SOCIAL IMPACT INVESTMENT

Increasing Private Sector Investment to address Economic, Social and Environmental Challenges

DAC Meeting, 15 December 2015

The present document is submitted FOR DISCUSSION under item 9 of the Draft Annotated Agenda DCD/DAC/A(2015)15.


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SOCIAL IMPACT INVESTMENT

Increasing Private Sector Investment to address Economic, Social and Environmental Challenges

Introduction:

1. The international community has agreed upon a new set of Sustainable Development Goals (SDGs) and an associated financing framework. The new agenda is much broader than the previous MDG agenda. It will apply to developed and developing countries alike and embodies new ways and views on development. Such a holistic agenda requires financing to match. A strong emphasis will be needed on using public development resources more strategically to catalyse private resources targeted towards achieving sustainable development. Innovative approaches are needed to further mobilise private finance.

2. Innovative approaches such as social impact investment can help to further drive economic development and improvement in achieving social outcomes in developing countries. Social impact investing provides finance to organizations addressing social and/or environmental needs with the explicit expectation of a measurable social, as well as financial, return. It differs from blended finance in that the investors are seeking an explicit and measurable social return and often aim to pilot innovative approaches to more effectively address social issues beyond the provision of financing.

3. International aid agencies are searching for new tools, including results-based financing, outcomes-based approaches, market-based solutions and different forms of public-private partnerships, to increase their effectiveness and long-term development impact while working with the limitations of tighter budgets. Some of the new instruments being developed in the social impact investment market include outcome funds which can support development impact bonds (DIBs) as well as other results-based instruments.

4. Social impact investment can bring greater effectiveness, innovation, accountability and scale for the economic and social benefit of the world’s poor populations. While these innovative new approaches will not replace the core role of the public sector or the need for philanthropy, they can provide models for leveraging existing capital using market-based approaches with potential to have greater impact.

5. A growing number of private investors are interested in achieving both social and financial returns (e.g. social impact investment) with varying degrees of preference for the social versus financial returns; alongside a growing number of entrepreneurs who are interested in addressing social needs by creating a sustainable business. Social Impact investing, therefore, has the potential to catalyze new capital flows into developing economies, translating experiences, policies and approaches from developed countries into the emerging and less developed country context.

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6. Given the greater variety of actors engaging in development finance, it is important to develop a framework for better understanding the roles, motivations and financing mechanisms of different types of investors as well as to effectively measure and monitor results. Changes in the development finance landscape will require new measures to capture the full spectrum of financial instruments and facilitate the analysis of funding from all sources. The shift in sources of financial flows will also require further analysis of the trade-offs in terms of various types of financing as well as a scoping in terms of which market settings are more appropriate for various types of financing.

7. Further work on new financial tools, such as social impact investing, the measurement of outcomes of these and other models as well as the question of how OECD countries can best promote these tools to finance sustainable development in developing countries is needed and can be an important part of the OECD’s development agenda.

**Progress to date:**

8. The OECD has been playing a key role in a global social impact investment (SII) initiative launched in 2013. The Phase I report, which was published earlier in 2015, focused on building the evidence base in the social impact investment market. The next phase of work will expand to include a focus on developing countries. While the SII market is in the early stages of development, awareness of social impact investment has grown considerably across several countries. Countries such as India and Brazil have recently joined the Social Impact Investment Global Steering Group and activity in developing countries has increased, particularly as these countries are a key target for social impact investors.

9. The OECD SII project is now part of the private sector financing work in DCD with links to ongoing work in DCD such as the OECD-World Economic Forum Re-designing Development Finance Initiative, TOSSD and other private sector financing work as well as a number of initiatives across the OECD. The work on social impact investment will feed into the discussions at the HLM in February and there will also be a chapter on the topic in the 2016 DCR.

10. Phase II will include research into social impact investment in a broader set of countries then were covered in Phase I and will include the development of a set of case studies focused on the use of various social impact investment instruments and their applicability in a variety of sectors and across different country settings. The case studies aim to provide insights for DAC member countries and others into what is working and what is not so that relevant models can be highlighted and scaled. Phase II will also include workshops, in various countries (including DAC recipient countries), focused on particular aspects of social impact investment as well as engagement of local and international players.

11. The SII initiative will also continue to convene roundtables with experts from the social impact investment community to discuss data, data collection process and how to develop a set of internationally comparable indicators for the market, which will tie into other DCD initiatives include TOSSD.

12. An Advisory Group, consisting of funders of the initiative, will be created. Phase II may include partnerships with DAC member countries and other organisations engaged in social impact investment to collect data, conduct case studies, run workshops and engage in launching pilot initiatives in this field.

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3 As one of the outcomes of the G8 Social Impact Investment Forum, hosted by the U.K. Prime Minister in the context of the UK’s G8 presidency in 2013, the OECD was asked to produce a report on the Social Impact Investment (SII) market and is serving as an observer of the Global Social Impact Investment Steering Group.

13. DAC’s input will be sought throughout the process, particularly as it pertains to development finance policy and private sector engagement.

**Objectives for future work:**

14. The objectives of the Phase II of the OECD social impact investment work would be to:

- Build upon the work and support generated during Phase I with the aim of broadening the evidence base of the evolving social impact investment market by including developing countries into the analysis.
- Increase understanding about social impact investment in the broader context of development finance and private sector engagement.
- Further knowledge of social impact investment instruments and their applicability in a variety of sectors and across different country settings through the development of detailed case studies.
- Continue to convene and lead international discussions on social impact investment data collection and indicators.

**Key outcomes:**

1. Improve the understanding of the overall role of private sector investment in helping to address economic, social, and environmental challenges.

2. Increase knowledge about the various financial instruments and approaches used by the private sector when making investments seeking to economic, social and environmental impact.

3. Further knowledge about global developments in the social impact investment market including the potential role of policy

**Expected outputs:**

A. Build a conceptual framework for private sector investment targeting economic, social and environmental needs in developing countries which includes social impact investment, blended finance, venture philanthropy and other forms of financing.

B. Assess the various private sector financing models being used to address economic and social challenges and how these models are being deployed by analysing a series of case studies.

C. Convene roundtable meetings with social impact investment experts to discuss data and data collection methodologies, building towards internationally comparable standards for selected SII data.

D. Continue to engage in the Global Social Impact Investment Steering Group and the National Advisory Boards.

E. Publish a Phase II report which builds upon the earlier report, providing a broader framing for social impact investment in developing countries and covering the development of the social impact investment market in a broader set of countries.
### Outputs and Deliverables:

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Link to outcomes</th>
<th>Deliverable</th>
<th>Timing</th>
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<tbody>
<tr>
<td><strong>A. i. Concept note on SII in developing countries:</strong> Build a conceptual framework for private sector investment in developing countries that links SII with other forms of development finance.</td>
<td>1, 2</td>
<td>Concept note (5-10 pages)</td>
<td>Q4 2015</td>
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<td><strong>A. ii. Contribute to other related DCD projects:</strong> Link SII work to ongoing initiatives within DCD (TOSSD, blended finance, SII chapter in DCR 2016, etc.) and the OECD more broadly.</td>
<td>1, 2, 3</td>
<td>Providing input and traveling to participate in meetings</td>
<td>2015-2017</td>
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<td><strong>B. Case studies on SII investments in developed and developing countries:</strong> Case studies looking at a mix of SII investment structures in various sectors and countries.</td>
<td>1, 2</td>
<td>Up to 10 short country case study reports (2 pages each) or more and/or more in-depth ones if needed and if further funding available.</td>
<td>Q4 2015 (or thru 2016 if further cases are required and funding is available)</td>
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<td><strong>C. International expert workshops on SII data and data collection methodologies:</strong> Workshops organised by OECD secretariat (some might be outside of Paris), with target audience of 30-40 participants from countries engaged in project.</td>
<td>1, 2</td>
<td>2 workshops per year, including background materials and summary</td>
<td>Q3 2015 Q1 2016 Q3 2016 Q1 2017</td>
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<td><strong>D. Contribute to the ongoing international SII initiative:</strong> Participated in taskforce, working group and NAB meetings or calls as needed.</td>
<td>1, 2, 3</td>
<td>Providing input into the ongoing discussions and action items. Traveling to participate in TF/ISC meetings.</td>
<td>TF meeting: Toronto, June 2015 GSG meeting: London, July 2015 Other meetings/calls 2015-2017 (TBC)</td>
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<td><strong>E. Phase II report on SII in developed and developing countries:</strong> Phase II report summarizing all of the Phase II work including case studies, expert meetings and ongoing research.</td>
<td>1, 2, 3</td>
<td>Phase II report (shorter report: 25 pages or more in-depth: 60-100 pages)</td>
<td>Q2 2017</td>
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Questions for discussion:

15. The DAC is invited to provide comments on the progress to date and future work in this area. The Secretariat will integrate these comments into a larger paper to be presented to the DAC for further consultation in 2016.

- A number of DAC member countries are active in social impact investment in their own countries as well as in developing countries. What have been the experiences and learnings to date?
- What evidence (data, case studies, indicators) on social impact investment would be the most useful to the DAC members to better understand the market and its role in providing private financing for development?
- Some DAC member countries have put policies and programmes in place to support the development of the social impact investment market. What are the lessons learned to date and the implications for what might be helpful in developing countries?