Towards an Enabling Policy Environment for Impact Investment in Asia and the Pacific

GSG Driving real impact

UNITED NATIONS ESCAP Economic and Social Commission for Asia and the Pacific

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About The Global Steering Group for Impact Investment

The Global Steering Group for Impact Investment (GSG) is an independent global organization promoting sustainable development and advancing education in impact investment. It was established in 2015 as the successor to and incorporating the work of the Social Impact Investment Taskforce by the United Kingdom of Great Britain and Northern Ireland during its presidency of the Group of Eight (G8) in 2014.

The membership of GSG currently includes 32 countries through their national and regional advisory boards, and GSG has strategic partnerships with leading global organizations, such as United Nations Economic and Social Commission for Asia and the Pacific and United Nations Development Programme.

A British charity, GSG brings together leaders from the worlds of finance, business, government and philanthropy. Its mission is to embed impact in policy, business and investment decisions, to benefit people and the planet.

About the United Nations Economic and Social Commission for Asia and the Pacific

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations regional hub promoting cooperation among member States in the Asia-Pacific region towards inclusive and sustainable development. The largest regional intergovernmental platform with 53 Member States and 9 Associate Members, ESCAP is a strong regional think-tank offering countries sound analytical products and insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. Research and analysis coupled with ESCAP policy advisory services, capacity-building and technical assistance to governments support the sustainable and inclusive development ambitions of its members.

Foreword

When we commenced work on this joint effort to promote and help create an enabling policy environment for impact investment in Asia and the Pacific a year ago, the world was a very different place than it is now in the midst of COVID-19 pandemic.

Yet in many ways, the outbreak of the pandemic is shining a light on structural issues and the lack of resilience in our economic systems, which have existed for many years, in addition to inequalities deeply embedded in our societies.

The social and economic losses caused by the pandemic are disproportionately borne by those who are most vulnerable. Low-income populations are experiencing higher levels of health risks. As economic growth and productivity slow down, so too do the primary drivers that raise people out of poverty. As other priorities emerged, the long-term financing of the Sustainable Development Goals is at risk.

If we are to recover in a meaningful way, we cannot go back to the way things were and we need to build back better. COVID-19 has underlined the importance of action-driven policies that focus on social and environmental impacts. We have an opportunity to rebuild economies that are more equal and resilient to future shocks and impact investing should be one of their foundations. More than ever, we need to strengthen national education systems, rebalance labour markets, and promote low-carbon development if we are to make progress on the Sustainable Development Goals. These and other priorities require an enabling policy environment for impact investing. In this context, the findings, guidelines and suggestions in this report serve as examples on how to facilitate such a recovery which will help future proof our economies and societies.

This report aims to catalyse action by showcasing best practices in the policy space and concrete actions that governments in Asia and the Pacific (and more broadly) are undertaking and can further develop to boost the impact investment ecosystem. It is clear that more, smarter and outcomes-focused capital will be required to solve some of the most challenging societal issues we face.

We hope this report serves to deepen the discussion on impact investment in Asia and the Pacific and to strengthen the partnership between the Economic and Social Commission for Asia and the Pacific (ESCAP) and Global Steering Group for Impact Investment (GSG), as well as all stakeholders interested in more action on impact investment.

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Executive Summary

Governments can leverage private capital for societal objectives by supporting impact investment. Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. An enabling policy environment helps to attract more funds to impact investment, to grow impact-oriented businesses, and to facilitate the match between supply and demand.

This report is targeted at policymakers and ecosystem players, such as representative bodies of impact investors or impact businesses. It introduces a conceptual framework for impact investment policies along with examples from the region. It aims to provide a basis for dialogue among policymakers as well as with ecosystem stakeholders to foster cross-learning and to promote policy actions that nurture the impact investment ecosystem across the countries of the region.

This report has five chapters.

Chapter 1

shows **why governments need to support impact investment**. Governments need to leverage private funding to achieve societal objectives. For example, even before the COVID-19 pandemic, the developing countries of the region needed an annual additional investment of at least $1.5 trillion to achieve the Sustainable Development Goals by 2030. In Asia, the impact investment market was sized at $170 billion in 2018, with annual growth rates of up to 24 per cent from 2014 to 2018. However, this is only a fraction of the more than $50 trillion in assets managed in the Asia-Pacific region. Governments can reduce barriers and create incentives for impact investments, and also direct funds to government priorities.

Chapter 2

introduces **policy tools to support impact investment** as the conceptual framework for the report. Governments can take on three basic roles: market facilitator, market participant and market regulator. In these roles, governments can strengthen the demand for impact capital (e.g. through support for impact enterprises), increase the supply of capital and support market intermediaries. Within this framework, the report identifies 14 concrete policy tools.

Chapter 3

reviews the tools governments can use in the role of **market facilitator**. For example, governments may draft a national strategy to provide the framework to improve the impact investment ecosystem at the national level. Governments may establish a dedicated central unit within national administration structures where experts support long-term development and oversee impact investment policies. Governments may support capacity-building to provide tools to support and grow businesses, including incubators and accelerators. Educational programmes support research and education on impact investing. Impact stock exchanges provide a platform that connects investors and impact businesses. Wholesalers (often established or enabled by governments) are funds of funds to provide catalytic capital to impact-driven investment funds.

Chapter 4

shows how governments can provide support in the role of **market participant**. Access to capital is about providing funding, through programmes and government-run funds, to impact businesses or impact-driven funds. Impact in procurement embed societal value in public procurement decisions. Outcomes commissioning includes pay-for-success contracts and creating a government outcomes fund to streamline the pay-for-success procurement system.

Chapter 5

describes the tools for governments in the role of **market regulator**. Through impact focussed investment regulation, governments mandate asset owners to include impact as a consideration in their clients' investment decisions. A specific legal form enables impact-focussed businesses to register separately. Impact reporting standards establish a standardized approach to impact reporting. Fiscal incentives on the supply side reduce the tax burden for impact investors or provide other benefits, while fiscal incentives on the demand side focus on impact businesses.

About this report

This report is the result of a joint effort between the Global Steering Group on Impact Investment (GSG) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) to provide a snapshot of current policymaking for impact investing in the Asia-Pacific region. It is aimed at policymakers and wider stakeholders seeking to engage with governments to promote meaningful change in the impact policy space. It is meant to act as an educational piece and conversation opener, rather than as a prescriptive or a rigid road map for implementation. The major aim of this effort is to inspire governments to address the most pressing challenges they face mobilizing impact capital and private actors. The report is based on the extensive and ongoing work of ESCAP and GSG with key stakeholders in the region. It is based on the policy framework developed by the Organisation for Economic Cooperation and Development* as well as on the work done by the GSG Policy Working Group in 2018**.

* See www.oecd.org/industry/social-impact-investment.htm.

** See https://gsgii.org/reports/catalysing-an-impact-investment-ecosystem-a-policymakers-toolkit/.

1 Why governments need to support impact investment

Impact investment optimizes 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.

Governments can create an enabling policy environment to attract and enable greater flows of impact capital to businesses that aim to generate positive, measurable social and environmental outcomes. In this way, businesses contribute to building more inclusive and sustainable economies, and this report shows the roles of governments in supporting the impact investment ecosystem (see box 1).

BOX 1

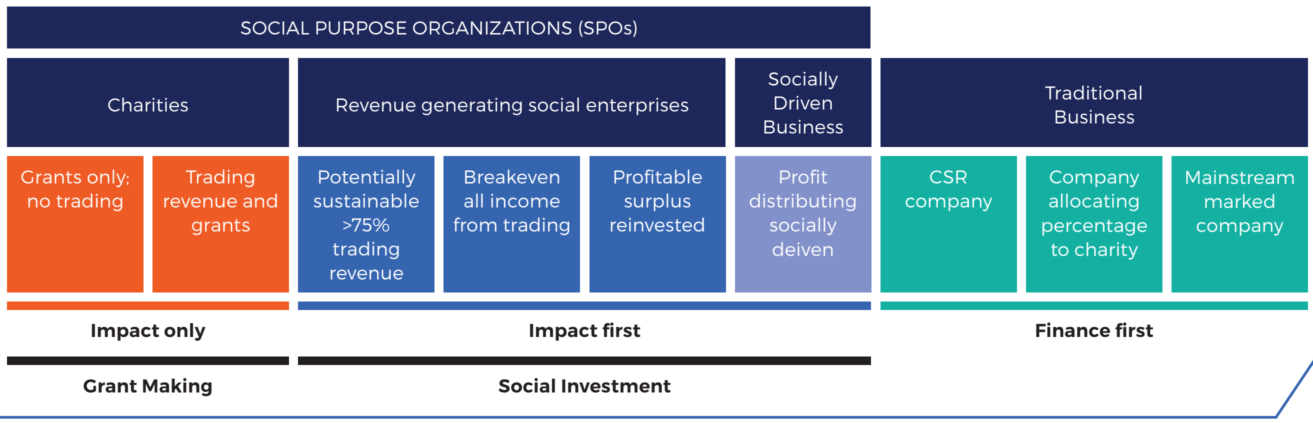
What is impact investment?

Impact investments are made with an intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to market rate, depending on investors' strategic goals.

What sets impact investment apart is its explicit focus on intentional and measurable positive impact. Put simply, while responsible investment seeks to avoid harm and sustainable investment seeks to benefit all stakeholders in a general way, impact investment seeks specific solutions to meet challenges affecting people and the planet.

Impact ventures, as the recipients of investment, cover a wide spectrum of approaches, as shown in the figure. Charities have societal value as their primary driver, while traditional businesses have financial value as their primary driver. In between are revenue generating social enterprises and socially driven businesses. All approaches along the spectrum may benefit from impact investments.

SPECTRUM OF IMPACT



Bridging the funding gap

According to the 2019 Economic and Social Survey of Asia and the Pacific, the developing countries of the region would need an annual additional investment of $1.5 trillion to achieve the Sustainable Development Goals (SDGs) by 2030. This is equivalent to 5 per cent of their combined gross domestic product in 2018. Governments are struggling to meet this financial requirement because the funding gap is as high as 16 per cent of gross domestic product for the least developed countries in the region, and 10 per cent for countries in South and South-West Asia.[1]

It is critical that other stakeholders, particularly the private sector, step in to bridge this investment gap. Indeed, the SDGs call on all actors to collaborate and change the way they operate in order to achieve inclusive and sustainable growth.

The private sector is increasingly answering the call and finding new value creation potential in solving societal challenges. Companies already provide access to goods and services as well as economic opportunities, and many enterprises are now focusing more strategically on how they can become more inclusive and sustainable. Big corporations are beginning to realign their priorities with the SDGs in the face of increasing pressure from consumers, investors and employees. New companies are being set up to purposefully solve social problems, often leveraging the power of new technologies.

In order to scale up their impact, these enterprises need investment capital. If even a fraction of the $51 trillion in assets managed by the financial sector in the Asia-Pacific region were channelled towards projects that contribute to the SDGs, the 2030 Agenda for Sustainable Development could be achieved. Governments have the ability to unlock this finance by catalysing the impact investment market.

Collaboration at the regional level also supports impact investment (box 2).

BOX 2

Regional collaboration for impact investment in the Asia-Pacific region

Governments are collaborating on the regional level to support impact investment. Regional activities are coordinated and supported by a range of actors. The efforts of some of the most relevant actors are featured in this box.

- The **United Nations Economic and Social Commission for Asia and the Pacific** (ESCAP) promotes cooperation among member states to achieve the Sustainable Development Goals by 2030. Impact investment is one of the key policy focus areas. ESCAP carries out and publishes research on impact investment policies in the region and hosts regional events that highlight the need for impact investment.
- The **Global Steering Group on Impact Investment** (GSG), successor to the Social Impact Investment Task Force, promotes measurable impact as a driver in investment and business decisions. The activities are carried by regional advisory boards (RABs) and national advisory boards (NABs) in 32 different countries, including four in Asia (Bangladesh, India, Japan and the Republic of Korea) to boost impact investment ecosystems across markets. GSG also conducts policy and advocacy work with the European Union, Group of Seven, Group of Twenty, the Organization for Economic Cooperation and Development, the United Nations and other governing bodies. It hosts and organizes relevant events including the annual GSG Impact Summit. The GSG Asia Advisory Group, comprising representatives of RABs, NABs and partner organizations listed in this box, has convened on a quarterly basis since 2018 to ensure coordination between these organizations and mutual support to initiatives especially around policymaking, including the development of the present report.
- The **Asian Venture Philanthropy Network** (AVPN), the only comprehensive funders' network in Asia, is a leading ecosystem builder for the social investment sector with 600+ members globally. Its mission is to catalyse the movement towards a more strategic, collaborative and outcome focused approach to social investing, ensuring that resources are deployed as effectively as possible to address key social challenges in Asia today and in the future. AVPN works to build a resilient social investment ecosystem in Asia by engaging in priority areas such as climate, gender, health care and public-private partnerships.
- The **British Council** is the international organization of the United Kingdom for educational opportunities and cultural relations. Through the Global Social Enterprise programme, the British Council promotes the development of social enterprises and social investment to help address entrenched social and environmental problems and deliver positive change in and across communities and societies. Its work draws on the experience and expertise of the United Kingdom and is delivered across 29 countries with local and international partners. Together, it provides social entrepreneurs with access to training, mentoring and funding opportunities and promotes social enterprise education in schools and universities. The Council convenes policy dialogues, organizes study tours and conducts research to share knowledge and best practice in scaling social enterprises and social investment. It also delivers international development projects that promote the growth of social enterprises. Its systemic approach is designed to help foster a more sustainable, inclusive and prosperous future, and build collaboration, opportunities and trust between the United Kingdom and other countries.
- The **Inclusive Business Action Network** (iBAN) supports the scaling and replication of inclusive business models. It contributes to the knowledge base on inclusive business and impact investing through its global online platform (www.inclusivebusiness.net) and funds key initiatives with partners. Within the framework of the Association of Southeast Asian Nations (ASEAN) and in partnership with ESCAP it supports the development of inclusive business guidelines, training of policymakers and the development of national action plans for inclusive business. iBAN has collaborated with AVPN to create an inclusive business portal that aims to connect investors and inclusive businesses in Indonesia, the Philippines, Thailand and Viet Nam. In partnership with Grow Asia it supported scaling of inclusive business models in agriculture. With its focus on scaling up inclusive business models and consequently improving the lives of those living in poverty, iBAN is actively contributing to the achievement of the Sustainable Development Goals. iBAN is funded by the German Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.
- In recent years, the **Group of 20** (G20) has pushed initiatives that promote an inclusive growth agenda. In 2016, the G20 Inclusive Business Framework set out a road map for governments and companies to enable inclusive businesses. Under the presidency of Argentina in 2018, the G20 Development Working Group launched the G20 Call on Financing for Inclusive Business. In 2019, under the presidency of Japan, the important role of impact investment for reaching the SDGs was recognized and included as a priority in the appendix of the Leaders' Declaration.
- The **Association of Southeast Asian Nations** (ASEAN) Secretariat endorsed the Inclusive Business Framework in 2017. The framework encourages members of ASEAN to develop enabling policy environments for inclusive business.
- The **United Nations Development Programme** (UNDP) recognizes impact investment as a tool to leverage private funding for development objectives, in particular through its SDG Impact Initiative. In November 2018, UNDP signed a comprehensive collaboration agreement with the GSG to work more closely in attracting additional capital to achieve the SDGs.*

* UNDP (2019). GSG signs landmark agreement with UNDP. Retrieved from www.undp.org/content/undp/en/home/news-centre/news/2019/GSG_signs_landmark_agreement_with_UNDP.html.

The current impact investing landscape in the Asia-Pacific region

In 2018, impact investments by 1,340 entities worldwide totalled $502 billion. Of this total, approximately 15 per cent ($170 billion) were deployed in Asia. Investments come from a range of organizations, about two thirds of which are asset managers, and the remainder are development finance institutions, banks and financial institutions, pension funds, foundations and family offices.[2]

Financial services, energy, information and communications technology, and agriculture have been the top sectors for impact investment in South-East Asia. Financial services account for more than 75 per cent of all impact capital deployed, and 85 per cent of that has gone to microfinance institutions.[3] In South Asia, financial services is the dominant sector for impact capital deployment, alongside energy and manufacturing.[4]

Countries in the region are at very different stages of developing impact investment ecosystems. This can be explained by a range of underlying factors. Economic development varies widely, and the general business environment and entrepreneurship ecosystems across countries in the region are at different levels of maturity. Cambodia, for example, has attracted a large amount of impact capital in the microfinance sector thanks to its open economy. It has received nearly as much private impact investor capital as Indonesia, the Philippines and Viet Nam combined – a striking difference given its relatively smaller economy (see box 3).[5]

BOX 3

A focus on 18 countries in the Asia-Pacific region

The current landscape of impact investment policies in 18 countries in the Asia-Pacific region was studied for this report. These range from countries with larger, more advanced impact investment markets, such as India, Singapore and the Republic of Korea, to those where the conversation on impact investment is just beginning, such as Brunei Darussalam, the Lao People's Democratic Republic and Myanmar.

Country context clearly plays a role when choosing policy tools. Factors such as the broader policy environment, market environment, investment climate and societal priorities need to be considered when comparing policy actions among countries. A separate, individual "snapshot" for each country is available in the annex to this report.

- Bangladesh
- Bhutan
- Brunei Darussalam
- Cambodia
- China
- India
- Indonesia
- Japan
- Lao People's Democratic Republic
- Malaysia
- Myanmar
- Nepal
- Philippines
- Republic of Korea
- Singapore
- Sri Lanka
- Thailand
- Viet Nam

1 ESCAP (2019). Economic and social survey of Asia and the Pacific 2019. Retrieved from https://www.unescap.org/sites/default/files/publications/Economic_Social_Survey%202019.pdf. Only Australia, Japan and New Zealand are considered developed countries in the region.

2 Global Impact Investing Network (GIIN) (2019). Sizing the Impact Investing Market. Retrieved from https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf.

3 GIIN (2018). The landscape for impact investing in Southeast Asia. Retrieved from https://thegiin.org/assets/GIIN_SEAL_full_digital_webfile.pdf. Investments in information and communications technology are mainly in Singapore, with capital directed to enterprises that provide software to energy and financial services enterprises and in Myanmar, where investments have supported content providers and digital marketing firms.

4 GIIN (2018). The landscape for impact investing in South Asia. Retrieved from https://thegiin.org/assets/documents/pub/South%20Asia%20Landscape%20Study%202015/1_Full%20South%20Asia%20Report.pdf.

5 The landscape for impact investing in Southeast Asia, GIIN.

Governments can propel impact investment

Governments can help overcome challenges and support the further growth of the impact investment sector. By creating conducive frameworks, adequate legal structures or setting the right incentives, they can also help channel much needed impact capital into social issue areas that have the highest priority in their developmental agendas.

Often there are barriers to impact investment in existing legal and administrative structures. For example, social enterprises may not find a fitting legal form to register under. On the supply side, the mandate of institutional investors is often constrained by existing regulation which requires trustees and managers to optimise risk and financial return only. Governments can remove these barriers by mandating the consideration of social and environmental factors in their investment decisions.

Governments can also provide financial and other incentives to reward impact investors and impact enterprises. In this way, governments can attract funding into areas they prioritize. Often a country´s largest buyer is the government, thus spending public funds based on impact-oriented outcomes is a major lever to create a market for impact enterprises and thus for impact investors.

This report highlights the ways in which governments in the Asia-Pacific region are already supporting impact investment and the development of impact economies. It documents examples of existing policy tools governments are using to build the impact investment market. Where relevant, it highlights good practices from countries outside of the region, as well as donor or private initiatives. It also provides a framework for governments to identify available policy tools. The objective of the report is to inspire and invite exchanges between policymakers in the Asia-Pacific region and globally, as well as between governments and potential partners from the broader impact investment ecosystem. Policymakers can use this report and the country profiles in the annex to identify opportunities for action and examples that can spark ideas and inspire solutions for social transformation (see box 4).

BOX 4

Who should read this report – and how to read it

Policymakers are the primary audience for this report. Impact investment cuts across traditional administrative structures. Treasury, labour, social issues, health, education, energy and environment are among the key policy areas which can leverage this approach by bringing the private sector on board to achieve societal objectives. Policymakers can use the guide to understand the tools to support impact investment in their regions and learn from practical examples.

Ecosystem players, such as representative bodies of impact investors or impact businesses, are a secondary audience. They can use the guide as a basis for dialogue with their governments on potential policy actions.

2 Policy tools to support impact investment

Governments can support impact investing in many different ways. This section provides an overview of existing policy tools to support the growth and consolidation of impact investment. They are organized across two dimensions: i) the actors in the impact investment ecosystem; and ii) the roles of governments. This framework has been developed and published by the GSG Policy Working Group in the report "Catalyzing an Impact Investment Ecosystem – A Policymaker's Toolkit".[6]

Actors in the impact investment ecosystem

Governments can use policies to target three types of actors in the impact investment ecosystem: those who supply capital, those who provide intermediation services and strengthen the enabling environment, and those who demand capital.

- **Supply of impact capital**: actors provide financial resources, directly or indirectly, for impact investment. These actors include institutional investors, private investors, banks or foundations, among others.
- **Intermediation and enabling the ecosystem**: actors facilitate the exchange of impact capital between the supply and demand side. These include venture capital, growth funds or fund of funds, as well as stock exchanges. Other actors facilitate the impact investment ecosystem, without necessarily providing capital. These range from financial advisors to academic institutions or national advisory boards (NABs).[7]
- **Demand for impact capital**: actors provide impact solutions and have financing needs to carry out those solutions.

The roles of government

Governments can support the impact investment ecosystem in three different roles: market facilitator, market participant and market regulator.[8]

- **Market facilitator**: creating organizations and systems that enable actors (e.g., centre of expertise within the government, incubators, research centres).
- **Market participant**: taking part in market exchanges by providing impact capital or sourcing from impact enterprises.
- **Market regulator**: implementing laws that enable and support impact ecosystem actors.

Chapters 3–5 are organized following the different roles of government, with a chapter covering each role.

6 See https://gsgii.org/reports/catalysing-an-impact-investment-ecosystem-a-policymakers-toolkit/.

7 Members of NABs are typically influential market leaders who aim to grow impact investment as a powerful force in a country. Forming a cross-sector coalition, NAB members span the entire impact investing ecosystem of a country. Through GSG, NABs work collectively to shape and accelerate the development of the global impact investing ecosystem.

8 OECD (2019). Social Impact Investment 2019: The Impact Imperative for Sustainable Development. Retrieved from https://read.oecd-ilibrary.org/development/social-impact-investment-2019_9789264311299-en#page1.

Impact investment policy toolbox

As shown in table 1, the 14 categories of impact investment policies identified in the GSG Policy Toolkit are organized along the dimensions described above. The different actors in the impact investment ecosystem are shown in the three columns and the government roles are arranged in rows.

TABLE 1
TOOLKIT STRUCTURE

Government role	Supply	Intermediaries	Demand
Market facilitator	National strategy		
	Dedicated central unit		
	Educational programmes	▲ Impact stock exchange ▲ Wholesaler	Capacity-building
Market participant	Access to capital		▲ Impact procurement ▲ Outcomes commissioning
Market regulator	▲ Fiscal incentives ▲ Impact-focused investment regulation		▲ Specific legal form and certification ▲ Fiscal incentives
	Impact reporting standards		

Note: Adapted from https://gsgii.org/reports/catalysing-an-impact-investment-ecosystem-a-policymakers-toolkit/

Each tool is described in the following chapters with examples from the region (see box 5). Boxes in the text highlight relevant international best practices and impact activities led by non-governmental organizations, development finance institutions and foundations.

The policy tools are interrelated. For example, implementing a national strategy for impact investment typically requires the installation of a dedicated central unit. Different policy tools could be combined within such a strategy. The tools also impact each other. For example, procuring from impact businesses can be facilitated by a specific legal form or by reporting standards, and generating a big enough pool of suppliers might require access to capital.

BOX 5

Examples in this report: what is in and what is out

Few policies in the region that support impact investment are actually labelled as such. Instead, they tend to use labels such as “green”, “sustainable” or “SDGs”. In preparing this report, drawing the boundaries around what is in and what is out was not always straightforward. As a general rule, this report includes policies that explicitly support business and investment with clear social and environmental targets. It excludes other policies that benefit impact businesses without targeting them explicitly. In particular, many countries in the region are prioritizing the development of small and medium-sized enterprises (SMEs), which helps many impact businesses, but such generic SME policies are not discussed in this report.

Table 2 provides a summary the policy examples that are discussed in detail in the following chapters. The examples listed in the table showcase some of the best practices in the field.

TABLE 2
OVERVIEW OF CASE EXAMPLES

Government role	Policy tool	Definition	Case example
Market facilitator	**National strategy**	Design and implement policies to improve the impact investment ecosystem at a national level	Social Enterprise Promotion Act, Republic of Korea
	Dedicated central unit	Establish an expert centre within national administration structures for long-term development and overseeing of impact investment policies	NAB, Bangladesh
	Capacity-building	Promote impact businesses by providing tools to support and grow their businesses includes incubators and accelerators	Singapore Centre for Social Enterprise (raiSE), Singapore
	Educational programmes	Support research and education on impact investing	Impact Investment research programme, Japan
	Wholesaler	Create a wholesaler (fund of funds) to provide catalytic capital to impact-driven investment funds	Act of Utilisation of dormant deposits, Japan
	Impact stock exchange	Provide a platform that connects investors and impact businesses	Social Impact Exchange, Malaysia
Market participant	**Access to capital**	Provide funding, through programmes and government-run funds to impact businesses or impact-driven funds	Green bond initiative, Indonesia
	Impact in procurement	Embed social value in public procurement decisions by procuring from impact businesses or integrating social and environmental metrics in procurement programmes	Seoul Ordinance on Public Procurement, Republic of Korea
	Outcomes commissioning	Procure pay-for-success contracts and create a government outcomes fund to streamline the procurement system	Social Outcome Fund, Malaysia
Market regulator	**Impact-focussed investment regulation**	Mandate asset owners to include impact as a consideration in their clients' investment decisions	Sustainable Finance Initiative, Cambodia
	Specific legal form and certification	Enable impact-focussed businesses to register under a specific legal form or certify	Law on Enterprises, Viet Nam
	Impact reporting standards	Establish a standardized approach to impact reporting	Sustainable Finance reporting regulation, Indonesia
	Fiscal incentives (supply)	Incentivise impact investors by reducing the tax burden or by providing other fiscal incentives	Green Bond Grant Scheme, Singapore
	Fiscal incentives (demand)	Incentivise impact businesses by reducing the tax burden or by providing other fiscal incentives	Royal Decree on Tax Exemption, Thailand

3 Government as market facilitator

As market facilitators, governments set up systems and create organizations that support and enable growth of impact ecosystems. In the Asia-Pacific region, governments have used a number of policy tools to improve the capacity and investment-readiness of impact enterprises, educate and encourage potential impact entrepreneurs and increase the capital available for such entrepreneurs.

3.1 National strategy

Provide a framework to improve the impact investment ecosystem at the national level

National impact investment strategies aim to expand and improve the impact investment ecosystem over the medium to long term. In the Asia-Pacific region, these strategies mostly focus on supporting social enterprises.

While many country-level strategies in the Asia-Pacific region focus on supporting the the development of small and medium-sized enterprises (SMEs), impact-specific actions were included in the strategies of the Republic of Korea (Social Enterprise Promotion Act), Malaysia (Malaysian Social Enterprises Blueprint), Thailand (Social Enterprise Promotion Act) and Viet Nam (Law on Enterprise). These strategies typically outline a range of supportive measures such as capacity-building, fiscal incentives, incubation facilities, market linkage services and certification for impact businesses. In most cases, countries set up a dedicated central unit to coordinate implementation of the strategy (see tool in 3.2). An example from Brazil is provided in box 5.

BOX 5

International good practice: National Strategy for Impact Investment and Impact Businesses in Brazil

In 2017, Brazil rolled out ENIMPACTO, the Government-approved national strategy for impact investment and impact business. Its objectives are to promote economic development, address socio-environmental problems and offer better public services to the population. The strategy provides official definitions for impact investments, impact businesses and intermediate organizations. It aims to increase the supply of impact capital and the number of impact businesses, improve the overall ecosystem and strengthen data generation to improve the visibility of the sector.*

* Brazil Ministry of Development, Industry and Foreign Trade (2017). National Strategy for Business and Impact Investing - ENIMPACTO Retrieved from www.mdic.gov.br/images/National_Strategy_for_Business_and_Impact_Investing_-_final_version_post_public_consultation_28.02.2018.pdf.

3.2 Dedicated central unit

Establish a focal point within national administration structures for long-term development and oversight of impact investment policies

A dedicated central unit works to ensure that impact investment policies are implemented consistently across different policy functions and serves as a focal point for both public and private players. Central units exist mostly in countries which have formulated a national impact investment strategy. These units support and oversee the design and implementation of impact policies, and they often provide capacity-building and incubation services (see box 6 for an example from the United Kingdom).

In the Republic of Korea, the Korea Social Enterprise Promotion Agency (KoSEA) has contributed to a vibrant and growing social enterprise community.

Korea Social Enterprise Promotion Agency (KoSEA) and Social Enterprise Promotion Act, 2006

The Social Enterprise Promotion Act is the national strategy to support impact investment for the Republic of Korea. The Korea Social Enterprise Promotion Agency (KoSEA) oversees its implementation.

KEY FACETS

- Recognizes and certifies social enterprises according to criteria outlined by the Act. Certified social enterprises get access to a wide range of benefits. KoSEA also oversees the monitoring and evaluation of these enterprises.
- Improves the capacity of social enterprises by providing access to professional services, specialized training courses for social entrepreneurs through the Social Entrepreneurs Academy, incubation support and social venture competitions.
- Supports enterprises by offering financial incentives including a wage subsidy for disadvantaged or underprivileged people, reduced corporate taxes, tax breaks for corporate purchases of social enterprise goods and services, long-term low interest loans, and preferential procurement by public bodies.
- Encourages local governments to support the national strategy. The comprehensive Social Economy Policy and Social Enterprise Support Plan of the Seoul metropolitan government supports social enterprises through business services, public procurement, education, incubation and social economy zones.

OUTCOMES SO FAR

- Since the certification system was introduced in 2007, over 2,300 social enterprises have been certified. As of September 2019, almost 1,250 pre-certification social enterprises and over 16,200 social cooperatives were registered.*
- The focus on supporting the impact ecosystem resulted in a stark growth in the number of social enterprises in Seoul between 2012 and 2015.**
- The national strategy has unlocked impact capital in the country. A number of government-backed funds have been set up in recent years including the Korea Credit Guarantee Fund and the Social Value Solidarity Fund (see more in section 3.5 and the Annex). These and other government-supported impact investment wholesaler funds aim to disburse around $670 million in the next five years.*

* GSG (2019). Country profile: South Korea. Retrieved from https://gsgii.org/wp-content/uploads/2019/11/Country-Profile_SOUTH-KOREA.pdf.

** http://sehub.net/multilingual?lang=en

Bangladesh has taken a different approach by setting up a National Advisory Board for Impact Investment to help shape the sector. In other countries, NABs are independent of government.

National Advisory Board for Impact Investment in Bangladesh

Established in 2018, the National Advisory Board for Impact Investment in Bangladesh sets the strategic direction for developing the impact investment ecosystem in the country and fosters collaborative relationships. The NAB is headed by the Secretary of the External Resources Division of the Ministry of Finance and includes relevant regulatory bodies and Bangladesh Bank, the central bank. Build Bangladesh, a private sector initiative, was instrumental in establishing the NAB and provides secretariat functions.

The Board is currently developing a national strategy and action plan for impact investment in collaboration with ESCAP, the Swiss Development Cooperation and the British Council. It will be closely aligned with the seventh Five-Year Plan of Bangladesh and the SDGs.

BOX 6

The Inclusive Economy Unit of the Government of the United Kingdom

Since 2003, the United Kingdom has had a dedicated central unit that supports the impact investment sector. The mission of the Inclusive Economy Unit is to encourage private investment, responsible business and social enterprises in partnership with innovative public services to address difficult social issues. This unit has remained a centre of focus and expertise as it expanded from an initial emphasis on social sector organizations to include social impact bonds, profit with purpose businesses, impact property and other, wider impact investment products over the years. Given the maturity of the impact investment ecosystem in the United Kingdom, the focus of the Government is on widening impact investment to retail customers and large mainstream financial players.*

* See GSG (2018). Catalysing an Impact Investment Ecosystem - A Policymaker's Toolkit. Retrieved from https://gsgii.org/reports/catalysing-an-impact-investment-ecosystem-a-policymakers-toolkit/; and Press Release of the Government of the United Kingdom (2016). Government announces Inclusive Economy Unit. Retrieved from www.gov.uk/government/news/government-announces-inclusive-economy-unit.

3.3 Capacity-building

Promote impact businesses by providing tools to support and grow businesses

Governments have set up or supported capacity-building programmes for social entrepreneurs and innovators in most of the 18 countries reviewed for this report. Two types of programmes have been identified.

Government-run incubators and accelerators
Incubators support early-stage social entrepreneurs to increase their chances of turning innovative ideas into market-ready products and services. Accelerators support social entrepreneurs in later stages, as they work to scale their impact through short and intense programmes. These programmes provide business training and mentoring, networks and contacts, and, in some cases, common infrastructure such as co-working spaces. Such initiatives release young companies from spending on infrastructure and allow them to focus on their core business in the first years of operations. For example, the Atal Innovation Mission in India is a large government initiative that provides incubation services and technical and infrastructure assistance to innovative start-ups, particularly those which aim to generate positive social and environmental outcomes.[9]

Specialized centres
Governments set up centres to provide training and support to impact businesses, including training sessions and workshops, and access to knowledge resources and collaborative events. Many of these centres also provide incubation and/or acceleration services. The Malaysian Global Innovation and Creativity Centre (MaGIC) fulfils this role in Malaysia. In Singapore, the Singapore Centre for Social Enterprise plays a crucial role in driving capacity-building initiatives of the Government.

[9] NITI Aayog (n.d.). Atal Innovation Mission. Retrieved from https://niti.gov.in/aim.

Singapore Centre for Social Enterprise, 2015

The Singapore Centre for Social Enterprise (raiSE) was formed as a nodal agency backed by the Ministry of Social and Family Development. It fosters the development of the social enterprise sector in Singapore by providing multiple services to social enterprises and raising public awareness about the work of these enterprises.

KEY FACETS

- Recognizes social enterprises by outlining a clear-cut definition and offering membership to interested enterprises.
- Improves the capability of social enterprises through multiple capacity-building initiatives, such as programmes and advisory services.
- Offers a physical co-working space.
- Provides funding support in the form of grants, awards and investment.
- Increases awareness of social enterprises by holding public events that encourage the consumption of products and services offered by social enterprises.

OUTCOMES SO FAR

- Since raiSE was set up, Singapore has seen a jump in social enterprise activity. In 2017, two years after the centre was set up, the number of social enterprises in Singapore increased by 32 per cent.*
- raiSE has more than 400 social enterprise members and has provided training to over 18,000 employees of these members. Nearly 22,000 employees of their members have gained access to economic tools and services.
- In 2018/19, raiSE provided nearly $2 million in grants to social enterprises, almost doubling from the previous period.**

* Channel News Asia (2017). Social enterprise sector grew by 32% from last year: raiSE. Retrieved from www.channelnewsasia.com/news/singapore/social-enterprise-sector-grew-by-32-from-last-year-raise-9138340.

** raiSE (2018). Annual report 2018/19: Pushing boundaries. Retrieved from www.raise.sg/ar2018.html/.

3.4 Educational programmes

Educate current market participants and youth on impact investment and entrepreneurship

Educational programmes can help build a solid foundation for the local impact ecosystem by generating a deeper understanding of the impact economy, inspiring and training future entrepreneurs or investors, and by building awareness about the relevance of the approach. Governments can work with public education and research institutions to set up programmes that generate and diffuse knowledge on impact investing and the impact economy.

Impact-focused courses offered by universities

In a few countries, prominent public universities offer courses or programmes on social entrepreneurship, impact investment and similar areas. The Korea Advanced Institute of Science and Technology offers a two-year Master of Business Administration in Social Entrepreneurship and a masters in Green Policy.[10] Courses in social economy are also offered at the undergraduate and graduate levels at Hanyang and Sungonghwe Universities. The State universities of Indonesia offer social entrepreneurship programmes in collaboration with university business departments and civil society. The Bogor Agricultural School offers a curriculum on how to start and manage a social enterprise. The Local Enablers platform founded by Universitas Padjadjaran, a state university, provides a platform for people to share their knowledge on design thinking, engineering and social enterprises. The university offers lectures and an incubation programme to develop social enterprises.[11] Universities in Singapore (Singapore Management University, Ngee Ann Polytechnic) and Thailand (Thammasat University, North Chiang Mai University, Bangkok University) also offer specific courses on social entrepreneurship.

[10] See www.business.kaist.edu/programs/02040601.

[11] The State of Social Enterprises in Indonesia, British Council and ESCAP, 2018.

Research

Governments are funding and supporting research projects on impact enterprises (see example in box 7). As part of its ambition to make the area a social investment hub, the administration of Futian District, China, funds research and academic programmes on social investment. In Japan, the Institute of Non-profit and Public Management Studies at Meiji University received funding from the Government to conduct research on impact investment and social impact bonds.

BOX 7

Social impact research platform in Italy

In 2016, after several Italian universities were successfully involved in the work of the Group of Seven Social Impact Investments Taskforce, the Italian Ministry of Education, University and Research financed $1.1 million programme to sustain advanced research in this field.
Thanks to this support, the University of Milan (Politecnico di Milano) and the University of Rome (La Sapienza) gathered a group of 10 universities to analyse the impact investment market in Italy and Europe, design innovative financial models and experiment with impact measurement frameworks.
These universities have been working for three years with investors and social entrepreneurs throughout the country, testing innovative business models and supporting the public sector with reliable information for the design of policies aimed at incentivizing the impact finance.

3.5 Wholesaler

Create a fund of funds to provide catalytic capital to impact-driven investment funds

Having an impact capital “fund of funds” (or “wholesaler") in place is critical to the development of any robust impact investment market. Wholesalers invest in funds and other intermediaries that support impact enterprises as well as investing in the enterprises themselves. The wholesaler also seeks to catalyse investment from elsewhere such as foundations, private investors and other institutional investors. To this end, wholesalers provide catalytic capital, defined as debt, equity, guarantees and other investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment, in order to generate positive impact and enable third-party investment that otherwise would not be possible.[12]

In Asia and the Pacific, the few examples of government-led wholesalers are still in their infancy. The Korean Social Value and Solidarity Foundation is the first wholesale fund set up by the Government of the Republic of Korea as part of the ‘Social Finance Promotion Strategy 2019’.[13] Its stated objectives include providing patient capital to social enterprises through intermediaries; supporting social impact bonds and improving the impact support infrastructure by offering training and adopting certification systems. The fund aims to invest $250 million over five years from 2020, with the Government matching private funding.

Japan has created a policy that enables assets from dormant accounts to be deployed as impact capital, following the pioneering model of Big Society Capital in the United Kingdom. Successful dormant accounts schemes all have a lifetime guarantee of recovery while banks are required to make every effort to reconnect the funds with their owners. In the absence of reclaim funds and dormant accounts schemes unclaimed assets usually go to the government (e.g. Australia) or sit in the banks’ balance sheets indefinitely, with no system to reconnect funds to their owners. Therefore, a well-designed dormant accounts system with a reclaim fund and reconnection scheme strengthens property rights (see box 8).

[12] MacArthur Foundation, 2019.

[13] See www.svsfund.org/en.

Act on Utilization of Dormant Deposits, 2016

The Act on Utilization of Dormant Deposits came into force in 2019, and it allows funds from bank accounts that have been inactive for 10 years or more to be used to finance social welfare activities (with banks being required to exert all effort to track down the owner before declaring an account dormant). It is estimated that around $1.1 billion becomes dormant every year. Of that, owners later claim approximately $460 million. Therefore, around $600 million is available each year.*

KEY FACETS

- ▲ Funds from dormant accounts are expected to be channelled to organizations, including those in the private sector, in the form of grants, loans and equity.
- ▲ Investments will be made in initiatives that solve social issues, especially those affecting children, youth and marginalized populations; and for the development of local communities and regional economies. Investees will be non-profit organizations as well as social enterprises.
- ▲ Funds are to be disbursed by the Designated Utilization Foundation that is the coordinating agency for this policy.

OUTCOMES SO FAR

Fund disbursal began in the second half of 2019, so the actual impact of this tool is yet to be seen.

* https://gsgii.org/wp-content/uploads/2018/10/GSG-Paper-2018-Wholesalers.pdf.

The Ministry of Micro, Small and Medium Enterprises in India has launched ASPIRE - a fund of funds to support intermediaries that invest in these enterprises and start-ups in the rural and agricultural industries. Its investees should invest at least twice the financial contribution they receive from the fund in businesses in the relevant sectors. So far ASPIRE has committed almost $7 million in five funds.

BOX 8

International good practice: Big Society Capital in the United Kingdom

Big Society Capital (BSC) is a social wholesale investment bank that was established by the Cabinet Office and launched as an independent organization in April 2012. It champions the development of the social impact market and supports intermediaries. Its equity capital was funded with $640 million from unclaimed bank accounts, enabled through the 2008 Dormant Accounts Act, and $320 million in loans from the four biggest banks in the United Kingdom. By 2018, BSC had invested in 44 intermediaries, which in turn have invested in or arranged investment for 800 social enterprises.

The impact investment space in the United Kingdom has grown considerably since BSC was launched. In 2019, BSC estimated the size of the market to be $4.6 billion, a fifteen fold increase from an estimate of $320 million in 2012. Since 2015, the market has grown at least 30 per cent a year. Its work with intermediaries has proved fruitful with the number of intermediaries managing more than $60 million increasing from one in 2012 to seven in 2017.

Source: BSC (2019). For third year in a row, UK Social Investment Market grows by 30% – now worth over £3.5 billion. Retrieved from https://bigsocietycapital.com/latest/for-third-year-in-a-row-uk-social-investment-market-grows-by-30-now-worth-over-35-billion/.

3.6 Impact stock exchange

Provide a platform that connects investors and impact businesses

Impact stock exchanges are regulated by a financial authority and allow listed social enterprises to raise funds from investors. As listed organizations are vetted by the exchange, costs for both investors and investees decrease.

A prominent government-led example in the region is the Social Impact Exchange (SIX) run by Agensi Inovasi Malaysia (see box and Annex). In 2019, the Government of India announced the introduction of the Social Stock Exchange. It will allow the listing of social enterprises and voluntary organizations on an electronic fundraising platform. The Securities and Exchange Board of India will be the regulatory authority, and it has formed a 15-member working group to create a blueprint for the exchange. An example from Singapore is provided in box 9.

Social Impact Exchange, 2017

Launched in December 2017 in Malaysia, the pay-for-success Social Impact Exchange (SIX) aims to channel untapped corporate resources into high-performing social purpose organizations. Funders can choose and fund programmes that align with their corporate social responsibility strategy or target their intended areas of impact. They receive measured and audited social impact reporting to track the progress of the programmes they fund. SIX has been jointly implemented by Agensi Inovasi Malaysia and Malaysian Global Innovation and Creativity Centre (MaGIC).*

KEY FACETS

- ▲ Provides a listing platform for high performing social purpose organizations which is designed to parallel a traditional stock exchange. Just like an initial public offering listing exercise, organizations listed on the platform are evaluated based on capacity, track record, projected impact, financial sustainability, measurement and innovation prior to listing on the SIX portal.
- ▲ Enables efficient fundraising by matching social purpose organizations with potential funders with well-aligned corporate social responsibility priorities.
- ▲ Supports transparency and accountability by providing access to comprehensive reports on listed organizations' social impact performance.

* National Innovation Agency Malaysia (n.d.). Retrieved from https://innovation.my/.

BOX 9

Private sector good practice: IIX Impact Partners, Singapore

IIX Impact Partners connects impact investors and impact enterprises seeking investment on a user-friendly online platform. The exchange was set up in Singapore in 2011, and it is open to impact investors both from Singapore and abroad that meet specific criteria in their jurisdictions of residence. While there is no minimum investment size, most impact enterprises seek to raise at least $70,000.*
Each enterprise is evaluated by the platform on their social and environmental impact as well as their financial capacity through a market readiness assessment framework.

A selection of tools (e.g. Global Impact Investing Rating System, Social Return on Investment) used by independent third parties add to the information on the platform about each listed enterprise.*
The platform has closed 55 investments, facilitating over $78 million in investment capital and $81 million in follow-on investments.**

* Impact Partners (n.d.). Investors FAQ. Retrieved from http://impactpartners.iixglobal.com/investors/faq#A2.

** Impact Partners (n.d.). http://impactpartners.iixglobal.com/.

4 Government as market participant

Governments can also strengthen the impact market as a participant. They can do this by investing directly in impact capital vehicles or by embedding impact in their public commissioning frameworks. There are different mechanisms that governments are using to provide much needed capital to impact enterprises. These range from the more traditional investment funds to the increasingly popular green bonds and development impact bonds (DIBs). As the largest purchaser of goods and services in their respective countries, governments can also have a major impact by targeting their spending.

4.1 Access to capital

Provide funding to impact businesses or impact-driven funds

Most countries in the region have existing initiatives and policies to provide access to capital for impact enterprises.

Government-backed funds
There are few examples of government-owned impact investment funds, as most of them are managed by the private sector. One government-owned impact investment fund is the Samridhi fund in India. The Small Industries Development Bank of India set up this $55 million social venture fund to provide growth capital in the form of equity or equity-linked instruments to "companies with development impact" in eight states.[14]

Credit guarantee programmes
These programmes provide loans to impact enterprises under preferential conditions with the funders providing guarantees to cover the default risk of the borrowers. Impact enterprises often find it challenging to get conventional loans from banks as they are unable to provide the kind of collateral required. For example, the Korea Inclusive Finance Agency provides guarantees for loans worth up to $7 million for "firms doing business on social issues".[15]

Green bonds
Bonds with a focus on investments with a positive environmental impact have been set up by various governments. In China, the Green Credit policy and the Green Financial System policy focus on increasing lending to innovative green businesses that are commercially viable, including green bonds that unlock private capital for projects with an environmental or climate change focus. Indonesia launched its first green bond in 2018 (see box and Annex). In Malaysia, the Green Technology Financing Scheme, introduced in 2010, finances the capital expenditure of companies producing green technology. It was extended for another two years in 2019.[16]

[14] Sidbi Venture. Samridhi Fund (SF).Retrieved from www.sidbiventure.co.in/samridhi_fund.html.

[15] Korea Biz Wire (2018). Gov't to Boost Policy Support for Social Impact Investments. Retrieved from http://koreabizwire.com/govt-to-boost-policy-support-for-social-impact-investments/116052.

[16] Malaysiakini (2019). Green Technology Financing Scheme 2.0 receives encouraging response. Retrieved from https://www.malaysiakini.com/news/478155.

Green Bond and Green Sukuk Initiative in Indonesia, 2018

The Green Bond and Green Sukuk Initiative aims to support the goal of the Government of Indonesia to reduce greenhouse gas emissions. All proceeds will go to finance or refinance eligible green projects.

KEY FACETS

- ▲ Supports national environmental commitments by financing projects that contribute to climate change mitigation and adaptation as well as preserving biodiversity.
- ▲ Leverages private finance for green projects by attracting a broad range of local and international investors.
- ▲ Provides guidelines to investors. This includes publishing an annual report that details project descriptions, allocation of funds and the estimated social and environmental impact. Reports are audited by an independent third party.*

OUTCOMES SO FAR

- ▲ The first sovereign bond was successfully issued in United States dollars by the Government in 2018. It raised $1.25 billion at 3.75 per cent annual yield and five-year maturity.**
- ▲ The issuance was 2.4 times oversubscribed and was able to tap a wide set of investors beyond the traditional shariah investors.*
- ▲ Funds from this issuance have been allocated to a number of climate change mitigation and adaptation projects including a double-track railway line and a solar power plant.**
- ▲ In January 2019, the Government issued a second $750 million Green Sukuk with a five-year maturity, which was oversubscribed by 3.8 times.***

* SDG Philanthropy (2019). Allocation and Impact Report: Green Sukuk Issuance. Retrieved from www.sdgphilanthropy.org/system/files/2019-02/Green%20Suku%20Issuance%20-%20Allocation%20and%20Impact%20Report%20.pdf.

** See www.undp.org/content/dam/LECB/docs/pubs-reports/undp-ndcsp-green-sukuk-share.pdf.

*** The Jakarta Post (2019). Indonesia issues US$ 2b global green, regular sukuk. Retrieved from www.thejakartapost.com/news/2019/02/18/indonesia-issues-us-2-27b-global-green-sukuk.html.

4.2 Impact in procurement

Embed social value in public procurement decisions by giving priority to impact businesses or integrating social and environmental metrics in procurement programmes

Some countries in the Asia-Pacific region have started to embed social and environmental impact factors in public procurement.

Environmental standards in procurement

The Make in India policy introduced a certification for “Zero Defect, Zero Effect” (ZED) products and services, which includes parameters on minimal negative social and environmental effect. ZED-certified enterprises are given the classification of “preferred sellers” on the eMarketplace, the e-procurement portal of the Government of India for public agencies.

Seoul municipal ordinance on Increasing the Social Value of Public Procurement, 2014

The ordinance enhances the social responsibility of the public procurement market in Seoul. It promotes preferential purchase of goods or services produced by impact enterprises. It also supports impact enterprises in developing products and improving their business.

KEY FACETS

▲ Promotes the public purchase of goods and services from impact enterprises. The ordinance directs the Seoul metropolitan government and any entity affiliated with it to ensure preferential procurement from impact enterprises. Every entity has to include separate purchase plans for goods produced or services rendered by impact enterprises in their planning.

OUTCOMES SO FAR

▲ Public procurement targeting the social economy in Seoul grew by $7 million in 2015.

▲ Twenty organizations in Seoul that voluntarily disclosed their management information revealed that the ordinance led to 25 per cent growth in sales from 2014 to 2015.*

* New Economy (2019). Status of Social Economy Development in Seoul. Retrieved from https://neweconomy.net/sites/default/files/status%20of%20social%20economy%20development%20in%20seoul.pdf

4.3 Outcomes commissioning

Adopt pay-for-success contracts and create a government outcomes funds

The increasing adoption of pay-for-success mechanisms is a crucial part of the transition towards impact economies (see box 10).[17] This is especially true and a core gap for the public sector, as governments around the world continue to be predominantly focused on traditional input-commissioning schemes – which typically limit scalability and hinder innovation.

BOX 10

Private sector good practice – ‘Educate Girls’ development impact bond: a pay-for-success initiative

The three-year DIB was launched in 2015 to improve the enrolment rate and quality of education for 15,000 schoolgirls in rural India in Rajasthan State. The bond achieved results above its target – 116 per cent of the enrolment target and 160 per cent of the learning target. The investor, the UBS Optimus Foundation recovered its investment ($270,000) plus a return of 15 per cent from the DIB outcome payer, the Children's Investment Fund Foundation.

Following this success, the Quality Education India DIB was launched in 2019. It raised $11 million to pay for improved learning outcomes among primary school children in 600 schools in the states of Delhi and Gujarat. The UBS Optimus Foundation provided upfront capital along with a number of other private investors. While the Government of India is supporting the project, it is not an outcome funder.

Source: Devex (2018). The Educate Girls DIB exceeded its goals: How did they do it and what does it mean? Retrieved from www.devex.com/news/the-educate-girls-dib-exceeded-its-goals-how-did-they-do-it-and-what-does-it-mean-93112.

By adopting pay-for-success tools, governments can shift from their traditional focus on the purchase of activities to the commissioning of actual results (outcomes) as a means of delivering better societal solutions. At the same time, this approach can help attract additional private funding for public policies (from socially oriented investors who want to link their capital to the effective achievement of measurable outcomes) and attract a larger pool of ideas on how to best provide basic goods and services.[18]

One of the most widely adopted pay-for-success schemes is the social impact bond (SIB). Government SIB schemes aim to overcome obstacles to investing in prevention and early intervention by bringing in impact investors who provide flexible funding to high impact programmes run by social sector organizations. Financial returns are tied to the delivery of measured social outcomes. Only if the social outcome is achieved, the Government repays the investor, adding a return for the risks they took.

Japan has the most extensive experience with SIBs in the Asia-Pacific region. In 2017, SIBs were launched in the cities of Kobe and Hachioji for the prevention of chronic diabetic kidney diseases and to mitigate the effects of cancer. In the Republic of Korea, the Korea Social Investment Fund, the Department of Women and Family Policy and the Seoul Metropolitan Government partnered to launch a SIB on child welfare. Gyeonggi province also issued a SIB targeting workforce development in 2017.

In some countries, outcomes funds have been launched in order to foster the SIB market. An outcomes fund typically operates as the payer of pre-agreed, measurable social outcomes (e.g. reduction in criminal reoffending, lower drop-out rates in secondary education) in a SIB scheme. Some public outcomes funds match their funds with those of private donors.

Malaysia was the first Asian country to launch a social outcomes fund in 2017. Agensi Inovasi Malaysia, the Malaysia Innovation Agency, launched the fund (see box and Annex).[19]

Several countries have also seen development finance institutions and the private sector supported SIBs being introduced, such as women's livelihood bond in Cambodia, the Philippines and Viet Nam (supported by United States Agency for International Development and Australia's Department of Foreign Affairs and Trade (DFAT). Private players in Singapore (IIX and DBS Bank) have also issued an impact bond on women's livelihoods, which is listed on IIX.

Social Outcome Fund, 2017

Launched by Agensi Inovasi Malaysia, the Social Outcome Fund is a pay-for-success financing model that aims to involve foundations, individuals and the wider private sector in funding social purpose organizations. These funders can expect a return of their investment if predetermined outcomes are achieved. The first tranche of the fund was launched in 2017 with a value of $725,000. In April 2019, the Agensi Inovasi Malaysia launched a second tranche, seeking six-month projects that address 40 high priority social issues highlighted in the Social Progress Assessment.

KEY FACETS

- ▲ Raises social funding from private sector funders via a pay-for-success model.
- ▲ Offers full repayment by the Government to the private sector funders once the organization has achieved the pre-agreed social value. This social value is measured in terms of cost savings against Government benchmarks and is based on the mutual consensus of all stakeholders (Agensi Inovasi Malaysia, private funders, and social purpose organizations). It is measured using pre-defined indicators for each intervention.*

OUTCOMES SO FAR

As of March 2020, the social outcome fund has funded eight projects, out of which three projects have been successfully completed. For completed projects, Agensi Inovasi Malaysia has reimbursed the full funding amount or the actual expended amount (whichever was lower) to private funders after the organization achieved 1.5 times or more of social value (calculated by monetizing the social outcomes achieved) which was verified by an independent assessor.**

* Email response from Agensi Inovasi Malaysia, 2020; and ESCAP (2017). Innovative Financing for Development in Asia and the Pacific.

** Email response from Agensi Inovasi Malaysia.

17 Pay-for-success is also referred to as "payment by results" or "outcomes-based financing".

18 JRC (2018). Social Impact Investment in the EU. Retrieved from https://publications.jrc.ec.europa.eu/repository/bitstream/JRC111373/jrc111373_jrc-s4p_report_sii-eu_maduro-pasi-misuraca_def_12122018.pdf.

19 AVPN (2019). Making Sense of Impact investing in Asia. Retrieved from https://avpn.asia/blog/making-sense-impact-investing-asia/.

5 Government as market regulator

Governments can build an enabling environment for impact investment by introducing favourable laws and regulations. These laws encourage relevant stakeholders by legally recognizing impact enterprises and by providing fiscal and other incentives. Some governments also provide standards for impact measuring and reporting.

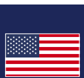
5.1 Impact-focused investment regulation

Provide guidelines for asset owners to consider in their clients' investment decisions

Many countries across the Asia-Pacific region have voluntary investment codes. Under such codes, asset owners and companies agree to include pre-defined social and impact criteria in their investment decisions and, in most cases, their reporting mechanisms. While few of these codes focus specifically on impact investing, frameworks that encourage responsible investment are positive intermediate steps to increasingly consider social and environmental criteria in investment decisions. Singapore has introduced a range of measures to become a global hub for sustainable finance. The Monetary Authority of Singapore promotes the growth of the green bond market in the region together with the International Financial Corporation. The Monetary Authority of Singapore is also a founding member of the Network of Central Banks and Supervisors for Greening the Financial System, which aim to enhance the role of the financial system to manage risks, and to mobilize capital for green and low-carbon investments.

Environmental, social and governance (ESG) safeguards
The integration of ESG factors in investment decisions and the concept of 'responsible investing' are increasingly being encouraged by policymakers in the region. A number of countries are making it compulsory for listed companies to report on ESG performance. The Sustainable Finance Initiative in Cambodia, for example, mandates safeguards and standards for environmental and social impact created by the private sector (see box and Annex). In most countries, however, the regulations related to responsible investing are voluntary. The Republic of Korea, Japan and Singapore all have a "Stewardship Code" in place - a set of guidelines including ESG principles which investors and businesses can voluntarily adopt. The Thai Stock Exchange trains and advises listed companies on how to improve their business practices and has also developed a range of services to support non-listed impact companies. An example integrating ESG factors in investment decisions in the United States is provided in box 11.

BOX 11



International good practice: Change in fiduciary duty of pension funds in the United States

Private pension funds in the United States have been traditionally less engaged in various forms of impact investment. This is in part because of their concerns around fiduciary duty. Two interpretive bulletins were created to provide greater regulatory guidance for fiduciaries:

Bulletin 2015-01 deals with the ability of pension funds to invest in ESG products or to offer them as options in participant-directed plans.

Bulletin 2016-01 deals with the ability of pension fund 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).

Corporate social responsibility (CSR) spend guidelines
Various countries, such as the Republic of India and Indonesia, have mandated companies of a certain size to spend a percentage of their profits on CSR activities. India recently announced that, as part of their CSR contribution policies, large companies would be able to invest in impact start-ups through certain pre-defined mechanisms.

Impact investment regulation
Some countries have introduced specific regulations in order to increase the flow of private capital to impact-driven businesses. In India, the Alternate Investment Fund regulations of 2012 enable impact funds to have a specific set of rules to operate under, which considers their specific needs. The regulation categorically recognizes social venture funds and has created a specific legal form for them. Bangladesh put similar regulations in place in 2015, in the form of the Alternative Investment Rules of the Securities and Exchange Commission.

Cambodian Sustainable Finance Initiative, 2016

The Sustainable Finance Initiative was set up by the Association of Banks in Cambodia in partnership with the National Bank of Cambodia and the Ministry of Environment to strengthen finance sector safeguards and risk management standards related to social and environment impacts created by the private sector. In 2019, the initiative launched the Sustainable Finance Principles for its members to adhere to. These principles also support impact investing as they raise awareness on the social and environmental impacts of investments.

KEY FACETS

- Promotes responsible private sector lending by encouraging banks to commit to the Sustainable Finance Principles, including minimizing environmental risks, ensuring the well-being of local communities and protecting local heritage, making finance more inclusive through education and lending to the unbanked.
- Encourages robust implementation processes and monitoring and evaluation systems.

OUTCOMES SO FAR

To date 47 members signed the principles with endorsement of the National Bank of Cambodia and the Ministry of Environment.*

* The Association of Banks in Cambodia (2019). Cambodian Banks Adopt Sustainable Finance Principles. Retrieved from www.ifc.org/wps/wcm/connect/409af30e-ce39-47a0-beb5-210d126cce0e/Press+Release+Cambodia+banks+adopt+Sustainable+Finance+Principles++March+%E2%80%8B29+March+2019.pdf?MOD=AJPERES&CVID=mDJN9HB.

5.2 Outcomes commissioning

Enable social enterprises to officially register their societal and environmental contribution along with their ability to generate profit

Legal form
Several countries have defined specific legal requirements for businesses to register as social enterprises. Viet Nam was the first country in South-East Asia to recognize social enterprises as separate legal entities (see example below). In the Republic of Korea, the Social Enterprise Promotion act also introduced a specific legal form.

Certification
Some countries have put official accreditation schemes in place to certify social enterprises that fulfil the legal definition and accompanying criteria of a 'social enterprise'. These special registration and certification schemes allow governments to grant benefits, such as fiscal incentives or preferential procurement. Malaysia's Impact Driven Enterprise Accreditation, conducted by MaGIC, provides benefits such as an income tax deduction and networking opportunities.

Viet Nam Law on Enterprises, 2014

The Government of Viet Nam defined social enterprises as a special category under the Enterprise Law. Under the law, organizations that meet the criteria of a social enterprise are entitled to multiple benefits.

KEY FACETS

- Recognizes social enterprises as a separate category in busines. The law defined a social enterprise as one "that is registered and operates to resolve a number of social and environmental issues for a social purpose; and reinvests at least 51 per cent of total profits to resolve the registered social and environmental issues."*
- Encourages the uptake and growth of social enterprises by providing incentives such as long-term leases at preferential rates on infrastructure and land or exemption from registration fees charged for the use of land. Social enterprises are charged income tax at 10 per cent (as opposed to the usual 20 per cent), are exempt from paying income tax for four years after they start generating taxable income, are entitled to preferential import and export taxes, and, in some cases, exempt from value added tax.

OUTCOMES SO FAR

- Since 2015, new social enterprises have emerged and other organizations that were already pursuing a social enterprise model have embraced the concept and terminology. More intermediaries and networks have been founded; and several universities have started social enterprise incubation programmes.*
- ESCAP surveyed social enterprises in Viet Nam to study the effect of the law and found that 30 per cent of the social enterprises in the sample were launched after the law was enacted. Many of these enterprises were led by young people, with 58 per cent of all respondents age 25–44. Nearly half of social enterprise leaders are women, compared to 37 per cent of SMEs more widely.**

However, the process of registration is not straightforward. As a result, only a small percentage of social enterprises make use of it. In Viet Nam, only about 80 of the estimated 1,000 social enterprises in the country opted to officially register under the Law on Enterprises.***

* British Council (2019). Social Enterprise in Vietnam. Retrieved from www.britishcouncil.vn/sites/default/files/social-enterprise-in-vietnam.pdf.

** ESCAP (2019). Social Enterprise in Vietnam. Retrieved from www.unescap.org/sites/default/files/social-enterprise-in-vietnam.pdf.

*** CSIE (2018). Fostering the Social Impact Business Sector in Vietnam. Retrieved from www.undp.org/content/dam/vietnam/docs/Publications/Foster%20SIB%20Sector%20in%20Vietnam_E_ebook.pdf.

5.3 Impact reporting standards

Establish a standardized approach to impact reporting

ESG reporting standards and mandated sustainability reporting mechanisms are in place in several countries. These standards help streamline reporting. However, some impact areas, especially around social issues, are not covered. Governments typically collaborate with academia and other stakeholders to devise standards.[1]

Green bonds standards

Countries such as China, Indonesia and Malaysia have defined reporting standards and guidelines for green bonds and sukuks.[2] These guidelines outline the type of projects in which proceeds of these bonds can be deployed, standards for reporting of outcomes and financial and physical progress.

[1] The Impact Management Project is an example of a multi-stakeholder partnership which has brought together numerous practitioners to develop shared norms for measurement, management and reporting of impact. It has brought together the perspectives from the fields of investment, grant-making, business, non-profits, social science, evaluation, wealth management, policy, standards bodies and accounting (among others).

[2] A sukuk is a financial certificate, that complies with Islamic religious guidelines. Sukuk involves asset ownership and provide investors with payment streams.

Sustainability reporting

In a few countries, the respective stock exchanges or market regulators of those countries have taken the lead in mandating sustainability and impact reporting for companies which choose to list on their platforms. In 2017, the financial services authority of Indonesia released the Sustainable Finance Umbrella Policy with an action plan for large financial institutions that includes mandatory annual sustainability reporting.

Impact reporting regulations under the Sustainable Finance Umbrella Policy, 2017

The Sustainable Finance Umbrella Policy defines the principles of sustainable finance and outlines an action plan for the whole financial system to follow in Indonesia. This includes annual reporting on implementation and progress. The policy was made mandatory for larger banks by 2019 and a later deadline has been given for smaller financial institutions.

KEY FACETS

- Promotes responsible lending by particularly focusing on green financing. Under the policy, banks should develop green financing products and increase their portfolio as well as embed sustainability principles within their systems and governance. It specifically mentions green bonds defined as funds whose proceeds are used for financing and refinancing of eligible green projects. It mandates that 70 per cent of the proceeds be used for environmental-based business activities. An assessment, including details on the use of proceeds and estimated positive environmental impact, must be conducted by a third-party and published in annual reports.
- Ensures that financial institutions are adhering to their sustainable finance commitments by mandating the submission of annual implementation plans and sustainability reports.

OUTCOMES SO FAR

Results are not yet available as the policy only came into effect in 2019.

Source: International Finance Corporation. Sustainable Finance Case Study: Indonesia. Retrieved from www.ifc.org/wps/wcm/connect/20ff87c3-e8d8-4c6e-8f83-40cae86f5d93/SF+Case+Study+-+Indonesia+July+7+.pdf?MOD=AJPERES&CVID=lVXUH14.

5.4 Fiscal incentives (supply)

Incentivise impact investors by reducing the tax burden or providing other fiscal incentives

Few countries have used fiscal incentives to specifically benefit impact investors. An exception is the Government of Singapore, which has used this tool to encourage the issuance of green bonds under the Green Bond Grant Scheme. The scheme covers the additional costs incurred by the issuers of such bonds in comparison to the costs of issuing conventional bonds (see box and Annex). China launched the Green Credit Policy to provide capital to companies for adopting environmentally sustainable practices. This is achieved, among other things, by issuing green bonds. In mid-2018, green bonds in China had a cumulative value exceeding $80 billion. In Thailand, a tax exemption passed in 2016 provides tax incentives to both social enterprises as well as investors in social enterprises (see box in section 5.5).

Green Bond Grant Scheme, 2017

The Monitoring Authority of Singapore introduced the Green Bond Grant Scheme to facilitate the issuance of green bonds.

KEY FACETS

▲ Supports green bond issuers by bearing the additional cost of issuing green bonds. Under the Scheme, all costs incurred by a green bond issuer in relation to the external reviewer's provision of an independent assessment are reimbursable up to $70,000. These assessments are necessary to demonstrate alignment with internationally recognized green bond principles.

OUTCOMES SO FAR

▲ The scheme encouraged private players to enter the green bond market. City Developments Limited, one of the largest developers in Singapore, issued the first green bond in April 2017. This early success was followed by DBS issuing a $500 million green bond in July 2017. In 2017, Manulife Financial also issued a green bond under the scheme.*

▲ Due to the success of the scheme, the Government announced, in 2019, that the scheme will be expanded to include social and sustainability bonds.

* Monetary Authority of Singapore (2018). The Asian Green Bonds Opportunity. Retrieved from www.mas.gov.sg/news/speeches/2018/the-asian-green-bonds-opportunity.

5.5 Fiscal incentives (demand)

Incentivise impact enterprises by reducing the tax burden or providing other fiscal incentives

Several countries offer fiscal incentives to impact enterprises as part of their national strategy to support and strengthen the impact investment sector. In Viet Nam, social enterprises benefit from several tax benefits (see box 4.2). Malaysia, the Republic of Korea and Thailand all offer tax exemptions to certified social enterprises. In 2016, the Government of Thailand passed the Royal Decree on Tax Exemption, which provides tax benefits to social enterprises as well as to investors in such enterprises.

Royal Decree on Tax Exemption, 2016

The decree was passed as part of Thailand's legal framework to promote social enterprises. It provides financial incentives to both social enterprises and organizations that invest in social enterprises.

KEY FACETS

▲ Supports social enterprises financially by granting 100 per cent corporate tax exemption. To qualify, the organization must certify as a social enterprise, re-invest 70 per cent of its profits into the business or for the benefit of the marginalized, and include the words "social enterprise" in the name of the organization.

▲ Encourages investment in social enterprises by granting a corporate tax exemption to investors of 100 per cent of the amount invested in the enterprise.

OUTCOMES SO FAR

The decree is part of a wider set of policies passed by the Government in recent times to support the growth of social enterprises. At the end of 2019, around 300 organizations had registered formally as social enterprises in the country.*

* The Nation Thailand (2018). Social enterprises key to boost sustainable development. Retrieved from www.nationthailand.com/news/30360100.

Glossary

TERM	DEFINITION
Accelerator	Start-up 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.
Development finance institutions	Development finance institutions are specialized development banks that are usually majority owned by national governments. They invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth.
Dorman accounts	A dormant account is an account that has had no financial activity for a long period of time, except for the posting of interest.
Environmental, social and governance standards	A set of environmental, social and governance standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria look at how a company performs as a steward of the natural environment. Social criteria examine 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.
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 its principal.
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 and 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, whilst also helping to develop the impact investment market.
Impact measurement	Measuring and managing the process of creating social and environmental impact in order to maximize and optimize it against impact criteria.
Inclusive business	An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain.
Incubator	An incubator is a collaborative programme designed to help new start-ups grow their businesses. Incubators help to solve some of the problems commonly associated with running a start-up by potentially providing workspace, seed funding, mentoring, and training.
Institutional investors	An institutional investor is an organization that invests on behalf of its clients.
(Impact) 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.
Pay for success	The practice of paying providers for delivering public services based wholly or partly on the results that are achieved. Pay for success seeks to improve the productivity of public service spending by paying only when specific outputs or outcomes are achieved.

TERM	DEFINITION
Social impact bond	A social impact bond 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. The name is derived 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 pay-for-success mechanisms, particularly those which involve social investment such as social impact bonds, to achieve specific social goals.

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