addressing the challenges inherent in digital technologies and seeking to use opportunities for value creation and prosperity in Germany.
- **Intelligent mobility:** The German government is pursuing research in support of integrated transport policies that optimise the different modes of transport in terms of their efficiency, capability and interactions.

Looking Ahead

KEY PRIORITIES TO 2020

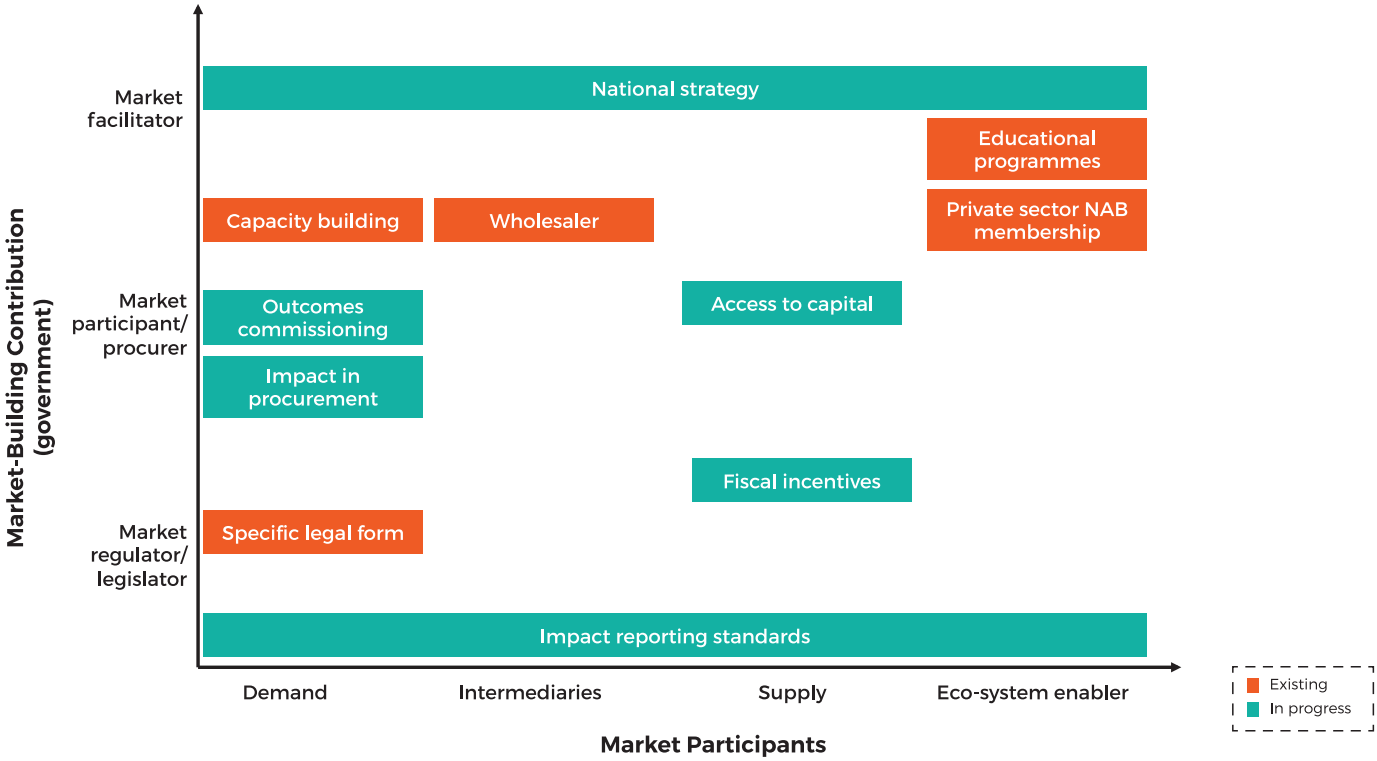
- **Capacity building:** Impact businesses around the world have a track-record in innovating new models to solve problems. Often, they do this in an efficient and economical way. By financing and fostering a conducive environment for these businesses, the government could be the first beneficiary. An approach could be- identifying those areas were the most pressing societal and environmental issues are, and provide financing and capacity building for companies that address those issues.
- **Tax Incentives for impact investing:** Tax incentives can be an effective and inexpensive way to finance the growth of an industry.

  By providing tax incentives to investors of impact businesses, governments can allow a greater amount of money to flow to finance the industry and in turn, require less investment from public money.

  Providing tax incentives to impact businesses directly, would provide them to have more capital to re-invest in their own projects and, therefore, require less outside investment from both investors and the government.
- **Creation of retail impact products:** The creation of 90/10 Fondes Solidaires in France has catalysed large amounts of capital and helped the development of the impact industry. These types of regulations can be relatively inexpensive ways for the government to finance the development of the impact investment industry. Germany could use this regulation as an example to develop a similar product tailored to the country's needs.
- **Specific legal form:** A clear definition of the universe would be helpful to reduce ambiguity and streamline decisions about who should benefit from the above-mentioned fiscal incentives, retail impact products, as well as external financing and support.

ITALY

FIGURE 31:
Policy Toolbox



Overview

The Italian National Advisory Board was created in 2014 as part of the G8 Steering Group for Social Impact Investing. The Board is supported by Social Impact Agenda per L'Italia, The Human Foundation and TIRESIA (the international research centre promoted by the School of Management of Politecnico di Milano).

Italy's impact investment policy environment is developing at different paces at the national and municipal levels. Some Italian regions have started to develop strong ecosystems for impact investing, which are setting the scene for action at the national level.

During 2017 and 2018, Italy has undertaken a reform of the social sector (Third sector reform)[xxv]. At the time of writing, this bill of law had been approved by the parliament and is being translated into the different decrees by the appropriate ministries. The most important decree still missing relates to the topic of impact measurement, defining rules for compliance. A resolution is expected to be reached in the near term, allowing the bill to complete.

Key Initiatives

SPECIFIC LEGAL FORM

The reform will create a new model of Social Enterprise (Impresa Sociale). This gives the opportunity to for-profit enterprises to classify as social enterprises and opens the social sector to investment, by:

- Having no limitation in the legal nature of the company being included in the register.
- Allowing private investors to be on the board of directors of social enterprises.
- Allowing social enterprises to distribute dividends, albeit with a cap of 2-3% of profits.
- Providing investors in social enterprises with a tax relief of 20-25% (depending on whether they are a corporation or an individual) for equity investments up to €1.5m.

The Italian government has created a Second bill of law on benefit corporations. A benefit corporation is a for-profit company that has clearly written in its statute that it will abide by ESG standards, such as paying and treating their employees fairly and considering environmental factors in their decision making. The corporations is expected to measure and document the positive impact. The impact focus of these companies should be clearly stated in their mission. As opposed to a social enterprise, a benefit corporation will not have limits on its commercial activities. Since the benefit corporation's bill was passed, around 200 companies have been registered as benefit corporations in Italy. It has proved to be an attractive tool to attract outside capital.

LOCAL CAPACITY BUILDING PROGRAMME

The cities of Milan, Turin, Bologna, as well as the Puglia region, among others, have developed programmes to improve their local impact ecosystems.

For example, the local authority of Turin has developed Torino Social Impact, which has created a centre for impact measurement to help impact businesses measure their impact and, in doing so, become more attractive to impact investors. Torino Social Impact has also helped impact businesses prepare an international dossier and roadshow to meet international investors.

Another notable municipal capacity building programmes is Milan's Inclusive Innovation programme.

OUTCOMES COMMISSIONING

In December 2017, the Italian government announced a €25m Government Outcomes Fund to be deployed over three years (€5m in 2018, €10m in 2019 and €10m in 2020). The fund is targeted to help local Italian administrations to develop Social Impact Bonds (SIBs) and Payment-by-Results (PbRs) schemes.

The local authorities will compete for this funding and will form a group of impact businesses that could solve the pre-defined social problems. The project is expected to launch in the Autumn of 2018.

The European Union has also provided financing for feasibility studies for SIBs in several regions in Italy. If the studies are successful, it is likely that the European Union will follow on with financing for this type of contract.

IMPACT WHOLESALER

At the end of 2017, Casa de Depositi e Prestiti (CDP), on behalf of the Italian government created an impact investing wholesaling unit. Through this unit, CDP has allocated €100m to this fund; it has already started to invest in different funds such as Oltre Venture.

If the Government Outcomes Fund is successful, CDP could become a potential investor.

SOCIAL VALUE IN PROCUREMENT

The national government launched a procurement scheme asking the municipal public authorities around the country to identify the most pressing social problems in their areas. To find solutions for these social issues, the government is funding research projects for innovative ideas to solve them.

Turin is a leading example in Italy for social procurement. The local authority has had its own social procurement clause for around 8 years, making it compulsory to measure social value generated for a portion of their procurement process.

With the aim of increasing this effort, the local authority is now considering delegating 10% of its procurement from public utility companies to companies providing social value.

ACCESS TO CAPITAL

There are no government owned impact funds in Italy. However, the region of Sardinia, with the funding of €400,000 from the European Union, is currently tendering a project for the advisory to launch an impact fund in the region[xxvi]. The fund is expected to be €8m, €6m funded by the European Social Fund (ESF) and €2m by the European Regional Development Fund (ERDF).

EDUCATIONAL PROGRAMMES

The Ministry of Education, Research and Universities has launched a €1m programme to support 10 Italian universities for developing new knowledge on impact investing and impact measurement.

Furthermore, some Italian universities have launched research and education centres for impact investing.

Similarly, the University of Bologna, the Polytechnic of Turin and Roma La Sapienza are in the process of launching their own impact research centres.

Outside educational centres, the Human Foundation also runs training programmes on impact investing, with support of the Johnson&Johnson foundation.

IMPACT REPORTING STANDARDS

The research centres at the 10 universities being funded by the ministerial programme, together with the Italian National Advisory Board, are developing the knowledge for defining measurement standards and guidelines.

Although these might not be recognised by the government as national standards at first, with time, if they become accepted by impact businesses and Impact investors, they could become a de facto standard.

NATIONAL STRATEGY

Just before the latest general elections in the government (March 2018), the Italian government set up a task force for Impact Investing and asked them to prepare a white paper on the future of impact investing in Italy. The group had several recommendations that, if addressed by the new government, could take Italy further on the road to developing an impact ecosystem.

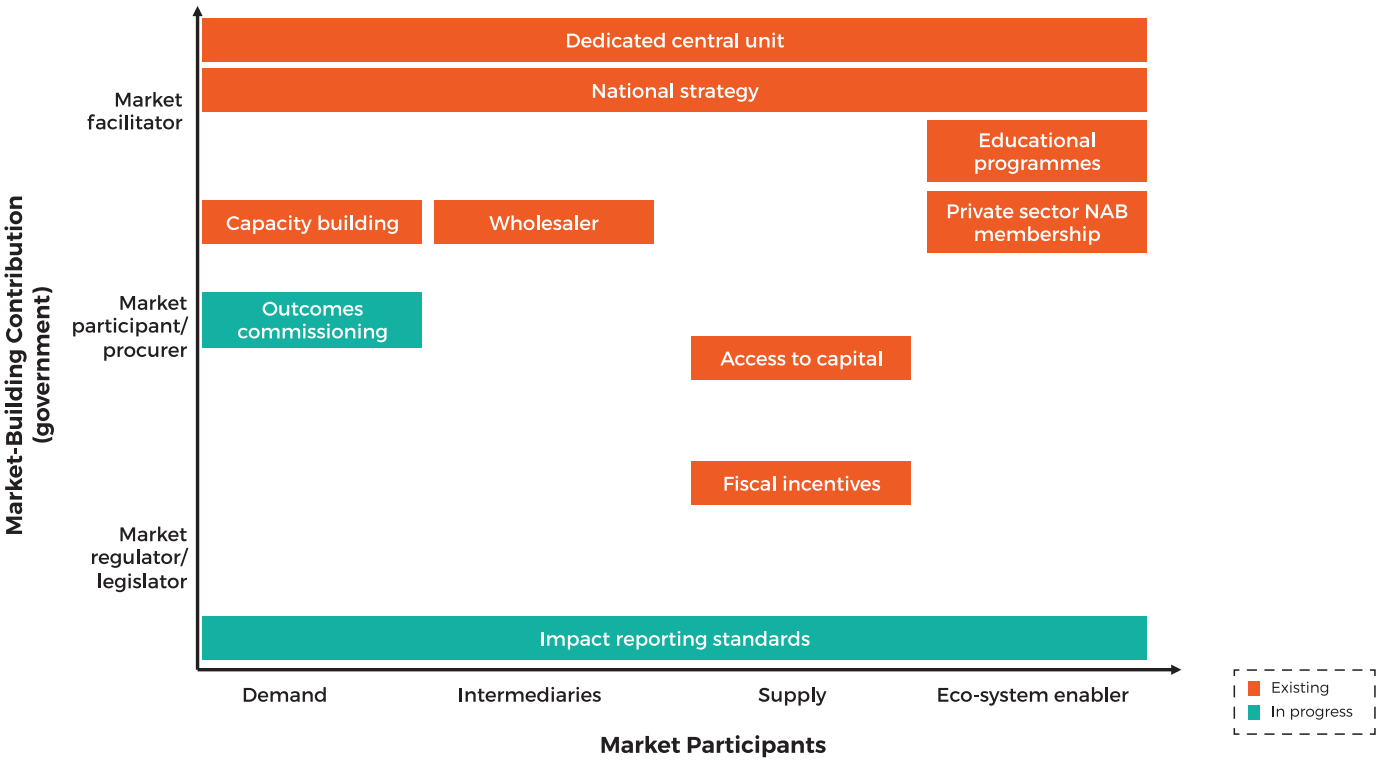
Looking Ahead

KEY PRIORITIES TO 2020

- **Change public accounting rules for SIBs:** Complicated public accounting rules are one of the main reasons why SIBs have not been implemented in Italy. There has been progress in the regulation for public accounting for PbRs schemes. However, there is work to be done in building confidence with the local authorities to understand this rule and develop the contracts. Unlocking this hurdle will be pivotal for the success of the Government Outcomes Fund.
- **Finish social sector reform:** Finalising this reform will then enable or facilitate the implementation of several polices in Italy. Clarifying the definition of a social enterprise will help unlock the investable universe of programmes such as the Government Outcomes Fund or local capacity building projects.
- **Provide access to capital:** The government could use the funding of organisations such as CDP and Invitalia to provide matching funds and capacity building programmes at a national level. Moreover, if the Government Outcomes Fund is successful in launching SIBs or PbRs schemes, these organisations could commit further capital to the programmes. At the regional level, local authorities should continue to explore new financial tools, such as funds of funds and matching funding.
- **Stricter definition of Impact measurement:** Although a national standard for impact reporting might not be agreed on in the near term, there is a need for stricter measurement of impact investments. This could help support small impact businesses in transactions and investment decisions.

PORTUGAL

FIGURE 32:
Policy Toolbox



Overview

The Portuguese Social Investment Task force was created in July 2014 through a joint initiative led by entities from the social, public and private sectors. This task force was the result of a combination of variables: the contribution of more than 20 national entities and financing from the European Commission as part of the EU Programme for Employment and Social Innovation. Today the NAB comprises of representatives from corporates, foundations and prominent universities and business schools.

The coordination of the taskforce was assured by a consortium of entities that includes the Calouste Gulbenkian Foundation[xxvii], MAZE[xxviii] – decoding impact (ex-Laboratório de Investimento Social) and Social Finance UK[xxix]. These organisations remain key players in the impact ecosystem in Portugal.

Portugal has made good progress since its publication of "A blueprint for Portugal's emerging social investment market" in 2015. The publication summarises the work implemented by the task force and presents five strategic recommendations: capacity building for impact businesses, introduction of financial instruments suited to impact businesses, promotion of an outcomes-based culture in public services, set up knowledge and resource centre and promotion of intermediaries. An action plan was made for each recommendation and set to be implemented in the short (1 year), medium (3 years) and long term (5 years)[xxx].

The most notable government catalyst, alongside the National Strategy, has been the establishment of the Portugal Inovação Social (PIS) initiative. This saw the establishment of the wholesale intermediary, PIS, funded via €150m from the European Union. The PIS has been instrumental in a number of initiatives outlined below.

Key Initiatives

ESTABLISHED DEDICATED UNIT WITHIN GOVERNMENT

Portugal has a dedicated unit within The Ministry of Presidency and Administrative Modernisation. This has evolved over time as the party in power has changed, e.g., previously impact investment sat within the remit of the Regional Development Unit. Negotiations with the EU and devoted funds to the sector were left unchanged after the last change of government, demonstrating that social investment has remained a priority despite the change in political party.

NATIONAL STRATEGY

"A blueprint for Portugal's emerging social investment market": Portugal's national strategy for investment and social innovation, was a collaboration between the public and private sector, has been an important policy framework. The Portuguese Social Investment Task force published this report, therefore it is endorsed by its 21 members. It has helped to outline key areas to be addressed, from which to build legislation and appropriate policies. Having a National Strategy is also an indicator that impact investment is a government priority.

ESTABLISHMENT OF WHOLESALE INTERMEDIARY USING EU FUNDS

The Portugal Inovação Social initiative mobilised public and private capital, leveraging €150m from EU structural funds (mainly the European Social Fund), and is due to operate from 2015 to 2023. This vehicle, PIS, has acted as a market builder in the sector, both through funding and facilitating the impact ecosystem.

CAPACITY BUILDING FOR IMPACT BUSINESSES

Initiatives are mostly financed by philanthropists municipalities, corporates, and PIS. PIS has developed a social investment capacity building instrument to support organisations strengthen their management and impact skills so that they can be better prepared for generate social impact and attracting social investment.

The €15m investment readiness fund provides grants to impact businesses to hire business and impact reporting services as well as other operational necessities. Alongside this initiative, there are also acceleration, capacity-building and incubation programmes via intermediaries.

EXPAND USE OF OUTCOMES-CONTRACTS

Portugal has launched four pilot projects for SIBs in relation to: promotion of educational performance through computer programming lessons; preservation of children and youths at risk in a family environment; integration of unemployed youth in the work force and integration of vulnerable youth. Implemented by PIS, Portugal has a €20m outcomes-based fund. The PIS also provides a legal framework which makes the use of SIBs possible.

Portugal, through PIS, is also planning to launch Revenue Participation Agreements (RPAs), whereby investors can finance an organisation and obtain a refund using part of the annual profit.

FISCAL INCENTIVES

From a tax incentive perspective, the government has acknowledged investments in SIBs as an expenditure with a mark-up of 130% on the amount invested from 2018. This represents a regulatory milestone, with Portugal being the second country to adopt SIB incentives.

IMPACT MEASUREMENT

Portugal has set up its own unit cost database with ONE VALUE[xxxi], an online portal with over 90 unit cost indicators for social issues in the country which was launched in September 2017. The building and collecting of evidence into a 'what works' database will be important for social problem-solving.

GEOfundos, a platform that aggregates information about financing opportunities for Portuguese organisations and capacity building services, is also available.

PROMOTION OF INTERMEDIARY MARKET

The PIS social investment capacity building programme helps social sector organisations access and pay for intermediary support. There remains, however, a lack of intermediaries specialising in social investment with private investors due to the difficulty of mobilising private investment into the sector.

PIS has thus played a game-changing role in the development of different instruments in the sector, despite implementation challenges associated with the use of European funds. The vehicle has acted as a pilot for the EU and demonstrates a proven catalytic institution without the use of unclaimed assets.

EDUCATIONAL INITIATIVES

University courses on impact investment as well as educational programmes for social entrepreneurs have been widely used to attract new talent for the ecosystem. The Calouste Foundation is keen to further develop this pool of talent and recently approved a 5-year plan with the public university, Nova School of Business and Economics.

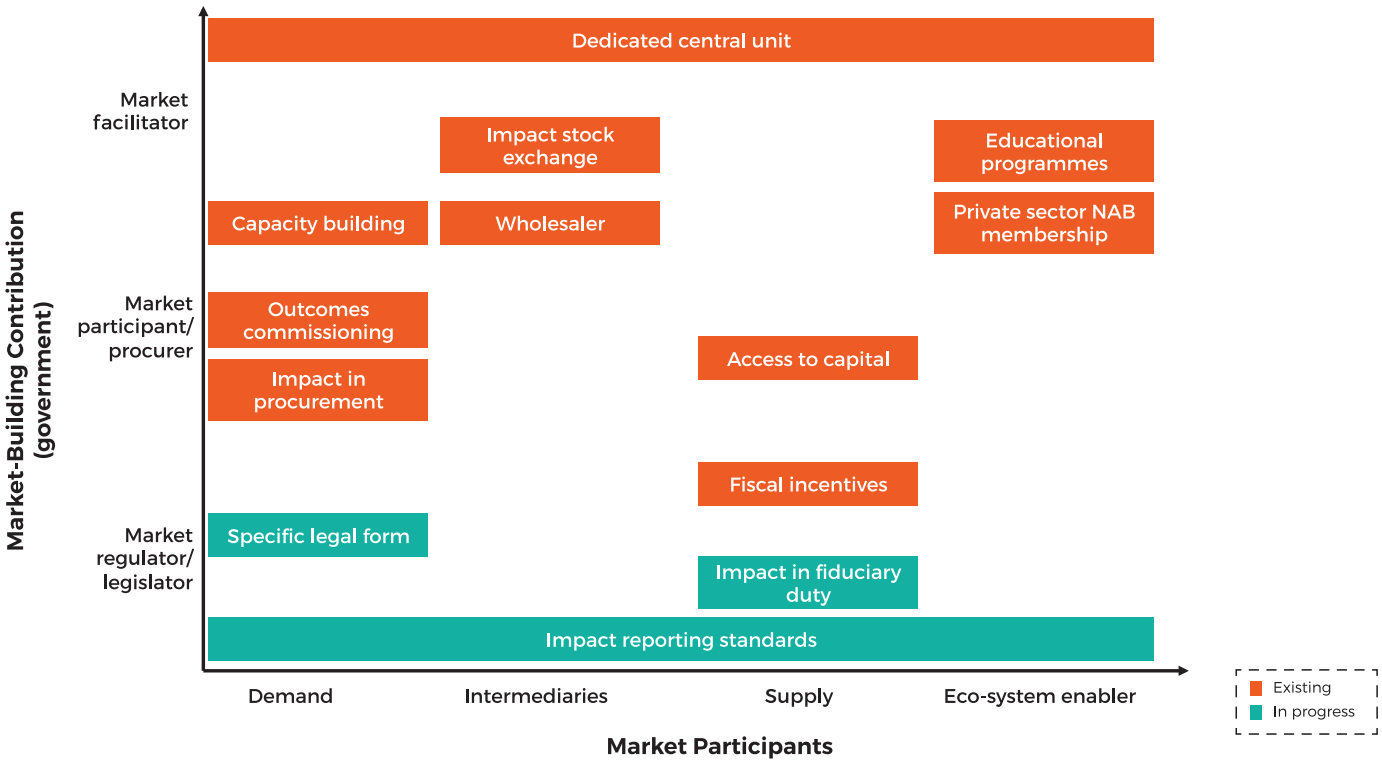
Looking Ahead

KEY PRIORITIES TO 2020

- **Encourage additional capital:** Develop initiatives that attract more national or international private capital to the sector through:
  - Promoting the establishment of impact funds in Portugal - PIS' co-investment facility is expected to enable this.
  - Providing fiscal incentives - currently, there are only fiscal incentives for SIBs in Portugal.
- **Involve the public sector, both centrally and locally, to ensure outcomes-based service contracting:** The adoption of this type of contracting will lead to healthy competition to find the most efficient solutions for the country's problems. The public sector's involvement must be accompanied by public support, but essentially focus on municipalities and local entities.
- **Capacity building for civil servants:** While it is important to have Ministers as market champions; it is also essential that all the public sector and civil servants on board because on a daily basis they make the decisions. There are not currently many schemes which target mid-level public administration. To ensure progress continues beyond 2020 when EU funds are gone, it is important that these new initiatives have to be deeply embedded.
- **Company Legal Form:** There is currently no legal form for impact businesses in Portugal. Having this form will help enable more targeted policies; for example. fiscal incentives. Portugal does have the B Corp certification, with 13 B Corps currently existing in the country.

UK

FIGURE 33:
Policy Toolbox



Overview

The UK government has provided strong support to the impact investment ecosystem for the last 18 years. Since 2003, there has been a dedicated central unit that supported the impact investing sector. This unit has changed name and department but has acted as a sustained centre of focus and expertise through numerous changes of government. The unit was originally in the cabinet office and called the Office of the Third Sector, then renamed the Office of Civil Society. Later, the unit moved to the Department for Digital, Culture, Media & Sport (DCMS) and was renamed the Inclusive Economy unit. The name change reflects the evolution of government perception of impact investment, broadening from an initial emphasis on social sector organisation to include social impact bonds, profit with purpose businesses, impact property and other, wider impact investment products. Under the Inclusive Economy Unit, and given the increasing maturity of the UK impact ecosystem, the focus of the government is widening impact investment to retail customers and large mainstream financial players. There is a desire to use the tool of impact investment to solve large social and environmental challenges at scale, such as rough sleeping, climate issues and international development.

The UK has a history of philanthropy, charitable organisations and social enterprises going back over a century. But it could be argued that the modern UK impact investment sector started with the creation of the Social Investment Task force in 2002 by chancellor Gordon Brown, with Sir Ronald Cohen as Chair until 2012. During these ten years, the task force was complemented by two unclaimed assets task forces. The first one created Big Society Capital using unclaimed assets from UK banks. The second, aimed at finding further unclaimed assets in other financial sectors, primarily insurance. During the UK's presidency of the G8 in 2013, David Cameron launched the Social Impact Investment Task force; the UK National Advisory Board on Impact investment was also established to represent the UK and to build the field domestically. The government sits as an observer on the board of the UK NAB.

In 2016, the Inclusive Economy unit appointed an advisory board to build a culture of impact investing. In 2018, after a meeting between this task force, the UK NAB and the Prime Minister, the Prime Minister converted this advisory board into a one-year Task force, that was to report to her at the end of 2018[xxxii].

Key Initiatives

ESTABLISHMENT OF WHOLESALE FUND

Big Society Capital (BSC) is a social wholesale investment bank that was established by the Cabinet Office and launched as an independent organisation in April 2012. Its aim has been to directly support the development of intermediaries and to champion market building.

BSC's equity capital was funded with £400 million from unclaimed bank accounts, enabled through the 2008 Dormant Accounts Act[xxxiii], and £200m in loans from Britain's four biggest banks. BSC's remit is focused on channelling capital to social sector organisations through intermediaries. It has taken on its role as a market builder in many ways- having expertise on the supply side to help organisations to raise capital and being very active in market building on the demand side such as supporting incubators and accelerators.

CAPACITY BUILDING

There are several capacity building programmes in the UK run directly through the government and also through intermediaries:

- **The UK Investment Readiness Fund** supports impact businesses in their ability to receive investment and was funded by the Government.
- **Access (2015)** is a foundation that operates in partnership with BSC and the Big Lottery Fund. Like BSC, it focuses on social sector organisations. Access is funded by the government but operates independently.
- **UnLtd (2000)** is an example of a social incubator that provides grants to early-stage entrepreneurs of £1,000 to £5,000, up to £20,000 for those who develop into impact businesses, and larger still for those who develop even further.
- **The government and BLF** have supported several accelerators and incubators. Bethnal Green Ventures is one such example.

ACCESS TO CAPITAL

The UK government created a fund using government capital for loans for impact businesses, called Future Builders, with particular focus on preparing businesses to take on public service contracts. More recently, the government has relied more on BSC or other intermediaries to provide capital. The British Business Bank (BBB) also provides catalytic capital to SMEs, although there is no programme focused on impact investing.

EXPAND USE OF OUTCOMES-BASED CONTRACTS

The UK has been a pioneer in the use of outcomes-based contracts, with the first Social Impact Bonds (SIBs) being created there. To date, 47 SIBs have been commissioned in the UK, out of 108 worldwide. Underpinning this proliferation of SIBs there are three government initiatives:

- **Central outcomes fund**[xxxiv]**:** A specialised unit with a dedicated pot for outcomes commissioning that launches outcomes programmes in specific policy areas. The fund works to co-commission other funds, i.e., leverage other funds. The most recent has been the Life Chances Fund with £80m dedicated to homelessness.
- **Outcomes Lab:** A central unit, initially funded by the government, created by the Blavatnik School that researches and publishes outcomes contract to support commissioners on expertise.
- **Unit cost database**[xxxv]**:** A database covering unit cost estimates of education and skills, employment, health, crime and housing, and social services. It permits commissioners to inform social impact bond proposals for new interventions.

EMBED SOCIAL VALUE WITHIN PROCUREMENT

The Social Value Act (2012)[xxxvi] was designed to help enable more impact businesses win bids for the delivery of public services. It requires public sector agencies, when commissioning a public service, to consider how the service procured could bring added economic, environmental and social benefits.

STANDARDISE IMPACT MEASUREMENT

There are currently no standardised reporting requirements in the UK for non-financial factors. However, the UK Government, through The Department for International Development is a core sponsor of the Impact Management Project (IMP).

SPECIFIC COMPANY LEGAL FORM

There are a range of legal structures for social enterprises and profit with purpose businesses in the UK. A specific legal form, the Community Interest Company, was established by the government; however there has been little uptake of the structure due to the constraints it imposes.

Benefit Corporation Certifications were launched in the UK in 2015 and there has been a steady increase in certifications, from 61 in 2015 to 161 currently.

Moreover, the Charities (Protection and Social Investment) Act in 2016 provided a legal definition for social investment, thereby becoming a useful building block for more advanced policy work.

FISCAL INCENTIVES

Tax incentives apply only to registered charities and not to impact businesses. The Social Investment Tax Relief (2014) gives individuals who invest in qualified social sector organisations a 30% discount on that investment in their income tax bill for the year. This is proving successful, although adoption has been limited given "qualified social organisations" are a small subset of all impact businesses. The Community Investment Tax Relief (2002), a tax incentive for investors in accredited Community Development Finance Institutions (CDFIs) in the UK, also saw a limited uptake due to a complex design and restrictive terms.

There are other tax incentives for investing in early stage companies, but these are not targeted specifically at impact businesses.

CLARIFICATION OF FIDUCIARY DUTY

The Investment Intermediaries Fiduciary Duties Reform[xxxvii] permits trustees to make investment decisions based on non-financial factors provided there is no significant financial detriment to the fund. In practice, understanding and confidence among trustees need to be improved. The Department for Work and Pensions (DWP) has released a Consultation on whether pension funds should be required to talk to their beneficiaries about reflecting their values in their investments. This may pave the way for more investment, through pensions, into impact investments.

ESTABLISHMENT OF SOCIAL STOCK EXCHANGE

The UK's Social Stock Exchange was established in June 2013. The exchange does not yet facilitate share trading, but instead serves as a directory of companies that have passed a "social impact test"; it also acts as a research service for aspiring social impact investors and thus helps with visibility.

EDUCATIONAL INITIATIVES

The Skoll Centre is a social impact centre at Oxford University. The centre was founded in 2003 and focuses on social entrepreneurship. Other Business Schools (e.g. London Business School) also have courses on social entrepreneurship and impact investment. There has also been coordinated work ('Social Investment Research Council'), particularly focused on the user-experience of accessing investment ('Good Finance').

Looking Ahead

KEY PRIORITIES TO 2020

- **Impact in procurement:** By embracing purpose-driven approaches to procurement that focus on achieving societal outcomes, the government can maximise the long-term social, environmental and economic value created with every public pound.
- **Promote retail impact products:** The government should ensure a supportive regulatory environment for 'Pensions with Purpose', and ultimately require pension funds to engage their members on their impact preferences.
- **Improve deal flow & strengthen impact businesses:** The government should participate more in co-investment models to encourage access to capital for impact businesses and promote an inclusive company legal in the UK.
- **Impact reporting standards:** The UK government should work with the financial industry and Financial Reporting Council (FRC) to develop better reporting of non-financial outcomes including SDG reporting.

THE EUROPEAN UNION (EU)

FIGURE 34:
EU tools to generate social impact

EaSI Guarantee Instrument	**First-loss capped guarantee to cover loan portfolios in the areas of microfinance (targeting micro-borrowers and micro-enterprises) and social entrepreneurship (aimed at social enterprises) – benefitting from EFSI**
EaSI Capacity Building Investments Window	**Investments in financial intermediaries operating in the microfinance and social entrepreneurship space in order to build up their institutional capacity**
Social Impact Accelerator (SIA)	**Investments in social impact funds which strategically target social enterprises across Europe**
Incubator/Accelerator linked funds (EFSI Equity)	**(Co-)Investments in venture capital funds linked to incubators, accelerators, and/or that provide incubation services to social enterprises in the EU from pre-commercial stage up to early growth stage**
Payment by Results Scheme (PbR) (EFSI Equity)	**Investments into PbR providing upfront funding to social enterprises and social sector organizations, enabling them to deliver on their social mission**
(Co-)investments + Business Angels (EFSI Equity)	**(Co-)Investment with/in business angels/business angel funds targeting primarily social enterprises in the EU ranging from seed stage up to expansion stage**

Overview

The European Union Advisory Board was established in 2017 in the transition of the GSG towards a global network of National Advisory Boards. It is a joint initiative of the European Commission (EC), the European Investment Fund (EIF) and the European Investment Bank (EIB) (the latter two forming the EIB Group)- three institutions with a long-standing co-operation in promoting financial instruments for social entrepreneurship, social inclusion and impact investing. It is intended to grow the EU NAB into a platform for actors who seek to promote impact investing at a pan-European level and to closely co-operate with the European National Advisory Boards.

The three institutions started to launch joint initiatives in support of the micro-finance industry in Europe in 2007, whilst the EIB in its lending business has built up a considerable portfolio in social housing which continues to grow. In 2013, the initiatives expanded to include broader support for the impact investing industry in Europe by adding equity funding instruments for social entrepreneurship.

Beyond the funding instruments implemented by the EIB Group, the EU Advisory Board seeks to encourage a policy debate for defining a regulatory framework to grow the social entrepreneurship sector in the EU. Currently, the pan-European policy instruments concentrate on tools that promote a pan-European impact investing market while being complementary to national policy initiatives

Key Initiatives

DEFINITION OF SOCIAL ENTERPRISE[xxxviii]

The EU Advisory Board seeks to promote a broad definition of social entrepreneurship that encompasses the full spectrum of for-profit and not-for-profit business models.

Such approach bases the identity of a social enterprise on its impact focus rather than on its profit orientation. It requires an explicit impact focus in the enterprises business model and clear accountability both at the enterprise level as well as at the level of the EU-financial instruments schemes used to fund social enterprises.

The objective is to leverage the diversity of the social entrepreneurship sector rather than seeing for-profit and non-for-profit business models as competing philosophies.

EU-wide financial instruments and policy initiatives launched by any of the three institutions, or jointly, seek to promote impact across a wide spectrum of sectors ranging from employment, social inclusion and health to environmental topics.

SOCIAL BUSINESS INITIATIVE (SBI)[xxxix]

The European Commission created the "Social Business Initiative" (2011) to foster a favourable financial, administrative and legal environment for social enterprises.

EMPLOYMENT AND SOCIAL INNOVATION (EASI)[xl]

The EaSI programme is the successor of the European Programme Micro-finance Facility (EPMF), a programme designed to sustain and strengthen the micro-finance ecosystem across Europe.

The EaSI programme was launched in 2014 and promotes a high level of quality and sustainable employment that includes: guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. Its micro-finance and social entrepreneurship axis looks at increasing the availability and accessibility of micro-finance for vulnerable groups and micro-enterprises and increases access to finance for social enterprises.

This axis is managed by the EIF and funded from resources of the European Union. It currently entails two strands:

- **EaSI Guarantee** (indicative amount earmarked: €196 million), benefitting from the support of EFSI (see below). As of 31 March 2018, 70 guarantee operations have been signed covering 26 countries for a total guarantee amount of €118m.
- **EaSI Capacity Building Investments Window**, whose objective is to develop the institutional capacity of micro-finance and social finance providers for providing seed financing support to intermediaries operating in these fields.

SOCIAL IMPACT ACCELERATOR (SIA)[xli]

The SIA is a fund of funds model that invests in social impact funds, which strategically target social enterprises across Europe. At the moment, it has an investment capacity of €243m.

The fund supports three different types of social impact:

- Social Impact as **the core focus** of their business models – business models that seek to address social issues such as unemployment, social exclusion.
- Social Impact generated by **the way in which** such enterprises deliver their business model – for example companies that seek to employ people from disadvantaged backgrounds or disabilities.
- Social Impact resulting **from where** these enterprises operate – such as businesses operating in disadvantaged areas or within disadvantaged communities.

EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI)

EFSI is an initiative launched jointly by the European Commission and the EIB Group. It was created in 2015 for overcoming current market failures by addressing market gaps and mobilising private investment. The fund helps finance strategic investments in key areas such as infrastructure, research and innovation, education, renewable energy and energy efficiency, as well as risk finance for SMEs.

Within the EFSI Equity Instrument[xlii] managed by EIF, a budget of €150m has been dedicated to social impact investors providing risk capital financing to social enterprises and social sector organisations that are located or active in the EU.

The three pilot social impact instruments supported under EFSI Equity are:

- Investments in or alongside financial intermediaries linked to incubators, and/or accelerators that provide incubation services. These are incubators whose primary objective is to help accelerate the growth and success of early stage (new and start-up) social enterprises.
- Investments alongside business angels or in business angels' funds, including private individuals or non-institutional investors who invest into social enterprises at the seed, early stage, as well as expansion and growth stage.
- Investments in or alongside intermediaries establishing and managing payment-by-results /social impact bonds investment schemes, in which investors provide upfront funding to service providers (social enterprises and/or social sector organisations). This helps service providers deliver pre-defined social outcomes, in line with their mission.

Using the tools described above (SIA and EFSI for social impact), investments made include:

- **One Payment-by-Results (PbR)** scheme signed in Finland (focusing on the refugee crisis) and 1 additional PbR portfolio transaction in closing stage.
- **Twelve impact funds** backed by the Social Impact Accelerator (SIA) across Europe.
- **c. €145 million** committed to date
- **c. €266 million** mobilised through other co-investors

The geographical outreach to date includes 8 of the 28 member states: Finland, Spain, Germany, Denmark, France, Italy, the Netherlands and the UK.

In parallel, EIB's EFSI Advisory Hub provides support to European project promoters to identify, prepare and develop investment projects across the European Union.

Looking Ahead

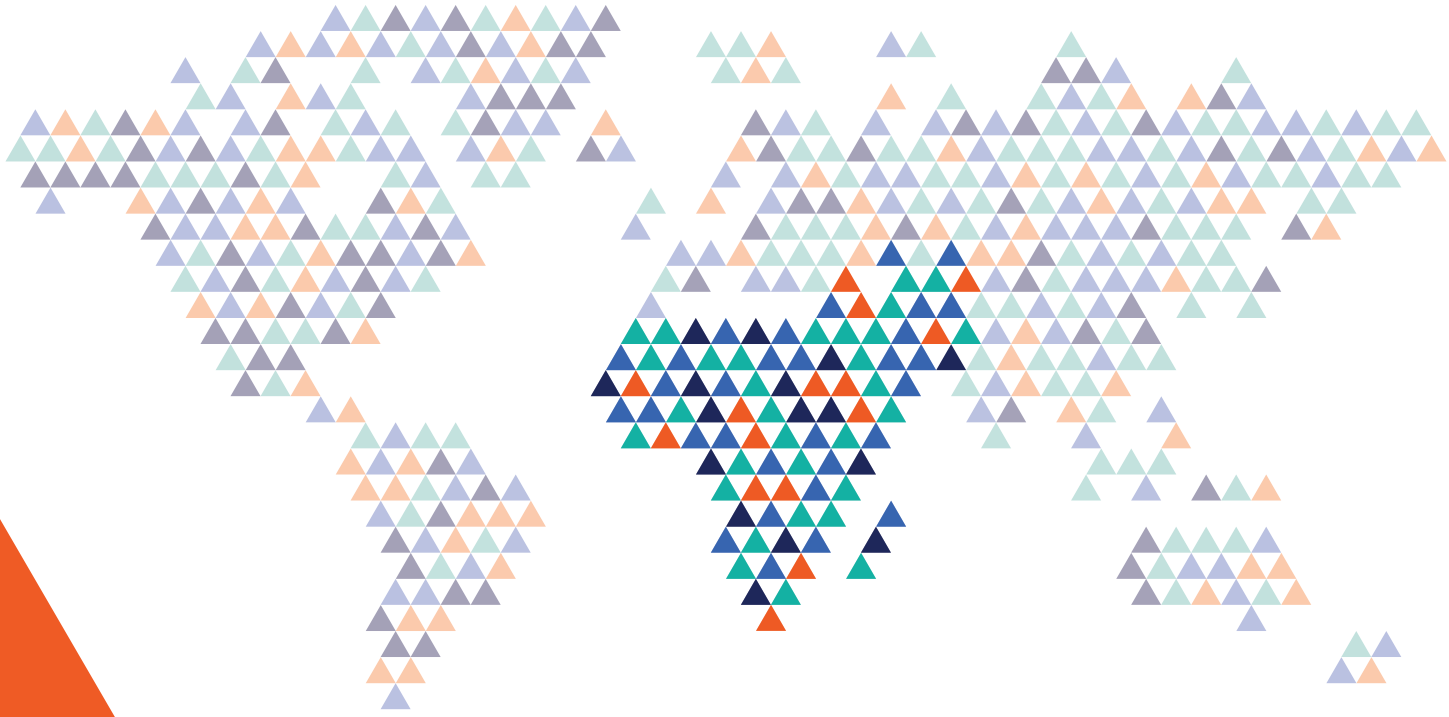
KEY PRIORITIES TO 2020

- **Uniform definition of impact businesses:** Currently the different definitions of impact businesses apply for different policy financial instruments leading to market fragmentation that hinders the access to finance for social enterprises. A uniform definition of social enterprises that is focused on impact accountability rather than on the profit orientation of target companies is envisaged.
- **Increase geographical reach and focus on underserved areas:** The EIB Group in implementing social impact focussed financial instruments places great effort on increasing the geographic reach and identification of policy support across the EU member states and in countries eligible under specific programmes.

  In anticipation of the new programming period of the European Commission, the EU NAB supports the design of new funding instruments that are adapted to the develop stages of various less-developed sub-markets were intermediaries for impact investing are not present.
- **Standardised impact reporting:** To measure the impact generated by the social impact instruments, the EU should participate in the debate on impact measurement and reporting approaches at international stage I Level.

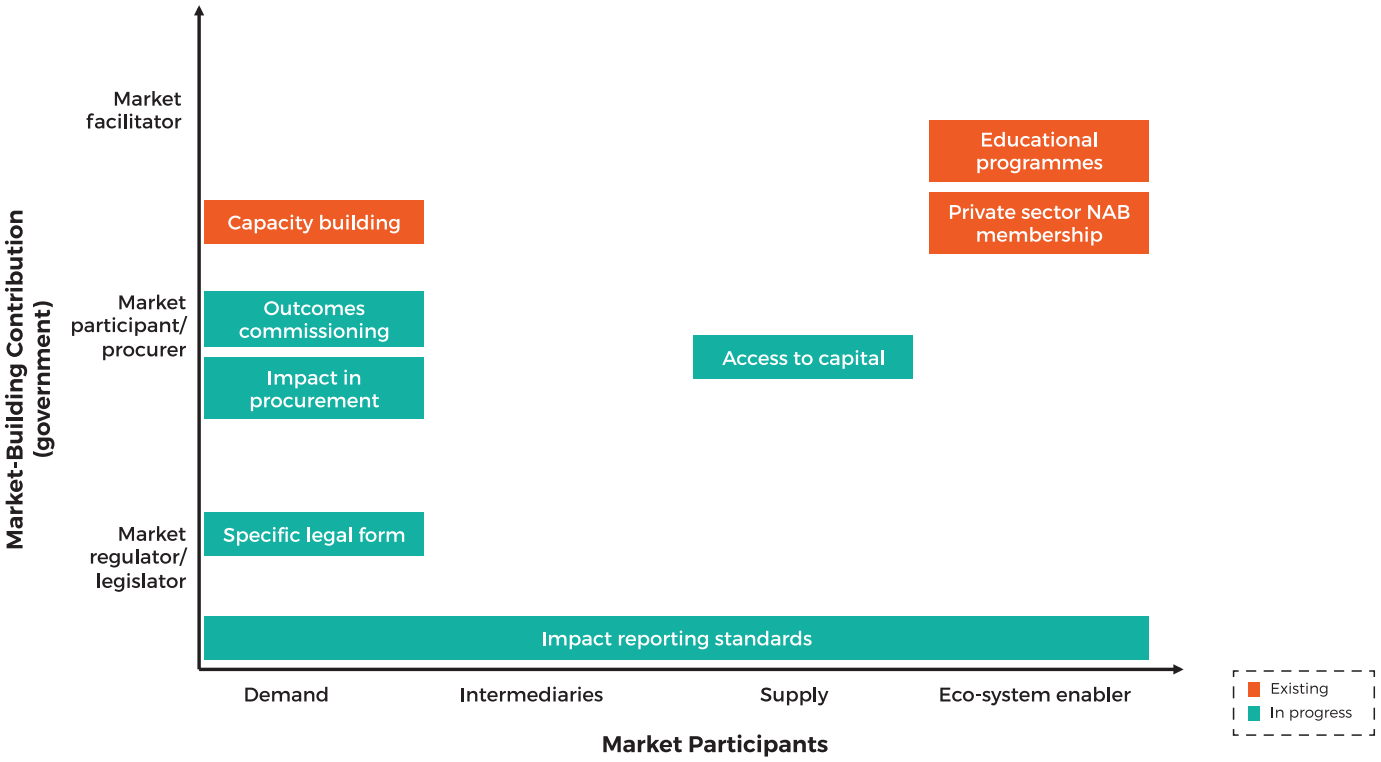
COUNTRY BY COUNTRY ANALYSIS

MIDDLE EAST AND AFRICA



ISRAEL

FIGURE 35:
Policy Toolbox



Overview

Israel's National Advisory Board was created in 2016 with the aim to create better conditions for the growth of the impact investing market and encourage better knowledge sharing among the players in the field.

Israel's impact investing ecosystem is still developing. Despite the lack of a central unit within the government, the country has taken a number of steps forward to develop the policy environment.

Many of these programmes are often linked to helping minorities and disadvantaged communities. These policies could be the beginning of a wider set of policies that extend to include other social and environmental factors.

Key Initiatives

CAPACITY BUILDING

In terms of capacity building for impact businesses, the government of Israel has created two main programmes targeting specific population groups:

- **The HUB**: A government-supported incubator that focuses on encouraging social entrepreneurship that benefits disadvantaged populations such as elderly people or those with special needs.
- **MindCet**: An ed-tech programme, also supported by the government that helps innovative entrepreneurial initiatives for teachers.

More broadly, the government also provides subsidies to fund the salaries of those employees that are minorities or have disabilities. Any business in Israel could qualify for this grant as long as it satisfies the percentage of minority or disabled employees and its withdrawals do not exceed 50% of the company's profits.

IMPACT IN PROCUREMENT

Similarly, the government procurement process requires that all suppliers signing a contract with the government obey the Equal Rights for People with Disabilities Law.

Furthermore, there is an initiative of "Green Procurement" that encourages minimising the environmental effect of different government procurement initiatives.

ACCESS TO CAPITAL

The government of Israel supports funding programmes for impact businesses, including:

- **Technical Assistance by Innovation Israel**: A programme created in 2017 to provide seed money or grants for start-ups in selected impact sectors.
- **Yozma Fund**: A Public Benefit Company fund created in 2014 to support businesses that encourage a diverse workforce. The National Economic Council provided ILS 50 million to the fund.

OUTCOMES COMMISSIONING

Israel has developed and piloted a number of SIBs. The government has taken part in two, commissioned in 2016 and 2018:

- One SIB was targeted at preventing type 2 diabetes.
- The other SIB was targeted at enhancing math achievements among Bedouin youth.

LEGAL FORM FOR IMPACT BUSINESSES

There is currently legislation in progress to provide an initial definition of what is social enterprise or a business with purpose.

The policy is expected to help improve the funding and business orientation of impact businesses. Once a definition is agreed upon, it is likely that a tax relief programme will be considered for this type of business.

IMPACT REPORTING STANDARDS

In December 2017, the Commissioner of Capital Markets Insurance and Savings issued a memorandum, which compels institutional investors to publish their ESG and impact investment policies.

In this memorandum the regulator defines:

- **Responsible investments**: as those that consider social welfare in addition to financial profit alongside corporate governance regulations supporting the environment, social justice and upholding human rights.
- **Impact investments**: as those that consider social welfare in addition to financial profit alongside corporate governance regulations; they support the environment, social justice and human rights.

According to the memorandum, investors should report on their policies annually, with the first reports being issued in 2019.

This memorandum could have great potential as it gives the option to institutional investors to explore the idea of establishing impact investing practices or incorporate impact factors in their investing decisions. Furthermore, it allows the public to have a voice in their investing decisions.

EDUCATIONAL PROGRAMMES

There have been two interesting initiatives for education in the subject of impact investing in Israel:

- One, the establishment of the Centre for Social Investments and Businesses at the Business School of Management in Israel.
- Another MBA programme is currently in the process of establishing a student-run impact investment fund. The fund will count with US$ 1 million of funding and it will be managed by second-year MBA students, with the aim to both learn about impact investing and provide capital to the industry.

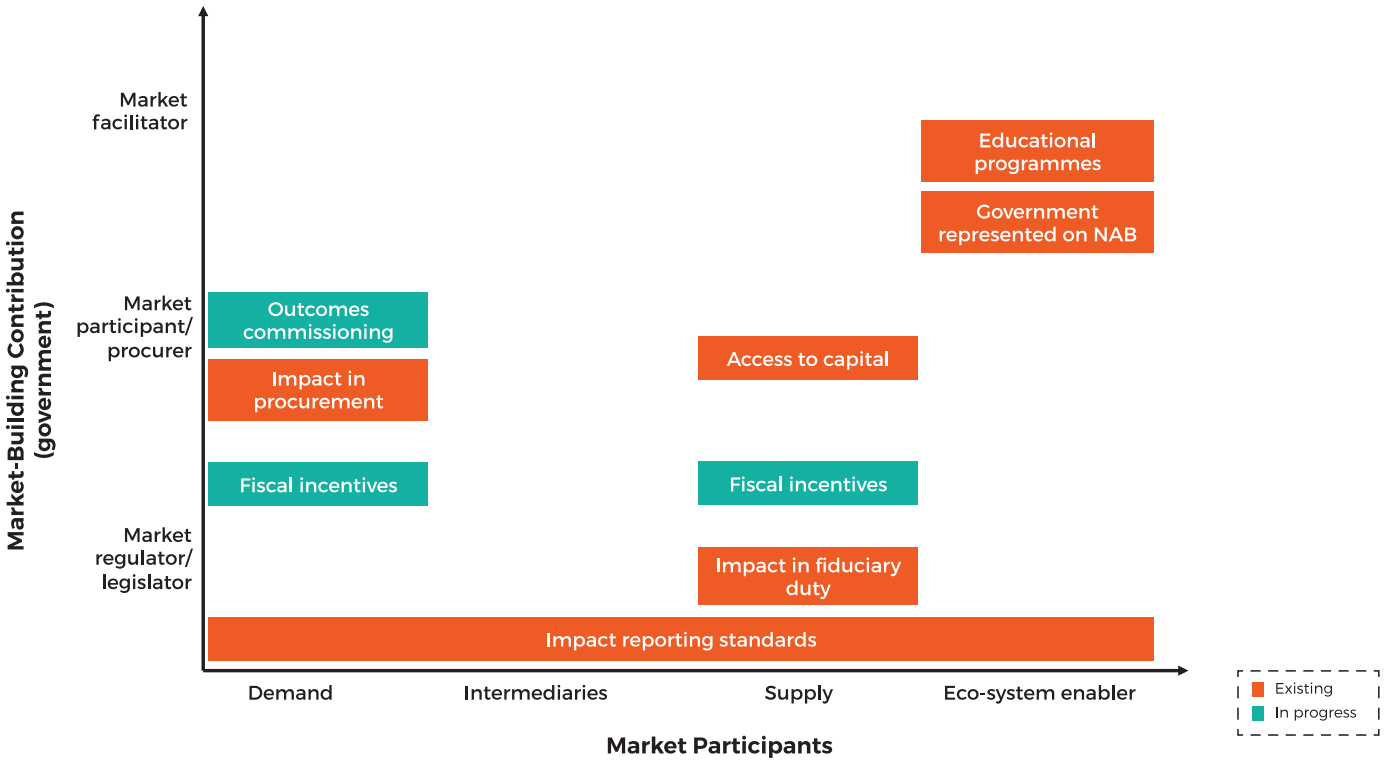
Looking Ahead

KEY PRIORITIES TO 2020

- **Broaden the use of outcomes-based commissioning:** Israel has had a good start with two SIBs contracts financed by the government. The government should look at deepening its partnerships with the private and social sectors to continue to find solutions to challenges. Moreover, the creation of a Central Outcomes Fund could facilitate financing for these types of contracts and help boost the outcomes commissioning industry in the country.
- **Regulatory and tax incentives for impact investments:** Israel is in the process of elaborating legislation for a legal form of impact business. Once this is in place, both impact businesses and impact investors will benefit from targeted incentives that reward investors who allocate capital to this industry. Similarly, as impact businesses help solve societal challenges, the government could offer them a tax relief and leave more capital available for reinvestment on business activities.
- **Increase awareness around impact investing:** Currently, Israel's impact investing economy suffers from a lack of understanding about the industry and what it could be done to improve it. Training programmes in impact investing and ESG terminology for institutional investors, investment advisors, lawyers and government officials, could help bridge this knowledge gap.
- **Dedicated unit within the government:** Establishing a centre of focus for impact investing within the government would help to improve government understanding around impact investing and to craft the relevant policies for promoting the industry.
- **Creation of a wholesaler:** The government of Israel is currently considering the creation of a wholesaler for impact investing in Israel. A wholesaler could be instrumental in funding and financing impact investing projects.

SOUTH AFRICA

FIGURE 36:
Policy Toolbox



Overview

South Africa's National Taskforce for Impact Investing has been a recent addition to the global NABs. The UCT GSB Bertha Centre initiated the creation of the NAB which has representatives from the private and public sector including from the National Treasury and National Planning Commission (Office of Presidency). The Taskforce includes members from the private sector and those who hold public positions in the National Treasury and National Planning Commission in the Office of Presidency.

In terms of the structure within which policies are made, there is no central unit established within the government, but impact-related policies fall across the remit of several departments such as the Economic Development Department, the Department of Trade and Industry and the Small Businesses Department and the Treasury.

In May 2010, the National Planning Commission drafted a vision and national development plan. The Commission was an advisory body consisting of 26 people drawn largely from outside the government, chosen for their expertise in key areas. The plan is a local version of the SDGs and outlines a socio-economic development plan for the country. The NAB, along with other groups are now rallying to support the plan.

Key Initiatives

ESG REPORTING AND FIDUCIARY DUTY

South Africa has shown global leadership with regards to fiduciary duty responsibility. The King IV report on corporate governance stipulates that listed companies (on the Johannesburg Stock Exchange) should provide a set of integrated reports per annum, within which they must report on sustainability[xliii]. Leading on from the King III report (which has subsequently been replaced by King IV), CRISA, The Code for Responsible Investing in South Africa 2011 provides in Principle 3 that "where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of this Code and other codes and standards applicable to institutional investors"[xliv]. This correlates with the UN-backed Principles for Responsible Investment (PRI) launched in March 2006. These principles encourage collaborative engagement to better incorporate environmental, social and governance issues in decision-making and ownership practices.

Alongside CRISA, Regulation 28 of the Pension Funds Act[xlv] requires funds to consider environmental, social and governance factors before investing in an asset and allows up to 15% investment in alternative asset classes (with the hope that a portion of this would move into private equity and more specifically into impact businesses). While the regulation has been a good signal to market, it has been difficult to enforce. The FSCA (financial sector conduct authority) has subsequently issued a draft directive surrounding how to enforce the regulation.

Most recently, a sustainable finance initiative is underway at the National Treasury level, funded by SECO and led by the IFC, releasing a discussion document around sustainable finance ESG and looking at how different parts of the financial sector, insurance industry and banks etc. are incorporating ESG into their investment decisions with a focus on climate.

SUPPORT PROCUREMENT FROM SMES, INCLUDING IMPACT BUSINESSES

One of the tools the government has used to redistribute resources in the last 20 years has been the broad-based Black Economic Empowerment legislation[xlvi] through ownership, management and procurement schemes. This has meant that previously disadvantaged black-owned businesses are favoured in government and corporate supply chains.

Amendments to procurement legislation have been an important new development for impact businesses given that the government is the largest purchaser of services in South Africa. The new Preferential Procurement Regulations for Tenders (2017)[xlvii] was largely influenced by the need to provide a mechanism for empowering certain categories (SMEs) through procurement. In keeping with the regulation, government will now set aside 30% of appropriate categories of State procurement for purchasing from SMEs, cooperatives as well as township and rural enterprises. While these are not targeted explicitly at impact businesses, they will incorporate a number of social impact companies and ensure greater economic participation by small and black-owned businesses.

The change in regulation therefore aims to use public procurement as a lever to promote the empowerment of small enterprises, rural and township enterprises, designated groups and promotion of local industrial development.

EXPAND USE OF OUTCOMES CONTRACTS AND THE SOCIAL IMPACT BOND MARKET

There has been considerable interest in SIBs and outcomes-based contracts by civil society organisations and charities. Two SIBs have been launched at the provincial level and there is an outcomes-based contract being considered at the national level. This tool being used at the national level may result in additional guidelines being provided by the Treasury, encouraging further implementation at all levels. There are multiple other SIBs in development, including one in collaboration with the medical research council and another with the department of higher education. To note, there have not been any regulatory changes associated with the development of outcomes-based contracts and SIBs thus far, but government has played its role as a participant.

IMPROVED ACCESS TO CAPITAL FOR IMPACT BUSINESSES

Given that there is no legal form for impact businesses in South Africa, funds are unable to target only these specific enterprises. However, South Africa does have funds whose capital is used for impact. An example is the Jobs Fund[xlviii], which was set up in 2011 with R9 bn by the Ministry of Finance. The objective of the Jobs Fund is to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation. This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

Further, DFIs play an important role in South Africa. Each of these institutions have different missions, while all give greater access to capital overall. For example, IDC, a state-owned national DFI, provides financing to entrepreneurs and businesses engaged in competitive industries. Under IDC, SEFA[xlix] (small enterprise finance agency) provides financial products and services to qualifying SMMEs and Co-operatives through a hybrid of wholesale and direct lending channels in several sectors, one of which is Green Industries (renewable energy, waste and recycling. The Development Bank of Southern Africa focuses on socio-economic infrastructure and is an accredited entity of the Green Climate Fund.

FISCAL INCENTIVES

There are tax incentives in South Africa which relate to non-profit organisations[l]. However, it is hard to develop a sustainable impact business if incorporated as a non-profit since an organisation cannot generate more than 5% of income from revenue-generating activities. If they do, they may be subject to income tax. On the supply side, there are tax incentives for equity investors in SMEs donation to non-profit trusts and for broad-based black economic empowerment. Impact businesses may be captured under this umbrella but there are no tax incentives specifically targeted at these companies.

EDUCATIONAL INITIATIVES

South Africa has several educational programmes related to impact investing which are run by government-funded universities such as University of Cape Town, Graduate School of Business, Bertha Centre for Social innovation and entrepreneurship[li] (a leading social impact centre) and Gordon Institute of Business and Science.

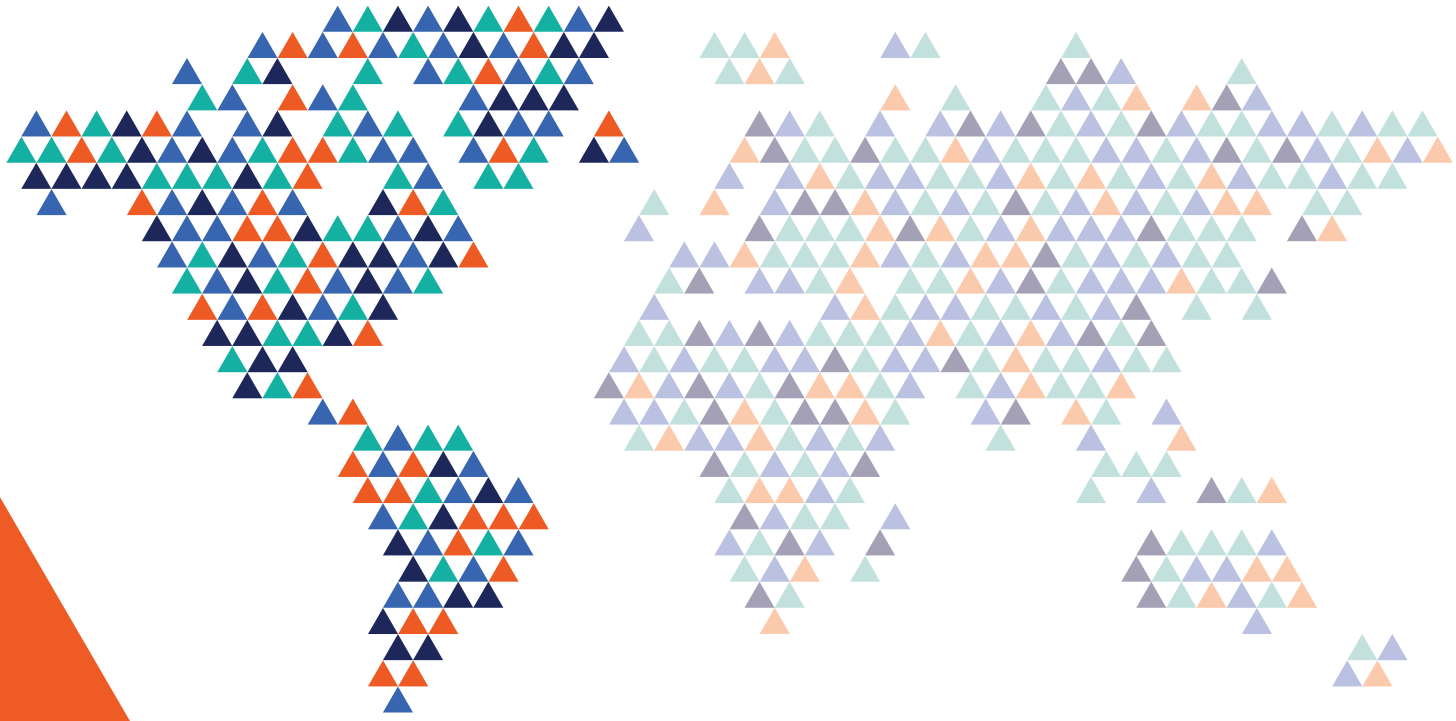
Looking Ahead

KEY PRIORITIES TO 2020

- **International Labour Organisation (ILO) Regulation:** The ILO is currently in the early stages of developing a social economy policy with the Economic Development Department. This would help define the social economy on the supply and demand side and provide ideas on how to support impact businesses as well as assess whether to develop a corporate form for impact businesses
- **Establish an impact investment wholesaler using unclaimed assets:** In South Africa there is heavy regulation surrounding unclaimed assets. The government and private sector could work together to review this legislation. These funds could be a viable source of capital for a wholesaler fund to be established.
- **Revision of non-profit law:** This revision would allow for a more flexible and potentially sustainable business model for non-profits
- **Company Legal Form:** Establishing a company legal form for impact businesses would allow for the establishment of targeted fiscal incentives such as tax incentives
- **Clarifying fiduciary duty:** While there have been steps to clarify fiduciary duty, there remains ambiguity, the result of which has meant companies continue not to comply with the recommendations to include ESG in their investment decisions.
- **Overcoming behavioural barriers:** A study by the Association for Savings and Investment South Africa (ASISA) involving institutional asset holders and asset managers is underway to understand the potential for moving capital into the sector, and identify regulatory and behavioural barriers and enablers that might influence the market.
- **Central outcomes fund:** to help facilitate the SIB market.

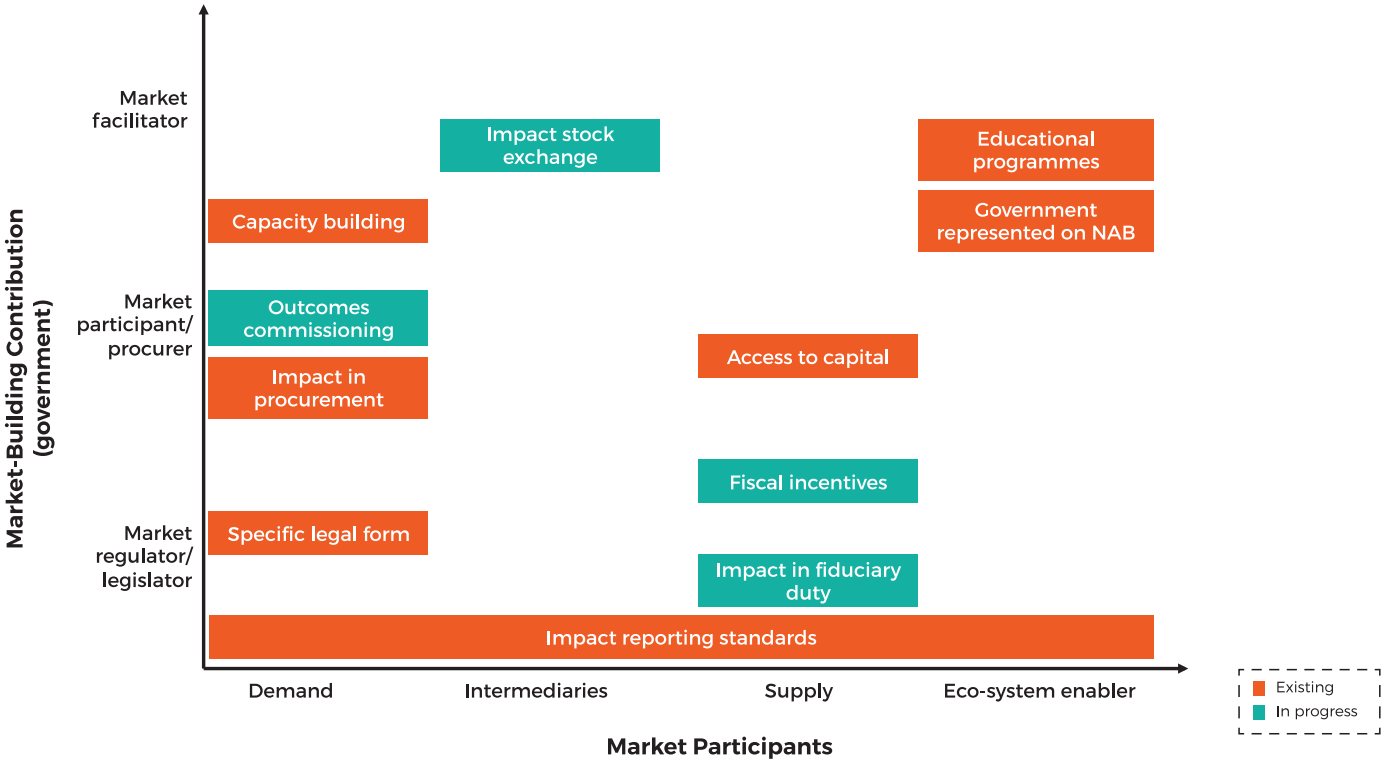
COUNTRY BY COUNTRY ANALYSIS

THE AMERICAS



ARGENTINA & URUGUAY

FIGURE 37:
Policy Toolbox



Overview

The Argentinian and Uruguayan NAB was formerly launched as an impact investment Task force in March 2016, originally including Paraguay. The NAB represents the first time more than one country has grouped together as a collaborative NAB. Given the stage of the market development at the time of establishment, and the way the investment sector operates cross borders in this sub-region, collaborating between the three countries was important to push forward an agenda and galvanise support from key local and international stakeholders.

Key stakeholders from the demand, supply and intermediary sectors from each of the 3 countries were represented on the original joint NAB. The NAB originally invested in communication as a way of increasing the government's knowledge and understanding of impact investment. The current NAB has 2 executive boards, one for each country, and representatives of each of the 3 sectors (demand, supply, intermediaries) are present on each board, as along with government representatives.

There is no dedicated central unit within the governments in either country, but there are 'market champions' in certain departments. In Argentina, there are market champions in the Ministry of Social Development, Ministry of Production, Ministry of the Environment and the City of Buenos Aires Government. In Uruguay, the market champions are within the Senate, National Agency for Innovation (ANII)[lii], and National Agency for Development (ANDE).

Key Initiatives

FINDING MARKET CHAMPIONS AND KEY SUPPORTERS

This has been key within the investment sectors (institutional / private) and the government. Finding champions within universities was also important since universities prepare individuals who will work in finance, government or corporations, and are also well connected to the entrepreneurial sector, government and corporate sectors.

The Inter-American Development Bank, a DFI for the region, has been a key supporter. IADB, together with Acrux Partners, formed the first impact fund for Argentina and Uruguay, and IADB funded the development of the first SIB for Argentina.

EMBED SOCIAL VALUE WITHIN PROCUREMENT

Public procurement regulation (2017), Compre Argentina[liii], seeks to encourage procurement from more sustainable companies by implementing additional criteria to capture social values. For example, Article 48 states that energy efficiency will be a new criterion when choosing public lighting providers. The regulation hasn't been fully integrated yet but the government has started to screen companies accordingly.

Most recently (August 2018), the City of Mendoza passed regulation Ordenanza Municipal No. 3946/48 which established a triple bottom line procurement system (Compras B) for all goods or services purchased by the government. This pioneering regulation is now being replicated in other parts of the country and indeed in the wider region.

STANDARDISE IMPACT MEASUREMENT

In Argentina, the Impact Management project[liv] (IMP) is being used at the government level within the Ministry of Social Development by the Secretary of Urban Integration. Family offices have also been using the IMP for impact evaluation and investment. The GRI is also widely used by corporates while Benefit Corporations use the B Labs methodology.

CAPACITY BUILDING

In Argentina, the Ministry of Production, under the National Directorate for Social Innovation, has implemented a fund for social innovation. The fund issues non-reimbursable loans of up to AR$150,000 pesos (US$8,000), granted through local incubators for companies under 4 years old who are legally registered as seeking social or environmental impact.

PROESUS[lv] is a national programme for entrepreneurs in sustainable development implemented by the Ministry of Environment. It has almost 3,500 entrepreneurs registered. The programme mainly applies to for-profit seed stage companies. Three companies are selected as the best sustainable companies of the year and each is awarded a monetary prize. Alongside the prize, the company receives mentorship and access to a network of contacts.

The Buenos Aires Social Incubator Programme gives 12 months of seed capital, mentoring and incubator space to impact businesses. Government teams provide the mentoring and help the companies access potential investors and grants. There are replicas of this type of incubator programme at the provincial level also. Mendoza has a similar social entrepreneur programme financed by the IADB called Mendoza Emprende.

In Uruguay, the National Agency for Research and Innovation (ANII) has launched a programme for innovative impact businesses. Additionally, the government launched a new Agency for Development (ANDE) with programmes that support a broader spectrum of entrepreneurs, including social entrepreneurs and triple bottom line companies.

Besides government, other incubation and acceleration programmes such as Socialab, Sistema B (BCorp), OMEU, Ithaka and Sinergia give entrepreneurs the opportunity to receive training, mentorship, access to angel investors and grants.

ACCESS TO CAPITAL

The VC fund of funds Fondece was established in 2017 by Argentina's Ministry of Production. The fund is expected to invest US$172 million over 4 years in Venture Capital Funds and incubators. Those receiving funding from Fondece, must observe its ESG clause which requires them to demonstrate how they incorporate this in practice or subscribe to the UNPRI. The fund also deploys capital through incubators working with impact businesses. In a second round of funding, Fondece is expected to invest in an Impact Investment Fund.

The Ministry of Social Development is allocating money to microfinance and credit which goes to support the development of inclusive business, e.g. financial inclusion, through mentoring and investment. Lastly, newly passed Crowdfunding law (2017) includes the option of using Crowdfunding for impact investments.

In Uruguay, ANII has recently invested US$1 million in the first impact investment regional fund for Argentina, Uruguay and Paraguay created by NXTP labs. The call for proposal for this fund was co-launched by Acrux and IADB. Further, NXTP Labs was selected by the IADB multilateral investment fund (MIF) and has since closed their first round of funding.

EXPAND USE OF OUTCOMES-BASED CONTRACTS

The City of Buenos Aires will become the first region to launch a SIB in Argentina. The SIB was formally launched in August 2018; it is focused on employment for vulnerable youth in South Buenos Aires. The investor base of the SIB is composed of both institutional and private investors and is designed as a pilot to spearhead the development of future SIBs in the country in areas such as education, women's health and employment for ex-offenders. This will be the first SIB successfully launched in Latin America where the outcomes payer is the Government. Except for Colombia (private outcome payer), all other SIBs in the region have stalled or failed due to political factors, or are still in development phase.

SUPPORTING REGULATORY ENVIRONMENT FOR RETAIL IMPACT PRODUCTS

The CVN, the financial regulatory body in Argentina, launched a sustainable stock exchange in 2017, with the aim of adding sustainable companies over time. The regulator will pass ESG regulations in spring 2018, requiring the consideration and reporting of ESG for financial institutions operating in the country. The regulator is also working to enable the creation and commercialization of impact-oriented Special Purpose Vehicles by retail banks / financial institutions. Enable banks to create this vehicle for investors to invest in these initiatives.

FISCAL INCENTIVES

In Argentina, there are tax incentives specifically for investments into renewable energy (National Law 27.191, established in 2015). This has been successful in encouraging additional capital into the renewable sector and was renewed last year. There are also tax incentives for traditional VC funds and for investment into green bonds.

EDUCATIONAL INITIATIVES

In Uruguay, the Universidad de la República, Universidad ORT and Universidad de Montevideo have courses on social entrepreneurship, including impact investing. The four biggest universities in Argentina have also begun to teach sustainable finance.

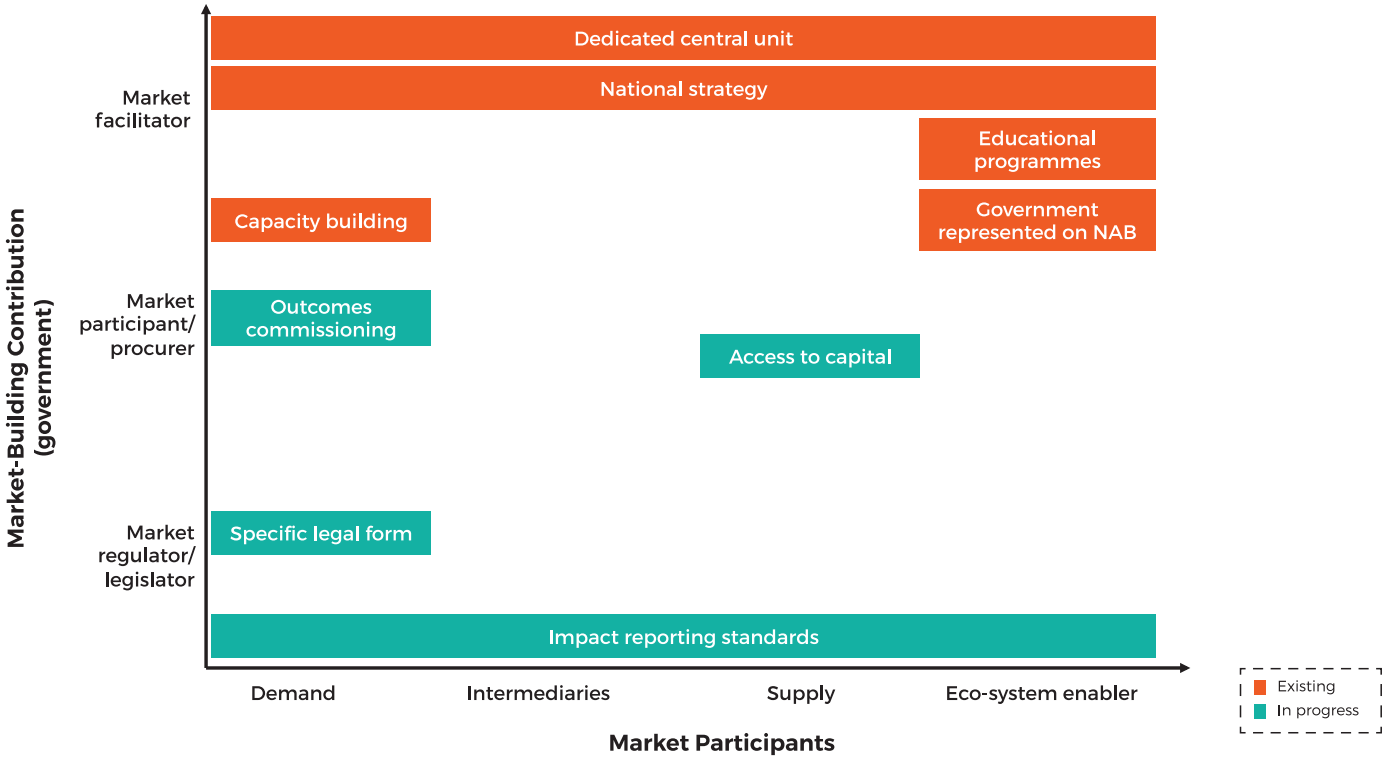
Looking Ahead

KEY PRIORITIES TO 2020

- **Establish wholesale fund:** The NAB, alongside different government departments have been discussing the establishment of a wholesale fund. In Argentina there is already a blended capital fund in operation which is structured like a wholesaler and operates within Arts and Culture. Given there is a precedent, this should help the establishment of the wholesaler.
- **Specific legal form:** The BIC Law in Argentina, promoted and drafted by B Lawyers which would allow for a specific legal form; it has passed the first part of Congress approval and is awaiting the necessary second approval.
- **Establish central government unit:** This would help coordinate projects and enable information and knowledge dissemination.
- **Continue to grow SIB market:** Leveraging on the first SIB in Argentina will be important. There are currently no specific regulation or tax incentives for SIBs: implementing these may help to expand the market. The NAB is working with tax authorities in Argentina to make amendments needed to enable capital from Foundations to flow into SIBs, which is forbidden at this point.
- **Clarify fiduciary duty:** CVN is currently assessing fiduciary duty responsibilities of banks, insurance companies and medical insurance companies. Further clarifying the incorporation of ESG factors into decision-making through legislation or recommendations, will help encourage additional investment into impact assets.

BRAZIL

FIGURE 38:
Policy Toolbox



Overview

Brazil has made good progress since the establishment of the Brazilian Social Finance Taskforce in 2015 and can be described as a "first-mover" in the Latin American region in many respects. A core group of leaders from the Brazilian ecosystem together developed 15 recommendations with clear goals. The group later established a National Advisory Board (NAB) with diverse representation, including representatives from one of Brazil`s largest banks, foundations, a community-based organisation, and the federal government. The Brazilian NAB rebranded itself in June 2018 as the Impact Investing and Business Alliance (IIBA). Brazil is one of the first countries to agree a government-approved 10-year national strategy for impact investing. This initiative has been instrumental in the progress of the impact investment ecosystem.

Impact investment as a policy area is the specific remit of a small team in the Secretariat for Innovation and New Business at the Ministry of Industry, Foreign Trade and Services. This team coordinates across 7 federal ministries, including Ministry of Foreign Affairs; Ministry of Finance; Ministry of Social Development, state banks and other public agencies along with 10 civil society organizations, to create a collaborative impact investment agenda. The policies and programmes are jointly designed by multiple actors in 19 subgroups with clear short, medium and long-term milestones.

There have been some notable players in the Brazilian impact space. Artemisia was a pioneering accelerator in this area in Brazil. Instituto de Cidadania Empresaria (ICE) is another leading player, acting as a backbone organisation for the Brazilian NAB, along with the National Bank for Economic and Social Development (BNDES) and the Brazilian Micro and Small Business Support Service (SEBRAE).

Part of the reason Brazil has been able to progress its impact investment ecosystem in such a sophisticated manner is that the country has benefited from decades of DFI investment which provided seed and patient capital for many of the underpinnings of the impact market. Another reason is that Brazil has been at the forefront of the Responsible Investment (RI) movement, with the largest pension fund in Brazil being one of the founding signatories of the Principals for Responsible Investment (PRI). The market was therefore already well-versed on RI and ESG integration before the impact investment conversation reached the mainstream in Brazil. This feature is unique to Brazil.

Key Initiatives

FINDING A "CHAMPION" WITHIN GOVERNMENT

Finding a government champion was the key catalyst which helped the Brazilian NAB to gain traction and eventually sign their agreement with the Ministry of Industry, Foreign Trade and Services. This agreement led to the formation of the working group which ultimately established ENIMPACTO, the National Strategy. With elections on the horizon Brazil will need to engage new government representatives at the political level in order to maintain traction and development.

NATIONAL STRATEGY (ENIMPACTO)

In 2017, Brazil became one of the first countries to agree a government-approved national strategy for impact investing and impact business. This has been the main game-changer for Brazil. Implementing the actions prescribed in the strategy have created new challenges, but engagement of public-sector leaders has led to considerable advancements.

The ENIMPACTO strategy is the result of collaboration between the Impact Investing and Business Alliance, the Ministry of Industry, Foreign Trade & Services, and a working group with other players from the Federal Government over a 1-year period[lvi]. The National Strategy lays out Brazil's Strategy for the following 10 years and has 26 organisations signed up to commit to achieving its targets. Its objective is to engage diverse government bodies, private sector organisations and Civil Society. It is the Federal Government's first initiative in the area. ENIMPACTO was drafted with career public agents to create a long-term legacy. It was important for continuity, given the turnover of personnel in the government.

The Strategy is centred on five main objectives around which policies and initiatives have been implemented to help strengthen these focus areas:

INCREASE CAPITAL AVAILABLE TO IMPACT BUSINESSES

Encouraging additional supply of capital into the sector remains a key priority for Brazil, and more innovative financing mechanisms are being established. Further, BNDES has launched a call for venture capital funds with impact criteria. BNDES, Fundação Banco do Brasil, Caixa Economica Federal and SEBRAE are considering launching a non-SEC-regulated fund (size of approximately US $10 million) by the end of the year. This money would be deployed as a grant to intermediaries who will use it to provide different types of blended finance to impact businesses.

The Local SEC association of DFIs, ABDE, the National Association for regional DFIs, and IDB created an innovation lab a year ago around four themes – green bonds, green markets, fintech and impact investment. As part of their initiatives, they plan to launch a social innovation fund for early stage companies which will be able to provide non-reimbursable patient capital.

INCREASE THE NUMBER OF IMPACT BUSINESSES

Capacity building for impact businesses has been important for the Brazilian market, delivered through collaborations of both public and private institutions and mostly through accelerators / incubators, support programmes and universities.

The Impact Acceleration and Incubation Programme was launched by the local Incubators and Accelerators (I&A) association (Anprotec), in partnership with ICE and SEBRAE. The objective is to raise the number of qualified and scalable impact businesses and to consolidate accelerators and incubators that support these businesses. The project has been running for 3 years, boasting 56 incubators and accelerators from 18 states throughout Brazil[lvii]. Its global footprint across the country has been particularly impressive and important given the size of Brazil.

InovAtiva de Impacto, in partnership with SEBRAE and CERTI, an acceleration programme for impact businesses run by the Ministry of Industry, Foreign Trade and Services promotes innovation in financial education and services and has also achieved successes in capacity building for 90 impact businesses[lviii]. Approximately 10,000 entrepreneurs take part in different SEBRAE impact business activities.

STRENGTHENING INTERMEDIARIES

There are at least 11 active impact investing actors with impact theses and at least 7 incubators / accelerators dedicated to impact business and 56 others with a strategic plan to bring impact business into their portfolios[lix]. The ICE has also launched its Academia programme which aims to support professors in developing courses and research on themes of social finance and impact businesses. To date there are 77 professors involved from 44 universities, half of which are public.

Social Impact Contracts have also been established in Brazil. While no Social Impact Bonds (SIBs) have launched yet, an inaugural SIB, related to education in the State of São Paulo, was ready to go to market but postponed due to political pressure; and the second, in the healthcare sector in the State of Ceara, is still progressing with the expectation to launch in the near-term. This is expected to be a growing market in Brazil.

PROMOTING A CONDUCTIVE ENVIRONMENT

Brazil has clearly defined regulations pushing pension funds and listed companies to report on ESG matters. The most notable recent advancement in Brazil has been the introduction of Regulation 3.792 (from 2018) which applies to pension funds. This new regulation requires pension funds to report on how they treat ESG matters and if they don't consider ESG matters, they need to explain why not. Further to this, BOVESPA requires all listed companies to report on sustainability or to explain why they don't. In addition, SERP Regulation 4327 (2014) establishes guidelines for financial institutions to implement social and environmental responsibility.

Under ENIMPACTO, the Regulatory Working Group is perusing the creation of new rules for endowments and a new legal vehicle similar to the B Corp.

STRENGTHENING OF DATA GENERATION

ICE and Insper Metrics are leading an initiative with more than 40 participants for impact measurement. A number of Brazilian accelerators, incubators and companies are also part of the Impact Management Project, led by Vox in partnership with Bridges Fund Management.

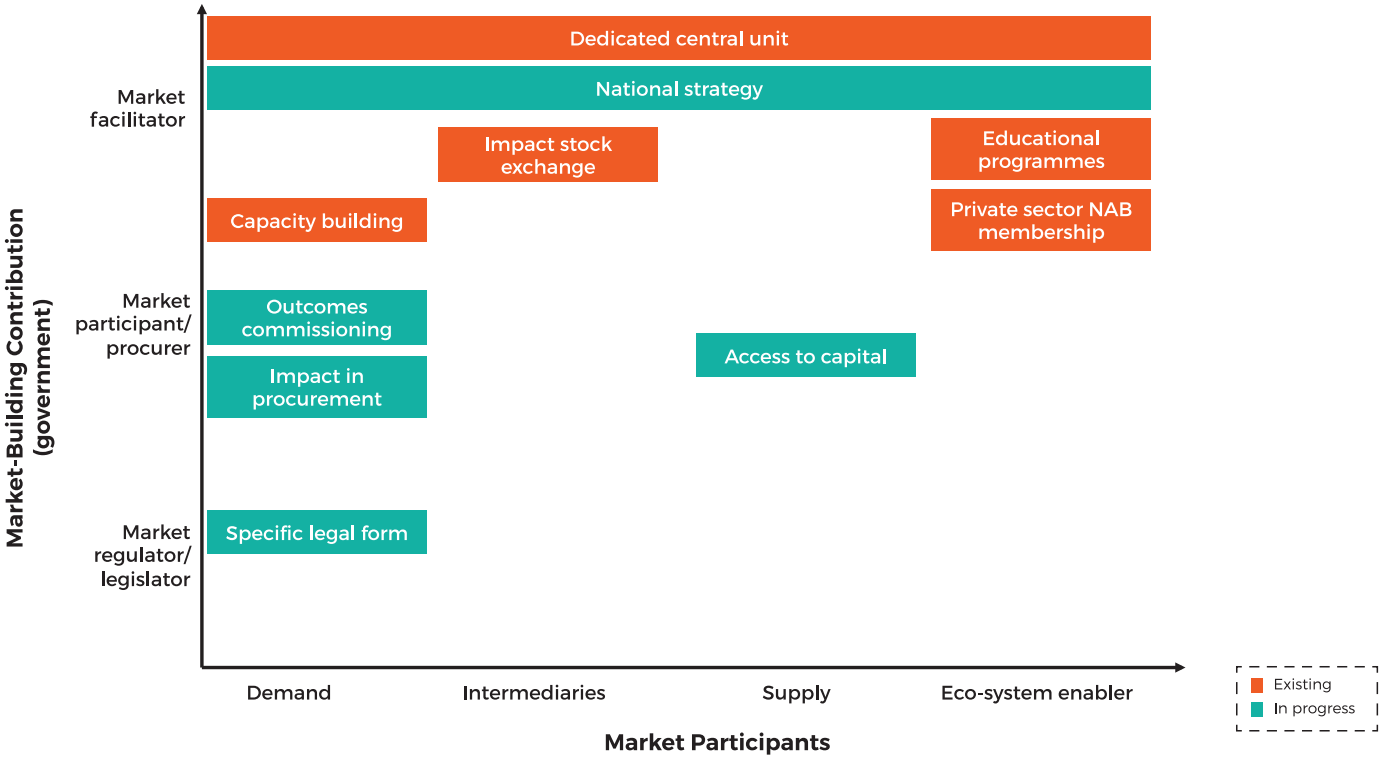
Looking Ahead

KEY PRIORITIES TO 2020

- **Continue to move forward with plans to implement the National Strategy for Impact Investing & Impact Business (ENIMPACTO):** Encourage the involvement of organisations from the private sector and civil society, as well as regular monitoring and dissemination of progress. Focusing on the 4 pillars simultaneously will ensure no bottlenecks occur in the future as the impact economy progresses.
- **Commit newly elected political leaders:** To promote impact investing and impact businesses, in line with ENIMPACTO. Having a champion within the government has been a key factor in the success of ENIMPACTO.
- **Procurement within government:** Increase public procurement (municipal, state and federal) of goods and services from impact businesses. Currently, there are strong barriers around impact businesses being able to win procurement contracts from government. Changing this regulatory structure will allow for significant progress.
- **Continue to progress with launch of SIBs:** The political environment has stalled the launch of SIBs in Brazil. The launch of an inaugural SIB will help spearhead the sector.
- **Progress with legislation around company legal form:** Legislation for a new legal vehicle, similar to the B Corp, is currently awaiting approval in Congress. Progressing with this legislation will be beneficial to enable more targeted impact-related policies.
- **Access to capital:** Legislation on how to create endowments is awaiting approval in Congress. Endowment legislation featured in the National Strategy since this would be an additional source of capital for the impact investing sector.

CANADA

FIGURE 39:
Policy Toolbox



Overview

In 2010, the Canadian Task force on Social Finance published its first report "Mobilising Private Capital for Public Good"[lx], which outlined measures that all stakeholders could take to strengthen social finance at a national level.

In 2013, the task force became Canada's National Advisory Board. It wrote a second report, "Mobilising Private Capital for Public Good: Priorities for Canada"[lxi] to advocate for government action. Since the report, the Canadian Government has followed some of the recommendations and has worked to develop the impact investing economy at different levels. The Canadian NAB has been dormant for two years.

In June 2017, the government appointed a steering group to co-create a pan-Canadian Social Innovation and Social Finance Strategy. If the strategy is implemented, this could promote further progress in the industry.

Key Initiatives

CAPACITY BUILDING

Some examples of capacity building programmes for impact businesses are listed below:

- **Chantier de l'économie sociale:** originally supported by government funding, it promotes the social economy by bringing together different stakeholders, and creating the conditions and tools for consolidation, experimentation and development of projects.
- **Social Enterprise Demonstration Fund**[lxii]**:** uses Ontario Government funding to help impact businesses raise capital. It is part of the social enterprise strategy, a five-year strategy led by the Province of Ontario to support impact businesses.
- **SVX platform**[lxiii]**:** supported by government funding, it began as an accelerator to help impact businesses to prepare to raise investment. Today it also has a platform that links investors and impact businesses and allows investors to directly invest in these companies through their platform.

IMPACT IN PROCUREMENT

There is currently a bill[lxiv] in the Senate to amend the Department of Public Works and Government Services act. This amendment would give the Ministry of Public Works and Government Services the capacity to require bidding companies - in the field of construction, maintenance, repair of public works, federal real property or federal immovables – to provide information on the community benefits derived from the proposed project.

The act describes "community benefit" as a social, economic or environmental benefit that a community derives from a construction, maintenance or repair project, and includes job creation and training opportunities, improvement of public space and any other specific benefit identified by the community.

This first step is a modest one; however, if it succeeds, it will lay the groundwork for the incorporation of environmental and social values in other procurement decisions.

SPECIFIC LEGAL FORM

Although there has been a rapid uptake of the B-Corp certification in Canada, there is no country-wide legal form for impact businesses.

Some provinces, such as Nova Scotia and British Columbia, have created legal forms for impact businesses, such as the Community Interest Company. However, these legal forms have seen little uptake, perhaps because Canada's corporate rules allow for-profits some space to pursue social and environmental good.

ACCESS TO CAPITAL

The Government of Canada is a big investor in Canadian businesses, however, that money is rarely targeted exclusively to impact-driven ones. Programmes with some benefit to impact businesses include:

- **Venture Capital Catalyst Initiative:** provides financing for Venture Capital Funds and Funds of Funds, with some funding being targeted to smaller funds. Notably, the initiative gives some preference to funds that invest in rural or remote areas, as well as in women-run businesses.
- **Community Futures Programme:** assists businesses in rural Canada.
- **Business Development Bank of Canada:** funds Canadian entrepreneurs. It was the first B-Corp bank in the world and it has been pivotal in promoting the B-Corp idea among the entrepreneurs that has help financed.

Another positive development that has eased access to capital to impact businesses has been Ontario's initiative to amend its charity laws[lxv] so that charitable foundations can invest in these businesses. Previous laws were seen as restrictive as foundations needed to observe the "prudent investor rule", which may have prevented them from taking on investments that could be perceived as riskier or at below market return.

OUTCOMES COMMISSIONING

Canada has started to experiment with outcomes-based contracts and has launched a few of them, including two in Saskatchewan and two at the federal level.

There is work being done with Manitoba and the federal government to develop Social Impact Bonds (SIBs) for youth and children, as well as with Ontario on homelessness[lxvi].

A positive recent development has been the creation of a Federal Impact and Innovation Unit to advise federal departments on outcomes-based approaches.

EDUCATIONAL PROGRAMMES

Most business schools in the country have adopted social finance as part of their curriculum. In particular, Carleton University and the University of British Columbia are doing considerable research in social finance and impact investing.

DEDICATED UNIT & PAN-CANADIAN STRATEGY

The responsibility for domestic impact investment in the federal government lies within Employment and Social Development Canada.

Meanwhile, the Impact and Innovation Unit, that provides advice across the government on outcomes-based approaches, sits within the central office of the government and works with each department on how outcomes-based funding tools can apply in their policy area. It helps departments carry out the mandate to dedicate a portion of their money to test new approaches to delivering and measuring impact.

In June 2017, the federal government appointed a Social Innovation and Social Finance Strategy Co-Creation Steering Group[lxvii]. The group submitted its recommendations to the responsible ministers in June 2018. The government is currently considering these recommendations.

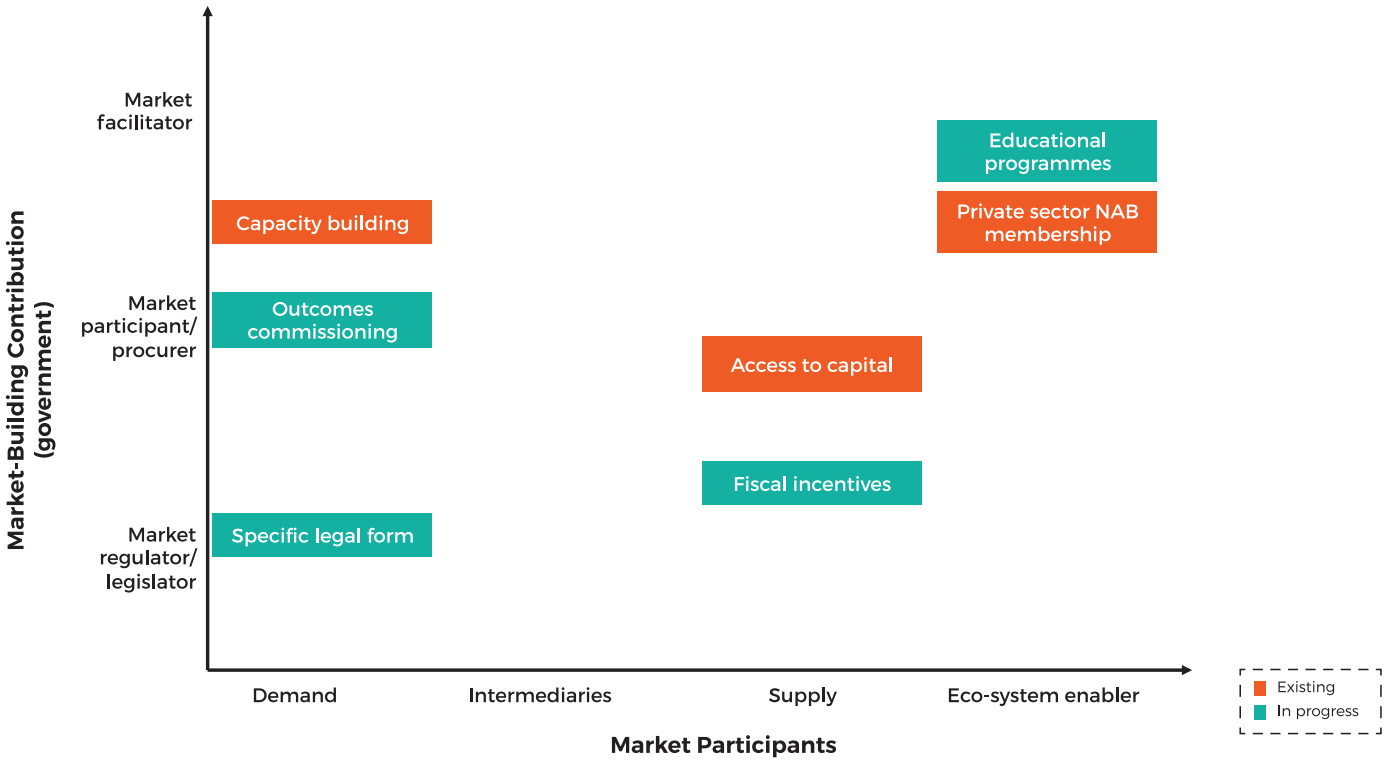
Looking Ahead

KEY PRIORITIES TO 2020

- **Invest catalytic capital:** Chantier de l'économie sociale and the catalytic effect that it had in Quebec's social economy could be used as an example of the benefit of a government fund that acts as a catalyst for impact businesses. Canada's impact investing economy could greatly benefit from the government's provision of catalytic capital into the industry widely across Canada.
- **Government Outcomes Fund:** To date, the development of SIBs in Canada has been slow. Despite interest from the government, finding the funding has been the main hurdle. Canada would benefit from a dedicated Government Outcomes Fund, with funding set aside from the federal government to pay for outcomes projects. The outcomes fund could help the government systematise their outcomes-based contracting.
- **Impact in procurement:** The federal government is one of the country's largest purchaser of products and services. By embedding social and environmental metrics in the government's procurement process, the government can be an effective way to promote a culture that supports impact-driven businesses.

CHILE

FIGURE 40:
Policy Toolbox



Overview

The Chilean NAB was officially established in May of this year (2018) and the Board already has a number of strategic plans in discussion with the government and public sector. The formation of the NAB is the culmination of work undertaken since 2010 when an initial special unit within the Ministry of Social Development was established to support certain elements of the impact economy, in particular, facilitating social sector organisations and charities to have greater access to financing and to improve their organisational and execution standards. Following this, a group of interdisciplinary professionals, at the request of the Inter-American Development Bank (IADB) began to undertake a feasibility analysis, conducted between 2014 and 2015 which led to further analysis on creating an impact investment market in Chile. This included conversations and discussions with government, policy makers, think tanks and the financial sector, among others, until early 2017. This process culminated in the creation of IMPACTA in 2017, a non-profit whose mission is to boost the impact investment ecosystem.

IMPACTA took over the mission of designing and executing initiatives necessary to create an impact investment market, and thereafter assumed the Secretariat of the Chilean NAB.

Board members include former President Lagos, a former president of the Central Bank of Chile, the founder of one of the largest asset managers in Chile and former Chairman of the largest world mining company, Codelco, among others. The NAB Board, along with Impacta Secretariat, was designed to have high level individuals formerly in different governments, the financial sector, policy makers, social sector organisations, universities and other private and public stakeholders as core members. The structure of the NAB, Chile has followed the same method as Brazil by having the NAB members, and then outside of the NAB, having advisors and "friends of the NAB"; who in turn comprise different groups and stakeholders such as philanthropists, academics, charities and social enterprises, etc.

The current government came into power in March of this year (2018) so policies are now beginning to be put in place and defined more clearly. Policy direction has remained throughout the change of government and furthermore, the Presidential Programme states that government will strongly support the creation and growth of impact businesses.

Key Initiatives

FINDING MARKET CHAMPIONS WITHIN GOVERNMENT

The Chilean NAB is in close communication with a number of Ministers within the government. The NAB itself also has a number of very senior ex government officials as its members. These close ties have helped to catalyse discussions on impact investment and the necessary policies required to enhance the ecosystem. Given that there is no central unit dedicated to impact investment within the government, these relationships and market champions will continue to be vital to push forward policy objectives.

CAPACITY BUILDING AND ACCESS TO CAPITAL

Chile has a long-standing background with regards to accelerator programmes and capacity building for entrepreneurs and small businesses. Corporación de Fomento de la Producción de Chile (CORFO)[lxviii], the Chilean economic development agency which sits within the Ministry of Economy, has been an important player in the development of Chile's economy overall. CORFO was founded in 1939 to promote economic growth in Chile and was instrumental in rebuilding the private sector post-crisis. In one of its capacities, CORFO acts as an accelerator, providing capital and capacity building to entrepreneurs and small businesses, some of these include impact businesses.

Notably, within CORFO "Start-Up Chile" was established in 2016. Start-Up Chile is a public start-up accelerator created by the Chilean Government. Today, Start-Up Chile is the leading accelerator in Latin America, and the 4th biggest accelerator globally with 1,309 start-ups associated with the programme currently.

The government has also recently created an 'innovation lab' which has been based on Nesta in the UK. This innovation lab will back new ideas to tackle wider societal issues.

CORFO has also facilitated access to capital for seed, early-stage and growth capital for all enterprises (including impact businesses) through grants and subsidies. Using a portion of this capital specifically for impact investing would help to further support impact businesses.

ESTABLISH THE USE OF OUTCOMES CONTRACTS AND THE SOCIAL IMPACT BOND MARKET

The Government has included a social impact bonds fund in its Presidential programme. The first SIB is expected to be launched in the coming months.

COMPANY LEGAL FORM

There is no legal form for impact businesses in Chile, though there is a Bill of Law currently in Congress which relates to Benefit Corporations and impact businesses. Currently impact businesses can take any legal form and then demonstrate impact through any means they choose. Though this structure allows for flexibility, it means it is harder to push for fiscal incentives for impact investors or impact businesses. Having a more defined legal form for impact businesses may help with targeted policy.

FISCAL INCENTIVES

There is currently a Bill of Law in process with regards to tax incentives for philanthropists. This is a highly beneficial source of capital since philanthropists are normally the first to invest in early-stage social impact ventures in Chile. This Bill of Law is expected to be sent to Congress between the end of the year (2018) and middle of next year (2019).

EDUCATIONAL INITIATIVES

The NAB has been collaborating with public and private universities to create educational programmes at graduate and undergraduate levels, with the aim of boosting the educated workforce in the impact sector.

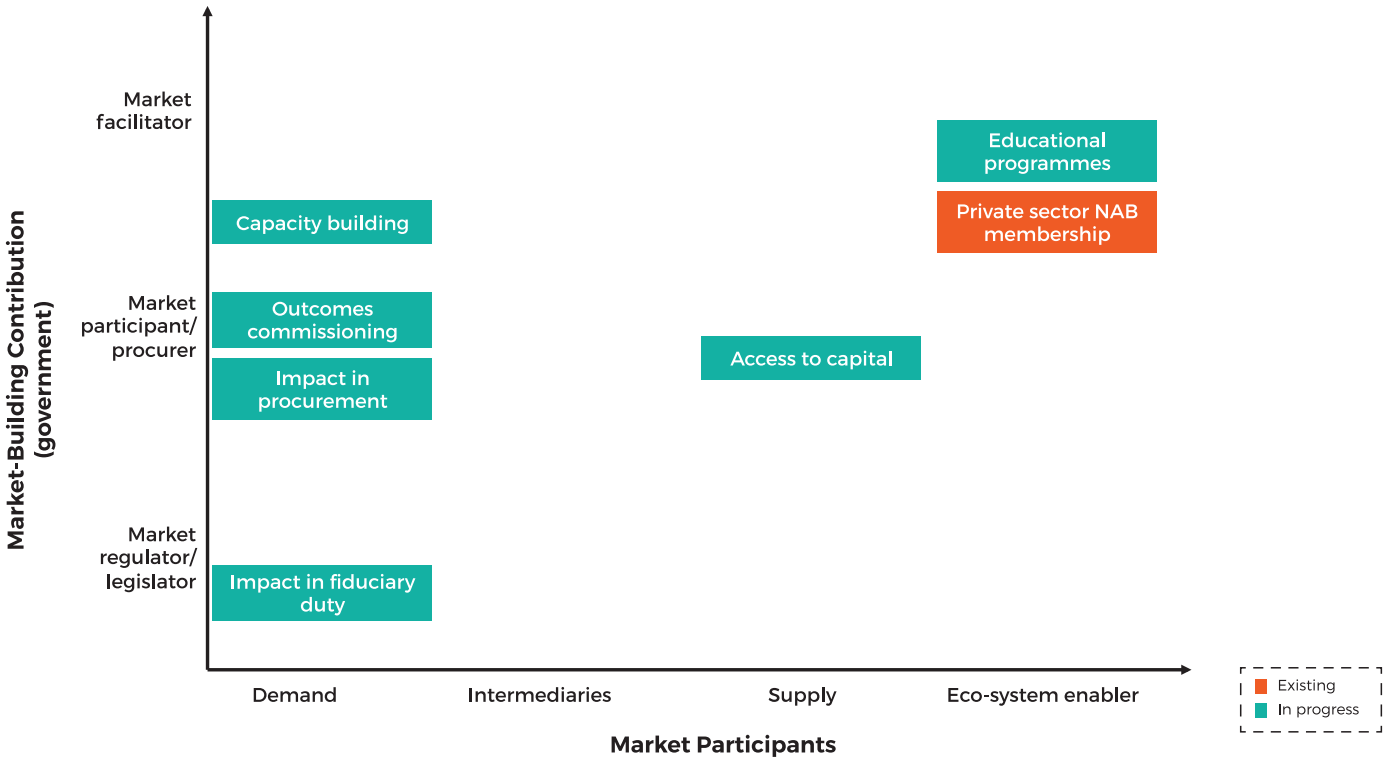
Looking Ahead

KEY PRIORITIES TO 2020

- **Establish central unit within government**: Currently there is no dedicated central unit devoted to impact investment within government. Policies are discussed with individuals within different departments such as the Treasury, the Ministry of Economy, the Ministry of Education etc. Having individual "champions" has been successful at initiating policy conversations though a special unit would help in coordinating all the policies which need to be pushed forward and championing from inside the government.
- **Social Outcomes Fund**: While already in progress, a government social outcomes fund will help with the progression of SIBs in the Chilean market. The launch of the first SIB will also be important in terms of setting a precedent for other transactions to follow.
- **Provide a specific line of capital through CORFO which would go towards social and environmental impact**: A more targeted approach at companies who are creating positive impact would help to increase the flow of supply into the impact investment ecosystem and bolster support for these impact businesses. Considerations are already underway with regards to this policy.
- **Company legal form**: Establishing a company legal form would allow for the establishment of targeted fiscal incentives such as tax incentives, specifically for impact businesses, as well as targeted funding and capacity building programs.
- **Establish wholesaler**: The local NAB is currently in conversations with the government to undertake an analysis of the feasibility of a wholesaler. One method for establishment could be to partially use unclaimed assets alongside additional money from other sources (e.g. banks). The Wholesale Task force Report will provide additional insights.
- **Procurement within government**: There are currently discussions between the NAB and government (Ministry of Social Development, Ministry of Economy and the Treasury) surrounding greater procurement of services from impact businesses. Continuing this discussion to understand the main barriers to procurement and possible solutions will allow for significant progress.
- **Incorporation of ESG in investment decisions and standardised reporting**: Fiduciary duty in Chile permits the incorporation of ESG factors in investment decisions but does not require it. In practice, funds have not chosen to incorporate ESG factors into decision-making or reporting. Looking ahead, this may be an area where policy could encourage progress. In addition, using government convening power to encourage key market players (large pension funds for example) to set a precedent may also help to create a "market norm".

MEXICO

FIGURE 41:
Policy Toolbox



Overview

Mexico's impact investment policy environment is still nascent. The first impact investment in Mexico was made in 2000 and since then a number of high-impact focused organisations have started to emerge. The creation and strengthening of this ecosystem has succeeded in attracting private capital.

The National Advisory Board was created in 2015 and today compiles around forty organisations and funds that seek to promote the impact investing industry in the country and is currently working on a number of policies to assist the government to further the development of the impact investment economy.

Key Initiatives

CAPACITY BUILDING & ACCESS TO CAPITAL

INADEM (National Institute of Entrepreneurship) has been the government's first step towards the development of the industry, along with financing for impact businesses.

INADEM operates within the Ministry of Economy; it aims to implement and coordinate the national policy to support entrepreneurs and SMEs, promote innovation and competitiveness, and increase contribution to economic development and social welfare.

INADEM also provides capital to Private Equity, Venture Capital and Impact Investing. Notably, under "convocatoria 3.2"[lxix] the government contributed 30% (MXN40 million) to the National Entrepreneurs Fund, which supports entrepreneurial capital and high-impact companies during their growth stage.

Another positive development in Mexico has been the provision of better access to capital through three impact bonds launched by the government with the aim to provide financing to social and environmental projects.

- Nacional Financiera (NAFIN) in collaboration with the Ministry of Finance and the Mexican stock exchange, launched MXN4 billion Social Bond to finance and promote the social sector in the public markets.
- BANOBRAS also launched a Green bond and a sustainable bond to finance projects with a positive environmental and social impact.

FIDUCIARY DUTY

Private and institutional investors in Mexico are permitted to incorporate environmental and social factors into their investment decisions. Therefore, further regulation by the government on this aspect is unlikely to have strong catalytic impact on the industry.

EDUCATIONAL PROGRAMMES

In terms of impact investing education, there are several intermediaries working with investors and government agencies on impact investment training to promote and educate stakeholders in the impact investing ecosystem, including decision makers.

OUTCOMES COMMISSIONING

A first Social Impact Bond (SIB) in Mexico was piloted in Jalisco, to empower female heads of households. Despite deep engagement of all parties involved, the SIB was deprioritised from the political agenda due to a change in government.

However, all other actors, including service providers and investors, have expressed interest in continuing the work with a different local government. Meanwhile, other SIBs have started to be exploredin Michoacan, Nuevo Leon and Mexico City, although none have been signed yet.

The new government elected this year (2018) in Mexico, poses an opportunity to work in a long-term plan on SIBs and other impact opportunities.

PUBLIC PROCUREMENT PROGRAMME

One big step forward for the Mexican government has been an on-going programme supported by International cooperation to develop instruments that incorporate sustainability criteria in the public procurement process[lxx].

From Mexico's side, this programme has been coordinated by the Mexican Agency for International Development (AMEXCID) and the Environment and Natural Resources Secretariat (SEMARNAT) and it seeks to be incorporated by the Public Function Secretariat (SFP), which oversees the public procurement policy for the Federal Government.

The study so far has:

- Stressed that the Federal Government's public procurement process influences the patterns of national consumption and production because of its weight in the GDP and government expenditure.
- Analysed the current regulatory environment to evaluate the judicial viability of implementing a pilot project of public procurement.
- Developed a methodology to identify the goods and services that, because of their nature and volume, are strategic in public procurement.
- Established the sustainability criteria to which the goods and services should abide.
- Proposed the methodology to implement the public procurement programme.

The Mexican government has identified 15 potential goods and services to be eligible for incorporating sustainability criteria in the public procurement process.

- **Goods:** paper and paper products, wooden furniture, transport, air conditioning, computers and screens, lamps, home appliances, paint and water proofing products, and textiles.
- **Services:** cleaning, advertisement, printing, food services, and security services for properties.

Looking Ahead

KEY PRIORITIES TO 2020

- **Improved communication around the term "impact":** Currently the government uses the word impact to describe fast-growing companies. This choice of terminology creates confusion and clouds the goals and intentions of the impact investing sector in the eyes of the public.

  Education and training on the topic for relevant government officials and other actors involved in the ecosystem (financial advisors, investors, lawyers, etc.) could help remove ambiguity around terminology.

- **Impact investing to be included in a central unit within the government:** Despite the progress with the creation of INADEM, this unit still sits within a decentralised unit.

  A centralised unit would help the government to take a more active role in establishing a common foundation for impact investing, including definitions, regulations and incentives to create a successful impact investment ecosystem.

- **Need for a specific legal structure for impact enterprises:** The B-Corp stamp exist in Mexico (Sistema B), with 31 Enterprises having been certified to date.

  However, having a formal legal structure could be beneficial to help with the communication issue around the terminology. It could also provide a clear investment universe to target specific fiscal policies and direct funds from investors.

- **Standardise impact measurement:** Establishing measurement standards and KPIs to quantify impact measurement would help implement impact investments and outcomes contracts. The transparency created through standardised reporting could have a positive effect in the capital inflow into the industry.

  Rather than creating their own impact measurement system, Mexico should collaborate with international efforts for international impact measurement standardisation.

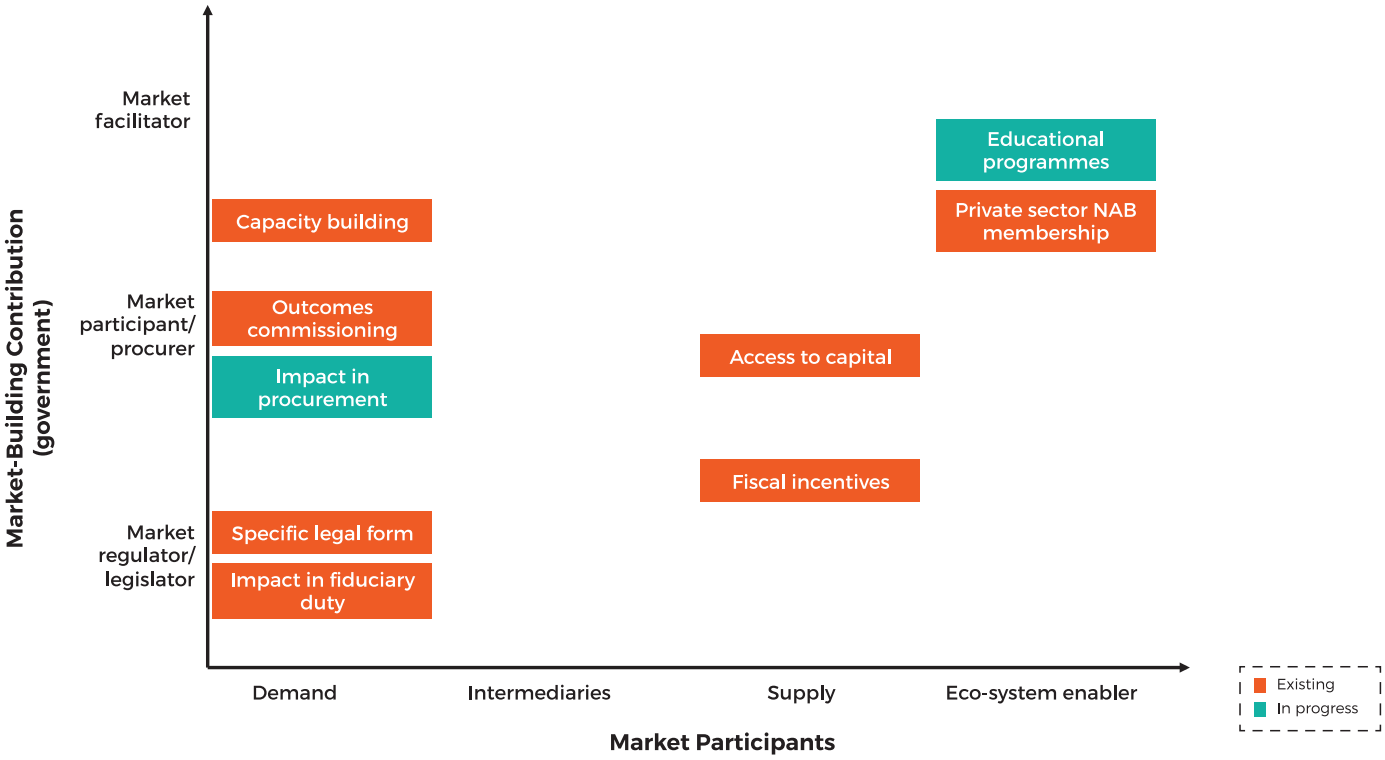
- **Fiscal incentives for investments in impact enterprises:** Tax incentives can be an effective and inexpensive way to finance the growth of an industry.

  By providing tax incentives to investors of Impact businesses, governments would allow a greater amount of money to flow to finance the industry and in turn, require less investment from public money.

- **Expand the use of outcomes contracts and create a government outcomes fund:** The Mexican government has previously shown interest in finding solutions to social problems through SIBs. The government could consider outcomes-payments as a proven method of financing projects with pre-specified social outcomes. In order to streamline the commissioning of SIBs, the government could create an outcomes fund dedicated to investing in this type of product. This fund could be financed through unclaimed assets in dormant bank accounts.

USA

FIGURE 42:
Policy Toolbox



Overview

The United States National Advisory Board was created in 2013 as part of the G8 Steering Group for Impact Investing. The board, which comprises of 27 thought leaders, was formed to focus on the domestic, federal policy agenda. This group published a report in June 2014, that put forward a range of impact investing priorities for policy makers. Since the creation of the report, the National Advisory Board (now the U.S. Impact Investing Alliance) was successful in working with the government to develop select policies, with many of them having been implemented to some degree.

The United States was one of the pioneers of impact investment policies, with the Community Reinvestment Act passed in 1977, which was set up to combat uneven lending practices in low-income communities. A number of policies followed that have helped foster an environment supportive of the impact investing, and in particular, community investment.

In 2009, the White House created an Office of Social Innovation, which was instrumental in securing a number of policy wins. The office has not been extended in the current administration, although support continues to come from bipartisan legislators.

Key Initiatives

COMMUNITY INVESTMENT PROGRAMMES

The United States has a history in community investment programmes, which provide access to capital to low- to moderate-income groups, as well as various fiscal incentives for those who provide the capital.

These funding and incentivisation mechanisms have been instrumental in the creation of Community Development Finance Institutions (CDFIs), with now over one thousand of them in the United States.

ACCESS TO CAPITAL

- **Community Reinvestment Act (1977):** was created to combat uneven lending prices in low- to moderate-income communities. The programme requires banks to complete regular evaluations scoring their business practices for compliance with fair lending standards. The programme is a key enabler of capital flow into community development finance institutions. Regulators take into account a bank's compliance history while making a decision, at times offering incentives to institutions that remain in compliance.
- **CDFI Fund (1994):** is a fund administered by the Treasury Department that certifies CDFIs and offers them benefits in the form of financial assistance, technical assistance and bond guarantees. In 2017, the CDFI Fund guaranteed two bond offerings issued by leading CDFIs, allowing them to fundraise from the capital markets for the first time.

TAX INCENTIVES

These programmes are complimented by tax credits that benefit investors:

- **Historic Tax Credit (1977):** A tax credit for the rehabilitation of historic buildings such as schools and offices.
- **Low Income Housing Tax Credit (1986):** For developers to create housing that is affordable for low- to moderate-income communities.
- **New Markets Tax Credit (2002):** Subsidises investment in low- to moderate-income communities (below two thirds of the prevailing income in the region). In practice, most of the investments made have been in various forms of commercial real estate development. Credits are allocated each year by the CDFI Fund.
- **Opportunity Zones (2017)**[lxxi]**:** Passed as part of the 2017 tax bill, this is a capital gains benefit designed to flow equity capital to designated "Opportunity Zones" in economically distressed communities. This benefit is still in the regulatory process.

DFIS

The U.S. offers development finance assistance through two mechanisms:

- **Overseas Private Investment Corporation (OPIC):** provides debt investment capital and guarantees to companies and investment funds operating in emerging markets as well as political risk insurance for American companies doing work abroad.
- **USAID:** Provides technical assistance and grant programmes as well as financing through its Development Credit Authority.

CAPACITY BUILDING

At the state level, there are many initiatives supporting all types of entrepreneurship, with impact businesses also benefiting from these. The state of New York is a good example, with a US$1bn fund committed to climate change, supporting companies that provide clean energy and climate change resilience solutions.

Various Federal agencies also run training and educational programmes to encourage impact entrepreneurship.

IMPACT IN PROCUREMENT

The United States has well-established federal procurement requirements for disadvantaged groups, such as businesses owned by women, Native Americans and people with disabilities.

These procurement requirements could still benefit from incorporating other social and environmental values into the decision making.

LEGAL FORM & FISCAL INCENTIVES FOR IMPACT BUSINESSES

Various legal forms for impact businesses, namely benefit corporations, have been adopted in about 35 states. Some of the states and municipalities have made this legal form more attractive by also attaching various forms of tax and other incentives for impact enterprises. In 2017, Laureate Education was the first benefit corporation to IPO in the United States.

There are also a number of tax credits for investment in environmentally-friendly projects such as wind and solar tax credits or the green retrofit tax credit.

IMPACT IN FIDUCIARY DUTY FOR PENSION FUNDS

Many public pension funds managed by state and local governments engage in various forms of impact investing; along with labour union managed funds, they have been active in pursuing "economically targeted investments". These funds seek market return and additional ancillary benefits to the pensioners and their communities.

Private pensions have been less engaged, in part because of concerns about fiduciary duty. Two recent interpretive bulletins were created to provide greater regulatory guidance for fiduciaries:

- **Bulletin 2015-01:** dealt with the ability of pensions to invest in ESG products or to offer them as options in participant-directed plans.
- **Bulletin 2016-01:** dealt with the ability of pension funds administrators and their investment advisors to use active ownership strategies and engage corporate management directly or through proxy voting.

Both bulletins were subject to further clarification in the recent Field Assistance Bulletin (2018-01)[lxxii].

IMPACT IN FIDUCIARY DUTY FOR PHILANTHROPY

Private foundations actively invest in impact since the 1960s, when the tax code was amended to recognise "program-related investments" (PRIs). These concessionary investments are treated as charitable grants, and can be made to for-profit

or non-profit entities. In 2016, the Treasury Department released updated examples of permissible activities, providing clarity on how these tools can be used.

The IRS also released a notice (2015-62)[lxxiii], which clarified that impact investments can be made from a private foundation's endowment without jeopardising the charitable mission of the organisation. This guidance was important for foundation fiduciaries weighing possible impact investing strategies.

OUTCOMES COMMISSIONING

Outcomes-based contracting is proliferating in the United States, with 21 SIBs commissioned in 12 states. More than 60 additional deals are currently in development.

In 2018, the government created the Social Impact Partnerships Council to administer a new federal outcomes fund. The fund is designed to promote state and local initiatives that produce cost savings at the federal level.

Various other agencies, including the Departments of Health and Human Services, Education, Veterans Affairs and Labour have been given authority to use outcomes-based funding in recent years.

EDUCATIONAL PROGRAMMES

There are many entrepreneurship fund programmes in the United States. An important educational and funding programme is run by the Department of Energy. It provides grants for students that are trying to create clean technology projects. The successful candidates will get enterprise funding for their project.

Looking Ahead

KEY PRIORITIES TO 2020

- **Standardise metrics for impact investing:** As outlined above, the United States has many successful policies providing financing to social and environmental projects. However, to date, there is no standardised measurement of impact for these projects.

  Public and private actors alike would benefit from more available data disclosure to understand the benefits of supporting such projects. In particular, the Opportunity Zones tax benefit's success and continuation will be dependent on the ability to measure its success effectively.

- **More robust DFI:** As one of the leaders in impact investing and with a strong foreign development presence, the United States could benefit from further strengthening the reach and depth of their international development finance operations through its DFI.

- **Focus on outcomes-based contracting:** To date, outcomes-based contracting has been largely successful in the United States. It will be important to prove the scalability of these tools over time. A more standardised approach such as rate cards could also be helpful to further develop and streamline the process of contracting.

APPENDIX
Market definitions: Impact Investment & Impact Economy

We can achieve a future where no one lives in poverty and the planet thrives. We must adopt a simple unifying principle: it is the collective responsibility of all actors in the society to be aware of their effects on people and the planet, to prevent the negative externalities and increase the positive impact. This impact management principle[1] underlies the impact economy we envision. *An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption.* How far different enterprises[2] - and their investors - go in their impact management practice depends on their intentions, constraints and capabilities:

A. At a minimum, enterprises can **act to avoid harm** for their stakeholders, for example decreasing their carbon footprint or paying an appropriate wage; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG[3] risk management), as well as respect the personal values of their asset owners.

B. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders**, for example proactively upskilling their employees, or selling products that support good health or educational outcomes; these 'sustainable' enterprises are doing so in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities)[4].

C. Many enterprises can go further: they can also use their capabilities to **contribute to solutions** to pressing social or environmental problems, for example enabling an otherwise underserved population to achieve good health or educational outcomes, financial inclusion or hiring and skilling formerly unemployed individuals[5].

In an impact economy, enterprises use their capabilities to optimise both their positive impact on the world and their financial performance. Likewise impact investors bring their own resources to bear in optimising enterprises' impact, within the context of their constraints and capabilities, above and beyond what the capital markets enable. Investors use various strategies to contribute to impact, often in combination:

- *Signal that measurable impact matters*: Investors can choose not to invest in, or to favour, certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing in' of social and environmental effects by the capital markets. Often referred to as values alignment, this strategy expresses the investors' values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution.
- *Engage actively*: Investors can use expertise, networks and influence to improve the environmental and societal performance of businesses. Engagement can include a wide spectrum of approaches - dialogue with companies, creation of industry standards, taking board seats or creating board-level committees, using their own team or consultants to provide hands-on management support (as often seen in private equity). The 'engage actively' strategy involves, at a minimum, significant proactive efforts to improve businesses' impact on people and the planet.
- *Grow new or undersupplied capital markets*, by anchoring or participating in new or previously overlooked opportunities. This may involve investment into sectors where there is a little information or transparency, or those where there are investment teams with no or little experience in the space therefore requiring investors and investees to build their understanding of how investment can work for the context. This may involve more complex or less liquid investments, or investments in which some perceive risk to be disproportionate to return.
- *Provide flexible capital*, by recognizing that certain types of enterprises do require capital which may be considered less likely to provide market rate return, less liquid, more risky, or in smaller sizes than would traditionally be invested to generate certain kinds of impact.

Hence, *Impact investments optimise risk, return and impact.*

Impact investors therefore typically spend their energy in the righthand column of Figure 1 below, supporting and scaling enterprises that contribute to solutions and go beyond signalling. Such investors often find it beneficial to accumulate deep knowledge and understanding of the social or environmental problem they are looking to solve and the system within which it exists, and to build capacity within investee organisations. By doing so, impact investors play a catalytic role in the evolution of the impact economy. In the near-term, since impact management practice is nascent, investors can also contribute to positive impact in by enabling large companies to avoid significant harm – for example, providing capital for environmental retro-fitting of carbon-intensive factories, or using shareholder activism to address poverty in a multinational corporation's supply-chain.

[1] This principle is based on widespread consensus achieved under The Impact Management Project

[2] The term 'enterprise' is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities

[3] Environmental, Social and Governance; also referred to as Responsible Investing

[4] Also referred to as Sustainable Investing which includes ESG Integration, Sustainability Themed Investing and Positive/Best-in-Class ESG Performance

[5] Enterprises can also 'contribute to solutions' by selling products that enable others to act to avoid harm (for example, an off-grid lighting company)

FIGURE 1:

Mapping the ABC of impact to the way investors can contribute suggests opportunities for wider and deeper impact investment

IMPACT CLASSES — **IMPACT OF UNDERLYING ASSETS/ ENTERPRISES**

INVESTOR'S CONTRIBUTION

		A	B	C
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	**Benefit stakeholders** Have various effects on important positive outcomes for people and the planet	**Contribute to solutions** Have a significant effect on specific important positive outcome(s) for underserved people or the planet
1	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Ethical bond fund**	**E.g. Positively-screened/ best-in-class ESG fund**	**E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects**
2	**Signal that impact matters + Engage actively** + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Shareholder activist fund**	**E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance**	**E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people**
3	**Signal that impact matters** + Engage actively **+ Grow new/ undersupplied capital markets** + Provide flexible capital	**E.g. Anchor investment in a negatively-screened real estate fund in a frontier market**	**E.g. Positively-screened infrastructure fund in a frontier market**	**E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation**
4	**Signal that impact matters + Engage actively + Grow new/ undersupplied capital markets** + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people**
5	**Signal that impact matters** + Engage actively **+ Grow new/ undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people**
6	**Signal that impact matters + Engage actively + Grow new/ undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people**

Source: The Impact Management Project, 2018

FIGURE 1. *The matrix helps investors to understand and describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions.*

As we set our sight on a full-fledged global impact economy by 2030, we can expect significant growth in impact investments, which enable enterprises to contribute to solutions, optimising their risk, return and impact. Given the rise of impact entrepreneurship and the encouraging response of enterprises and investors to the SDGs, it is becoming realistic to think that every asset class can include a percentage of impact investments which, taken together, would unlock capital at scale to address the world's most pressing social and environmental challenges.

GLOSSARY

TERM	DEFINITION
Accelerator	Startup accelerators support early-stage, growth-driven companies through education, mentorship, and financing.
Blended finance	Blended finance is the complementary use of grants (or grant-equivalent tools) and other types of financing from private and/or public sources to provide financing to make projects financially viable and/or financially sustainable.
Business angel / angel investors	Angel investors invest in small startups or entrepreneurs. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.
Community Development Finance Institution (CDFI)	CDFIs focus on serving the needs of the poor and working class within urban and poor rural communities, as many of these citizens are underserved or ignored by traditional commercial banks and lending processes. The goal is to help these people to become financially self-sufficient, allowing them to increase their contributions to national economic growth and to rebuild run-down communities.
Development Finance Institution (DFI)	Development Finance Institutions (DFIs) are specialised development banks that are usually majority owned by national governments. DFIs invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth.
Dormant accounts	A dormant account is a bank or other account untouched for many years. It is an account about which the owner has apparently forgotten
ESG	A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria can do so through socially responsible mutual funds and exchange-traded funds.
Fiduciary duty	A fiduciary duty is the legal term describing the relationship between two parties that obligates one to act solely in the interest of the other. The party designated as the fiduciary owes the legal duty to a principal, and strict care is taken to ensure no conflict of interest arises between the fiduciary and his principal.
Fintech	Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century.
High Net Worth Individuals (HNWIs)	High net worth individual (HNWI) is a classification used by the financial services industry to denote an individual or a family with liquid assets above a certain figure.
Impact economy	An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption.
Impact investing ecosystem	The impact investment ecosystem, made up of five building blocks- supply of impact capital, intermediation of impact capital, demand for impact capital, policy & regulation, and, impact market builders, is the interplay of all impact forces which serve the underserved stakeholders and our planet, for positive social and environmental impact.
Impact investment wholesalers	An impact investment wholesaler is dedicated to measurable impact on people and the planet. It finances funds, other intermediaries and social enterprises. It helps to develops the impact investment market. It seeks to invest where, but for the wholesaler's capital, the investee could not raise enough money
Impact Measurement	Measuring and managing the process of creating social and environmental impact in order to maximize and optimize it.
Incubator	An incubator is a collaborative program designed to help new start-ups grow their business. Incubators help solve some of the problems commonly associated with running a start-up by potentially providing workspace, seed funding, mentoring, and training

TERM	DEFINITION
Institutional Investors	An institutional investor is an organization that invests on behalf of its members.
Intermediary	An entity that raises money from impact investors and invests that money in social enterprises (such as a fund). An intermediary may also arrange investments without actually handling money.
IRR – Internal Rate of Return	Internal rate of return (IRR) is a metric used in capital budgeting to estimate the profitability of potential investments
Payment-by-Results (PbR)	The practice of paying providers for delivering public services based wholly or partly on the results that are achieved. Payment by Results (PbR) seeks to improve the productivity of public service spending by paying only when specific outputs or outcomes are achieved
Private-public partnerships	Public-private partnerships between a government agency and private-sector company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers.
Program-related investments (PRIs)	An investment made by foundations to support charitable activities that involve the potential return of capital within an established time frame. Program related investments include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.
Retail Investors	A retail investor, also known as an individual investor, is a non-professional investor who buys and sells securities, mutual funds or exchange traded funds (ETFs) through traditional or online brokerage firms or savings accounts.
Social Impact Bond (SIB)	A social impact bond (SIB) is a contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to investors. A social impact bond is not a bond, per se, since repayment and return on investment are contingent upon the achievement of desired social outcomes; if the objectives are not achieved, investors receive neither a return nor repayment of principal. SIBs derive their name from the fact that their investors are typically those who are interested in not just the financial return on their investment, but also in its social impact
Social outcomes fund	A social outcomes fund uses Payment by Results (PbR) mechanisms, particularly those which involve social investment such as Social Impact Bonds (SIBs), to achieve specific social goals.
Social procurement	Social procurement (often referred to as social purchasing) is essentially buying contracts for goods and services from social enterprises, with the intention of making a positive social impact, be it job creation for a historically disadvantaged community, or reducing carbon emissions
Solidarity Investment Fund (France)	By virtue of the 90/10 mechanism, companies with more than 50 employees are obliged to offer their staff, in addition to regular saving schemes, an optional solidarity-savings fund, which allocates 5 to 10% of its assets to eligible (unlisted) social enterprises.
Superannuation	A superannuation is an organizational pension program created by a company for the benefit of its employees. It is also referred to as a company pension plan.
United Nations Principles of Responsible Investment (UNPRI)	UN Principles for Responsible Investment (PRI) are a set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance (ESG) factors. Organizations follow these principles to meet commitments to beneficiaries while aligning investment activities with the broader interests of society.

About The Working Groups

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Other GSG Working Group Reports

WORKING GROUP NAME	PILLAR REPRESENTED	TOPICS
Building Impact Investment Wholesalers	**Supply of Capital**	It details the what, why and how of building impact wholesalers
Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit	**Policy & Advocacy**	It focuses on the role of government in the impact investment ecosystem and highlights how policy making can be catalytic
Enabling ventures to leverage technology for impact	**Demand of Capital**	It analyses the different enabling elements across the lifecycle of impact-tech, and focuses on recommendations to improve the global tech-for-good ecosystem
Investing for a better world	**Supply of Capital**	It focuses on recommendations to strengthen the financial services value chain to meet the sustainable development goals
Widening & Deepening the Market for Impact	**Market Builders**	It outlines the why and what of impact investing and presents a theory of change for widening participation and deepening practice with practical guidance on actors and levers

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