Social Impact Investment 2019

THE IMPACT IMPERATIVE FOR SUSTAINABLE DEVELOPMENT

OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

This publication is a sequel to the OECD 2015 report on social impact investment (SII), Building the Evidence Base, which set out a distinct typology and framework for social impact investing to differentiate between SII and conventional investments, particularly in terms of explicit and measurable impact goals.

Based on findings from research, surveys, interviews, expert meetings, workshops and regional round tables conducted since the previous report, this second study brings new evidence on the role of SII in financing sustainable development. It depicts the state-of-play of SII approaches globally, comparing regional trends, and assesses its prospects, with a special focus on data issues and recent policy developments.

Importantly, it provides new guidance for policy makers in OECD and non-OECD countries, as well as providers of development co-operation, development financers, social impact investment practitioners and the private sector more broadly, to help them maximise the contribution of social impact investing to the 2030 Agenda. In particular, it provides four sets of recommendations --on financing, innovation, data and policy-- for delivering on the "impact imperative" of financing sustainable development.

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Editorial: The Impact Imperative

Social impact investment markets are growing in all continents across the globe, both in OECD member and developing countries. Pay-for-success instruments such as Social and Development Impact Bonds (SIBs and DIBs) are increasingly being applied, while other innovative models are being tested, such as Social Impact Incentives, which directly reward enterprises with premium payments for achieving social results.

While public and private investors engaged in this activity agree that financial and sustainable development returns can go hand-in-hand – and can often strengthen the sustainability of the investment – the challenge lies in defining impact. Public and private organisations measure different elements by different yardsticks. In order to harness the full potential of finance for sustainable development, we can't shy away from the urgent need for what this report calls "the impact imperative": a shared understanding of how we measure the impact of our collective investments in sustainable development.

This report follows the 2015 publication Social Impact Investment: Building the Evidence Base, casting new light on the role of social impact investing within the broader SDG-funding landscape. It depicts the state-of-play of social impact investment approaches globally and compares regional trends and assesses prospects for future growth with a special focus on data issues and recent policy developments. It provides new guidance for policy makers and development finance providers to maximise the contribution of impact investing to the 2030 Agenda, the Paris agreement and the Addis Ababa Action Agenda.

In 2015, the OECD established a distinct typology and framework to differentiate between SII and conventional investments. It called on social impact investors to define explicit and measurable impact goals, committing to their evaluation and compulsory reporting. Evidence presented in this report shows that, today, most investors seek market rate returns, and the assessment of achieved social outcomes is uneven at best. To counter the danger of "impact washing", public authorities have the ultimate responsibility – in their capacity as market regulators, policy makers and development finance providers – to establish and promote integrity standards.

A key priority for the OECD Development Assistance Committee (DAC) remains to shift away from private and blended finance checking the "sustainable development box", by funding the easiest projects in higher income countries, to reaching the more challenging contexts and sectors where it is needed most. Balancing this with private investors' inherent requirement to demonstrate profit is at the core of this.

Through this publication, the OECD sets out a four-pillar foundation for the "impact imperative", which aims to better direct investment for sustainable development by 1) ensuring financing is going where it is needed most; 2) applying innovative approaches to reaching the SDGs; 3) addressing data and measurement challenges; and 4) evaluating the social, environmental and economic results of public initiatives. These four pillars and ensuing policy recommendations are intended to ensure that financing for sustainable development achieves real impact as a result of collective effort.

All sustainable development finance actors – and the private sector more broadly – share the responsibility for delivering the 2030 Agenda, and this means adopting a shared understanding about what we mean when we talk about impact on sustainable development. This won't be easy, and the OECD stands ready to support this effort through evidence-based analysis and policy guidance, the sharing of best practices and the development of common approaches for better measurement.

Jorge Moreira da Silva,

Director,

OECD Development Co-operation Directorate

Table of contents

Foreword **3**

Acknowledgements **5**

Editorial: The Impact Imperative **7**

Abbreviations and acronyms **15**

Executive summary **19**

Overview of the report 19
The call for an impact imperative 20

Infographic: Social impact investment **23**

Infographic: The impact imperative **24**

Chapter 1. Overview: The impact imperative for sustainable development **25**

1.1. Introduction 26
1.2. The paradigm for financing sustainable development is shifting 26
1.3. Financing for sustainable development should be focused where it is most needed 27
1.4. The global social impact investment market is growing rapidly 30
1.5. Social impact investment is growing in every region 33
1.6. Policy levers to foster social impact investment 34
1.7. The roadmap to internationally comparable data 39
1.8. The impact imperative is vital to deliver sustainable development results 42
Notes 45
References 46

Chapter 2. Social impact investment in the financing for sustainable development landscape **49**

2.1. Introduction 50
2.2. The paradigm for financing for sustainable development is shifting 50
2.3. Blended finance mobilises additional finance towards sustainable development 52
2.4. Green and climate finance funds the transformation to green economies 53
2.5. Social impact investing focuses on investments with a measurable impact 54
2.6. Development actors are focusing on private sector engagement 56
2.7. Private sector is increasingly engaging in sustainable investment 57
References 61

Chapter 3. OECD Social Impact Investment Market Framework **65**

3.1. Introduction 66
3.2. Social, environmental and economic needs 66
3.3. Demand side 67
3.4. Supply side 69
3.5. Intermediaries 72

3.6. Enabling environment ... 72
References ... 74

Chapter 4. Global state of the social impact investment market ... 77

4.1. Introduction ... 78
4.2. The social impact investing market is growing rapidly ... 78
4.3. Enterprises have diverse financing needs ... 80
4.4. A wide variety of financing instruments are used in the industry ... 82
4.5. Impact investors seek impact and risk adjusted market rate returns ... 90
4.6. Emerging global trends present further opportunities for impact investing ... 91
References ... 94

Chapter 5. Perspectives from around the globe ... 99

5.1. Introduction ... 100
5.2. Overview of trends across regions ... 100
5.3. Fragile contexts ... 105
5.4. Sub-Saharan Africa ... 106
5.5. Middle East and North Africa ... 112
5.6. Latin America ... 118
5.7. Asia ... 125
5.8. North America and Europe ... 133
Notes ... 142
References ... 143
Annex 5.A. List of OECD case studies about financing of social purpose enterprises ... 155

Chapter 6. Policy levers to foster social impact investing ... 157

6.1. Introduction ... 158
6.2. The OECD policy framework for social impact investment is an analytical tool for governments ... 158
6.3. International initiatives are paving the way for national uptake ... 163
6.4. Public levers to promote impact investing domestically ... 166
6.5. Public levers to promote impact investing in development co-operation ... 180
6.6. Public understanding and approaches to sustainable development results ... 188
6.7. Emerging trends and existing gaps for policy makers to address ... 189
Notes ... 192
References ... 194
Annex 6.A. Policy instruments ... 198
Domestic social impact investment policy initiatives ... 198
Development co-operation social impact investment initiatives ... 213

Chapter 7. Building the evidence base: Internationally comparable data ... 217

7.1. Introduction ... 218
7.2. Transparency principles pave the way for comparable aggregated data ... 219
7.3. The need for standards to interconnect social impact investment data ... 223
7.4. Beyond social impact investment data – the key role of existing data sources ... 226
7.5. Data platforms play an increasingly important role ... 229
7.6. Approaches to measuring impact are advancing ... 230
7.7. Greater co-ordination is needed to avoid impact "washing" and deliver on the Sustainable Development Goals ... 236
7.8. Next steps and recommendations to move toward interoperable data ... 237

Notes ... 238
References ... 239
Annex 7.A. An overview of audiences and their specific data needs ... 243

Tables

Table 1.1. Social impact investing list of characteristics and attributes ... 26
Table 1.2. Analytical dimensions of the OECD Policy Framework for Social Impact Investment ... 36
Table 2.1. Social impact investing list of characteristics and attributes ... 54
Table 3.1. Types of potential social impact investors ... 69
Table 5.1. Overview of SII social impact investment in sub-Saharan Africa ... 107
Table 5.2. Impact investment overview by country in Latin America and the Caribbean ... 119
Table 5.3. Impact capital deployed in Southeast Asia by instrument, (2007-2017) ... 132
Table 5.4. US investment funds incorporating environmental, social and governance factors ... 134
Table 6.1. Analytical dimensions of the OECD Policy Framework for Social Impact Investment ... 162
Table 6.2. Distribution of domestic policy instruments by market pillar ... 167
Table 6.3. Policy instruments targeting the domestic enabling environment by government role ... 168
Table 6.4. Policy instruments targeting the domestic supply side by government role ... 173
Table 6.5. Policy instruments targeting the domestic demand side by government role ... 176
Table 6.6. Policy instruments targeting the domestic intermediaries by government role ... 178
Table 6.7. Distribution of policy instruments in development co-operation by market pillar ... 182

Table 5.A.1. Case studies on social enterprises ... 155
Table 6.A.1. Employing or reforming government structure and capacities (STEER) ... 198
Table 6.A.2. Setting and enforcing rules (RULE) ... 200
Table 6.A.3. Levying and granting financial resources (FINANCE) ... 205
Table 6.A.4. Providing and sharing information (INFORM) ... 211
Table 6.A.5. Employing or reforming government structure and capacities (STEER) ... 213
Table 6.A.6. Levying and granting financial resources (FINANCE) ... 213
Table 6.A.7. Providing and sharing information (INFORM) ... 216

Figures

Figure 1.1. The role of private finance for sustainable development (PF4SD) ... 28
Figure 1.2. The OECD Social Impact Investment Market Framework ... 29
Figure 1.3. The spectrum of capital: Moving towards greater impact ... 30
Figure 1.4. From policy making to market outcomes ... 35
Figure 1.5. Number of social impact investment policy instruments mapped by region and perimeter ... 37
Figure 1.6. How transparency can support the achievement of the Sustainable Development Goals ... 39
Figure 1.7. Reporting framework for SII transaction data: Data categories for segmentation and comparable analysis ... 41
Figure 1.8. The impact imperative for financing sustainable development ... 43
Figure 2.1. Cross-border finance to developing countries ... 51
Figure 2.2. What is blended finance? ... 52
Figure 2.3. OECD-DAC Blended Finance Principles ... 53
Figure 2.4. The spectrum of capital: Moving towards greater impact ... 55
Figure 2.5. Global SDG investing by strategy ... 59
Figure 3.1. OECD Social Impact Investment Market Framework ... 66

Figure 4.1. Impact investors' assets under management allocation to developed and emerging markets, 2017 ... 79
Figure 4.2. Sector allocation of total assets under management in the social impact market, 2017 ... 80
Figure 4.3. Diversity of the private sector in emerging economies ... 81
Figure 4.4. Financial flow schematic of small and growing businesses sector ... 82
Figure 4.5. The social impact bond model ... 86
Figure 4.6. Social impact incentives model ... 89
Figure 4.7. Target financial returns principally sought ... 91
Figure 5.1. Geographical distribution of amounts of private finance for sustainable development, 2012-15 ... 101
Figure 5.2. Growth of regional assets under management among repeat respondents (2013-2017), Million USD ... 102
Figure 6.1. From policy making to market outcomes ... 159
Figure 6.2. Theory of change ... 161
Figure 6.3. Results chain according to the OECD Development Assistance Committee ... 189
Figure 7.1. How transparency can support the achievement of the Sustainable Development Goals. 219
Figure 7.2. The spectrum of principles affecting social impact investment and examples ... 221
Figure 7.3. Reporting framework for SII transaction data: Data categories for segmentation and comparable analysis ... 225
Figure 7.4. Annual NEET rate and estimation of the cost of NEETs, 2014 ... 228
Figure 7.5. Top sectors targeted by philanthropic giving for development, 2013-15 ... 229
Figure 7.6. The Impact Management Project's approach to measuring impact ... 232

Boxes

Box 1.1. OECD Social Impact Investment Market Framework ... 29
Box 1.2. bKash ... 31
Box 1.3. Root Capital ... 32
Box 1.4. Social impact incentives in practice: Clínicas del Azúcar ... 32
Box 1.5. The Social Impact Investment Transparency Principles ... 40
Box 2.1. Sustainable Development Goal investing ... 58
Box 2.2. Insights and practice from industry ... 60
Box 3.1. Habitat for Humanity ... 67
Box 3.2. Financing for social enterprises ... 68
Box 3.3. Living Cities ... 71
Box 3.4. Examples of corporates' role in social impact investment ... 71
Box 4.1. Aspen Network of Development Entrepreneurs small and growing businesses ... 81
Box 4.2. Elevar Equity ... 83
Box 4.3. Root Capital ... 84
Box 4.4. Sarona Asset Management ... 84
Box 4.5. Real assets ... 85
Box 4.6. The first social impact bond: UK Peterborough Prison ... 87
Box 4.7. Social impact bonds: Lessons learnt from design, implementation, and evaluation ... 87
Box 4.8. Social impact incentives in practice: Clínicas del Azúcar ... 89
Box 4.9. Blockchain in practice ... 92
Box 4.10. Asia Women Impact Fund ... 93
Box 5.1. Development impact bonds in fragile contexts ... 105
Box 5.2. Examples of social purpose enterprises financed in sub-Saharan Africa ... 109
Box 5.3. Example of impact investment company financing start-ups in sub-Saharan Africa ... 111
Box 5.4. Examples of social purpose enterprises financed in the Middle East and North Africa ... 115

Box 5.5. Examples of social purpose enterprises in Latin America 121
Box 5.6. Colombia's first social impact bond 123
Box 5.7. Examples of social purpose enterprises in Asia 130
Box 5.8. Examples of social purpose enterprises in the North America and Europe 138
Box 6.1. United Nations Development Programme's efforts to spur impact investment in Armenia 165
Box 6.2. Japan's push for social innovation 170
Box 6.3. Impact investment wholesalers 179
Box 6.4. Learning from the International Finance Corporation's investment in inclusive business... 185
Box 7.1. The data work stream within the OECD Social impact Investment Initiative 219
Box 7.2. The Social Impact Investment Transparency Principles 220
Box 7.3. Principles for Responsible Investment 221
Box 7.4. OECD Social Expenditure Database (SOCX) 227
Box 7.5. Data platforms, data harmonisation and sharing: The nuts and bolts 230
Box 7.6. The Impact Management Project 232
Box 7.7. The Global Reporting Initiative 233
Box 7.8. Global Impact Investing Network's IRIS 234
Box 7.9. Coalition of the willing 234
Box 7.10. Toniic's T100 Project 235

Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
ANDE	Aspen Network of Development Entrepreneurs
AUM	Assets under management
AWIF	Asia Women Impact Fund
BoP	Base of the pyramid
BPI	Business Partners International
CEE	Central and Eastern Europe
CSR	Corporate social responsibility
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
DFI	Development finance institution
DFID	Department for International Development (United Kingdom)
DIB	Development impact bond
DLT	Distribution ledger technology
EMPEA	Emerging Markets Private Equity Association
ESG	Environmental, social and governance
EVPA	European Venture Philanthropy Association
GDP	Gross domestic product
GIIN	Global Impact Investing Network
GIST	Global Impact Solutions Today
GRI	Global Reporting Initiative
GSG	Global Steering Group on Impact Investing
GSIA	Global Sustainable Investment Alliance
HIB	Humanitarian impact bond
HNWI	High Net Worth Individual
I&P	Investisseurs & Partenaires
IADB	Inter-American Development Bank
ICRC	International Committee of the Red Cross

ICT	Information and communications technology
IFC	International Finance Corporation
IIA	Impact Investing Australia
IMP	Impact Management Project
INADEM	National Institute for Entrepreneurship (Mexico)
ISA	Income share agreement
KACE	Kenya Agricultural Commodity Exchange
LAC	Latin America and the Caribbean
LEED	Local Economic and Employment Development
MENA	Middle East and North Africa
METI	Ministry of Economy, Trade and Industry
MSME	Micro, small and medium-sized enterprise
NAB	National advisory board
NEET	Not in employment, education or training
ODA	Official development assistance
OPIC	Overseas Private Investment Corporation
PF4SD	Private Finance for Sustainable Development
PRI	Principles for Responsible Investment
SBA	Small Business Administration
SBP	Social Bond Principles
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SDGI	Sustainable Development Goal investing
SDGP	SDG Partnership
SDI	Sustainable development investment
SGB	Small and growing businesses
SIB	Social impact bond
SIFEM	Swiss Investment Fund for Emerging Markets
SII	Social impact investment
SIINC	Social impact incentive
SME	Small and medium-sized enterprise
SOCX	Social Expenditure Database
SSA	Sub-Saharan Africa
UAE	United Arab Emirates

UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Executive summary

The 2030 Agenda calls for the most ambitious financing strategy for sustainable development yet, with a dual challenge of mobilising unprecedented volumes of resources, and leaving no one behind. Beyond public resources, private, domestic and international sources of finance are increasingly also needed. This includes taxes, private investment, philanthropy and remittances. As the paradigm of development co-operation is changing, new models are emerging in sustainable development finance.

Social impact investment (SII) not only mobilises private financing to contribute to achieving the Sustainable Development Goals (SDGs) but, most importantly, it catalyses innovative new approaches to social, environmental and economic challenges. In addition, SII brings accountability. Social impact investment is predicated on the intention of having a social impact in addition to financial return. Therefore, defining and measuring impact is critical. As investors increasingly engage in sustainable finance, it is imperative that impact is explicitly monitored, assessed and reported.

The 2015 OECD report *Building the Evidence Base* sought to set out a distinct typology and framework for impact investing to differentiate between SII and conventional investments. Importantly, impact investors should define and have explicit and measurable impact goals.

This publication builds upon the work conducted under the OECD Social Impact Investment Initiative over the past several years and brings new evidence on the role of SII in financing sustainable development. It depicts the state-of-play of SII approaches globally, comparing regional trends, and assesses prospects for future market development, with a focus on data and measurement challenges and recent policy developments.

The four key workstreams of the OECD Social Impact Investment Initiative focused on data, policy, case studies and regional research. The work included a series of social impact investment expert meetings held between 2016 to 2018 as well as three regional workshops (Africa, Latin America and Asia) and a policy workshop held in 2018.

This report is targeted towards policy makers in OECD and non-OECD countries, development co-operation providers, development financers, social impact investment practitioners, and the private sector more broadly. The goal of the publication is provide context, evidence, guidance and policy recommendations focused on maximising the contribution of finance to delivering the 2030 Agenda.

Overview of the report

This report is comprised of several parts. Chapter 1 provides an overview of the key findings and recommendations. Chapter 2 gives context about the shifting paradigm in financing for sustainable development and the key role that social impact investment, blended finance and green finance can play in addressing the SDGs. It also highlights the

fact that a growing number of private sector actors are focusing on investing for specific social, environmental or economic outcomes, including those outlined in the SDGs.

Chapter 3 presents the OECD Social Impact Investment Market Framework, a tool for analysing the social impact investment markets. Chapter 4 provides an overview of growth in the social impact investment market in both developed and developing countries. It also reviews financing instruments utilised in the market as well as innovative instruments being developed, including pay-for-results models.

Chapter 5 provides a region-by-region analysis of SII, highlighting how regional and country contexts influence the evolution of the market, in particular the differences between developed and developing countries and even more so, in fragile contexts. The chapter also provides examples of social purpose enterprises which received social impact investment. Many of those examples are derived from case studies conducted during Phase II of the Social Impact Investment Initiative.

Chapter 6 introduces the OECD SII Policy Framework and provides findings from a mapping of 590 policy initiatives undertaken in 45 countries. The chapter highlights the important role that policy makers can play to facilitate the development of the SII market. The findings also indicate that SII policies are increasingly implemented by governments in developed and developing economies; however, they are seldom evaluated. The OECD policy framework and mapping provide guidelines for policy makers and providers of development co-operation seeking to facilitate social impact investment for sustainable development.

Chapter 7 provides an overview of data collection initiatives in the SII market and the role that the OECD has played over the past years in seeking to increase transparency and comparability of data in the market in collaboration with key industry practitioners and data aggregators. The work included the development of a roadmap towards an internationally comparable data framework. Much more work remains to be done, including on data standards, for both transaction and performance data (financial and impact). Further work on frameworks for data standards and impact measurement will be a key part of OECD work going forward.

As outlined in the publication, SII is attracting interest from mainstream commercial finance, including institutional investors, asset managers and multinational companies. However, may impact investors target market rate returns and the majority of investors do not measure the impact of their investments, contrary to the OECD SII definition. As a result, there is a danger of impact washing.

The call for an impact imperative

The impact imperative sets out four pillars and recommendations to help ensure that financing for sustainable development achieves the desired impact and results: the financing imperative (shifting the trillions), the innovation imperative (piloting new approaches), the data imperative (transparency and standards) and the policy imperative (policy tools and evaluation).

The financing imperative

- **Ensure financing is going where it is needed most and that no one is left behind.** Financing for sustainable development too often targets “the usual suspects”.

- **Focus on engaging local investors to build sustainable SII financing markets.** The goal of international, and particularly public, funding should be to facilitate the development of vibrant local financial markets.
- **Transition from concessional finance to commercial sustainability**. Not only concessional but also commercial finance should seek to have a measurable impact.

The innovation imperative

- **Catalyse innovation and experimentation in addressing social, environmental and economic challenges.** Additional funding is not sufficient to meet the SDGs – more effective and efficient approaches to address these challenges are needed.
- **Develop an ecosystem that promotes innovation.** The full range of development actors should aim to facilitate the development of ecosystems to encourage innovation and experimentation.
- **Recognise the role of the public sector in scaling pilots that are working.** While the private sector plays a critical role in innovating and piloting new approaches, in many cases scaling of what works is only possible through the public sector.

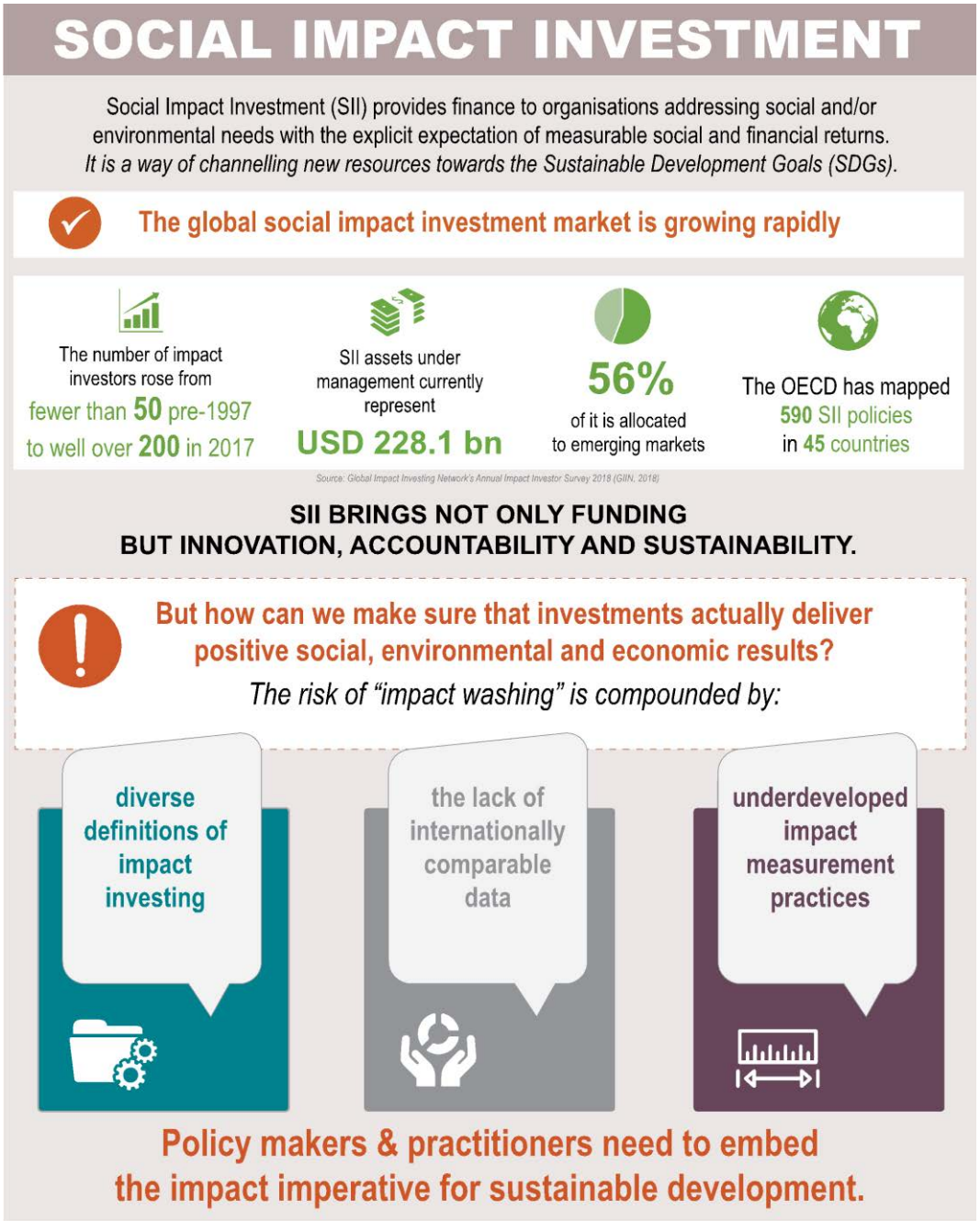
The policy imperative

- **Require the *ex post* assessment of the social and environmental outcomes of policy initiatives.** To meet the impact imperative, policy initiatives must require the *ex post* assessment of the social and environmental outcomes actually achieved through public funding.
- **Ensure that impact represents a substantive commitment.** Policy makers as market regulators must ensure impact is not just a marketing brand.
- **Leverage development co-operation as a vector for policy transfer.** The lessons learnt from domestic social impact investment initiatives in advanced economies can be transferred to developing countries via development co-operation.

The data imperative

- **Facilitate transparent, standardised and interoperable data sharing.** This requires co-ordinated efforts in the development and implementation of data standards as well as linkages between existing data platforms.
- **Ensure funding.** Securing financial support for transaction and performance data and the related infrastructure is difficult. Going forward, it is important to raise awareness of the importance of the funding needed to further transparency, and sort out respective roles.
- **Develop a framework and co-ordinate approaches for assessing impact.** For financing sustainable development to deliver on the SDGs, embedding an impact imperative into investment is critical.

Infographic: Social impact investment



Infographic: The impact imperative

Chapter 1. Overview: The impact imperative for sustainable development

A follow-up to the 2015 OECD Social Impact Investment *(SII) report, this publication brings new evidence on the role of SII in financing sustainable development. It depicts the state of play of SII approaches globally, comparing regional trends, and assesses its prospects, with a special focus on data issues and recent policy developments. It provides new guidance for policy makers and providers of development co-operation to maximise the contribution of impact investing to delivering the 2030 Agenda, the Paris Agreement as well as the Addis Ababa Action Agenda. To that end, it calls for an "impact imperative" in financing for sustainable development in terms of: ensuring financing is going where it is needed most; applying innovative new approaches to solving the Sustainable Development Goals; addressing data and measurement challenges; and evaluating the* ex post *social, environmental and economic results of public initaitives.*

1.1. Introduction

This publication breaks new ground by exploring the role of social impact investment (SII) within the broader context of financing for sustainable development and on a global basis. The work builds upon research and findings from the OECD Social Impact Investment Initiative as well as the Phase I report published in 2015, *Social Impact Investment: Building the Evidence Base*. The current volume sets out the "landscape" of SII approaches, exploring perspectives on SII around the globe, including a focus on developments in data and policy. The report contributes to a growing evidence base on SII and derives policy recommendations to facilitate the potential of financing for sustainable development in delivering the 2030 Agenda.

1.2. The paradigm for financing sustainable development is shifting

The 2030 Agenda calls for the most ambitious financing strategy for sustainable development yet, with a dual challenge of mobilising unprecedented volumes of resources, and leaving no one behind. Beyond public resources, private, domestic and international sources of finance are increasingly also needed. This includes taxes, private investment, philanthropy and remittances (OECD, 2018[1]).

As the paradigm of development co-operation is changing, new models are emerging in sustainable development finance. Social impact investment not only mobilises private financing to contribute to achieving the Sustainable Development Goals (SDGs) but, most importantly, it catalyses innovative new approaches to social, environmental and economic challenges. In addition, SII brings accountability. Social impact investment is predicated on the intention of having a social impact in addition to financial return. Therefore, defining and measuring impact is critical. As investors increasingly engage in sustainable finance, it is imperative that impact is explicitly monitored, assessed and reported.

The 2015 OECD report *Building the Evidence Base* sought to set out a distinct typology and framework for impact investing to differentiate between SII and conventional investments. Importantly, impact investors should define and have explicit and measurable impact goals. Table 1.1 details the OECD characteristics and attributes of impact investing. Building upon this work, the OECD *Development Co-operation Report 2016* set out the potential of social impact investment for developing countries and provided recommendations for scaling up SII to achieve development outcomes (OECD, 2016[2]).

Table 1.1. Social impact investing list of characteristics and attributes

Characteristic	**Attributes**
1. Social target areas	Core social areas such as inequality, poverty, education, disability, health, (affordable) housing, unemployment, etc.
2. Beneficiary context	Population at risk by social demographics, location **or** income
3. Good/service	Neither fully public nor fully private
4. Delivery organisation	Compulsory reporting, external certification or label **or** legally binding constraints
5. Measure of social impact	Formal evaluation (valued or not)
6. Investor intent	Compulsory reporting **or** legally binding constraints
7. Return expectation	Return of capital **or** profit =< risk adjusted market rate of return

Source: (OECD, 2015[3]), *Social Impact Investing: Building the Evidence Base*, https://doi.org/10.1787/9789264233430-en.

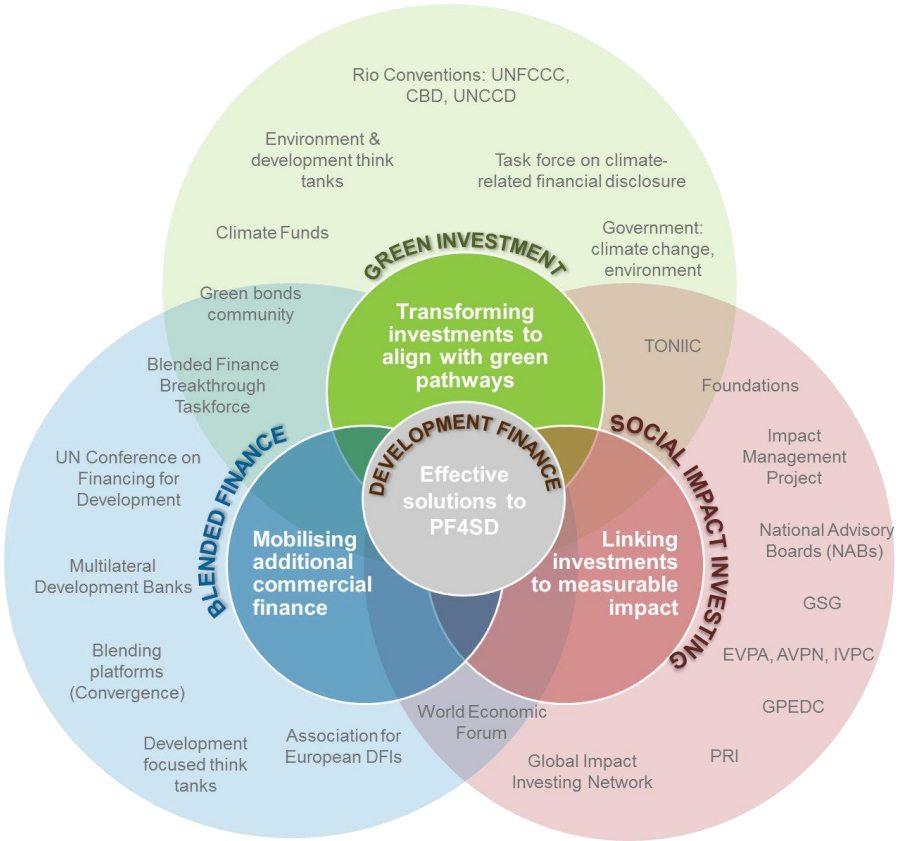
1.3. Financing for sustainable development should be focused where it is most needed

Time is running out to meet the huge gaps in achieving the SDGs (OECD, 2018[4]). To fulfil the commitments of the 2030 Agenda, and lift hundreds of millions of people out of extreme poverty, the international community needs to maximise the development footprint of existing and future resources, thereby "shifting the trillions" towards the SDGs (OECD, 2018[4]). It is clear that the pledge to leave no one behind entails a substantive reframing of the narrative on sustainable development in all countries. It is necessary to consider and include the people who are not benefiting from progress for often-intersecting political, social, economic, environmental, cultural and structural reasons through inclusive, equitable and sustainable development in developing countries (OECD, 2018[3]).

The OECD has played a key role in highlighting new approaches and tools to leverage and redirect private finance for sustainable development. This includes approaches used in blended finance which have a primary focus on the **mobilisation** of additional financing for development; social impact investing which has a primary focus on investing for specific social **impact**; and green finance, which focuses on the **transformation** of economies. Blended finance and social impact investment work complementary in responding to the challenge of financing sustainable development – mobilising the trillions and shifting them towards sustainable and measurable outcomes. Green finance underlines the need for a shift towards sustainable investment.

Together they form a set of effective approaches and tools to leverage private finance for sustainable development. All three financing approaches can help address the financing gap for the SDGs and COP24 Paris Agreement by: crowding in additional commercial finance with the help of blended finance models; linking investments to measurable impact; and transforming investments to align with green pathways (Figure 1.1).

Figure 1.1. The role of private finance for sustainable development (PF4SD)



Source: Adapted from OECD 2018, Private Finance for Sustainable Development week, unpublished.
Note: United Nations Framework Convention on Climate Change (UNFCCC), Convention on Biological Diversity (CBD), United Nations Convention to Combat Desertification (UNCCD), Global Partnership for Effective Development Co-operation (GPEDC), Principles for Responsible Investment (PRI), Global Steering Group for Impact Investing (GSG), European Venture Philanthropy Association (EVPA), Asian Venture Philanthropy Network (AVPN), International Venture Philanthropy Center (IVPC).

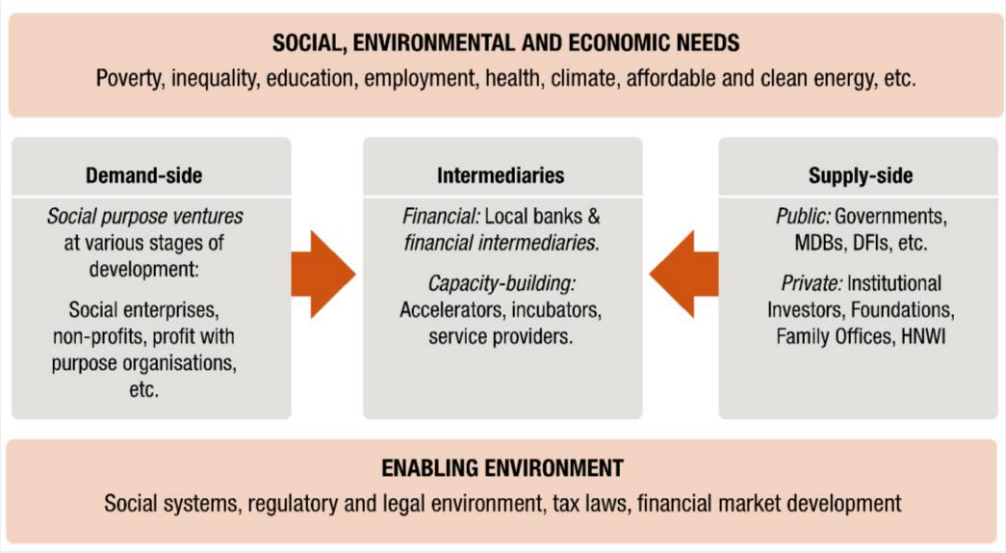
1.3.1. Social impact investing facilitates innovative new approaches

Social impact investment is the provision of finance to addressing social needs with the explicit expectation of a measurable social, as well as financial, return. A core characteristic and challenge is the measurement and management of social and environmental outcomes alongside financial returns. SII investors can range from those who are willing to provide concessional funding to more traditional investors seeking market rate returns coupled with social impact.

Box 1.1. OECD Social Impact Investment Market Framework

In the 2015 publication *Social Impact Investment: Building the Evidence Base*, the OECD Social Impact Investment Market Framework outlined the ecosystem of investors (supply side), investees (demand side) and intermediaries.

Figure 1.2. The OECD Social Impact Investment Market Framework



Social impact investment should start with the social need being addressed. The key actors addressing social needs, on the demand side, are service delivery organisations. On the supply side, capital providers are increasingly interested in social impact investment as a way to diversify their investments and pursue social, as well as financial, goals. As in traditional financial markets, intermediaries play a pivotal role in connecting the supply and demand sides of the market as well as in developing the broader ecosystem. Finally, the general framework conditions in a country can have a significant impact on the development of financial markets in general, and the social impact investment market in particular.

Source: Adapted from (OECD, 2015[3]), *Social Impact Investing: Building the Evidence Base*, https://doi.org/10.1787/9789264233430-en.

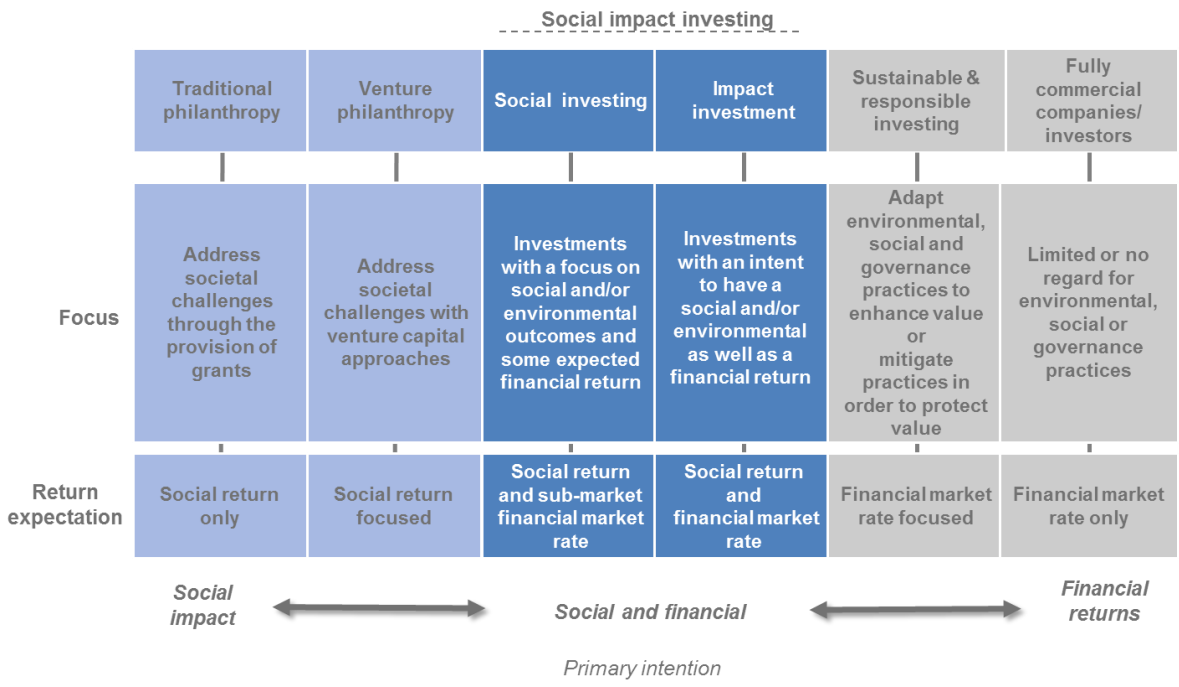
Social impact investment focuses on piloting new private sector models aimed at achieving impact in more effective or efficient ways. Lessons and approaches from SII can bring greater effectiveness, innovation, accountability and scale to investments, increasing their economic, social and environmental outcomes (SIITF, 2014[6]).

1.3.2. The private sector is increasingly engaging in sustainable investment

A growing number of private sector actors are focusing on investing for specific social, environmental or economic outcomes, including those outlined in the SDGs. This

includes foundations and philanthropists who have traditionally focused on using grants and are now including investment models which focus on achieving financial sustainability alongside social returns (OECD, 2015[3]). On the other end of the capital spectrum, mainstream investors have increasingly been moving from a sole focus on financial returns to seeking to mitigate environmental, social and governance risks, and, for a growing number, to pursuing investment opportunities which focus on acheving specific positive outcomes. It is estimated that there were USD 22.89 trillion assets under sustainable investment strategies in 2016 (GSIA, 2016[7]). Figure 1.3 details the spectrum of capital moving towards greater impact.

Figure 1.3. The spectrum of capital: Moving towards greater impact



Source: OECD adapted from multiple sources.[1]

1.4. The global social impact investment market is growing rapidly

The social impact investment market is growing rapidly both in terms of new entrants as well as in terms of increasing portfolio commitments by those already operating in the market. SII is attracting interest from mainstream commercial finance, including institutional investors, asset managers and multinational companies.

According to Global Impact Investing Network (GIIN)'s 2018 Annual Impact Investor Survey (GIIN, 2018[1]), of 229 impact investors, the number of impact investors tracked by the GIIN rose from less than 50 pre-1997 to well over 200 in 2017. Survey respondents represented USD 228.1 billion in assets under management (AUM) and of this, 56%, or USD 127.7 billion, was allocated to emerging markets. For comparison official development assistance (ODA) in 2017 was USD 146.6 billion.

Regional and global studies indicate that allocations to developing countries continue to grow. While the GIIN survey does not capture the full impact investment market, the data

demonstrate the significant role SII plays in emerging economies. The main sectors for impact investments in 2017 were financial services (excluding microfinance), which received 19% of AUM; energy, which received 14%; microfinance, which received 9%; and housing, which received 9% (GIIN, 2018[1]).

1.4.1. Social purpose enterprises are key drivers of innovation

Social purpose enterprises create new business models to address social, environmental and economic challenges. However, they need different types and levels of funding at various stages of development. Flexible capital, including grants, guarantees, first loss capital and concessional financing, is particularly important at the early stages and can help facilitate the piloting and development of innovative enterprise models. Patient capital is also a critical enabler, i.e. investors that will take greater risk, hold investments for longer time periods and potentially accept more modest financial returns. bKash is an example of an innovative social enterprise that is working towards financial inclusion and supported by development actors (Box 1.2).

Box 1.2. bKash

In Bangladesh, bKash was founded to enhance access to financial services for people living in rural Bangladesh, where more than 70% of the population lives. Less than 15% of Bangladeshis are included in the formal banking system, but over 68% have mobile phones. By providing affordable banking services, bKash allows poor people in rural Bangladesh to safely send and receive money via mobile devices.

Source: (bKash, 2018[9]), website, www.bkash.com.

1.4.2. A variety of financing instruments are being deployed

The most frequently used instruments for SII are private equity, private debt and real assets. Private equity impact investments can achieve market rate returns, which are comparable to conventional private equity funds (GIIN, 2017[10]). Private debt is the largest asset class in impact investing in terms of AUM and the second most commonly used instrument (GIIN, 2018[1]). Most privately extended debt in developing countries takes the form of loans and tradable securities, such as bonds (OECD, 2017[11]). An example of an early pioneering impact investor using debt instruments is Root Capital (Box 1.3).

Box 1.3. Root Capital

Root Capital is a non-profit social investment fund that advances prosperity in rural, disadvantaged and environmentally vulnerable places in Africa and Latin America. Root Capital primarily uses private debt supporting agricultural businesses with a mix of credit, capacity building and connections to ethical supply chains. These businesses purchase crops such as coffee or cocoa from smallholder farmers. Founded in 1999, the organisation has cumulatively loaned more than USD 1.2 billion to 665 grassroots businesses and reached more than 1 million farm families in 30 countries.

Source: (ImpactAssets, 2018[12]), ImpactAssets 50 - An Annual Showcase of Impact Investment Fund Managers, www.impactassets.org/ia50_new/.

1.4.3. Innovative pay-for-success models are being further developed

"Pay-for-success" instruments such as social impact bonds (SIBs) and development impact bonds (DIBs) are increasingly being applied around the world (OECD, 2018[4]). These are innovative financing mechanisms that make financing conditional upon the delivery of concrete results. Commissioners (often public authorities or philanthropies) enter into agreements with social service providers, such as social enterprises or non-profit organisations, and investors (typically development finance providers) to pay for the delivery of pre-defined social outcomes (OECD, 2015[3]). SIBs are applied to address a range of social issues, including workforce development, foster care, education, health (diabetes and dementia) and homelessness. The majority of SIBs so far have been created in Europe and North America; however, SIBs and DIBs are increasingly being applied in other regions, including developing countries in Africa and Latin America (Instiglio, 2018[13]). Additional pay-for-success models are also being tested, such as social impact incentives (SIINCs), which directly reward high-impact enterprises with premium payments for achieving social results (Roots of Impact, 2018[14]). A recent example of a SIINC agreement is Clínicas del Azúcar in Mexico (Box 1.4).

Box 1.4. Social impact incentives in practice: Clínicas del Azúcar

Clínicas is a social enterprise operating in the Mexican healthcare sector to address specific needs of patients diagnosed with diabetes. More than 12 million people in Mexico are diagnosed with diabetes. Clínicas has driven down costs and made specialised care available – even for poorer demographic groups. The low-cost clinics have reduced the annual cost of diabetes care for patients by 70%. In 2017, a social impact incentive (SIINC) was developed by Roots of Impact in partnership with the Swiss Agency for Development and Cooperation (SDC), the Inter-American Development Bank, Ashoka, and New Ventures in order for Clínicas to scale up operations and serve those most in need (Roots of Impact, 2018[14]). Ongoing SIINC premiums are based on the achievement of proven social targets, which are then disbursed by the outcome payer SDC. The model allowed Clínicas, who had previously been concerned

about the commercial viability of higher percentage of BoP clients (i.e. above 30%), to pilot a custom BoP clinic which now has 62% BoP clients. Since implementation, initial results have shown an increase in the proportion of BoP across the organisation, which has enabled Clínicas to reach more people in most need of lower cost diabetes care.

Source: (Clínicas del Azúcar, 2018[15]), website, https://www.clinicasdelazucar.com/, with contributions from Bjoern Struewer, CEO, Roots of Impact.

1.4.4. Impact investors seek impact and risk adjusted market rate returns

Given the growth in impact investing, there has been an increased focus on measurement of financial returns as well as impact. The GIIN 2018 Survey found that 64% of investors target risk-adjusted, market rate returns and a further 16% seek lower returns which are closer to market rate (GIIN, 2018[1]). While returns are key to achieving financial sustinability and attracting new flows of capital, the expected social impact must remain at the core of SII investment decisions.

1.5. Social impact investment is growing in every region

The role of impact investment has become increasingly significant across developed and developing countries, with an increase in allocations across every region from 2013 to 2017. Notably, there was substantial growth in allocations to developing countries and particularly in Africa, South East Asia and Latin America.

1.5.1. Significant differences exist across countries

Regional and country contexts influence the evolution of social impact investment markets, in particular the differences between developed and developing countries and even more so in fragile contexts.

Social impact investment started in developed countries, most notably the United States and the United Kingdom, and has spread across a growing number of OECD countries. In many cases, the social impact investment industry grew out the venture capital model, with investors seeking to support innovative approaches to social, environmental and economic challenges. In developed economies with relatively more mature SII markets, there is a growing variety of intermediaries in operation, including accelerators, investment vehicles, social investment wholesalers and impact funds. However, one of the challenges facing intermediaries in all markets is the funding model, as they often require public or philanthropic support.

In developing economies, the majority of investors are international players, with development finance institutions (DFIs) playing a key role. However, to create vibrant ecosystems, local investors need to be engaged in the social impact investment market. In many countries, nascent financial markets and the lack of SII-focused intermediaries represent a barrier to building the SII market and better matching supply and demand. There are a growing number of initiatives to foster social impact investment in developing countries, but better collaboration is needed between the public and private players.

Social, environmental and economic needs define the scope for social impact investment, but these vary significantly across and within countries. The SDG Index[2] by the SDSN

Secretariat and Bertelsmann Stiftung, which scores 156 countries, found that none is on track towards achieving all 17 SDGs (BertelsmannStiftung;SDSN, 2018[15]). As efforts increase to engage the private sector in addressing the SDGs, it is critical that funding is going where it is needed most, which includes addressing some of the toughest social, environmental and economic issues and in some of the more challenging contexts. While impact investors have a critical role to play in this regard, to date, the majority of investments have been focused on financial services, energy and agriculture.

The enabling environment is a key factor in advancing the social impact investment market, and a country's regulatory and financial system affects the mix of public and private capital (OECD, 2015[3]). Despite recent improvements, many economies still perform relatively poorly on indexes such as the World Bank's Ease of Doing Business (World Bank, 2018[16]). Government support is often a significant component of the onset and facilitation of SII markets. Many developed economies have comparatively more mature SII markets and more SII public policy initiatives. Indeed, a growing number of countries have dedicated national advisory boards (NABs), which work towards strengthening the SII ecosystems. Developing countries frequently have much more nascent SII industries and less public policy initiatives to support SII development.

1.6. Policy levers to foster social impact investment

While the private sector plays a key role in creating innovative new business models, the public sector plays an important role in ensuring that enabling environments are conducive to innovation and the growth of financial markets. Public authorities can also contribute to increasing the transparency of investment outcomes by developing standards, both on definitions and data collection. Policy makers can and have also taken other direct and indirect actions to help develop the market, such as supporting market infrastructure and creating investment incentives.

1.6.1. The OECD Policy Framework for Social Impact Investment is an analytical tool for governments

The OECD Policy Framework for Social Impact Investment is intended to assist governments in their efforts to design SII-conducive policies, in the context of private sector financing for the SDGs. In practice, its application will be twofold: 1) as the analytical basis for international comparison to track progress on the national impact investing policy environment; and 2) as guidance to policy makers when engaging in SII-related policy design, implementation and review. The framework, equally applicable to donor and developing countries, is composed of three pillars: 1) an overview of the policy cycle to unpack how public action may come about; 2) a simplified theory of change underpinning the design, implementation and review of SII policies; and 3) the analytical dimensions which help characterise them.

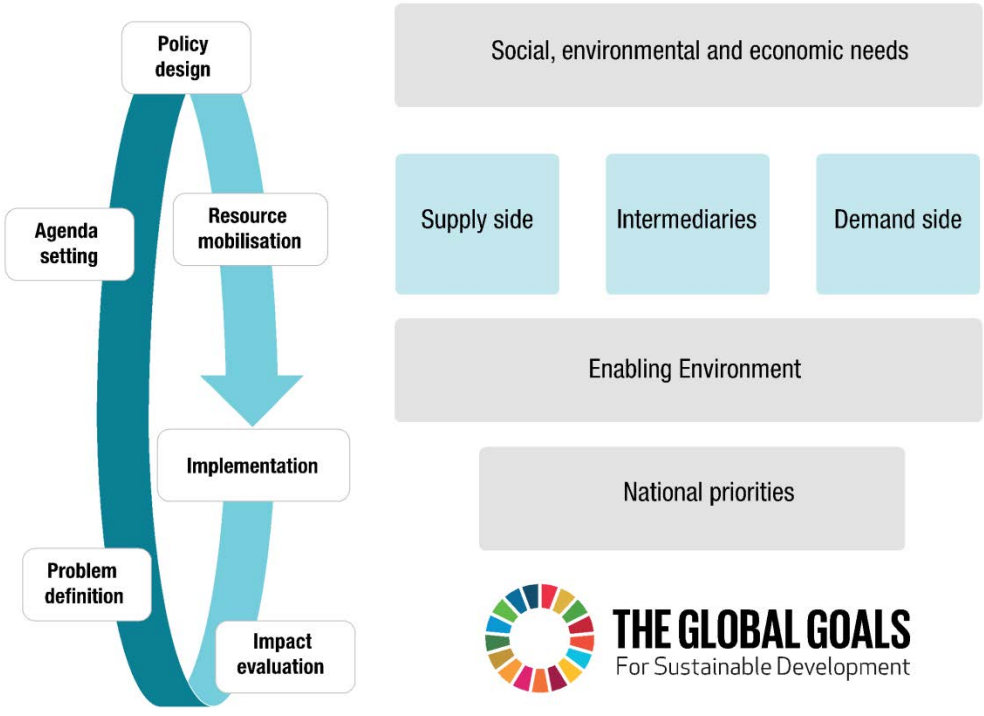
Understanding the policy cycle

In ideal conditions, policy making unfolds as a step-by-step chronological process, where public authorities have to:

- determine what role the government wants to play, based on the maturity of the SII market

- identify the needs expressed by service providers and end beneficiaries, possibly through impact evaluations on previous interventions, and understand how the behaviour of the market actors needs to change
- set the policy objectives in alignment with the political agenda
- select the most appropriate type of intervention and instrument, allocate the necessary resources for implementation and design the delivery mechanism.

Figure 1.4. From policy making to market outcomes



Source: Author

The reality of policy making will often diverge from these patterns, depending on the drivers at play in the design and implementation of SII-related policies.

The analytical dimensions of SII policies lay the basis of a toolkit

The OECD has developed an analytical Policy Framework for Social Impact Investment, detailed in Table 1.2. , which sets out a typology of public policy instruments.

Table 1.2. Analytical dimensions of the OECD Policy Framework for Social Impact Investment

Policy dimensions	
1. Market target	Demand, supply, intermediaries, enabling environment
2.Government role	Market regulator, market participant, market facilitator
3. Policy type	4. Policy instrument
Employing or reforming government structure and capacities (STEER)	• Definition of a national strategy for impact investing • Identification of a formalised function • Internal government consultation • Stakeholder partnerships • Other
Setting and enforcing rules (RULE)	• Certification • Fiscal incentives: tax and investment relief • Legislation: fiduciary responsibility, social enterprises, unclaimed assets • Regulation: pension, public procurement, reporting standards • Social stock exchange • Other
Levying and granting financial resources (FINANCE)	• Awards, challenges • Funds: investment readiness fund, outcome fund, venture capital fund • Pay-for-success: social, development or humanitarian impact bond; social impact incentives, outcome commissioning • Technical assistance, capacity building • Wholesaler, incubator, accelerator, fund of funds • Other (grants, debt, equity, mezzanine, guarantees)
Providing and sharing information (INFORM)	• Communication campaign • Consultation with external stakeholders • Research, studies, data publication • Other

Policy interactions

Domestic SII policies are implemented in both OECD member and developing countries. Developed countries more active in SII have started supporting the social economy and adopting pay-for-success measures as part of their development co-operation strategies. Public initiatives to facilitate SII are increasingly applied in cross-border co-operation.

As the impact investing and the development communities interact, opportunities and knowledge are shared among policy makers and practitioners. This facilitates the transfer of policy knowledge from one country to another and the emergence of good practices, provided the interventions are evaluated.

1.6.2. Policy instruments have been mapped in 45 countries

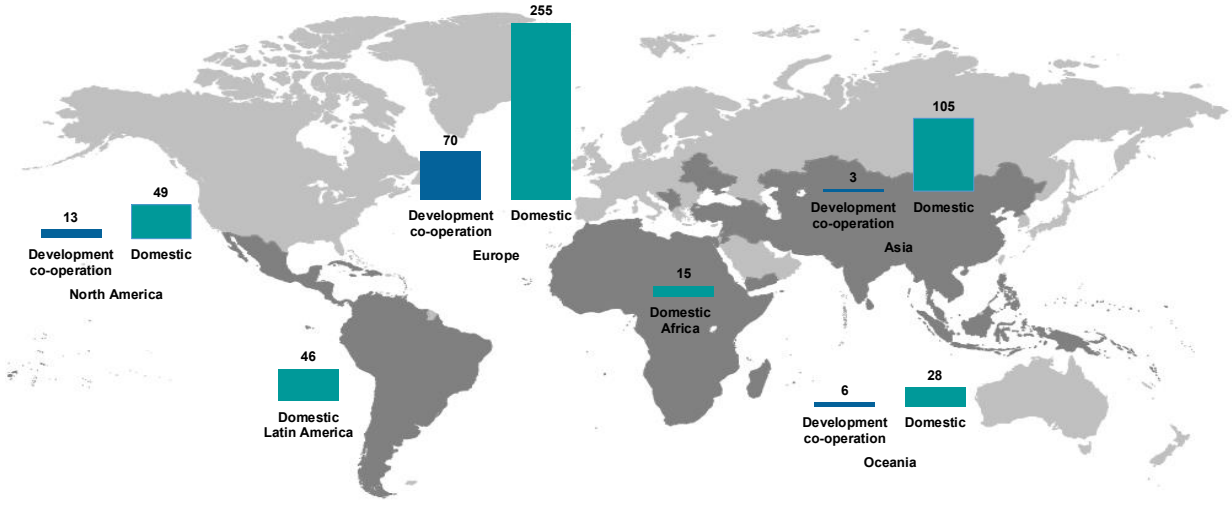
The OECD Policy Framework for Social Impact Investment has been used to map public initiatives taken at the national level, in OECD member countries and developing countries alike, covering both the domestic and the development co-operation perimeter.

International initiatives are paving the way for national uptake

Social impact investment has evolved over the past decade, bringing it to the forefront of the international stage, including the G7 and G20 summits. While this is a relatively new topic in intergovernmental discussions (less than a decade old), the emergence of impact investing in diplomatic fora has greatly contributed to improving the enabling environment at the country level. The Global Steering Group on Impact Investing (GSG) has facilitated the establishment of NABs,[3] which have been important drivers for policy initiatives as well as for ecosystem development (GSG, 2018[17]).

At the national level, the OECD has identified 590 public initiatives in support of impact investing, over 80% of which have a domestic application. Among domestic initiatives, about 30% were adopted by countries figuring on the DAC List of ODA Recipients. Over half of the domestic initiatives identified were implemented in Europe and almost a quarter in Asia. Impact investing as a tool for development co-operation has mostly been used by European countries.

Figure 1.5. Number of social impact investment policy instruments mapped by region and perimeter



Note: The geographic classification of countries follows the OECD-DAC statistical standards.
Source: Author

Public levers promote impact investing domestically

Governments are searching for new tools – including market-based solutions, outcomes-based approaches and different forms of public-private partnerships – to increase their effectiveness and long-term sustainable results while working with the limitations of tighter budgets. According to the OECD mapping, 45 countries have adopted SII-related public initiatives in the domestic perimeter so far. The most active policy makers, by number of instruments identified, are the European Union and the United Kingdom, but also Malaysia and France, closely followed by Spain, Finland, the United States, Italy, Ireland, Korea, Australia, Portugal, India, Canada and South Africa.

The government's own structure plays an important role in creating a favorable enabling environment, accompanied by the production and dissemination of information to the

benefit of all market players. Political leadership is fundamental to steer the momentum across public and private actors, for instance through the establishment of a dedicated function within the public apparatus, the adoption of a national SII strategy or stakeholder consultation.

For the SII market to function well, the necessary legal frameworks and structures need to be in place. Many countries have now adopted a legal definition for social enterprises, including developing countries such as Korea, the Philippines, Thailand and Viet Nam. Reforms to financial and fiscal regulation can improve the ease of doing business in general, and for mission-led enterprises in particular. Reporting standards on environmental, social and governance safeguards and corporate social responsibility can enhance transparency on sustainable investment opportunities.

Financial instruments are one of the most frequently used by governments, especially to target the supply side. These include outcome commissioning, social impact bonds, venture capital funds or other financial instruments. For example, Malaysia was the first Asian country to launch a Social Outcome Fund in 2017, managed by the Malaysia Innovation Agency, a statutory body under the Prime Minister's Department. Legislation on fiduciary responsibility and pensions can introduce impact considerations in the portfolio composition of long-term institutional investors. Public procurement represents an important lever to redefine demand in a socially responsible way. To foster the demand side, investment and contract readiness funds and other capacity-building measures are increasingly used to support the emergence and growth of social entrepreneurs. Fiscal incentives can target both impact investors and social entrepreneurs.

The creation of intermediaries is critical to understand local needs and funnel capital towards investment opportunities. Local intermediaries in underserved markets can rarely become commercially sustainable without compromising their core purpose and must thus rely on public subsidies. Legislation on unclaimed assets has proven to be a powerful tool for the creation of wholesalers in Japan and the United Kingdom. Nevertheless, the lack SII-specific intermediaries continues to hamper endogenous market growth, especially among developing countries.

Public levers can also promote impact investing in development co-operation

According to the OECD mapping, 20 countries have adopted impact investing initiatives as part of their development co-operation strategy. The most active countries, by number of instruments identified, are France, Germany, the Netherlands, Switzerland, the United Kingdom and the United States. Several of them have established a two-pronged approach, where structured funds and DFIs are tasked to crowd in private capital to invest in social enterprises, while bilateral technical co-operation assists partner governments in the move towards inclusive business policies.

Many development agencies have established programmes to support entrepreneurship and the social economy in developing counties. Bilateral and multilateral development providers may at times facilitate the definition of a domestic strategy in their partner countries and provide evidence and tools for policy makers and practitioners alike.

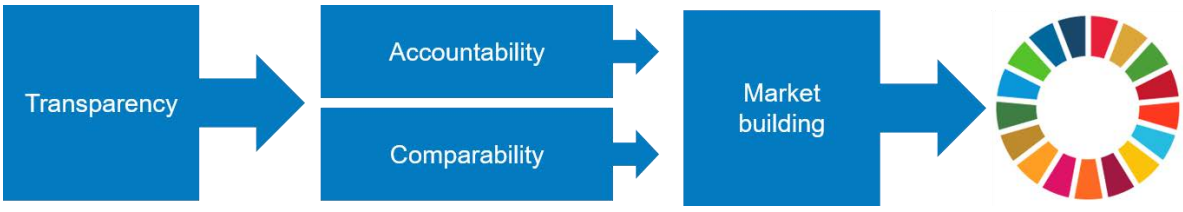
Financial instruments targeting the supply side are, by far, the most frequently used in development co-operation. Some DFIs (CDC Group, Overseas Private Investment Corporation, DEG) have established a more precise definition for their impact approach, but for the rest, the distinction between social impact investments and the remaining portfolio is more blurred. Blended finance funds and facilities play an increasingly

important role in channelling impact funds to developing countries. Nonetheless, even so-called social impact funds rarely meet the requirements of the OECD definition, especially with regards to the intent of the delivery organisation and the investor's return expectation.

1.7. The roadmap to internationally comparable data

With increasing interest and investments in the field, there is an imperative to build SII on measureable theories of change. The availability of standardised impact metrics linked with comprehensive transaction data will be critical to backing the theory of change as well as making progress on financing the SDGs. Moreover, as has been seen in other markets, comparable data, standards and transparency are necessary precursors for capital markets to grow, mature and thrive (Figure 1.6).

Figure 1.6. How transparency can support the achievement of the Sustainable Development Goals



Source: Author

While there are a number of established data-collection initiatives and organisations in the SII market, data efforts are still highly fragmented and not comparable across studies or countries. The OECD Social Impact Investment Initiative facilitated efforts to increase transparency and comparability of data in the market in collaboration with key industry practitioners and data aggregators. The work included the development of a roadmap towards an internationally comparable data framework.

1.7.1. Transparency principles pave the way for comparable aggregated data

Through the convening of the OECD, a group of social impact investment experts have developed a set of principles in response to a collective desire to mandate greater transparency.

The principles aim to make transparency an industry norm for all actors working to scale their impact and improve the efficiency with which they deploy their capital. The underlying idea is that collaboration should characterise the behaviour of all actors in the sector in order to work together towards data standardisation on the one hand, and reporting towards standardised templates on the other. As the sector grows, there is an opportunity to adopt industry principles, building on the rationale that transparency is essential for collaboration and growth of the industry.

Box 1.5. The Social Impact Investment Transparency Principles

A collaborative ethic has been critical to the success of our efforts to date.

Transparency is essential to preserve that collaborative ethic.

Transparency is essential to scale our efforts.

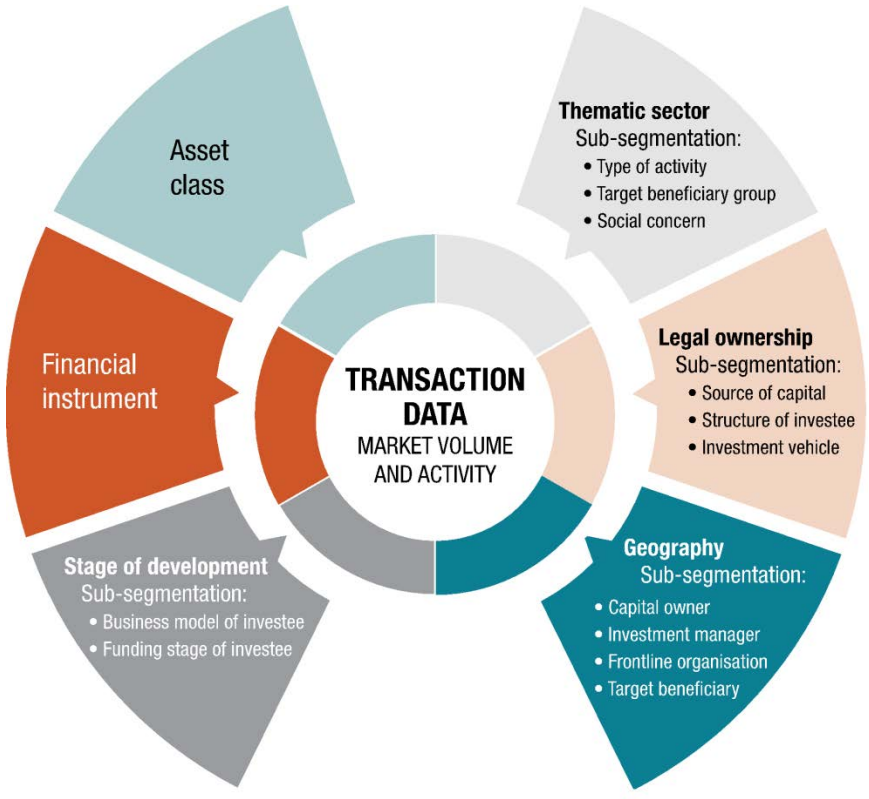
Transparency requires regular and standardised reporting by all who seek to be accountable for generating a positive impact from investments.

Note: Tomas Carruthers, CEO of Project Heather, was the driver behind the development of the Transparency Principles under the OECD SII Initiative.

1.7.2. Data standards are needed to interconnect social impact investment data

Through the OECD Social Impact Investment Initiative, data-reporting standards have been at the centre of the work over the past years. This work was predicated upon undertaking a mapping study of the different data standards currently used by parties who aggregate SII data, evaluating key characteristics that make up the definition of social impact investing as published by the OECD (OECD, 2015[3]) and the OECD-DAC standards for development finance (OECD, 2018[18]). Building on the OECD mapping study, a specific subset of relevant transaction-based indicators has been developed. This serves as a basis for the global reporting framework, which ultimately would also include performance data (financial and impact). At the initial stage, the standardised data framework has focused on transaction data in order to inform on market volumes and activities. The framework comprises six categories, which are detailed in Figure 1.7.

Figure 1.7. Reporting framework for SII transaction data: Data categories for segmentation and comparable analysis



Source: Karl Richter, Executive Director, EngagedX has been leading the transaction data work under the OECD Social Impact Investment Initiative.

1.7.3. Connecting across data sources and platforms

A full picture of the social impact investment market requires looking also at contextual data on the enabling environment and other financial flows, as well as data about social needs. Under the OECD SII initiative, a non-exhaustive database of databases has been developed to facilitate the link to other relevant data sources.

Platforms are increasingly being launched to bring together different types of stakeholders such as investors and social businesses, as well as to enable knowledge or data sharing and exchange on best practices. In doing so, these platforms are creating a multitude of different data points, which can inform social impact investment market stakeholders. However, the current landscape of platforms is fragmented and not standardised and hence does not allow for any meaningful data analysis. Efforts towards integration or interoperability are needed.

1.7.4. Developing a co-ordinated approach to measuring impact

An increasing number of impact measurement approaches are emerging from both international organisations and the private sector (OECD, 2016[2]). Alongside the OECD Social Impact Investment Initiative, a range of efforts have come together to build common practice around impact measurement and management. This includes the Impact Management Project facilitated by Bridges Impact, the GIIN's Navigating Impact project

and the World Economic Forum's Shaping the Future of Sustainable and Impact Investing initiative.

The Impact Management Project describes impact as material effects experienced by people and planet, both positive and negative, which is further defined by four additional dimensions. In order to assess the significance of impact, depth, scale and duration are important. Impact also needs to reflect the perspective of the beneficiaries' needs, as well as the additionality of the effect. Finally, as in financial performance, the risk of achieving social impact should be taken into account in measuring and assessing it.

In September 2018, the Impact Management Project announced a new "Structured Network" to standardise impact management efforts.[4] The OECD has joined these efforts, along with other key stakeholders,[5] in order to address policy-related aspects of impact measurement and management.

1.8. The impact imperative is vital to deliver sustainable development results

In the development finance field, impact investing industry and private sector more broadly, the term impact is being used quite loosely and there is a general lack of evidence on the extent to which private sector engagement efforts have resulted in results beyond the mobilisation of private investment. There are many reasons for this, including the complexity of assessing and measuring impact as well as the burdens and costs it places on players across the investment value chain, particularly on beneficiaries on the front lines. The actual practices of measuring impact remain underdeveloped.

The OECD believes that accountability and measurement of results are crucial to ensure effective public and private investment in sustainable development. The effective tracking of private sector engagement activities requires new and updated data management and information systems to track allocations, leverage and development impacts (OECD, 2016[19]). To facilitate dialogue and collaboration between the donor community and private investors for the 2030 Agenda, common frameworks for defining and measuring impact are needed.

1.8.1. Recommendations to embed the impact imperative for financing sustainable development

In order to deliver the impact imperative, four key areas will need to be addressed (Figure 1.8).

Figure 1.8. The impact imperative for financing sustainable development

Source: Author

The financing imperative

Ensure financing is going where it is needed most and that no one is left behind. Financing for sustainable development too often targets "the usual suspects" and middle-income countries despite efforts to shift financing towards the least developed ones. The OECD definition of social impact investing sets out that there should be core target social areas and investments should address the needs of populations at risk or those living in underserved or developing areas, regions or countries.

Focus on engaging local investors to build sustainable SII financing markets. While international players have an important role in facilitating the development of SII markets in developing countries, they should not crowd-out local investors. The goal of international, and particularly public, funding should be to facilitate the development of vibrant local financial markets and support the creation of intermediaries to engage local investors.

Transition from concessional finance to commercial sustainability. In mobilising additional commercial finance through blending and scaling up social impact investment, finance from donors and philanthropies can play a crucial role, particularly in areas and sectors that private investors consider have higher risk levels. However, not only concessional but also commercial finance should seek to have a measurable impact, and as markets mature, impact investment should become more mainstream.

The innovation imperative

Catalyse innovation and experimentation in addressing social, environmental and economic challenges. Additional funding is not sufficient to meet the SDGs – more effective and efficient approaches to address these challenges are needed. The private and public sector play key roles in unlocking innovation and provide opportunities to experiment with new approaches. Effective international co-operation that involves both public and private bodies is an important mechanism for finding these much-needed solutions (OECD, 2012[20]).

Develop an ecosystem that promotes innovation. The full range of development actors should aim to facilitate the development of ecosystems to encourage innovation and experimentation. This includes supporting the development of intermediaries and creating conducive enabling environments. Framework conditions which favour innovation (e.g. competition, openness, etc.) have to be adapted to the specific conditions of emerging and developing countries (OECD, 2012[20]).

Recognise the role of the public sector in scaling pilots that are working. While the private sector plays a critical role in innovating and piloting new approaches, in many cases scaling of what works is only possible through, or at least in close co-operation with, the public sector. Better collaboration is needed between the public and private sectors at all stages of the investment process.

The policy imperative

Require the *ex post* evaluation of the social and environmental results of public initiatives. To meet the impact imperative, policy instruments must require the *ex post* assessment of the social and environmental outcomes actually achieved through public funding. It is an indispensable step to mainstream successful experimentations and foster continuous learning, within and across governments. This will lead the example for more rigorous impact measurement by private investors and, ultimately, reinforce the identity and effectiveness of the whole ecosystem.

Ensure that impact represents a substantive commitment. Policy makers as market regulators must ensure impact is not just a marketing brand. Development finance instruments will *de facto* comply with at least one criterion in the OECD definition, the one pertaining to the social target areas. But the proliferation of blending vehicles shows they rarely meet the delivery organisation and return expectation requirements. In order to confine the "impact washing" trend and protect taxpayers, public authorities must set the bar for integrity standards on SII. Public actors have the ultimate responsibility to tie the provision of public funding to the respect of the characteristics proper to social impact investment.

Leverage development co-operation as a vector for policy transfer. The lessons learnt from domestic social impact investment initiatives in advanced economies, provided they are supported by evaluation, can be transferred to developing countries via development co-operation. Development finance providers can use a two-pronged approach by supporting policy reform for inclusive businesses and the social economy and directly financing impact-oriented operations.

The data imperative

Facilitate transparent, standardised and interoperable data sharing. Stronger evidence is needed to inform market stakeholders such as governments, development

finance institutions and private sector investors as well as businesses and entrepreneurs. This requires co-ordinated efforts in the development and implementation of data standards as well as linkages between existing data platforms.

Ensure funding for data infrastructure. Securing financial support for transaction and performance data and the related infrastructure is difficult. Statistical capacity building represented about 0.30% of official development assistance in 2015 (OECD, 2017[21]). Going forward, it is important to not only raise awareness of the importance of data for the growth of the social impact investing, blended and green finance markets, but also the associated importance of the funding needed to further transparency. Sorting out the respective roles in regard to covering the cost of data will be critical to the growth of innovative financing methods for sustainable development and the measurement of impact.

Develop a framework and coordinate approaches for assessing impact. For financing sustainable development to deliver on the SDGs, embedding an impact imperative into investment is critical. The measurement of investment outcomes should not be confused with, and cannot replace, the *ex post* evaluation of public policies supporting those investments. Impact investors are committed to report on the immediate results of their projects (e.g. individuals employed at project closure), whereas policy makers need to understand their ultimate impact on the economy, society and the environment at large (e.g. increased per capita income). The OECD will be dedicating further work to this important area in the next programme of work, in collaboration with other key players and stakeholders.

Notes

[1] (Bridges Fund Mangement, 2015[40]), "The Bridges spectrum of capital: How we define the sustainable and impact investment market", London, http://bridgesventures.com/wp-content/uploads/2015/11/Spectrum-of-Capital-onlineversion.pdf; (EVPA, 2018[41]), *What is venture philanthropy?*, https://evpa.eu.com/about-us/what-is-venture-philanthropy; (AVPN, 2018[42]), *The Continuum of Capital in Asia,* https://avpn.asia/insights/continuum-of-capital/.

[2]. See: http://sdgindex.org for more information.

[3] As of October 2018; for more information, see: http://gsgii.org/about-us/#aboutgsg.

[4] See: https://impactmanagementproject.com/emerging-consensus/the-imp-launches-global-network-to-mainstream-impact-management.

[5] Partners in the Impact Management Project-led collaboration are, among others, the United Nations Development Programme, the Principles for Responsible Investment, the Global Reporting Initiative, the Global Impact Investing Network, the International Finance Corporation as well as the Global Steering Group for Impact Investment.

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Chapter 2. Social impact investment in the financing for sustainable development landscape

The paradigm for financing sustainable development has shifted. Engaging with the private sector and mobilising private finance will be critical to achieving the Sustainable Development Goals (SDGs). Time is running out to achieve the SDGs and it is incumbent upon all actors in sustainable development finance and the private sector more broadly to act now. This chapter makes the case for private sector financing, including social impact investment, as an effective tool to contribute to delivering the SDGs. It explores the current trends of increasing private sector interest in financing for sustainable development impact as well as the growing use of private sector instruments and approaches by both public and private players.

2.1. Introduction

The Sustainable Development Goals (SDGs) require the most comprehensive and ambitious financing strategy for development yet, with a dual challenge of mobilising large volumes of resources, and leaving no one behind. Traditional sources of development financing, in particular official development assistance (ODA), are not sufficient to address the scale and complexity of today's global development challenges. The Addis Ababa Action Agenda (AAAA), agreed by United Nations member countries in July 2015, provides a global framework for addressing the challenges associated with financing sustainable development (UNGA, 2015[22]). It calls on governments, businesses, foundations and individuals to mobilise more financial resources, in a more co-ordinated manner, and in the pursuit of economic growth that enhances human well-being and preserves the environment, particularly in developing countries (OECD, 2018[2]). This chapter will make the case for private sector financing, including social impact investment (SII) as an effective tool, to contribute to delivering the SDGs. It explores the current trends of private sector financing including private sector efforts to engage with the SDGs.

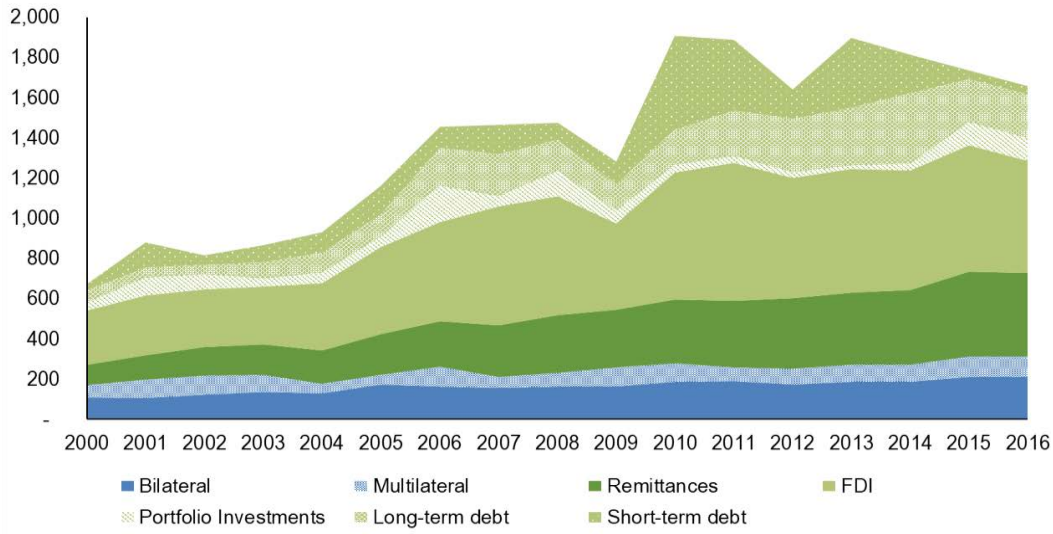
2.2. The paradigm for financing for sustainable development is shifting

Time is running out to meet the huge gaps in achieving the SDGs (OECD, 2018[2]). Although ODA reached a high of USD 146.6 billion in 2017, it is not sufficient to tackle the estimated USD 2.5 trillion annual financing gap to meet the SDGs in developing countries estimated by (UNCTAD, 2014[23]). Beyond public resources, private, domestic and international sources of finance are needed, which include taxes, private investment, philanthropy and remittances (OECD, 2018[4]). Yet, three years after the AAAA, the promised surge in finance available for developing countries to achieve the SDGs has not materialised and attracting the necessary financing remains a difficult challenge (OECD, 2018[2]).

The scale of the financing gap means the development community and private sector more broadly need a wake-up call, as outlined by a recent OECD report *Global Outlook on Financing for Sustainable Development* (OECD, 2018[2]). Partnerships are needed that encourage better collaboration between the public and private sectors in addition to smarter ways to leverage ODA as well as mobilise additional resources. Private sector flows, which dwarf official development finance (OECD, 2018[4]), are increasingly playing a significant role. However, cross-border flows to developing countries are stagnating, and private foreign investment has declined in recent years. To fulfil the commitments of the 2030 Agenda for Sustainable Development, and lift hundreds of millions of people out of extreme poverty, the international community needs to maximise the development footprint of existing and future resources, thereby "shifting the trillions" towards the SDGs (OECD, 2018[2]). It is clear that the pledge to leave no one behind entails a substantive reframing of the narrative on sustainable development in all countries – to consider and include the people who are not benefiting from progress due to often-intersecting political, social, economic, environmental, cultural and structural reasons through inclusive, equitable and sustainable development in developing countries (OECD, 2018[5]).

Figure 2.1. Cross-border finance to developing countries

Billion USD 2016, constant prices



Sources: OECD calculations based on OECD (2018[3]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; World Bank (2017[4]),"Migration and remittances data", www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data; IMF (2017), *Balance of Payments database*, www.imf.org/external/datamapper/datasets/BOP; (OECD, 2018[4]), *Making Blended Finance Work for the Sustainable Development Goals*, http://dx.doi.org/10.1787/9789264288768-en.

The OECD has played a key role in moving the "shifting the trillions" agenda forward and in particular on blended finance, social impact investing and green finance. Blended finance, which has a primary focus on the **mobilisation** of additional financing for development, has gained momentum over the last years also as a result of the *OECD-DAC Blended Finance Principles*. Social impact investing, which primarily has a focus on investing for a measurable social **impact**, is increasingly important to both public and private sector investors alike. Blended finance and social impact investment work complementarily towards responding to the challenge of financing sustainable development – mobilising the trillions and shifting them towards sustainable and measurable outcomes. While blended finance is driven by the need to increase the funds available for sustainable development, social impact investment aims at developing innovative approaches with measureable impacts to achieve the SDGs (see also (OECD, 2018[4]) and Box 3.4). Green finance focuses on the **transformation** of economies and underlines the need for a shift towards sustainable investment.

Together they form a set of effective approaches and tools to leverage private finance for sustainable development. All three financing approaches can help address the financing gap for the SDGs and the Paris Agreement by: crowding in additional commercial finance with the help of blended finance models; linking investments to measurable impact; and transforming investments to align with green pathways.

Exploiting each other's comparative advantages, all three approaches jointly respond to the changing financing for sustainable development paradigm. Governments and market players alike should strive to incorporate the cross-cutting priorities of mobilisation, transformation and impact in their principles, policies and practices.

The OECD's work is aligned with recent developments on the international agendas. Global processes such as those surrounding the G7/G20, United Nations and World Bank/IMF are increasingly focusing on the issue of financing development. The G7 has acknowledged the OECD Development Assistance Committee's *Blended Finance Principles*. Similarly, the G20, under the Argentinian Presidency, in recognition of the infrastructure financing gap, has adopted a roadmap to infrastructure as an asset class (OECD, 2018[26]), with the aim to adopt a new collaborative approach among G20 members to crowd in private capital.

2.3. Blended finance mobilises additional finance towards sustainable development

Blended finance is "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries" (OECD, 2018[4]). Blended finance implies that development financing mobilises another form of financing that would have otherwise not been available, thereby differentiating by the source of finance (development and commercial), the instrument or structure, as well as the use of finance (Figure 2.2). An OECD survey of official development finance interventions indicates that USD 81.1 billion of private finance was mobilised during the period 2012-15.

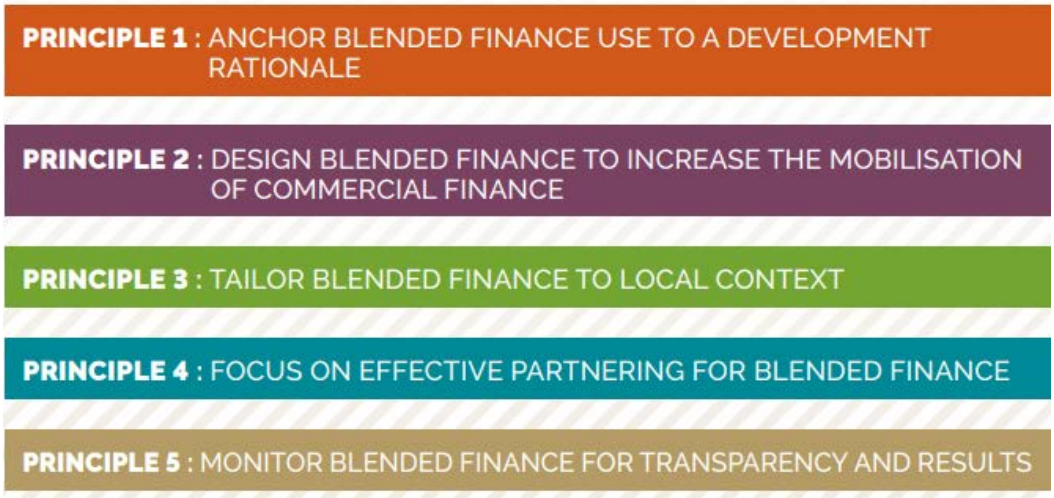
Figure 2.2. What is blended finance?

Source: (OECD, 2018[4]), *Making Blended Finance Work*, https://doi.org/10.1787/9789264288768-en.

The OECD DAC Blended Finance Principles (Figure 2.3) were endorsed by the Ministers of the Development Assistance Committee (DAC) in October 2017 and serve as a framework for good practice of blended finance (OECD, 2017[6]). In addition, in response to a diversity of blended finance approaches and frameworks emerging, the multi-stakeholder Tri Hita Karana Roadmap for Blended Finance has been developed. It lays out a joint

narrative and shared value system on blended finance, including a set of guidance areas to improve the efficiency and effectiveness of blended finance (OECD, 2018[28]). Indonesia and the OECD, together with major partners from governments, development finance institutions (DFIs) and private sector entities, support the Roadmap and recognise that a common language and collective action is required to deliver the level of financing needed for the SDGs.

Figure 2.3. OECD-DAC Blended Finance Principles



Source: (OECD, 2017[27]), *OECD-DAC Blended Finance Principles for Unlocking Commercial Finance for Sustainable Development Goals*, https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf.

2.4. Green and climate finance funds the transformation to green economies

Green and climate finance supports the transformation of economies and focuses on moving towards a low-carbon, climate-resilient and resource-efficient economy. The transformation of the energy and industrial systems over the next decades is fundamental to achieving the SDGs and the Paris Agreement's goal of below 2°C temperature rise. This will require major structural change to overcome the carbon-intensity that is hard-wired into economies, systems and behaviours (IEA, 2017[28]). In recognition of this challenge, the OECD established the Centre on Green Finance and Investment in 2016 to work towards increasing the scale of green investment. The Centre catalyses and supports the transition to a green, low-emissions and climate-resilient economy through the development of effective policies, institutions and instruments for green finance and investment (OECD, 2018[16]). While much progress can and needs to be made based on currently available technologies, the development of new technologies and infrastructure is needed (OECD, 2017[29]). Investment in modern, smart and clean infrastructure in the next decade is a critical factor for sustainable economic growth, especially as infrastructure generally has been suffering from underinvestment since before the financial crisis.

Recent OECD analysis highlights that roughly a fifth of climate-related development finance targets the private sector, and that this support needs to be scaled up and rolled out beyond the climate agenda to address other environmental issues (Crishna Morgado and Lasfargues, 2017[10]). Similarly, OECD analysis on water indicates that currently,

water and sanitation attracts only 1.9% of commercial finance mobilised by official development finance (OECD, 2018[31]). Furthermore, the focus of development finance targeting private sector engagement in climate action has been on the "low-hanging fruit", i.e. in areas where there is a clear business case and potential for returns (Crishna Morgado and Lasfargues, 2017[10]). Attention has also focused on countries and locations where the perceived risks of investment are relatively low; countries with more challenging business environments are often overlooked.

Promoting green growth is in the business interest of companies by reducing costs and diversifying business and investment opportunities (Crishna Morgado and Lasfargues, 2017[7]). A survey of the heads of "Caring for Climate" members, a coalition of businesses under the UN Global Compact, found that over half viewed climate change as a driver of growth and innovation in their companies over the next five years (UN Global Compact; Accenture, 2015[33]). However, the business case, especially in terms of making a profit, is not as easily applicable in all areas of environmental protection and in the countries that need the most support. Blended finance can play a key role in de-risking investments and mobilising private capital towards green finance in these circumstances.

2.5. Social impact investing focuses on investments with a measurable impact

Social impact investment is the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return. A core characteristic and challenge of impact investing is the measurement and management of social and environmental outcomes alongside financial returns. SII investors can range from those who are willing to provide funding for organisations that are not able to generate market returns to more traditional investors with an interest in also having a social impact.

The 2015 OECD report *Building the Evidence Base* sought to set out a distinct typology and framework for impact investing to differentiate between SII and conventional investments. Importantly, impact investors should explicitly intend to achieve an impact and explicitly measure the outcomes of investments. Table 2.1 details the OECD characteristics and attributes of impact investing. Building upon this work, the OECD *Development Co-operation Report 2016* set out the potential of social impact investment for developing countries and provided recommendation for scaling up SII to achieve development outcomes (OECD, 2016[13]).

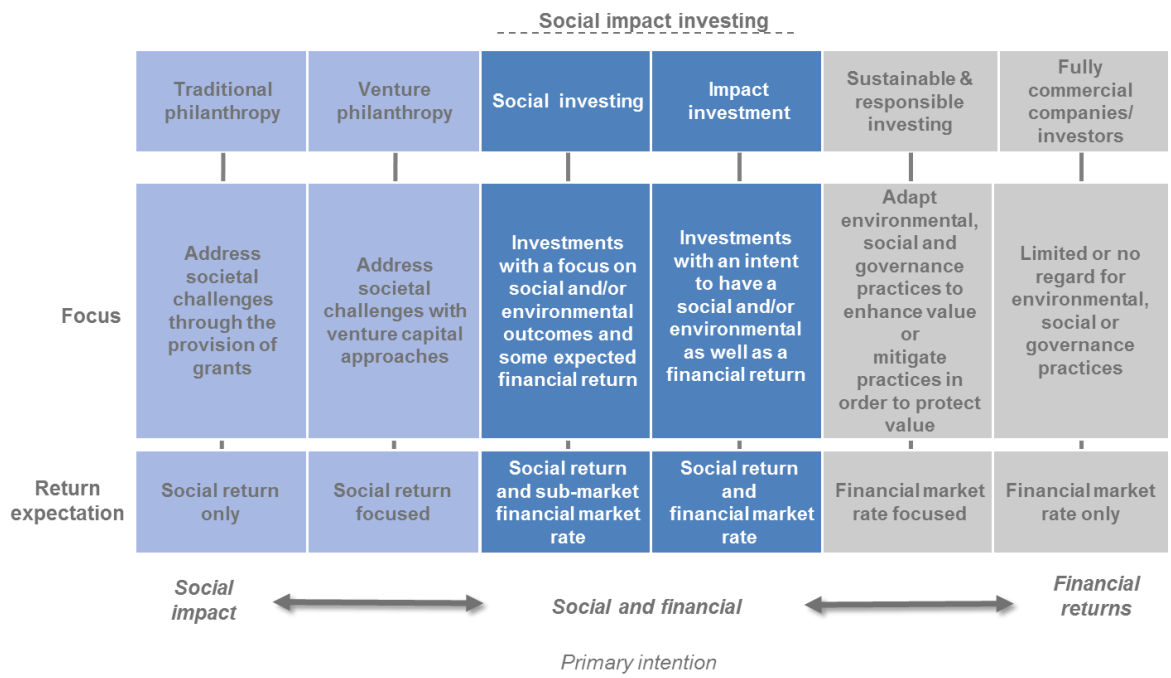
Table 2.1. Social impact investing list of characteristics and attributes

Characteristic	Attributes
1. Social target areas	Core social areas such as inequality, poverty, education, disability, health, (affordable) housing, unemployment, etc.
2. Beneficiary context	Population at risk by social demographics, location **or** income
3. Good\service	Neither fully public nor fully private
4. Delivery organisation	Compulsory reporting, external certification or label **or** legally binding constraints
5. Measure of social impact	Formal evaluation (valued or not)
6. Investor intent	Compulsory reporting **or** legally binding constraints
7. Return expectation	Return of capital **or** profit =< risk adjusted market rate return

Source: (OECD, 2015[14]), *Social Impact Investing: Building the Evidence Base*, https://doi.org/10.1787/9789264233430-en.

A variety of investors from across the capital spectrum are increasing focus on investing to achieve specific impact goals. This includes foundations and philanthropists who have traditionally concentrated on using grants and are now including investment models which focus on achieving financial sustainability alongside social returns (OECD, 2015[3]). On the other end of the spectrum, mainstream investors have increasingly been moving from a sole focus on financial returns to seeking to mitigate environmental, social and governance risks and some to pursuing investment opportunities which focus on acheving specific positive outcomes. Meanwhile, most DFIs have technically been "impact investors" from their initial mandates. Figure 2.4 details the spectrum of capital moving towards greater impact.

Figure 2.4. The spectrum of capital: Moving towards greater impact



Source: OECD adapted from multiple sources

Social impact investment complements and often works in tandem with blended finance and green finance approaches. While SII focuses on piloting new private sector models aimed at achieving impact in more effective or efficient ways, blended models can be used to reach scale. Lessons and approaches from SII can bring greater effectiveness, innovation, accountability and scale to investments, increasing their economic and social benefits for the world's poor (SIITF, 2014[6]). Indeed, the G20 Leaders' declaration highlights that leaders "will endeavor to further create enabling conditions for resource mobilisation from public, private and multilateral resources, including innovative financial mechanisms and partnerships, such as impact investment for inclusive and sustainable growth" (G20, 2018[32])

However, while the narrative to mobilise additional resources for development and move "from billions to trillions" is becoming mainstream thinking, including outside of the development finance ecosystem, more emphasis should be put on the need to "shift the trillions", i.e. redirect existing and future flows toward the SDGs. While blended finance,

SII and green finance work towards this, a more holistic and co-ordinated approach is needed to achieve the scale and efficiency required to meet the SDGs, and make better use of existing and future resources. Efforts must turn to designing smarter policies that maximise the contribution of different actors and resources while eliminating the risk of costly spillovers, and move toward a focus on "shifting the trillions" to the SDGs (OECD, 2018[2]).

2.6. Development actors are focusing on private sector engagement

In response to international agendas, development actors are increasingly engaging with the private sector. Donor governments are engaging with the private sector as a way to promote development, deliver poverty reduction and, in particular, mobilise investment for the Sustainable Development Goals (OECD, 2018[4]). In the context of international financing for development, governments, and their ministries of development co-operation and bilateral aid agencies, provide grants and other forms of concessional financing for development. Members of the OECD Development Assistance Committee are the major government providers of bilateral ODA. Development agencies increasingly develop partnerships with the private sector to leverage private capital, expertise, innovation and core business to benefit sustainable development (OECD, 2016[19]).

While there has been an increasing focus on private finance, it is important to note that the concept of private sector financing is not new. DFIs play a critical role in working with and through the private sector deploying instruments and structuring mechanisms as equity investments, debt or guarantees (OECD, 2018[4]). DFIs' lending operations have a specific focus on impact generation stemming from development mandates, alongside a financial return resulting from pricing operations at market rates. The combined European Development Finance Institution's portfolio of committed investments was EUR 37.2 billion at the end of 2017 (EDFI, 2017[22]).

Bilateral and multilateral development banks (MDBs) pursue both public and private sector operations. Public sector operations of bilateral and multilateral development banks provide concessional finance and grants and work largely with the public sector, including with state-owned entities, while their private sector operations have a specific mandate to engage with the private sector (OECD, 2018[4]). MDBs provide private sector investments through dedicated private sector operations involving stand-alone institutions such as the International Finance Corporation or embedded with development banks such as the Asian Development Bank's Private Sector Operations Department (OECD, 2018[4]). In 2014, MDBs provided 65% and bilateral DFIs 35% of total development finance for private sector projects globally (EDFI, 2016[33]).

Private philanthropy is a growing, and important source of development finance, complementing contributions from donor governments. Philanthropic flows provided over USD 23.9 billion for development or USD 7.8 billion per year, on average, between 2013 and 2015 according to an OECD survey of 143 foundations (OECD, 2018[35]). Philanthropies are emerging actors in blended finance due to their relatively low levels of risk aversion, increased focus on mobilisation and willingness to invest in innovative business concepts and financing models. Many foundations and philanthropic investors are shifting from a grant-based approach to impact investing (OECD, 2018[35]).

2.7. Private sector is increasingly engaging in sustainable investment

Outside of the involvement in formal partnerships with development actors, mainstream investors and asset managers increasingly focus on the social, environmental, governance and the development impacts investments can have.

According to the Global Sustainable Investment Alliance (GSIA), there was USD 22.89 trillion of assets managed under sustainable investment strategies in 2016. This was an increase of 25% from 2014 (GSIA, 2016[7]). However, it is important that the definition of sustainable investing used by the GSIA is very broad. Sustainable investing is defined as "an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management" (GSIA, 2016[7]). Within these assets managed, the GSIA found the three largest investment strategies were negative/exclusionary screening (USD 15.02 trillion), ESG integration (USD 10.37 trillion) and corporate engagement/shareholder action (USD 8.37 trillion) (GSIA, 2016[7]).

2.7.1. Investors seek sustainable investments

In addition, global surveys of investors indicate that this number is likely to rise with investors increasingly focused on sustainable investment and concerned with or incorporating extra-financial considerations. Schroders Global Investor Survey 2018 of 22 000 investors found that three-quarters of respondents stated that sustainable investments had become more important to them over the last five years (Schroders, 2018[36]). This was in particular driven by younger generations (those 18-44 years-old), at 83% compared to 66% for those aged 45 and over (Schroders, 2018[36]). A 2015 PwC survey found that over 70% businesses were planning how they will engage with the SDGs and 90% of citizens thought it was important that businesses signed up to the SDGs (PwC, 2015[37]). Similarly, a CFA Institute 2017 survey of 1 145 investment industry leaders found that 73% expect social, environmental and governance factors will become more influential (CFA Institute, 2017[38]). The 14th edition of the Emerging Markets Private Equity Association's (EMPEA) annual Global Limited Partners Survey found that, excluding DFIs and investors with impact-only mandates, over three-quarters of respondents consider social and environmental impacts when taking investment decisions (EMPEA, 2018[39]).

The 2017 Morgan Stanley Institute for Sustainable Investing Survey (Morgan Stanley, 2017[40]) found that of 1 000 individual investors surveyed, over three-quarters reported an interest in "investments in companies or funds which aim to achieve market rate returns while pursuing positive social and/or environmental impact". Likewise, 80% of respondents reported that they were more likely to pursue sustainable investments if they could be tailored to their own impact areas of interest (Morgan Stanley, 2017[40]). A higher percentage of women reported interest in sustainable investing compared to men, 84% compared to 67% respectively. Over half of investors surveyed believed there was a trade-off between investing sustainably and financial returns.

2.7.2. Evidence indicates that sustainable and environmental, social and governance investments perform well financially

The relationship between sustainable, responsible and ESG investing and financial performance have been the focus of numerous studies from as early as 1970. Studies to date have found conflicting results. However, a meta-analysis of 2 200 studies undertaken by Friede et al., found that the business case for ESG investing is empirically well

founded (Friede, Busch and Bassen, 2015[41]). The analysis found that approximately 90% of studies found a non-negative relationship between ESG and financial performance, and importantly, the majority of studies reported positive findings. In addition, the study found that the positive effect of ESG on financial performance appeared stable over time.

A 2015 meta-study of over 200 academic studies undertaken Clark et al and published by the University of Oxford and Arabesque Partners found similar conclusions (Clark et al, 2015[42]). The study found that 90% of studies indicate that sustainability standards lower the cost of capital for companies, 88% of research shows ESG practices result in better operational performance of firms and 80% of studies indicate that stock price performance of companies is positively influenced by good sustainability practices. The financial benefits of sustainable investing, both in reality and perceived, have led to an increasing focus by mainstream investors. Despite this, recent surveys show some investors still perceive there to be a trade-off between sustainable investing and financial returns (Morgan Stanley, 2017[40]).

While many studies have focused on the financial outcomes of sustainable investment, few have focused on the environmental or social outcomes. Increasingly, sustainable investment is perceived to be a tool that achieves environmental or social outcomes and contributes towards the SDGs. However, to date there is very little research or evidence and there have been few studies that investigate the impacts of sustainable investment. Indeed, a recent study by the Massachusetts Institute of Technology and the University of Zurich concluded that exclusion, ESG integration and best-in-class have primarily indirect investor impacts, which are uncertain, but potentially important (Koelbel, Julian; Heeb, Florian; Paetzold, Falko; Busch, 2018[7]).

2.7.3. The Sustainable Development Goals are attracting investors

The UN has developed several initiatives that focus on private finance, including: the UN Global Compact Financial Innovation for SDGs, the UN Environment Finance Initiative (UNEP-FI) Principles for Positive Impact and the Principles for Responsible Investment (PRI) Blueprint and Advisory Group on SDGs. These initiatives formed the UN Alliance for SDG financing in 2017. The alliance aims to set out the business case for sustainable development for the private sector; facilitate dialogue between key stakeholders; and provide standards, frameworks and innovative solutions to transition towards an impact-based economy (UN Global Compact, 2017[44]).

As a response to the 2030 Agenda, private and corporate investing with a focus on achieving the SDGs is becoming increasingly popular and the phrase "SDG Investing", or SDGI, has been coined (Box 2.1). In 2017, the UN PRI published the report *The SDG Investment Case*, that set out the moral and economic argument for private investors to focus on SDGI (PRI, 2017[45]).

Box 2.1. Sustainable Development Goal investing

The Financing for Development Office and the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs recently commissioned the *SDG Investing: Advancing A New Normal in Global Capital Markets* discussion paper (C-Change, 2017[46]). The paper defines Sustainable Development Goal investing (SDGI) as:

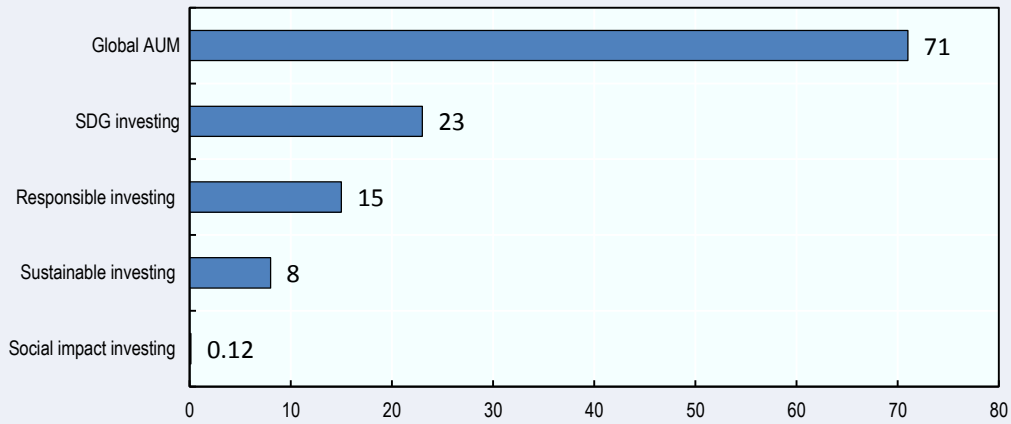
> *…all investment strategies whereby sustainability and/or the SDG's form a "material" factor – i.e. are actively considered – in investment decisions.*

This umbrella term therefore includes impact investing as well as sustainable and responsible

investing more broadly. The paper estimates that around USD 23 trillion, or approximately 26% of assets under management, are SDGI (this figure excludes assets under management in Latin America, Africa and the Middle East), and estimates that USD 0.12 trillion is impact investments.

Figure 2.5. Global SDG investing by strategy

Trillion USD assets under management, 2014-16



Source: Adapted from (C-Change, 2017[46]), *SDG Investing: Advancing a New Normal in Global Capital Markets*, https://www.un.org/esa/ffd/wp-content/uploads/2017/03/SDG-Investing-Report_170306.pdf.

There is a strong business case for the SDGs

The *Development Co-operation Report 2016* made it clear that investing in sustainable development is smart investment (OECD, 2016[13]). As indicated above, investors and companies that focus on sustainable investments achieve positive financial returns. Additional benefits include diversification of markets and portfolios, increased revenue, reduced costs, and improved value of products. Increasingly, investments in developing countries – and even in the least developed – are seen as business opportunities, despite the risks involved.

From the supply side, companies increasingly care about the impact their investments may have and the SDGs provide an important focal point for investors. In addition, the SDGs also provide an opportunity for private sector entities already engaged in impactful investments to gain greater visibility. In addition, delivering the SDGs will be a key driver of economic growth across developed and developing economies (PRI, 2017[45]). Therefore, the SDG investment presents the opportunity for substantial financial returns and longer term profits.

The goals, universal across developing and developed economies, present a systematic way to identify and estimate needs across sectors and within regions and countries. Importantly, they provide a way of measuring progress and the impact of investments. Indeed, there are 232 SDG indicators (UN Statistics, 2018[3]) and the SDG Compass has been created to provide guidance to businesses to align their strategies to the SDGs and measure their impact (SDG Compass, 2015[48]). The SDGs provide a globally agreed framework (PRI, 2017[45]) and a common language to connect public and private sector efforts in sustainable investing and help foster a shared purpose.

The private sector is incorporating the SDGs into its work

Private sector actors have themselves increasingly focused on the SDGs. PwC has set out a business case and drafted a guide for businesses on how to engage with the SDGs (PwC, 2017[49]). BNP Paribas has incorporated a focus on the SDGs as part of its Corporate Social Responsibility Strategy (BNP Paribas, 2017[50]). Société Général has played a leading role in the UNEP Positive Impact Finance Initiative (Société Général , 2018[51]), and in 2017 Société Général's Positive Impact Finance transactions amounted to EUR 2 726 million, compared to EUR 2 244 million in 2016 (Société Général , 2018[51]).

Governments have also played an active role in encouraging SDGI and working with private sector actors. For example, the Dutch government and central bank helped create the SDGI-NL initiative, the members of which are comprised primarily of Dutch financial institutions. The initiative serves to reinforce commitments and offer recommendations for SDGI. The SDGI-NL recently published a report entitled *Building Highways to SDGI Investing* (SDGI-NL, 2016[52]), which explores areas for the Dutch financial institutions to collaborate with government and the central bank to unlock greater SDGI.

Box 2.2. Insights and practice from industry

PGGM and APG pension funds

Two Dutch pension funds, the PGGM and the APG, have been working to develop a taxonomy for what they term sustainable development investments (SDIs). The pension funds define SDI as "investments in solutions that contribute to the SDGs. These investments meet our financial risk and return requirements and support the generation of positive social and/or environmental impact through their products and services, and sometimes via recognised transformational leadership" (APG, 2017[53]). According to the APG, an investment in a company is classified as SDI if its SDG contribution is equal to or above 10% of its activities. However, companies that are recognised leaders in transitioning to a more sustainable economy do not necessarily have to meet this requirement.

The APG had sustainable investments of EUR 55.3 billion at the end of 2017, or approximately 12% of total assets under management (APG, 2017[53]). The PGGM, as of 2017, has invested EUR 13.7 billion in climate, healthcare, food security and water scarcity solutions. The pension fund estimates its investments have provided 225 000 people with access to good healthcare, saved 6 million cubic metres of water and treated 350 million cubic metres of wastewater, and improved hectare returns (PGGM, 2017[54]).

BNP Paribas

BNP Paribas Group has developed its strategic approach over the last two decades. Since 2015, the bank's approach puts a focus on the SDGs and this now forms a part of its Corporate Social Responsibility Strategy. For example, at least 15% of credit commitments must be to corporate clients that contribute to achieving the SDGs. Similarly, BNP Paribas provided EUR 248 million in funding to microfinance institutions in 2016, contributing to 309 000 microloans to people in 18 countries (BNP Paribas, 2017[50]). BNP Paribas is working towards contributing towards each of the 17 SDGs and has, for example, worked with in partnership with the World Bank to develop the "Solactive Sustainable Development Goals World Index". BNP Paribas also has an advisory role in UN partnership to finance measures that assist small farmers with renewable energy, agroforestry and water access (GSG, 2018[55]).

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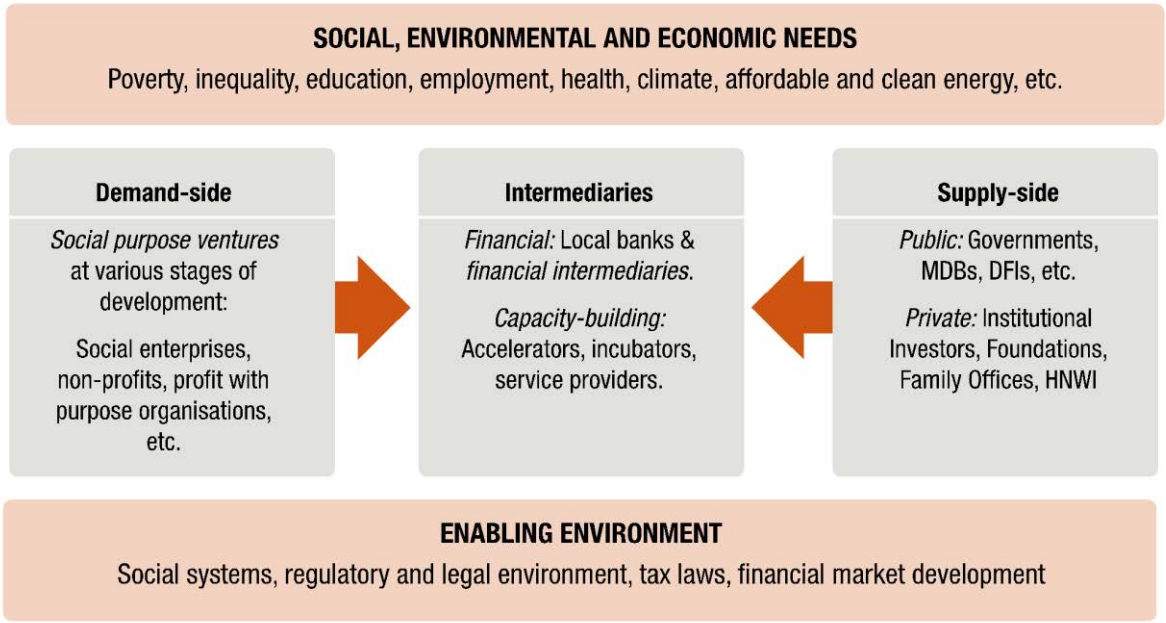
Chapter 3. OECD Social Impact Investment Market Framework

The 2015 publication Social Impact Investment: Building the Evidence Base, presented the OECD Social Impact Investment Market Framework, an important analytical tool for analysing the social impact investment markets. The framework outlined the ecosystem of investors (supply side), investees (demand side) and intermediaries. It also highlighted that social impact investment should start with the social need being addressed and noted the critical role that the enabling environment of a country can play. This chapter sets an updated framework and contextualises it with examples.

3.1. Introduction

The 2015 publication *Social Impact Investment: Building the Evidence Base* presented the OECD Social Impact Investment Market Framework, which outlined the ecosystem of investors (supply side), investees (demand side) and intermediaries. It also highlighted the fact that social impact investment (SII) should start with the social need being addressed and noted the critical role that the enabling environment in a country can have on the development of financial markets in general, and the SII market in particular.

Figure 3.1. OECD Social Impact Investment Market Framework



Source: Adapted from (OECD, 2015[3]), *Social Impact Investment: Building the Evidence Base*, https://dx.doi.org/10.1787/9789264233430-en.

3.2. Social, environmental and economic needs

Social impact investment is about addressing social, environmental or economic needs in more efficient or effective ways. The focus should be on the tangible positive changes experienced by the end beneficiaries in various areas of need. These can cover a wide range of areas such as poverty, inequality, education, employment, health, climate, affordable and clean energy, etc. The Sustainable Development Goals (SDGs) have provided a useful framework, as well as a set of indicators, which have helped galvanise public and private actors around sustainable development challenges. The types of beneficiaries are even more heterogeneous. Different regions, countries and local contexts will have specific needs and therefore the role of SII and the tools used will vary. Chapter 5 explores the differences in social needs between developed and developing countries.

3.3. Demand side

The key drivers in addressing social needs are the social purpose ventures and service delivery organisations. These organisations can include community organisations, charities or non-profit organisations, social enterprises, social businesses, and social impact-driven businesses. These are the organisations that are facilitating the creation of new business models and experimenting with new approaches to address social, environmental and economic challenges. An important part of innovation and experimentation is that not all approaches will work – many will fail but it is critical that learnings from failures should also be shared to further knowledge about what works.

Box 3.1. Habitat for Humanity

Habitat for Humanity is a global non-profit that works to solve the issue of affordable housing and shelter. It works in partnership with future homeowners, volunteers, donors and partner organisations across 70 countries (GSG, 2018[55]). In 2013, the organisation's Terwilliger Centre for Innovation launched the MicroBuild Fund, the first impact investing fund dedicated to housing microfinance. The fund lends to microfinance institutions, which in turn provide small loans to families to build homes (GSG, 2018[55]). As of 30 June 2017, the MicroBuild Fund had approved USD 90 million across 28 countries, of which USD 74.3 million had already been disbursed to 42 institutions in 25 countries (Habitat for Humanity, 2018[56]). Thus far, the fund has provided access to better housing for more than 415 000 people (Habitat for Humanity, 2018[56]).

Social enterprises are entities that primarily pursue a social mission, while operating in the market. To start-up, operate and scale-up, they seek financing from multiple providers, including the public sector, philanthropic foundations, impact investors, as well as mainstream financial institutions. A "resource mix" is necessary to match social enterprises' needs, which vary depending on their stage of development and the nature of their social mission.

Social delivery organisations operate in a wide range of geographies and sectors and therefore have varying financing needs (OECD/EU, 2013[57]; OECD/EU, 2017[58]). Public funds represent a significant "engine" of development and growth for social enterprises, which play an important role as suppliers of services or goods to the public sector. Social enterprises are often recipients of grants at their early stage of development and of subsidies when, for instance, they employ people from disadvantaged groups. Social pension funds are another interesting and innovative way of financing social enterprises and can provide access to "patient" capital for social enterprises for financing their operations and growth. Box 3.2 provides an overview of financing for social enterprises.

Box 3.2. Financing for social enterprises

The role of social enterprises as "investees" is a relatively recent phenomenon. As investees, social enterprises are expected to produce a social return on investment, and often also a financial return. With this in mind, social enterprises strive to become increasingly investment ready and develop their capacity to better communicate with potential funders and finance providers. Initiatives such as Germany's FASE focus on creating impact investment pipelines that bring together impact investors and investment-ready social enterprises, and support them throughout the transaction process, clearly demonstrating that both public support and philanthropic funds are equally crucial to early-stage social enterprises and intermediaries aiming to provide them with sufficient capital to survive and thrive.

Lack of visibility and understanding of social enterprises among mainstream finance providers coupled with the perception of social enterprises as high-risk clients makes them reluctant to invest in them. Commercial banks share this view, considering that social enterprises may not have the capacity to sustain the loan costs or present the necessary collateral. One effective response to this challenge is guarantee schemes, which are widely known for sharing or amortising risk with mainstream funders, impact investors and commercial banks. For example, in Ireland, the social finance provider Clann Credo provides retail loans to social enterprises based on their size, repayment capacity and expected social benefits. In the event of a loan default, Clann Credo shares 50% of the loss with the Social Finance Foundation, a wholesale social finance provider. Still, its operations emphasise prudent lending practices in social finance and capacity building for assessing risk.

In a nutshell, without forgetting that some social enterprises may always need public funds because of their specific social mission or stage of development, some others may need to be supported in order to become investment-ready. At the same time, public action can be taken to better inform investors, support the development of intermediaries and provide incentives for investing in social enterprises. Lastly, there is a need to design co-funding schemes with public financial resources and to support intermediaries that can help broker the relationship between finance providers and social enterprises. The role of policy in supporting initiatives that help social enterprises access finance is outlined further in Chapter 6.

Sources: (OECD/EU, 2017[6]), *Boosting Social Enterprise Development: Good Practice Compendium*, https://doi.org/10.1787/9789264268500-en.

3.4. Supply side

On the supply side, capital providers are increasingly interested in social impact investment as a way to diversify their investments and pursue social, as well as financial, goals. These include both public investors – governments, multilateral development banks, development finance institutions (DFIs), etc. – and private investors such as foundations, high net-worth individuals and philanthropists, banks, pension funds, sovereign wealth funds, and other financial services firms and intermediaries. Table 3.1 details the types of potential social impact investors.

Table 3.1. Types of potential social impact investors

Type	Summary and preferences	Typical financial products	Examples of investors
Public			
National governments	Governments focusing on outcome commissioning and public procurement from social enterprises.	Grants, SIBs	UK Switzerland Canada
Development finance institutions (DFIs)	National and international DFIs are usually majority owned by national governments and source their capital from national or international development funds or benefit from government guarantees.	Equity, debt, quasi-equity	CDC Group Overseas Private Investment Corporation Swiss Investment Fund for Emerging Markets Proparco
Multilateral development banks	Development banks are local, national, regional or multilateral financial organisations. Their shareholders are generally national governments, but could also include other international or private institutions. These institutions provide long-term capital to develop private sectors and for infrastructure, often accompanied by technical assistance.	Grants, equity, debt, quasi-equity	European Bank for Reconstruction and Development Inter-American Development Bank International Finance Corporation African Development Bank Asian Development Bank
Private			
Philanthropic foundations	Invest endowments in projects, social enterprises and in developing countries.	Equity, debt, grants, quasi-equity for seed stage and market building. Typical deal size (direct investment): USD 50 000-1 million	Bill & Melinda Gates Foundation Shell Foundation Omidyar Network
Family offices and high net-worth individuals	Invest own capital or capital of high net-worth individuals across a range of asset classes.	Debt, equity	
Dedicated early-stage impact funds	Pool own capital with capital of high net-worth individuals, foundations and/or institutional investors into funds to support private impact focused enterprises.	Equity, debt, quasi-equity, inventory finance and grants for relatively early-stage enterprises. Typical deal size: USD 50 000-2 million	Acumen Fund LGT Philanthropy Root Capital Gatsby Charitable Trust
Commercial banks	Lend to small and large businesses.	Debt	HSBC Bank of America

Private equity (impact) funds	Invest institutional capital and own capital into private companies and funds.	Equity investment small and medium-sized enterprises growth stage	Phatisa Harith Ariya
Asset managers	Invest institutional and retail capital across a range of investments.	Debt, equity	Blackrock Wellington
Insurance companies	Invest premium payments from policy holders to provide funding for future claims.	Debt, equity	AXA Zurich Insurance Group
Investment banks	Invest in and/or arrange large transactions for institutional clients. Tenor restrictions driven by capital charges are a constraint for on-balance sheet investments.	Debt, equity	Goldman Sachs JP Morgan Morgan Stanley
Pension funds	Pension funds are established for purposes of providing benefits on retirement for specific groups of employees. Invest pension payments from policy holders to pay for future retirement benefits.	Equity, debt (often restrictions in some asset classes)	California Public Employees' Retirement System Universities Superannuation Scheme AP4
Sovereign wealth funds	Pools of assets owned and managed directly or indirectly by governments and increasingly directed towards impact investments.	Equity, debt	Abu Dhabi Investment Authority Temasek

Source: Adapted from (UNDP, 2014[7])"Impact investing in Africa: Trends, constraints and opportunities", Working document, United Nations Development Programme, New York, http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Impact%20Investment%20in%20Africa/Impact%20Investment%20in%20Africa_Trends,%20Constraints%20and%20Opportunities.pdf and (Convergence, 2018[7]), Who is the private sector? Key considersations for mobilizing institutional capital through blended finance, https://assets.ctfassets.net/4cgqlwde6qy0/3HUqqvIdC0OUm8IskiGew6/46cde0ce28ece4532680347ca096e67d/Convergence_Who_is_the_Private_Sector_.pdf.

Foundations have played a critical role in the development of the social impact investment market (Kohler et al, 2011[61]). This role has ranged from building market infrastructure, such as the Rockefeller Foundation has done in the United States and the Bertelsmann Foundation in Germany, to providing "catalytic" capital or actively investing, through programme-related investment programmes (OECD, 2015[3]). Private foundations have the advantage of being independent from government and the markets and therefore are in a position to take on greater risk than other private investors and provide long-term "patient" capital. This gives them the freedom to explore and create innovative ways to address social, economic and environmental challenges. A recent OECD report on *Private Philanthropy for Development* found that philanthropic giving had increased across the world and that an average of USD 7.96 billion a year was committed towards development between 2013-15 (OECD, 2018[6]).

DFIs have always played an important role as "catalytic" funders in developing markets. The engagement of DFIs in financing, technical assistance and ecosystem development will be discussed further in Chapter 6. Similarly, funds and asset managers play an important role in the SII market. The number of impact-only funds has increased, and increasingly traditional private equity firms and asset managers have impact investments in their portfolios. New models and collaborations between different funders are also emerging.

Box 3.3. Living Cities

Living Cities is a fund manager established in 1991 that combines different types of capital – private, public and philanthropic – to social change and contributes to community infrastructure (Nagendra and Lakshmanan, 2018[9]). The fund manager uses innovative finance in co-ordination with research and networks to accelerate solutions to social problems. Living Cities manages two structured debt funds: the Catalyst Fund and the Blended Catalyst Fund. Collectively the funds have deployed approximately USD 57 million and the 29 investments have leveraged over USD 1.13 billion in additional financing (Nagendra and Lakshmanan, 2018[9]). The Catalyst Fund was ranked as one of the top 50 impact funds by ImpactAssets and its portfolio of investments ranges from affordable housing to social impact bonds (Living Cities, 2018[8]).

Corporates are increasingly involved in social impact investing (EVPA, 2018[64]). They often enter the market through specific initiatives or funds. Increasingly many corporates are going beyond corporate social responsibility and environmental, social and governance reporting by striving to integrate sustainable growth and positive impact into their core business strategies.

The European Venture Philanthropy Association (EVPA) has been active in engaging with corporates. Building upon its earlier study on corporate social impact strategies, the EVPA Corporate Initiative brings together more than 50 corporate foundations, social impact funds, accelerators and other socially driven corporate entities in search of the most effective ways to maximise their societal impact through joint-learning across Europe (EVPA, 2018[65]).

Box 3.4. Examples of corporates' role in social impact investment

Danone

Danone has set its goal to build a balanced, profitable and sustainable growth model. It has utilised a combination of tools and models for impact including social business in partnership with Grameen, impact investment funds and products, and supply chain measures (Danone, 2018[66]). Danone has established social impact funds to invest in affordable water access and the Danone Communities Fund has provided access to clean water for 1 million people. In addition, Danone is committed to becoming a B corporation (see Chapter 6 for more information). DanoneWave is now the largest public B Corporation (Danone, 2018[66]). This is all part of Danone's long-term commitment to sustainable business and pursuing social progress and economic success.

Johnson & Johnson

Johnson & Johnson launched its impact investment effort in 2015: the Global Community Impact managed by the Corporate Citizenship Trust. The mission of the Johnson & Johnson Corporate Citizenship Trust is to make a sustainable, long-term difference to human health (JJCCT,

2018[67]). The fund focuses on demonstrating that health and wellness investing in low-resources settings can deliver sustainable impact and financial returns. An initial USD 15 million has been allocated to launch the first phase of the strategy. Through impact investments, the fund is partnering with entrepreneurs to build purpose-driven businesses (JJCCT, 2018[67]).

3.5. Intermediaries

Intermediaries can play a pivotal role in developing the social impact investment ecosystem. They provide the links between investors, investees and others in the market and improve efficiencies in the market (OECD, 2015[3]). They carry out functions such as creating liquidity and facilitating payment mechanisms. They also provide advice as well as help in structuring deals and in managing funds.

Primarily, there are two types of intermediaries that help to connect players in the SII ecosystem: financial intermediaries and capacity-building organisations. Financial intermediaries include banks, wholesale investment banks, fund managers, stock exchanges and increasingly crowdfunding platforms. Capacity-building organisations include accelerators and incubators, advisory firms, and networking and knowledge platforms.

The lack of efficient intermediation in the social impact investment market translates into higher transaction costs caused by fragmented demand and supply as well as complex deal structuring (Freireich, J; Fulton, 2009[68]). The creation of new specialist intermediaries and the strengthening of existing ones are important for creating a well-functioning ecosystem as well as for enabling deal flow (Jackson, 2012[69]). Various types of intermediaries are needed to serve all sizes of impact-driven organisations (Addis,R; McLeod, J; Raine, 2013[70]) and players in the ecosystem need to be encouraged and incentivised to collaborate.

3.6. Enabling environment

The general framework conditions in a country can have a significant impact on the development of financial markets in general and the social impact investment market in particular. The existence of vibrant entrepreneurial finance markets can facilitate the development of the social impact investment market as experience with financial market tools can help in building the SII market (in fact, many of the early pioneers in SII were previously active in investment banking, private equity, venture capital and/or angel investing).

For the SII market to function well, the necessary legal frameworks and structures need to be in place for social ventures as well as streamlined regulations and requirements for investment (Thornley, B; Wood, D; Grace, K; Sullivant, 2011[71]). This includes corporate structures more suitable to social ventures as existing structures (either for-profit or non-profit) may restrict the ability or flexibility of these organisations to attract investments in some countries. In addition, framework conditions which favour innovation (e.g. competition, openness, etc.) have to be adapted to the specific conditions of emerging and developing countries (OECD, 2012[20]).

The SII market is evolving in various ways across countries (see Chapter 5). This is influenced by the differences in the country context and, in particular, the ways in which social and financial systems are structured, which determines the role and mix of public and private capital (Wilson, 2014[72]). In addition, political economy considerations also play an important role, since SII may be perceived differently across and even within countries.

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Chapter 4. Global state of the social impact investment market

The social impact investment market is growing rapidly across the world in both developed and particularly in developing countries. This chapter highlights the main developments and trends in the market, including data from existing market surveys and other sources. It also provides an overview of the types of financing instruments being used in the market as well as emerging pay-for-success models. It also highlights emerging trends such as the important role technology is playing in the market as well as the growth of gender lens investing.

4.1. Introduction

This chapter provides an overview of global trends in the social impact investment (SII) market. There is increasing momentum in the market with continued growth of investments directed to the sector over the last decade. Mainstream asset managers and investors are ramping up their portfolios directed to social outcomes in search of innovative product and investment opportunities, alongside financial returns, as well as responding to investor demand. This chapter highlights the main developments and trends in the market, including data from existing market surveys and other sources. It also provides an overview of the types of financing instruments being used in the market as well as emerging pay-for-success models.

4.2. The social impact investing market is growing rapidly

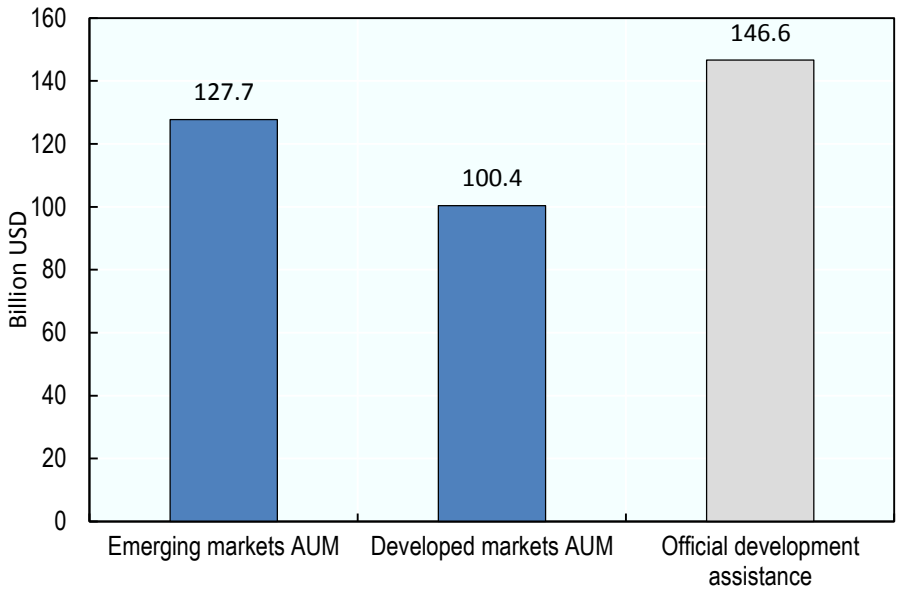
The global impact investment market is growing rapidly and is increasingly attracting interest from mainstream commercial finance, including institutional investors, asset managers and multinational companies. Trends indicate that impact investment is a growing market both in terms of new entrants as well as those already operating in the market looking to increase their portfolio commitments.

Social impact investors not only provide financing for enterprises addressing various Sustainable Development Goal (SDG) challenges, but also seek an explicit and measurable social return. To do so, they often aim to support the piloting of innovative solutions to more effectively and efficiently address social issues. A growing number of entrepreneurs are addressing SDG-related needs by creating sustainable business solutions. Social impact investing has the potential to catalyse new capital flows towards the SDGs in both developed and developing countries. This will require the collaboration of development finance providers as development finance institutions (DFIs) or philanthropies working together with commercial investment providers in order to overcome barriers in the market.

Measuring the size of the SII market and analysing its trends is complex given the lack of comparable data across data providers and countries. The OECD has been working on tackling this challenge (see Chapter 7) alongside key data aggregators in the industry, but there is still much work to be done before there is access to a comprehensive comparable data set. However, there are several reports and surveys that cover various segments of the market which provide helpful insights into trends the market.

According to Global Impact Investing Network (GIIN)'s Annual Impact Investor Survey 2018 (GIIN, 2018[1]), of 229 impact investors, over 50% made their first impact investment in the past decade. The number of impact investors tracked by the GIIN rose from less than 50 pre-1997 to well over 200 in 2017. SII plays a significant role in emerging economies. The majority of social impact investment assets under management (AUM) are allocated to emerging markets. Survey respondents represented USD 228.1 billion in AUM and of this 56%, or USD 127.7 billion, was allocated to emerging markets. This in part reflects that DFIs, while making up 3% of survey respondents, represent 45% of AUM. Figure 4.1 visualises the difference in allocation to emerging and developed markets, with official development assistance figures for 2017 added to illustrate scale.

Figure 4.1. Impact investors' assets under management allocation to developed and emerging markets, 2017



Notes: The countries classified as emerging markets by the Global Impact Investing Network do not necessarily correspond to the OECD-DAC List of ODA Recipients. For GIIN data n = 226; total assets under management = USD 228.1 billion.
Sources: (GIIN, 2018[1]), "Annual Impact Investor Survey 2018", https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf and (OECD, 2018[73]), DAC statistics, www.oe.cd/fsd-data.

The GIIN survey shows an increase in impact investment allocations across every region from 2013 to 2017 (see Chapter 5 for further details). It is estimated that of those currently participating in impact investing, allocations have increased 18% annually (GIIN, 2018[1]). Similarly, respondents indicated that they intend to increase capital allocated in the future, with 84% stating that their organisations are making more impact investments and 84% demonstrating a greater commitment to measuring impact (GIIN, 2018[1]).

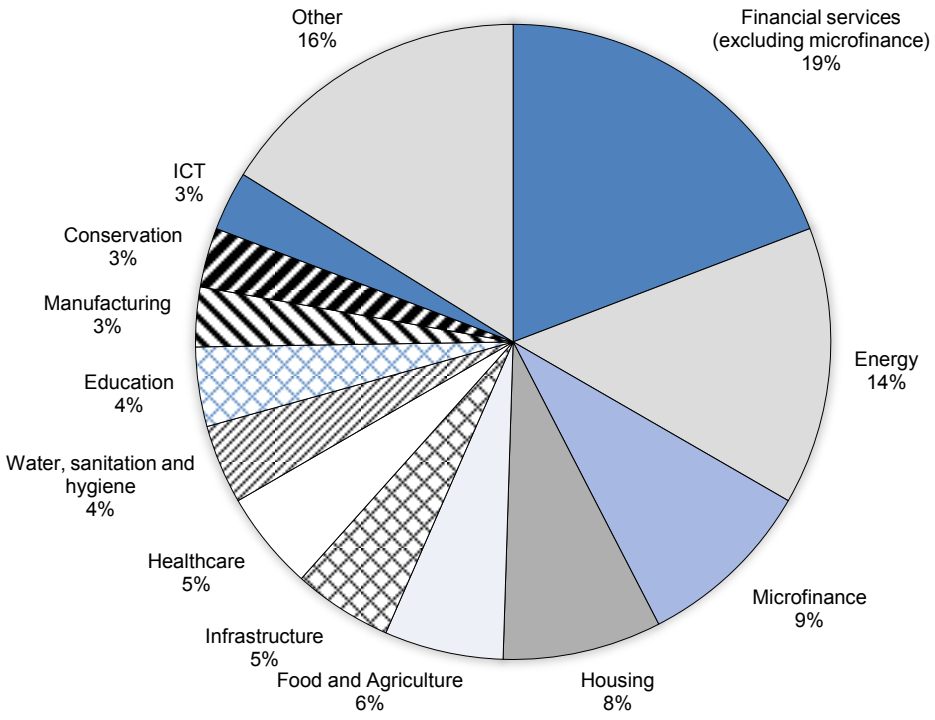
Fund manager respondents raised USD 18.7 billion during 2017 and planned a 20% increase for 2018 (GIIN, 2018[1]). Impact investors invested in businesses at a variety of stages of development, with the majority of AUM allocated to mature, privately traded companies and growth-stage companies. In 2017, only 1% of AUM was allocated to early stages and seed funding, and 10% of AUM was invested in venture-stage companies.

Other regional and global studies also indicate that allocations to developing countries continue to grow. The OECD *Private Philanthropy for Development* report published in 2018 presents data and analysis that capture, for the first time, global and comparable quantitative and qualitative data on how foundations support development and captures the growing engagement in social impact investment (OECD, 2018[2]). The "Global philanthropy report" produced by the Hauser Institute at the Harvard Kennedy School in collaboration with UBS found that SII is increasing in prominence, with 8% of philanthropic foundations now engaging in impact investments (Johnson, 2018[12]). Data from *The Global Family Office Report 2016*, a joint UBS and Campden Wealth

publication, found that 32% of 267 surveyed family offices were either somewhat or highly active in impact investing (Johnson, 2018[12]). Additionally, 30% indicated they were likely to become active in the field.

The largest sectors for impact investments in 2017 were financial services (excluding microfinance), which received 19% of AUM; energy, which received 14% of AUM; microfinance, which received 9% of AUM; and housing, which received 9% of AUM (GIIN, 2018[1]).

Figure 4.2. Sector allocation of total assets under management in the social impact market, 2017



Notes: Per cent of assets under management: n = 226; total assets under management = USD 228.1 billion. Other sectors include small and medium-sized enterprises, child welfare, commercial goods, transport, retail, tourism, forestry, and commercial real estate.
Source: (GIIN, 2018[1]), "Annual Impact Investor Survey 2018", https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.

4.3. Enterprises have diverse financing needs

Across different geographies and sectors a great variety of enterprises exist ranging from micro-enterprises; micro, small and medium-sized enterprises (MSMEs); small and growing businesses (SGBs); small and medium-sized enterprises (SMEs); and larger enterprises.

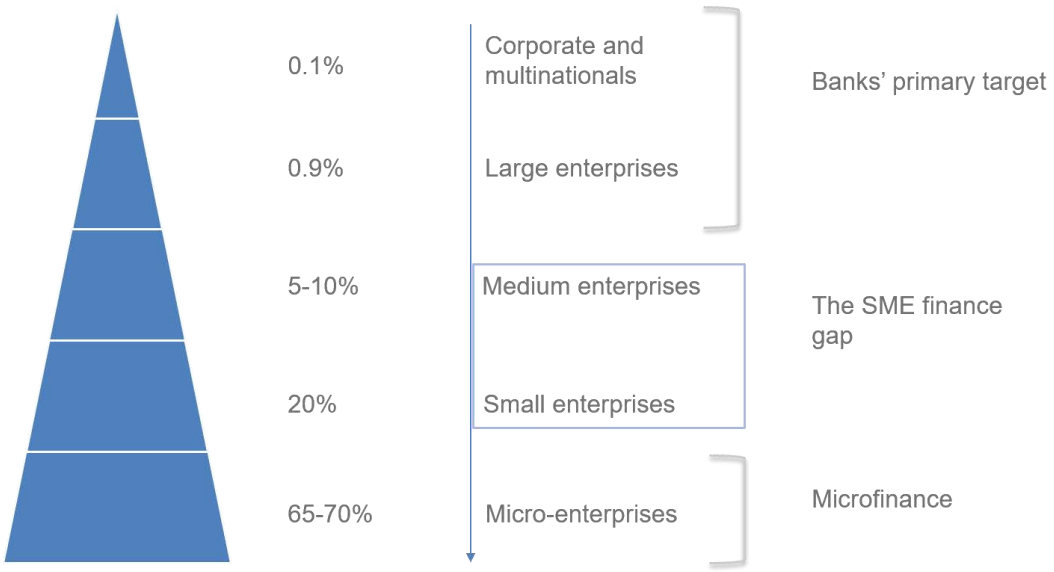
Box 4.1. Aspen Network of Development Entrepreneurs small and growing businesses

The Aspen Network of Development Entrepreneurs (ANDE) defines small and growing businesses (SGBs) as commercially viable businesses with 5-250 employees that have significant potential, and ambition, for growth. The ANDE 2016 survey of the SGB industry over the last decade showed that 523 investment vehicles have been launched, investing an estimated USD 28 billion in SGBs in emerging markets (ANDE, 2017[4]). In 2016, USD 278 million was invested in deals under USD 2 million – approximately 28% of total emerging market deals.

Source: (ANDE, 2017[12]), State of the small growing business sector 2016 impact report, https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/Research_and_Impact_updates/2016_SOTS_Report.pdf

Enterprises need different types and levels of funding at various stages of development. Flexible capital, including grants, guarantees, first-loss capital and concessional financing, is particularly vital in the early stages and can help facilitate the piloting and development of innovative enterprise models. Patient capital is also a critical enabler, i.e. investors that will take greater risk, hold investments for longer periods of time and potentially accept more modest financial returns. Figure 4.3 indicates the diversity of enterprises and the financing focus. It also demonstrates that fact that the bulk of enterprises are small and these are the ones which have the most trouble accessing finance.

Figure 4.3. Diversity of the private sector in emerging economies

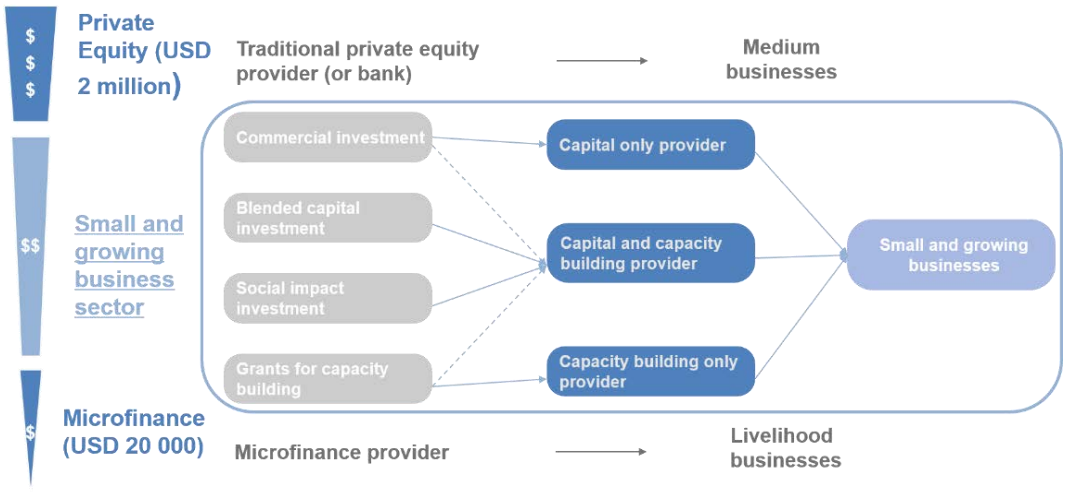


Note: Percentages represent the number of companies.
Source: IFC (2010[13])"SME banking knowledge guide", https://www.ifc.org/wps/wcm/connect/b4f9be0049585ff9a192b519583b6d16/SMEE.pdf?MOD=AJPERES

The development of financial instruments across the full risk/return/impact spectrum is needed to meet the varying needs of these enterprises (GSG, 2018[55]). Similarly, enterprises have differing funding needs depending on their size, scale and business stage.

Smaller social enterprises or start-ups in the early stages of development often require grants and seed capital as well as technical assistance. In contrast, later stage enterprises which are seeking to scale-up operations need larger investments. There is a need for more efficient distribution. A recent Global Steering Group on Impact Investing (GSG) report concluded that the infrastructure linking the mainstream capital markets to the impact and development finance community is weak (GSG, 2018[77]). Figure 4.4 details the different sizes of businesses and the implications of the type of appropriate funding instrument, particularly for SGBs.

Figure 4.4. Financial flow schematic of small and growing businesses sector



Source: (Aspen Network of Development Entrepreneurs, 2018[20]), website https://protect2.fireeye.com/url?k=ca4fa7be-9654ee36-ca4f8c7d-002590f45c88-065c5d14f5e4adbc&u=https://www.andeglobal.org/

4.4. A wide variety of financing instruments are used in the industry

According to the investors covered by the GIIN survey, the most frequently used instruments for impact investment are private equity, private debt and real assets (GIIN, 2018[1]). While private equity was the most frequently used instrument, most assets under management were allocated using private debt (GIIN, 2018[1]).

4.4.1. Private equity is the most common impact investment instrument

Private equity is the second largest asset class and the most frequently used instrument for impact investments (GIIN, 2018[1]). Private equity funds acquire companies or amass ownership stakes to accrete value through strategies such as turning around a struggling business or driving growth. They often enhance returns by utilising a high degree of financial leverage (OECD, 2018[7]). Venture capital firms provide equity for early-stage companies that demonstrate a potential to grow quickly and generate large returns on investment.

Box 4.2. Elevar Equity

Elevar is a venture capital investor focused on investment in companies delivering essential services to underserved, low-income communities. Elevar provides equity capital to entrepreneurs who deliver innovative market-based solutions, who in turn provide financial services, agriculture, housing, education and healthcare to millions of customers. To date, the majority of the firm's investments have been made in Latin America and India. An example is Afluenta, which directly connects lenders and borrowers in underserved communities across Latin America over its proprietary, secure and user-friendly technology platform providing affordable and convenient financing alternatives to traditional banks.

Source: (ImpactAssets, 2018[21]), ImpactAssets 50 - An Annual Showcase of Impact Investment Fund Managers, www.impactassets.org/ia50_new/.

Studies so far have indicated that private equity impact investments can achieve market rate returns, which are comparable to conventional private equity funds (GIIN, 2017[10]). Cambridge Associates, in collaboration with the GIIN, launched the *Impact Investing Benchmark* in 2015, comprising of 51 private investment funds. The report found that from 1998 to 2010, the pooled internal rate of return for private equity impact investments was 6.9%, versus 8.1% for comparable funds not invested in SII (Cambridge Associates & GIIN, 2015[79]). However, returns were not uniform across the sample years or fund size. A 2017 update found that the 71 funds had generated aggregate net returns on average of 5.8%, and the trend for smaller funds outperforming larger funds continued with pooled annual returns of 8.9% compared to 5% for larger funds (GIIN, 2017[10]). A 2015 study by Gray et al., "Great expectations", found that private equity funds seeking a market rate return achieved a gross internal rate of return of 9.2% (Gray et al, 2015[15]). Similarly, a McKinsey & Co study of impact investment in India found that of 48 exits between 2010 and 2015 of impact investments produced a median internal rate of return of around 10% (Pandit and Tamhane, 2017[16]). A large variation of returns of impact investments was found, indicating that the role of managers in the selection of investments was a key factor of success.

The experience of IPDEV proves that positive private equity exits are possible even in fragile sub-Saharan countries. During its 15 year lifespan, the fund has achieved 20 exits (out of 33 positions); with gross investment return rates. The minority shares were sold to the entrepreneur themselves or to a third party, who would keep supporting the business and bring additional skills (Investisseurs & Partenaires, 2018[120]).

4.4.2. Private debt is the largest asset class in terms of amounts

Private debt is the largest class in impact investing in terms of assets under management and the second most commonly used instrument (GIIN, 2018[1]). Debt is widely used by private actors, mostly in the form of loans. Most privately extended debt in developing countries takes the form of loans; tradable securities (e.g. bonds) make up a growing portion of debt flows, in line with a global shift towards more capital market and bond financing (OECD, 2017[11]).

Box 4.3. Root Capital

Root Capital is a non-profit social investment fund that grows rural prosperity in poor, environmentally vulnerable places in Africa and Latin America. Root Capital primarily uses private debt. It supports agricultural businesses with a mix of credit, capacity building and connections to ethical supply chains. These businesses purchase crops such as coffee or cocoa from smallholder farmers. With growth, they become engines of impact that can raise incomes, create jobs, empower women and young people, sustain peace, and preserve vulnerable ecosystems. Founded in 1999, the organisation has cumulatively loaned more than USD 1.2 billion to 665 grassroots businesses and reaching more than 1 million farm families in 30 countries.

Source: (ImpactAssets, 2018[21]), ImpactAssets 50 - An Annual Showcase of Impact Investment Fund Managers, www.impactassets.org/ia50_new/.

Frequently, investors use a combination of both debt and equity investments in their portfolios. Box 4.4 provides an example of this approach.

Box 4.4. Sarona Asset Management

Sarona Asset Management, a private investment firm, provides growth capital to expansion-stage companies in frontier and emerging markets. The firm uses a combination of private debt and equity to support sectors that benefit from the rapidly rising middle class within frontier and emerging markets. In 2014, Sarona invested in Progresemos, a Mexican microfinance institution, which provides loans to individuals and enterprises in the rural areas of Mexico where traditional sources of financing are not available. Most of its customers are low-income, female and micro-entrepreneurs. Due to strong demand for its services, Progresemos experienced over 60% growth in the two years following Sarona's investment.

Source: (ImpactAssets, 2018[21]), ImpactAssets 50 - An Annual Showcase of Impact Investment Fund Managers, www.impactassets.org/ia50_new/

There have been several studies exploring the returns of impact investments using private debt (GIIN, 2018[23]). Symbiotics, an investment firm, undertook a survey of 93 microfinance investment vehicles managing USD 12.6 billion of assets (Symbiotics, 2017[18]). Of the 44 microfinance investment vehicles that reported on the net income of their direct debt microfinance portfolio, the average yield was 6.9%. Impact Investing Australia's survey of 50 private debt impact investments found a weighted average gross return of 7.9% among private debt loans in Australia (Impact Investing Australia, 2016[85]). A UK Social Investment Research Council report analysed 426 transactions made by 3 social investment financial intermediaries. The intermediaries primarily or exclusively offered loans to organisations that had previously been refused finance and found that the transactions on average led to a return on investment of -9.2% over 12 years or -0.77% annualised. Among the transactions, there was also a write-off rate of 19.6% (Social

Investment Research Council & EngagedX, 2015[86]). The Boston Consulting Group undertook a study on the FutureBuilders Fund, set up by the UK Treasury to encourage voluntary and community sector to make greater use of repayable finance, which found the closed portfolio yielded a negative internal rate of return of -3% (Brown, Lehrens and Schuster, 2015[19]). The results of the two UK studies, while limited in scope, indicate that among high-risk investees, near capital preservation returns are possible.

The issuance of green bonds has become increasingly important in recent years as a means to mobilise private finance for low-emission infrastructure projects (OECD, 2017[29]). Green bonds tie the proceeds of bond issues to environmentally friendly investments and impacts such as renewable energy and upgrades in energy efficiency (GSG, 2018[77]). However, green bonds are not specifically defined and both officially labelled and unlabelled types exist. Currently, the major issuers of green bonds are corporations and development (OECD, 2017[29]). The green bond market has grown rapidly and is currently one of the fastest growing segments of the fixed-income market (GSG, 2018[77]). Relatedly, climate-aligned bonds are also increasingly issued.

Innovative new debt instruments are also emerging. Impact Investment Exchange Asia (IIX) has set up the Women's Livelihood Bond, which it terms the world's first social sustainability bond (IIX, 2017[88]). Sustainability bonds are debt securities that pool together this group of underlying borrowers (social enterprises and microfinance initiatives), depending on their financial needs, repayment abilities, risk profiles and impact potential. The Women's Livelihood Bond will provide private capital to microfinance institutions and social enterprises that, in turn, will help low-income Southeast Asian women build credit histories and transition from subsistence to sustainable livelihoods (USAID, 2018[89]). The enterprises or entities have undergone financial and social due diligence by the IIX and 130 impact assessments were undertaken. Theoretically, sustainability bonds are replicable instruments that can be structured and issued around different themes (IIX, 2017[88]).

Box 4.5. Real assets

Real assets can be equity or debt investments and often play an important role in the portfolio of institutional investors, providing current cash flows, inflation-sensitive characteristics and diversification. The 2018 GIIN survey found real assets to be the third largest asset class in terms of assets under management in impact investing (GIIN, 2018[1]). Real assets include real estate, infrastructure, oil and gas, timber, and agriculture. In contrast to other investments, real assets derive value from their own intrinsic properties, rather than being a claim on other assets (Cambridge Associates & GIIN, 2017[90]).

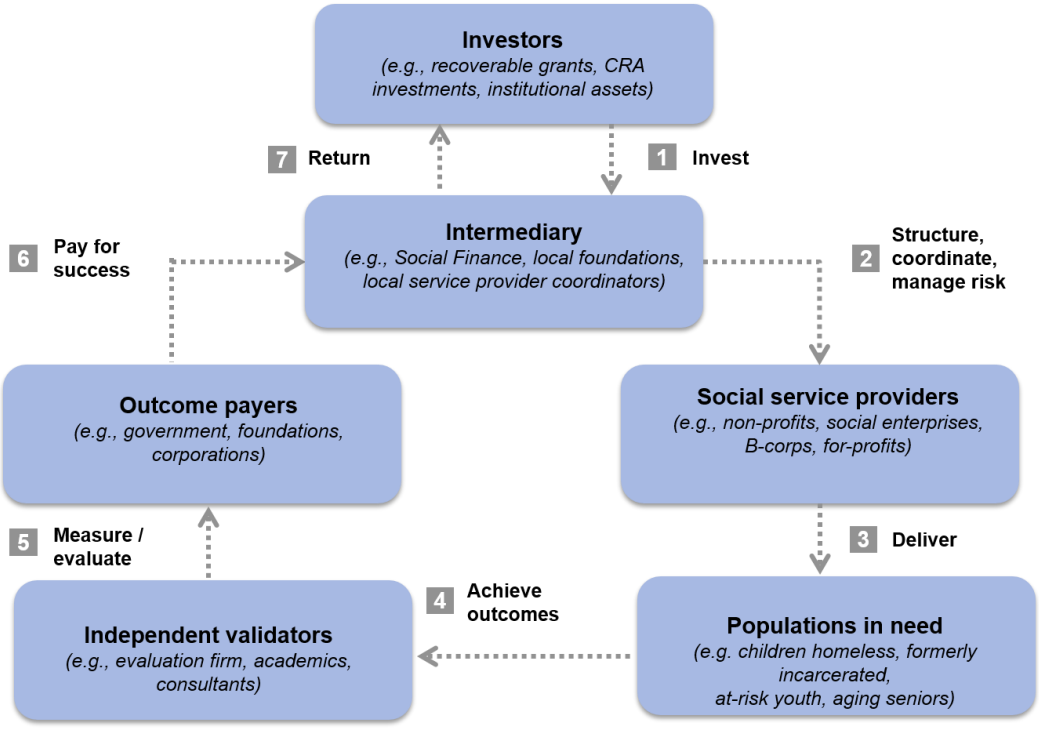
A 2017 Cambridge Associates and GIIN study exploring the returns of real assets allocated to impact investments in the timber market, infrastructure projects and real estate markets found mixed results regarding financial returns (Cambridge Associates & GIIN, 2017[90]). The results indicate that market rate returns are possible via equity or debt impact investments in real assets (Cambridge Associates & GIIN, 2017[90]). However, results were mixed among sectors, with impact investments in the timber market outperforming impact investments in infrastructure and real estate.

4.4.3. Innovative pay-for-success models are being further developed

"Pay-for-success" instruments such as social impact bonds and development impact bonds (DIBs) are increasingly in use around the world (OECD, 2018[19]). These instruments are innovative financing mechanisms that make financing conditional upon the delivery of concrete results. Governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organisations, and investors to pay for the delivery of pre-defined social outcomes (OECD, 2015[3]). These instruments are frequently funded through intermediaries such as outcome funds, or indirectly through funds of funds which invest in outcome funds. Similarly, governments can directly instigate pay-for-success instruments through outcome commissioning.

These innovations bring together public and private actors drawing on their different strengths, to increase financing volumes and/or impact for sustainable development. Private investment is used to pay for interventions, which are delivered by service providers with a proven track record, and financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, or reach the required target, then investors do not recover their investment. In financial terms, social impact bonds (SIB) are not actual bonds – i.e. fixed income instruments – but rather future contracts on social outcomes (OECD, 2016[91]). Figure 4.5 details the SIB model.

Figure 4.5. The social impact bond model



Source: (OECD, 2016[91]), Understanding Social Impact Bonds, http://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf; (Burand, 2013[92]), Globalizing Social Finance: How Social Impact Bonds and Social Impact Performance Guarantees can Scale Development

Box 4.6. The first social impact bond: UK Peterborough Prison

The first social impact bond (SIB) was launched in the United Kingdom in September 2010 and was created to decrease recidivism rates among short-sentenced prisoners in Peterborough. Social Finance UK deployed the SIB and investors were paid according to how successful the service was in reducing reconvictions for cohorts of prisoners released from Peterborough prison; specifically, if there was a reduction in reoffending of 7.5% across the whole pilot against a national comparison group (UK Government, 2017[93]). The SIB has been relatively successful, with reductions in recidivism sufficient to trigger an outcome payment. The results for the first cohort published in August 2014 indicate that the pilot achieved an 8.4% reduction in reconviction events (UK Government, 2017[93]). Estimates for cohort 2, published in August 2017, indicate that a 9.7% reduction in reconviction was achieved, meaning that across both cohorts the reduction was 9% (Anders and Dorsett, 2017[94]).

SIBs are now used across the United Kingdom, the United States and increasingly the rest of the world to address a range of social issues including workforce development, foster care, education, health (diabetes and dementia) and homelessness. Similarly, DIBs, an iteration of SIBs, are increasingly used in developing countries. The majority of SIBs so far have been created in Europe and North America; however, SIBs and DIBs are increasingly being applied in other regions across the world, including developing countries in Africa and Latin America (Instiglio, 2018[13]).

Box 4.7. Social impact bonds: Lessons learnt from design, implementation, and evaluation

The remarkable growth of social impact bonds (SIBs) and development impact bonds (DIBs) since 2010 has provided fertile ground to draw some key lessons from their design, implementation and evaluation.

1. **SIBs are often complex and time-sensitive instruments that require adaptability from the stakeholders engaged in them.** Time and technical expertise together with confidence among stakeholders from different sectors are indispensable in order to design an SIB. As each contract process follows its own logic, negotiations are often extensive and expensive. The creation of outcome funds, such as the Life Chances Fund and the Youth Engagement Fund, among others, in the United Kingdom seem to have streamlined this process in some cases. The dynamics among the stakeholders may vary as well, requiring them to adapt to new roles. For example, outcome funders or finance providers may need to be less hands-on when deciding the outcome metrics and the specifics of the intervention while allowing the social services providers to decide about and carry through the intervention more autonomously.

2. **SIBs have been costly instruments so far.** As a consequence of the contract complexity, SIBs often entail significant transaction costs that stakeholders should consider before embarking on them. Transaction costs could be reduced in the future, however, as these contracts are being mainstreamed. In terms of risk, in theory SIBs intend to roll over the risk from the government and the service providers to investors. Quite often, though, there are capital protection and guarantee mechanisms as well as early termination clauses of the SIB contract in order to mitigate the risk assumed by

investors.

3. **Ensuring continuity of social service delivery for vulnerable groups and citizens is indispensable.** SIBs provide governments with the capacity to test innovative approaches for delivering social services or invest more on preventive programmes, which can impact citizens' well-being and yield savings, notably in the long term. Moreover, they have the potential to provide integrated solutions to social challenges by enhancing the collaboration among relevant actors. Still, policy makers need to ensure, first, that SIBs are suitable for the problems they are aiming to address and, second, the continuity of the services provided and the sustainability of attained outcomes after the end of the contract. This can be achieved by ensuring that the government, both at the political as well as at the civil servant level is engaged.

4. **Stimulating social innovation can be a significant benefit but is not guaranteed.** SIBs can be viewed as an innovative way of delivering social services, selecting different services providers or using new performance management systems. The focus on outcomes has encouraged social services providers in some cases not only to test innovative approaches, but also to modify them during delivery when necessary. With this in mind, smaller, locally rooted, and prone to innovation services providers, such as social enterprises, have been more compelled to participate in SIBs rather than standard large public contracts. All stakeholders may have stronger incentives to develop new or adapt existing performance management systems in order to monitor progress and measure the agreed outcomes. Although the first SIB evaluations confirm some of these assumptions, notably the innovative practices in performance management, it is also clear that SIBs may hinder social innovation as well. Social services providers may not put forth innovative interventions for contract continuation and/or avoid reputation harm. The latter can be a concern shared by the outcomes funder, which may also face political risk along with the need to take remedial action in case of failure. Investors may have a limited risk appetite. As a result, SIBs can also trigger the wrong kind of incentives, leading to target the easiest results (cream-skimming) or leave aside the hardest to get population (cherry-picking) that could consequently result in misleading reports of success (gaming of results).

5. **More evidence and rigorous evaluations including a "theory of change" for using SIBs are needed.** SIBs may be an opportunity to nurture a culture of monitoring and evaluation in social service delivery. Independent and robust evaluation could benefit all stakeholders as it may identify what works well in SIBs and what does not as well as unintended consequences – positive or negative. Evaluations undertaken to date have not clearly demonstrated why commissioning an SIB is expected to improve service delivery compared to other approaches, like in-house delivery, a grant, a fee-for-service arrangement or traditional payment-by-results contracts, and to explicitly attribute the potential positive effects of a policy intervention pursued through an SIB to the mechanism itself.

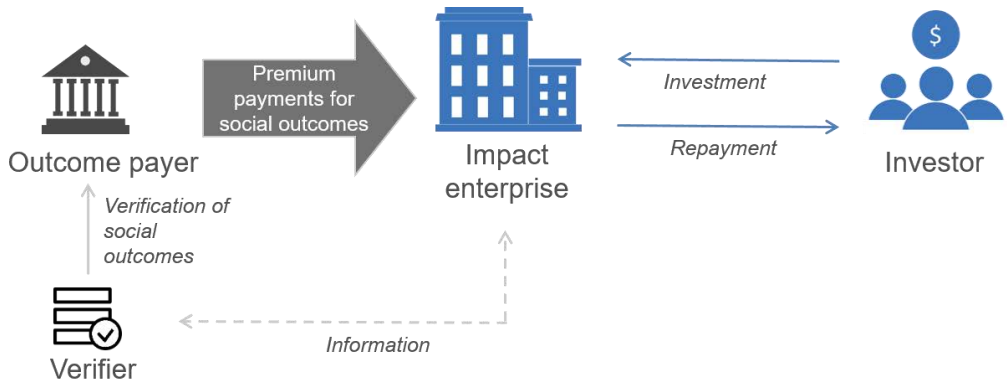
Source: (OECD, 2016[91]), *Understanding Social Impact Bonds,* http://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf

Social impact incentives

Social impact incentives (SIINCs), another pay-for-success innovation, have been in operation since 2017. SIINCs, developed by the Swiss Agency for Development and Cooperation and Roots of Impact, differ from SIBs in that they directly reward high-

impact enterprises with premium payments for achieving social impact (Roots of Impact, 2018[14]). The focus of SIINCs is to mobilise private sector investment towards the highest impact enterprises and simultaneously create incentives for enterprises for positive social outcomes. SIINCs allow for straightforward monetisation of predefined impact performance and provide a mechanism to incentivise social enterprises to deepen impact without sacrificing profitability and attractiveness for investors (Roots of Impact, 2018[14]). Investors' and enterprises' interests are aligned in that both carry financial and impact risks. The outcome payer in this model is only responsible for the marginal premium payments linked to impact.

Figure 4.6. Social impact incentives model



Source: (Roots of Impact, 2017[95]), "Social impact incentives (SIINC): Going live in Latin America", www.roots-of-impact.org/wp-content/uploads/2017/06/SIINC-Case-Studies-CdA-FINAL.pdf.

Box 4.8. Social impact incentives in practice: Clínicas del Azúcar

Clínicas is a social enterprise operating in the healthcare sector in Mexico to address specific needs of patients diagnosed with diabetes. Due to rigorous processes and technological developments, Clínicas has driven down costs and made specialised care available – even for poorer demographic groups. More than 12 million people in Mexico are diagnosed with diabetes, which is the number one cause of death. The low-cost clinics have reduced the annual cost of diabetes care by 70%. In 2017, a social impact incentive (SIINC) was developed by Roots of Impact in partnership with the Swiss Agency for Development and Cooperation (SDC), the Inter-American Development Bank, Ashoka, and New Ventures in order for Clínicas to scale-up operations and serve those most in need (Roots of Impact, 2017[95]). Ongoing SIINC premiums are based on the achievement of proven social targets, which are then disbursed by the outcome payer SDC. The SIINC set out an incentive structure to make sure the effectiveness of treatment for base of the pyramid clients (BoP) was maintained or improved, and the ratio of BoP clients was increased. The model allowed Clínicas, who had previously been concerned about the commercial viability of a higher percentage of BoP clients (i.e. above 30%), to pilot a custom BoP clinic which now runs at 62% BoP clients. Since implementation, initial results have shown an

increase in the ratio of BoP across the organisation.

Since the first implementation of SIINC in 2017 with Clínicas del Azúcar, the solution was also applied in the agriculture and off-grid clean energy sector. SIINC agreements were closed in 2018 with the following three enterprises while first results are expected soon:

1. **Root Capital**, highlighted above, is an example using the SIINC approach for the first time on a portfolio level. A new model has been created as a market-correcting incentive that compensates for the high operating costs and risk associated with loans to early-stage enterprises.
2. **Inka Moss** in Peru preserves unique Andean nature while strengthening the employment opportunities for regional communities. Inka Moss collects, processes and exports sphagnum moss (white moss).
3. **Village Infrastructure Angels** provides solar home systems and solar-powered agro-processing community mills run by women entrepreneurs in remote regions of Honduras.

Source: (Clínicas del Azúcar, 2018[36]), website, https://www.clinicasdelazucar.com , with contributions from *Bjoern* Struewer, CEO, Roots of Impact.

Income share agreements

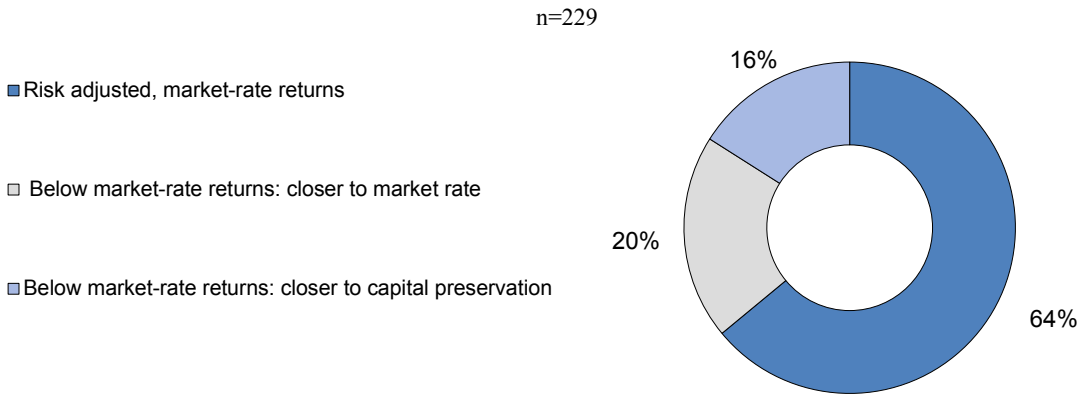
Income share agreements (ISAs) are another innovative financing tool with elements in common with pay-for-success models. Traditionally, students' university education across the world has been funded by debt or personal resources. ISAs, by contrast, act as equity, with private investors taking a share in a future income of students (The Economist, 2018[96]). This concept is not a new idea; Milton Friedman described a potential system where governments could make equity investments in human beings. Individuals would have training financed and in return would agree to pay a percentage of their future earnings each year (UN Global Compact; Accenture, 2015[33]). ISAs in operation and being developed function in a similar way. A service provider funds a student's studies and then after graduation and employment a percentage of their salary is used to pay back the ISA (The Economist, 2018[96]). There are often caps on repayment levels. If a student does well post-graduation, then the investor gets a higher return. In contrast, if a student's future earnings are limited, the investor may make a loss and the student will pay less for their education (The Economist, 2018[96]). ISAs are already in use, for example, in the United States; universities already offer this funding model. It is important to note there are concerns this funding model will disproportionately target students that have high income expectations and will likely be high earners in the future.

4.5. Impact investors seek impact and risk adjusted market rate returns

Given the growth in impact investing, there has been an increased focus on measurement of both impact and financial returns. Several organisations have undertaken studies on the financial performance of SII including: Cambridge Associates in partnership with the GIIN, Wharton School at the University of Pennsylvania, McKinsey and the Boston Consulting Group. The GIIN 2018 survey found that 64% of investors target risk-adjusted, market rate returns and a further 16% target below-market rate returns expected

to achieve closer to market rate returns (Figure 4.7) (GIIN, 2018[1]). In addition, 76% of respondents indicated that their investments have met their expectations for financial performance and 82% for impact.

Figure 4.7. Target financial returns principally sought



Source: (GIIN, 2018[1]), "Annual Impact Investor Survey 2018", https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.

Similarly, the Financial Times, Global Impact Solutions Today (GIST) and Barclay Investing for Global Impact 2017 survey of impact investing opinions and activities of family offices and foundations found that 90% of respondents reported achieving a significant financial return, with an average return of 5% (FT, 2017[97]). One-third of respondents reported returns of 5-15% and 16% of respondents reported returns above 15%. Similarly, in line with the reported competitive returns, only 28% of respondents reported using separate due diligence processes for impact investments (FT, 2017[97]).

While it is important to achieve financial returns and attract new flows of capital, as highlighted in the OECD 2015 defintion of social impact investment as well as in Chapter 1 of this publication, it is imperative that impact is the core of SII investment decisions.

4.6. Emerging global trends present further opportunities for impact investing

4.6.1. Technology has the potential to transform the impact investment market

Technological developments have significant implications for the impact investment industry. A CFA Institute report on the "Future state of the investment profession" (CFA Institute, 2017[38]) identified Fintech as a global trend that would influence the investment landscape. Indeed, digital financial services, including mobile money services and payment cards, can play an important role in sustainable development by increasing financial inclusion. Around 1.7 billion people in the world remain unbanked and the benefits of financial inclusion can be wide-ranging and help to reduce poverty (World Bank, 2017[98]). As well as potential investment opportunities, Fintech firms can provide platforms to connect investors with social entrepreneurs, opportunities for efficiency gains and more targeted impact investments by using data, for example, from mobile bank account transactions (GIIN, 2018[99]).

Distribution ledger technology (DLT), including the blockchain technology, has implications on the way data are stored and transferred. Blockchain can increase the speed and reduce the costs of transactions, improving transparency as well as the quality of data (OECD, 2018[100]). The OECD hosted a Blockchain Policy Forum in September 2018, which explored the broad role and impact the technology can have in the future. The OECD is currently undertaking further work on the potential applications of blockchain technology across a variety of different areas, including for development.

Box 4.9. Blockchain in practice

Distribution ledger technology is already in use by some social enterprises. For example, Amply in South Africa, with initial investment from UNICEF, has launched a mobile application which uses blockchain technology and smart contracts to track students' school attendance, helping improve data collection and replacing a paper-based system (Amply, 2018[101]). As of September 2018, the application was used by 83 centres in South Africa.

A prominent example in the impact investing realm is investment by the Rockefeller Foundation Zero Gap Initiative in BanQu, a for-profit social enterprise (GSG, 2018[55]). BanQu uses blockchain-enabled technology solutions to provide economic identities for some of the world's poorest people, including refugees and displaced populations (BanQu, 2018[102]). The idea is to help lift people out of extreme poverty by connecting the unbanked to global supply chains and the economy by providing secure financial and personal records (BanQu, 2018[102]).

Managing assets using blockchain technology could also benefit the impact investing market in a number of ways. Currently, the use of blockchain by the impact investment community is in its infancy; however, a range of use cases are being developed to take advantage of the technology. For example, the decentralised consensus-based system could help reduce the risk of reputational damage and unverifiable claims in low trust environments (WEF, 2018[103]). The development of "impact tokens" to quantify and track impacts through the supply chain presents an opportunity to transform how performance-based payments operate. The tokens could be linked to an SDG-related impact, used to make performance-based payments, track and measure impacts, and verify claims of SDG progress (WEF, 2018[103]). Impact tokens not only represent an opportunity for greater transparency and monitoring of impact, but allow for the potential of impact monetisation at scale.

4.6.2. Gender lens investing is increasingly the focus of impact investors

Approximately 70% of the respondents to the GIIN Annual Impact Investor Survey 2018 indicated that they apply a gender lens to their investment process (GIIN, 2018[1]). Of respondents that applied a gender lens to investment decisions, 58% indicated they did so through seeking portfolio companies that have good internal policies related to gender equality. Similarly, 50% indicated they seek to positively address gender issues by investing in portfolio companies for which women or girls are the core beneficiaries, and 46% that are led or owned by women (GIIN, 2018[1]).

Box 4.10. Asia Women Impact Fund

The Sasakawa Peace Foundation is a Japanese private foundation established in 1986 with an endowment from the Nippon Foundation to enhance international co-operation. In 2017, it carved out about USD 100 million from its endowment to establish the Asia Women Impact Fund (AWIF) The AWIF envisions a future where all women in Asia are empowered to reach their full potential and aims to realise this vision by investing about USD 100 million to achieve favourable outcomes for women across Asia and to support women entrepreneurs in Southeast Asia. The AWIF aims to sustainably support opportunities across a full spectrum of commercial and concessionary investments to advance women's economic empowerment and gender equality.

Source: Asia Women Impact Fund (2018[28]), website, https://www.spf.org/awif/.

Increasingly development financers are incorporating gender into their investment approaches. The Overseas Private Investment Corporation (OPIC) launched its 2XWomen's initiative in 2018, which aims to mobilise more than USD 1 billion to support women in developing countries. The initiative instils a commitment from OPIC to evaluate all its investments with a gender lens and evaluate the ways potential investments can support women (OPIC, 2018[49]). Following the launch of the initiative, the G7 Development Finance Institutions (DFIs) committed to the *2X Challenge: Financing for Women,* which aims to mobilize USD 3 billion by 2020 for investment in business activities that will benefit women (2X Challenge, 2018[49]). In addition, the Gender Finance Collaborative was launched in 2018 by the CDC group consisting of 14 DFIs and the European Investment Bank. The Collaborative aims to support the development of shared principles, definitions and methodologies to integrate gender into DFI investment decision-making and operational processes (CDC Group, 2018[51]).

The OECD has put a long-standing priority on gender. The 2015 *OECD Recommendation of the Council on Gender Equality in Public Life* promotes a government-wide strategy for gender equality reform, sound mechanisms to ensure the accountability and sustainability of gender initiatives, and tools and evidence to inform inclusive policy decisions (OECD, 2015[105]). In addition, GENDERNET is hosted by the OECD Development Assistance Committee (DAC) (OECD, 2018[106]). GENDERNET is the only international forum where experts from development co-operation agencies meet to define common approaches in support of gender equality and women's rights. It brings together gender equality advisors from DAC member agencies as well as observers (UN Women, the World Bank, regional development banks).

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Chapter 5. Perspectives from around the globe

Global and regional studies indicate that social impact investment (SII) markets are growing across the globe. This chapter explores how social impact investment is developing in key regions around the world. For each region, the chapter reviews the current state of the SII market and the main opportunities and bottlenecks for social impact investment. While not exhaustive, the following regions are examined: sub-Saharan Africa, the Middle East and North Africa, Latin America, Asia, North America, and Europe.

5.1. Introduction

Studies indicate that social impact investment (SII) markets are growing across the globe in many regions. Developed economies tend to have comparatively more mature SII markets, while those in developing countries are more nascent. The findings presented in this chapter are based on: extensive desk research undertaken by OECD staff; case studies of social purpose enterprises; and regional workshops undertaken by the OECD in Africa in February 2017 during the Sankalp Africa Summit in Kenya, Latin America in February 2018 during the FLII in Mexico, and in Asia during the AVPN Annual Conference in June 2018. The workshops gathered key stakeholders from across each region and provided further insights, as well as validation of the background research undertaken. While not exhaustive, the following regions are examined: sub-Saharan Africa, the Middle East and North Africa (MENA), Latin America, Asia, North America, and Europe.

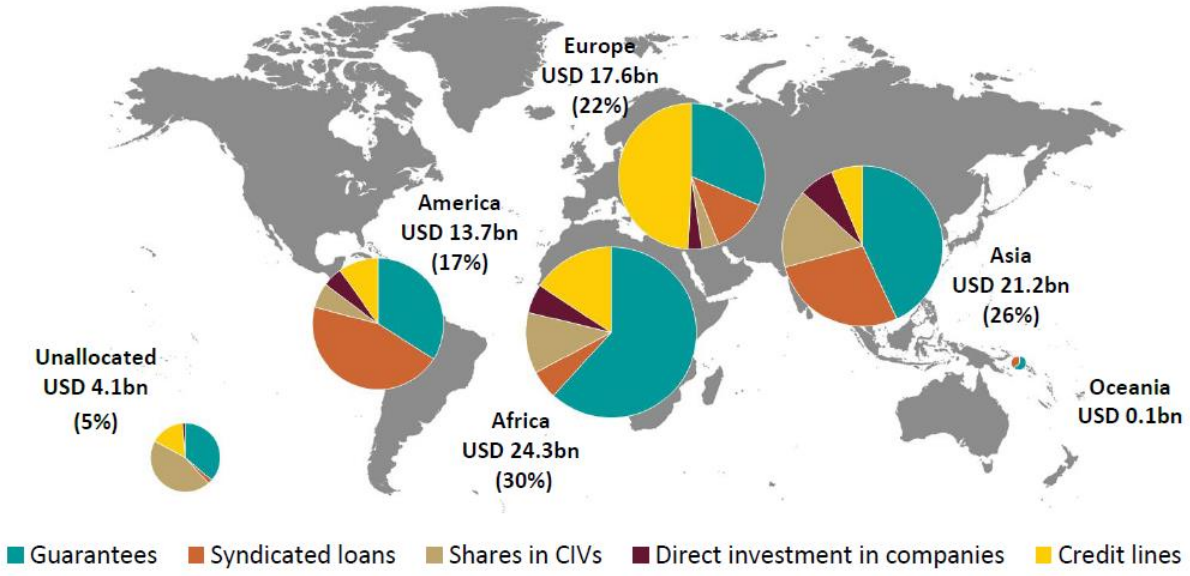
5.2. Overview of trends across regions

While countries may have different levels of market maturity, private finance and financial markets play an important role in economic development across regions. Broader figures for private finance provide a useful context for the potential of SII. In developing economies, from an institutional perspective, development finance institutions (DFIs) play a major role in private sector financing. DFIs' operations have a specific focus on impact generation, alongside a financial return resulting from pricing operations at commercial rates. The majority of donor countries are in North America and Europe. DFIs such as the Overseas Private Investment Corporation (OPIC) in the United States, the CDC in the United Kingdom, the German Investment and Development Company (DEG) in Germany, Proparco in France and the Swiss Investment Fund for Emerging Markets (SIFEM) in Switzerland play an important role in mobilising private finance in other regions. Each DFI has its own regional, country and sector targets. In addition, each uses different mixes of financing instruments.

For example, in 2017, 31% or EUR 11.5 billion of the portfolio of the European Development Finance Institutions (EDFI) was deployed in sub-Saharan Africa (EDFI, 2017[1]), making this region the largest share of their portfolio, followed by 18%, or EUR 6.8 billion, in Latin America, and 13%, or EUR 5.1 billion in South Asia. The rest of Asia (excluding Australia and New Zealand) received 11%, or EUR 3.9 billion; and North America, Europe and Oceania collectively also received approximately 11%, or EUR 4 billion. The MENA region received the smallest share of the portfolio at 4%, or EUR 1.5 billion.

The OECD undertook a survey of private finance mobilised by official development interventions through investments in guarantees, shares in collective investment vehicles and syndicated loans. Figure 5.1 illustrates private finance mobilised by region and the most common instruments used.

Figure 5.1. Geographical distribution of amounts of private finance for sustainable development, 2012-15



Source: (Benn, Sangaré and Hos, 2017[2]), "Amounts mobilised from the private sector by official development finance interventions", https://doi.org/10.1787/8135abde-en.

The survey indicates that 30%, or USD 24.3 billion, of all private finance mobilised between 2012 and 2015 was directed to Africa, whereby Côte d'Ivoire and Ghana were among the top 10 countries (Benn, Sangaré and Hos, 2017[2]). In Europe, 22%, or USD 17.6 billion, was directed towards developing countries, with Turkey (USD 10 billion), Serbia (USD 2.46 billion) and Ukraine (USD 2.38 billion) being the main recipients. Asia received 26%, or USD 21.2 billion, of all private finance mobilised between 2012 and 2015. Latin America received 17%, or USD 13.7 billion, of all private finance mobilised between 2012 and 2015 (Benn, Sangaré and Hos, 2017[2]).

The dominant instruments used to mobilise private finance in Africa were guarantees, followed by credit lines. In Asia, the dominant instruments were guarantees, followed by syndicated loans. In Europe the most common instruments were credit lines, followed by guarantees. In Latin America it was syndicated loans, followed by guarantees (Benn, Sangaré and Hos, 2017[2]).

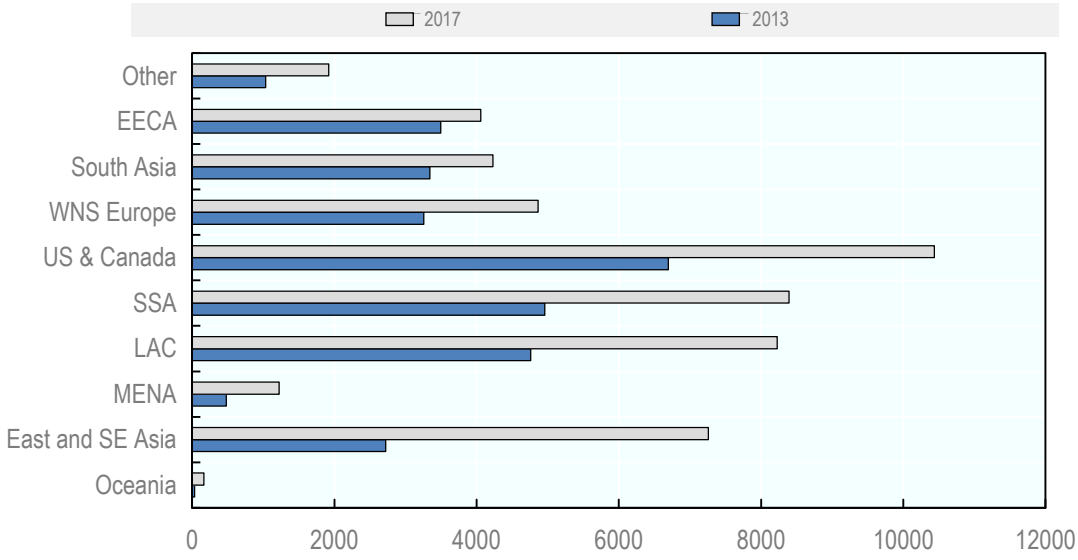
5.2.1. Social impact investment across regions

The role of impact investment has become increasingly significant across many regions, including in both developed and developing countries. Of the 229 investors responding to the GIIN Annual Impact Investor Survey in 2017, 20% of asset allocations targeted North America, followed by Latin America and the Caribbean, receiving 16%, and sub-Saharan Africa at 12%. Western and Northern Europe received 11% of assets under management (AUM), Eastern Europe and Central Asia 10%, South Asia 7%, Southeast Asia 6%, East Asia 5%, MENA 5%, and Oceania 3% (GIIN, 2018[3]).[1]

Assessing a smaller sample of investors, those who have been responding to the GIIN survey for several years, an increase in impact investment allocations across every region

was found from 2013 to 2017, as illustrated in Figure 5.2.[2] Notably, there was substantial growth in AUM to developing countries, including countries in Africa, Southeast Asia and Latin America.

Figure 5.2. Growth of regional assets under management among repeat respondents (2013-2017), Million USD



Notes: n = 81. The regions differ from OECD classifications. EECA: Eastern Europe and Central Asia; WNS Europe: Western and Northern Europe; LAC: Latin America and Caribbean; SSA: sub-Saharan Africa; MENA: Middle East and North Africa; SE Asia: Southeast Asia.
Source: (GIIN, 2018[3]), "Annual Impact Investor Survey 2018", https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.

5.2.2. Key conclusions and findings across the regions

While impact investment markets are growing across regions, a number of challenges remain. The following findings and conclusions have emerged from the regional workshops, numerous case studies undertaken (see Annex 5A) and extensive desk research.

- **Research shows there is great potential for the private sector and for SII market development to deliver the SDGs.** Across regions there is a significant need for private investment. The OECD *Development Co-operation Report* (2016[4]) laid out the strong business case for investing in the SDGs (see Chapter 2 for more information about the business case for the SDGs). SII and the private sector will play a fundamental role in order to take advantage of these opportunities.
- **No country is on track towards achieving the Sustainable Development Goals** (BertelsmannStiftung and SDSN, 2018[5]), according to findings from the SDG Index by the SDSN Secretariat and Bertelsmann Stiftung, which scores 156 countries from 0-100 on progress towards achieving the SDGs. In developing countries, ending extreme poverty and undernourishment, ensuring basic access to water and sanitation, and strengthening access to and the quality of health and education services remain major challenges, despite significant progress. Comparatively, developed economies perform better on these goals. However, the

index indicates that these economies are far from achieving sustainable consumption and production, climate action, life below water and life on land. Indeed, many are not progressing, or are regressing, on these goals. Furthermore, more detailed data on leaving no one behind indicate shortfalls in a number of OECD countries that were not evident previously (BertelsmannStiftung and SDSN, 2018[5]). Particular areas of concern include health and well-being, quality education, and reduced inequalities.

- **In more developed countries, social issues are different in kind but also need to be addressed.** The current economic trends such as globalisation, low rates of economic growth, demographic shifts, and the increasing complexity of society have resulted in the emergence of new needs and growing demand for new services (Grieco, 2015[6]). The changes in society require new solutions: improved ways to care for the elderly; child care as a major new area of intervention; new policy tools to ensure the economic and social integration of migrants; a continuous diversification and improvement of the education system (Grieco, 2015[6]). Social issues vary across countries, from aging to education, health, housing, disability, children and families, criminal justice, and unemployment.
- **Regional and country contexts influence the development of respective social impact investment markets.** In particular, the differences between developed and developing countries and even more so in fragile contexts. Social impact investment started in developed countries, most notably in Europe and North America, and has since spread across a growing number of countries. In many cases, the social impact investment industry grew out the venture capital model, with investors seeking to finance innovative new approaches to addressing social and economic challenges. In developed economies with relatively more mature SII markets, there is a growing ecosystem, with a variety of intermediaries in operation. In developing economies, the majority of investors are international, with DFIs playing a key role, and local SII markets in many cases undeveloped.
- **Difficult business environments hinder market development.** While business environments have improved over the last decade, many developing countries score poorly on Doing Business indicators. Increased risk and uncertainty can limit the attraction of private capital. Barriers to the development of SII markets include restriction on foreign ownership and the lack of exit options for foreign investors. While over the last decade the business environments of developing economies have improved, many economies still perform relatively poorly on indexes such as the World Bank's ease of doing business (World Bank, 2018[7]).
- **There is a lack of intermediaries in most countries.** Players are emerging in many countries around the world, but in many regions the SII market is underdeveloped and concentrated in a few countries and specific areas, not necessarily where the largest impact opportunities lie. As international investors are increasingly interested in placing capital in impact investment, national SII markets will need a full set of actors on the supply and demand side as well as intermediaries who can connect them and facilitate further development of the local ecosystem.
- **For social purpose enterprises, the main challenge remains access to capital.** Many social purpose enterprises require some initial grant funding and/or technical assistance to help them develop their business models and be able to

later attract investment capital. However, across regions, studies indicate that small and medium-sized enterprises (SMEs) and entrepreneurs face a "missing middle" for those seeking to scale-up and expand their operations. In addition, the time frame for many enterprises to reach sustainability and scale are often longer than the investors first expected and this needs to be taken into account in thinking about follow-on financing rounds.

- **There is a lack of awareness about SII.** In many countries, there is a lack of awareness about SII at the policy as well as the practitioner level. As policy makers become increasingly aware of the potential of SII and seek policy tools to facilitate the market (see Chapter 6), one of the policy types they can deploy is providing and sharing information. In terms of practitioners, matching investors and investees is a challenge in all regions, particularly developing countries (ADB, 2011[8]). This is in part because of lack of awareness and information asymmetries. For many countries, impact investing is still a nascent industry and entrepreneurs and investors have limited knowledge about it or how to connect with others in the marketplace (GIIN; Intellecap, 2018[9]). In that respect, the role of data and platforms to facilitate connections between investors and investees can play a valuable role (see Chapter 7).
- **Local investor presence is limited in many developing countries.** Few domestic investors operate in the SII market in developing countries. This limits international investor operations by increasing the time required to source, deal and conduct due diligence. In addition, it means local knowledge is often missing and therefore risks or perceived risks may not be accurate. Furthermore, it limits investors' ability to provide high-touch support to their investees (GIIN; Intellecap, 2018[9]).
- **A common understanding of social impact investment is needed.** While important progress has been made, led by the OECD, the Global Steering Group and other international actors, the lack of a common understanding on the definition and segmentation of the social impact investing market represents a barrier to the further development of the industry (OECD, 2015[10]). Deeper alignment on language and practices is needed for the industry to gain broader recognition, adaption and credibility.
- **A variety of financing instruments are being used.** Financing instruments cover a broad range of debt and equity, reflecting both the needs of social enterprises at various stages of development as well as the preferences of investors. The mix of these instruments changes over time as the firm matures and accesses further rounds of financing. In addition, a range of new innovative financing instruments are emerging (see Chapter 4).
- **Social impact measurement remains a key challenge across regions.** Currently enterprises and investors use tailored approaches according to their needs, but these are neither optimal nor standardised. In addition, obtaining detailed data about social impact investments remains difficult.
- **Most investors do not disclose investment details, nor do the enterprises.** In many cases, investors and enterprises do not disclose transaction data. Social enterprises, until they reach a significant size, frequently cannot afford to have an investor's relations and/or public relations team.

5.3. Fragile contexts

Fragile contexts often face even greater barriers to investment. The OECD's *States of Fragility 2018* report classifies over 58 contexts as fragile (OECD, 2018[11]). The majority of these fragile contexts are situated within the sub-Saharan Africa and MENA region; however, there are also several fragile contexts within Latin America and Asia. Currently, about 1.8 billion people live in fragile contexts, representing 24% of the global population, and by 2030, more than 80% of the world's poorest could be living fragile contexts unless concerted action is taken (OECD, 2018[11]). Fragility is frequently driven by conflict, terrorism, homicides, the threat of pandemics, forced displacement and poverty (OECD, 2018[11]). It is important to note that fragility is not confined to low-income countries. Indeed, 30 out of the 58 countries are classified as middle income (OECD, 2018[11]).

Social impact investing can play an important role in supporting peacebuilding programmes and rebuilding economies. The International Dialogue on Peacebuilding and Statebuilding, an OECD-hosted partnership with the governments of 20 countries affected by conflict and fragility (g7+), in collaboration with BNP Investment Partners, sponsored a review to understand the scope and landscape of private sector investment in fragile states – "How to scale up responsible investment and promote sustainable peace in fragile environments" (IDPS; BNP Paribas; OECD, 2017[12]). The report finds that while many fragile contexts can be attractive as emerging markets for institutional investors, common disincentives to investment include weak business environments, poor regulatory frameworks, weak or non-existent capital markets, weak social and environmental standards, risk and perceptions of risk, and lack of context-specific knowledge (IDPS; BNP Paribas; OECD, 2017[12]). Risk and perceptions of risk are important factors in determining investment decisions in fragile settings, which are often treated as homogenous by investors despite large heterogeneity, reflecting a lack of context-specific knowledge (IDPS; BNP Paribas; OECD, 2017[12]).

Despite these challenges, avenues for long-term recovery and resilience should be considered from the outset of humanitarian crises, including in terms of private sector engagement (OECD, 2019[13]). Social impact investing and blended finance can play an important role through risk-pooling, innovative financial instruments and investment vehicles (IDPS; BNP Paribas; OECD, 2017[12]). Indeed, innovative SII instruments such as social bonds, development and social impact bonds can play an important role in fragile contexts. Box 5.1 details examples of development impact bonds (DIBs) currently in operation.

Box 5.1. Development impact bonds in fragile contexts

The International Committee of the Red Cross Humanitarian Impact Bond

The Humanitarian Impact Bond is an innovative financing mechanism developed by the International Committee of the Red Cross (ICRC), the first of its kind in the humanitarian sector. This new fundraising instrument is intended to catalyse private and public capital to finance vital services for people with disabilities in conflict-hit countries.

The five-year programme funds the construction and operation of three new physical rehabilitation centres run by the ICRC in Maiduguri (Nigeria), Kinshasa (Democratic Republic of the Congo) and Mopti

(Mali). The programme also covers the training of new staff as well as the design and testing of rehabilitation efficiency initiatives in eight existing ICRC physical rehabilitation centres for a period of three years. Finally, it also includes the development and deployment of a physical rehabilitation centre management ICT tool.

Cameroon Cataract Bond

In Cameroon, the Cameroon Cataract Bond is a collective investment vehicle that strives to address blindness across sub-Saharan Africa by targeting a shortage in cataract surgeries (Oroxom, Glassman and Mcdonald, 2018[14]). Start-up capital comes from the Overseas Private Investment Corporation (OPIC) and the Netri Foundation. OPIC will provide USD 2 million for operational costs, covering aspects such as infrastructure, IT, outreach, overhead and training, and aims to assist the hospital to reach self-sufficiency.

The five-year loan shall allow the service provider, the Magrabi ICO Cameroon Eye Institute, to keep operating costs low while expanding the number of cataract surgeries performed. The bond was launched in January 2018, and, if successful in achieving its outcomes, will serve as a model for social enterprises in fragile contexts and elsewhere on the African continent.

Source: (OECD, 2018[15]), Global outlook on financing for sustainable development, *https://dx.doi.org/10.1787/9789264307995-en*.
(Oroxom, Glassman and Mcdonald, 2018[14]), Structuring and funding development impact bonds for health: Nine lessons from Cameroon and beyond, *https://www.cgdev.org/sites/default/files/structuring-funding-development-impact-bonds-for-health-nine-lessons.pdf*

As efforts increase to engage the private sector in addressing the SDGs, it is critical that funding is going where is it most needed, which includes addressing some of the toughest social, environmental and economic challenges and in some of the more challenging country contexts.

5.4. Sub-Saharan Africa

Sub-Saharan Africa (SSA) is one of the greatest regions of interest for social impact investing and the biggest recipient in terms of funds (GIIN, 2018[3]). However, there is heterogeneity across the region. In addition, the social impact investment market is often concentrated in certain big cities and the majority of money invested currently comes from international, not domestic, sources. This section provides an overview of the SII trends within sub-Saharan Africa, the need for social impact investment, as well as the current state of play in regard to actors and enabling environment, before looking into the opportunities and challenges in the region.

5.4.1. Social impact investment trends in sub-Saharan Africa

Southern Africa is the largest market in Africa in terms of total SII committed, followed by East Africa and West Africa (Table 5.1) (GIIN, 2016[16]) (GIIN, 2015[17]) (GIIN;

Dalberg, 2015[18]). Across all the sub-regions, DFIs are the most important source of capital committed, demonstrating that the market is dominated by international funding.

Table 5.1. Overview of SII social impact investment in sub-Saharan Africa

Region	Total committed (USD)		Sectors		Average deal size (USD)		Venture stage	
	DFI	Non-DFI	DFI	Non-DFI	DFI	Non-DFI	DFI	Non-DFI
East Africa *(11 countries)*	7.9 billion	1.4 billion	Financial services and energy	Agriculture and financial services	Over 18 million	Under 1 million (60% of impact deals)	NA	Early stage
West Africa *(16 countries)*	6.5 billion	0.221 billion	Energy, manufacturing and infrastructure	Financial services, agriculture and housing	16.6 million	0.9 million	NA	NA
Southern Africa *(12 countries)*	16.7 billion[1]	5.6 billion	Energy, financial services	Financial services, manufacturing and housing	25.7 million	11.2 million[2]	Growth stage	Early stage

Notes: DFIs are development finance institutions, government-backed entities that invest in the private sector for the purpose of economic development. Non-DFIs include fund managers, foundations, angel investors, banks and pension funds.
1. Excluding domestic DFIs.
2. Half of impact deals are under USD 1 million.
Sources: (GIIN; Dalberg, 2015[18]), *The landscape for impact investing in West Africa, https://thegiin.org/assets/upload/West%20Africa/RegionalOverview_westafrica.pdf*; (GIIN, 2015[17]), *The landscape for impact investing in East Africa , https://thegiin.org/assets/161025_GIIN_EastAfrica_FULL_REPORT%20(002).pdf*; (GIIN, 2016[16]), *The landscape for impact investing in Southern Africa https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf*.

East Africa

East Africa has the greatest number of active impact investors, which is reflected in the significant amounts committed and disbursed (GIIN, 2015[17]). Despite growing economies, the countries in East Africa have very different policy environments and investment climates. In terms of SII, Kenya is the most active country, but Ethiopia, Uganda and the United Republic of Tanzania and Ethiopia are also increasingly active. In addition, Rwanda's strong enabling environment means it is a growing player in SII despite being a small country. However, several obstacles and issues limit growth. A specific barrier for East Africa includes the lack of a local SII ecosystem, even in cities with greater SII activity, such as Nairobi, as well as inequality between main cities and provinces. Almost all investors are based in urban areas while potential investees in need of funding are often operating in rural and difficult to reach markets (Intellecap, 2015[19]).

West Africa

West Africa is a small but growing market for SII, mainly driven by international DFIs targeting energy, manufacturing and infrastructure. The majority of SII funding in West Africa goes to Ghana and Nigeria. Investors are predominately microfinance investors, followed by private equity and venture capital. West Africa is noted for its large natural resources sector. However, a lack of standardised business practices, unpredictable policies and unclear legislation in terms of energy tariffs, taxation, tendering processes and land policies undermine the growth of the market (GIIN; Dalberg, 2015[18]).

Southern Africa

Southern Africa is the largest SII market in the region in terms of invested amounts (see Table 5.1) and the second in terms of the number of investors. South Africa is the largest market, representing 75% of the international SII flows, with domestic DFIs actively funding South African enterprises. This activity is facilitated by a well-developed banking sector, financial services, intermediaries and infrastructure. Mozambique and Zambia have lower levels of activity but high potential for development. Southern Africa's gross domestic product (GDP) has grown over the last decade; however, barriers to the full development include the low rate of entrepreneurship and a lack affordable local capital (GIIN, 2016[16]). South Africa is noted for restrictions on exits by foreigners, which are subject to administration approval. In Angola, Eswatini and Zimbabwe, political concerns undermine DFI and non-DFI investments.

5.4.2. OECD Social Impact Investment Market Framework analysis

Social needs

Due to significant data limitations, particularly on aggregate social expenditure, approximately six out of every ten SDG indicators cannot be tracked in Africa (UNDP, 2017[20]).

The SDG 2018 Index[3] (BertelsmannStiftung and SDSN, 2018[5]) shows that sub-Saharan Africa is the lowest scoring region in terms of progress towards the SDGs. Apart from Cabo Verde, Gabon, Ghana, Mauritius and South Africa, all countries in the region score below 60. Central African Republic is the lowest scoring country in the region (BertelsmannStiftung and SDSN, 2018[5]). Despite significant progress, ending extreme poverty and undernourishment, ensuring basic access to water and sanitation, and strengthening access to and the quality of health and education services remain major challenges in most countries in the region. Similarly, the region lags behind on infrastructure strengthening institutions and sustainable urban development. In contrast, countries in the region perform relatively better on sustainable consumption and production, and climate action (BertelsmannStiftung and SDSN, 2018[5]).

Despite the continent's economic growth, many African countries still face significant challenges (UNDP, 2017[20]). Data on equality, human development and income can be used as a proxy to gage the size of the social need and the potential for SII in the region. The World Bank indicates that 42.3% of the population in sub-Saharan Africa live on less than USD 1.90[4] (World Bank, 2013[21]). The region continues to have high income inequality and economic growth has not been matched by human development in respect to, for instance, health and education (UNDP, 2017[20]). Vulnerable groups such as youth, women and rural populations face social and economic exclusion. Despite improvements, Africa's Human Development Index remains at a low level and below the world average (UNDP, 2016[22]).

Demand side

Innovative and entrepreneurial approaches have emerged across sub-Saharan Africa, with a range of enterprises – including start-ups, social enterprises and SMEs – developing new models for addressing economic, social and environmental needs. These models aim to create sustainable businesses, delivering social impact along with financial returns.

Box 5.2. Examples of social purpose enterprises financed in sub-Saharan Africa

M-KOPA

A prominent example of social entrepreneurship in Africa is M-KOPA. The enterprise, operating in Kenya, the United Republic of Tanzania and Uganda, provides "pay-as-you-go" solar energy for off-grid customers. Since October 2012, the company has connected more than 600 000 homes in these countries to solar power. Its mission is to make solar products affordable to low-income households on a pay-per-use instalment plan. M-KOPA works by purchasing daily usage of "credits" for solar energy, which is cheaper than traditional kerosene lighting. Fees are collected in real-time via mobile money systems and embedded sensors in each solar system allow M-KOPA to monitor real-time performance and regulate usage based upon payments. The social business aims to provide access to energy to low-income households and consumers in emerging markets. By providing affordable and secure access to clean electricity, M-KOPA aims to redirect energy expenditures from inefficient resources to clean solar home systems. Moreover, it contributes to improved income opportunities for low-income households by providing an enabling environment for micro-enterprise activities.

MicroClinic Technologies

MicroClinic Technologies is a Kenya-based company founded in 2012 that specialises in healthcare management and health systems development. Their product ZiDi is a health management application designed to track patient encounters, revenues collected and drug inventories. ZiDi also creates reports on utilisation rates for services, staff productivity and facility financial data. The uptake of ZiDi has been supported by a network of trained youth, called the Blue Angel Network. Blue Angels assist MicroClinic with customer acquisition, installation of the system to clinics and customer support. MicroClinic also supports a variety of philanthropic programmes through the 2020 MicroClinic Initiative, promoting access to integrated reproductive health services and maternal and child health programmes in health centres.

Honey Care Africa

Honey Care Africa partners with smallholder farmers across East Africa to strengthen incomes and grow Africa's "family honey company" through sustainable beekeeping and nuts farming. Their mission is to build a portfolio of high-quality and affordable pure, natural, authentic honey-based snacks. They contribute to economic development by increasing rural farming families' incomes through a sustainable supply chain producing high-quality honey and agricultural outputs, which they buy at fair market prices.

Sources: (M-KOPA, 2018[23]), website, www.m-kopa.com; (MicroClinic Technologies, 2018[24]), website, www.microclinictech.com; (Honey Care Africa, 2018[25]), website; https://honeycareafrica.com/.

Supply side

Data from the GIIN Annual Impact Investor Survey 2018 indicates that SII is growing in the region, with new entrants and companies increasingly focusing on social impact investment (GIIN, 2018[3]). The most active sectors in sub-Saharan Africa are food and agriculture, financial services, and energy (DFID, 2015[26]).

Philanthropists, high-net worth individuals, family offices and foundations have played a critical role in the evolution of the social impact investment market. This role has ranged from providing technical assistance and grant capital – also used to catalyse private financing – to actively investing. The importance of philanthropic giving in Africa is reflected in the size of commitments between 2013 and 2015. According to an OECD survey of 143 foundations, of USD 23.9 billion given in total, 28% or USD 6.6 billion were to Africa (45% are unallocated in terms of region). The Bill & Melinda Gates Foundation contributed to 49% of the total philanthropic giving to Africa (OECD, 2018[27]).

Financing instruments

According to a 2015 DFID survey, the majority of social impact investments in sub-Saharan Africa are targeted at the growth stage (53% of investors) rather than start-up and early venture-stage companies (DFID, 2015[26]). Early-stage enterprises require working capital and affordable, long-term growth capital. However, bank finance is often difficult to access for these early-stage enterprises, as local commercial banks hesitate to lend to enterprises without 100% collateral. Enterprises hence often depend on equity to meet their working capital requirements rather than debt. Few investors exist that address the working capital gap or provide venture debt or hybrid of debt and equity.

Grofin or Business Partners International (BPI), for example, are providers of long-term growth capital (GroFin, 2018[28]). Funds like Grassroots Business Fund focus on growing viable, sustainable and inclusive businesses that generate earnings or cost savings for people in Africa, Asia and Latin America. They make equity, mezzanine equity, mezzanine debt and straight debt investments.

Intermediaries

A limited number of SII-focused financial intermediaries (local banks and financial service firms) currently operate in the market. Also, while there are some key players operating across the region, there is a shortage of capacity-building intermediaries.

Across Africa, microfinance institutions have developed long-standing experience in working towards financial inclusion of micro and small enterprises and serving as intermediators between global investors and local investment funds and entrepreneurs. Beyond microfinance institutions, a variety of investment funds – blending public and private funds, or exclusively of public or private nature – are serving as intermediating actors in Africa. For instance, the Africa Enterprise Challenge Fund is managed by KPMG International Development Advisory Services and invests in businesses in the agriculture sector and renewable energy (AECF, 2018[29]). Donors investing in the fund include Australia, Canada, Denmark, the Netherlands, Sweden, the United Kingdom and the International Fund for Agricultural Development.

Intermediaries operating "on the ground" are crucial in order to "identify and support the growth of more viable companies that have a social impact in the market" (KPMG, 2015[30]). For example, Equity Bank in Kenya provides finance to the Kenya Agricultural

Commodity Exchange to help small-farmers improving their income situation. The funding includes credit extension to farmers and guarantees during the start-up phase (UNDP, 2011[31]).

Across the region, acceleration hubs have been created and local business schools engaged (UNDP, 2014[32]). Other examples include initiatives such as the East Africa Venture Capital Association providing a knowledge exchange and training opportunities in the private equity industry in Ethiopia, Kenya, Rwanda, Tanzania and Uganda (EAVCA, 2018[33]). The Transformational Business Network is working with impact-oriented entrepreneurs to accelerate growth by enabling financing opportunities in East Africa. The USAID East Africa Trade and Investment Hub aims at facilitating investment and trade in the region (USAID, 2018[34]).

Multilateral development banks play an important role in developing the market in many regions, including the role of the African Development Bank in supporting financial intermediaries across Africa.

Box 5.3. Example of impact investment company financing start-ups in sub-Saharan Africa

In 2017, the African Development Bank committed EUR 5 million equity towards Investisseur & Partenaire pour le Développement 2 (IPDEV.2) (AfDB, 2017[35]). IPDEV.2 is an impact investment company launched by Investisseurs & Partenaires (I&P) to finance and support small growing businesses and start-ups in sub-Saharan Africa. Since its inception, IPDEV 2 has launched five African impact funds including Teranga Capital in Senegal, Comoé Capital in Côte d'Ivoire, Miarakap in Madagascar, Sinergi Burkina in Burkina Faso and Sinergi Niger in Niger. Collectively they have thus far financed 27 early-stage small and medium-sized enterprises (SMEs) in equity and seed funding and raised EUR 15 million in local and international capital. IPDEV.2 plans to sponsor another five impact funds in the coming years in West, Central and East Africa. The funds provide equity, quasi equity and debt to small growing businesses with investment needs ranging from EUR 30 000 to EUR 300 000. The project aims to build a social impact investment industry in sub-Saharan Africa, attract African capital towards SMEs and accelerate the emergence of entrepreneurship on the continent (I&P, 2017[36]).

Enabling environment

Countries such as Kenya have improved significantly the enabling environment for entrepreneurs by reducing the bureaucratic burdens to start businesses, providing more reliable access to electricity or implementing online tax systems (World Bank, 2018[7]). Likewise, Nigeria implemented a reform on enabling electronic stamping of business registration documents, which reduces the burden to set-up a business. However, compared to other regions, the ease of doing business in sub-Saharan Africa is lagging behind and highly heterogeneous, with varying country contexts and financial environments. Indeed, in the World Bank's Ease of Doing Business index, Kenya ranks 136th out of 189 countries whereas Rwanda ranks within the top 30. In Southern Africa,

Mauritius and South Africa rank highly, while countries like Angola, Madagascar, Malawi and Zimbabwe rank below 150 (World Bank, 2018[7]). In West Africa, with the exception of Ghana, all other countries have comparatively low scores.

In sub-Saharan Africa, a number of public initiatives and programmes have been put in place to support SMEs and entrepreneurs, including programmes to help them become investment-ready as well as to grow their businesses. South Africa has launched a National Advisory Board (NAB) on social impact investment in order to fuel growth of the market (for more information on NABs please see Chapter 6) and some other countries in Africa are beginning to develop similar initiatives.

5.4.3. Opportunities and bottlenecks of scaling up social impact investment in sub-Saharan Africa

Technological infrastructure is developing but a dearth of traditional infrastructure investment hinders market development. The financial and economic environment is evolving in parallel to African financial services, infrastructure and technology. The growth of ICT infrastructure and the penetration of mobile technology in the sub-region have created huge opportunities in recent years. However, the lack of investment in traditional infrastructure, like transportation and energy supply, remains a hurdle for African enterprises.

Development finance and philanthropy can play a key transitionary role. Donors and philanthropies can facilitate the growth of social impact investment in the region. They can play a particularly important role by providing early-stage finance and in sectors that private investors consider too risky. The agribusiness sector (KPMG, 2015[30]), for example, has benefited from concessional finance. In general, an assumed absorption capacity or ideal deal size of social impact investment in the region is USD 30 000 for working capital loans and USD 100 000 for equity investments (Bertha Centre, 2016[37]). Clearly, this has an impact on transaction costs, etc. Donors can provide a transitory capacity before commercial impact investors invest and help scale-up social enterprises.

SII activity is concentrated in large cities and urban areas. The inequality between main cities, such as Nairobi, and provinces hampers SII market development, because the majority of investors are based in main cities, while potential investees in need of funding are often operating outside the capitals (Intellecap, 2015[19]).

Local presence of investment managers can contribute to scaling the market. One of the reasons for the heterogeneity in the business activities across regions and countries relates to awareness problems and access to information. An increasing number of local service providers such as incubators and accelerators address this challenge. However, only 6% of global impact investors are headquartered in sub-Saharan Africa (GIIN, 2018[3]); many investors are based in the financial capitals outside the continent. In the impact investment sphere, relationships between investors and investees which have not yet reached the stage of "bankability", need to be fostered (Wharton Impact Investing Partners, 2017[38]).

5.5. Middle East and North Africa

The Middle East and North Africa (MENA) is currently one of the least active regions for social impact investment, at least according to available surveys and reports. MENA is a diverse region, which contains countries that have an abundance of natural resources and are comparatively rich, such as Saudi Arabia and the United Arab Emirates (UAE), and

countries that are or have been afflicted by conflict such as Egypt, Iraq, the Syrian Arab Republic and Tunisia. These different contexts have been reflected in the development of SII markets on a country level. Comparatively, underdeveloped markets for sustainable investing, microfinance and venture capital have translated into slower growth in the impact investment market (El Idrissi, 2015[39]).

5.5.1. Social impact investment trends in the Middle East and North Africa

According to the GIIN 2018 Survey, AUM in the MENA region are estimated at USD 11.4 billion, or 5% of capital allocated by impact investors, the second smallest allocation in 2017 (GIIN, 2018[3]). Only 15% of respondents reported allocations in MENA and none declared being headquartered in the region (GIIN, 2018[3]).

Social impact investment market sub-region trends

While country-level data on impact investments are limited, findings from studies on microfinance, Islamic finance and private equity markets can offer some insights into the market. Microfinance is a nascent but growing industry in the region, particularly in developing countries.

Egypt, Morocco and the UAE have historically been the most prominent markets for capital investment (EMPEA, 2015[40]). These three countries collectively attracted more than 75% of the total capital invested and more than 50% of the total number of deals in the Middle East and North Africa from 2010 to 2014. However, private equity investors are frequently finding opportunities in markets across the region. Deal sizes in the Gulf region are often significantly larger than in North Africa and other regions. The Middle East is the focus of most private equity deals, with 45 transactions reported, compared to 28 in North Africa in 2014 (EMPEA, 2015[40]).

Similarly, a 2016 Deloitte survey of private equity and venture capital funds found that investments are increasing in the MENA region, with cumulative funds under management reaching USD 27 billion in 2016. The largest funds focused on the Gulf region (Deloitte, 2014[41]).

DFIs and multilateral development banks have played an important role in the region, with the European Investment Bank, OPIC and the International Finance Corporation disclosing the most commitments in 2015. DFIs and multilateral development banks have continued to invest in the region and notably the European Bank for Reconstruction and Development began operating in the West Bank and Gaza Strip in 2017 (EBRD, 2018[42]). In the West Bank and Gaza Strip, the Palestine Investment Fund, which focuses on impact investing, has been operating since 2003 (Palestine Investment Fund, 2018[43]).

Within the region, Israel's social impact investment market is relatively more developed. Israel is a member of the Global Steering Group and the National Advisory Board was created in 2016 with the aim to create conditions for the market's growth. While the ecosystem is still developing, estimates indicate there are 70-80 social enterprises and a further 1 674 start-up companies operating in impact-related fields (GSG, 2018[44]). Intermediaries such as Social Finance Israel are playing an important role in developing the market. Currently, much of the social impact investment strategies are linked to helping minorities and disadvantaged communities (GSG, 2018[45]).

5.5.2. OECD Social Impact Investment Market Framework analysis

Social needs

Over the past four decades, many parts of the region have made progress against social challenges, particularly in health and education (Business and Sustainable Development Commission, 2017[46]). For example, life expectancy across the region has increased on average by 24%, and in Saudi Arabia, 94% of adults can now read and write, compared to 8% in 1970 (Business and Sustainable Development Commission, 2017[46]).

Despite progress, some areas still face obstacles to economic and social development. The share of 15-29 year-olds exceeds 30% of the population in most countries in MENA and the region has the highest youth unemployment in the world (OECD, 2016[47]). In recent years, youth unemployment has skyrocketed to 51% in Libya, 39% in Egypt and 38% in the West Bank and Gaza Strip (OECD, 2016[47]). Those who are employed are often in vulnerable jobs in the informal sector. In addition, there are low workforce participation rates for women across the region despite growing female enrolment in post-secondary education (Business and Sustainable Development Commission, 2017[46]). The quality of higher education is also among the lowest in the world, with only two or three Arab universities listed among the top 500 universities in the world (The Brookings Institute, 2016[48]).

In the SDG 2018 Index, the average country score is 62.85 in MENA; only sub-Saharan Africa has a lower regional average (BertelsmannStiftung and SDSN, 2018[5]). Israel scores the highest in the region, followed by the UAE, whereas Iraq and Yemen have the lowest scoring ranking in the region. Conflicts represent a major barrier to achieving the SDGs (Business and Sustainable Development Commission, 2017[46]). In terms of the individual SDGs, large areas of dry land mean food security and sustainable agriculture and sustainable water management are high-priority challenges in most countries. In addition, many countries perform poorly on gender equality. Apart from fragile contexts that have experienced conflict, progress has been made in ending extreme poverty, improving health outcomes, and promoting affordable and clean energy. More advanced economies such as the Gulf region have high spill over effects (BertelsmannStiftung and SDSN, 2018[5]).

Demand side

Social entrepreneurship and social impact investment, while fledgling, is on the rise in the region with the beginning of an entrepreneurial culture (EMPEA, 2015[40]). For example, the number of new firms in Jordan grew 67% between 2008 and 2012. The success of organisations like Maktoob, an online portal that known for being the first Arab-English service provider purchased by Yahoo in 2009, and Souktel, the Palestinian mobile job matching company, have raised the profile of entrepreneurship in the region (El Idrissi, 2015[39]). Likewise, improvements to business environments and greater cultural acceptance have led to the emergence of a number of innovative social enterprises in the region.

Box 5.4. Examples of social purpose enterprises financed in the Middle East and North Africa

Red Sea Housing

Saudi venture philanthropy initiative Red Sea Affordable Housing was set up to satisfy affordable housing demand. The organisation is based on the premise that building affordable housing is a chance to achieve financial returns and satisfy a social need. Saudi Arabia is facing an affordable housing crisis. The country's population growth continues to surpass the supply of affordable housing and global drop in oil prices has forced the government to cut back on projects. More than 60% of Saudis do not own their own home and, by 2020, Saudi Arabia is expected to have a shortfall of 2.4 million homes. The country needs more affordable building solutions. The core regions in which Red Sea operates form a significant chunk of the global affordable housing gap, estimated to be about USD 650 billion.

NaTakallam

NaTakallam ("we speak" in Arabic) pairs Arabic-speaking displaced persons with learners around the world for language practice over Skype. Launched in July 2015 in New York, the organisation has connected 700 students in over 50 countries with more than 30 Syrian conversation partners in Armenia, Brazil, Egypt, France, Germany, Lebanon and Turkey. Around 60% of the students are in the United States, which has helped raise awareness about the plight of refugees. NaTakallam's revenue models works by charging USD 15 an hour, with the conversation partner earning USD 10. Displaced people have self-generated over USD 360 000 through their work with NaTakallam.

Esref Sah – The Emirates Foundation

The Emirates Foundation runs a variety of programmes in the United Arab Emirates, facilitating public-private partnerships, to improve the welfare of youths (Emirates Foundation, 2016[49]). The foundation takes a market-based approach with each programme designed to meet a gap in the market, with high-impact measurable outcomes. They refer to this approach as venture philanthropy. Esref Sah ("spend wisely") is an example of one of the programmes launched in 2012 to promote financial literacy amongst youths. The programme addresses the challenges young people face in managing debt and personal finance, and aims to forge partnerships with the financial sector and academic institutions to provide technical support and expertise. Esref Sah operates through a variety of initiatives, such as the Esref Sah' Shabaab Club of peer mentors, the Mobile Workshop Outreach, a bus equipped with multi-purpose audiovisual aids and financial applications that act as a virtual "one-stop shop" for financial literacy. In addition, the Educational Curriculum Initiative has been launched, in collaboration with the Ministry of Education, which works towards the inclusion of financial literacy as a core subject in the country's national school curriculum.

Source: (Red Sea Housing, 2018[50]), website, www.redseahousing.com; (Na Takallam, 2018[51]), website, https://natakallam.com; (Esref Sah, 2018[52]), website, http://www.esrefsah.ae/.

Supply side

Data from the GIIN Impact Investor Survey indicate that the impact investment market is growing in the region (GIIN, 2018[3]). In addition, more than 400 companies throughout the MENA region have adopted the ten principles of the UN Global Compact (UNGC), a guide to sustainable business behaviour for companies around the world (Business and Sustainable Development Commission, 2017[46]). However, more than 65% of these companies are located in just three countries: Egypt, Lebanon and the United Arab Emirates.

Family businesses and high net-worth individuals (HNWIs) play an important role in the region. Local investors, alongside DFIs, were found to be the main contributors to funds in the region (EMPEA, 2015[40]). The MIT Pan-Arab Enterprise Forum is also active in the region and runs the annual Arab Startup Competition. The winning entrepreneurs are awarded prizes worth more than USD 160 000 and benefit from mentorship, coaching, media exposure and networking opportunities (MIT, 2018[53]). Innovation Israel, set up in 2017, provides technical assistance and seed money or grants for start-ups in selected impact sectors (GSG, 2018[45]).

The largest pools of capital in the region reside in sovereign wealth funds – predominantly in the Gulf, but also in the oil-exporting countries such as Algeria and Libya (EMPEA, 2015[40]). The 18 largest sovereign wealth funds in the region manage nearly USD 3 trillion in assets. Sovereign wealth funds in the region could thus play an important role in developing the SII market further and investing in companies and infrastructure across the MENA region (World Bank, 2014[54]). For instance, Morocco's Ithmar Capital is collaborating with the World Bank to invest in clean energy, low-carbon transport and water projects in Africa through the recently launched Green Growth Infrastructure Africa Facility (UN Environment, 2018[55]).

Islamic finance's role in the social impact investment space is growing (UNDP, 2014[56]). One of the Qur'anic principals that manifests in Islamic investing is the concept of *zakat*, or charitable giving, which is meant to be an active response to helping those in need. The United Nations Development Programme, Istanbul International Center for Private Sector Development, and the Islamic Research and Training Institute recently published "I for impact: Blending Islamic finance and impact investing for the global goals", which set out the importance of Islamic finance, the similarities it has with social impact investing and the important role it can play in sustainable development (UNDP; IICPSD;IRTI, 2017[57]). *Zakat* could thus potentially be directed toward social impact investments in the region (UNDP, 2014[56]).

The Business and Sustainable Development Commission on MENA in 2017-18 made the business case for aligning corporate and national strategies with the SDGs and identified 60 market "hotspots", estimating that these development opportunities could be worth more than USD 637 billion (Business and Sustainable Development Commission, 2017[46]).

Financing instruments

Aside from microfinance, private equity and venture capital play an increasingly important role in the region. A 2013 study by the Shell Foundation and Citi Foundation, "Small and medium sized enterprises in MENA: Leveraging growth finance for sustainable development", found that SMEs in the region preferred debt financing to equity (CitiGroup, 2013[58]).

Islamic finance uses a range of debt and equity instruments (UNDP; IICPSD;IRTI, 2017[57]). A recent study indicates 43% of Islamic finance's AUM was equity and 40% was held in debt in 2014. *Sukūk*, commonly referred to as the Islamic equivalent of bonds that comply with Islamic investment principles, made up 8% of AUM in 2014. Unlike conventional bonds, *sukūk* grant the investor a share of an asset, along with the corresponding cash flows and risk. *Sukūk* are also increasingly used in green financing.

Social Finance Israel has launched two impact investing bonds in the region, including one focusing on diabetes (SFI, 2018[59]). In Israel, there are approximately 500 000 diagnosed diabetics and there are roughly another 500 000 pre-diabetic patients who are at high risk of contracting the disease. Although Israel's health system is designed to guarantee treatment to patients with disease, not enough resources are available for preventative measures. The social impact bond (SIB) implements a five-year intervention programme that is centred on personalised lifestyle modifications and will work with three separate cohorts of pre-diabetics at high risk of contracting the disease (SFI, 2018[59]). The SIB is estimated to benefit 2 250 pre-diabetic people in Israel and has raised ILS 19.4 million. UBS bank played an important role providing technical assistance and helping attract investment.

Intermediaries

Domestic platforms to promote entrepreneurship are developing in the region (EMPEA, 2015[40]). For example, Wamda offers programmes and networks that aim to accelerate entrepreneurship ecosystems Through its fund, Wamda Capital, it invests in social enterprises and training to entrepreneurs in the region (Wamda, 2018[60]). International actors are also present in the region. For instance, the European Investment Bank has increased its involvement in early-stage companies and accelerators, offering technical assistance alongside local investments (EMPEA, 2015[40]).

A number of accelerators operate in the region including: Oasis 500, a seed investment company and business accelerator in the tech and creative industry spaces based in Amman (Oasis500, 2018[61]); and Flat6Labs, an accelerator which currently operates in Cairo, Jeddah, Abu Dhabi, Beirut, Bahrain and Tunis (Flat6Labs, 2018[62]). International networks like Endeavor and Ashoka are also active in the region.

Microfinance plays an important role in the region and offers promising potential for the development of the SII market. Microfinance investment vehicles allocated 4% of their microfinance portfolio to the MENA region in 2016, and volumes increased by 62% from 2006 to 2016 (compounded annual growth rate) (Symbiotics, 2017[63]).

In terms of Islamic finance, the Islamic Development Bank, in co-operation with the UNDP, launched the Global Islamic Finance and Impact Investing Platform (IDB; IICPSD, 2017[64]). The platform aims to connect Islamic financiers with impact investors, in the MENA region and globally, to scale-up impact investments and achieve the SDGs.

Enabling environment

Historically, the environment for businesses and entrepreneurs across the region has been difficult. Substantial differences persist in Ease of Doing Business scores between economies in the Middle East and North Africa. The UAE, for example, ranks highly, while Yemen is one of the lowest scoring countries (World Bank, 2018[7]).

However, progress has been made and regulatory reforms introduced in Egypt, Kuwait, Morocco, Saudi Arabia and the UAE (World Bank, 2018[7]). As a result, the

entrepreneurship ecosystem in the region has been strengthened. Indeed, it now takes an average of 17 days to start a business in the region, compared to more than 43 days in 2003 (Business and Sustainable Development Commission, 2017[46]).

As mentioned previously, Israel has formed a NAB and implemented programmes to promote social entrepreneurship and social impact investment. Chapter 6 provides more details on SII policies.

5.5.3. Opportunities and bottlenecks of scaling up social impact investment in the MENA region

SII in the MENA region is a nascent but growing industry. A shortage of financial intermediaries coupled with the lack of awareness about SII means that the growth of the market has been limited to date, but there is potential for future growth.

Islamic finance can play a vital role in the SII market in the region. The Islamic finance sector has grown, from a market of USD 200 billion in 2003 to an estimated USD 1.8 trillion in 2014, and is expected to grow to USD 2.7 trillion by 2021 (UNDP, 2014[56]). The principles of Islamic finance overlap with SII and initiatives like the Global Islamic Finance and Impact Investing Platform will play an important role in directing this finance towards SII.

5.6. Latin America

There is a wide variety of countries in Latin America, each at various stages of financial market and SII development. Argentina, Brazil, Colombia, Mexico and Peru are the largest markets for impact investment in the region. While there has been some social impact investment activity in Uruguay in connection with Argentina, other countries in Latin America are less developed; however, activity is growing in Bolivia, Guatemala and the Bolivarian Republic of Venezuela.

5.6.1. Social impact investment trends in Latin America

The social impact investment market is growing in the region. Investors who responded to both ANDE's 2016 and 2018 surveys reported increases in the number of deals and total volume of capital deployed to the region (ANDE; LAVCA, 2018[65]). Table 5.2 details impact investment deals for select countries in the region.

Table 5.2. Impact investment overview by country in Latin America and the Caribbean

Countries	Total invested (million USD) 2014/15	Total invested (million USD) 2016/17	Number of deals 2014/15	Number of deals 2016/17
Argentina	NA	66	NA	20
Bolivia	24.6	40	8	29
Brazil	68.9	131	48	69
Chile	1.1	9	3	9
Colombia	32.7	86	16	42
Costa Rica	211	89	5	34
Dominican Republic	NA	10	NA	4
Ecuador	199.6	185	7	189
El Salvador	8.4	52	3	25
Guatemala	1.7	35	5	27
Honduras	NA	52	NA	25
Mexico	64.7	169	45	108
Nicaragua	24.1	114	10	69
Panama	NA	46	NA	17
Paraguay	93.8	54	3	13
Peru	210.4	218	23	152
Uruguay	NA	3	NA	14
Unspecified/other	10.8	85	11	14
Total	951.8	1 444	187	860

Source: ANDE, LAVCA and LGT Impact Ventures (2016[66]), "The impact investing landscape in Latin America", https://lavca.org/wp-content/uploads/2018/03/ASPEN_summary_english_DIGITAL.pdf; ANDE and LAVCA (2018[65]), "The impact investing landscape in Latin America", https://lavca.org/wp-content/uploads/2018/10/UPDATEDAF_ASPEN_Summary_LATAM_ENG_2018_Digital_19outubro.pdf.

The LAVCA and ANDE 2018 report found that 11 firms reported a total of 27 exits from impact investments in Latin America in 2016 and 2017. The total proceeds from the exits were USD 42 million and multiple investors achieved exits in Bolivia, Brazil, Mexico and Peru. Colombia saw the highest total proceeds from exits (USD 18.2 million) followed by Bolivia (USD 11.4 million) and Peru (USD 6.0 million) (ANDE; LAVCA, 2018[65]).

The market for social impact investing in Brazil has grown over the past two years, even though the country's economy grew less than expected. Several factors may have influenced this, including the political and economic challenges and high interest rates. The growth of Brazil's urban middle class has helped develop the SII market. According to the LACVA-ANDE 2016 report, there were improvements in the quality of entrepreneurs and the availability of talent between 2014 and 2016, although many investors still cite this as a challenge to expanding the sector (LAVCA; ANDE; LGT Impact Ventures, 2016[66]).

Argentina is one of the largest economies in Latin America, with a GDP over USD 600 billion (World Bank, 2018[67]). The current presidency aims to attract social impact investors as part of a plan to rebuild the country's investment environment. Reforms are underway to improve the investment climate, promote sustainable economic development with social inclusion and encourage social entrepreneurship. Argentina has recently expressed its intention to join the OECD (World Bank, 2018[67]). Specifically related to SII, Argentina has set up a National Advisory Board jointly with Uruguay.

Mexico has attracted the interest of private investors in the past years as the government introduced regulations to support investments. For example, the Anonymous Society to

Promote Investment (SAPI) and the National Institute for Entrepreneurship (INADEM) are accelerating the private equity sector (Kim, 2017[68]). As most social enterprises in Mexico are small, the main challenge is to raise the next round of capital as well as to attract high-quality talent. Universities can play a role in filling this gap by offering courses on social entrepreneurship and social impact investing (LAVCA; ANDE; LGT Impact Ventures, 2016[66]). The social impact investing ecosystem in Mexico includes both local and international firms.

Colombia's economy is recovering from the oil terms of trade shock in 2016. Inflation is slowly getting back to normal and programmes of trade liberalisation have brought corporate income taxes down to 25%, making Colombia an attractive country for investment (World Bank, 2018[69]). The entrepreneurial ecosystem is very dynamic. According to the Ministry of Commerce, Industry and Tourism, there are more than 700 organisations that support entrepreneurship throughout the country. International funds dominate the impact investing ecosystem in Colombia, with only three local firms focused solely on the Colombian market. Unlike Brazil and Mexico, the private equity industry in Colombia is still in its early stages, but developing quickly (LAVCA; ANDE; LGT Impact Ventures, 2016[66]). Impact investing is growing with it, but according to the ANDE-LAVCA 2016 study, 46% of those surveyed who had undertaken impact investments in the region do not consider themselves as impact investors, but rather as private equity or venture capital, foundations, or family offices.

Peru has also been one of the fastest growing economies in recent years, mostly due to mining export (World Bank, 2018[70]). Peru had the highest average impact investing deal value in Latin America over 2014-15 according to the ANDE-LAVCA report (LAVCA; ANDE; LGT Impact Ventures, 2016[66]). However, this is mainly because of the large amounts of micro-finance deals Peru received. Like other countries in the region, Peru has several challenges to overcome, such as huge inequality (particularly across geographies), poverty, quality of education, informal work and unemployment.

Chile has been one of the fastest growing economies in the region and consequently the country has significantly reduced poverty in the last decade. Past governments have aimed to boost competition and entrepreneurship. An example is Start-up Chile, a public accelerator created by the government for high-potential entrepreneurs to bootstrap their start-ups and use Chile as a foundation. This initiative has become a global benchmark for developing national entrepreneurial ecosystems (Start-Up Chile, 2018[71]). Compared to other countries in the region, studies indicate Chile has been less active in impact investment. However, recently the government has taken significant steps to develop the social impact investment market with the creation of a National Advisory Board. In addition, the government has now included a social impact bonds fund in its presidential programme (GSG, 2018[45]).

5.6.2. OECD Social Impact Investment Market Framework analysis

Social needs

Latin America's recent low growth has affected not only the economy, but also the social front. Inequality has risen due to low labour income, informal employment and poor access to quality public services, which often leads to crime as well as political instability. Furthermore, unemployment and informal work – particularly among the youth – pose a challenge for many countries in the region (IMF, 2017[72]). Half of all jobs in the region are informal (World Bank, 2015[73]). In the region, 20% of young people

participating in the labour market qualify as entrepreneurs, and the vast majority are self-employed (ILO, 2016[74]). Also, the quality of the education in Latin America remains relatively low and data show that students are two years behind the OECD average (World Bank, 2015[73]). Adding to these social challenges, many Latin Americans are affected by deforestation and climate change.

In the 2018 SDG Index, the average country score for Latin America is 65.96, making it the second highest scoring region, after North America and Europe (BertelsmannStiftung and SDSN, 2018[5]). The highest scoring country in the region is Costa Rica, followed by Chile. The lowest scoring country in the region is Haiti. In terms of the individual SDG targets, reduced inequalities and justice and strong institutions represent two major challenges across the region. Some countries in the region also face persisting challenges related to good health and well-being, industry, innovation, and infrastructure and life below water. In addition, many countries in the region are not on track to meet, or in cases regressing, on climate action (BertelsmannStiftung and SDSN, 2018[5]).

The OECD How's Life Index indicates that the region performs well in areas such as health, social connections and life evaluations, but faces challenges in terms of political institutions, education, vulnerability, and empowerment and participation (OECD, 2017[75]). There are many social challenges in the Latin America region which may be addressed through social impact investing.

Demand side

Latin America is home to many emerging economies with a strong entrepreneurial culture. Innovative and entrepreneurial approaches have emerged across Latin America. Technology has been a key enabler of this trend. Although the term "social impact investing" is not that well-known in the region, it applies to many enterprises seeking to deliver social impact along with financial returns.

For these enterprises, many barriers to financing exist, including risk-averse local banks, misaligned investor expectations, high transaction costs, longer time horizons, limited assets and small enterprise size. Many impact enterprises, particularly in their early stages, find it challenging to obtain capital that aligns with their needs and characteristics and enables their development and growth (IADB, 2017[76]). Grants (whether public or private) and/or technical assistance can help these ventures reach sustainability. There is a substantial demand for this type of support as the Latin American entrepreneurship ecosystem and intermediaries are not that developed yet.

Box 5.5. Examples of social purpose enterprises in Latin America

Avante

Avante, founded in 2012, is the first Brazilian company to offer financial advice to the base of the pyramid. Avante offers loans to micro-entrepreneurs ranging from BRL 400 up to BRL 14 200. The service does not require general taxpayer's registry, a bank account or a guarantor. Only 50% of Avante customers have a bank account, indicating that the organisation is reaching customers traditional financial institutions have difficulty engaging. The majority of entrepreneurs are located in rural or remote areas. Avante uses Fintech and technical services as well as personal assistance to provide financial services such as credit, payment

and digital banking. The enterprise had three funding rounds and was primarily funded by Vox Capital and Gentera.

Siembra Viva

In order to enhance the effectiveness of the agricultural sector, Siembra Viva provides a platform for knowledge sharing and connecting smallholder farmers in rural Colombia to a consumer base in urban cities. Moreover, the company provides support and assistance to allow farmers to switch from growing commodities to value-added organic products. It also provides services like informing farmers when to plant and harvest based on demand projections, and guarantees purchase at a pre-determined, premium price. In addition, it aims to eliminate inefficiencies in the supply chain as well as the prohibitive costs of transportation.

Source: (Avante, 2018[771]), website, www.avante.com.vc/; (Siembra Viva, 2018[781]), website, https://siembraviva.com.

Supply side

In terms of the supply side, the range of impact investors in Latin America includes family offices, foundations, early-stage impact funds, private equity funds, development finance institutions and institutional investors. HNWIs and family offices play a particularly important role in SII in the region. These investors are crucial in supporting social entrepreneurship in the early phase due to the venture financing barriers that exist in Latin American countries.

Most impact funds are supported by a DFI, philanthropy, or other public or private money from overseas. The Inter-American Development Bank (IADB) is a significant investor in the region by funding impact investing funds and start-ups directly, as well as supporting the development of market infrastructure and intermediaries. While public and philanthropic ("catalytic") capital is prevalent in the early stages of investment, private investors are increasingly active. Vox Capital, an impact investing fund in Brazil, invested, for example, in a software company called ProRadis, which offers low-cost medical care to the Brazilian population without health insurance. In Colombia, Corporación Inversor, a social asset manager, is active in the region and has worked with government and development actors to create Colombia's first SIB (see Box 5.6). While domestic funds are emerging, international funds dominate the impact investing ecosystem, with only three local firms focused solely on the domestic market.

Many of the early impact investors in Latin America focused on microfinance and this is still a big part of the market today. The microfinance industry has matured and, in many cases, has been commercialised and acquired by large banks. Indeed, in the region, impact investors who focus on microfinance institutions manage more capital and invest with bigger ticket sizes (ANDE; LAVCA, 2018[65]). Indeed, in terms of total capital deployed, microfinance was the largest sector by far, followed by agriculture, ICT and energy. Although microfinance is still the largest sector in Latin America, the number of new entrants investing in microfinance initiatives decreased, while the number of non-microfinance industry investments is increasing (ANDE; LAVCA, 2018[65]).

However, most AUM (71%) was from investors outside of the region, with impact investors headquartered in the region representing approximately USD 1.4 billion AUM (ANDE; LAVCA, 2018[65]).

Financing instruments

The majority of investors use more than one instrument for their investments, with equity being the most frequently used, followed closely by debt and then quasi-equity (ANDE; LAVCA, 2018[65]). As noted earlier, due to specific challenges such as a longer time to break even or lower expected returns, social enterprises often end up needing to access a mix of public and private financing as well as use various financing tools.

One of the newer financing instruments applied in Latin America is the social impact bond (SIB). The first SIB was started in Colombia in 2017 and focused on increasing school participation, particularly among rural populations. Other SIBs in the region have focused on diabetes and youth education in Mexico, fishery in Colombia and Ecuador, foster care in Chile, and water conservation in Costa Rica. Other SIBs in Latin America include those on employment, financial inclusion and watershed management in Colombia and water conservation in Costa Rica (ECLAC, 2014[79]).

The Multilateral Investment Fund launched a USD 5.3 million fund in 2014 to further develop outcome-based social financing tools in Latin America (Next Billion, 2014[80]). This fund channelled USD 2.3 million to support local stakeholders (governments and business) with the design and implementation of SIBs, while the rest of the money is to be used to directly finance SIB projects.

Box 5.6. Colombia's first social impact bond

In Colombia, Corporación Inversor, a social asset manager, along with Fundación Corona and in co-operation with Prosperidad Social (a Colombian government entity), Swiss Agency for Development and Cooperation (SDC, the Multilateral Investment Fund of the Inter-American Development Bank, and other stakeholders implemented the first social impact bond (SIB) in a developing country. The SIB aims at increasing the employability of vulnerable populations and victims of armed conflict. First launched in March 2017, the SIB supports a range of employment measures, including skills training, psychosocial support, and intermediation services for job placement and retention for 766 vulnerable unemployed individuals. Those eligible are high school graduates who are 18-40 years-old and are registered in Red Unidos (the extreme poor), or victims of displacement due to the armed conflict. The unemployment level in Colombia is 9% and is even higher among vulnerable populations, such as young people and women. The focus of the SIB is particularly pertinent given the 50-year-old civil conflict, which left thousands of victims unemployed. Full payment is conditional on a number of outcome metrics that focus on not only achieving employment but also job retention – 50% of payment is per capita for job placement, with the other 50% of the payment per capita for three months job retention. The SIB so far has been a success and has triggered outcome payments.

Source: (Fundación Corona, 2018[81]), website www.fundacioncorona.org.co/

Intermediaries

While there are a limited number of intermediaries in Latin America, organisations like the IADB have been working to support the establishment of intermediaries that can help develop the market.

In Argentina, like in other countries, the SII platform led an initial assessment of obstacles and opportunities to promote impact investing. This exercise allowed them to improve co-ordination across different parts of the government on their understanding of impact investing. In 2017, the Multilateral Investment Fund of the IADB invested USD 5 million in the most active early-stage impact investing fund, NXTP Labs. The Buenos Aires-based early-stage venture firm NXTP Labs is raising a USD 120 million impact fund and is a tech-driven social enterprise providing seed capital for 32 tech-driven companies (IADB, 2017[76]). The aim is to help build investment-ready social enterprises by strengthening intermediaries (incubators, tech and social accelerators) as well as to provide capital to seed funds in order to allow them to prove their profitability. In 2018, the first SIB in the country was launched in Buenos Aires; its focus is on employment for vulnerable (GSG, 2018[45]).

In Chile, the Impacta Foundation closed an agreement with the Ministry of Economy to begin the technical analysis to implement the first SIB. With the support of the IADB, the initiative will finance programmes to facilitate the adoption of technology (LAVCA, 2017[82]). Similarly, the IADB and the World Bank have committed to develop technology and promote investments in Peru. A regional acceleration entrepreneurship programme with the MIT is establishing frameworks to strengthen the Peruvian ecosystem (TechCrunch, 2017[83]).

Microfinance investment vehicles play a dominant role in the region. According to one survey, Latin America and the Caribbean received the largest share of microfinance investment vehicles' portfolios at 36%. The region was also found to be the fastest growing (Symbiotics, 2017[63]).

Enabling environment

Overall confidence in Latin America's economies is increasing due to efforts of stabilising the domestic environments. Inflation is finally reaching normal rates, interest rates are decreasing and the environment for investments in improving (Focus Economics, 2018[84]). While the World Bank's *Doing Business* 2018 scores the region at 58.66, there is heterogeneity across the region in ease of doing business scores (World Bank, 2018[7]). Mexico is ranked the highest, with a score of 72.27 and Brazil is second, with a score of 56.45. In contrast, Venezuela received the lowest score for the region, with only two other countries receiving a lower score (World Bank, 2018[7]).

A number of initiatives are currently under way, including in Argentina, Brazil, Chile and Mexico, to introduce policies that support social entrepreneurship and impact investing. Many of these initiatives build upon existing policies on entrepreneurship and innovation more broadly. The NABs, created as part of the Global Impact Investment Steering Group, in Argentina and Uruguay, Brazil, Chile and Mexico have been one of the catalysts of policy initiatives (see Chapter 6 for further information) (GSG, 2018[45]).

5.6.3. Opportunities and bottlenecks of scaling-up social impact investment in Latin America

The ecosystem in Latin America is growing but still fragile. As governments in the region are beginning to establish instruments, there is increasing need to also learn from lessons learnt in other countries. Latin America faces many challenges, such as instability of national governments unemployment, inequality, crime, fiscal crises and a reduction of commodity prices due to most economy's dependence on exports (Focus Economics, 2018[84]).

Funds located within the region tend to invest more in early-stage ventures. Ignia in Mexico, Inversor in Colombia and Vox Capital in Brazil were among the first to tackle this "pioneer gap". Now, 40-plus locally originated funds are headquartered in the region and tend to invest more often in earlier stage investment projects with a focus on private equity (Baker Institute, 2015[85]). Cross-border funds invest in more mature or growing companies mostly via debt and contribute a financially larger amount than local funds. There is much potential to increase investments in the future, as new academic programmes and industry associations have been created and favourable governmental policies are being deployed (Baker Institute, 2015[85]).

The call for education stands out as a common denominator. Across all market players, the single most important contribution for ecosystem development is education. For social entrepreneurs, many accelerators and incubators have been established, but there is still a dire need for investment readiness support. Investors also could be educated about SII approaches as well as the importance for more flexible structures and time horizons.

Support from development finance providers remains critical in the region. Social impact investing faces many challenges in Latin America that might be only possible to overcome through support from multilateral institutions – such as the IADB – in the initial phases of the implementation. These multinational agencies, as well as governments, not only help to create more intermediaries, but also work on addressing the enabling environment to build a more conducive investment environment.

Latin American countries have the opportunity to graduate past dependency. Countries in the region have an opportunity to improve the policy environment and move beyond grant dependency. Development finance institutions and international asset managers want to invest in the region, but the local private sector also needs to collaborate. The international development community can work with local actors to build capacity and foster financial sustainability.

5.7. Asia

Global and regional studies indicate that Asia is an increasingly popular region for impact investment. However, there is a large amount of heterogeneity in Asia, with a mixture of developing countries and advanced economies. For the purpose of this report, Asia constitutes East and Southeast Asia, South Asia, and Oceania. The region as defined contains the full spectrum of countries along their development continuum, ranging from OECD countries – Australia, Japan, Korea and New Zealand – to the least developed countries – Bangladesh, Cambodia, Myanmar and Nepal.

5.7.1. Social impact investment trends in Asia

Oceania

Australia is the most mature SII industry in the region, by number of active local impact investors, established intermediaries and government support. Impact Investing Australia (IIA)'s 2016 Investor Report reveals that 123 Australian investors manage AUD 333 billion of investment assets (Impact Investing Australia, 2016[86]). Their main target groups are children, young people, clean energy, housing and homelessness. Australia has been active in the Global Steering Group and since the earlier establishment of the Taskforce in 2013. The IIA, an independent non-profit organisation, played a key role in the delivery of the Australian NAB's SII strategy from 2014-16 (GSG, 2018[45]). Since then, the Australian government announced a USD 30 million package in the period 2017-18 to develop the SII market over the next ten years. In addition, the government announced it would work in partnership with the IIA and allocate an additional USD 6.7 million of funding in 2018-19 (GSG, 2018[45]).

Comparatively, New Zealand's SII market is nascent, although an increasing number of public policy initiatives aiming to develop the SII market are being implemented (see Chapter 6 for more information). In addition, New Zealand is working on setting up a national advisory board to further efforts in the country.

East Asia

Korea has been active in terms of SII ecosystem development. Local investors, social enterprises, SII-focused intermediaries and the government have been co-operating to move the SII market forward and an NAB was established in early 2018. In addition to other initiatives, the NAB has been investigating the possible application of a social wholesale bank model in Korea (GSG, 2018[87]). The Korean government enacted the Social Enterprise Promotion Act in 2007 and established the legal certification system for social enterprises (Republic of Korea, 2007[88]). The Korea Social Enterprise Promotion Agency provides social enterprises with subsidies and financial instruments such as loans and equities (see Chapter 6 for more information).

The Japanese SII market was estimated to be at JPY 33 747 million in 2016 (Japan NAB, 2016[89]). While the Japanese SII market is at an early stage, it has increased significantly over the last years. This was in part due to the heightened interest in social impact investment from the private sector after the earthquake in 2011 (Japan NAB, 2016[89]). The increase of social enterprises for disaster relief and reconstruction efforts led to larger demands for funding. To date, investments through loans and equities remain small due to a deep-rooted Japanese belief that social businesses and non-profits are "volunteer activities" and that they do not generate enough profits for serious consideration of investment by the private sector (The Japan Research Institute; MIF, 2016[90]); however, attitudes are beginning to change. The government passed the Dormant Account Utilization Bill in 2016, which will create a new source of capital for the impact investing sector, and the establishment of an SII wholesaler by 2019 (GSG, 2018[45]).

The domestic Chinese SII market has grown rapidly.[5] An increasing number of players from the business sector such as private foundations, venture capitals, large companies' corporate social responsibility activities, commercial banks and private equity funds, have begun to engage in the SII market over the past several years. The public sector has been active in promoting social impact investing and some local governments have initiated venture philanthropy funds (The Japan Research Institute; MIF, 2016[90]). The People's

Republic of China's (hereafter "China") rapid economic growth has brought diverse new social and environmental issues that cannot be tackled solely by the government. There has been a strong movement by Chinese companies to implement CSR and a number have established or invested in private foundations and impact investment funds (The Japan Research Institute; MIF, 2016[90]). A barrier to the large-scale development of social enterprises in China is the underdeveloped non-profit sector, due to the government's tight regulations on non-profit organisations (The Japan Research Institute; MIF, 2016[90]).

South Asia

The South Asian social impact market is diverse. India, the largest market in the region, received USD 5 billion of investments from DFIs and USD 437 million from other impact investors in 2015 (Dalberg; GIIN, 2015[91]). After India, Pakistan and Bangladesh have attracted the most investments from DFIs and non-DFI investors. Approximately a dozen DFIs have deployed capital in each of India, Pakistan and Sri Lanka, while a smaller number have been active in Bangladesh, Myanmar and Nepal. Across the region, most (65-95%) of the impact capital currently originates from DFIs and is then deployed either directly into enterprises and projects or through funds of varying sizes (Dalberg; GIIN, 2015[91]).

There is a variety of active impact investment funds in the region and most of them have a multi-geographic focus, including not just multiple countries in the region, but a variety of countries worldwide (Dalberg; GIIN, 2015[91]).

The impact investing landscape in India is robust, accounting for over half the impact capital deployed and housing the largest number of impact investors in the South Asian region (GIIN; Dalberg, 2015[92]). A range of foreign and domestic players have deployed capital in the Indian impact investing market – including fund managers, DFIs and other sources such as foundations, HNWIs and family offices. Most impact enterprises in India are in their growth stage, demonstrating that the sector is relatively mature in comparison with its South Asian counterparts (GIIN; Dalberg, 2015[92]). A rich entrepreneurial ecosystem, the presence of domestic development banks and investment bankers/incubators contribute to the growth of this market. The majority of investments by impact funds have been made in the financial services sector, primarily in microfinance institutions (70%), followed by renewable energy, agri-business and livelihoods. Approximately 68% of the total known impact capital deployed to date in the Indian market has been invested as debt; this trend is largely driven by DFIs (GIIN; Dalberg, 2015[92]).

Bangladesh is the birthplace of the micro-finance movement, with Grameen Bank and BRAC being the largest microfinance institutions in the world. Since its independence in 1971, the political climate has stabilised and GDP has been steadily increasing, making it the third largest economy in South Asia (GIIN; Dalberg, 2015[93]). Bangladesh has the third most active impact investing market in South Asia after India and Pakistan. Currently, there is USD 955 million invested in social impact activities, of which USD 834 million (87%) is invested by DFIs and microfinance institutions. Other impact investors include HNWIs, commercial banks, foundations and the most common investor, private equity funds. An NAB was established in Bangladesh in 2018 and a number of initiatives have been launched that focus on developing the SII market further.

Southeast Asia

Southeast Asia is an extremely heterogeneous sub-region, with countries at various stages of economic development – some economies are led by agriculture and others based on industry and services. This is reflected in the development of the SII market, which has grown significantly over the last decade, with the amount of impact capital varying widely for each country.

From 2007 to 2017, a total of USD 12.2 billion was deployed in the region through 514 deals (GIIN; Intellecap, 2018[9]). The main investors in the region were DFIs, who invested USD 11.3 billion through 289 deals. Since 2013, both the number of deals and the capital deployed by private investors across Southeast Asia have increased significantly. Overall, in terms of sectors, most non-DFI investments have flowed to financial services, energy, information and communications technology, agriculture, and consumer goods. Instruments vary by country, with a higher use of equity in more developed economies like Malaysia and Singapore, compared to economies such as Cambodia, East Timor and Laos (GIIN; Intellecap, 2018[9]). Across Southeast Asia, DFI investments were concentrated in the energy and financial services sectors.

Singapore's business-friendly and comparatively developed SII ecosystem make it one of the preferred locations for many impact investors and social enterprises in Southeast Asia (GIIN; Intellecap, 2018[9]). A low corporate tax and well-educated workers positively affect the attractiveness of the country as a hub. As a result, investors, social enterprises and intermediaries have expanded into overseas markets, especially other Southeast Asian countries (The Japan Research Institute; MIF, 2016[90]). The GIIN and Intellecap survey of the region found that from 2007 to 2017, USD 61.3 million of non-DFI impact investments were deployed in the country, and USD 51.3 million was deployed by DFIs. Singapore also is the largest target for foreign direct investment in the region (GIIN; Intellecap, 2018[9]). The social enterprise movement in Singapore has grown rapidly. In 2017 alone, the number of social enterprises increased by 32% (GIIN; Intellecap, 2018[9]). The movement has been led by several organisations, such as the Singapore Center for Social Enterprise (raiSE), the Asia Center for Social Entrepreneurship and Planning as well as the AVPN. Singapore's advanced economic development is reflected in the focus of domestic social enterprises, targeting a diverse range of beneficiaries, such as disadvantaged youth, people with disabilities, and low-income families or individuals (GIIN; Intellecap, 2018[9]).

The Philippines received USD 2.3 billion from DFIs and USD 107.2 from private investors in the period 2007-17, making it the second largest recipient of social impact investments. In addition, there are 23 active private impact investors in the country; however, only a handful reported having in-country offices (GIIN; Intellecap, 2018[9]). The Philippines also has the largest number of non-governmental organisations per capita in Asia (ADB, 2013[94]), and the more established are turning to social impact investors to help them grow. In contrast to many other countries, finance is not reported as a major constraint by social enterprises in the Philippines, but there are still problems accessing particular types of finance, and investors face difficulty finding suitable investees (British Council, 2015[95]). One big challenge is that social enterprises – as well as most micro, small and medium-sized enterprises (MSMEs) – often lack collateral for securing loans (British Council, 2015[95]). Among private impact investors, gender is increasingly an area of focus, with USD 12.4 million deployed into 20 investments using a gender lens (GIIN; Intellecap, 2018[9]). The most active areas for impact investment were the financial and energy sectors.

In Thailand, USD 73.3 million was deployed by non-DFI investors and nearly USD 1.6 billion by DFIs from 2007-17. The key sectors for investment were energy and financial services. The main source of social impact investment in Thailand is from international investors, but there are some local investors and intermediaries. The government created the Thai Social Enterprise Office in 2010 to support and promote their growth. It has been critical to stimulating the social enterprise ecosystem in the country (GIIN; Intellecap, 2018[9]). In Thailand, around 3 million registered MSMEs and a number of other organisations operate with a social mission. The number of social entrepreneurs has grown, and Thailand now hosts one of the largest Ashoka fellow networks in the world (The Japan Research Institute; MIF, 2016[90]). Social enterprises operate in various sectors including health, education, workforce development, agriculture and tourism. However, social enterprises and SMEs face a substantial financing gap (GIIN; Intellecap, 2018[9]). A big obstacle to SII market development is political instability. The World Bank's World Governance Indicators project shows the political stability of Thailand is low compared to countries and territories (World Bank, 2016[96]).

5.7.2. OECD Social Impact Investment Market Framework analysis

Social needs

In the 2018 SDG Index, the average country score in Asia is 65.02, the third highest of the regions (BertelsmannStiftung and SDSN, 2018[5]). There is great heterogeneity across the region in terms of individual country scores. Korea is the highest ranked country in the region, followed by Australia, Singapore, Azerbaijan, Georgia, Uzbekistan, China and Malaysia, whereas Afghanistan is the lowest scoring country. In terms of the individual SDGs, countries in East and South Asia face persistent challenges related to zero hunger; good health and well-being; industry, innovation and infrastructure; life below water; and peace, justice and strong institutions. Most countries in the region have made progress towards achieving ending poverty. Countries in the region are also not on track to meet climate action, life below water and life on land. More advanced economies in the region face different challenges, with Australia, for example, scoring comparatively high on good health and education but lagging behind on sustainable consumption and production, climate action, life below water and life on land (BertelsmannStiftung and SDSN, 2018[5]).

This is supported by findings from the UN Economic and Social Commission for Asia and the Pacific's *SDG Progress Report 2017* (UN ESCAP, 2017[97]). While progress has been made towards the SDGs, for example to eradicate poverty and promote good health, the region as a whole is only on target to achieve one SDG by 2030 – SDG 4: Ensure inclusive and quality education for all and promote life-long learning (UN ESCAP, 2017[97]). Similarly, over the last 25 years, there has been human development progress in the sub-regions. South Asia and East Asia, and the Pacific recorded an average annual growth rate in Human Development Index scores of 1.4% and 1.3%, respectively, compared to 0.7% for the world as a whole. However, despite such progress, these regions still lag behind Latin America and the Caribbean, and Europe and Central Asia in terms of human development (UNDP, 2016[98]).

Demand side

Across Asia, a variety of innovative social enterprises have emerged. The nature of problems addressed by social enterprises differs across developing and developed

countries in the region (AVPN, 2016[99]). The social investor presence is particularly strong in the Philippines and Singapore, reflecting the comparatively more mature SII markets. Countries such as Malaysia, Chinese Taipei and Thailand have fewer social investors. Box 5.7 details a few examples of innovative social enterprises that have emerged in the region.

Box 5.7. Examples of social purpose enterprises in Asia

LangLang Learning Potential Development Center

In the People's Republic of China, LangLang Learning Potential Development Center provides professional training and support to children with dyslexia, a learning disability which affects approximately 10% of Chinese children (LangLang, 2018[100]). LangLang developed a new education methodology for the treatment of dyslexia – drug-free multi-sensory mental gymnastics. LangLang's programmes have proven to yield positive results for students, reducing reading and writing barriers, as well as boosting self-confidence and self-expression. The programmes have also helped develop parents' and teachers' understanding of dyslexia and raised public awareness of the condition.

Barefoot Power

An Australian-based social enterprise, Barefoot Power designs, manufactures and distributes micro-solar lighting and phone charging products that are affordable for low-income populations without access to electricity in over 20 countries. The company aims to overcome problems experienced in many developing countries around the world where many light their homes with kerosene lanterns, which is an expensive and dangerous source of lighting. The cloudy, open flame and smoke seriously impact indoor air quality and cause countless fires. The potential impact of the organisation is large; for example, more children die from fire-related injuries than from tuberculosis or malaria in Africa, which is one of the regions in which they operate. Barefoot Power has impacted the lives of 1 million people by supplying solar-powered lights, home lighting systems and phone charging solutions.

bKash

In Bangladesh, bKash started as a joint venture between the Bangladeshi BRAC Bank Limited and the US-based company Money in Motion, LLC. The social enterprise was founded to enhance access to financial services for people living in rural Bangladesh, where access to financial services is limited. More than 70% of the population of Bangladesh lives in rural areas without access to formal financial services. Less than 15% of Bangladeshis are included in the formal banking system, but over 68% have mobile phones. By providing affordable banking services, bKash allows poor people in rural Bangladesh to safely send and receive money via mobile devices. Thereby, customers are able to receive funds or access financial tools to improve their living conditions.

Vaatsalya Healthcare

Vaatsalya Healthcare aims to provide low-cost primary and secondary healthcare services in rural and semi-urban areas of India. Although 70% of India's population lives in semi-urban and rural areas, they often do not have access to basic healthcare services. Vaatsalya aims to bridge this gap by building and managing hospitals and clinics in semi-urban and rural areas and bringing healthcare services to areas where quality services do not exist but where they are needed most. By offering healthcare to low-income households, Vaatsalya has contributed to enhancing the lives of those who could not afford conventional healthcare, for example to save newborn babies and help mothers with difficult pregnancies. Vaatsalya also provides basic

healthcare for those who had no access to it before. The healthcare model is based on standardising quality medical treatment and centralising procurement of equipment and consumables to reduce costs. Moreover, they recruit, train and retain their own healthcare personnel.

Source: (LangLang, 2018[100]), website, www.123langlang.com/; (bKash, 2018[101]), website, www.bkash.com/; (Vaatsalya, 2018[102]), website, www.vaatsalya.info.

Supply side

Philanthropists, HWNIs, family offices and foundations play an important role in the region. The *2018 World Wealth Report* puts Asia as the region with the most HNWIs, at 6.2 million, representing approximately USD 21.6 trillion, ahead of North America and Europe (Capegemini, 2018[103]). Asia received USD 4.1 billion, or 17% of total private philanthropic commitments in developing countries from 2013-15 (OECD, 2018[27]).

Other investors in the region include early-stage impact funds, private equity funds, development finance institutions and institutional investors. In addition, sovereign wealth funds are increasingly focusing on sustainable investments. Temasek, the Singaporean Sovereign Fund, has incorporated economic transformation as a specific investment strategy and aims to invest in China, India, Southeast Asia, Latin America and Africa, in sectors such as financial services, infrastructure and logistics (Temasek, 2018[104]).

In emerging economies in the region, flows are mainly sourced from overseas, with limited local investor presence. According to the 2018 GIIN survey, 9% of impact investors have their headquarters within the Asia region (GIIN, 2018[3]). The majority are in the developed economies in Asia, where most investors are local or domestically focused.

Intermediaries

There are regional and global platforms created to catalyse the Asia-Pacific SII market. At the same time, the number of SII-focused financial intermediaries currently operating in the market is limited, especially in developing countries.

Asia is the birthplace of microfinance and microfinance investment vehicles are increasingly present in the region. A recent survey found that microfinance investment vehicles allocated 13% of their portfolio to East Asia and Pacific and 14% to South Asia (Symbiotics, 2017[63]). The growth rate for allocations to South Asia was 43% (compound annual growth rate) and 30% for East Asia and Pacific from 2006-16 (Symbiotics, 2017[63]).

Some intermediaries provide online matching services that enable investors and social enterprises to identify and connect with potential investment/funding opportunities. For example, the AVPN has developed the platform Deal Share to increase the flow of financial and human capital towards greater social impact in the sector (AVPN, 2018[105]). In Malaysia, Mission & Co invests venture capital in social enterprises and offers advisory services and network services across Southeast Asia (Mission & Co, 2018[106]).

It is important to note that intermediaries are for the most part concentrated in urban areas. For example, in the Philippines, most intermediaries are located in Manila; in Indonesia, most intermediaries are located in either Jakarta or Bandung. This limits the ability of social enterprises from rural areas to receive required support (GIIN; Intellecap, 2018[9]).

Financing instruments

Throughout Asia, the most popular instruments for social investments in 2015-16 were equity and debt, followed by grants (AVPN, 2016[99]; AVPN, 2017[107]). A recent GIIN and Intellecap survey found that in Southeast Asia, 60% of private impact investment capital was deployed through debt, despite debt representing under 30% of deals from 2007-17 (GIIN; Intellecap, 2018[9]). The vast majority of debt deals were in the financial services sector, and in particular microfinance. This trend likely reflects the lack of legislation in the region to protect equity investors and perceptions of higher risks in developing economies. Singapore and Thailand, which are relatively more developed economies, received more impact investments through equity – both have strong laws protecting minority investors. Figure 5.6 depicts impact capital deployed in Southeast Asia by instrument; 74% of DFI investments and 91% of capital were deployed as debt (GIIN; Intellecap, 2018[9]).

Table 5.3. Impact capital deployed in Southeast Asia by instrument, (2007-2017)

	Capital deployed (million USD)	Number of deals	Average deal size
Debt Non-DFI	495.6	86	5.8
Debt DFI	9,644.20	214	45.1
Equity Non-DFI	408.3	134	3
Equity DFI	1,591	73	21.8

Note: DFI: development finance institution.
Source: (GIIN; Intellecap, 2018[9]), "The landscape for impact investing in Southeast Asia", https://thegiin.org/assets/GIIN_SEAL_full_digital_webfile.pdf.

Crowdfunding is emerging as a financing tool for social enterprises in the region, in particular at the early stages of ventures. For instance, the Khon Thai Foundation and ChangeFusion Institute collaborated to set up Taejai, a crowdfunding platform for social enterprises and non-profit projects (AVPN, 2017[107]). Another crowdfunding site dedicated to social impact, Give2Asia, is also active in Thailand (AVPN, 2016[99]). Platforms in Thailand offer donation or equity options; however, companies wishing to crowdfund equity must register under Thai law. In India, the size of the crowdfunding industry was estimated to be USD 45.94 million in 2017, but equity crowdfunding is not legal (AVPN, 2016[99]). For most countries in the region, crowdfunding is very nascent, though it has the potential to play an important role in bridging the early-stage funding gap in Asia.

Enabling environment

The Asia region is very heterogeneous in terms of investment climates in individual countries, which in turn influences the development of social impact investment markets. The World Bank's Ease of Doing Business Index fully reflects this variety among Asia. Australia, New Zealand and Singapore, are ranked near the top of the index. Other countries in the region rank lower, such as China, Indonesia and Viet Nam. Least developed countries, such as Myanmar, scored significantly lower (World Bank, 2018[7]).

In terms of legal frameworks, some countries such as Korea, the Philippines, Thailand and Viet Nam have a legal definition of social enterprises (see Chapter 6 for more information). In contrast, in China, high barriers to registering as a non-profit organisation force social enterprises to register as for-profit companies, in spite of their social mission and revenue structure (The Japan Research Institute; MIF, 2016[90]).

Throughout Asia, a number of initiatives and programmes have been put in place to create capability to support SMEs and entrepreneurs, including programmes to help them become investment-ready as well as to grow their businesses. Also, there has been growing interest in the development of the broader social economy, supported by organisations like the UN Economic and Social Commission for Asia and the Pacific and the British Council.

5.7.3. Opportunities and bottlenecks of scaling-up social impact investment in Asia

Social impact investment is a new concept in many parts of Asia. While focus on the social economy and inclusive business has grown in the region, the concepts of venture philanthropy, social investment and impact investment are newer.

Entrepreneurs in the region are reliant on grants as long-term revenue. In a number of developing countries in the region, some entrepreneurs consider philanthropic capital and grants to be a source of revenue or a long-run mechanism of financing. As result, some enterprises in the region are not focusing on financial sustainability and exit options (GIIN; Intellecap, 2018[9]).

There are a limited number of financial intermediaries. While the number of intermediaries is increasing, there is a need for more intermediaries, both those providing capacity building as well as those channelling finance from the supply side to the demand side. A further obstacle is the shortage of investment-ready deals in the pipeline (The Japan Research Institute; MIF, 2016[90]).

There is a lack of realised exits. For many countries in the region, there is a lack of evidence of realised returns. The lack of successful exits contributes to perceptions of risk in the region, which can deter impact investors from entering the market (GIIN; Intellecap, 2018[9]).

5.8. North America and Europe

The majority of countries in North America and Europe are developed economies with mature financial markets. As a result, social impact investment markets are more advanced in these regions. Indeed, the majority of impact investors are headquartered in North America and Europe (GIIN, 2018[3]). While most countries in these regions are developed countries, nine countries in the European region still receive official development assistance (ODA).[6] They are classed as upper middle-income countries and have comparatively less mature SII markets.

5.8.1. Social impact investment trends in North America and Europe

North America

Canada and the United States both have long histories of socially responsible and impact investing and consequently have well-developed SII markets.

According to US Forum for Sustainable and Responsible Investment, the market size for sustainable, responsible impact investing in the United States was approximately one-fifth of all investment under professional management in 2016. Furthermore, the market continues to grow, with AUM for sustainable and impact investments increasing from USD 6.57 trillion in 2014 to USD 8.72 trillion in 2016 (US SIF, 2016[108]). There is an

emerging trend for investment with a gender focus. Table 5.3 shows the increase in US investment funds incorporating environmental, social and governance factors into investment decisions.

Table 5.4. US investment funds incorporating environmental, social and governance factors

	1995	1997	1999	2001	2003	2005	2007	2010	2012	2014	2016
Number of funds	55	144	168	181	200	201	260	493	720	894	1 002
Total net assets (billion USD)	12	96	154	136	151	179	202	569	1 013	2 457	2 597

Notes: Environmental, social and governance funds include mutual funds, variable annuity funds, closed-end funds, exchange-traded funds and alternative investment funds but exclude separate accounts, other/not listed and community investing institutions. From 1995 to 2012, separate account assets were included in this data series, but have been excluded since 2014.
Source: (US SIF, 2016[108]), US Sustainable, Responsible and Impact Investing Trends 2016 11th Edition, https://www.ussif.org/files/SIF_Trends_16_Executive_Summary.pdf.

While the movement towards responsible and sustainable investment is positive, according to the GIIN, the impact investment market in Canada and the United States is approximately USD 45.6 billion, so still only a small sub-set of the broader market (GIIN, 2018[3]).

In the United States, the long-running history of community investment programmes has played an important role in the development of the SII market. The Community Reinvestment Act passed in 1977 was set up to combat uneven lending practices in minority communities, and subsequently a number of policies have been implemented to develop the ecosystem. These funding and incentive mechanisms have been instrumental in the creation of community developed finance institutions (GSG, 2018[45]). Community investing institution assets have grown rapidly in the US impact investment market, from USD 64 billion in 2014 to nearly USD 122 billion in 2016 (US SIF, 2016[108]).

In terms of the SII market, the United States has been one of the leaders globally, both in terms of the role that a number of foundations have played in developing the market (and even coining the phrase "impact investing" at a Rockefeller Foundation gathering in 2007) as well as in terms of the activity of companies, investors and universities. The US Impact Investing Alliance focuses on field building and ecosystem development as well as increasing the deployment of capital in the market. At the same time, a growing number of universities in the United States are not only studying the market, but also run training programmes for students and executives. Academic networks, such as the one initiated by the Kellogg Business School, are helping to connect academics to share best practices. Harvard, Stanford, Wharton and Case are examples of other business schools active in the market.

The impact investing market in Canada is well-developed and has benefited from early public support, especially at the province level, e.g. the Chantier de l'économie sociale du Québec created in 1999. Similarly, the MaRS Centre for Impact Investing was founded in 2011 and has facilitated the growth of the SII market in Canada by mobilising capital and catalysing partnerships (MaRS, 2014[109]). With support by the MaRS Centre, Canada has had an active NAB focused on the development of the social impact investment market since 2014. The Responsible Investment Association estimated that the size of the Canadian impact investment market was CAD 9.2 billion in 2015, up from

CAD 4.13 billion in 2013 (RIA, 2016[110]). The vast majority of the assets were associated with organisations headquartered in British Columbia, Ontario and Quebec. The most popular area for impact investment was housing or real estate. Several provinces have implemented outcomes-based contracts and two social impact bonds have been launched at the federal level. Most recently, Canada announced CAD 750 million Social Finance Fund to put repayable capital into the community sector and a CAD 50 million Investment Readiness grant fund (Government of Canada, 2018[111]).

Europe

The SII market is growing substantially in Europe. Recent estimates indicate that the SII market in nominal terms in 2015 was over 11 times the size of the market in 2011 (Eurosif, 2016[112]).

The United Kingdom has a well-developed SII market and has played an important role in pioneering innovative policies and instruments. The UK government first commissioned a Social Investment Taskforce in 2000. During the United Kingdom's presidency of the then G8, an international taskforce was launched in 2013 which has since become the Global Steering Group, facilitating the development of the social impact investment markets in countries around the world. Similarly, the United Kingdom has played a leading role in developing innovative tools for impact investment, piloting the first SIB in 2010 (see Chapter 4 for more information). The United Kingdom has implemented a variety of policies to promote the SII market, including the development of the world's first wholesale social investment bank (see Chapter 6 for more details). The UK National Advisory Board on Impact Investing estimated that approximately GBP 150 billion of capital was committed to impact investing in 2017. The largest sectors in the UK SII market are renewable infrastructure and social housing. In addition, GBP 2 billion was committed to over 3 000 social sector organisations (UK National Advisory Board on Impact Investing, 2017[113]).

In France, the SII market has developed from the social finance movement for employee and individual savings. Regulation from the French government in 2008 led to the creation of solidarity investment funds, which invest 10% of their portfolio in social impact. The regulation required all corporates to offer at least one solidarity investment fund as part of their corporate savings schemes (GSG, 2018[45]). This regulation has been instrumental in providing access to impact investing from the mainstream retail market and, in turn, driving a large supply of capital to the impact investing economy (GSG, 2018[45]). In addition, the Finansol label was developed in 1997 (Novethic, 2017[114]) and was awarded to investment products that met the criteria of providing social or environmental needs (Finansol, 2018[115]). Publically driven labels such as the Impact Investing Label and Label French Impact Territories have also been developed (see Chapter 6). More recently, private equity impact funds have been developed. In 2017, the AFIC Impact Club reported that its members managed EUR 1.26 billion in impact investments (Novethic, 2017[114]). The companies operate in the areas of social inclusion, microfinance, social housing, renewable energy or recycling, or are located in underserved areas. In 2016, the Caisse des Dépôts et des Consignations, a French public financial institution, in collaboration with several investors, launched the EUR 100 million NovESS fund to support businesses in the social economy (Caisse des Dépôts, 2016[116]).

Compared to other developed economies in the region, the German impact investing ecosystem is still developing. A 2016 report by Bertelsmann Stiftung found that there

were only EUR 70 million impact assets in Germany at the end of 2015 (BertelsmannStiftung, 2016[117]), but the market has been steadily developing. The German SII market is still in an experimental phase, with a small investor base, few intermediaries and few investment-ready, impact-driven organisations. Overall, market-building efforts and financing are mainly driven by a small number of private and civil society actors, including foundations such as Bertelsmann Stiftung and the BMW Foundation as well as two social venture capital fund managers, BonVenture and Ananda Ventures (GSG, 2018[45]). The national development bank, KfW, and other actors such as Bertelsmann Stiftung, have been supporting the growth of the industry in Germany and abroad. The development agency GIZ has engaged in the incubation and financing of social enterprises in India and Africa.

Italy's impact investment policy environment is developing at different paces at the national and regional levels. The Italian NAB estimates that the Italian SII market will reach EUR 3 billion by 2020 (GSG, 2018[118]). Some Italian regions have started to develop strong ecosystems for impact investing. For example, the local authority of Turin has created Torino Social Impact, a centre for impact measurement to help social businesses measure their impact and become more attractive to impact investors (Torino Social Innovation, 2017[119]). The Italian government has recently undertaken reform of the social sector (third sector reform) (GSG, 2018[45]). In December 2017, the Italian government announced a EUR 30 million Outcomes Fund to help local Italian administrations develop SIBs and payment-by-results schemes.

The Netherlands has an increasingly active SII market. The Dutch Association of Investors for Sustainable Development estimates that EUR 24 billion, i.e. 1.7% of the broader investment market, were allocated to impact investments in 2014 (VBDO, 2016[120]). The three largest pension funds together with three insurance companies dominate the impact investment market, which is mostly focused on green technology and access to finance (VBDO, 2016[120]). The use of SIBs is growing in prominence, with nine active SIBs in the country (ABN AMRO Group, 2018[121]). The first Dutch SIB, Buzinezzclub Rotterdam, was launched in 2013 with Start Foundations and ABN AMRO investing EUR 680 000 in a programme to help unemployed young people find a job, enrol in training or start their own business (ABN AMRO Group, 2018[121]). The Netherlands has also been particularly active in the realm of SDG investing. The Dutch government and the central bank, in partnership with Dutch financial institutions, are working to increase the volume of investments towards the SDGs (SDGI-NL, 2016[122]). Similarly, the Ministry of Foreign Affairs and the National Enterprise agency set up the SDG Partnership facility to subsidise and facilitate public-private partnerships to contribute to the Sustainable Development Goals (RVO.nl, 2018[123]).

The Nordic countries are also increasingly engaging in social impact investments, with Finland being one of the more active in terms of national initiatives. Historically, Sitra has been the central player in the development of the innovation and financing markets in Finland. Since 2014, Sitra has added an explicit focus on impact investment, establishing the ecosystem and developing relevant financial instruments (mainly SIBs) (GSG, 2018[45]). As of 2018, there were seven SIBs running or in preparation, including the largest SIB in Europe at EUR 14.2 million, focusing on refugee and immigrant integration. The Finnish Ministry of Employment and the Economy, supported by Sitra, introduced a three-year pilot starting in spring 2017, aimed at finding employment for 2500 immigrants and thus helping integrate them into Finnish society (the "Koto-SIB" programme).

The Swedish social impact investment market has also grown (Eurosif; Swesif, 2016[124]), although efforts within the country remain fragmented. Sweden has been receptive to international initiatives such as the UN Global Compact and the UN-supported Principles for Responsible Investment, and it is common for investors in Sweden to sign up to both the principles and the base investment guidelines on the principles of the UN Global Compact (Eurosif; Swesif, 2016[124]). Sweden is also active in social impact investment in development co-operation via Sida and Swedfund (see Chapter 6).

Spain's social impact investment market is nascent but growing. On the national level, the Instituto de Credito Oficial has been issuing social or sustainability bonds since 2015, which aim to offer financial and social returns (see Chapter 6for more information). In addition, Foro Impacto, which acts as the secretariat to the Spanish SII Taskforce, will officially join the GSG in 2019 (Foro Impacto, 2019[125]). Local governments in Madrid and in the Basque region have been active in promoting the SII market, with a variety of public funds targeting social entrepreneurship. In addition, the potential for social impact bonds is currently being studied in Barcelona and Madrid.

The SII ecosystem is less developed in the Central and Eastern Europe (CEE). Social entrepreneurs face several barriers, such as a lack of intermediaries and incubators and investment-readiness support (EVPA, 2017[126]). According to the Central and Eastern European Social Investment Taskforce, set up in 2017, only 35% of European resources for social enterprises are spent in the CEE, and venture philanthropy investment is 65 times lower compared to Western Europe (EVPA, 2017[126]).

5.8.2. OECD social impact investment market framework analysis

Social needs

Since North America and Europe have mostly high-income economies, the social needs are different in character than those in developing countries. The majority of countries in the region rank within the top 20 on the Human Development Index (UNDP, 2016[22]). Despite this, in 2016, 118 million people, or 23.5% of the EU population, were at risk of poverty or social exclusion (EU, 2018[127]). In particular, countries such as Bulgaria, Romania and Turkey have over 40% of their respective populations at risk of poverty (EU, 2018[127]).

According to the 2018 SDG Index, North America and Europe are the highest scoring, with a country average of 74.03. No country in the region scores below 65. The majority of advanced economies is reflected in greater progress towards achieving the individual SDGs (BertelsmannStiftung and SDSN, 2018[5]). Importantly, however, no country is on track to achieving all of the SDGs. In particular, data on individual SDG goals indicate that developed economies in the region are far from achieving sustainable consumption and production, climate action, life below water and life on land. Indeed, many are stagnating or regressing on these goals, partly due to the relatively high spillover effects embodied in trade. Additional metrics on "leaving no one behind", in particular for health and well-being, education and reduced inequalities, highlight shortcomings in a number of OECD countries (BertelsmannStiftung and SDSN, 2018[5]). Eastern European countries perform relatively well on no poverty and clean energy, but they face major shortfalls on no hunger, health, and decent work and economic growth, infrastructure and reduced inequalities (BertelsmannStiftung and SDSN, 2018[5]).

Indeed, income inequality remains a problem across the region. In Europe, income equality is at an all-time high: in the 1980s, the average income of the richest 10% was

seven times higher than that of the poorest 10%; today, it is around 9.5 times higher (OECD, 2017[128]). Similarly, income equality has risen in every state of the United States since the 1970s. The top 1% of families in the United States earned, on average, 26.3 times as much income as the bottom 99% in 2015, up from 25.3 in 2013 (Economic Policy Institute, 2018[129]). Social inclusion of vulnerable groups could be improved. Across OECD countries, immigrants are disproportionately more likely to live below the poverty line in Europe – twice as likely compared to their native born counterparts (OECD, 2017[128]). Similarly, immigrants in Canada are more likely to be below the low-income rate (Picot and Lu, 2017[130]).

Aging populations and rising levels of obesity are additional problems in terms of health and social welfare. Data from the World Bank indicate that average population age has risen across most countries in the region since 1950 (World Bank, 2018[131]). In addition, more than one in two adults and nearly one in six children are overweight or obese in OECD countries (OECD, 2017[132]). Adult obesity rates are particularly high in the United States and in the United Kingdom, but have significantly increased also in Canada and France over the past decade (OECD, 2017[132]).

Youth unemployment remains a large issue for many countries in the region. In Europe, the youth unemployment rate was 14.9% in September 2018, equivalent to over 3.3 million young people, with great heterogeneity across the region (European Commission, 2018[133]). For example, in Spain the youth unemployment rate in 2018 was 34.3% and in Italy it was 31.6% (European Commission, 2018[133]).

Demand side

More developed SII and financial markets are reflected in the range of innovative social enterprises and entrepreneurs operating in the region. In contrast, the number of entrepreneurs and enterprises is limited in Central and Eastern Europe and often relies on donor funding (EVPA, 2017[126]). Social enterprises cover a broad variety of topics, such as unemployment, reoffending rates of prisoners, IT literacy, education, health and financial inclusion. Box 5.8 provides a few examples of the many innovative enterprises working to deliver social impact and financial returns.

Box 5.8. Examples of social purpose enterprises in the North America and Europe

Kinderzentren Kunterbunt

Kinderzentren Kunterbunt, founded in 1998, specialises in the provision of daycare for companies, with over 60 centres across Germany. Kinderzentren Kunterbunt enables parents to pursue both family and career goals. Due to flexible qualified daycare models, parents can react quickly to urgent business and family issues. The centres keep track of their social impact via both quantitative and qualitative measures. Quantitative measures refer to how many children are taken care of in their centres, or how many hours of care per day are provided. The qualitative assessment refers to an annual survey covering, among other things, parents' satisfaction. The current investor, Ananda Ventures, additionally assesses figures such as the number of hours of daycare provided beyond the core working hours. In 2012, Kinderzentren

Kunterbunt raised EUR 1 million in the fourth and most recent funding round. The transaction comprised a mixture of debt and equity.

Golden Lanes Housing

Golden Lanes Housing was established as a non-profit organisation by its parent company Mencap in 1998 to tackle the challenges that people with a learning disability face in finding a home. The company addresses the immense problems these people have in finding homes that cater to their specific needs and living preferences. The company provides affordable housing opportunities catering to the individual needs of their tenants. Golden Lane Housing has invested GBP 87 million since inception in more than 600 properties across England and Wales, helping over 1 500 people. The company maintains these properties and also provides landlord services, emergency helplines and consultancy services to the families of their tenants regarding long-term planning.

Revolution Foods

Revolution Foods, in the United States, was established in 2006, with the aim of improving school meals and nutrition in the San Francisco Bay area. The company has since grown rapidly and now provides 2.5 million healthy meals per week across 15 states – 60% to low-income households. The company has raised nearly USD 100 million in private funding, including USD 30 million from a fund ran by AOL co-founder Steve Case, which helped expand the company beyond schools and into general retail. In 2013, Revolution Foods became available in supermarkets, with the goal of providing students and families with an affordable way to eat well outside of school cafeterias.

TurnAround Couriers

In Canada, TurnAround Couriers, a for-profit business that exclusively hires youths who face barriers to the labour market as couriers, was created in 2002. In 2012, the business began helping couriers to continue their education, in partnership with George Brown College. TurnAround Couriers helps couriers to pay for their courses while they work at the company. The business is now one of the largest bike couriers in Toronto and has so far helped over 185 young people. In addition, for each food delivery performed, TurnAround Couriers makes a donation to food banks in the neighbourhoods they operate in.

Source: (Kinderzentren Kunterbunt, 2018[134]), website, www.kinderzentren.de; (Golden Lane Housing, 2018[135]), website, www.glh.org.uk; Revolution Foods, website, www.revolutionfoods.com; (TurnAround Couriers, 2018[136]), website, http://turnaroundcouriers.com/.

Supply side

This region is the most active and largest market for social impact investors and a variety of country-level data sources indicate that SII is continuing to grow in the region. In contrast to developing countries, whose SII markets are often dominated by DFIs and

foreign investors, there are a range of domestic impact investors in North America and Europe, comprising foundations, HNWIs, banks, pension funds, insurance companies and retail investors.

HWNIs, family offices and foundations play an important role in both regions. Indeed, North America and Europe, alongside Asia-Pacific, were the world's largest markets in terms of philanthropy for development in 2017 (OECD, 2018[27]). Along with the rise in wealth, philanthropic giving and the number of foundations have also been expanding. In the United States, the country with the most developed philanthropic ecosystem, the total number of American foundations rose by a third over the period 2002-14. Similarly, total giving doubled, from USD 30 billion to USD 60 billion, during the same period (Foundation Center, 2017[137]). European philanthropy is also flourishing. Although American foundations donate larger sums of capital, Europe has the largest number of philanthropic organisations worldwide, with 130 000 in 2015 (Fondation de France, 2015[138]).

Angel investors are increasingly active in the SII market. Annual US angel investment activity may total as much as USD 24 billion, contributing to the growth and success of more than 64 000 start-ups (ACA; Wharton Entrepreneurship, 2017[139]). About a third of these angels consider social impact extensively in their investment decision (ACA; Wharton Entrepreneurship, 2017[139]). Similarly, the European angel investment market has grown to EUR 6.1 billion in 2015, up 8.3% from 2013 (EBAN, 2016[140]).

Crowdfunding as a source of early-stage finance for social entrepreneurs is also developing in the region. Online alternative finance (including crowdfunding and peer-to-peer lending) in Europe has increased from EUR 1 127 million in 2013 to EUR 7 671 million in 2016 (Ziegler et al., 2018[141]).

Major financial institutions are increasingly engaging in impact investment, for instance through research, the creation of products, direct investments as well as participation in social impact bonds. JP Morgan, for example, has provided funding through equity and debt to build affordable housing in the Bronx (SIITF, 2014[142]). An increasing number of asset management firms such as UBS, Blackrock and Wellington have created impact funds and developed investment products for clients. BNP Paribas, discussed earlier in this report, has engaged actively in the market in developed, developing and fragile contexts.

Pension funds are also increasingly active in the market as investors and intermediaries. For example, the California Public Employees' Retirement System established the California Initiative to invest private equity in traditionally underserved markets. The objective is to generate attractive financial returns and create jobs and promote economic opportunity in California. The California Initiative has thus far invested approximately USD 1 billion in 569 private companies across the state. Since inception there have been 242 companies that have had exits and are fully realised investments (CalPERS, 2017[143]). Similarly, the New York City Retirement System invested USD 757 million as 2012 in the Public Private Apartment Rehabilitation Program (economically targeted investment) to provide affordable housing in the United States (SIITF, 2014[142]).

Big business and multinational corporations increasingly invest in products and services that explicitly target social impact (US National Advisory Board on Impact Investing, 2014[144]). For example, Coca-Cola is investing USD 1 billion in its 5by20 Program to develop business skills among 5 million women- and minority-owned suppliers by the year 2020 (Coca-Cola, 2018[145]). In addition, over 1 000 companies from 60 industries have been certified as B Corporations (US National Advisory Board on Impact Investing,

2014[144]). Examples of other companies active in SII were highlighted earlier in the report, including many European companies such as Danone, Unilever and Nespresso.

Financing instruments

A wide variety of instruments are used for social impact investments in the regions, including private equity, debt and quasi-equity. North America and Europe have also been leaders in the development of innovative pay-for-success instruments, with numerous SIBs in operation in the area.

Despite this, access to appropriate financing remains a prevalent problem. A significant challenge facing entrepreneurs is raising appropriate financing that balances impact and financial return. While social impact investing is growing rapidly in Europe, social entrepreneurs are facing difficulties in raising capital below USD 250 000. Social investors cite the lack of access to early-stage capital not demanding high returns as the most significant challenge to industry growth (EVPA, 2017[126]). In addition, small social organisations in transition need different and more types of blended capital (UK National Advisory Board on Impact Investing, 2014[146]).

Intermediaries

There are variety of intermediaries and funds in operation in North America and Europe, including accelerators and social venture funds. Some countries in the region also have social investment wholesalers (see Chapter 6 for further information).

The European Commission and European Investment Bank have a joint initiative, the European Fund for Strategic Investments, which aims to bridge the investment gap in Europe by mobilising private finance (EIF, 2017[147]). As part of this initiative, an equity fund has been created which supports social impact investors providing risk capital financing to social enterprises in their early, growth or expansion stage (EIF, 2017[147]).

In recent years, a number of platforms aiming at creating social stock exchanges have also emerged in the region. In Canada, SVX, an impact investing platform run by MaRS and supported by the government of Ontario, has been created to work towards a social stock market (SVX, 2018[148]). The platform aims to a connect entrepreneurs and organisations tackling social issues with investors (SVX, 2018[148]). Similarly in the United States, the California Stock Exchange, Cal-X, aims to be the first conscious capital stock exchange (Cal-X, 2018[149]). In the United Kingdom, Big Society Capital invested in the Social Stock Exchange, which aimed to connect social impact businesses with investors (Big Society Capital, 2016[150]). The Social Stock Exchange is now under the umbrella of the Impact Investment Network (IIN, 2018[151]), which works with NEX Exchange, a stock exchange for SMEs and entrepreneurs (NEX Exchange, 2018[152]).

Enabling environment

Developed financial markets and vibrant business environments are pre-requisites to SII market development. An adequate legal framework is often included among the conditions for the growth and development of social enterprises (Fici, 2017[153]). The majority of countries within the regions have strong legal framework in place for the formation of social enterprises and the role of entrepreneurs. Within the European Union, 18 countries have specific organisational legislation relating to social enterprises (Fici, 2017[153]). However, it should be noted that there is large heterogeneity in the definitions of social enterprises. The European Commission has had a working definition of social

enterprise since 2011, which has influenced EU regulation (Fici, 2017[153]). In the United States, some states have focused on creating legal structures to enable social enterprise (World Bank, 2016[154]). Chapter 6 includes further information on enabling environments and legal definitions.

Compared to other regions, most countries score highly on the World Bank's Ease of Doing Business Index. Denmark, the United States and the United Kingdom are top ranked, whereas Bosnia and Herzegovina is the lowest scoring country in the region (World Bank, 2018[7]).

In addition, many countries have NABs on impact investing, which work towards strengthening the SII ecosystems. Canada, the European Union, Finland, France, Germany, Italy, Portugal, the United Kingdom and the United States all have NABs and are members of the Global Steering Group on Impact Investment (GSG, 2018[155]), which works to catalyse impact investment and social entrepreneurship globally.

5.8.3. Opportunities and bottlenecks of scaling-up social impact investment in North America and Europe

Perceptions of a trade-off between social and financial returns persist. Despite much research demonstrating the contrary, perceptions persist in the regions, with 29% of investors in Canada and the United States stating this was a significant challenge and 67% in Europe (GIIN, 2018[3]).

Regulatory environments can still be improved. While regulatory environments in North America and Europe are relatively favourable, certain regulatory barriers still exist that prevent the mobilisation of further private finance towards impact investments; these need to be addressed (US National Advisory Board on Impact Investing, 2014[144]).

Institutional pension funds can play a key role. One area of growth in the region is the role of institutional investors and directing existing funds towards impact investment (UK National Advisory Board on Impact Investing, 2017[113]). The OECD estimates that in 2017 assets in pension funds reached USD 28.4 trillion in the OECD (Salvador, 2018[156]). Pension funds such as the California Public Employees' Retirement System are already active in the social impact investment space (CalPERS, 2017[143]). The French government created the pension regulation on 90/10 solidarity investment funds, which must invest at least 5% – and up to 10% – of their funding in solidarity enterprises (GSG, 2018[45]).

Notes

1. Assets under management USD 228.1 billion.

2. These data refer to the subset of 81 five-year repeat GIIN survey respondents.

3. The index scores 156 countries from 0-100 on progress towards achieving the Sustainable Development Goals.

4. 2011 purchasing power parity.

5. Hong Kong, China is excluded from this analysis.

6. Albania, Belarus, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia, Turkey, and Ukraine.

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Annex 5.A. List of OECD case studies about financing of social purpose enterprises

As part of the ongoing work of the OECD Social Impact Investment initiative, case studies were conducted to deepen the evidence base by looking at actual investments in a sample of countries and sectors. The case studies not only reflect a mixture of social impact investments from developed and developing countries, but furthermore shed light into a range on social impact investments in various sectors, using a mix of financing instruments and at various stages of the investment cycle. The case studies demonstrate how social purpose enterprises are working to effectively target social and environmental challenges as well as how a mix of investors collaborate to support those enterprises.

The goal of the case studies was to better understand which types of investors invest in different investment rounds and which types of financial instruments are used. As interest in social impact investment grows around the world, these practical examples, as well as the lessons learned from them, are an important part of understanding how these investments are implemented on the ground and how a range of investment approaches are working. The case studies were selected through recommendations as well as online searches to identify a mix of examples across countries, sectors, and stages of development. Available information was collected via the websites of the investors and investees and supplemented by other reports and/or information collected by phone interviews.

The case studies show examples of enterprises at various stages of maturity which is reflected in the type of financial transaction(s) involved. These range from social enterprises building upon grant funding, as well as social businesses at the growth and expansion stages up to fully-fledged businesses being listed on a social stock exchange. In addition to putting together these sets of case studies from various regions and sectors, investees and investors from selected enterprises were invited to regional workshops organized as part of the OECD Social Impact Investment Initiative to create a "live" case session discussion.

In summary, approximately 30 case studies have been completed: 9 from Africa, 15 from Asia, 3 from Latin America and 2 from Asia. The case studies cover the following sectors: agriculture, children and families, education, energy, finance, healthcare, housing, water and other categories. The cases are listed by the degree of financial maturity of the social enterprise reflected in the number of investment rounds and types of financing instruments. The table also includes the social need the organisation addresses or the sector in which it operates as well as the country in which it is based.

Table 5.A.1. Case studies on social enterprises

Social enterprise	Number of investment rounds	Instruments	Sector	Country
Clínicas del Azucar	1	Grants and equity	Healthcare	Mexico
Spark Schools	1	Equity	Education	South Africa
Nasra Public School	1	Grants	Education	Pakistan
Siembra Viva	1	Equity	Agriculture	Colombia
Kuyasa Fund	1	Loans and grants	Finance and	South Africa

			housing	
Micrograam	1	Crowdfunding	Microfinance	India
LangLang Learning Potential Development Center	2	Grants and equity	Education	China (People's Republic of)
Hello Tractor	2	Loans	Agriculture	Ghana, Kenya, Mali and Nigeria
Tóhe	2	Grants and a convertible note	Art education	Viet Nam
bKash	2	Grants and equity	Mobile access to finance and financial services	Bangladesh
Waterlife	2	Equity	Water	India
DripTech	2	Convertible note and equity	Agriculture	China (People's Republic of) and India
MicroClinics Technologies Ltd.	2	Grants and loans	Health	Kenya
Honey Care Africa	2	Equity and loans	Agriculture	East Africa
Woozoo	2	Grants and loans	Housing	Korea
KZ Noir	3	Loans	Agriculture	Rwanda
Golden Lane Housing	3	Public debt, bank loans, concessional loan (from parent company)	Housing	England and Wales
Avante	3	Equity	Finance	Brazil
Pagatech	3	Equity and grants	Finance	Nigeria
Medical Technology Transfer and Services	3	Grants and loans	Health	Viet Nam
Mae Fah Luang Foundation	3	Grants and loans	Agriculture	Thailand
Vaatsalya Healthcare	4	Equity	Healthcare	India
Barefoot Power	4	Equity, loans and grants	Energy	Australia
Bettr Barista	4	Grants	Other	Singapore
Kinderzentren Kunterbunt	4	Grants, debt and equity	Education	Germany
WaterHealth International	> 5	Grants, equity and loans	Water	Ghana, Liberia and Nigeria
Florence	6	Grants and loans	Child and family	Japan
M-KOPA	6	Grants, equity and loans	Energy	Kenya, Tanzania and Uganda
Rags2Riches	7	Grants, equity and loans	Other	Philippines

Chapter 6. Policy levers to foster social impact investing

This chapter introduces the OECD Policy Framework for Social Impact Investment, which is used to map existing public initiatives in support of impact investing, both in the domestic market and in development co-operation. It thereby aims at helping governments understand what levers they can use to facilitate the growth of the social impact investment market. The first section presents the theoretical underpinnings of the OECD Policy Framework for Social Impact Investment, while the following ones describe the policy initiatives implemented by international organisations and by national authorities, within domestic borders and in the realm of development co-operation.

6.1. Introduction

This chapter introduces the OECD Policy Framework for Social Impact Investment, which is used to map existing public initiatives in support of impact investing, both in the domestic market and in development co-operation. It thereby aims at helping governments understand what levers they can use to facilitate the growth of the social impact investment market.

Both the framework and the mapping exercise were informed through extensive literature research, regional workshop discussions (see Chapter 5), a survey built in collaboration with the Global Steering Group for Impact Investment and interviews with policy makers. The framework and initial findings were presented in a pilot study and tested during a dedicated workshop on "Policies to Promote Impact Investing" organised in partnership with the German Development Cooperation.[1]

The first section presents the theoretical underpinnings of the OECD Policy Framework for Social Impact Investment, while the following ones describe the policy initiatives implemented by international organisations and by national authorities, within domestic borders and in the realm of development co-operation.

6.2. The OECD policy framework for social impact investment is an analytical tool for governments

The OECD Policy Framework for Social Impact Investment (SII) is intended to assist governments in their efforts to design and mainstream SII conducive policies, in the context of private sector financing for the Sustainable Development Goals (SDGs). In practice, its application will be twofold: 1) as the analytical basis for international comparison to track progress on the national impact investing policy environment; and 2) as guidance to policy makers when engaging in SII-related policy design, implementation and review.

Several analytical models have been proposed and applied to national policies in the impact investment field. This includes for instance: (Thornley, B; Wood, D; Grace, K; Sullivant, 2011[1]; Schwab Foundation for Social Entrepreneurship, 2013[2]; Australian Advisory Board on Impact Investing and Impact Investing Australia, 2017[3]) and (Low et al., 2017[4]). Depending on the author, some focused on government action or the role of market players, while others tried to identify the main drivers of social innovation or to highlight the cyclical nature of policy making.

Building on existing literature, the OECD Policy Framework for Social Impact Investment is a comprehensive, holistic and cross-sectoral approach that could be equally applicable to OECD and developing countries. The framework is composed of three pillars: 1) an overview of the policy cycle to unpack how public action may come about; 2) a simplified theory of change underpinning the design, implementation and review of SII policies; and 3) the analytical dimensions which help characterise them.

6.2.1. Understanding the policy cycle

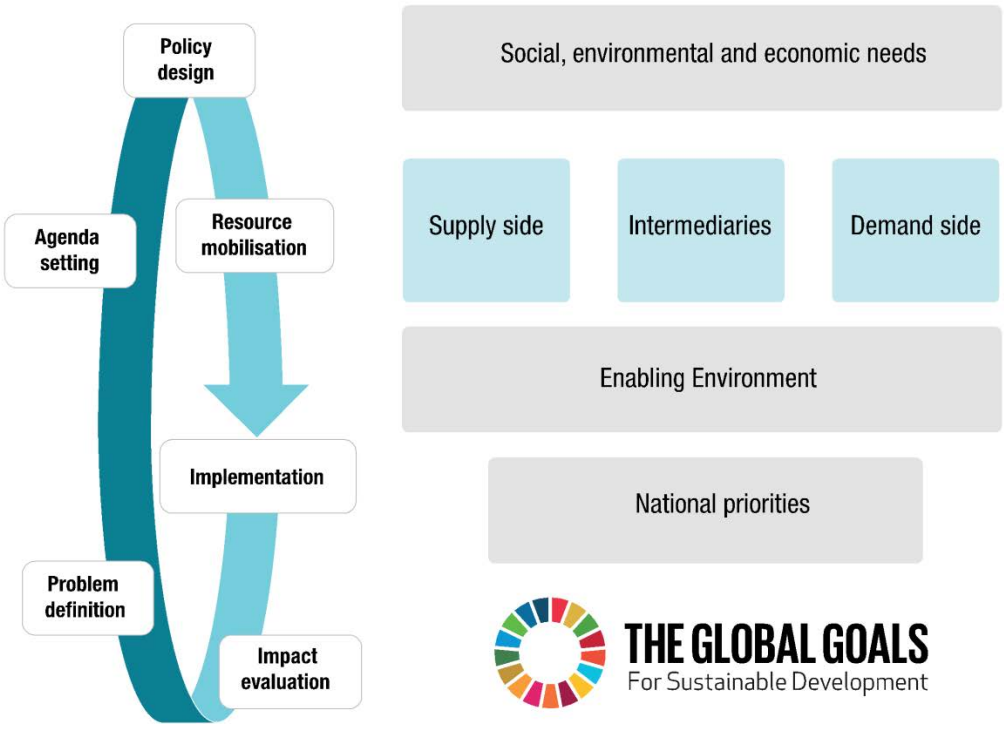
Previous OECD work has already resulted in the conceptualisation of the SII market framework (OECD, 2015[5]), which identifies different levels of intervention: the field, where the social and environmental needs become apparent; the market, where investors, intermediaries and social enterprises meet; and the institutional level, where the policy ecosystem is shaped and strategic partnerships may form (see Chapter 3). But how do the

policy decisions trigger effects on the SII market and at which points in the policy-making cycle do SII considerations need to be introduced? In ideal conditions, policy making unfolds as a step-by-step chronological process, where public authorities have to:

- determine what role the government wants to play, based on the maturity of the SII market
- identify the needs expressed by service providers and end beneficiaries, possibly through evaluations on previous interventions, and understand how the behaviour of the market actors needs to change
- set the policy objectives in alignment with the political agenda
- select the most appropriate type of intervention and instrument, allocate the necessary resources for implementation and, finally, design the delivery mechanism.

Figure 6.1 visualises this theoretical cycle, although, in real-world conditions, the public engagement on SII could actually start at any point in the process.

Figure 6.1. From policy making to market outcomes



Source: Author

Ideally, impact evaluation should be the first and last stage in any policy cycle: at the beginning, to understand what has worked in the past and formulate objectives accordingly, but also at the end, to ensure public accountability. The phase zero corresponds to the needs identification: understanding which geographical scope, sector and end beneficiaries the public intervention should target. Once the nature of the public policy problem (or market failure) becomes apparent, policy makers can identify which

pillar of the SII market should be tackled (demand, intermediaries, supply or enabling environment) and what role the government can/is willing to play (regulator, market participant or facilitator). Before adoption, the public intervention will typically have to be framed as part of the broader political agenda. The formulation of national priorities is the critical step to translate and adapt the global commitment to the SDGs, based on the local economic, social and environmental needs. At the policy design stage, public officers will choose the type of initiative (steer, rule, finance and inform) and, depending on the resources available, select the most appropriate policy instrument (cf. section 6.2.3). The reality of policy making will often diverge from these patterns, depending on the drivers at play in the design, implementation and results of SII-related policies. External and internal factors may influence at which point SII considerations are introduced in the policy-making cycle:

- Triggering factors: changing community expectations about the role of government and the financial sector in funding social service delivery, co-ordinated lobbying from the private and civil sphere (for instance, around national SII platforms), emergence of a champion inside the public apparatus, the push to leverage private resources, willingness to pilot innovative solutions and to engage in policy experimentation
- Hindering factors: fear of privatisation in the delivery of public services, weak business and financial culture within public administrations, obstacles to dialogue with investors and enterprises, lack of awareness and/or policy makers' understanding of market mechanisms, poor monitoring capacity around social and environmental priorities.

Government alternation can represent both an opportunity (to push a new topic in the work programme and budget) and a hurdle (need to engage with new leaders and civil servants). Ensuring political backing from across the spectrum will thus prevent SII proposals from being discarded at a given electoral outcome. SII should be understood as a win-win solution independently of the political colouring.

6.2.2. A simplified theory of change for social impact investing policies

Impact investing has the potential to benefit government and taxpayers by reducing costs and improving social policy outcomes. It can change the role of government from paying for inputs to paying for outcomes. It can also benefit not-for-profits by diversifying their funding sources and helping them to develop technical expertise in benchmarking and measuring outcomes, as well as in improving governance and accountability.

The rationale of each public intervention should be modelled since its inception, so as to understand the causal pathways leading from the implemented activities to its strategic objectives. When building the SII intervention logic, the SDGs are placed at the bottom of the delivery chain, as the ultimate overarching objective of all public action in this area. The public intervention is designed to achieve expected results as observed in the behaviour of market players and intermediaries, but also on end beneficiaries and long-term improvements on the enabling environment.

Figure 6.2. Theory of change

Source: Author

In the OECD approach, public interventions are clustered around four areas (steer, rule, finance and inform), mirroring the G20 Framework on Inclusive Business Policies (Tewes-Gradl et al., 2013[6]), while linking them to the SII market pillars proposed in (OECD, 2015[5]) and widely adopted by the SII industry (GSG, 2018[7]).

6.2.3. The analytical dimensions of social impact investment policies

The dimensions characterising SII public interventions have been examined in the existing literature, but have not yet been applied in a combined and systematic manner at the international level.

Table 6.1 tallies all the instruments identified in the policy mapping and implemented so far across the globe. It represents an initial taxonomy based on the information gathered from the global policy mapping exercise, but it should not be considered exhaustive nor prescriptive.

Table 6.1. Analytical dimensions of the OECD Policy Framework for Social Impact Investment

Policy dimension	
1. Market target	Demand, supply, intermediaries, enabling environment
2.Government role	Market regulator, market participant, market facilitator
3. Policy type	4. Policy instrument
Employing or reforming government structure and capacities (Steer)	• Definition of a national strategy for impact investing • Identification of a formalised function • Internal government consultation • Stakeholder partnerships • Other
Setting and enforcing rules (Rule)	• Certification • Fiscal incentives: tax and investment relief • Legislation: fiduciary responsibility, social enterprises, unclaimed assets • Regulation: pension, public procurement, reporting standards • Social stock exchange • Other
Levying and granting financial resources (Finance)	• Awards, challenges • Funds: investment readiness fund, outcome fund, venture capital fund • Pay-for-success: social, development or humanitarian impact bond; social impact incentives, outcome commissioning • Technical assistance, capacity building • Wholesaler, incubator, accelerator, fund of funds • Other (grants, debt, equity, mezzanine, guarantees)
Providing and sharing information (Inform)	• Communication campaign • Consultation with external stakeholders • Research, studies, data publication • Other

In practice, only one of the above policy types (finance) involves the provision of direct public financing (concessional or not) to supply or demand players on the SII market. The other instruments may also require the use of public resources, but these are deployed to support the activity of intermediaries or other enables in the broader SII ecosystem.

The field of impact investing being relatively new, there is still ample scope for policy experimentation. While many countries have been following this list, there is too little evidence at this stage to herald it as a toolbox that all governments should adopt. *Ex post* evaluation of these initiatives is therefore important to determine their effectiveness and potential replicability.

6.2.4. Policy interactions between domestic impact investing and development co-operation

Domestic SII policies are implemented in both OECD and developing countries. The countries more active in SII have started supporting the social economy and adopting pay-for-success measures as part of their development co-operation strategies. SII public initiatives have thus expanded beyond national boundaries and are increasingly applied in cross-border co-operation.

Figure 6.3. Three sets of policies at play

Source: Author

The development co-operation dimension brings about additional layers of complexity, because:

- Two policy cycles must be considered, the donor's and the partner country's. The public apparatus in the different countries will probably not have the same level of capacity, nor will they necessarily share the same priorities. Momentum in the public debate and election cycle may also not be aligned.
- The policy problem and needs to be addressed are located on foreign territory, where implementation will ultimately take place. Moreover, the donor's intervention may also require the mobilisation of resources (financial or in-kind) seated in the partner country.

As the impact investing and the development communities interact, opportunities and knowledge are shared among policy makers and practitioners. This facilitates the transfer of policy knowledge from one country to another and the emergence of good practices, provided the interventions are actually evaluated.

International co-operation offers an opportunity to inspire and accompany the evolution of public policy across boundaries. Developing countries face serious obstacles hampering their capacity to innovate (low capability, lack of flexibility, auditing pressures, political delivery time, etc.), which development finance providers can partially offset, if their operations are designed since the beginning as prototypes for future national uptake. If the projects work well, and provided that partner governments are sufficiently engaged, the translation or absorption into national instruments will be faster and smoother.

6.3. International initiatives are paving the way for national uptake

Social impact investment has evolved over the past decade, bringing it to the forefront also on the international stage. While this is a relatively new topic in intergovernmental discussions (less than a decade old), the emergence of impact investing in diplomatic fora has greatly contributed to improving the enabling environment at the national level, in what concerns both domestic policies and development co-operation.

Public recognition of the movement started in 2013, when the UK presidency of the (then) G8 launched the Social Impact Initiative and the subsequent Social Investment

Task Force, aimed at catalysing the development of the social impact investment market (UK Government, 2015[8]). The taskforce culminated with the publication of the "Impact investment: The invisible heart of markets" report in 2014 and has played an important role in the promotion of domestic initiatives in G7 countries and beyond (Social Impact Investment Taskforce, 2014[9]). The G7 discussions continue to focus on inclusive growth and sustainable finance, for instance with the endorsement of the *OECD-DAC Blended Finance Principles for Unlocking Commercial Capital for the Sustainable Development Goals* in 2018.

The Global Steering Group on Impact Investing (GSG) superseded the Social Impact Investment Task Force in August 2015, extending its membership to 21 countries plus the EU (GSG, 2018[10]). The GSG continues to promote measurable impact as a driver in investment and business decisions. While the taskforce was structured around both public and private representatives, the GSG became a private-led initiative, where policy makers participate as observers. The establishment of national advisory boards (NABs)[2] prompted by the GSG has been an important driving factor and their advocacy work has significantly contributed to boost the impact investment ecosystem at the country level (GSG, 2018[11]).

The G20 has also played an important role with initiatives that promote an inclusive growth agenda. In 2015, under Turkey's leadership, the G20 priorities were formulated as the three I's: inclusiveness, implementation and investment. This included a commitment to promote inclusive growth to ensure the benefits of prosperity are shared to all and a focus on small and medium-sized enterprises (SMEs) for inclusive growth (G20, 2016[12]). Subsequently, the G20 Inclusive Business Framework set out a roadmap for governments and companies to enable inclusive businesses, as a means to promote sustainable development (G20, 2016[12]). Inclusive business is here defined as companies pursuing commercially and socially inclusive activities targeted at the base of the economic pyramid.[3]

Support for inclusive business has continued to be at the core of the G20 agenda and the "G20 inclusive business report 2016" was endorsed under the People's Republic of China's (hereafter "China") leadership at the Hangzhou Summit, followed by the launch of the G20 Global Platform on Inclusive Business in 2016 (G20, 2016[12]). Similarly, under German leadership, the G20 welcomed the launch of the Women Entrepreneurs Finance Initiative in 2017, which is expected to raise up to USD 1 billion of financing to support women entrepreneurs (G20, 2017[13]). More recently, under Argentina's presidency, the G20 Development Working Group launched the G20 Call on Financing for Inclusive Business (G20, 2018[14]). This resulted in the G20 leaders' endeavour to further create enabling conditions for resource mobilisation from public, private and multilateral resources, including innovative financial mechanisms and partnerships, such as impact investment for inclusive and sustainable growth (G20, 2018[15]). The G20 forum, and the associated global momentum, have catalysed real government commitment to the sustainable finance agenda (WEF, 2018[16]).

In addition to setting the 2030 Agenda for Sustainable Development and facilitating the related discussions on financing for development, the United Nations (UN) has also played an important role in the promotion of socially responsible investing. The UN Finance Initiative and the UN Global Compact launched the Principles for Responsible Investment in 2005 with the aim of incorporating economic, social and governance (ESG) issues into mainstream investment decision making and ownership practices (OECD, 2007[17]) (see Chapter 7). The UN is also actively working with financial intermediaries.

Nearly 70 stock exchanges worldwide have adhered to the UN's Sustainable Stock Exchange initiative, thereby committing to the sustainability and transparency of capital markets.

In 2018, the report of the UN Inter-Agency Task Force on Financing for Development recognised impact investing as a means to mobilise financing for ecosystem projects (IATF, 2018[18]). The role of impact investment in reaching the SDGs was further discussed during a side meeting at the 2018 Financing for Development Forum in a joint initiative between the Swiss Agency for Development and Cooperation, the OECD, United Nations Capital Development Fund, Brazil and Bangladesh.

In the realm of development co-operation, the United Nations Development Programme has sought to raise awareness about SII, improve the enabling environment, and facilitate the supply of impact capital at the global level through initiatives such as the annual Social Good Summit and the SDG Impact initiative. Since 2017, the UN Economic and Social Commission for Asia and the Pacific has been active in promoting social enterprises and social impact investment in support of the SDGs. Its collaboration with the British Council has focused on policy dialogue, capacity building, and bespoke support to governments across the Asia-Pacific region.

Box 6.1. United Nations Development Programme's efforts to spur impact investment in Armenia

The ImpactAim Venture Accelerator, the first impact accelerator in Armenia, was launched in 2017 by the United Nations Development Programme (UNDP), in partnership with ImpactHub Yerevan and the Catalyst Foundation. As part of the UNDP's impact investment strategy, ImpactAim Accelerator brings together the private sector and development agencies to support early-stage and established start-ups whose business model can help address identified gaps in achieving the Sustainable Development Goals.

The pilot round was targeted towards impact ventures focusing on regional urban and rural development, sustainable agriculture and food processing, green economy, innovation of public and social services, and empowering vulnerable groups. Five ventures were selected to follow an acceleration programme combining study sessions and tailored mentorship.

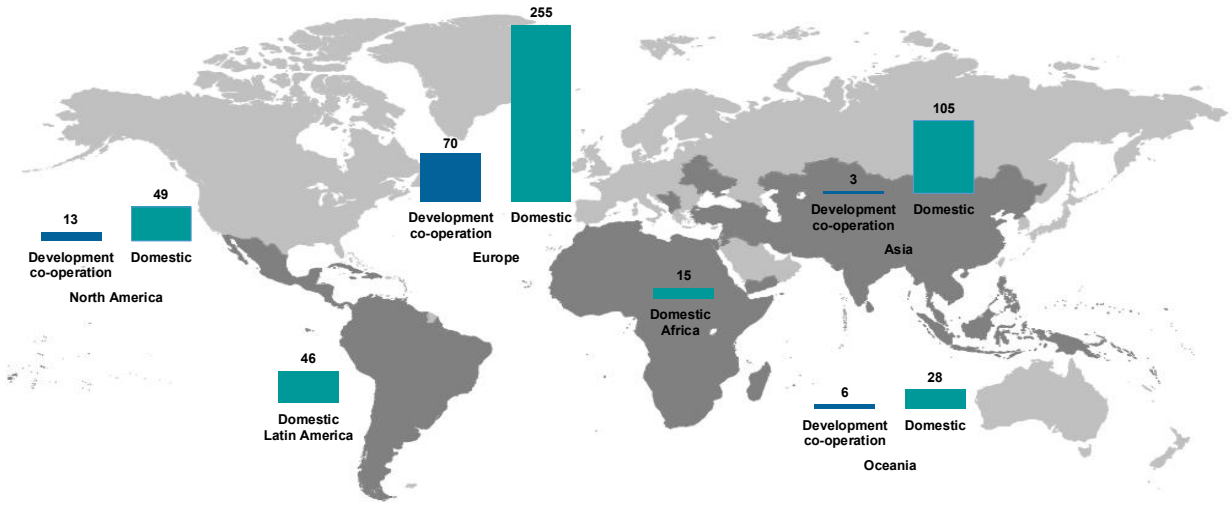
In the future, ImpactAim Venture Accelerator will host several other programmes, including the Climate Technology Accelerator, with the ultimate goal of reaching self-sustainability for each of them. Furthermore, UNDP Armenia is in the process of establishing a private investment fund, the Tech4SDGs Impact Investment Fund, also designed to invest in Armenian and regional impact ventures. Simultaneously, UNDP Armenia is working on establishment of in-house Impact Measurement and Management Unit, which will disseminate such frameworks to internal programmers and external partners.

Source: Information provided by UNDP Armenia.

The OECD Policy Framework for Social Impact Investment has been used to map existing policy initiatives at the national level, covering both the domestic and the development co-operation sphere, in OECD and developing countries alike. While the

policy mapping exercise is by no means exhaustive, it is the most comprehensive inventory of public action in this field available to date, to the authors' knowledge.

Figure 6.4. Number of social impact investment policy instruments mapped by region and perimeter



Note: The geographic classification of countries follows the OECD-DAC statistical standards.
Source: Author

The OECD has identified 590 public initiatives in support of social impact investing, 84% of which were applied within national borders. Among domestic initiatives, over half were implemented in Europe and 20% in Asia. Almost a quarter of them were adopted by countries figuring in the OECD's DAC List of ODA Recipients.[4] Impact investing as a tool for development co-operation has mostly been used by European countries (76% of all instruments).

6.4. Public levers to promote impact investing domestically

Governments are searching for new tools, including market-based solutions, outcomes-based approaches and different forms of public-private partnerships, to increase their effectiveness and long-term sustainable results while working with the limitations of tighter budgets. According to the OECD mapping, 45 countries have adopted SII-related public initiatives in the domestic perimeter so far. The most active policy makers, by number of instruments identified, are the EU and the United Kingdom, but also Malaysia and France, closely followed by Spain, Finland, the United States, Italy, Ireland, Korea, Australia, Portugal, India, Canada and South Africa.

The government's own structure plays an important role in setting a favorable enabling environment, accompanied by the production and dissemination of information to the benefit of all market players. Regulation and financial resources have been equally used to support the supply and the demand side. Few public initiatives have been directed towards the creation of intermediaries so far. Table 6.2 presents the policy instruments implemented by national authorities all over the world for the domestic SII ecosystem, and how they have been used to foster the different market elements (supply, intermediaries, demand or enabling environment)[5].

Table 6.2. Distribution of domestic policy instruments by market pillar

	Policy and instrument type	Demand	Intermediaries	Suppy	Enabling environment
STEER	Internal government consultation				9
	National strategy for impact investing				10
	Stakeholder partnerships				18
	Formalised function				18
RULE	Certification	8			
	Fiscal incentives: investment relief			3	4
	Fiscal incentives: tax relief	5		6	11
	Legislation on fiduciary responsibility			2	7
	Legislation on social enterprises	20			1
	Legislation on unclaimed assets		4	1	
	Other legal instrument	2		1	9
	Pension regulation			5	
	Public procurement regulation	9			8
	Reporting standards				12
	Social stock exchange		4		
FINANCE	Awards, challenges	6			
	Fund of funds		1	1	3
	Guarantee scheme			3	2
	Incubator, accelerator		4		
	Investment readiness fund	6			
	Other financial instrument		2	34	8
	Outcome commissioning			10	1
	Outcome fund			7	
	Social impact bond			123	
	Technical assistance, capacity building	21	4	7	8
	Venture capital fund			10	1
	Wholesale institution		6		
INFORM	Communication campaign				6
	Consultation with external stakeholders				14
	Research, studies, data publication				33

The following sections describe in more detail the domestic policy instruments identified, according to the market element that they aim to support, starting from the enabling environment, to the supply, the demand side and finally the creation of intermediaries. For each pillar, the mapping will be further described according to what role the government has chosen to take on (i.e. market regulator, facilitator or participant).

6.4.1. Precursory policies are needed to strengthen the enabling environment

There are a number of ways that governments can facilitate the development of the impact investment ecosystem. This includes the manner in which governments structure or institutionalise efforts focused on impact investing and how strategies and consultation processes are developed. It also includes how governments address the regulatory environment, removing barriers to investment more broadly and impact investment in particular. Finally, government can strengthen the ecosystem by supporting research and awareness raising.

Table 6.3 shows that, when targeting the domestic-SII enabling environment, policy makers will mainly act as regulators or facilitators.

Table 6.3. Policy instruments targeting the domestic enabling environment by government role

Policy and instrument type		Market regulator	Market facilitator	Market participant
STEER	Internal government consultation		9	
	National strategy for impact investing		10	
	Stakeholder partnerships		18	
	Formalised function		18	
RULE	Fiscal incentives: investment relief	3	1	
	Fiscal incentives: tax relief	7	4	
	Legislation on fiduciary responsibility	4	3	
	Legislation on social enterprises	1		
	Other legal instrument	6	3	
	Public procurement regulation	8		
	Reporting standards	5	7	
FINANCE	Fund of funds			3
	Guarantee scheme			2
	Other financial instrument		3	5
	Outcome commissioning		1	
	Technical assistance, capacity building		6	2
	Venture capital fund			1
INFORM	Communication campaign		6	
	Consultation with external stakeholders		14	
	Research, studies, data publication		33	

The list of instruments mapped is far from exhaustive, since all public actions related to competition, trade, taxation, corporate governance or infrastructure may influence the business and investment climate. On finance and regulation, the mapping exercise focused on initiatives targeting entrepreneurship, SMEs and/or the promotion of ESG concerns, albeit not explicitly mentioning the achievement of measurable social outcomes. Particularly in developing countries, these policies do not concern exclusively the SII market, but contribute to improving the broader business and investment framework.

Policy initiatives necessitate buy in from the government's own structure

The institutionalisation of the impact investment function within government has been, in many cases, the first step to creating a conducive enabling environment. The identification of an SII champion is often a decisive element to rally support from within the government apparatus. It provides a better line of sight on the opportunities available, enables internal capability and more effective prioritisation. Dedicated central units at the national level have been placed in different policy areas, e.g. innovation and technology, social inclusion, employment and labour affairs, civil society, sustainable finance. In Brazil, for instance, the championship of SII grew out of innovation policies in the Ministry of Industry, Foreign Trade and Services. In the UK government, dedicated impact investment teams have been in place for many years. In 2012, the Government's

Innovation Group based in the Cabinet Office was responsible for the establishment of the Social Investment and Finance Team. Following the general election of 2016, the Inclusive Economy Unit was created in the Office for Civil Society, thereby moving the impact investment competencies from the Cabinet Office to the Department for Digital, Culture, Media and Sport. Shifts in organisational structure may imply a change in the scope of intervention and/or affect the team's visibility, both internally and externally. The structure of policy ownership fundamentally shapes government's ability to elevate the impact investing agenda (WEF, 2018[16]). Steering key policy instruments from the core structure of the executive will more likely stimulate engagement from different branches across all thematic areas.

Even in the absence of a dedicated function, **political leadership remains fundamental to steer the momentum across both public and private actors.** For instance, Korea has developed a supportive policy environment, especially in Seoul, largely thanks to the Mayor's drive and commitment. Under his leadership, Seoul city has been able to build a supportive environment for social enterprises, impact investors and SII-focused intermediaries (The Japan Research Institute; MIF, 2016[19]). Buy-in from permanent civil servants is equally important, as they will stay on despite political changes at the top.

Another means to rally support from the public structure is to define **a whole-of-government strategy**. After a national consultation, the Australian Treasury published a set of Principles of Social Impact Investment, which reflect the role of the Australian government as an enabler and developer of this nascent market. Other examples include the EU Social Business Initiative, which provided a blueprint for Portugal's social investment market development. Such narratives can be used strategically to engage stakeholders, including wider government, in the impact investing agenda (WEF, 2018[16]). In Brazil, a National Strategy for Impact Investment and Social Business was officially adopted by presidential decree in December 2017. Its implementation is entrusted to a multi-stakeholder committee composed of several federal ministries, the public development bank (BNDES), the Inter-American Development Bank(IADB) multilateral fund, commercial banks, the financial market regulator and representatives from civil society. The committee has been invested with a ten-year mandate, thereby securing the continuity of its operations independent of changes in the presidency. Indeed, for a strategy to be effective, it must be backed with sufficient resources and accompanied by an operational structure that will oversee its roll out in the medium to long run.

Public Authorities may also act as conveners for the **consultation of internal and/or external stakeholders**. Such consultation will often precede the adoption of legal instruments or broader government strategies. In 2017, both Brazil and Canada launched stakeholder consultations of nationwide strategies on impact investment. The government of Canada has convened a Social Innovation and Social Finance Strategy Co-Creation Steering Group. The group is composed of practitioners and experts from multiple fields, including the community, philanthropic, financial and research sectors, on the leading edge of social innovation and social finance.[6] In Brazil, the National Strategy for Impact Investment and Business was defined through subsequent stages: first, an interministerial working group was set up to identify needs both from the federal government and other stakeholders; then a consultation on the draft document was held with key market players; finally, a public online consultation was carried out before approval. The South African Treasury has also recently gathered a national working group to develop a national strategic approach for sustainable finance. Government's convening power can foster market dynamics by embedding engagement, transparency and collaboration into the core of impact investing policy design (WEF, 2018[16]).

Box 6.2. Japan's push for social innovation

Japan faces many complex social issues such as depopulation and ageing, and, as in other countries, it is becoming more and more difficult for the government to address those issues without support from the business and social sectors.

There is strong demand and opportunity for social innovation and the Japanese government would like to spur innovation to meet social needs. Push factors for social innovation include high awareness among the young generation, increasing investment, development in technology, etc.

In the past decade, the Ministry of Economy, Trade and Industry (METI) implemented policies that enabled the social sector (non-profit organisations) to do business (instead of philanthropic activities) and become financially sustainable. However, the lack of business skills often leads to unsustainable and unprofitable operating models.

METI has thus developed a new approach, "From Business to Social", which encourages the business sector to address social issues have large public costs and that financing. This approach fits with the business trend that sees social issues as business opportunities, such as SDG-related investment. In 2019, METI plans to hold a series of workshops where representatives from municipalities and companies will create new products and services, based on a list of six social issues identified by the government (e.g. burden of elderly care, high medical expenditure, decrease of job opportunities in rural areas, lack of nursery schools and long waiting lists, increased cost of disaster prevention).

Source: information provided by the Japanese Ministry of Economy, Trade and Industry

The establishment of a national SII platform, often initiated by local private or philanthropic actors, constitutes an element to gather and co-ordinate market players. **The government's active collaboration with a national SII platform may help increase support for policy reforms.** In these contexts, the GSG and NABs have become critical drivers of government engagement (WEF, 2018[16]). Several examples (e.g. Argentina, Brazil, Canada, Chile, France, Ireland, Malaysia) confirm that SII strategies can greatly benefit from participatory design involving a diverse range of stakeholders. Co-construction of public initiatives is a powerful approach to accelerate learning within the public administration, to generate innovative solutions through collective thinking and, finally, to lower the implementation risk since the client feedback is considered from inception.

Improving the domestic policy framework for investment is key

The onset of a favourable SII environment largely depends on the existence of broader investment conditions related to competition, trade, taxation, corporate governance, infrastructure and responsible business conduct. Even among OECD member governments, legal restrictions may at times still hamper capital flows to social purpose ventures. Geography and market size are equally important factors. Nevertheless, a state-

of-the-art business environment may not be required for impact investing to happen, for instance in developing countries

Reforms to financial regulation can improve the ease of doing business in general, and for mission-led enterprises in particular. Emerging economies, characterised by deepening financial markets and significant foreign direct investment inflows, are increasingly taking steps to funnel capital towards micro and small enterprises, recognising their potential in terms of job creation and social inclusion. For instance, in 2016, the Reserve Bank of India introduced an amendment to the Priority Sector Lending Norms to encourage lending to micro, small and medium-sized enterprises. In Bangladesh, the increasingly vibrant SII landscape triggered the promulgation of the Securities and Exchange Commission Alternative Investment Rules in 2015, paving the way forward to channel equity to start-up or early-stage companies. Financial regulators play an important role in allowing new instruments on the market.

Fiscal regulation is another lever to improve the business environment at large, including for non-profits and SMEs. Several middle-income countries[7] have adopted tax shields in an attempt to promote investment in small businesses or public interest activities. In the absence of a legal status for social enterprises, these initiatives generally target similar market segments, without specifying the expected measurable social outcomes.

Another measure to enhance transparency on sustainable investment opportunities is the introduction of specific **reporting standards** on environmental, social and governance (ESG) safeguards as well as on corporate social responsibility (CSR). Article 173 of France's Law on Energy Transition for Green Growth extended the obligation of ESG reporting to all institutional investors. The notion of impact is here addressed both in terms of risk management for invested assets and in terms of the contribution of these assets to ESG factors (FIR, 2016[20]). Several emerging economies have also introduced legislation on CSR activities and reporting, especially in Southeast Asia.[8] Such measures can be reinforced in case of uptake by the local stock exchanges. In South Africa, the National Treasury endorsed the Corporate Social Investment in South Africa code, which encourages institutional investors to better incorporate ESG and develop ownership practices. Since 2017, the Johannesburg Stock Exchange requires all listed companies to apply King Code IV to promote responsible investment and good governance.[9]

Taking this one step further, the OECD Due Diligence Guidance for Responsible Business Conduct, adopted in 2018, is the first government-backed guidance for multinational enterprises. The responsible business conduct (RBC) concept goes well beyond voluntary approaches such as CSR, since it implies a pervasive shift in the company's whole way of doing business to avoid and address potential adverse impacts. However, RBC remains at its core a "do no harm" behaviour, rather than the intentional pursuit of a positive social impact, as SII demands.

Finally, governments may use legislation to open up new sources of financing. Italy, Singapore and Thailand have recently adopted measures to facilitate equity-based crowdfunding for start-ups.

Public authorities can support market creation through information and awareness raising

Several governments have been actively involved in fostering the production and dissemination of knowledge around the SII market. Public authorities may mandate **research and studies** on specific topics of interest to the national agenda.[10] They may

support, in one form or another, the establishment and functioning of research centres[11], which may at times also act as an intermediaries. In several countries, stakeholder platforms and public actors have joined forces to conduct initial assessments of the SII market, identify the investment needs and establish a joint action plan.

Furthermore, official institutions can generate and disseminate publicly available information. The European Commission has joined forces with the OECD for the creation of the online open source Better Entrepreneurship Policy Tool,[12] designed for policy makers and other interested parties at local, regional and national level who wish to explore how public policy can support the development of social enterprises but also specific groups (youth, women, migrants and the unemployed) in business creation and self-employment.

Some governments have also launched nationwide **awareness-raising campaigns,** as happened in India on the topics of financial inclusion and entrepreneurship in priority sectors (housing, energy, manufacturing, water and sanitation, etc.) In Malaysia and Singapore, the government organises annual events[13] to showcase the activity of local social enterprises and connect them with investors. Korea took a more structured approach with the adoption in 2007 of the Social Enterprises Promotion Act, which established the national social enterprise promotion agency. In developing countries, such initiatives to build momentum around the impact investment or the social economy market may be undertaken jointly by the national authorities and development finance providers. In Bangladesh, the Finance Minister inaugurated the first international Impact Investment Summit in 2016, with the support of the World Bank, the UNDP SDG Impact Finance, the European Commission, and the UK Department for International Development.

6.4.2. Supply-side instruments are the most frequently used to strengthen the impact investing market

Several measures have been taken by governments to facilitate and increase the supply of capital into the social impact investing market. As a matter of fact, instruments targeting the supply side are the most common ones, in developed and emerging countries, within national borders as well as in development co-operation.

Table 6.4 shows the different positions public authorities may take when implementing policies to foster the supply of capital in the domestic SII market. The provision of funding usually implies a direct intervention as market participant, but many also choose to exercise their capacity as market regulator in order to funnel additional or unused resources towards social purposes.

Table 6.4. Policy instruments targeting the domestic supply side by government role

Policy and instrument type		Market regulator	Market facilitator	Market participant
RULE	Fiscal incentives: investment relief	2	1	
	Fiscal incentives: tax relief	2	4	
	Legislation on fiduciary responsibility		2	
	Legislation on unclaimed assets	1		
	Other legal instrument	1		
	Pension regulation	3	2	
FINANCE	Fund of funds			1
	Guarantee scheme			3
	Other financial instrument		4	30
	Outcome commissioning			10
	Outcome fund			7
	Social impact bond			123
	Technical assistance, capacity building		6	1
	Venture capital fund			10

Financial and fiscal legislation are powerful tools to unlock new sources of capital

Legislative initiatives are a powerful tool to steer savings or unlock idle capital towards impact purposes, although they rarely go as far as explicitly stating the expected social outcomes or measurement thereof.

Legislation on fiduciary responsibility and pensions can introduce impact considerations in the portfolio composition of long-term institutional investors. Since 2014, ESG factors are included in the range of material factors that pension trustees in the United Kingdom need to consider in the selection, retention and realisation of investments. Trustees can also take account of impact considerations when members share their view and there is no risk of significant financial detriment. In the United States, the Department of Labor confirmed that, while fiduciaries must prioritise financial returns, pension managers should feel comfortable using ESG factors as an input in evaluating potential risk and financial return (The US Impact Investing Alliance, 2018[21]). In France, by virtue of the 90/10 mechanism, companies with more than 50 employees are obliged to offer their staff, in addition to regular saving schemes, an optional solidarity savings fund, which allocates 5-10% of its assets to eligible (unlisted) social enterprises. The solidarity investment funds, compulsory since 2008, have progressively become the main avenue for capturing French solidarity finance (De Pret and Sobolewska, 2017[22]). In South Africa, the 2011 revision of the Pension Fund Act requires investors to consider any factors which might affect fund's assets sustainability, including ESG factors.[14] As a result, the Government Employees' Pension Fund modified its investment policy.

Governments may provide **fiscal incentives** specifically aimed at social impact investors and entrepreneurs through tax credits or investment relief. The United Kingdom has introduced the Social Investment Tax Relief for investment in organisations that have a defined and regulated social purpose (UK Government, 2016[23]). Portugal also established a tax incentive for investments in social impact bonds (GSG, 2018[7]). In

2018, Turkey launched a competitive incentive package for high-impact investments, for which social outcome is merely understood as technological innovation and labour creation (ISPAT, 2018[24]).

Financial market regulation is another enabling factor to facilitate capital flows towards the social economy. Since 2012, the Indian legislation on alternative investment funds sets out a clear definition of social venture funds, i.e. those promoting social welfare, addressing social problems and providing social benefits.

Policy makers are increasingly experimenting with pay-for-success instruments

Financial instruments are the most frequently used public levers including outcome commissioning, social impact bond, venture capital funds or other financial measures. The extent to which these instruments qualify as impact investing, beyond their self-branding, would depend on how they comply with the characteristics spelled out in (OECD, 2015[5]).

Outcomes funds and outcome commissioning have spread significantly over the last decade (Australia, Chile, the EU, France, Italy, Portugal, Singapore, etc.). The UK government has set up several funding vehicles to promote outcome-based commissioning in an effort to tackle complex and expensive social issues[15]. The US Bipartisan Budget Act of 2018 includes Social Impact Partnerships to Pay for Results Act, which provides for a USD 92 million fund to be housed at the Department of Treasury. It highlights a wide range of outcomes eligible for the programme, which must result in social benefit and federal, state, or local savings (The US Impact Investing Alliance, 2018[21]). Malaysia was the first Asian country to embark on a social outcome fund, launched in March 2017 with MYR 3 million capital, and managed by the Malaysia Innovation Agency, a statutory body under the Prime Minister's Department.

Social impact bonds are sometimes considered as an effective "entry point" for government engagement with impact investing (WEF, 2018[16]). The Social Finance Database[16] counts 121 impact bonds for USD 413 million capital raised and over 1 million lives touched. In some cases, local authorities have taken the lead in championing impact investing through the use of SIBs. In Australia, after two SIBs pioneered by the state of New South Wales, the federal government announced a series of high-profile commitments in the Treasury's 2017-18 budget, including an AUD 10.2 million investment to trial the use of impact investing for the welfare outcomes of young people at risk of homelessness. Similarly, in Canada, after four SIBs implemented at the province level, two SIBs are now being designed at the federal level[17] The progression of public engagement, from the local to the national level, highlights the importance of approaches like SIBs, which have a clear, well-developed narrative on cost-effective public services and better delivery outcomes (WEF, 2018[16]).

Venture capital funds are used to channel equity investment to social enterprises. These can be initiated by public authorities (Argentina, Mexico, Netherlands, Peru, Spain, United Kingdom) or receive their support later on (Israel, Yozma Fund). **Guarantees** are another effective instrument to mobilise additional finance, by reducing perceived risk. The EU's Employment and Social Innovation Programme includes a guarantee instrument, covering up to 80% of an intermediary's loans to social enterprises and microfinance applicants. These tools may be deployed through more complex vehicles, combining grants, debt and mezzanine finance at varying degrees of concessionality.

Much under the impulse of the European Commission, several European countries have adopted funding mechanisms in support of the social economy. For example, Clann Credo in Ireland provides retail loans to social enterprises and bridging loans or match funding to community groups applying for LEADER grants (see Chapter 3). In case of default, the losses are shared with the Social Finance Foundation, a wholesaler established by the Irish government (OECD/EU, 2017[25]).

Financial instruments can also explicitly target disadvantaged groups or areas. The US Community Development Financial Institutions Fund offers a variety of financial programmes, ranging from financial and technical assistance to awards and tax credits to certified mission-driven institutions that serve economically distressed communities. Indigenous Business Australia, a Commonwealth government agency, launched in 2017 an AUD 50 million initiative to encourage impact investment for indigenous economic development. Since 2014, the Indian government has established several tools to support inclusive business for the base of the pyramid, such as the Scheme for Promotion of Innovation and Rural Entrepreneurship, the Inclusive Innovation Fund, the Credit Enhancement Guarantee and the Venture Capital Fund specifically targeted to support the scheduled caste entrepreneurs.

6.4.3. Policies to strengthen the demand side of impact capital are equally important

While most policies to date have been on the supply side, greater attention to the demand side is critical. Demand-side policies can take a number of forms, including providing training for socially oriented enterprises and helping prepare them for investment. Procurement is another important policy tool to stimulate the demand side.

As Table 6.5 shows, the policy levers used domestically to stimulate demand for social impact are highly concentrated. In the absence of international harmonisation, many countries have taken steps to regulate the definition and structure of social enterprises. They may also facilitate the emergence of the social economy through technical assistance and capacity building.

Table 6.5. Policy instruments targeting the domestic demand side by government role

Policy and instrument type		Market regulator	Market facilitator	Market participant
RULE	Certification	1	7	
	Fiscal incentives: tax relief	4		1
	Legislation on social enterprises	20		
	Other legal instrument	2		
	Public procurement regulation	7		2
FINANCE	Awards, challenges		12	
	Investment readiness fund			7
	Technical assistance, capacity building		23	4

As market regulator and facilitator, government can set the conditions for social enterprises to thrive

For the SII market to function well, the necessary legal framework and structures need to be in place for social ventures as well as streamlined regulations and requirements for investment (Thornley, B; Wood, D; Grace, K; Sullivant, 2011[1]).

Many countries have by now adopted a **legal definition for social enterprises**, including Korea, the Philippines, Thailand and Viet Nam. Korea established the legal certification system for social enterprises as part of the Social Enterprise Promotion Act in 2007. Certification gives right to a wide range of public incentives: wage subsidy for disadvantaged/underprivileged people, reduced corporation taxes, tax breaks for corporate purchases of social enterprise goods/services, long-term low interest loans, capacity building, and preferential procurement by public bodies (Mendell et al., 2010[26]). By contrast, in China, high barriers to registering as a non-profit organisation force social enterprises to incorporate as for-profit companies in spite of their social mission and revenue structure (The Japan Research Institute; MIF, 2016[19]). The issue has, however, sparked significant controversy in several countries (Petrella and Richez-Battesti, 2014[27]). The US Small Business Administration (SBA) proposed in 2016 the introduction of a new class of small business investment companies seeking to generate positive and measurable social impact in addition to financial return. The initiative was intended to expand the pool of investment capital available primarily to underserved communities and innovative sectors as well as support the development of America's growing impact investing industry. In 2018, the SBA decided to withdraw the proposed rule because the cost is not commensurate with the benefits (Register, 2018[28]).

Other forms of recognition, albeit without legal power, are available in France (labels "Impact Territories" and "*Pionniers* French IMPACT") and in Malaysia, with the Impact-Driven Enterprise Accreditation. In parallel, the B-Corp certification has emerged and gained traction worldwide, despite not being publicly sanctioned.

OECD countries spend on average 12% of their GDP in **public procurement**. As one of the biggest buyers on the market, the public apparatus represents an important lever to redefine demand in a socially responsible way. Since 2012, the UK Public Services (Social Value) Act requires all commissioners of public services to consider how they can also secure wider social, economic and environmental benefits. Two European Directives

(2014/24/EU on Public Procurement and 2014/25/EU on Utilities) introduced provisions for the possible ring fencing or reserving of particular contracts for social enterprises. These have been progressively transposed into national law, for instance in Ireland in 2016. More recent examples include Australia's Social Procurement Framework and Canada's amendment of the Public Works and Government Services Act for community benefit.

Depending on the context and national priority, public procurement may be directed in favour of specific target groups. In 2003, the South African government adopted the Broad-Based Black Economic Empowerment Act #53 in order to enhance economic participation of black people in the South African economy. The reform led to a revision of the Preferential Procurement Policy Framework Act, which introduced a tendering advantage to designated groups, such as enterprises owned by black people living in rural or underdeveloped areas, women, people with disabilities, and small enterprises targeting socially underprivileged groups in South Africa. In Kenya, 30% of all contracts earmarked for youth, women and those with disabilities under the Access to Government Procurement Opportunities.

Financial resources are needed to support a flourishing social economy

Governments have put in place financial instruments to support the emergence and growth of social entrepreneurs. In 2012, the UK Cabinet Office launched the **Investment and Contract Readiness Fund** to help social ventures get ready for investment.[18] This has been followed by similar initiatives throughout Europe: the Portuguese Capacity Building for Social Investment, the Greek Central Support Mechanism for Social Enterprises, the Irish New Frontiers Entrepreneurship Development, and the Danish Social Growth Programme, all partially cofounded by the European Commission. Indeed, the EU's Employment and Social Innovation Programme has its own Capacity Building Investments Window, which aims to seed new intermediaries for social enterprises or microfinance products and strengthen those already in the market.

Many emerging economies have also bolstered **capacity building for social entrepreneurs** to support the emergence of long-term, market-based solutions to social problems. In Mexico, the High Impact Entrepreneurship Program, run by the National Institute of the Entrepreneur, supports innovative SMEs through a matching grant scheme. However, after three years of implementation, the World Bank expressed concern as to whether the programme is achieving its expected results.[19] Colombia has also been quite active by funding several initiatives such as the seed funding programme Fondo Emprender run by the National Apprenticeship Service, and the Cultural Entrepreneurship and Innovation Program for vulnerable target groups, including victims of the armed conflict. Many other initiatives in this sense have been spurred by development co-operation.

6.4.4. Policy makers are increasingly involved in the creation of domestic intermediaries

As in regular financial markets, intermediaries play a pivotal role in developing the SII ecosystem. They can develop products targeted at new or underserved markets or provide flexible capital for long-term investments. They can also offer guidance in structuring deals and managing funds, thereby strengthening enterprise capacity to achieve impact.

The creation of intermediaries is critical to understand the market needs and funnel capital to the local tissue. The US experience demonstrates that specialised local

intermediaries can effectively promote community development, but also that they rarely become commercially sustainable without compromising their core purpose. The provision of socially beneficial services to the financially excluded must often rely on public subsidies (Sakaue and Stansbury, 2015[29]). However, public initiatives in this regard remain seldom.

Table 6.6. Policy instruments targeting the domestic intermediaries by government role

Policy and instrument type		Market regulator	Market facilitator	Market participant
RULE	Legislation on unclaimed assets	4		
	Social stock exchange		4	
FINANCE	Fund of funds			1
	Incubator, accelerator		4	
	Other financial instrument		2	
	Technical assistance, capacity building		4	
	Wholesale institution		6	

Government-backed **fund of funds** have been used to channel investment to SMEs for decades. Similar vehicles are emerging in the SII field, at the national or regional level, but few have succeeded in involving the public sector. In 2013, the European Investment Fund launched the Social Impact Accelerator, a pan-European fund of funds, which aims at a sustainable funding market for social entrepreneurship in Europe. Both are equity-based instruments seeking to mobilise additional private capital further down the investment chain.

Wholesalers have been established by governments through grant or investment, but they may also raise private capital, for instance from institutional investors, through debt financing. In the United Kingdom, the creation of Big Society Capital has spurred the advancement of the social investment market since 2012 (WEF, 2018[16]). Impact Capital Australia and Portugal Inovação Social should start operating soon. Other countries are following suit. Japan is currently selecting a contractor for its future wholesaler, the Designated Utilization Foundation and Korea also plans to launch its wholesaler, the Korea Social Value and Solidarity Fund. Ten more countries are at earlier stages of development (GSG, 2018[7]).

Box 6.3. Impact investment wholesalers

An impact investment wholesaler aims to help the development of social impact investment markets by financing funds, other intermediaries and, directly or indirectly, social enterprises.

The Global Steering Group on Impact Investing defines wholesalers as having following four characteristics: 1) investing indirectly through funds or other intermediaries, but also directly into social enterprises; 2) catalysing capital from other investors; 3) measuring and reporting impact and financial data at all levels if possible; and 4) seeking to develop and build the impact investment market in which it operates.

Wholesalers can take different legal structures and configurations; they may be stand-alone institutions or a function within a much larger organisation. Big Society Capital, the British wholesale impact investment bank, operates as a stand-alone institution. The Japanese and Korean ones are set to operate as foundations. In contrast, the European Investment Fund is a broad-based investment institution that launched the Social Impact Accelerator in 2013 specifically to finance social enterprises.

The existing wholesalers have all been capitalised through public intervention, in different ways:

- Legislation on unclaimed assets. In the United Kingdom, the 2008 Dormant Bank and Building Society Accounts Act provided a source of capital for social investment market, which later led to the establishment of Big Society Capital. In Japan, the Diet enacted a law in 2016 that enables the government to utilise money kept in dormant bank accounts to support non-profit organisations engaged in children and youth, welfare, or community revitalisation.
- As part of a public financial institution. The majority of the Social Impact Accelerator's EUR 243 million was drawn from the European Investment Fund and the European Investment Bank. The Social Impact Accelerator raised the remainder from Deutsche Bank, SITRA, Crédit Coopératif and the Bulgarian Development Bank.
- Direct grant or investment. Portugal Inovação Social was created in 2014 with support from EU Structural Funds. Impact Capital Australia's proponents are seeking AUD 150 million as grant or investment from the Australian government, to complement fundraising from institutional, community and individual investors (AUD 300 million total).

Source: (GSG, 2018[30]) "Building impact investment wholesalers: Key questions in design of an impact investment wholesaler", http://gsgii.org/wp-content/uploads/2018/10/GSG-Paper-2018-Wholesalers.pdf.

Criticism has been raised concerning the wholesalers' unintended effect to centralise and direct the market (GSG, 2018[30]). The government's oversight must thus carefully assess where such institutions can take a proactive role in leading the market creation, where its

intervention is needed to smoothen out market failures, and where instead supply and demand for impact are liquid enough to match without intermediation. Moreover, because Big Society Capital and the Social Impact Accelerator do not require enterprises to report on standardised metrics or through specific frameworks, the final impact of the investment portfolio remains difficult to aggregate. Nonetheless, they are regarded as one of the most powerful levers to overcome market failures, promote innovation, prove new business models and mobilise capital. The creation of Big Society Capital represented a decisive shift for the UK market, unlocking over GBP 1.3 billion of capital for impact investing in five years (Big Society Capital, 2018[31]).

Several OECD countries have attempted to establish financial brokers for the impact investing market by creating **social stock exchanges**. Canada's SVX aims to provide a single access point for raising social and/or environmental impact capital and making investments for ventures, funds and investors. The not-for-profit corporation was established ten years ago with support from the government of Ontario, the Caisse de dépôt et placement du Québec, and the Business Development Bank of Canada. These financial intermediaries materially reduce the cost of fundraising and due diligence for both sides of the market and allow investors to take more holistic decisions that include social business.

Public authorities may also support the creation and functioning of specialised **capacity-building intermediaries**, as is the case in New Zealand where the Akina Foundation is the principal incubator for the social enterprise sector. In France, the national accelerator for social innovation "French Impact" launched in 2018 has selected 22 "pioneering" social enterprises to accompany their scaling up to national market. In Colombia, the government's Business Growth Unit has set up Innpulsa. In Malaysia, the MaGIC Amplify Accelerator offers mentorship, upskilling workshops and industry connections to impact driven enterprises. The Singaporean Centre for Social Enterprise, set up by the Ministry of Social and Family Development in 2015, offers a range of funding options for aspiring and existing social entrepreneurs enterprises across different stages of growth: the grant call VentureForGood, the equity investment RaiSE Impact Finance and the LeapForGood challenge fund. The Korea Social Enterprise Promotion Agency provides marketing and business plan development assistance, but also loans and equities.

Existing national promotional banks can also facilitate the intermediation of impact capital, for instance the state-owned KfW managed the German financing programme for social enterprises sponsored by the Federal Ministry of Family Affairs from 2012 to 2015. However, the limited number of SII-focused financial intermediaries (local banks and financial service firms) operating in developing countries is one of the impediments for the development of the market.

6.5. Public levers to promote impact investing in development co-operation

Against the backdrop of the 2030 Agenda for Sustainable Development and the universal SDGs, there is a growing recognition of the need for more innovative and sophisticated financing strategies in both developed and developing countries. The development community has progressively increased its focus on outcomes. The Global Partnership for Effective Development Co-operation sets principles for development finance, including a strong focus on results and creating sustainable impact towards achieving the SDGs.

Traditional sources of development financing, in particular official development assistance (ODA), are not sufficient to address the scale and complexity of today's global development challenges. Partnerships are needed that encourage better collaboration between the public and private sectors and ODA must be used in a smart way to mobilise additional resources. Social impact investing, therefore, has the potential to catalyse new capital flows into developing economies, translate experiences, policies and approaches from developed countries into the emerging and less-developed country context.

Due to the cross-border nature of development co-operation, the selection of instruments available to governments is limited by the boundaries of sovereignty. Many donors have established a two-pronged approach, where investment vehicles are tasked to crowd in private capital towards social enterprises, while bilateral technical co-operation assists partner governments in the move towards inclusive business policies. By addressing the needs of populations living in developing areas, such initiatives may *de facto* satisfy the beneficiary criteria, even when it is not targeted to the social sectors (e.g. agriculture, water and sanitation, microfinance). The other characteristics identified in the OECD definition remain however relevant to distinguish SII from the broader development finance landscape.

In development co-operation as well as domestically, public intervention is concentrated on the supply side and on the enabling environment. Table 6.7 illustrates how financial instruments are the most frequently used, often materialising with the donor's participation in pooled investment vehicles that identify as impact funds. According to the mapping, 20 countries, including the EU, have taken impact investing initiatives as part of their development co-operation strategy. The most active countries, by number of instruments identified, are France, Germany, the Netherlands, Switzerland, the United Kingdom and the United States.

Table 6.7. Distribution of policy instruments in development co-operation by market pillar

	Policy and instrument type	Demand	Intermediaries	Suppy	Enabling environment
STEER	National strategy for impact investing				2
	Stakeholder partnerships			1	3
FINANCE	Awards, challenges	6			
	Development impact bond			6	
	Fund of funds		1		
	Guarantee scheme				2
	Incubator, accelerator		3		1
	Investment readiness fund	1			
	Other financial instrument		1	15	22
	Outcome commissioning			1	
	Technical assistance, capacity building	5		7	2
	Venture capital fund			7	1
INFORM	Communication campaign				1
	Research, studies, data publication				4

6.5.1. Social impact investment is not yet fully integrated in the development co-operation strategy, but attempts are emerging

A few donors have defined a specific SII strategy as part of their broader development co-operation policy, in an effort to better co-ordinate the action of several branches of the executive and bilateral development agencies. The German Ministry of Development Cooperation has adopted a strategy on private sector development and one on financial system development. While impact investing is not explicitly mentioned, the two strategies aim to mobilise private sector finance for a positive social and/or green return in developing countries. The two documents steer the action of the whole German development co-operation system, which includes the technical cooperation agency (GIZ) and the national development bank (KfW). Similarly, in the United Kingdom, the Department for International Development (DFID) has developed a specific approach for the promotion of shared value businesses by its country offices. The Australian Investing in Women is an interesting initiative that combines soft diplomacy, corporate culture change, enterprise development and investment in Southeast Asia.

Moreover, bilateral and multilateral development providers may at times facilitate the definition of a domestic strategy in their partner countries. For instance, Argentina will implement a National Strategy for Financial Inclusion with help from a USD 20 million loan approved by the IADB. Multilateral institutions are particularly well-placed to convene a diverse range of stakeholders and facilitate the emergence of a political momentum. In Africa, the UNDP launched a collaborative process to bring together a mix of public and private players to further develop the social impact investment market.

They may also **provide evidence and tools for policy makers and practitioners** alike. In many developing countries, governments do not yet recognise impact investors and social enterprises. The German development co-operation has initiated and sponsored since 2015 the Inclusive Business Action Network, a platform for capacity building, knowledge exchange and dialogue among the inclusive business community. This is accompanied by a number of initiatives at the bilateral level. For instance, GIZ has financed the production of a number of studies on the Indian impact investing market[20]. The UK Impact Programme includes a grant component for market-building activities, which seek to reduce the constraints in the impact investing ecosystem. In parallel, DFID is helping to meet the costs of the Impact Management Project, the GIIN and the Aspen Network of Development Entrepreneurs (ANDE). The British Council has also funded a number of studies related to the Asian market and sponsored a couple of dialogues in Malaysia.

6.5.2. Instruments to strengthen the supply of impact capital are the most obvious choice in cross-border transactions

Supply-side initiatives are the most frequently used in development co-operation. Many development agencies have established programmes to support entrepreneurship and the social economy in developing counties. Venture capital funds are used to channel equity to SMEs in developing countries. Guarantees are particularly powerful for the mobilisation of private finance (Benn, Sangaré and Hos, 2017[32]). More broadly, the full range of official development finance instruments may be combined (grants, debt instruments, equity, mezzanine, guarantees) at more or less concessional terms.

Donors are increasingly leveraging their financing vehicles to take advantage of investment opportunities in developing countries with explicit impact objectives. Social returns are a high priority for all development finance providers, but strategies for generating positive social impact vary considerably. The priority can focus on innovation, economic transformation, or particular demographic features of the final beneficiaries.

Development finance institutions identify as impact investors, but their impact approach remains quite loose

Development finance institutions (DFIs) have the mandate to improve people's lives by working with and through local private companies. While development banks typically consider themselves as policy takers, they play a key role in facilitating and shaping the supply of capital to developing counties. Their lending operations have a specific focus on impact generation, alongside a financial return resulting from pricing operations at commercial rates. A study by the International Labour Office assessed investment management systems within 13 African DFIs and found that many have effectively integrated an impact dimension (Korth and Richter, 2016[33]). The recent evaluation of the Belgian Development Co-operation's support to private sector development confirmed that most of the Belgian Investment Company for Developing countries went to local social enterprises, but also to medium-sized companies and not necessarily in fragile or least developed countries (SPF Affaires étrangères, 2018[34]). Besides being a prominent source for impact capital, they may also act as asset managers (GIIN, 2018[35]).

As such, the whole portfolio of multilateral and bilateral DFIs could virtually be regarded as a supply of impact capital for developing countries. Yet, some have matured a more targeted definition for their impact-driven approach. The recently introduced International Finance Corporation (IFC)'s Operating Principles for Impact Management aim to

describe the key features of managing investment funds with the intent to contribute to measurable positive social, economic or environmental impact, as well as financial returns. The principles, published for consultation in 2018, are expected to provide a reference point for the assessment of funds and institutions and their impact management systems (IFC, 2018[36]).

The DFID Impact Programme comprises three financial instruments operated by the CDC Group: the Impact Fund, the Impact Accelerator and a Technical Assistance facility. The Impact Fund invests in regional or sectoral funds that make small investments in early-stage businesses. Five broad developmental criteria are considered: access, quality, human capital, demonstration effect, wider economic impact. The Impact Accelerator instead directly invests into transformative and scalable enterprises with larger tickets sizes. Here again, DFID has identified a series of criteria, which potential investees must meet: targeting underserved consumers, sectors or segments, have an innovative business model or operate in a difficult geography, and considering its expected direct or systemic impact. The two instruments have currently invested in 30 SMEs or financial intermediaries in sub-Saharan Africa and South Asia.

The German DEG Upscaling Programme promotes pioneer repayable investments in SMEs to scale-up innovative business models with high developmental impact. The programme addresses companies whose financing needs lie somewhere between microfinancing and traditional financing by commercial banks (< EUR 500 000). The expected high "developmental significance" is not further defined in the pre-established requirements for applicants nor in the application form.[21]

In the United States, the Overseas Private Investment Corporation (OPIC) Portfolio for Impact programme, launched in 2014, supports business model with intrinsic, measurable and scalable social impact that might be particularly challenged to obtain financing. Preference is given to projects targeting low-income and vulnerable populations in least developed and post-conflict countries.

In other instances, the distinction between impact investments and the remainder portfolio is more blurred. The French DFI Proparco contributes to debt, equity and early-stage financing vehicles, such as Aavishkaar Frontier Fund and I&P Afrique Entrepreneurs 2. In parallel, their direct private equity investments target high-growth SMEs and high-potential, innovative start-ups in emerging countries, particularly in Africa. Because the selection criteria are not public domain, it is unclear to what extent they may rest on expected and measurable social outcomes.

The supply of capital by development finance institutions should be better linked to expected and measurable social outcomes

Given their mandate to work with the local private sector, DFIs are natural suppliers of capital for the social economy in developing countries. Since 2010, the IFC has recognised the inclusive business concept as important for reaching people at the base of the economic pyramid. The IFC has committed USD 16 billion to companies classified as inclusive, or about 14% of its long-term commitments over FY 2005-17. Nonetheless, the approach remains passive, as it consists mainly of tagging and tracking projects with an inclusive business model. Box 6.4 shows how a stronger theory of change and better data collection are needed to prove the impact of investment in social business.

Box 6.4. Learning from the International Finance Corporation's investment in inclusive business

The World Bank Independent Evaluation Group undertook an evaluation of the International Finance Corporation (IFC)'s role in helping inclusive companies to enhance their focus on the base of the pyramid (BoP) through financing and advisory support.

Key findings:

- Based on project development outcome ratings, the performance of inclusive business projects was on par with the rest of the IFC's portfolio. Despite high-risk profile, there was no trade-off between profitability of projects and their inclusion objectives. This is, for the most part, as higher risks were mitigated through instrument choice, use of repeat clients and expansion of existing operations.
- The IFC's main contribution is for the expansion and stabilisation of inclusive agribusiness clients by providing finance at longer tenors than those available in local markets. The IFC's non-financial additionality lies in strengthening the client's corporate governance, including the environmental and social management system, but also deepening their engagement with BOP farmers.
- *Ex ante*, projects were mostly consistent with the IFC's screening framework for inclusive business, but the substantiation for the IFC's classification was inadequate. None of the projects provided data on the actual income of farmers. Projects also lacked useful contextual information on the size of farms (small, medium and large).
- The IFC does not undertake any formal assessment of BoP impact and there were insufficient data to substantiate or validate its projects' effectiveness at reaching the BoP. The use of aggregate level "reach" data (number of farmers) makes it impossible to assess ultimate impacts on BoP.

In conclusion, the IFC's current passive approach is undermined by the absence of robust methods to measure impact at the BoP. The evaluation suggests the need for the IFC to strengthen data collection and measurement. Building on its current approach, the IFC could increase its focus on inclusive business incrementally, selecting clients proactively, and systematically identifying client gaps for deploying its advisory services programmes. The IFC could adopt a strongly proactive approach with significant changes to its current approach accompanied by a shift in corporate culture and incentives.

Source: World Bank Independent Evaluation Group (2018), "IFC's experience with inclusive business: An assessment of IFC's role, outcomes, and potential scenarios", http://documents.worldbank.org/curated/en/503711525903711942/IFC-s-experience-with-inclusive-business-an-assessment-of-IFC-s-role-outcomes-and-potential-scenarios.

Many collective investment vehicles have adopted the impact brand, but they do not necessarily fulfil all the OECD characteristics

Governments, through their development co-operation arms, are increasingly investing in pooled investment vehicles, tasked to mobilise additional capital by balancing the risk-return profile of their investments.

Some of these vehicles explicitly identify as impact investors, such as the Dolma Impact Fund(s), Livelihood Impact Fund LP, Small Enterprise Impact Investing Fund, Insitor Impact Asia Fund, Aavishkaar India Micro Venture Capital Impact Fund, Caspian Impact Investments and Menterra Social Impact Fund. Another example is GroFin, a pooled vehicle that delivers patient capital and specialised business support to emerging market enterprises in Africa and the Middle East. This blended fund has raised USD 500 million worth of capital from more than 30 DFIs[22] and others. In Ghana, for instance, it currently supports the GIMPA Center for Impact Investment through its small and growing business funding opportunities.

However, doubts have been raised as to commitment to tracking and reporting on achieved social outcomes. A recent study on 156 social impact funds showed that they rarely meet the delivery organisation and return expectation requirements of the OECD definition (Chiappini, 2017[37]). Funds investing in developing markets are more compliant with the OECD criteria of impact investing, because they *de facto* meet at least one criterion pertaining to the social target areas. They are also more compliant with regards to the intent of the delivery organisations and seem to be more involved in impact measurability, although the figures remain disappointing (15.8%). The 2017 OECD Survey of Blended Finance Funds and Facilities further confirmed the weak monitoring and evaluation capacity of such pooled vehicles. In particular, only 54% of funds require final updates on their monitoring data and for 7% of the surveyed vehicles, an evaluation has never been performed, nor is one planned in the near future (OECD, 2018[38]).

Donors are increasingly testing pay-for-success approaches as part of their development co-operation strategy

Reflecting the maturity of their domestic impact investing market, a few donor governments have also been promoting the use of pay-for-success approaches as part of their development co-operation. While many **development impact bonds** (DIB) have been implemented without the financial participation of public authorities[23], development finance providers are increasingly entering this space.

DFID has a GBP 6.3 million DIB programme, which supports three projects on income generation, disability and education. DFID also co-ordinated a multi-donor group working to develop a joint strategy for using impact bonds at greater scale, leveraging in private risk investment in public services that achieve the SDGs (WEF, 2018[16]). The United States Agency for International Development (USAID), in partnership with Australia's Department of Foreign Affairs and Trade, provided a 50% guarantee on the principal amount of the underlying loan portfolio in the IIX Women's Livelihood Bond (USAID, 2018[39]).

By investing USD 2 million in a DIB aimed at improving the availability and quality of cataract surgery services in Cameroon, OPIC has become the first bilateral DFI to support a pay-for success instrument. The World Bank Global Financing Facility in support of Every Woman Every Child is also financing a USD 2 million investment by in the Kangaroo Mother Care, where Cameroon and Canada are involved as the outcome funders.

This instrument is now also being tested in fragile and conflict-afflicted contexts. The first humanitarian impact bond was launched by the International Committee of the Red Cross in 2017, to improve rehabilitation services for people with disabilities in conflict-affected countries (Democratic Republic of Congo, Mali and Nigeria). Belgium, Italy,

Switzerland and the United Kingdom have committed as outcomes funders through their development assistance.

Development co-operation has also been a means to promote the creation of SIBs by local authorities in developing countries. In 2016, the Swiss government and the IADB supported the launch of a SIB in Colombia, providing skills training and employment support to vulnerable, unemployed individuals in Bogotá, Cali and Pereira. This was the first SIB in a developing country, since the Colombian Department of Social Prosperity acts as outcome funder, with co-financing from Swiss State Secretariat for Economic Affairs (SECO) paid through the IADB Multilateral Investment Fund, as part of a larger initiative on workforce development that includes support for market building and knowledge creation. The South Africa Early Childhood Development impact bond is the third SIB globally with a government outcome funder in a low- or middle-income country.

Development assistance remains essential to promote policy reforms towards a more inclusive social economy

Besides the specific investment tools set up by DFIs, donors may support the supply side through other development co-operation channels. For instance, DFID has sponsored since 2008 the Samridhi Fund "Poorest States Inclusive Growth programme" to support financial inclusion and women's empowerment, across four underserved states in northern India. The programme provides capital to impact enterprises at affordable rates coupled with technical assistance by the Small Industries Development Bank of India (SIDBI).

In development co-operation, multilateral institutions are a primary channel for the supply of finance but also an important driver for policy reform. The IADB has been working since 2014 on laying groundwork for outcome commissioning in Latin America and the Caribbean, through its Multilateral Investment Fund. Over the years, the IADB has supported the design and implementation of many SIBs in the region, including one for the employability of vulnerable youth in the city of Buenos Aires and another addressed to female heads of households in the state of Jalisco, Mexico. More recently, it also stepped in to accompany the creation of an impact investing fund for Argentina, Paraguay and Uruguay.

6.5.3. Policies to strengthen the demand side of impact capital are less frequent and highly intermediated

In order to boost the pipeline of local entrepreneurs, pre- and post-investment **technical assistance** is needed to support the capital-raising process and reinforce management skills. The USAID-funded East Africa Trade and Investment Hub has partnered with local consulting and financial advisory firms to deliver business support to high-potential, export-focused businesses in Africa. Canada established the Pacific Readiness for Investment in Social Enterprise (Pacific RISE) in 2016 to identify and support investment opportunities in social businesses.

As part of the Impact Programme, the United Kingdom has established a technical assistance facility, at the service of companies, in which the Impact Accelerator is investing. In addition, the programme supports capacity building for local impact investors. For instance, Capria, a programme for local fund managers funded by DFID and the IFC, aims to build competencies among impact investing teams, entrepreneurs and intermediaries. DFID also sponsors training for entrepreneur support organisations

(accelerators, incubators, seed funds, etc.) delivered by Village Capital in sub-Saharan Africa. Such efforts are direly needed to scale-up the SII industry locally.

GIZ has similarly been active in providing technical support and capacity building for the impact investing ecosystem both at global level and the bilateral level. For instance, GIZ has promoted the MSME Umbrella Program and the GIZ-SIDBI Responsible Enterprise Finance Program in India. The programme enabled the establishment of the Indian Impact Investors Council and the creation of a tool for measuring and reporting the performance of impact funds.[24]

Prizes and awards are increasingly being used to elicit and pilot innovative solution to existing social challenges. Since 2011, USAID has launched ten **Grand Challenges** with public and private partners to fund more than 450 innovations in 60 countries. Each one offered grants and technical assistance, but many use additional tools depending on the problem they intend to solve (hackathons, capacity-building services, etc.).

6.5.4. The lack of local intermediaries is rarely addressed in development co-operation

The lack of intermediaries is particularly poignant in developing countries, where capital is flowing in from international asset managers and development finance providers. Domestic SII markets will need actors who can structure the financing model, accompany the matching of demand and supply, and enable social enterprises on the ground.

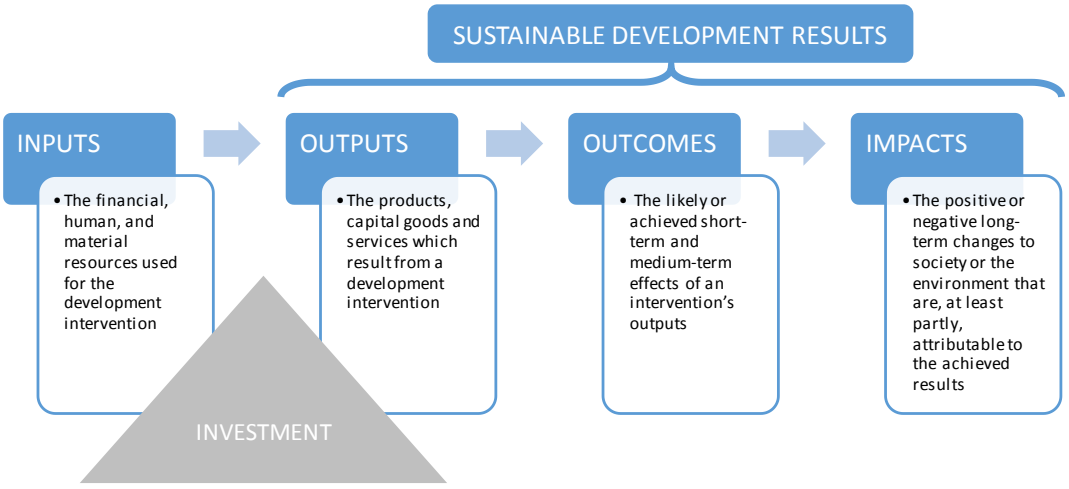
Donors may effectively support the emergence of market enablers in developing countries, albeit examples remain infrequent. For instance, the British Council supports the Centre for Social Initiatives Promotion, a local investor, incubator and intermediary for social enterprises in Viet Nam and Southeast Asia. In 2015, the Australian Minister of Foreign Affairs and Trade launched the innovationXchange in 2015 to catalyse innovation across the Australian aid programme. The innovationXchange shares knowledge and brokers new connections so that innovation becomes intrinsic to the delivery of the whole aid programme. As part of this initiative, the Department of Foreign Affairs and Trade will identify "Frontier Brokers" to help connect social entrepreneurs in the Asia-Pacific to appropriate types of capital.

6.6. Public understanding and approaches to sustainable development results

Different actors have different objectives, which in turn imply different levels of accountability. Social impact investors are mostly committed to report on the immediate results of their projects (e.g. individuals employed at project closure), whereas policy makers need to understand their ultimate impact on the economy, society and the environment at large (e.g. increased per capita income or citizens' well-being). The measurement of investment outcomes should thus not be confused with, and cannot replace, the *ex post* evaluation of public policies supporting those investments.

Figure 6.3 depicts the language shared among members of the OECD Development Assistance Committee which guides policy makers and sustainable development finance providers, in the design and pursuit of their theory of change. To support policy learning and inform policy decisions, systematic, objective and credible assessments are needed to determine the relevance, effectiveness and sustainability of a given public intervention, especially in the nascent field of social impact investing.

Figure 6.3. Results chain according to the OECD Development Assistance Committee



Source: Adapted from OECD (2002[40]), "Glossary of key terms in evaluation and results based management", https://www.oecd.org/dac/evaluation/2754804.pdf.

Most reporting generated by social and environmental impact businesses is associated with the output and outcome levels of an impact chain. Little impact-level data is generated due to the high levels of complexity and cost involved (Tews and Scheuerle, 2017[41]). Lack of evidence – including on what works and what does not – limits the attractiveness for impact-driven investors and hinders the effective deployment of investment instruments by development co-operation providers. (OECD, 2018[42]).

Despite progress at global, regional and sectoral level, initiatives promoting private sector engagement through development co-operation still place a limited focus on systematically assessing ways to effectively and transparently use development partners' resources. For instance, the Global Partnership for Effective Development Co-operation recently evidenced how multi-stakeholder platforms, partnerships and initiatives do not sufficiently focus on the effectiveness of private sector engagement, and on the role of development co-operation specifically (GPEDC, 2018[43]). The OECD Development Assistance Committee peer learning review on working with and through the private sector underlined the need to invest in measurement systems for monitoring and evaluation (OECD, 2016[44]).

Transparency and accountability are therefore crucial to scale-up and align public and private investment for sustainable development. Effective private sector engagement in development co-operation requires new and improved information to track mobilisation, leverage and results. **Development co-operation and development finance actors must converge towards a shared theory of change, including a common understanding of what constitutes development effectiveness and sustainability.**

6.7. Emerging trends and existing gaps for policy makers to address

Social impact investment has only gained prominence in the public sphere over the past decade, so the related policy tools are still being explored in many countries. For policy

makers, this approach can answer the prominent need of better tying public spending to measurable social and environmental outcomes.

The following emerging trends emerged from the SII policy mapping exercise:

Several factors might trigger the engagement of policy makers. Most initiatives are adopted by the executive branch, but parliamentary involvement is necessary to secure a conducive legal and fiscal framework. Often, smaller scale initiatives are first tested at the local level and then scaled up by national authorities. Depending on the country, governments have entered this field from different dimensions (e.g. technological innovation, health, social inclusion). Impact investing is thus a flexible approach that can be applied in several policy areas, especially in developing countries. This means that policy instruments may translate across different sectors and from one public entity to another, provided the demonstration effect has been validated in a robust and credible manner.

Broader public policies are precursory to SII. While impact investing is often associated with pay-for-success schemes, for the whole SII ecosystem to flourish, the introduction of conducive measures is needed, which do not necessarily fulfil all the characteristics detailed in the OECD definition. In the absence of a distinct legal identity for social enterprises, many public tools will generally target entrepreneurs or SMEs as critical levers for job creation and social inclusion. Even without explicitly quantifying the expected outcomes, they may address vulnerable groups (e.g. indigenous peoples) or territories (e.g. urban or rural areas). The facilitation of investment flows may tackle upstream or indirect sources, such as corporate social responsibility. Many initiatives pertaining to the enabling environment do not strictly qualify under the OECD definition, but are a preliminary step to ignite the actual demand and supply for SII. They may not be a necessary condition for individual SII operations, particularly in the framework of development co-operation, but will greatly enhance the potential for the local SII market to grow endogenously.

Strategic partnerships. On the one hand, the presence of stakeholder platforms facilitates public engagement through lobbying, convening and raised visibility. On the other, public intervention can benefit from a core group of champions active both on the financial market and in the real economy. The GSG NABs provide a compelling model, but many strategies can be implemented to engage the varied set of SII stakeholders. This includes promoting joint diagnostics and co-creation strategies with the private sector and civil society. Most of the time policy makers do not have knowledge about impact investment. Indeed, the promotion of impact investing should be grounded on improved understanding, mutual respect and shared trust between all of the parties involved. Strategic partnerships, not only with responsible businesses but also with mainstream investors and philanthropy, should be at the heart of the government's intervention. In development co-operation, this is materialised in the recent flourishing of blending vehicles that could benefit from an impact investment approach to tackle the financing gap on social infrastructure and services.

At the same time, the OECD mapping has revealed existing gaps which the international policy community will need to address in order to build a more solid evidence base for public action towards SII:

While the domestic SII policy framework should pay attention to all parts of the ecosystem, some instruments have proven their potential for market creation. Policy makers in general, and development finance providers in particular, should take the full

ecosystem view before choosing which instruments to implement. In a coherent and holistic approach to development co-operation, bilateral and multilateral agencies should co-ordinate to assess the whole country environment and define an appropriate division of labour, for instance through integrated financing frameworks, rather than (independently) seizing short-term investment opportunities. This might require performing a joint assessment on the maturity of each SII market pillar, in collaboration with external stakeholders. The establishment of intermediaries, which often requires public involvement, represents a decisive shift to unleash breakthrough and promote scale, especially in emerging economies. In particular, wholesale institutions are key drivers for capital intermediation and the dissemination of scalable models.

As market regulators, policy makers must ensure that impact represents a substantive commitment, not just a marketing brand. In order to confine impact washing and protect taxpayers, public authorities must set the bar for integrity standards on SII. Public actors have the ultimate responsibility to tie the provision of public funding to the targeting of specific social areas and attributes of the beneficiary population, to the degree of publicness in the services delivered, to the intent of the selected delivery organisation(s), and finally, to setting return expectations as well as reporting and impact measurement requirements. At the market level, governments can harness publicly available information, instil methodological discipline through impact evaluations and facilitate co-ordination by providing a holistic picture of the SII ecosystem. Several efforts in this respect have already been undertaken, with public backing, but mostly remain in the hands of market players (e.g. the GIIN, GSG, the Impact Management Project and IFC). The recent UNDP initiative "SDG Impact" promises to marshal wider visibility, endorsement and eventually uptake by policy makers.

Development co-operation can act as a vector for policy transfer. The development co-operation sphere already has a number of instruments which can help the impact industry grow in low- and middle-income economies. Indeed, the social economy has prospered in those countries where donors have been more directly engaged. The proactive role of Germany and the United Kingdom is evident in the early development of SII in India. The IADB and Switzerland have greatly stimulated the onset of SIBs and social impact incentives in Latin America. DFIs are by design accountable for the social and environmental outcomes they generate in partner countries, but some of them have adopted a more stringent approach to impact investing. Still, local intermediaries are direly needed to liaise between social enterprises in developing countries and the supply of capital from the international financial market. For this purpose, development finance providers can use a two-pronged approach by: 1) supporting policy reform for inclusive businesses and the social economy; and 2) directly financing impact-oriented operations.

***Ex post* evaluation is needed to build the policy evidence base.** Due to the relative novelty of this field, and to the lack of completed evaluations, there is little evidence yet to assess the relevance of each instrument depending on the context, let alone to understand their replicability elsewhere. Not only are impact investors scarcely abiding to the measurement and reporting attributes proper to this industry, but the large majority of the public initiatives mapped by the OECD also do not explicitly foresee the *ex post* evaluation of social and/or environmental results. Out of the 590 public initiatives identified in the OECD policy mapping exercise, only 30% of the domestic ones included an obligation to evaluate and even less (11%) in the field of development co-operation. On the one hand, voluntary initiatives by private actors are commendable, but will not spread evenly to all players without government endorsement. It is the prerogative of public authorities to regulate, inform and protect the functioning of the financial market,

on grounds of the public interest. On the other, piloting innovative solutions always entails accepting a risk of failure, which too often elected officials are not willing to take. As a consequence, little information is publicly available on those approaches that did not work, which reduces the collective capacity to understand why. When taking this opportunity for experimentation, policy makers should not forget to learn from both their successes and their failures, which implies setting aside sufficient resources for this purpose. To truly honour the grounding principles of SII, policy initiatives must include the *ex post* assessment of the social and environmental outcomes actually achieved by the public intervention.

Notes

[1] On 22 November 2017, the OECD, in partnership with the German Ministry of Development Cooperation and GIZ, convened a workshop on "Policies to Promote Impact Investing" in Berlin. This was part of a three-day international event organised by the German Ministry of Development Cooperation and GIZ with support from the BMW Foundation Herbert Quandt.

[2] As of October 2018; for more information, see: http://gsgii.org/about-us/#aboutgsg.

[3] "*Provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. Inclusive business should promote sustainable development in all its dimensions – economic, social and environmental"* (G20, 2015[315])

[4] www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm.

[5] The mapping is based on declarations from national SII stakeholders, verified and complemented through interviews and extensive desk research. The scope was limited to national-level initiatives, but local ones have also been included in as far as they were reported by respondents. In the OECD mapping, each instrument was attributed one primary market target, although the same initiative may ultimately benefit the ecosystem at large. The list of instruments mapped is available in 0.

[6] https://www.canada.ca/en/employment-social-development/news/2017/06/government_of_canadabringstogetherleaderstoco-createasocialinnov.html.

[7] Examples include Singapore (tax reduction for companies who donate to institutions of public character), China (Notice of Issues on the Pre-tax Deduction for Charitable Donations), Malaysia (Angel Tax Incentive No. 11/2015), the Philippines (Section 3 Revenue Regulation for Non-profits No. 13-98) and South Africa (Section 12J of the 2009 Income Tax Act).

[8] For instance, India (Section 135 of the Indian Companies Act), Indonesia (Article 15 of Law 25 2007 on Capital Investment), Thailand (Notification of the Capital Market Supervisory Board No. 44/2256), the Philippines (Corporate Social Responsibility Act).

[9] https://www.grantthornton.co.za/globalassets/1.-member-firms/south-africa/pdfs/kingiv_feb17.pdf.

[10] For instance, the Market Assessment Report on Social Finance Models for the Settlement and Integration sector in Canada or the Review on ESG Investment Tools in the United States.

[11] For example, the China Social Entrepreneur Foundation, the Danish National Centre for Social Enterprises, the Thai Social Enterprise Office, the Singapore Centre for Social Enterprise and the UK Social Investment Research Council.

[12] https://www.betterentrepreneurship.eu.

[13] The "Festival for Good" in Singapore and the MaGIC Academy Symposium in Malaysia.

[14]www.ey.com/Publication/vwLUAssets/The_State_of_Responsible_Investment_in_South_Africa/$FILE/Responsible%20Investment%20Study%202013.pdf.

[15] For instance: Social Outcomes Fund, Innovation Fund for Young People, Fair Chance Fund, Youth Engagement Fund, the Rough Sleeping SIB Fund, Life Chances Fund).

[16] https://sibdatabase.socialfinance.org.uk.

[17] One by the Public Health Agency on the Community Hypertension Prevention Initiative and another by the Ministry of Immigration, Refugees and Citizenship on the employment of Syrian refugees.

[18] In 2015, this was replaced by a GBP 60 million endowment to Access, the Foundation for Social Investment, to support its capacity-building activities over ten years.

[19]www.worldbank.org/en/programs/competitiveness-policy-impact-evaluation-lab/brief/promoting-high-impact-entrepreneurship-in-mexico.

[20] See for instance Sengupta, Rustam (2015), De-mystifying impact investing, An entrepreneurs' guide, https://www.giz.de/en/downloads/giz2015-en-mystifying-impact-investing-india.pdf.

[21] https://www.deginvest.de/International-financing/DEG/Unsere-L%C3%B6sungen/Up-Scaling.

[22] Including: Proparco, Nordfund, BIO, the CDC Group, the Swiss Investment Fund for Emerging Markets , KfW, the FMO, the International Finance Corporation, FINNFUND, the European Investment Bank and the Asian Development Bank.

[23] e.g. Educate Girls in Rajasthan, Sustainable Cocoa and Coffee Production in Peru

[24] www.prismforimpact.com.

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Annex 6.A. Policy instruments

Domestic social impact investment policy initiatives

Table 6.A.1. Employing or reforming government structure and capacities (STEER)

Country		Year	Status
	Formalised function		
Bangladesh	Multisectoral advisory board	2018	Ongoing
Brazil	Secretariat for Innovation and New Businesses - Ministry of Industry, Foreign Trade and Services	2013	Ongoing
Chile	Laboratorio de Gobierno	2017	Ongoing
Colombia	Social Innovation Group	2011	Ongoing
Denmark	Committee on Social Enterprises	2013	NA
Finland	Sitra	NA	NA
France	Haut-commissaire à l'Économie sociale et solidaire et à l'innovation sociale	2017	Ongoing
Italy	Ente Nazionale per il Microcredito	2011	Ongoing
Kenya	Vision 2030 Delivery Secretariat	NA	NA
Korea	Secretary for Social Economy, President's Office; Director General of Long-term Strategy, Ministry of Strategy and Finance	NA	NA
Malaysia	Malaysian Global Innovation and Creativity Centre	2014	Ongoing
Mexico	INADEM	NA	Ongoing
Peru	Innovate Peru	2014	Ongoing
Portugal	EMPIS – Portugal Inovacao Social	2014	Ongoing
Singapore	Centre for Social Enterprise	2015	Ongoing
Thailand	Thai Social Enterprise Office	2010	2017
United Kingdom	Social Investment and Finance Team in the Cabinet Office (2012); Inclusive Economy Unit in the Department for Digital, Culture, Media and Sport (2016)	2003	Ongoing
United States	Office of Social Innovation	2009	Completed
	Internal government consultation		
Australia	Australian Government Principles for Social Impact Investing	2017	Ongoing
Brazil	Impact Investment and Business Committee	2018	Ongoing
Colombia	National Node for Social Innovation	2013	Ongoing
European Union	EC guidelines to support development of regulatory frameworks for social enterprises in member states	NA	NA
Ireland	Homeless project Steering Group	2011	NA
	Interdepartmental Steering Committee	2012	Completed
Italy	Participation to seminar on impact investing for the public administration on how impact investment can support the welfare system	2017	NA
Malaysia	National Blue Ocean Strategy committees and working groups	2015	2018
New Zealand	Social Enterprise Cross Parliament Summit	2017	Completed

Country		Year	Status
	National strategy for impact investing		
Brazil	National Strategy for Impact Investment and Social Businesses – ENIMPACTO	2017	Ongoing
Canada	Social Innovation and Social Finance Strategy Co-Creation	2017	Ongoing
Colombia	Social innovation in the National Development Plan 2010-2014 Prosperity for All	2010	NA
	Social Innovation Policy	2014	NA
European Union	Social Business Initiative	2011	Ongoing
Finland	Impact Investing Focus Area	2014	NA
France	Rapport du Comité Français sur l'investissement à impact	2014	Ongoing
Japan	Growth Strategy 2018 (Basic Outlook and Key Strategies) Basic Strategy for Regional Revitalization	2018	Ongoing
Kenya	Vision 2030	2008	Ongoing
Portugal	A blueprint for Portugal's emerging social investment market	2015	Ongoing
	Stakeholder partnerships		
Argentina	Collaboration with the NAB	NA	NA
Bangladesh	Collaboration with the NAB	NA	NA
Brazil	Collaboration with the NAB	2016	Ongoing
Canada	Chantier de l'économie sociale du Québec	1999	Ongoing
Chile	Member of the NAB	2017	Ongoing
European Union	Member of the NAB	2017	Ongoing
Finland	Impact investing national steering group	NA	Ongoing
Germany	Member of the NAB	2014	NA
	German Council for Sustainable Development	2001	Ongoing
Italy	Collaboration with the NAB	2016	Ongoing
Japan	Member of the NAB	2014	2016
Korea	Collaboration with the NAB	2018	Ongoing
New Zealand	Akina – Strategic Partner for New Zealand Social Enterprise Market Development	2017	Ongoing
Portugal	Observer in the Portuguese Social Investment Taskforce	2014	Ongoing
South Africa	Black Economic Empowerment Advisory Council	2009	Ongoing
	Impact Investing South Africa (President of National Treasury on the Board)	NA	Ongoing
Spain	Participation to Global Steering Group for Impact Investment (GSG) Spain meetings	2018	Ongoing

Note: NA missing information or not available

Table 6.A.2. Setting and enforcing rules (RULE)

Country		Year	Status
	Certification		
European Union	EuSEF (European Social Entrepreneurship Fund) label	2013	Completed
	Sustainable Finance Action Plan: harmonised EU taxonomy for green and social activities; development of sustainability labels and standards for green and social financial products; EC delegated acts, within the framework of the Benchmark Regulation, for introducing transparency of sustainability benchmarking in pricing; initiative for harmonised benchmarking for low-carbon issuers	2018	Ongoing
France	Label French Impact Territories	2018	Ongoing
	Impact Investing Label	NA	Ongoing
Italy	Decreto legislativo 117/2017 Enti del Terzo settore	2017	Ongoing
Korea	Social Enterprise Support Committee certification	2007	Ongoing
Malaysia	Impact-driven enterprise accreditation	2017	Ongoing
United States	Community developed finance institution certification	NA	Ongoing
	Fiscal incentives: Investment relief		
Australia	Venture capital limited partnership tax incentive	NA	Ongoing
Bangladesh	Alternative Investment Fund	2015	Ongoing
India	Priority Sector Lending Rule	1972	Ongoing
	Tax pass through in Category 1 alternative investment funds	2015	Ongoing
Korea	Social Enterprise Promotion Act	2007	NA
Turkey	Incentives for high-impact investments	2018	Ongoing
United States	Small Business Investment Company Program – Impact SBICs	2016	Completed
	Fiscal incentives: Tax relief		
Argentina	National Law 27.191 Program to Promote the Use of Renewable Energy in Electricity Generation	2015	Ongoing
Australia	Early stage venture capital limited partnership tax incentives and concessions	NA	Ongoing
Bangladesh	Through circular	2018	Ongoing
China (People's Republic of)	Notice of Issues on the Pre-tax Deduction for Charitable Donations	2009	Ongoing
France	Social and Solidarity Economy Law	2014	Ongoing
Ireland	Startup Refunds for Entrepreneurs	2015	Ongoing
	Seed Capital Scheme	NA	Ongoing
Italy	Decree 112 2017 on Social Enterprises	2017	Ongoing

Country		Year	Status
Korea	Social Enterprise Promotion Act	2007	NA
	Social Enterprise Promotion Act (support for under-privileged employees)	2007	NA
Malaysia	Public Ruling No. 11/2015 (Angel Tax Incentive)	2015	Ongoing
	Corporate tax incentives for donations to and procurement from non-governmental organisations and social enterprises	Forthcoming	NA
Peru	Works for Taxes	2008	Ongoing
Philippines	Revenue Regulation No. 13-98, Section 3 (a, b and c)	2003	Ongoing
Portugal	Investments in social impact bonds are acknowledged for tax purposes as an expenditure, with a mark-up of 30% on the amount invested. Besides this mark-up, investors can see their investment refunded (and registered as "revenue" for tax purposes in the same year), if social impact results are achieved.	2018	Ongoing
Singapore	Tax reduction for companies who donate to institutions of public character	2008	Ongoing
South Africa	Section 12J venture capital incentive of the Income Tax Act	2009	Ongoing
Spain	Fiscalidad para Fondos de Emprendimiento Social Europeo	2018	Ongoing
Thailand	Royal Decree on Tax Exemption (No. 621)	2016	Ongoing
United Kingdom	Social Investment Tax Relief (30% reduction in income tax bill for investment)	2014	Ongoing
United States	New Markets Tax Credit	2002	Ongoing
	Opportunity zones	2017	Ongoing
	Legislation on fiduciary responsibility		
Bangladesh	Corporate Governance Code	2018	Ongoing
European Union	Sustainable Finance Action Plan: incorporate sustainability into financial advice; put forth legislative proposal to clarify institutional investors' and asset managers' fiduciary duties and integrate requirements for sustainability considerations in investment decision making, transparency to end users	2018	Ongoing
France	Article 173-VI of France's Law on Energy Transition for Green Growth	2015	Ongoing
Indonesia	Article 15 of Law 25 200 on Corporate Social Responsibility	2007	Ongoing
Philippines	Corporate Social Responsibility Act	2011	Ongoing
South Africa	Corporate Social Investment South Africa (voluntary)	2012	Ongoing
South Africa	King IV adopted by the Johannesburg Stock Exchange	2017	Ongoing
United Kingdom	Investment Intermediaries Fiduciary Duties Reform	2014	Ongoing
United States	Community Reinvestment Act 1977	1977	Ongoing

Country		Year	Status
	Legislation on social enterprises		
Argentina	Law on Benefit and Collective Interest (BIC)	2018	Ongoing
Bangladesh	Companies Act 1994/Societies Act 1860	1994	Ongoing
Belgium	Sociétés à finalité sociale Act	1995	Ongoing
Canada	Community contribution company (British Colombia); community interest company (Nova Scotia)	2013	Ongoing
Denmark	Act on Registered Social Enterprises	2015	Ongoing
Finland	Act on Social Enterprises (1351/2003)	2003	Ongoing
France	Social and Solidarity Economy Law (ESUS)	2014	Ongoing
Greece	Social cooperative enterprises ("Kinoniki Sineteristiki Epihirisi"); Social Economy and Social Entrepreneurship Law 4019/2011	2011	Ongoing
Israel	Forthcoming	Forthcoming	Ongoing
Italy	Decree 112 2017 on Social Enterprises	2017	Ongoing
Kenya	Companies Act	2015	Ongoing
Korea	Social Enterprise Promotion Act	2007	Ongoing
Luxembourg	Societal Impact Society	2018	Ongoing
Malaysia	Forthcoming	Forthcoming	NA
Philippines	Social Enterprise Bill in progress and social enterprises can be registered as for not-for-profit under existing structures)	2018	Ongoing
Russian Federation	Order No. 227	2011	Ongoing
Thailand	Draft bill for social enterprise promotion	Forthcoming	NA
Uunited Kingdom	Charitable incorporated organisation	2013	Ongoing
	Community interest company	2005	Ongoing
United States	Benefit corporation and low profit limited liability corporations (in 35 states)	2010	Ongoing
Viet Nam	Article 10 Law on Enterprises No. 68/2014/QH13	2014	Ongoing
	Legislation on unclaimed assets		
France	Legilslation on unclaimed bank accounts and investment funds – extended to unsecured life insurance policies	2015	Ongoing
Japan	Dormant Account Utilisation Act	2016	Ongoing
Korea	Law for Administration of Unclaimed Assets	2014	Ongoing
Spain	Law 33/2003, 20-year dormant accounts and assets financing the education of people with disabilitites	2003	Ongoing
United Kingdom	Dormant Bank and Building Society Accounts Act	2008	Ongoing

Country		Year	Status
	Other legal instruments		
Argentina	Entrepreneurs Law	2017	Ongoing
Australia	Raising capital for co-operatives and mutuals	2017	Ongoing
Bangladesh	Alternative Investment Fund	2015	Ongoing
Colombia	Law 1014 on Entrepreneurship Culture Promotion	2006	Ongoing
India	SEBI Alternative Investment Funds Regulations	2012	Ongoing
Italy	Legislative Decree No. 179/2012: Equity-based crowdfunding for startups	2012	Ongoing
Malaysia	National Regulatory Sandbox for FinTech and Financial Inclusion	2018	Ongoing
	Values-based intermediation	2018	Ongoing
Pakistan	Ordinance on microfinance	2011	Ongoing
Singapore	Securities based crowdfunding	2016	Ongoing
South Africa	Broad-Based Black Economic Empowerment Act #53 (2003)	2003	Ongoing
United States	Community development entity	NA	Ongoing
	Pension regulation (including solidarity funds)		
Brazil	CMN Resolution 3792/2009	2009	Ongoing
France	Employees' savings schemes (Solidarity Investment Funds 90/10)	2001	Ongoing
Mexico	Forthcoming	NA	NA
South Africa	Amendment of Regulation 28 of the Regulations Made Under Section 36 of the Pension Funds Act	2011	Ongoing
United States	Bulletins 2015-01, 2016-01 and 2018-01	2015	Ongoing
	Public procurement regulation		
Australia	Social Procurement Framework	2018	Ongoing
Bangladesh	Public Procurement Act 2006 and amendments (2008, 2011)	2006	Ongoing
Belgium	Flemish Sustainable Public Procurement Action Plan	2008	Ongoing
Canada	Act to amend the Department of Public Works and Government Services Act (community benefit)	2018	Ongoing
China (People's Republic of)	Government Procurement Law	2003	Ongoing
	Regulations on the implementation of government procurement	2015	Ongoing
European Union	2014/24 Directive on Public Procurement	2014	Ongoing
	Implementation of the 2014/24 Directive on Public Procurement: Updating the Guide "Buying social"	2018	Ongoing
Finland	Competence Centre for Sustainable and Innovative Public Procurement	2018	Ongoing
Ireland	Public Procurement Directive (2014/24/EU) and Utilities Directive (2014/25/EU) include a provision for the possible ring fencing or reserving of particular contracts for social enterprises	2016	Ongoing

Country		Year	Status
Kenya	Access to government procurement opportunities (30% earmarked for youth, women and those with disabilities)	2012	Ongoing
Korea	Social Value Act	Forthcoming	NA
South Africa	Preferential Procurement Regulations for Tenders	2017	Ongoing
Spain	Law 9/2017 de Contratos del Sector Público, transposing 2014/23/UE and 2014/24/UE	2017	Ongoing
	Public Procurement of Innovation of Products and Services	2018	Completed
	Public Procurement for SMEs, self-employed and non-governmental organisations	2018	Completed
United Kingdom	Social Value Act	2013	Ongoing
	Reporting standards		
Argentina	Green, social and sustainable bonds	2018	Ongoing
Brazil	BOVESPA São Paulo Stock Exchange (federal level) requires companies to report environmental, social and governance (ESG)	2016	Ongoing
Denmark	Listed and large companies are required to report their corporate social responsibility efforts in their annual reports	2009	NA
European Union	European Corporate Reporting Lab	2018	Ongoing
France	Measuring and Monitoring Social Impact (MESIS)	2016	Ongoing
Germany	Social Reporting Initiative e.V (supported by the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth)	2014	Ongoing
India	Section 135 of the Indian Companies Act (CSR Law 2% of activities on CSR)	2013	Ongoing
Israel	Memorandum by the Commissioner of Capital Markets Insurance and Savings compelling institutional investors to publish their ESG and impact investment policies	2017	Ongoing
Japan	Social Impact Measurement Initiative	2016	Ongoing
Malaysia	Social progress assessment	2017	Ongoing
	Social Progress Index	2018	Ongoing
Thailand	ESG reporting mandate	2011	Ongoing
	Social stock exchange		
Argentina	Sustainable Stock Exchange	2017	Ongoing
Canada	SVX	2013	Ongoing
Malaysia	Social Impact Exchange	2018	Ongoing
United Kingdom	Social Stock Exchange	2013	Ongoing

Note: NA missing information or not available.

Table 6.A.3. Levying and granting financial resources (FINANCE)

Country		Year	Status
	Awards, challenges		
Argentina	PROESUS	2017	NA
European Union	Social Innovation Challenge Platform	2017	Ongoing
	Pilot project: Transfer of businesses under the form of co-operatives	2017	Completed
	Social innovation competition	NA	Ongoing
Malaysia	Amplify Awards	2015	2017
	Berbudi Berganda Challenge	2014	2016
	Fund of funds		
Bangladesh	Build Bangladesh Fund/fund of funds in partnership with government investment corporation of Bangladesh	2017	Ongoing
European Union	Central Europe Fund of Funds	2018	Ongoing
	Social Impact Accelerator	2013	Ongoing
	VentureEU	2018	Ongoing
Korea	Fund of Funds (SMEs and Start Ups)	2018	Ongoing
	Guarantee scheme		
European Union	EaSI Guarantee Facility	2015	Ongoing
India	Credit Enhancement Guarantee Scheme for Scheduled Castes	2015	Ongoing
Italy	Central Guarantee Fund for SMEs including social enterprises (Law 214/2011 cf. Art. 7bis)	2011	Ongoing
Mexico	National System of Guarantees	2013	Ongoing
Spain	Access to finance	2017	Ongoing
	Incubator, accelerator		
Chile	Start Up Chile	2016	Ongoing
Finland	Sitra Impact Accelerator	2015	Ongoing
France	Pioneers French Impact (national accelerator)	2018	Ongoing
New Zealand	Acceleration programme to enable government contractors to transition to results-based contracts	2017	Completed
	Investment readiness fund		
Australia	Sector Readiness Fund as part of Growth Grants initiative	2018	Ongoing
	Social enterprise development and investment funds	2010	2011
Canada	Investment Readiness Grant Fund	2018	Ongoing
Ireland	Social Innovation Fund	2013	Ongoing
Portugal	Capacity building for social investment	2016	Ongoing
United Kingdom	Investment and Contract Readiness Fund	2012	2015
	Other financial instruments		
Australia	Indigenous Impact Fund	2017	Ongoing
	Clean Energy Finance Corporation	NA	Ongoing
Belgium	Fonds de l'Économie Sociale et Durable	2003	Completed
Canada	Social Enterprise Demonstration Fund	2016	Ongoing
	Social Finance Fund	2018	Ongoing
European Union	European Fund for Strategic Investments Equity (Expansion and Growth and Early Stage Window)	2016	Ongoing
	European Fund for Strategic Investments Social Business Angels Co-investment Facility	2016	Ongoing
	European Fund for Strategic Investments Social Impact facility for accelerators and incubators	2016	Ongoing

Country		Year	Status
Finland	Sitra Fund of Fund for Impact Accelerators	2018	Ongoing
	Veikkaus	1940	Ongoing
France	Fonds d'innovation sociale (FISO)	2014	Ongoing
	Impact Cooperatif Fund	2016	Ongoing
	Nov'ESS	2016	Ongoing
	Fonds d'investissement Bpifrance Capital Innovation	NA	Ongoing
Germany	KfW Programme for the Financing of Social Entreprises	2012	2015
India	ASPIRE Fund	2016	Ongoing
	Funding for Menterra Social Impact Fund	2016	Ongoing
	India Inclusive Innovation Fund	2014	Ongoing
	Indian Samridhi Fund's "Poorest States Inclusive Growth Programme for 2014-2021"	2014	Ongoing
Indonesia	Government support for social enterprises in financial access	NA	NA
Ireland	Social Enterprise Grant Scheme	NA	Ongoing
Israel	Yozma Social Business Investment Fund	2015	Ongoing
Italy	Social bonds	2017	Ongoing
Kenya	Feed the Future Kenya Innovation Engine	2012	Completed
Mexico	Social bond	2017	Ongoing
Norway	Seed funding to social entreprises	2011	Ongoing
Peru	FINCyT I and II	2006	Ongoing
	Framework Fund for Innovation, Science and Technology (FOMITEC)	2008	Ongoing
	MIPYME Fund	NA	Ongoing
Philippines	Foundation for Sustainable Society	1995	Ongoing
Portugal	Social Innovation Fund	2018	Ongoing
	Match funding for venture philanthropy	2016	Ongoing
Singapore	Green Bond Grant Scheme	2017	Ongoing
	VentureForGood	NA	Ongoing
South Africa	Jobs Fund	2011	Ongoing
Spain	Crowdfunding Bizkaia	2017	Ongoing
	Grants: Access to Finance for the Social Economy in the City of Madrid; Promotion and Development of the Social Economy in the City of Madrid	2016	Ongoing
	Programa de Emprendimento e Innovación Social	2013	Ongoing
	Seed Capital Bizkaia Mikro	2014	Ongoing
	Social bonds	2015	NA
	Fondo de Emprendimiento e Innovacion Social (FEIS)	2014	Ongoing
Sweden	Swedish Inheritance Fund	1928	Ongoing
Thailand	Crowdfunding Equity Instrument	2015	Ongoing
United Kingdom	Reclaim Fund Ltd.	2011	Ongoing

Country		Year	Status
	Outcome commissioning		
Australia	New South Wales Homelessness Rate card	2018	Ongoing
European Union	Social Outcomes Contracting Advisory Platform	2018	Ongoing
France	*Contrats à impact social*	2016	Ongoing
Italy	Social Impact Italia with the European Investment Bank	2018	Ongoing
Singapore	Tote Board Enabling Lives Initiatives Grant	2014	Ongoing
	RaiSE Impact Finance	NA	Ongoing
United Kingdom	Fair Chance Fund	2014	Ongoing
	Life Chances Fund	2016	Ongoing
	Rough Sleeping SIB Fund	2016	NA
	Youth Engagement Fund	2014	Ongoing
United States	Social Impact Partnerships to Pay for Results Act	2018	Ongoing
	Outcome fund		
Chile	Social Impact Bonds Fund	2018	Ongoing
Italy	Social Innovation Fund	2018	Ongoing
	National Outcome-Based Fund (budgetary Law No. 205/2017)	Forthcoming	Forthcoming
Malaysia	Social Outcome Fund	2017	Ongoing
Portugal	Outcome Fund	2016	Ongoing
United Kingdom	Cabinet Office's Social Outcomes Fund (2012) and Innovation Fund (2013-17)	2012	Completed
	Innovation Fund	2013	2017
	Social impact bond(s)		
Argentina	VIS Social Impact Bond	2018	Ongoing
Australia	The Benevolent Society	2013	NA
	UnitingCare Burnside	2013	NA
	Common Ground Adelaide	2016	NA
	Hutt St Centre	2016	NA
	Child and Family Welfare	2017	Ongoing
	Flourish Australia	2017	Ongoing
	Churches of Christ in Queensland	2017	Ongoing
	Sacred Heart Mission	2017	Ongoing
Austria	Prospect Employment	2015	Completed
Brazil	Social Impact Contract	2018	Ongoing
Canada	EGADZ	2014	NA
	Mother Teresa Middle School	2016	NA
	Canadian colleges	2016	NA
	Heart and Stroke Foundation	2016	NA
Colombia	"Empleando Futuro", first social impact bond in Colombia	2017	Ongoing
Denmark	SocialKontract	NA	NA
European Union	European Fund for Strategic Investments payment-by-results Facility	2016	Ongoing
Finland	Koto-SIB	2017	Ongoing
	Epiqus Ltd.	2015	NA
	Helsinki	2017	Ongoing
France	IMPACT Academy	2017	Ongoing
	Adie	2017	Ongoing

Country		Year	Status
Germany	Augsburg	2013	NA
	Lega S Jugendhilfe	2017	Ongoing
	Integrative School Campus	2017	Ongoing
Ireland	Homeless Families in Dublin	2013	NA
Israel	Reducing dropout rates in higher education	2015	NA
	Preventing Type 2 diabetes	2016	NA
Japan	Diabetes prevention	2017	Ongoing
	Cancer screening	2017	Ongoing
	Dementia prevention	2017	Ongoing
Korea	Seoul social impact bond	2016	NA
	Gyeonggi province	2017	Ongoing
Malaysia	Sukuk Ihsan (Islamic finance)	2015	Ongoing
Mexico	El Futuro en Mis Manos	2016	NA
	ALCANCE	NA	NA
Netherlands	Buzinezzclub	2013	NA
	Workplace Rotterdam South	2015	NA
	The Colour Kitchen	2015	NA
	Buzinezzclub Ultrecht	2015	NA
	Work After Prison	2016	NA
	Buzinezzclub Eindhoven	2016	NA
	Werken in Duitsland	2016	NA
	Health Impact Bond	2017	Ongoing
New Zealand	Reduce reoffending of at-risk youth	2017	Ongoing
	South Aucklanders with medium-level mental health conditions back into work	2017	Ongoing
Norway	In progress	Forthcoming	Forthcoming
Portugal	Lisbon Junior Code Academy	2015	NA
	Fondao workforce development	2017	Ongoing
	Porto workforce development	2017	Ongoing
	Porto children on the edge of care	2017	Ongoing
South Africa	Western Cape Early Childhood Development	2018	Ongoing
Switzerland	Cantone Bern impact bond with Caritas	NA	NA
United Kingdom	HMP Peterborough SIB	2010	NA
	The “Advance” Programme	2012	NA
	The One* Service	2012	NA
	Nottinghamshire Futures	2012	NA
	Career Connect	2015	NA
	Tomorrow’s People (ThinkForward service)	2012	NA
	Perth YMCA (Living Balance)	2012	NA
	Community links	2012	NA
	Action for ChildrenIntensive (Multi-Systemic Therapy)	2012	NA
	St. Mungo’s Broadway	2012	NA
	Thames Reach (Navigator)	2012	NA
	Adviza	2012	NA
	Teens and Toddlers	2015	NA
	Prevista	2012	NA
	Dyslexia Action & Include	2012	NA
	Consortium of Voluntary Adoption Agencies	2013	NA
	Action for Children (multi-dimensional treatment foster care)	2014	NA
	Core Assets (Outcomes for Children)	2014	NA

Country		Year	Status
United Kingdom (*continued*)	St. Basil's (Rewriting Futures Programme)	2015	NA
	Fusion Housing	2015	NA
	Local Solutions	2015	NA
	Ambitious East Midlands	2015	NA
	Depaul UK	2015	NA
	P3 and CCP	2015	NA
	Ways to Wellness	2015	NA
	Home Group	2015	NA
	Futureshapers Sheffield	2015	NA
	Prevista Ltd.	2015	NA
	Age UK	2015	NA
	Health and Employment Partnership	2016	NA
	Special Educational Needs – HCT Group	2017	Ongoing
	St Mungos	2017	Ongoing
	Core Assets	2017	Ongoing
	West London Zone	2017	Ongoing
	North Middlesex University Hospital NHS Trust	2017	Ongoing
	Single Homeless Prevention Service Brent	2017	Ongoing
	ACTion Lincs	2017	Ongoing
	Mayday Trust (Be the Change)	2017	Ongoing
	Action Glos	2017	Ongoing
	Greater Manchester Housing Partnership	2017	Ongoing
	Affinity Trust	2017	Ongoing
	Elton John AIDS Foundation Bond	2017	Ongoing
	Street Impact Bristol	2017	Ongoing
	Positive Family Partnership	2018	Ongoing
	Changing Lives	2018	Ongoing
	Healthier Devon	2018	Ongoing
	Your Life Line 24/7	2018	Ongoing
United States	Center for Employment Opportunities	2013	NA
	Granite School District	2013	NA
	Rikers Island social impact bond	2013	NA
	Chicago public schools	2014	NA
	MHSA	2014	NA
	Roca	2014	NA
	FrontLine Service	2014	NA
	Adobe Services	2015	NA
	Colorado Coalition for the Homeless	2016	NA
	Connecticut Family Stability Pay for Success project	2016	NA
	Environmental Impact Bond	2016	NA
	Criminal Justice REACH project	2016	NA
	Homes Not Jail	2016	NA
	Nurse-Family Partnership	2016	NA
	Massachusetts Pathways to Economic Advancement	2017	Ongoing
	Women in Recovery	2017	Ongoing
	Alameda County Justice Restoration Project	2017	Ongoing
	Just in Reach	2017	Ongoing
	Ventura County Project to Support Re-entry	2017	Ongoing
	Strong Beginnings Pay for Success	2016	NA
	Blood Bank of Delmarva Young Blood Sustainability	2018	Ongoing
	Veterans Coordinated Approach to Recovery and Employment	2018	Ongoing

Country		Year	Status
	Technical assistance, capacity building		
Austria	Public Employment Service Social Business call	NA	Ongoing
Belgium	Sociale InnovatieFabriek	2013	Ongoing
	VLAIO (Flanders Innovations and Entrepreneurship)	NA	Ongoing
Chile	Feasibility study on social impact bond	2017	NA
Colombia	Colombia Jóven Emprende	2014	NA
	Innpulsa Colombia	2015	Ongoing
	SENA's Fondo Emprender SENA	2002	NA
Denmark	Social Growth Programme	2013	Ongoing
European Union	Better Entrepreneurship Tool	2018	Ongoing
	EaSI Capacity Building Investments Window	2016	Ongoing
	Employment and Social Innovation	2014	Ongoing
	Implementation of the 2014/24 Directive on Social Aspects of Public Procurement: Awarneness-raising events/capacity-building measures for public procurement officers	2018	Ongoing
	Smart Specialisation Platform – creating social economy clusters	2018	Ongoing
	Swedish Social Impact Bond Assessment Study	NA	Completed
France	Impact-driven investor assessment	2018	Ongoing
Greece	Central support mechanism for social enterprises	2013	NA
Ireland	Feasibility study of two potential social impact bond projects	2011	Completed
	New Frontiers Entrepreneurship Development	2012	Ongoing
Israel	Government support to Edtech programme (MindCET)	2012	Ongoing
	Public support to Innovation Israel	2017	Ongoing
Italy	Feasibility study on Torino Prison Social Impact Bond	2016	Ongoing
	Torino Social Impact Lab	2017	Ongoing
Korea	Financial support for marketing and business plan development social enterprises	2007	Ongoing
Luxembourg	Financial support to the Union luxembourgeoise de l'économie sociale et solidaire (ULESS)	2013	Ongoing
Malaysia	Amplify Accelerator	2018	Ongoing
	Feasibility Study on Social Finance and New Models for Public-Private Partnership	2014	Completed
	Multiple Incubator and Accelerator Programmes	2014	Ongoing
Mexico	High Impact Entrepreneurship Program	2016	Ongoing
	INADEM Programs of Entrepreneurs and Financing "Impulse to high impact ventures"	2013	Ongoing
New Zealand	Akina (sector growth services funded by the government)	2014	Ongoing
Pakistan	Centre for Social Entrepreneurship	2015	Ongoing
Singapore	Leap for Good	NA	Ongoing
Spain	Social Economy Open Desks	2017	Ongoing
Sweden	National Strategy for Entrepreneurship Education	2009	NA
	Coompanion, an advisory organisation for co-operatives	NA	Ongoing
	Partnership for the Development of Social Enterprises – 40-week training programme	NA	Ongoing
Switzerland	Social Entrepreneurship Initiative and Foundation	2010	Ongoing
United Kingdom	Endowment to Access (The Foundation for Social Investment)	2018	Ongoing

Country		Year	Status
United States	Community Development Financial Institutions Fund	1994	Ongoing
	USAID SBA Commerce Economic Development Agency and other technical assistance programmes	NA	Ongoing
	Venture capital fund		
Argentina	FONDECE	2017	Ongoing
China (People's Republic of)	Various funds at the municipal level	NA	Ongoing
India	Social Venture Fund	2015	Ongoing
	Venture Capital Fund for Scheduled Castes	2015	Ongoing
Israel	Public support to the Yozma Fund	2014	Ongoing
Malaysia	Social enterprise ventures	2017	Ongoing
Mexico	National Entrepreneurs Fund	2013	Ongoing
Netherlands	Seed capital	2018	Ongoing
Peru	Start-up Peru	2012	Ongoing
Spain	Fondo de capital riesgo PYME	2014	Ongoing
United Kingdom	UK FutureBuilders	2004	Completed
	Wholesaler		
European Union	Potential 2021 under InvestEU	Forthcoming	NA
Ireland	Social Finance Foundation	2007	Ongoing
Japan	Designated Utilization Foundation	Forthcoming	NA
Korea	Korea Social Value and Solidarity Fund	Forthcoming	Ongoing
Portugal	Portugal Inovacao Social	2015	Ongoing
United Kingdom	Big Society Capital	2012	Ongoing

Note: NA missing information or not available.

Table 6.A.4. Providing and sharing information (INFORM)

Country		Year	Status
	Communication campaign		
France	Bpifrance Capital Invest 2016	2016	Completed
Luxembourg	1,2,3 Go Social	2012	Ongoing
Malaysia	MaGIC Academy Symposium	2014	Ongoing
Russian Federation	Annual Social Business Forum	2010	Ongoing
Singapore	Festival for Good	NA	Ongoing
United Kingdom	GoodFinance.org.uk	NA	Ongoing
Consultation with external stakeholders			
Australia	2018 Budget Paper 1	2018	Ongoing
	Australian Treasury Social Impact Investing Discussion Paper	2017	Completed
Brazil	ENIMPACTO 26 member committee	2017	Ongoing
Canada	Social Innovation and Social Finance Strategy Cooperation Steering Group	2017	Ongoing

Country		Year	Status
Denmark	Dialog forum for Samfundsansvar og Vækst	2016	Ongoing
European Union	European Expert Group for Social Entrepreneurship (GECES)	2013	NA
France	National Advisory Committee on Impact Investing	2013	Ongoing
Ireland	Consultation with external company (advice for social impact bond implementation)	2012	Completed
	SII Advisory Group	2011	NA
Malaysia	National Regulatory Sandbox	2018	Ongoing
Norway	Veier til samarbeid ("Roads to collaboration")	2017	Completed
Thailand	Public consultation on Social Enterprise Act	2018	NA
United Kingdom	Advisory Group on Creating Culture of Social Impact Investment	2016	Completed
	Consultation on public procurement regulation	2013	Completed
	Research, studies, data publication		
Canada	Social Finance Models for the Settlement and Integration Sector in Canada – Market Assessment Report	2016	Completed
China (People's Republic of)	China Social Entrepreneur Foundation	2007	Ongoing
Denmark	National Centre for Social Enterprises	2013	Completed
European Union	Compendium of social enterprises policies and initiatives	2017	Completed
	Improving co-operation between traditional enterprises and social economy enterprises	2016	Completed
	In-depth country reviews of social enterprise ecosystems in several member states	2018	Ongoing
	Mapping of social enterprise ecosystems in Europe	2015	Completed
	Stimulating cross-border activities for social economy enterprises	2018	Ongoing
	Use and impact of new technologies by social economy and social enterprises	2018	Ongoing
	Social Innovation: Comparative Perspectives	2018	Completed
	Joint Research Centre "Social impact investment in the EU"	2018	Completed
Finland	Guide for non-governmental organisations	2018	Completed
	Guide on social outcomes contracting for the public sector	2016	Completed
	Private investors impact investing guide	2016	Completed
	SIB opas julkiselle sektorille	2015	Completed
	Vaikuttavuusinvestoiminen (General Impact Investing Guide)	2016	Completed
France	French Chamber for Social and Solidarity Economy	2014	Ongoing
Ireland	Monitoring and Evaluation Committee	2011	NA
	Social Impact Investments in Ireland: Learnings from the Pilot Initiative	NA	Completed

Country		Year	Status
Italy	Academic Research for Italian Platform for Impact Finance by ten public universities	2017	Ongoing
	Italian report of the Social Impact Investment Task Force, government involved as observer in working group	2016	Ongoing
	Social Impact Outlook	2018	Ongoing
Japan	Research on SII	2017	Ongoing
Korea	Korea National Advisory Board for Impact Finance	2018	Ongoing
Malaysia	Social Finance Roadmap for Malaysia	2016	Completed
Netherlands	Stimulating the social enterprise sector: Experience and lessons from Europe	2013	NA
New Zealand	Government position statement on social enterprise	2014	Completed
	Social Enterprise and Social Finance: A Path to Growth	2016	Completed
Norway	Support to two studies (Damvad and Gustavsen & Kobro)	2012	Ongoing
Portugal	ONE VALUE (Impact data)	2018	Ongoing
United Kingdom	Outcomes Lab	2016	Ongoing
	UK Social Investment Research Council	2013	Ongoing
United States	ESG Investment Tools: A Review of the Current Field	2017	Completed

Note: NA Missing information or not available.

Development co-operation social impact investment initiatives

Table 6.A.5. Employing or reforming government structure and capacities (STEER)

Country		Year	Status
	National strategy for impact investing		
Australia	Investing in Women	2017	Ongoing
Germany	Ministry of Development Cooperation's financial market development strategy	NA	Ongoing
	Stakeholder partnerships		
Italy	Climate and Sustainable Development Italian Platform	2017	Ongoing
Sweden	Swedish Investors for Sustainable Development	2016	Ongoing
	Swedish Leadership for Sustainable Development	2013	Ongoing
United States	USAID East Africa Trade and Investment Hub	2014	Ongoing

Note: NA Missing information or not available.

Table 6.A.6. Levying and granting financial resources (FINANCE)

Country		Year	Status
	Awards, challenges		
Canada	Grand Challenges Canada	2010	Ongoing
Czech Republic	Challenge Fund of the Czech-UNDP Partnership for SDGs	2018	Ongoing
Netherlands	Africa Enterprise Challenge Fund	2008	Ongoing
Sweden	Challenge Funds (13)	2007	Ongoing

Country		Year	Status
United Kingdom	Africa Enterprise Challenge Fund	2008	Ongoing
United States	USAID Grand Challenges	2011	Ongoing
	Development impact bond(s)		
Canada	Kangaroo Mother Care Development Impact Bond	2018	Ongoing
France	Green and social project bonds	2016	Ongoing
Germany	Green Bond Programme	2014	Ongoing
Italy	Outcome payer in the ICRC Humanitarian Impact Bond	NA	NA
Switzerland	Humanitarian impact bond	2018	Ongoing
United States	Cameroon Cataract Development Impact Loan	2017	Ongoing
	Fund of funds		
France	Investisseur & Partenaire pour le Développement IPDEV.1 (co-investor)	2007	Ongoing
	Guarantee scheme		
Sweden	Sida's guarantee instrument	2009	Ongoing
Switzerland	First loss guarantees in structured funds	NA	NA
	Incubator, accelerator		
Italy	Carribean Comunity Climate Change Centre	2017	Ongoing
United Kingdom	DFID Impact Programme – Impact Accelerator	2015	Ongoing
	Center for Social Initiatives Promotion (Viet Nam)	2009	Ongoing
United States	USAID's Center for Innovation and Impact	2011	Ongoing
	Investment readiness fund		
Australia	Pacific Readiness for Investment in Social Enterprise (Pacific RISE)	2016	Ongoing
	Other financial instruments		
Australia	Emerging Markets Impact Investment Fund	2017	Ongoing
Austria	Ecobusinessfund	2014	Ongoing
	Dolma Impact Fund (co-investor)	2014	Ongoing
Canada	Canada-Asia Trade and Investment for Growth Program	2018	Ongoing
	"A New Partnership for Sustainable Impact Investing in Frontier Markets" led by Mennonite Economic Development Associates of Canada (grant)	2013	Ongoing
Denmark	SDG Investment Fund	2017	Ongoing
European Union	ACP Investment Facility (Impact Financing Envelope)	2003	Ongoing
	FEMIP Trust Fund- –The impact investment financing envelope	2004	Ongoing
	GroFin Africa Fund (co-investor)	2008	Ongoing
	European Investment Bank Eastern Partnership (co-investor)	2009	Ongoing
Finland	Central American Small Enterprise Investment Fund	2007	Completed
France	GroFin Africa Fund (co-investor)	2008	Ongoing
	Energy Access Ventures Fund (co-investor)	2015	Ongoing
	Investment and Support Fund for Businesses in Africa	2008	Ongoing
	Investisseurs & Partenaires Afrique Entrepreneurs 2 (co-investor)	2017	Ongoing

Country		Year	Status
Germany	Africa Agriculture Trade and Investment Fund	2011	Ongoing
	Ecobusinessfund	2014	Ongoing
	GIZ-SIDBI Responsible Enterprise Finance Programme	2013	2016
	Green Growth Fund	2009	Ongoing
	Dolma Impact Fund (co-investor)	2014	Ongoing
Japan	JICA's Private Sector Investment Finance	NA	Ongoing
Korea	Inclusive Business Solution programme	2016	NA
Netherlands	Access to Energy Fund	2003	Ongoing
	Development Related Infrastructure Investment Vehicle	2015	Ongoing
	Infrastructure Development Fund	2002	Ongoing
	MASSIF	2006	Ongoing
	GroFin Africa Fund (co-investor)	2008	Ongoing
New Zealand	Partnerships for International Development Fund	2017	Ongoing
Norway	Central American Small Enterprise Investment Fund	2014	Ongoing
	Prosepero (co-investor)	2011	Ongoing
	GroFin Africa Fund (co-investor)	2008	Ongoing
Switzerland	Central American Small Enterprise Investment Fund	2014	Ongoing
	SME Finance – Loans for Growth Fun (first loss position)	2016	Ongoing
United Kingdom	DFID Impact Fund	2013	Ongoing
	GroFin Africa Fund (co-investor)	2008	Ongoing
United States	Funding for Livelihood Impact Fund	2016	Ongoing
	Innovative Financial Intermediaries Program	2013	Ongoing
	Portfolio for Impact	2014	Ongoing
	Outcome commissioning		
Switzerland	Social impact incentives (Mexico, Honduras and others)	NA	Ongoing
	Technical assistance, capacity building		
Belgium	MSME Support Fund	NA	Ongoing
France	Feasibility study on the structuring of a development impact bond on menstrual hygiene in sub-Saharan Africa	NA	Ongoing
	Impact Driven Investor Assessment	2018	Ongoing
Germany	Responsible and Inclusive Business Hubs	2014	Completed
Italy	Feasibility Study on development impact bonds in Afghanistan	NA	NA
Korea	Creative Technology Solution	2015	NA
Netherlands	Capacity Development Program	NA	Ongoing
	SDG Partnership facility (SDGP)	2018	Ongoing
New Zealand	New Zealand Cooperation Fund for Technical Assistance	1999	Ongoing
Switzerland	Support to Colombia social impact bond	NA	Ongoing
	Technical assistance to financial vehicles	NA	NA
United Kingdom	DFID Impact Programme – Market Building	2012	Ongoing
	DFID Impact Programme – Technical Assistance Facility	2015	Ongoing
United States	USAID Development Credit Authority	2000	Ongoing

Country		Year	Status
	Venture capital fund		
Belgium	Ventureast Proactive Fund II	2016	Completed
France	TIDE Africa Fund	2017	Ongoing
Netherlands	Dutch Good Growth Fund	2014	Ongoing
Switzerland	SECO Start-up Fund	1997	Ongoing
	Venture Investment	NA	Ongoing
United Kingdom	Funding Aavishkaar Emerging India Fund	2017	Ongoing
	Funding for Insitor Impact Asia Fund	2015	Ongoing
United States	Funding for Caspain impact investments	2015	Ongoing

Note: NA Missing information or not available.

Table 6.A.7. Providing and sharing information (INFORM)

Country		Year	Status
	Communication campaign		
Australia	InnovationXChange	2015	Ongoing
	Research, studies, data publication		
Denmark	Private Capital for Sustainable Development Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance	2016	NA
Germany	De-mystifying Impact Investing: An Entrepreneurs' Guide	2015	Completed
	Green and Inclusive Business Toolbox	2017	Ongoing
Switzerland	Catalyzing Wealth for Change – Guide to Impact Investing	2016	Completed

Note: NA Missing information or not available.

Chapter 7. Building the evidence base: Internationally comparable data[1]

A number of established data-collection initiatives and organisations provide helpful insights on the social impact investment market. However, data efforts are still highly fragmented and not comparable across studies. This chapter presents data and transparency efforts undertaken alongside the OECD Social Impact Investment Initiative's data work stream. The chapter outlines initial steps towards a global data framework on social impact investing. It starts by presenting transparency principles. It then discusses data on transactions and performance, also looking at data available beyond social impact investment that could inform help inform the SII market. The chapter also presents social impact investment platform efforts and approaches for measuring impact. It concludes by calling for greater coordination and Social Impact Investment laying out recommended steps to move forward from the initial data standards to internationally adapted and globally used data standards.

7.1. Introduction

With increasing interest and investments in the field, it is imperative to build social impact investments (SII) on measurable theories of change. The availability of standardised impact metrics linked with comprehensive transaction data will be critical to backing the theory of change as well as making progress on financing the Sustainable Development Goals (SDGs). Moreover, as has been seen in other markets, comparable data, standards and transparency are necessary precursors for capital markets to grow, mature and thrive (Figure 7.1).

While there are a number of established data-collection initiatives and organisations in the SII market, data efforts are still highly fragmented and not comparable across studies or countries. Given the data heterogeneity, there is not only an opportunity, but also according to market players themselves, a willingness to collaborate to work towards data standards which can facilitate the collection of internationally comparable data that the various stakeholders are seeking. The OECD Social Impact Investment Initiative, in collaboration with key industry practitioners and data aggregators, has undertaken efforts to increase transparency and comparability of data in the market (see Box 7.1). The efforts included the development of a roadmap towards an internationally comparable data framework. This roadmap covers the following four dimensions of a global reporting framework:

Why? The demand for global data standards emerges from the need for transparency by stakeholders in the SII market including policy makers, social enterprises, intermediaries and investors seeking social impact investing evidence (see for a differentiation of data needs for different stakeholder groups). In order to allow for effective growth of the sector, comprehensive evidence is needed on the level of activity in the market as well as on what works and what does not. This will also facilitate the mainstreaming of the SII market in the long term, moving from a segment of the financial market to showing how impact measurement could be imbedded into all financial transactions.

What? Given the different needs and viewpoints of the various stakeholders in the SII market, what type of data is specifically needed in a global data reporting framework? Which key indicators are most useful to the key audiences and which data are reasonably easy to attain? The goal is to start by building upon the data fields that are already being collected and to encourage market players to collect these in a comparable manner.

Who? A discussion about the audiences, data needs, and incentives and more generally about the way forward towards a standardised data framework needs to clarify the potential key players who might take responsibility for various parts of the roadmap as well as the milestones within the process.

How? How can data be made available and be comparable globally? This question encompasses a broad spectrum of challenges. Among them, data templates as well as an associated data dictionary are needed for the agreed upon data fields. The roadmap also needs to address technical issues dealing with the electronic submission and exchange and interoperability of data,[2] which requires identifying and leveraging both existing and potential new technologies.

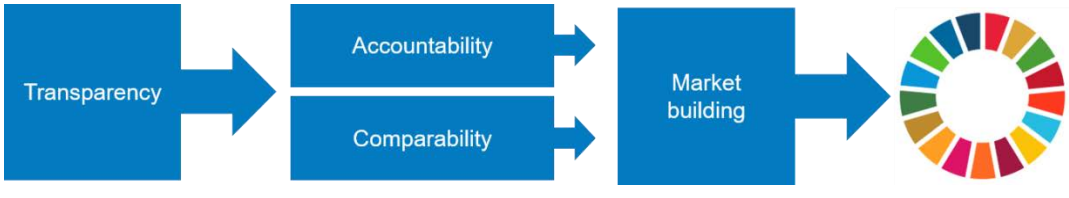
Box 7.1. The data work stream within the OECD Social impact Investment Initiative

The goal of the OECD data work stream has been to move towards increased transparency, accountability and comparability of social impact investment (SII) data as a means of further developing the evidence base for the SII market globally. Ultimately, improved transparency will lead to long-term market building by fostering accountable and comparable insights into the SII market. In doing so, the social impact investment market can also demonstrate how it is contributing to delivering the Sustainable Development Goals (SDGs) (Figure 7.1).

The OECD SII data work stream brought together SII data experts in an explicit process of moving towards the development of global SII data standards with the goal of increasing transparency and accountability in the SII market. The work centred on the development of initial data standards, a set of principles about transparency, identifying linkages to existing data sources, and assimilating developments in impact management and measurement.

This chapter presents a review of the data and transparency efforts undertaken alongside the OECD Social Impact Investment Initiative's data work stream. It outlines first steps towards a global data framework on social impact investing. The chapter starts by looking into transparency principles, which are essential to the establishment of a global data framework, and the reporting and exchange of transaction and performance data more concretely. Sections on transaction and data availability beyond social impact investment that could inform a global data framework follow subsequently, before looking into approaches to measuring impact and the need for greater coordination. The chapter also presents SII platform efforts before providing recommendations on way forward. It lays out a series of recommended steps to move forward from the initial data standards to internationally adapted and used global data standards.

Figure 7.1. How transparency can support the achievement of the Sustainable Development Goals



Source: Author

7.2. Transparency principles pave the way for comparable aggregated data

A commitment to greater transparency and a willingness of SII stakeholders to report to an agreed upon a set of principles serves as a first step towards a comprehensive global reporting framework. This section presents the transparency charter developed under the OECD SII Initiative, as well as other efforts to guide transparency in impact investment.

The OECD Group of Social Impact Investment Experts has developed a set of principles to commit to transparency. The principles have been developed in response to a call from industry representatives for greater transparency. The OECD SII principles recommend that data should be captured and aggregated in an internationally comparable manner as a means for further developing the evidence base for SII stakeholders and decision makers.

The principles aim to make transparency an industry norm for all actors working to scale their impact and improve the efficiency with which they deploy their capital. The underlying idea is that collaboration should characterise the behaviour of all actors in the sector in order to work together towards data standardisation on the one hand and reporting towards standardised templates on the other. As the sector grows larger and welcomes new participants, there is an opportunity to adopt industry principles, building on the rationale that transparency is essential for collaboration and growth of the industry (Box 7.2).

Box 7.2. The Social Impact Investment Transparency Principles

A collaborative ethic has been critical to the success of our efforts to date.

Transparency is essential to preserve that collaborative ethic.

Transparency is essential to scale our efforts.

Transparency requires regular and standardised reporting by all who seek to be accountable for generating a positive impact from investments.

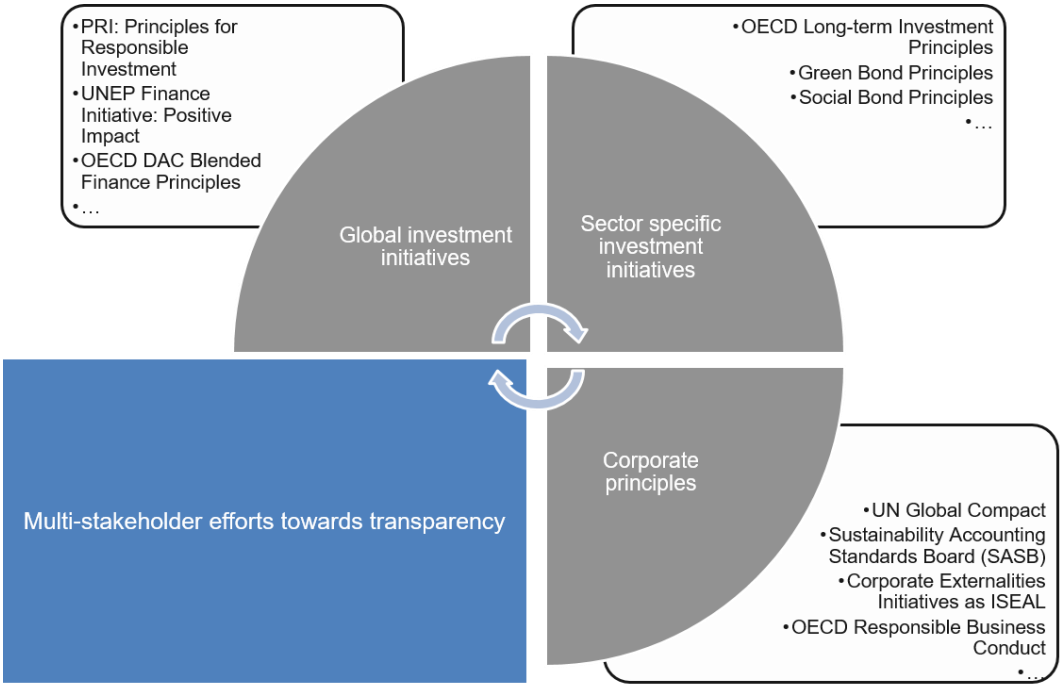
Notes: Tomas Carruthers, CEO of Project Heather, has been driving the development of the transparency principles under the OECD SII Initiative.

In general, the principles for information disclosure are only a first step towards generating momentum on transparency and disclosure in the sector. Principles are always part of a process, not an end in itself; but it is important to move towards transparency with the help of widely acknowledged principles. In fact, a number of efforts are under way to develop a broader set of standards in the industry.

7.2.1. There are a growing range of principles

The OECD Transparency Principles focus in particular on the data-collection aspects of social impact investment, and as such complement principles on investment behaviour and corporate conduct. A number of multi-stakeholder efforts have been engaged in developing and endorsing principles frameworks that also affect the social impact investment market. Some efforts are global while others are targeted to particular sectors, or focus on the demand-side, i.e. corporates and social entrepreneurs more specifically (Figure 7.2).

Figure 7.2. The spectrum of principles affecting social impact investment and examples



Source: Author

Among the **global initiatives**, the Principles for Responsible Investment (PRI) focus on encouraging investors to invest responsibly (Box 7.3). The PRI is a joint private initiative of the UN Environment Programme Finance Initiative and the UN Global Compact with the aim of incorporating environmental, social and governance (ESG) issues into mainstream investment decision making and ownership practices (OECD, 2007[1]). The PRI is based on the premise that institutional investors and asset managers have a duty to act in the best long-term interests of their investors and therefore need to give appropriate consideration to how ESG issues can affect the performance of investment portfolios.

Box 7.3. Principles for Responsible Investment

The Principles for Responsible Investment (PRI) bases its work on six principles launched in 2006 (PRI, 2018[2]): 1) to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes; 2) to be active owners and incorporate ESG issues into ownership policies and practices; 3) to seek appropriate disclosure on ESG issues by the entities invested in; 4) to promote acceptance and promotion of the principles within the investment industry; 5) to work together to enhance effectiveness in implementing the principles; and 6) to report activities and progress towards implementing the principles. Since the launch of the principles, the number of investor signatories has grown to 1 800 investors (PRI, 2018[2]).

The UN Environment Finance Initiative has developed the Principles for Positive Impact Finance, whereby positive impact finance is defined as finance "which verifiably

produces a positive impact on the economy, society or the environment once any potential negative impacts have been duly identified and mitigated" (UNEP FI, 2017[3]). As such, the principles target, in particular, investors and financiers and provide a common definition on positive finance; frameworks and tools to engage in positive finance; guidelines on transparency, including reporting activities, processes and impact; as well as insights on assessing, measuring and understanding positive impact (UNEP FI, 2017[3]). These principles go beyond impact investors and strive to guide mainstream investors' exposure to SDG-related impact investment. However, the principles are not prescriptive in the means and invocators used to measure and analyse positive impact; they only require that these should be disclosed and transparent.

From a development finance perspective, the OECD-DAC Blended Finance Principles aim at providing guidelines to ensure that blended finance operations by donor agencies and other providers of development finance are effective and impactful (see Chapter 2). As such, they will also add to the transparency of social impact investments as they make a case for reporting on both transaction and performance data. While the five principles cover important issues such as anchoring blended finance engagement to a development rationale, crowd-in commercial investment, linking efforts to local context and objectives, as well as effective partnering, a crucial pillar refers to monitoring, measuring and reporting on blended finance (OECD, 2017[4]). This includes, for instance, the tracking of financial flows, commercial performance and development results, i.e. transaction data and performance data.

Other sets of principles are directed to **specific investment segments or sectors** that are relevant for social impact investing, for instance for long-term investors (e.g. the G20-OECD High-level Principles of Long-term Investment Financing by Institutional Investors) (OECD, 2014[5]), the green investment sector (e.g. the Green Bond Principles by the International Capital Market Association) (ICMA, 2018[6]), or social bonds (e.g. the Social Bond Principles by the International Capital Market Association[3]) (ICMA, 2018[7]).

Finally, **guidance on corporate conduct** is important as investments are made into social purpose enterprises which also need to follow core conduct principles. Since 2000, the UN Global Compact has aimed at the adoption of sustainable and socially responsible policies for corporations. So far, more than 9 000 companies have endorsed the ten principles addressing human rights, labour, environmental and anti-corruption aspects. An important part is the assessment of impact; for instance, 58% of the companies conducted assessments of the environmental impact dimension (UN Global Compact, 2017[8]).

The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct Matters were adopted in 1976 and since then have been reviewed five times. They are recommendations by governments to multinational enterprises on issues around disclosure, human rights, employment or environment (OECD, 2018[9]). The latter concerns, for instance, recommendations to improve on environmental performance and environmental protection through internal management. Implementation is taken forward by so-called national contact points, which engage in promoting the guidelines or dealing with inquiries, among other things. Currently, 48 countries adhere to the guidelines.

Other principles focus on specific sectors, such as agriculture, forestry or fisheries. ISEAL is an example of an association focused on the development of credible sector-specific sustainability standards ensuring impact at the entrepreneur level and which can facilitate SII into accredited companies. ISEAL sets sustainability standards in order to ensure social and environmental outcomes (ISEAL, 2018[10]).

The broad spectrum of existing multi-stakeholder efforts towards increasing transparency reflects the need for transparency and accountability in the social impact investment sector and beyond. At the same time, these individual efforts are fragmented, applying different definitions of impact, different approaches to measurement of impact, or different stakeholder groups, i.e. investors or investees. Going forward, interoperability efforts are needed to ensure coherent, transparent and accountable alignment of investments with the SDGs.

7.3. The need for standards to interconnect social impact investment data[4]

Increasingly, commercial investors as well as development financiers are striving to achieve measurable impact when investing for profit. While the interest in impact investing has increased, the level of available data is not increasing proportionally. At this stage there are no comprehensive figures on SII market activity (beyond various survey efforts, the most comprehensive being the annual GIIN Survey (GIIN, 2018[11])). Important data efforts do exist and produce informative figures; however, diverging entry points, definitions and geographical focuses underline the need for data standards and interoperability. Hence, the goal is to start by building upon the data fields that are already being collected and to encourage market players to collect these in a comparable manner.

Shared definitions and data fields collected will be crucial in order to exploit the full potential of transparency by making data comparable over time, across sectors, jurisdictions, investors and beyond. Overarching data-structuring frameworks and reliable data exchange processes have to be enabled for better data and interoperability. Therefore, collaboration between players currently involved in data origination and collection efforts is critical.

Data reporting standards have been a key part of the OECD Social Impact Investment Initiative. This work was predicated upon undertaking a mapping study of the different data standards currently used by parties who aggregate SII data, evaluating key characteristics that make up the definition of social impact investing as published by the OECD (OECD, 2015[12]) and the OECD-DAC standards for development finance (OECD, 2018[13]). The different data standards include EngagedX Investment STandards (EXIST), Big Society Capital, SODACAP, Phineo and the Global Value Exchange. The data categories were finalised through extensive interviews with experts and dialogue with industry representatives to ensure practical alignment with their data requirements.

As a reference point, the mapping study incorporates data fields from a reporting directive used by the OECD's Development Assistance Committee (DAC). This data reporting framework compares international aid and development finance. The DAC framework is a useful case study to inform how the current SII reporting standards might be converged and to see if it is feasible to align SII data with this framework. The DAC reporting directives also include key definitions and concepts, methodological guidance for reporting as well as classifications that can potentially serve as a starting point for an SII data-reporting framework.

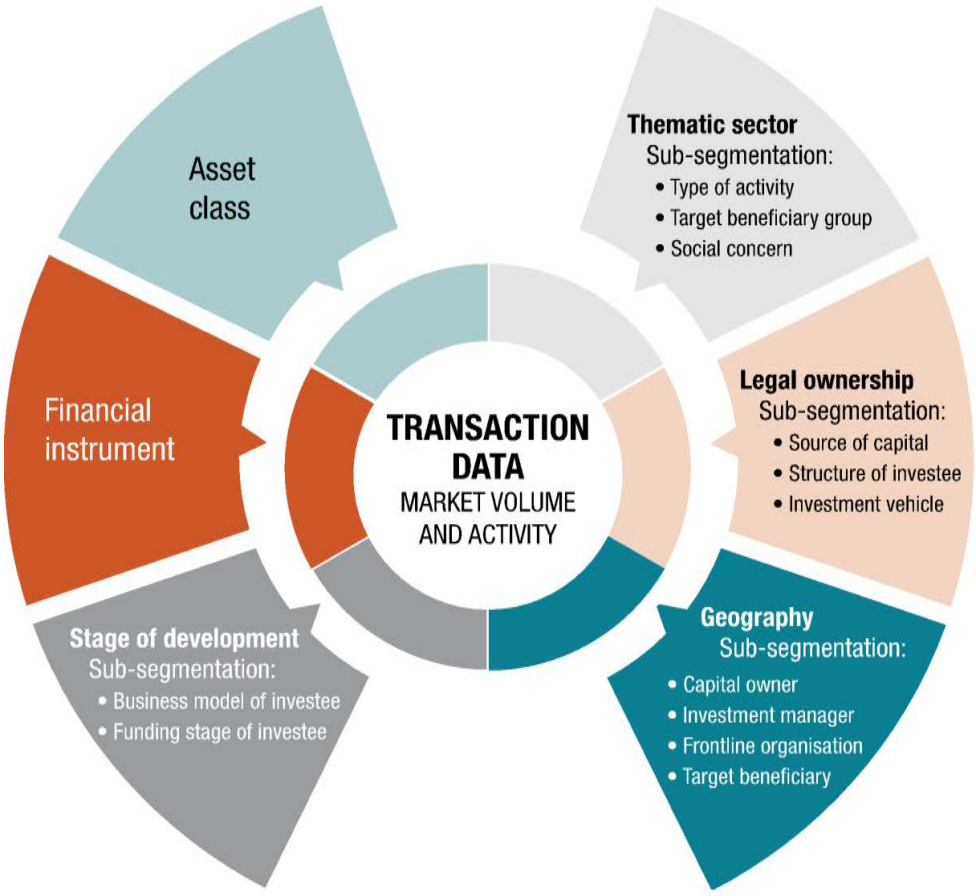
Building on the OECD mapping study, a specific subset of relevant transaction-based indicators has been developed. This will serve as a basis for the global reporting framework which ultimately would also include performance data (financial and impact). At the initial stage, the standardised data framework has focused on transaction data in

order to inform on market volumes and activities. The framework comprises six categories, which are building on the definition of SII as laid out by (OECD, 2015[12]):

- Asset class: The social impact investment assets classes can cover the full range, from equity and debt to guarantees.
- Financial instrument: Financial instruments within the asset classes covered include, for example, ordinary shares or preferred shares, loans or bonds, etc.
- Stage of development: This includes the business model of the investee, i.e. whether it is at the start-up, early, growth or established stage, as well as the funding stage, i.e. in the first round, follow-on round or mature.
- Thematic sector: The thematic sector includes the type of activity, i.e. economic activity, beneficiary category and the respective social concern the business is addressing.
- Legal ownership: Legal ownership concerns the source of invested capital, e.g. private or public, the legal structure of the investee, as well as information on the vehicle if the investment is intermediated, e.g. on the fund.
- Geography: Covers the origin of the capital, intermediary, frontline organisation and investee.

It is acknowledged that some of these data fields will be commercially sensitive and such data will need to be processed appropriately. As such, questions of data ownership as well as suitable channels for data aggregation and distribution remain to be developed. In addition, transparency principles can be conducive towards agreeing on standards for sharing (see previous section).

Figure 7.3. Reporting framework for SII transaction data: Data categories for segmentation and comparable analysis



Source: Karl Richter, Executive Director, EngagedX has been leading the transaction data work under the OECD Social Impact Investment Initiative.

7.3.1. Initial conclusions and lessons from the initial mapping of data fields

There is sufficient overlap of data fields currently in use by SII practitioners to facilitate an initial co-ordination effort. In addition to co-ordinating the overall collection of data points, a detailed co-ordination for the content of each data field is necessary. For example, a common list of different product types or financial instrument types that are relevant to SII, as well as internationally accepted rules for delineation between them, is crucial.

The data field mapping study revealed that there are different interpretations or categorisations of product types between SII and international aid and development practitioners. For example, convertible notes can be classified as debt instruments by SII and as mezzanine finance by aid and development practitioners, or reimbursable grants can be classified as grants by SII practitioners and as debt by aid and development practitioners. These minor variations can be easily co-ordinated to converge standards, or dealt with by codifying product types with more granularity so that data aggregators are free to regroup them based on relevant reporting criteria or norms.

In time, additional data field co-ordination will be required, for example for headline performance data (financial return, write-off, etc.) and time-series performance data (cash flow, impact data, etc.). In addition, on an ongoing basis, new data-collection initiatives have been established, whose specificities and innovations need to be taken into account going forward. To that end, piloting the initial data fields and testing their real-life applicability is crucial in order to strengthen the set and support its evolution over time towards a common standard.

Potentially, social impact investment data could be collected across a broad spectrum of definitions and frameworks and subsequently leave the segregation to the particular user. That is, policy makers and investors do have different data needs and should still be able to use the same data set, filtering to their needs regarding the definition of social impact investment.

Technology plays a decisive role in achieving interoperability of data. An example of exploiting technical innovations for interoperability is developed in the Project 1800, which aims at tackling the underinvestment in the water sector by a systemic, multi-dimensional platform approach to water financing. The goal is to address legal, financial, social and technical issues simultaneously. Ultimately, the project aims at developing financial and technological frameworks that offer the opportunity to incentivise investment and collaboration at scale to finance SDG 6. One driver behind the project is the "changing the way in which data is collected, organised, stored, and shared […]", thereby striving towards the use of blockchain as a source of record keeping and transparency (Burgess et al., 2018[14]).

7.4. Beyond social impact investment data – the key role of existing data sources

Policy makers and other stakeholders of SII not only require data on the actual activities and performances. A full picture of the social impact investment market requires looking also at contextual data on the enabling environment and other financial flows as well as data about social needs. These contextual data are particularly important in demonstrating the market potential for social impact investments. This section will provide an overview of existing public and private data sources, which provide a better picture about the social impact investment market. In doing so, this section will show the wealth of available data – from the OECD and beyond – which can be harnessed to inform the SII market.

The OECD Social Impact Investment Initiative has developed a non-exhaustive database of databases, which provides an overview of sources of relevant, cross-country comparable data in areas relevant to social impact investing (Table 7.1). The table shows the potential of and need for integration or interoperability of a global data framework on SII with a variety of enriching data available gathered for and in other contexts.

Table 7.1. Examples of social needs and enabling environment databases

Social needs databases	Enabling environment databases	
Social Expenditure Data Social Expenditure Database (SOCX) Global Health Expenditure Database World Development Indicators Unit Cost Databases Sector/SDGs-related data SDG Indicators Global Database Social Progress Index Gap Minder Human Development Index Global Health Observatory data OECD Better Life Index Humanitarian Data Exchange INDEPTH Data Repository Investment needs World Investment Report 2014 "Investment needs to achieve the Sustainable Development Goals" Green Investment Report 2013 Global Sustainable Investment Review	Investment Climate OECD Creditor Reporting System Annual Survey of Large Pension Funds OECD Mobilisation Survey International Aid Transparency Initiative data *World Wealth Report* World Giving Index Business Environment and Enterprise Performance Survey IRIS Regulatory and legal environment OECD Policy Framework for Investment Financial Sector Assessment Program "Johns Hopkins University Comparative Non-profit Sector Project" UN Nonprofit Handbook Project CIVICUS Civil Society Index USAID CSO Sustainability Index	Entrepreneurship Climate Global Competitiveness Index Ease of Doing Business Indicators World Governance Indicators Enterprise surveys Venture Capital/Private Equity Attractiveness Index Competitive Industrial Performance Measuring Financial Literacy Corruption Perceptions Index Freedom in the World "Global Entrepreneurship Monitor National Expert Survey" The Best Countries to Become a Social Entrepreneur Social Innovation Index Philanthropic Environment World Values Survey European Social Survey Global Barometer Surveys 2017 OECD-DAC Survey on Global Private Philanthropy for Development

For example, the OECD's statistics and data-collection work such as the *Social Expenditure Database* (SOCX) (Box 7.4), as well as that of other international organisations and national governments, in areas like employment, labour, environment and social affairs, is crucial to frame the need for social impact investment in different countries.

Box 7.4. OECD Social Expenditure Database (SOCX)

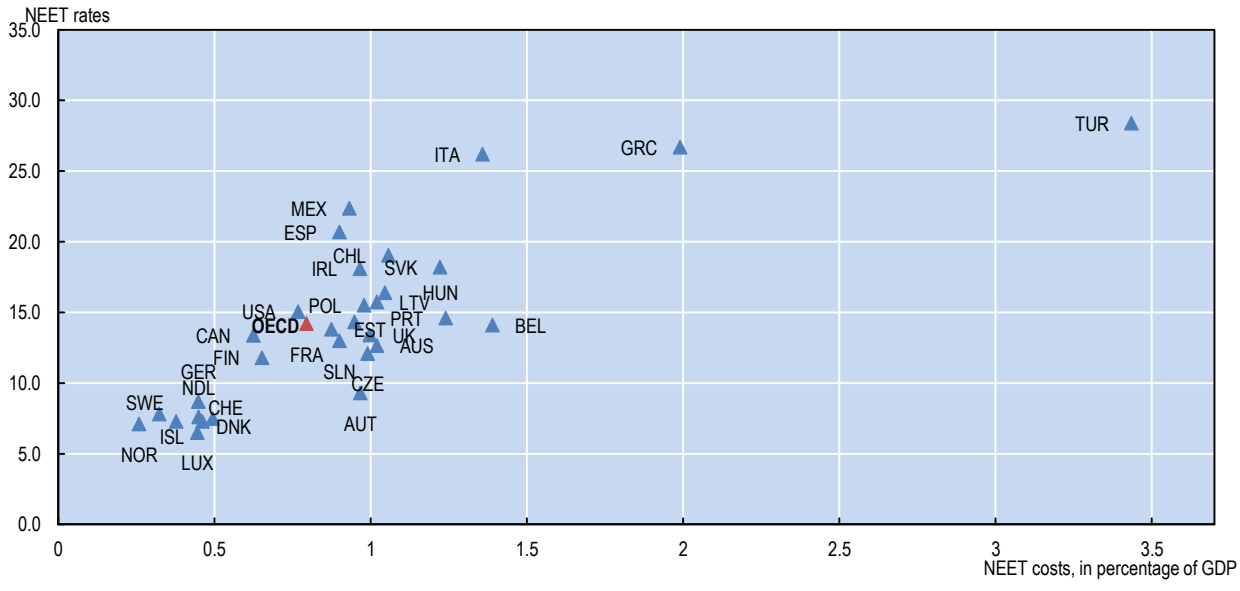
The OECD *Social Expenditure Database* (SOCX) was developed in order to serve a growing need for indicators of social policy and expenditure (OECD, 2018[15]). The database provides reliable and internationally comparable statistics on public and (mandatory and voluntary) private social expenditure at programme level as well as net social spending indicators. SOCX provides a tool for monitoring trends in aggregate social expenditure and analysing changes in its composition. Data are available from 1980-2013/14 and estimates are available for 2014-16. However, the database currently only covers 35 OECD countries and does not cover developing countries. There are currently limited data available on aggregated social expenditure within developing countries.

Source: (OECD, 2018[15]), *Social Expenditure Database*, www.oecd.org/social/expenditure.htm.

Social-contextual factors influence market building for social impact investing by shaping demand-side and supply-side factors. To that end, data are needed beyond transaction volume and activity on the social concerns addressed. The OECD *Society at a Glance* report (2016) can add value on showing the scope and need for SII-triggered innovation in regards to young people who are not in employment, education or training (NEETs) in OECD countries (OECD, 2016[16]). The cost of the NEET challenge to societies in terms of foregone earnings is estimated at 0.9-1.5% of OECD-wide gross domestic product (GDP) in 2014. At the same time, it is concluded that "[e]mployment services, social services and non-governmental actors can play a central role in engaging disconnected youth" (p. 11).

By enhancing the global data-reporting system with existing data-collection efforts on the enabling environment and social needs like the OECD NEETs data, comparability of transaction data will be improved by putting transactions and performance into context. A total SII transaction volume of USD 10 billion in the NEETs sector can be viewed differently in jurisdictions with the highest NEET rates and the highest costs (e.g. Turkey at 3.4% of GDP, and Greece at 2%) than in countries with the lowest relative NEET costs and low NEET rates, such as Denmark, Norway or Sweden, indicating variations in the demand-supply relationship (Figure 7.4).

Figure 7.4. Annual NEET rate and estimation of the cost of NEETs, 2014



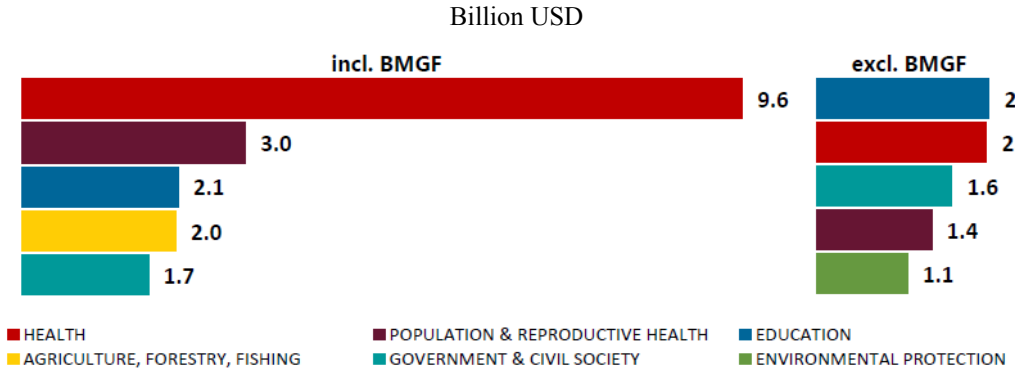
Source: (OECD, 2016[16]), *Society at a Glance 2016, OECD Social Indicators*, https://doi.org/10.1787/9789264261488-en.

StatLink http://dx.doi.org/10.1787/888933404877

Another example is the 2017 OECD Philanthropy Survey, which provides insights on private philanthropy for development (OECD, 2017[17]). The survey finds that philanthropy flows to developing countries amounted to USD 23.4 billion from 2013-15, and hence provides interesting insights into the growing role of philanthropies in development finance. As such, philanthropic flows add a piece to the puzzle in examining the social impact investment market and should be taken into account when linking

existing data to the global data framework on SII. A look at the top sectors provides more disaggregated insights (Figure 7.5). It shows that the health sector is primarily targeted by philanthropies, as is the education sector. This information may add to the fuller picture on the market potential of SII.

Figure 7.5. Top sectors targeted by philanthropic giving for development, 2013-15



Source: (OECD, 2017[17]), *Global Private Philanthropy for Development*, https://dx.doi.org/10.1787/9789264233430-en.

7.5. Data platforms play an increasingly important role

Platforms are increasingly being launched as efforts to bring together different types of stakeholders, such as investors and social businesses, as well as to enable knowledge or data sharing and exchange on best practices. In doing so, these platforms are creating a multitude of different data points, which can inform social impact investment market stakeholders. An example is the GrowInclusive platform, a joint project by the World Economic Forum, the World Bank and the International Development Research Centre, which was launched in September 2018. This online platform focuses on companies and will include impact measurement and case studies, thereby providing an opportunity to benchmark impact performance as well as exchange knowledge on impact measurement (GrowInclusive, 2018[18]).

At the same time, the current landscape of platforms is fragmented and not standardised and hence does not allow for any meaningful data analysis (see Box 7.5 for further insights into the platform harmonisation). An assessment of existing social impact investment platforms resulted in an overview of around 150 platforms working as hubs in the marketplace (Impact Alpha, 2018[19]). A report commissioned by Bertelsmann Stiftung by the Impact Finance network reveals that impact investment platforms are, to a large extent, not comparable nor interoperable due to missing standards in respect to the data they produce and the infrastructure they are built on (Impact Finance Network, 2018[20]).

Box 7.5. Data platforms, data harmonisation and sharing: The nuts and bolts

As part of the movement around the harmonisation of data fields and the numerous social data repositories that characterise the impact ecosystem today, several platform developer organisations focus on designing for better management on information asymmetries and high transaction costs in the realm of impact investment. The goal is to standardise and allow for optimisation of the different kinds of data that flow through various interfaces and programmes, including, for example, those who gather information for purposes of providing finance, accelerating businesses or those who manage networks of investors or donors. These efforts have been substantially bolstered and supported by the involvement and guidance of the OECD.

The incongruence and difficulty of maintaining "clean", accurate and up-to-date data, even on basic fields related to individual and organisational details, cannot be underestimated. Crucially, the incentives for doing so have to be clear to those who manage the data. Without an incentive structure in place and the supporting underlying application programming interface (API) infrastructure, the impact investment ecosystem cannot function well due to imperfect information and a lack of trusted mechanisms of correction and "sources of truth". The opportunity today to orchestrate collaborative action under the common banners of SDG language is an interesting one, however – and the willingness of a great many leading organisations to focus on building the "plumbing" for inter-platform interoperability has never been more evident and opportune.

Source: Audrey Selian, Artha Initiative, Rianta Capital.

7.6. Approaches to measuring impact are advancing

Measuring social and environmental impact can help enterprises monitor and improve their performance while also enabling them to access capital markets more effectively. While there has been significant progress in the environmental field, the focus on measuring social impact is relatively new and a shared understanding of how to do it is still evolving. An increasing number of impact measurement approaches are emerging from both international organisations and the private sector (OECD, 2016[21]), including social enterprises (European Commission and OECD, 2015[22]). More recently, Shinwell and Shamir (2018[23]) review existing frameworks and initiatives to measure the impact of businesses on people's well-being and sustainability.

At the same time, the development finance sector is aligning more closely with the social impact investment sector in terms of measuring of and reporting on the impact of development finance interventions. Nevertheless, comparable and comprehensive evidence across development actors and private investors is limited. Moreover, not only development finance institutions (DFIs) tend to focus on a limited number of concrete development impacts such as job creation (Lemma, 2015[24]). Recently, though, DFIs are not only strengthening the impact focus in their operations, but are also engaging in efforts to improve their impact measurement approaches. The British DFI CDC Group, for

example, is establishing a new framework for measuring impact, including reporting on it (Anders, 2017[25]).

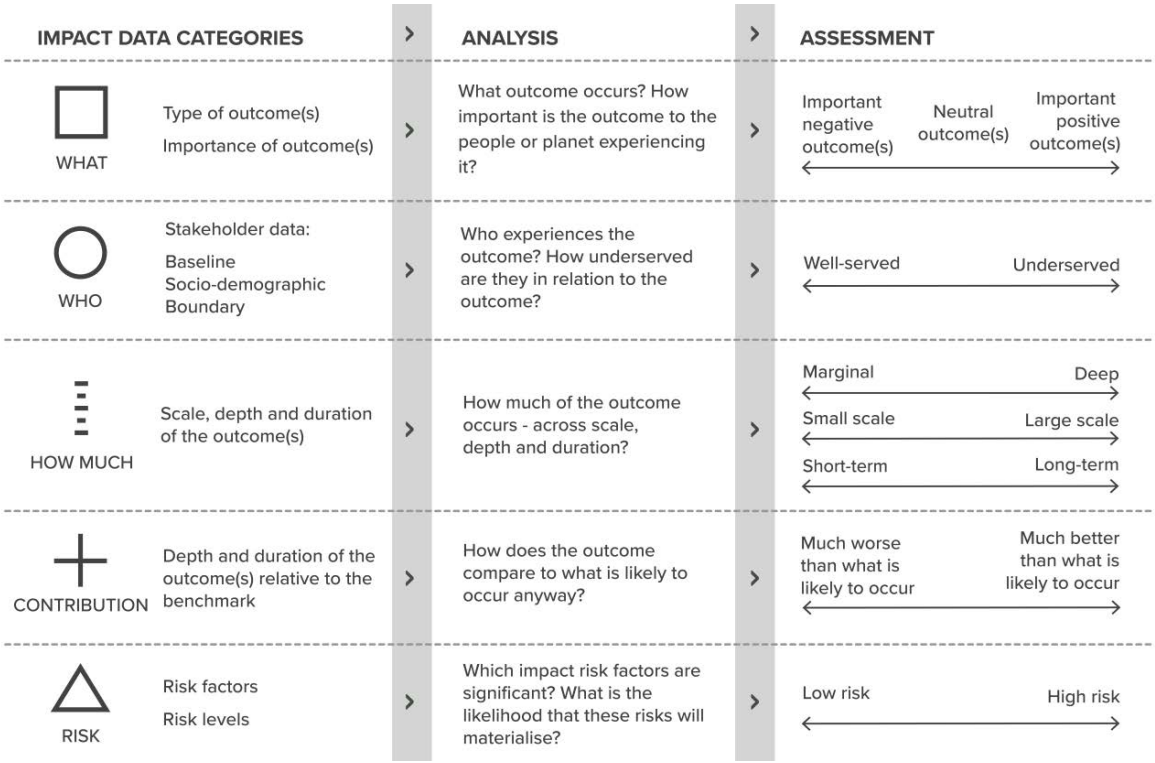
Tackling the complexity of impact management in regard to investment is a major goal of many actors in the field. A Tideline 2016 report concludes that "[r]esearch and practitioner insights indicate the crux of the problem is the difficulty articulating, analysing, and differentiating the impact in impact investing." The report finds that this leads to misunderstanding in communication, inefficiencies in identifying investees, as well as misalignments in terms of long-term goals (Tideline, 2016[26]).

A shared convention for describing respective impact expectations, including motivations, goals, what data are needed to manage against goals, how those data are going to be collected and communicated, what decisions the data are going to drive (e.g. how they can improve impact for the stakeholders) and who is going to pay for it are aspects which are crucial in order to better understand the effectiveness of social impact investment. They are, however, complex to achieve.

Alongside the OECD Social Impact Investment Initiative, a range of efforts have come together to build common practice around impact measurement and management. This includes the Impact Management Project facilitated by Bridges Impact (IMP, 2018[27]), the Global Impact Investing Network (GIIN)'s Navigating Impact project and the World Economic Forum's Shaping the Future of Sustainable and Impact Investing initiative.

Through an extensive engagement process, the Impact Management Project describes impact as material effects experienced by people and planet, both positive and negative, which is furthermore defined by four additional dimensions (Figure 7.6). Assessing the significance of impact, depth, scale and duration are important. Impact is, moreover, put into perspective to the beneficiaries' needs, as well as the additionality of the effect. Finally, as in financial performance, the risk of achieving social impact will be taken into account in measuring and assessing it.

Figure 7.6. The Impact Management Project's approach to measuring impact



Source: The Impact Management Project (2018[28]), https://impactmanagementproject.com.

Box 7.6. The Impact Management Project

From 2016-18, the Impact Management Project brought together over 2 000 organisations from a range of disciplines to agree on widely shared norms for how to measure, manage, and report impact on people and the planet. This consensus matters because, to manage their impact, organisations rely on understanding the impact performance and impact goals of other stakeholders in their value chain.

The norms established under the Impact Management Project, by a sizable cross-section of the market, provide a shared definition of impact and the fundamentals one would therefore expect to find in a complete impact framework and impact report. The norms also provide a logic for sharing impact data across increasingly complex value chains – from people and planet experiencing impact, to enterprises, investment intermediaries, advisors and asset owners.

Source: Clara Barby, CEO, The Impact Management Project

As part of the Impact Management Project, NPC undertook a case study in order to explore the applied side of impact management within the youth employment. The case study dives into impact management and measurement practices by investors and enterprises in the field and complements the Impact Management Project by applying the framework

of understanding impact, i.e. what, how much, who, the contribution and the risk. The case study looked into the use of these data to manage impact in order to improve how much of the effect is delivered in a particular project (NPC; IMP, 2017[29]).

The Impact Management Project approach to assessing impact is being considered and incorporated within relevant standards setting bodies such as the Global Reporting Initiative (GRI). The GRI (see Box 7.7) provides standards for sustainability reporting for corporations and businesses. To that end, it provides disclosures that enable investees to measure and manage impact. The sustainability reporting as such would be independent from, not associated with, any investment into the company.

Box 7.7. The Global Reporting Initiative

The Global Reporting Initiative (GRI) has developed the GRI Sustainability Reporting Standards for reporting on impact such as climate change, human rights, governance and social well-being. The GRI Standards enable corporations to measure and report on their most critical impacts on the environment, society and economy. Both businesses and governments can report on the sustainability standards, which have been adopted by corporations in more than 100 countries; more than 50 countries and regions, are also relating to the GRI in their policies.

At the same time, together with United Nations Global Compact, the GRI is developing a platform on "Business Reporting on the SDGs", which developed a tool for reporting on the Sustainable Development Goals (SDGs) using GRI Standards. This provides guidance to SDG reporting, including: understanding the goals; defining priorities; setting goals; integrating in and reporting on the indicators in business operations (GRI, 2012[30]).

Source: (GRI[31]), website, www.globalreporting.org

The IMP work has helped to create a consensus around how investors can set and measure progress towards impact. It has also led to the development of tools for enterprises and investors to measure, benchmark and manage impact. In terms of other impact management tools, the Social Performance Task Force promotes the universal standards for social performance management as a comprehensive manual for financial institutions. Efforts have also been made to create comparable impact data through quantitative approaches such as Social Return on Investment and, more recently, the concept of Impact Rate of Return (Buffett and Eimicke, 2018[32]).

The GIIN's Navigating Impact project compiles investment strategies, framed by investment sector, building on an existing evidence base (GIIN, 2018[33]). Thereby, it provides guidance to investors on strategies that are appropriate for their portfolio, including implications for data collection. A set of output, outcome and proxy indicators that link performance towards objectives within a chosen investment strategy has been developed. These indicators provide a starting point for setting impact goals, as well as measuring, tracking and managing the performance of investments. So far, five sectors are covered: affordable housing, clean energy access, smallholder agriculture, financial inclusion and heath. The gender area is currently under development. Based on the investment goal selected, e.g. access to stable pricing for instance in smallholder agriculture, the investor can access an evidence map for the strategic goal. This includes references from academia, international organisations and beyond showing examples of

the relationship between, for example investment and increased farmer income, as well as an overview of metrics to measure success in regard to stable pricing. These metrics relate to the GIIN's IRIS indicators (Box 7.8).

Box 7.8. Global Impact Investing Network's IRIS

IRIS is a catalogue of performance metrics to measure social, environmental and financial performance. It covers more than 500 measures, both quantitative and qualitative. It supports transparency, credibility and accountability in impact measurement practices and provides by cataloguing the most useful metrics from across the industry in one place and providing guidance in terms of which performance metrics to use. By providing standardised results, comparability of investments across portfolios is enabled. Five thousand organisations are using IRIS to evaluate, communicate and manage their social and environmental performance.

Source: (GIIN, 2018[34]). For more information, see: https://iris.thegiin.org.

The World Economic Forum's Shaping the Future of Sustainable and Impact Investing initiative convened a range of initiatives to ensure that data inform and support development of the global practice of impact measurement and management. Two action groups within the initiative focused on developing evidence on impact investment data. Emerging from the World Economic Forum's action group, a "coalition of the willing" has been launched between practitioners who have agreed to co-operate in sharing databases with financial, output and outcome data fields in efforts to build knowledge about impact investing (Box 7.9).

Box 7.9. Coalition of the willing

In early 2018, to progress work of the World Economic Forum's action group as well as the OECD's data work stream, a "coalition of the willing" formed: a group of people willing to share actual data with each other. The expectation was that a show-and-tell exercise would help the group develop a roadmap for achieving the kind of trust, transparency and data interoperability needed for many to contribute to a shared evidence base.

This coalition of the willing continues to move forward with deliberate alignment with the Impact Management Project's data categories workstream. Currently, the group is solidifying early adopters made up of investors, networks, researchers and data platform providers that are willing to explore interoperability of data, including the future role of blockchain. The group is also identifying use cases with clear end goals, e.g. the ability to benchmark data, alignment between investors and enterprises about impact intent and metrics, and the potential for the impact investing industry to be declarative about the difference that market solutions has made on global goals and specific impact themes. For instance, a successful use case will provide valuable guidance to various actors, e.g. asset owners, wealth advisors, intermediaries,

enterprises and researchers, about best practices in a single vertical or sector to support strategies for capital deployment across different asset classes, capital types, economies and geographies.

Source: Jane Reisman, Advisor on social impact, Global Impact Investing Network.

Toniic, a member of the "coalition of the willing", is a global action community for impact investors. As a non-profit member organisation, Toniic works with individuals, family offices, foundations, endowments and members of the public committed to aligning their investments with their values across all asset classes. The Toniic community is comprised of over 200 memberships in more than 20 countries, reflecting a diverse range of asset sizes, targeted impact themes, legal structures and investment geographies. Over half of its members participate in the T100 project (Box 7.10). Toniic publishes a directory of member deals across asset classes, impact themes and SDGs and serves as an example of an existing effort to share impact investment data with the general public.

Box 7.10. Toniic's T100 Project

The Toniic 100% Impact Network is a sub-network of Toniic. Its members are asset owners who have intentionally committed to moving the assets of at least one of their investment portfolios into positive social and/or environmental impact. The 100% Impact Network is comprised of around 100 memberships globally, who invest more than USD 6 billion into impact.

The T100 project is a longitudinal study of the investing experience of Toniic's 100% Impact Network members that makes a significant contribution to addressing impact investment, by publishing reports, case studies, directories and impact portfolio tools inspiring impact investors to reflect upon and intensify their impact investments.

The most recent T100 report ("T100 powered ascent"), published in May 2018, combines analysis of investment portfolio data from 76 Toniic 100% Impact Network member portfolios with stories of their personal journeys. This analysis shows that impact portfolio investors are now moving faster into thematic products, and that they are meeting their financial goals while deepening their impact performance. The vast majority of participants (82% of respondents) affirm that a spectrum of capital and financial returns is needed to solve the most pressing social and environmental issues. There is consensus that impact portfolio investors are benefiting from a maturing impact marketplace that is enabling depth, diversification and measurement.

Toniic has launched a research partnership with the Centre for Sustainable Finance and Private Wealth at the University of Zurich, which is co-ordinating a research consortium with Harvard Business School, the University of Cape Town, Oxford University, the University of Hamburg, Maastricht University and the Wharton School at the University of Pennsylvania. This research is leveraging T100's anonymised data sets on

a portfolio level and has begun a longitudinal study focusing on behavioural science and post-modern portfolio theory topics.

Source: Charly Kleissner, Co- Founder, Toniic.

While this section provided an overview of key initiatives in the impact management and measurement field, the number of organisations and initiatives dedicated to this is much broader and continuously growing. It important to understand and link the various initiatives focused on impact measurement, management and evaluation to ensure an inclusive process.

7.7. Greater co-ordination is needed to avoid impact "washing" and deliver on the Sustainable Development Goals

The growing focus on impact and the entrance of new players into the market increases the potential for impact washing. Impact investors have already indicated concerns about the risk of impact washing and potential mission drift associated with the growth of the SII industry (I&P, 2018[35]) (GIIN, 2018[11]). While there is an increasing amount of talk about "impact", the actual practices of measuring impact remain underdeveloped.

Of the respondents from the GIIN Impact Investor Survey (GIIN, 2018[11]), merely 48% set impact targets for their whole investment portfolio and just under a quarter do not set any impact targets at all, contrary to the OECD definition of social impact investing set out in Chapter 2. Moreover, most respondents (69%) use proprietary metrics and/or frameworks that are not aligned to external methodologies (GIIN, 2018[11]). In a move to better understand its members' impact strategies, the European Venture Philanthropy and Social Investment Association conducted a study approach to measuring and managing impact. The study highlighted the difference between "investing *for* impact" from "investing *with* impact" (EVPA, 2018[36]).

Research by the Donor Committee for Enterprise Development concludes that, if the impact investment industry wants to move forward with attribution, capital providers must stimulate fund managers to report attributed results, recognising that advanced results measurement is resource-intensive and much more complex than in traditional development assistance (Vosmer and De Bruijn, 2017[37]). To progress on results measurement by impact investors, an authoritative platform needs to be the driving force (Vosmer and De Bruijn, 2017[37]). As part of the global commitment to the Agenda 2030, public institutions retain an obligation to ensure monitoring of sustainable development results by their implementing and financing partners. Historically, the OECD Development Assistance Committee has played an important role in promoting the quality of the evaluation practice in development assistance; the same must now happen in the sustainable development finance field.

The 2030 Agenda has greatly expanded the number and diversity of financial actors called upon to play their part for global sustainable development DFIs and private investors, particularly in the impact investing community, have already taken important strides to improve their public accountability, but there are still significant challenges in operationalising the collective vision of the SDGs. Alignment on language and standards is a prerequisite for dialogue, partnership and learning. Hence, there is need for greater co-ordination and for knowledge to be shared across the full range of actors and sectors.

Building on earlier efforts, the Impact Management Project announced in September 2018 that it is facilitating a global network of standard-setting organisations to exchange

knowledge and explore opportunities for synergy and co-ordination of impact measurement and management content – working towards a shared vision of enterprises and investors having complete "rules of the road".

In addition to the OECD, the Impact Management Project "Structured Network" consists of the Global Impact Investing Network, Global Reporting Initiative, Global Steering Group for Impact Investment, International Finance Corporation, Principles for Responsible Investment, Social Value International, United Nations Development Programme and World Benchmarking Alliance. Each organisation provides specific and complementary expertise to provide complete guidelines for impact measurement and management.

This unprecedented peer-to-peer collaboration is a response to the growing demand for greater consensus on what constitutes good impact measurement and management.

7.8. Next steps and recommendations to move toward interoperable data

Developing and implementing international data standards is a long-term process which can take a decade or longer. This section lays out a series of recommended steps to move forward from the initial data standards to an internationally adapted and used global data standard.

Facilitate transparent, standardised and interoperable data sharing. The approach to building a global data framework for social impact investing should build upon existing efforts of the OECD and other international organisations, as we all the industry. This will ensure the commitment and endorsement of any efforts on transparency, which are at the same time touching upon sensitivities in terms of disclosure. Moreover, this approach responds to the need of a maturing industry seeking close co-operation with standard-setting bodies from the public sector, including governments, the OECD, the United Nations and others.

Co-ordination is necessary. The social impact investment market is still nascent. New initiatives and organisations striving towards transparency and accountability are emerging on a continuous basis. Co-ordination efforts are needed in order to leverage the comparative advantages of the existing initiatives, connect their work and maintain an overview of the steps taken as well as the remaining gaps towards transparency.

Standardisation of standardisation activities. The co-ordination process needs to focus, in particular, on the harmonisation of standardisation activities by concentrating on their interoperability. Interoperability needs to be co-ordinated as the different initiatives have to agree on a common interoperability standard. The OECD has undertaken preliminary efforts in that direction with developing the 12 initial fields on transaction. Currently, a "coalition of the willing" is further progressing on the standardisation of data fields work under the Impact Management Project.

Ensure funding. Securing financial support for data work and infrastructure is difficult. Statistical capacity-building represented about 0.30% of official development assistance in 2015 (OECD, 2018[38]). Going forward, it is important to not only raise awareness of the importance of data for the growth of the social impact investing market, but also the associated importance of the funding needed to further transparency. Sorting out the respective roles in regard to covering the cost for data is another major milestone to be addressed within the co-ordination efforts.

Co-ordination beyond the social impact investment industry. The need to measure the non-financial outcomes of investments is critical across investment areas, whether impact investment, green finance, development finance or commercial finance. Development finance institutions, which are mandated to working with and though the private sector, not only have a long-standing experience in impact investment, but are also putting the measurement of and reporting on the impact of their investments at the centre stage. As such, the discussions in the development finance industry on transparency and accountability are converging more and more with those in the SII sector, but further linkages need to be developed.

Measure impact coherently across approaches. Going forward, the OECD will focus on the impact imperative of private finance for sustainable development more broadly, including impact investing, blended finance and green finance. To that end, a horizontal OECD project will engage in mapping existing evidence on impact assessment. In January 2019, the OECD "Private Finance for Sustainable Development Conference: The Impact Imperative", will be a kick-off to broader cross-cutting programme of work which will respond to the growing necessity for public and private players to better demonstrate sustainable development results.

Notes

[1] This chapter builds on unpublished documentation and a background paper for five experts meetings tackling the work of the OECD Social Impact Investment Initiative towards a global data framework, the discussions during the expert meetings, group calls and bilateral meetings.

[2] For the purpose of working towards standardisation, interoperability refers to "the ability for different information systems, networks or applications to exchange data between each other as well as across organisational boundaries, without loss or degradation, and to use that data in a way that is meaningful, without ambiguity, and readily actionable by a third party" (Richter, 2016[31]). The benefits of interoperability include, but are not limited to, consistent sharing and reporting, better reliability of data, and reduced cost of sharing data (Richter, 2016[31]).

[3] Social bonds are traditional bonds that use the proceeds to raise funds for new and existing projects with positive social outcomes. As such, they are different from social impact bonds, i.e. results-based financing mechanisms. See Chapter 3 for more information.

[4] This section draws on (Richter, 2016[59]) and additional unpublished background material developed under the OECD SII initiative by Karl Richter.

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Annex 7.A. An overview of audiences and their specific data needs

Audiences	Data needs					Scope of data needs
	Social needs	Enabling environment	Demand side	Intermediaries	Supply side	
National, regional and local policy makers; regulators; economic developers; technical assistance providers	National aggregate indicators on employment, labour, environment and social affairs, etc.	Data on the regulatory environment, including financial markets, social welfare systems, tax regimes	National aggregate indicators on employment, labour, environment and social affairs	Market framing reports of intermediaries, e.g. number of actors, assets under management, growth, etc.	Market framing of investors, e.g. type, number of actors, assets under management, growth, etc.	Country-level, cross-country, global time series rigorous
Impact investors and funders			Data on investees, e.g. social performance, size, sector, business model, social and financial performance measurement framework, etc.	Actual flow of data between investors and investees	Data on competitors, including social and financial performance, size, target sectors, regions etc.	Country-level, cross-country, global time series
Intermediaries			Data on investees, e.g. social performance, size, sector, business model, social and financial performance measurement framework, etc.	Data on competitors, e.g. actual flow data, social and financial performance, target sector, etc.	Data on investors, e.g. assets under management, target regions, sectors, deal size, financial instruments, etc.	Cross-country, global time series
Investees: for-benefit organisations, non-profit organisations, social enterprises			Data on competitors, e.g. social and financial performance, sector, etc.	Data on sector-related transactions, e.g. size, terms and conditions, etc.	Data on investors, e.g. target regions, sectors, deal size, financial instruments, etc.	Country-level, cross-country, global, focus on sectors
Academics and researchers, journalists	Depending on research questions					Country-level, cross-country, global time series rigorous
Socially oriented consumers			Market framing reports and individual background information on social enterprises	Market framing reports and individual background information on intermediaries	Market framing reports and individual background information on investors	Country-level

Source: Adapted from (Richter, 2016[39]), "Creating a global reporting framework for social impact investing (draft v0.4 for review)".

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