



# **INNOVATIVE FINANCING FOR DEVELOPMENT IN ASIA AND THE PACIFIC**

**Government Policies on Impact Investment  
and Public Finance for Innovation**





*The shaded areas of the map indicate ESCAP members and associate members.*

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# Innovative Financing for Development in Asia and the Pacific

Government policies on impact  
investment and public finance  
for innovation



# **INNOVATIVE FINANCING FOR DEVELOPMENT IN ASIA AND THE PACIFIC**

## **GOVERNMENT POLICIES ON IMPACT INVESTMENT AND PUBLIC FINANCE FOR INNOVATION**

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## FOREWORD



To meet the ambitions of the 2030 Agenda for Sustainable Development, financing for development needs to be scaled up dramatically. The current SDG financing gap is estimated at around \$2.5 trillion per annum. Innovative financing has the potential to bridge this gap by attracting private sector capital to support development objectives and by repurposing private sector financing instruments to address persistent development challenges. Governments must provide incentives for the private sector to move from economic-driven investments to impact investments generating social, environmental and financial returns.

Science, technology and innovation (STI) has been identified as a key means of implementation for the SDGs. To realize its full potential of STI, we need policies and business approaches with supportive innovative financial models. Involving end users in defining problems and developing solutions; striking multi-sector collaboration to solve economic, social and environmental challenges, and building public private partnerships with supportive risk sharing mechanisms are some of the critical elements needed.

This report features a diverse selection of case studies on innovative financing mechanisms that have been implemented across the Asia-Pacific region. Cases include the India Impact Investment Council, the Thai Social Investment Taskforce, India's Corporate Social Responsibility (CSR) Law and Singapore's Women's Livelihood Bond. These demonstrate how countries have fostered impact investment and repurposed private sector tools for development objectives.

The report also illustrates how the problem-driven mindset is changing public financing for STI, exemplified by the research and development policy of the Republic of Korea. Other mechanisms such as the Social Outcomes Fund in Malaysia are engaging entrepreneurs in sustainable development.

Some of the innovative financing approaches described in this report have already been fully implemented, but others are still being developed and policy makers may need to give further consideration to potential risks and their mitigation mechanisms. Governments in the Asia-Pacific region must give high priority to conducting a thorough evaluation of innovative policy approaches to determine which ones can be adapted and made viable to a specific context. This evaluation can enable them to develop effective practices to unlock the potential of innovative financing for development.

I wish to thank the Ministry of Science, ICT and Future Planning of the Republic of Korea for generously funding this project, and the researchers at the Science and Technology Policy Institute of the Republic of Korea and the consultants at the Impact Investment Exchange for their intellectual input. I also thank the many leading contributors who provided their insights and comments to the report.

I hope this report will contribute to knowledge sharing and spark new ideas to help stimulate further action to develop the innovative financing solutions urgently required for the advancement of the Sustainable Development Agenda. ESCAP is committed to support its member States to develop

innovation policies and strategies linked to their national development plans that will help close the SDG financing gap.

A handwritten signature in black ink, appearing to read 'Shamshad Akhtar', with a stylized flourish at the end.

Shamshad Akhtar  
Under-Secretary-General of the United Nations and  
Executive Secretary, United Nations Economic and  
Social Commission for Asia and the Pacific





## EXECUTIVE SUMMARY

In the closing months of 2015, the United Nations General Assembly adopted an ambitious, all-encompassing agenda to guide the advancement of humankind for the next 15 years. The Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda on Financing for Development, collectively known as the 2030 Agenda for Sustainable Development (or ‘2030 Agenda’), called on all countries to advance the welfare of societies, economies and the environment. Science, technology and innovation (STI) were identified as key means of implementation for the 2030 Agenda.

While donor and philanthropic funds add up to billions of dollars, the cost of solving the world’s most critical problems runs into the trillions, with an estimated \$2.5 trillion annual funding gap to achieve the SDGs. To close the gap, it is imperative to implement innovations that can divert private capital towards development objectives. In addition, more innovative approaches to public financing for technology and the development of solutions to SDG challenges are urgently required to leverage STI to achieve the 2030 Agenda.

Innovative financing for development can be considered “anything different from standard investing or financing practice, that has the potential to deliver significant socio-economic or environmental impact”.

This broad definition encompasses the multitude of ideas that have been tested in the field. The concept of investing for social and environmental value generation alongside economic return, for example, is different from the established private sector approach of investing purely for economic return. Similarly, public funding for ‘problem-driven’ research and development (R&D) is different from funding research excellence. While neither of these ideas are new, they diverge from standard practice and have not been applied at the scale required to meet the ambitions of the 2030 Agenda.

### Innovative financing mechanisms for development

The scope of innovative financing for development is also broad and diverse. This report analyses Asia-Pacific experiences on introducing innovative financing mechanisms for development in five core areas:

- 1) Strategic leadership models that promote impact investing;
- 2) Policies that unlock corporate investment for development;
- 3) Private sector financing products for development;
- 4) Innovative public financing models for STI; and
- 5) Systemic approaches to finance and innovation as means for development.

This report provides case studies from the region to illustrate developments in each of those areas. The lessons learned from each case study can help policymakers evaluate the potential of different initiatives.

#### 1) Strategic leadership models that promote impact investing

The SDGs aim to positively impact economy, society and environment. The balanced integration of these three dimensions of sustainable development must be the basis of future investment and financing strategies. The economic dimension generally dominates investment and financing decisions, thus the policy environment must incentivize investors to maximize synergies and minimize trade-offs between the objectives of economic growth, inclusive social progress and environmental protection. One such solution is impact investing, in which investments are made in companies, organizations and funds to generate social and environmental impact alongside a financial return.

Impact investment councils and social impact investment taskforces can build momentum for the development of an impact investment ecosystem. Industry-led structures, such as the Impact Investors Council of India, will naturally develop in more mature markets, while government-led social investments, such as the National Taskforce on Social Impact Investment in Thailand, have been a stimulus for the development of social capital in less mature markets.

Whether impact investing is led by industry or the government, policymakers must be engaged to encourage industry partners to support impact investment. Councils and taskforces must be tailored to address gaps in the local social capital market, support the growth of intermediaries that are best suited to address these gaps and contribute to the development of regulations.

## 2) Policies that unlock corporate investment for development

With their skills, financial resources and potential to deliver at scale, corporations will be critical to meet the ambitions of the 2030 Agenda. Governments can enact policies to promote corporate social responsibility (CSR) and encourage corporations to move beyond CSR and incorporate social and environmental values as part of the core business strategy and reporting process (also known as promoting ‘shared value’).

India has enacted a CSR Law mandating corporations to divert capital towards social and environmental objectives and leverage private funds for sustainable development. Such laws are relatively easy to replicate and move CSR from the fringes to the boardroom. To promote a more strategic use of CSR, such laws should require transparency and accountability.

Green public procurement can promote shared value in corporations and provide incentives for firms to engrain social and environmental considerations in their core strategies. When combined with green label and energy label initiatives and other measures, these policies have dramatically improved the energy efficiency of electrical appliances and been an incentive for firm-level innovation. For example, the Government of Singapore takes a holistic approach to promoting shared value in corporations through its Green Label, Energy Label and green public procurement initiatives. Policymakers aiming to develop or support green certification schemes in combination with public procurement should consider the following roles of government: providing for robust assessments of products and production processes; setting standards and progressively introducing more demanding certification and rating systems; and adopting holistic and integrated policies that stimulate consumer demand for green products, foster market development and enable the participation of small and medium-sized enterprises.

## 3) Private sector financing products for development

Governments in the region are increasingly exploring ways to use bonds and other private sector financing products to respond to a whole range of development challenges.

Bonds can leverage private sector investment for sustainable development. For example, the Women’s Livelihood Bond leverages private sector investment to support women’s livelihoods. To make development bonds attractive for private investors, governments can provide or subsidize credit guarantees to de-risk the bond. Governments can also finance some of the stages of the development of the instrument, such as feasibility studies or impact assessments.

Government engagement in insurance and reinsurance schemes, such as the National Insurance Trust Fund of Sri Lanka, has provided more inclusive coverage to citizens and supported more effective response to disasters. Governments can leverage their financial resources to build strategic partnerships, pool resources and make the most of insurance and reinsurance mechanisms. Basic insurance products and targeted subsidies have helped governments to meet the needs of underserved and uninsured populations.

## 4) Innovative public financing models for STI

Governments have traditionally provided public funding for STI to encourage research excellence and private sector investment in R&D and innovation, however there is a growing movement towards problem-driven



approaches to public financing of innovation. Problem-driven approaches include the social problem-solving R&D policy of the Republic of Korea, which targets specific social and environmental challenges through multi-sector collaborations and involves end users in defining problems and finding solutions.

A social problem-solving R&D policy is easy to establish in any country. However, its success depends on changing the mindsets of STI practitioners (researchers, public officials) and enabling swift collaboration across ministries and between researchers and civil society.

Social enterprises have emerged as potential sources of innovation for development. Pay-for-performance mechanisms, such as the Social Outcome Fund of Agensi Inovasi Malaysia, can engage non-traditional innovators, such as social enterprises or social purpose organizations, to support national development strategies. However, policymakers must consider if outcome-based models are the best fit to address national priorities. Social outcome funds are best adapted to solve problems that are easily measured and monitored, and where it is possible to establish performance targets that trigger payments.

Unclaimed assets from dormant bank accounts are a source of funding that can be channeled to address social and environmental challenges. In December 2016, Japan passed the Dormant Deposits Act to release unclaimed assets of dormant bank accounts and fund social purpose activities. The funds can be redirected from banks towards social purposes through grants to non-profit organizations and investments in social enterprises.

## 5) Systemic approaches to finance and innovation as means for development

Financial resources, including innovative finance, are needed to support the achievement of SDGs. The success of innovative financing initiatives also rests on technology; governance, policies and regulations; institutions; infrastructure; human capital; knowledge and data; as well as mindsets and the capability of actors and organizations to collaborate.

The comprehensive and sustained social enterprise strategies of the Seoul Metropolitan Government were implemented in a cooperative manner that created awareness about the social economy, supported intermediary organizations and developed a market for social enterprise products. This was a very ambitious strategy that was implemented on a large scale. Other countries can implement similar strategies on a smaller scale to test their effectiveness in a different context.

Simple, open, ubiquitous digital infrastructure can enable financial inclusion at scale. The JAM Trinity system of India provides every person in India with a bank account, a unique identification number and mobile connectivity. Based on this infrastructure, a group of public and private banks have developed an open, interoperable payment system that works at very low cost and with broad accessibility, enabling financial inclusion at scale. Political backing at the highest level is required for systemic innovations to emerge and be sustained. Governments can lead the way as creators of a new public good, as users of the service, as promoters of an enabling legal and regulatory environment, and as investors.

## Strategic recommendations

This report offers six strategic recommendations based on the lessons learned from experiences in the region.

### 1. Leverage national and transboundary knowledge networks on innovative financing for development

Innovative financing for development must engage all relevant investment and financing stakeholders, including public financiers, mainstream private sector investors, corporations, venture capital, impact investment funds and the philanthropic sector. It must also involve the wide range of organizations, such as self-sufficiency enterprises, social enterprises, community businesses and cooperatives, and civil society organizations participating in the social economy. Citizens and civil society should be included in defining problems and developing solutions.

Members of the Global Social Impact Investment Steering Group and the Seoul Global Social Economy Forum share knowledge, best practices and lessons learned and provide resources, networks and information for councils and taskforces.

## 2. Develop an impact investing strategic road map

An impact investing road map can guide the development of an innovative financing movement and empower public and private sector actors to participate more effectively. A well-structured road map should do the following:

- Outline the key impact investment needs (or systemic gaps) in alignment with the national socio-economic and environmental agenda;
- Assess the capabilities, approaches and interactions of actors in the impact investment system;
- Identify contextually relevant innovative financing instruments that: (i) effectively unlock new sources of capital; and (ii) efficiently allocate existing sources for sustainable development; and
- Set a short- medium- and long-term strategy to adequately mobilize mission-oriented capital, develop the capacity of enterprises and organizations in the social economy and bridge the gap between the supply of mission-oriented capital and the financial demands of the social economy.

## 3. Develop problem-solving approaches for public funding for innovation

If STI are to be key means of implementation for the SDGs, governments must develop problem-solving approaches to fund innovation. These approaches involve adopting new perspectives and implementation systems that require cross-ministry collaboration, mutual understanding between the scientific and civil society communities, a clear problem definition in collaboration with end beneficiaries and appropriate, weighted criteria for STI funding decisions.

## 4. Review and adopt a regulatory framework that supports innovative financing to achieve the SDGs

Innovative financing for development involves the adoption of new legislation (such as the CSR Law or policies to support social enterprises) and the review of existing regulations (such as public procurement directives). New and revised regulatory frameworks must be based on core principles of financial regulation including protection, proportionality, diversity and innovation and must recognize the role and needs of different actors including those of social enterprises and impact investors. At the same time, regulatory frameworks must reflect the specific national developmental context and goals. Each aspect of social enterprises and impact investment regulatory frameworks, from the definition of social enterprises to their taxation regime, must be tailored appropriately. Above all, the aim of legislative and regulatory frameworks must be to achieve national progress towards the SDGs, rather than to promote a certain type of finance, technology or economic entity.

## 5. Develop innovative financing mechanisms as part of a broader innovation strategy

Innovative financing should be part of a broader strategy to meet the ambitions of the SDGs. Aligning innovative financing for development strategies to broader innovation policies and national development plans will enable synergies through policy coherence.

## 6. Experiment, evaluate and iterate

The evaluation of innovative financing for development strategies and mechanisms should be a policy priority for the region alongside continued and well-evaluated innovative policy experimentation to establish what works and what does not. Through an iterative cycle of experimentation and evaluation, effective practices can be developed to unlock the potential of innovative financing for development.

## The role of ESCAP

ESCAP can support member States in the region to implement innovative financing for development policies and strategies by doing the following:

1. Providing a platform for intergovernmental debate and knowledge sharing through its Committee on Information and Communications Technology and STI, and Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development;
2. Facilitating collaboration with bodies such as the Global Social Impact Investment Steering Group or the Seoul Global Social Economy Forum to enable member States to access a repository of knowledge, resources, networks, best practices and lessons learned by other councils and taskforces;
3. Supporting the development of impact investing strategic road maps through the provision of strategic and technical advice; and
4. Providing strategic and technical support to develop broad innovation policies and strategies linked to national development plans.





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## EXPLANATORY NOTES

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## ABBREVIATIONS

AIM	Agensi Inovasi Malaysia
CSR	Corporate social responsibility
DFAT	Department of Foreign Affairs and Trade (Australia)
DFID	Department for International Development (United Kingdom)
DICJ	Deposit Insurance Corporation of Japan
ESCAP	Economic and Social Commission for Asia and the Pacific
GIIN	Global Impact Investment Network
GSEF	Global Social Economy Forum
GSG	Global Social Impact Investment Steering Group
ICT	Information and communication technology
IIC	Impact Investors Council (India)
IIX	Impact Investment Exchange
JAM	Jan Dhan bank accounts, Aadhaar identification number, mobile phone
MELS	Mandatory Energy Labelling Scheme
MEPS	Minimum Energy Performance Standards
NEA	National Environment Agency (Singapore)
NITF	National Insurance Trust Fund (Sri Lanka)
OECD	Organisation for Economic Co-operation and Development
PSTLES	Public Sector Taking the Lead in Environmental Sustainability
R&D	Research and development
SDG	Sustainable Development Goal
SGLS	Singapore Green Labelling Scheme
SOF	Social Outcome Fund
STI	Science, technology and innovation
UKSIIT	United Kingdom Social Impact Investment Taskforce
USAID	United States Agency for International Development
WLB	Women's Livelihood Bond





# SETTING THE SCENE



## 1.1 The 2030 Agenda

In the closing months of 2015, the United Nations General Assembly adopted an ambitious, all-encompassing agenda to guide the advancement of humankind for the next 15 years. The Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda on Financing for Development, collectively known as the 2030 Agenda for Sustainable Development (or ‘2030 Agenda’), called on all countries to advance the welfare of societies, economies and the environment. Science, technology and innovation (STI) were identified as key means of implementation for the 2030 Agenda.<sup>1</sup>

While donor and philanthropic funds add up to billions of dollars, the cost of solving the world’s most critical problems runs into the trillions, with an estimated \$2.5 trillion annual funding gap to achieve the SDGs.<sup>2</sup> To close the gap, it is imperative to implement innovations that can divert private capital towards development objectives. In addition, more innovative approaches to public financing for technology and the development of solutions to SDG challenges are urgently required to leverage STI to achieve the 2030 Agenda.

## 1.2 Defining innovative financing for development

The definition of innovation differs according to the context in which it takes place. The Oslo Manual defines innovation as the implementation of a new or significantly improved product (good or service), or process (such as a new marketing method), or a new

organizational method (such as in business practices, workplace organization or external relations).<sup>3</sup>

Social innovation can be defined as a new idea (product, service and model) that simultaneously meet social needs and create new social relationships or collaborations. In other words, social innovations are both good for society and enhance society’s capacity to act.<sup>4</sup>

The term ‘innovative financing’ is often used in the development narrative, yet there is no internationally agreed definition. The Organisation for Economic Co-operation and Development (OECD) defines innovative financing as mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the public or private sector, and distinguishes them from innovative uses of traditional development finance (such as counter-cyclical lending, debt swaps and issuing guarantees) and “incentives designed to enhance aid effectiveness” (including results-based aid and cash-on-delivery).<sup>5</sup> In contrast, the World Bank considers innovative financing to be those approaches that generate funds by tapping new funding sources or by engaging new partners, including approaches that “enhance the efficiency of financial flows by reducing delivery time and/or costs” and “make financial flows more results-oriented”.<sup>6</sup>

For simplicity, this report defines innovative financing for development will be defined as “anything different from standard investing or financing practice, that has the potential to deliver significant socio-economic or environmental impact” (Box 1.1).

**Box  
1.1****Definition of innovative financing for development**

*"Anything different from standard investing or financing practice, that has the potential to deliver significant socio-economic or environmental impact".*

This broad definition of innovative financing for development encompasses the multitude of ideas that have been tested in this field. The concept of investing for social and environmental value generation alongside economic return, for example, is different from the established private sector approach of investing purely for economic return. Similarly, public funding for 'problem-driven' research and development (R&D) is different from funding research excellence. While neither of these ideas are new, they diverge from standard practice and have not been applied at the scale required to meet the ambitions of the 2030 Agenda.

### 1.3 Focus and purpose of the report

The Addis Ababa Action Agenda specified broad and diverse sources of finance for development, including: domestic public resources; domestic and international private business and finance; international development cooperation funds; international trade; and debt. It also recognized STI and technology transfer as "powerful drivers of economic growth and sustainable development".<sup>7</sup> The scope of innovative financing for development is also broad and diverse. In this context, this report analyses Asia-Pacific experiences on introducing innovative financing mechanisms for development in five core areas:

- 1) Strategic leadership models that promote impact investing;
- 2) Policies that unlock corporate investment for development;
- 3) Private sector financing products for development;
- 4) Innovative public financing models for STI; and
- 5) Systemic approaches to finance and innovation as means for development.

This report provides cases studies from the region to illustrate developments in each of those areas.

#### 1) Strategic leadership models that promote impact investing

The SDGs aim to positively impact economy, society and environment. The balanced integration of these three dimensions of sustainable development must be the basis of future investment and financing strategies. The economic dimension generally dominates investment and financing decisions, thus the policy environment must incentivize investors to maximize synergies and minimize trade-offs between the objectives of economic growth, inclusive social progress and environmental protection.

Encouragingly, governments in the Asia-Pacific region are pursuing innovative financing solutions to mobilize capital for development objectives. One such solution is impact investing, in which investments are made in companies, organizations and funds to generate social and environmental impact alongside a financial return.<sup>8</sup>

Chapter 2 profiles two case studies on strategic leadership models that have developed or advocated for an enabling environment for impact investment. The first focuses on the Impact Investors Council of India and the second focuses on the National Taskforce on Social Impact Investment in Thailand, modelled on the Social Impact Investment Taskforce in the United Kingdom.

#### 2) Policies that unlock corporate investment for development

With their potential to deliver at scale, corporations will be critical to meet the ambitions of the 2030 Agenda. The opportunity in Asia and the Pacific is significant given that many of the world top companies in many different industries are headquartered in the region. Governments can enact policies to promote corporate social responsibility (CSR) and encourage corporations to move beyond CSR and incorporate social and environmental values as part of the core business

strategy and reporting process (also known as promoting ‘shared value’).<sup>9</sup>

Chapter 3 discusses policies to unlock corporate investment for development. First, it analyses the CSR law enacted in India, which mandates companies with a certain turnover and profitability to spend 2% of their net profit in support of social and environmental objectives. The policy intent is to raise much needed finance for social and environmental challenges, and to motivate companies to think seriously about their support for sustainable development.<sup>10</sup>

Governments can also promote shared value by providing incentives and creating markets through public procurement, and by changing consumer mind-sets to demand more socially and environmentally conscious products and services. The Green Label, Energy Label and green procurement initiatives of the Government of Singapore’s is a holistic approach to promoting shared values in corporations. In response to climate change, the Government will procure only high energy efficiency electrical products and printing paper from suppliers practising sustainable forestry management.<sup>11</sup> The Government’s green procurement policy creates an incentive for private sector suppliers to integrate sustainability into their business models to retain market share. The Green Label initiative is also aiming to build social and environmental consciousness in consumers.

### 3) Private sector financing products for development

The development of green bonds is a notable example of a private sector financing products (bond) used for development objectives. Governments in the region are increasingly exploring ways to use bonds and other private sector financing products in response to a whole range of development challenges. Chapter 4 discusses the Women’s Livelihood Bond, which leverages private sector investment to support women’s livelihoods.

Insurance, another private sector financing product, can also support development objectives. Development insurance can provide inclusive coverage and play a critical role in achieving an adequate response to natural disasters. Insurance contracts that pay out quickly and in response to clearly articulated risks have the potential to emerge as an alternative model to mobilize capital for disaster response.<sup>12</sup> For example, the National Insurance Trust Fund in Sri Lanka provides inclusive and affordable insurance and reinsurance schemes for health,

agriculture and public security, as well as natural disasters.

### 4) Innovative public financing models for STI

Governments have traditionally provided public funding for STI to encourage research excellence and private sector investment in R&D and innovation,<sup>13</sup> however there is a growing movement towards ‘problem-driven’ approaches to public financing of innovation. These approaches focus on solving specific social and environmental challenges through multisector collaborations, and working with end users to define and articulate problems is a key feature of the process.

In addition, while public funding for STI has traditionally flowed to research and academic institutions, actors such as social enterprises have emerged as a potential source of innovation for development with governments setting up specific funding mechanisms to explore this potential.

Chapter 5 discusses the problem-driven R&D policy of the Republic of Korea, which supports research focused on overcoming social challenges. It also discusses the recently established Social Outcome Fund of Agensi Inovasi Malaysia, which directs capital toward social enterprises, and the Dormant Deposits Act of Japan, which channels unclaimed assets from dormant bank accounts towards social purposes.

To leverage STI as means of implementing the 2030 Agenda, governments must experiment with innovative models for financing STI, develop innovations that can be applied to specific SDG challenges and engage the full range of actors in the innovation system (including researchers, firms, social enterprises, civil society organizations, investors, users and public organizations).

### 5) Systemic approaches to finance and innovation as means for development

The innovative financing policies showcased in this report have emerged alongside several complementary initiatives. The success of policies for innovative financing can be impacted by factors including the following: the exploitation of technology; adequate governance; policies and regulations; supporting institutions; access to infrastructure; availability of human capital; access to knowledge and data; and the mindsets and capabilities of actors and organizations (as well as their ability to collaborate). Innovative business models such as social enterprise

models, and Government and civil society also have an integral role in supporting the application and scale-up of innovative financing initiatives.

Chapter 6 highlights the importance of systemic approaches to finance and innovation as means for sustainable development. The first case study features a set of complementary measures adopted by the government of the city of Seoul to encourage impact investment, including an ordinance to procure goods and services from social enterprises, an innovation in government procurement that has catalysed a market for impact investment. As outlined in its Social Economy Policy and Social Enterprise Support Plan, the government provided for social entrepreneurship education to encourage impact investment, supported the incubation of innovative socio-economic businesses and helped enterprises become eligible for impact investment funds.

In India, the JAM Trinity system aims to provide every person in India with a bank account, a unique identification number and mobile connectivity. Based on this infrastructure, a group of public and private banks have built an open, interoperable payment system that works at very low cost and is broadly accessible. The Government contributed to the success of this financial innovation by acting as creator, client (the Government disburses subsidies and salary payments through the system), and by supporting an enabling legal and regulatory environment. The initiative leveraged the high degree of access to mobile infrastructure and the technological capability of firms in India to achieve those results.

### The breadth of innovative financing for development

The case studies in this report were selected based on the following criteria: the degree of significant difference from current financing for development practice; the potential for and desirability of replication in other contexts; and the existence of a clear and compelling role for government. They highlight diverse

policy approaches that governments in the region have implemented to leverage innovative financing for development in the five focus areas. Through those examples, this report provides an overview of innovative financing mechanisms with the potential to support the 2030 Agenda. It highlights ways to engage stakeholders and analyses success factors and lessons learned to inform future replication and scale-up.

Innovative financing for development initiatives have originated from a wide range of actors, including citizens, corporations, governments (of both developed and developing economies) and multilateral institutions. Indeed, many good ideas require minimal or no government involvement, such as citizen-focused fund-raising initiatives or business-driven solutions such as bottom-of-the-pyramid ventures.<sup>14</sup> The objective of this report, however, is to provide policy advice to governments. Thus, this report discusses innovations in which governments play a core role in the solution. Other types of innovative financing in which governments play a key role have not been addressed in this report and include the following: innovations predominantly funded by donors such as the Gavi Vaccine Alliance; innovations that are already at a relatively large scale such as green climate funds; innovations that are still at a very early and experimental stage such as universal basic income pilots; and digital technologies that are still at the very early stages of being tested and applied such as blockchain.

Some of the innovative financing approaches described in this report have already been tested, but others are at an early stage and may carry new risks. This report shines a light on many different mechanisms, but it does not recommend any specific solution. Governments in the Asia-Pacific region must give high priority to evaluating innovative policy approaches to determine what works in their context and develop effective practices to unlock the potential of innovative financing for development.



## Endnotes

- <sup>1</sup> ESCAP, 2016b.
- <sup>2</sup> ESCAP, 2015.
- <sup>3</sup> OECD, 2005.
- <sup>4</sup> Murray, Caulier-Grice and Mulgan, 2010.
- <sup>5</sup> Sandor, Scott and Benn, 2009.
- <sup>6</sup> World Bank Group, 2010, p. 1.
- <sup>7</sup> United Nations General Assembly, 2015, para. 103.
- <sup>8</sup> Freireich and Fulton, 2009.
- <sup>9</sup> Porter and Kramer, 2011.
- <sup>10</sup> See, for example, Balch, 2016.
- <sup>11</sup> See, for example, Energy Efficient Singapore, 2017.
- <sup>12</sup> Barder, 2016.
- <sup>13</sup> ESCAP, 2016.
- <sup>14</sup> Bensoussan, Ruparell and Taliento, 2013.





# STRATEGIC LEADERSHIP MODELS FOR IMPACT INVESTING



## Key messages

1. Impact investments are intended to generate positive social and environmental impact alongside a financial return.
2. Impact investment councils and national taskforces in the region are developing or advocating for an enabling environment for impact investment
3. Whether led by government or industry, impact investment models require the committed engagement of policymakers.
4. Impact investment mechanisms must be tailored to the maturity of the investment system:
  - Less mature markets should give highest priority to ensuring the ease of setting up a business, providing investor protection and raising awareness of impact investing.
  - More mature markets should advocate for and implement policies to offer incentives that can attract mainstream investment (such as private equity, pension and sovereign funds).

## Introduction

The SDGs aim to positively impact the economy, society and the environment. The balanced integration of these three dimensions of sustainable development must be the basis of future investment and financing strategies. The economic dimension generally dominates investment and financing decisions, thus the policy environment must incentivize investors to maximize synergies and minimize trade-offs between the objectives of economic growth, inclusive social progress and environmental protection.

Encouragingly, governments in the Asia-Pacific region are pursuing innovative financing solutions to mobilize capital for development objectives. One such solution is impact investing, in which governments invest in companies, organizations and funds to generate positive social and environmental impact alongside

a financial return.<sup>1</sup> The Asia-Pacific region has great potential in this area. The Survey of Impact Investment Market 2014, conducted by the Department for International Development's (DFID) of the United Kingdom, ranked Sub-Saharan Africa and South Asia as the largest markets for impact investment activity.<sup>2</sup> In 2016, the Global Impact Investment Network (GIIN) published a survey of 158 impact investors from across the world. In step with the 2014 DFID survey results, GIIN highlighted South Asia, East and South-East Asia as key markets for impact investment.<sup>3</sup>

So far, the scale of impact investing remains relatively small. To fully leverage its potential, governments must convince mainstream investors to pursue impact investment. Governments can support the development of a pipeline of investment-ready projects and social enterprises, and create an enabling environment for impact investment.

This chapter profiles two strategic leadership models that have developed or advocated for an enabling environment for impact investment: the Impact Investors Council (IIC) of India; and the National Taskforce on Social Impact Investment in

Thailand, modelled on the Social Impact Investment Taskforce in the United Kingdom. The first was set up by the impact investing community as a self-regulatory body, while the second was set up by the Government.





## 2.1 IMPACT INVESTOR COUNCIL

### ►► INDIA

#### Overview

In 2014, the Impact Investors Council (IIC) of India was created as a self-regulatory body, to develop government policies, regulations and standards on impact investing. This case study provides insights on the effectiveness of this Council in building a conducive policy environment for impact investing.

The case study describes the structure of the Council, assesses its ability to advocate for policies that support impact investing in India, and evaluates the Council's effectiveness in driving forward SDG 1 "No Poverty", SDG 8 "Decent Work and Economic Growth" and SDG 17 "Partnerships for the Goals". The key features of IIC are summarized in Table 2.1.

Table  
2.1

Key features of IIC

Key features	Description
Type of initiative	Non-profit member-based association [section 8 company]
Public sector actor(s)	Ministry of Finance, Securities and Exchange Board of India, Reserve Bank of India
Country	India
Sectors/beneficiary focus	All sectors/targets underserved communities
Sustainable Development Goals	  

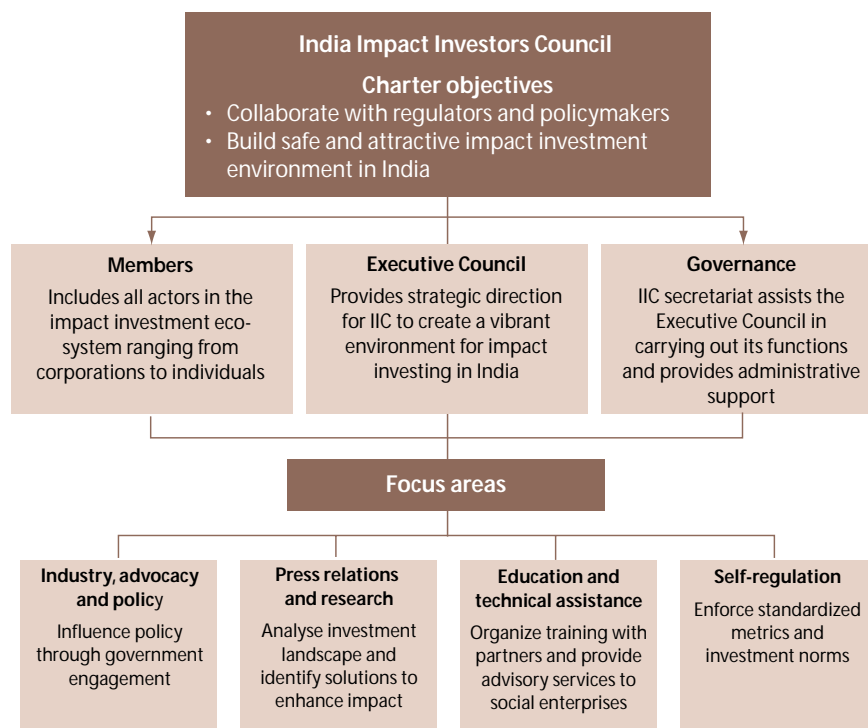
#### Mechanism outline

From 2011 to 2016, cumulative impact investment capital in India totalled \$4 billion, and the sector is estimated to be able to absorb \$6 billion to \$8 billion annually by 2025.<sup>4</sup> India has the most mature impact investment market in Asia.

To further build on the impact investment movement in India, the IIC was established in December 2014 as a non-profit (section 8) company serving as a member-based industry body.<sup>5</sup> The IIC engages with regulatory institutions in India, including the Ministry of Finance, the Securities and Exchange Board of India and the Reserve Bank of India, to advocate for policies to support impact investing.<sup>6</sup> The structure of the IIC is outlined in Figure 2.1.

The IIC comprises an executive committee, a secretariat and a network of 25 active impact investors and funds. Its members represent four categories: (i) philanthropists; (ii) corporations (CSR divisions) and corporate foundations; (iii) social entrepreneurs and NGOs; and (iv) consultants, researchers, investment banks and intermediaries. The Council enhances impact investing by engaging with policymakers to advocate for policies and conditions that build an enabling environment, conducting research and analysis of key industry players and high-impact sectors, providing education and technical assistance to its members and promoting the enforcement of regulatory standards and investment best practices.



**Figure  
2.1****Overview of IIC structure**

Source: Adapted from IIC website. Available from <http://iic.in/> (accessed 10 September 2017).

**Stakeholders engaged**

The IIC targets its advocacy effort to regulators and policymakers to push for policies that enable impact investment. It advocates policies that support the mobilization of private sector funds and it also seeks

to create demand for capital from investment-ready social enterprises. Thus, it contributes to development of a pipeline of social enterprises, the primary recipients of impact investment capital (Box 2.1). Additionally, the Council engages with multiple stakeholders as knowledge-sharing partners (Figure 2.2).

**Box  
2.1****Spotlight on STI**

A wave of technology-related solutions have been developed by social enterprises in India and impact investing can help them achieve scale and magnify their impact. These innovations include off-grid energy technology to provide rural communities with access to power, agri-tech that helps improve land productivity and increase farmer's income, e-health solutions to make health care more affordable and education technologies. These social enterprises are the foundation of the impact investing landscape in India. Their ability to use technology is driving progress toward the SDGs and makes them attractive to investors seeking a dual social and financial return.

The Government of India recognizes this link between technology and social enterprises, evidenced by the partnership between the Investment and Technology Promotion Division of the Ministry of the External Affairs and the IIC to organize an annual conference of local and international investors.

Source: IIC, 2016.

Figure  
2.2

## Stakeholders in IIC, India



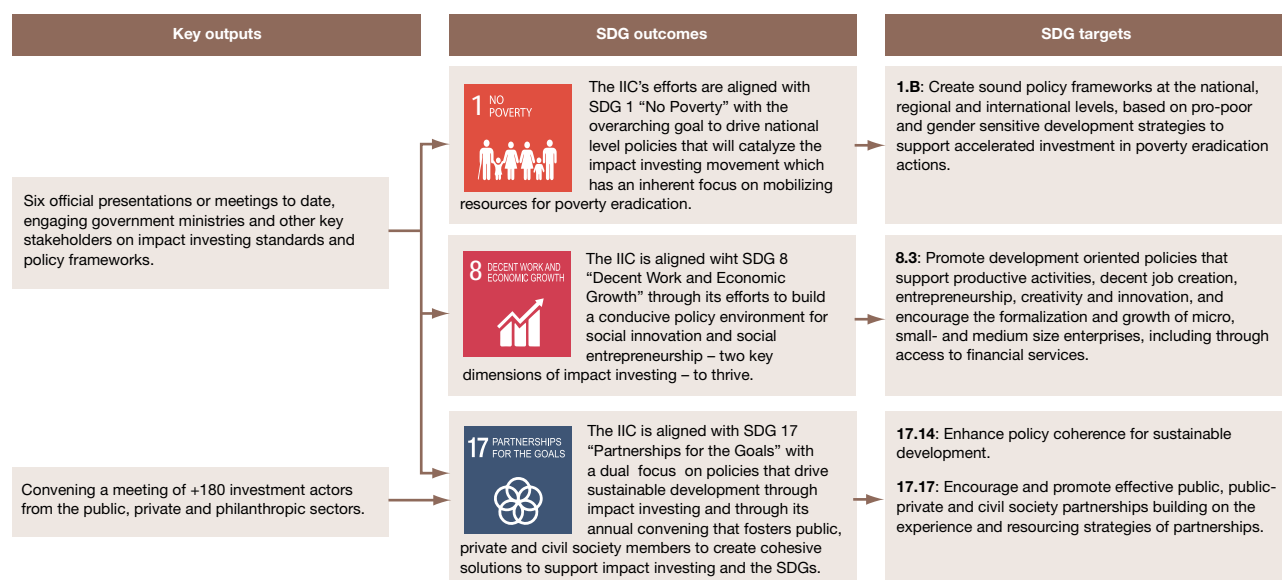
## Contribution towards the SDGs

In India, IIC is positioned to advance SDG 2 “No Hunger” and SDG 7 “Clean Energy”, which are directly linked to sustainable agriculture and clean energy, the two most active sectors for impact

investing (Figure 2.3). Such councils working in other contexts can raise capital for activities aimed at achieving targets of SDG 1 “No Poverty”, SDG 8 “Decent Work and Economic Growth” and SDG 17 “Partnership for the Goals”.

Figure  
2.3

## Impact of IIC in achieving the SDGs



Sources: IIC (2016) and IIC (2017b).

## Analysis

### Success factors

The strengths of IIC enable it to improve the policy environment for impact investing. Its strengths include its ability to influence policy and its convening power, which are described below in greater detail.

### Ability to influence policy

The IIC directly engages with the public sector to advocate for policy and regulatory reforms, to clarify the structure of investment vehicles and their tax implications and reporting standards,<sup>7</sup> and to create an enabling policy environment for impact investors. Table 2.2 summarizes key presentations made to the different branches of the Government of India in 2015 and 2016.

Table  
2.2

**Presentations made by IIC to the Government of India, 2015-2016**

Department/Ministry	Date	Presentation
Ministry of Finance	28 January 2015	<ul style="list-style-type: none"> <li>• Recognition of social enterprises, impact investors and IIC as a self-regulatory organization</li> <li>• Social Venture Fund Guidelines in Alternative Investment Funds regulations</li> <li>• Extending Priority Sector Guidelines to social enterprises</li> <li>• Increasing Access to external commercial borrowing by social enterprises</li> <li>• National standards for Social Impact Measurement</li> </ul>
Reserve Bank of India	15 March 2015	<ul style="list-style-type: none"> <li>• Recognition of incidental training activities as part of education</li> <li>• Banks on-lending to housing finance companies and non-banking financial companies to be treated as priority sector lending</li> <li>• Widen the scope of 'health-care facilities' to include hospitals/related infrastructure</li> </ul>
Securities and Exchange Board of India	28 January 2015	<ul style="list-style-type: none"> <li>• Definitional clarity on Social Venture Fund Guidelines</li> <li>• Tax implications for Social Venture Funds</li> </ul>
Niti Aayog	6 January 2016	<ul style="list-style-type: none"> <li>• Defining social enterprises and impact investing to catalyze inclusive development</li> </ul>
Ministry of Finance	1 February 2016	<ul style="list-style-type: none"> <li>• Introducing accredited investor norms for alternative investment funds and Social Venture Funds</li> <li>• Charities and public trusts to be allowed to invest in social enterprises/impact funds</li> <li>• Allowing CSR pool for social impact investing</li> <li>• Reset minimum Social Venture Fund size to INR 10 crores</li> <li>• Defining social enterprises and impact investing to catalyze inclusive development</li> </ul>
Ministry of Finance	28 June 2016	<ul style="list-style-type: none"> <li>• Commitment to India's readiness for Social Impact Bonds</li> <li>• Defining social enterprises and impact investing to catalyze inclusive development</li> </ul>

Source: Adapted from IIC website. Available from <http://iic.in/> (accessed 10 September 2017).

The ability of IIC to drive forward policy changes is evidenced as follows:

- IIC worked with the Ministry of Finance to secure a tax pass-through for alternative investment funds and social venture funds in

the 2015 Annual Budget. The pass-through reduces double taxation and enables IIC members (limited liability partnerships and limited liability companies) to pay income taxes at the individual ownership level, rather than at both the corporate and individual level.

- IIC and the Securities and Exchange Board of India collaborated to clarify the definition of Social Venture Funds.
- In April 2015, IIC expanded the scope of 'Priority Sectors' identified in partnership with the Reserve Bank of India. Those sectors will benefit from special loan and financing policies to cover micro, small and medium-sized enterprises, affordable housing, agriculture, education and social infrastructure among other high-impact sectors that typically attract impact investments.<sup>8</sup>

### Convening power

In 2016, the IIC organized the inaugural impact investor's conference in India in partnership with the Investment and Technology Promotion Division of the

Ministry of External Affairs.<sup>9</sup> The three-day event opened with all-day site visits to three locations, followed by conference sessions and a series of multilateral discussions with international partners. The aim was to build global standards for impact investing. The strength of this growing network of impact investment partners and funds enables IIC to achieve a greater impact.

In addition to providing a platform for its members, IIC organizes education and training programmes and creates business development toolkits. Through those mechanisms, IIC has helped to reduce information asymmetries between investors and social enterprises.

It should be recognized that the India's impact investing space had already evolved to one of the most mature ecosystems in the region prior to the IIC (Box 2.2).

#### Box 2.2

#### Additional context on the impact investment ecosystem in India

Prior to the founding of IIC, impact investing in India had already evolved to a mature state. Indeed, the impact investing sector of India was one of the most mature in the world. It had been built through donor support from the United States Agency for International Development (USAID) and the United Kingdom Department for International Development (DFID). Those donors gave significant support to intermediaries to enable them to build a pipeline of investment-ready deals (demand side). Meanwhile they also attracted private sector investors (supply side) and then they bridged the gap between demand and supply through innovative financial instruments. Much of the success of the impact investing sector in India resulted from a combination of factors that go beyond a conducive policy environment. Promoting investment norms and educating investors are critical to building the impact investing sector, but such processes must be complemented by innovative financial mechanisms and a demand from eligible enterprises.

### Lessons learned

There are two main limitations that IIC must overcome to catalyse impact investment:

- **Limited scope to mobilize capital:** The Indian impact investing sector is the most active across Asia, with \$700 million in private capital mobilized across more than 350 social enterprises over the past three years.<sup>10</sup> However, the Council does not directly provide or facilitate impact investments. While self-regulatory bodies can promote policies (such as social investment tax relief laws) that provide incentives for investors to enter or increase their

investment in this space, they do not directly raise impact investment capital.

- **Limited scope to develop a strong pipeline of eligible social enterprises:** While mobilizing a supply of capital for impact investing is crucial, it is only one side of the equation. It is equally important to develop demand for capital, that is to develop investment-ready entities that can absorb and deploy capital effectively. While IIC and other bodies are well placed to organize events that showcase social enterprises, they must work in coordination with other initiatives aiming to develop a strong pipeline of enterprises that can generate socio-economic and environmental returns.

## Potential for leverage, wider stakeholder engagement and replicability

Bodies such as IIC have the potential to leverage capital for development, particularly in an ecosystem of ample funding supply and enterprise demand for impact investment. They can strengthen wider

stakeholder engagement through training and convening multi-stakeholders on a shared platform. To replicate the IIC model, a council must have committed members, open communication with high-level government leadership and the ability to attract potential investors (Figure 2.4).

Figure  
2.4

Potential for leverage, wider stakeholder engagement and replicability of IIC, India

### Leverage



The primary focus of IIC is on advocacy for policies to support impact investment, thus its ability to leverage private capital for development depends on other actors who provide the supply of funding and create demand for investment.

### Wider stakeholder engagement



Through its multi-stakeholder convening platform, IIC can facilitate diverse engagement in impact investing. To deepen its impact, IIC can coordinate with business incubators and initiatives to build investment-ready enterprises aiming to generate socio-economic and environmental returns.

### Replicability



The IIC is replicable if there is buy-in from policymakers and private sector actors. To be effective, a self-regulatory body must have the ability to influence policymaking and investors.

## Guidelines for policymakers

Self-regulatory bodies, such as the IIC, can catalyse the interest of investors and social enterprises to build a conducive policy environment for impact investment. Governments in Asia and the Pacific that wish to replicate the IIC model should consider that, as these

Councils are industry led, the role of policy makers is relatively limited. However, government commitment and engagement with self-regulatory bodies, for example by considering their proposals for policy and regulatory changes, can encourage industry partners to support impact investment.





Photo credit: David Dennis



## 2.2 NATIONAL TASKFORCE ON SOCIAL IMPACT INVESTMENT ► THAILAND AND UNITED KINGDOM

### Overview

In September 2016, the Government of Thailand launched the National Taskforce on Social Impact Investment (the “Thailand Taskforce”) with support from the Global Social Impact Investment Steering Group (GSG) (Table 2.3). This case study explores

the potential effectiveness of national taskforces to catalyze impact investing and support of the SDG agenda. Given the recent establishment of the Thailand Taskforce, this case study will also draw on lessons learned from similar models in other parts of the world, specifically the United Kingdom.<sup>11</sup>

Table  
2.3

Key features of the National Taskforce on Social Impact Investment

Key features	Description
Type of initiative	Government funded steering group
Public sector actor(s)	Government of Thailand, in collaboration with GSG
Country	Thailand
Sectors/beneficiary focus	All sectors
Sustainable Development Goals	  

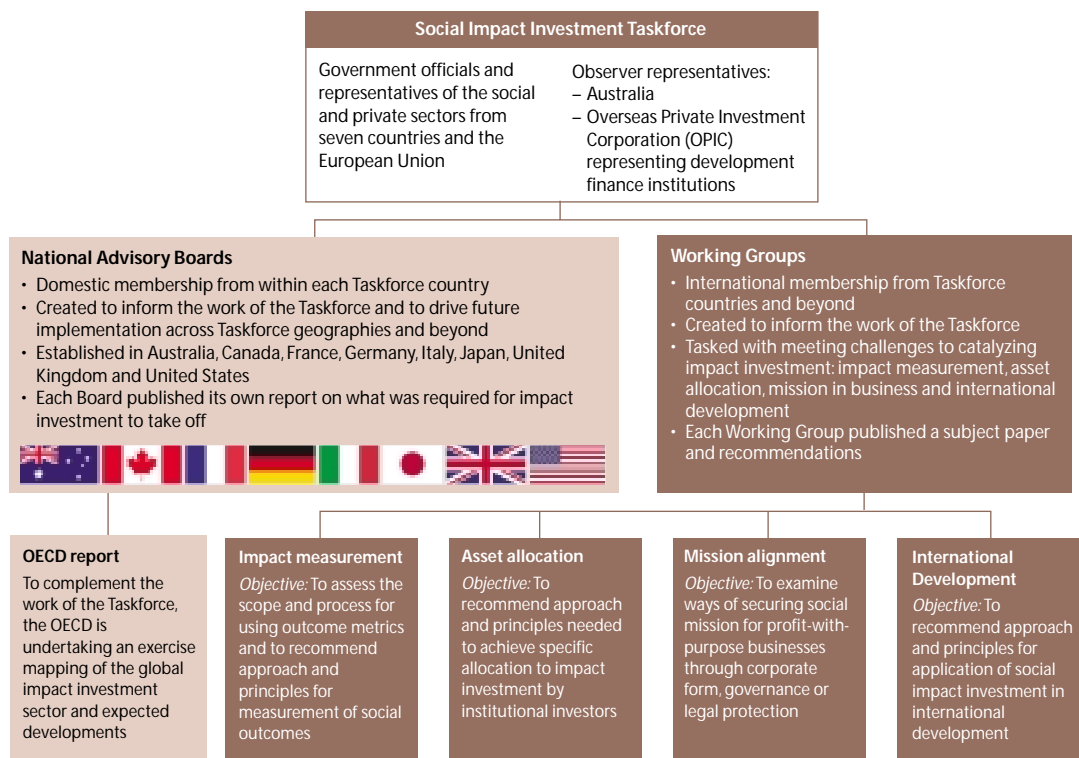
### Mechanism outline

The Thailand Taskforce seeks to accelerate the development of an effective social impact investment market. It was modelled on the G8 Social Impact

Investment Taskforce (now GSG) (Figure 2.5). Its scope of work is still in development but will incorporate best practices from the G8 initiative.

Figure  
2.5

## Overview of the G8 Social Impact Investment Taskforce, 2014



Source: Adapted from Social Impact Investment Taskforce, 2014.

## Stakeholders engaged

To date, the Thailand Taskforce has primarily engaged public sector actors such as the Government and the Thailand Social Enterprise Office (TSEO), with

guidance from GSG. However, the Taskforce is expected to expand its reach to engage private sector actors as participants in achieving sustainable development in Thailand (Figure 2.6).

Figure  
2.6

## Stakeholders in the National Taskforce on Social Impact Investment, Thailand





## Contribution towards the SDGs

The Thailand Taskforce was established in 2016 and it is too soon to see a direct impact on the SDGs or the national development agenda. Japan and India are also members of GSG. Like the Thailand Taskforce, the Japan Taskforce was formed relatively recently. To show the perspective of a longer timeline, this case study assesses the impact on sustainable development of the United Kingdom Social Impact Investment Taskforce (UKSIIT), an independent body launched by the Government (specifically Her Majesty's Treasury) in 2000.

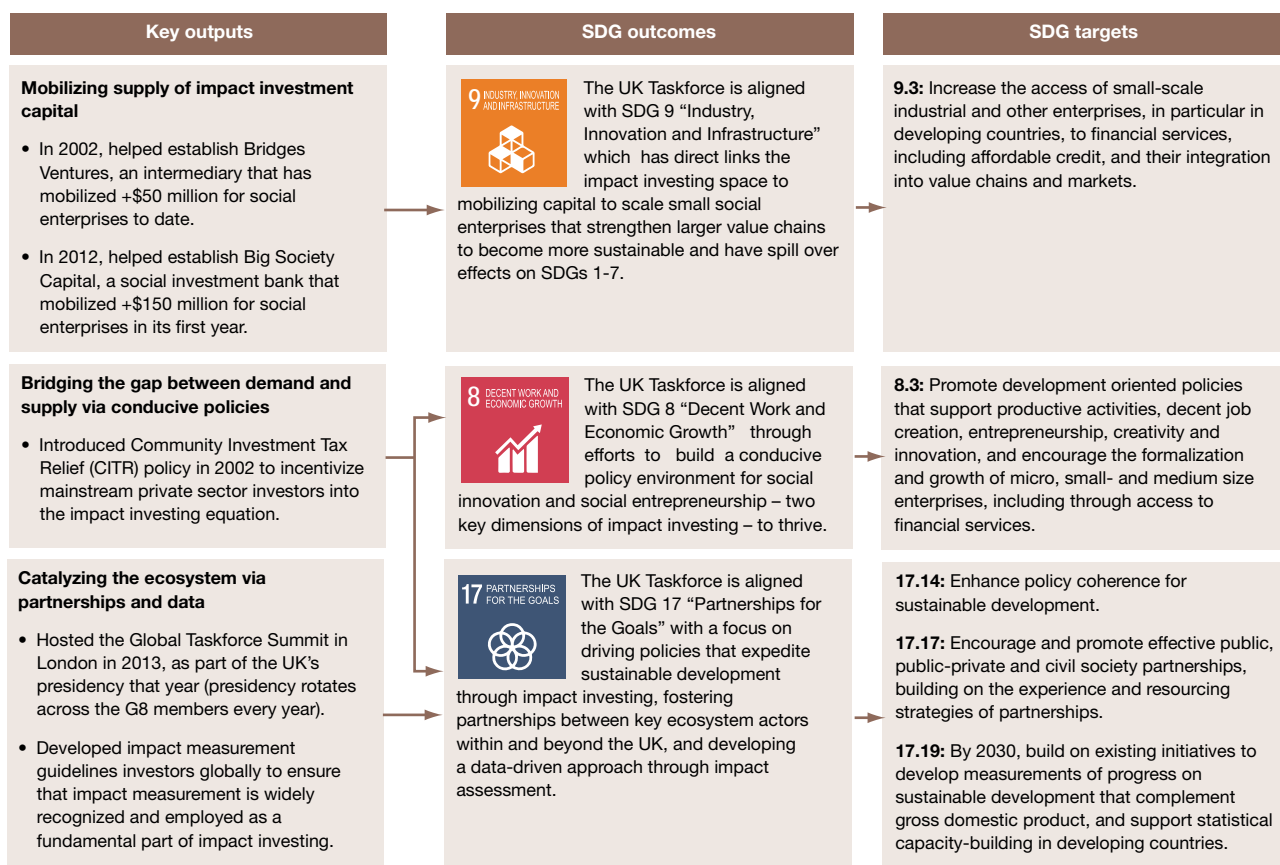
In outlining a suite of policy proposals, UKSIIT helped policymakers to understand how investment could generate financial and social returns, and how economic regeneration could be promoted by

unlocking new sources of private capital from impact investors. The Taskforce provided a visible forum through which the British Government could formally receive the group's recommendations, and it provided policymakers with a clear agenda for implementation.<sup>12</sup>

As seen in Figure 2.7, UKSIIT addresses SDG 8 “Decent Work and Economic Growth”, SDG 9 “Industry, Innovation and Infrastructure” and SDG 17 “Partnerships for the Goals”. The Taskforce promotes the establishment of intermediary organisations that can bridge the gap between the demand for impact investment and the supply. The Taskforce also advocates the introduction of conducive policies to catalyze the ecosystem through multi-sector partnerships and helps build a data-driven approach towards impact measurement.

Figure  
2.7

Impact of UKSIIT in achieving the SDGs



Sources: Social Impact Investment Taskforce (2014) and GOV.UK (2017).

## Analysis

### Success factors

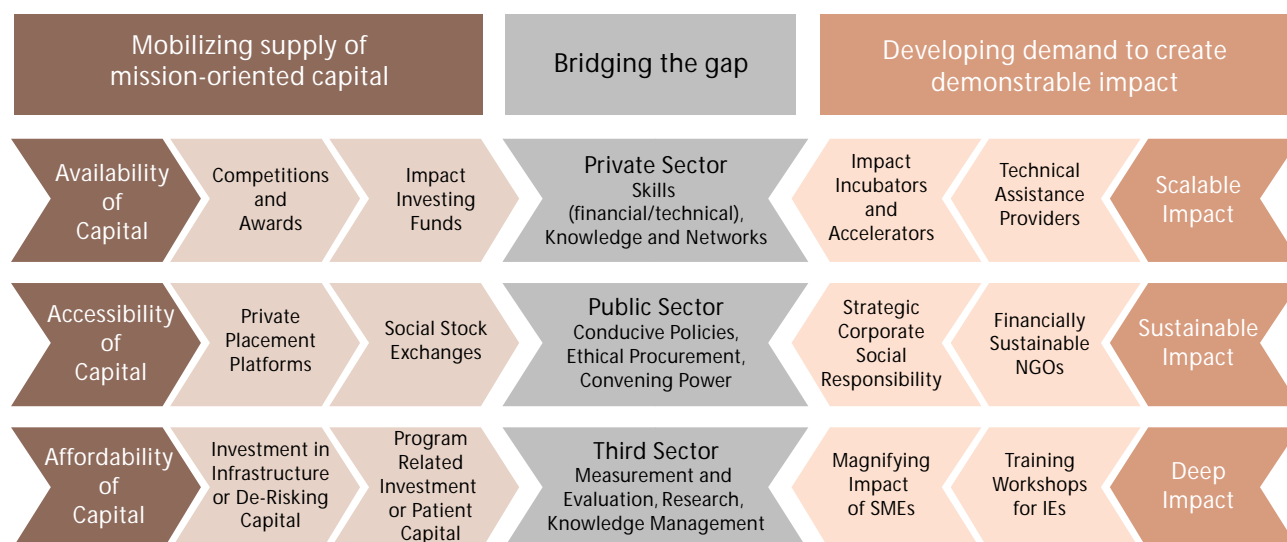
It is too early to assess the success of the Thailand Taskforce. However, key success factors can be inferred from the experiences of other taskforces.

### Building the impact enterprise ecosystem

A central priority for taskforces is to promote conducive policies to bridge the gap between demand and supply in impact investment. It is also critical to support investors to mobilize accessible and affordable capital and to develop demand to absorb the capital, deploy it and create impact (Figure 2.8).

**Figure 2.8**

**Building the impact enterprise ecosystem: A model**



Source: Impact Investment Exchange, 2016.

To develop an enabling environment to finance advancements towards the SDGs, it is essential to foster the development of impact investment intermediaries that have the following expertise:

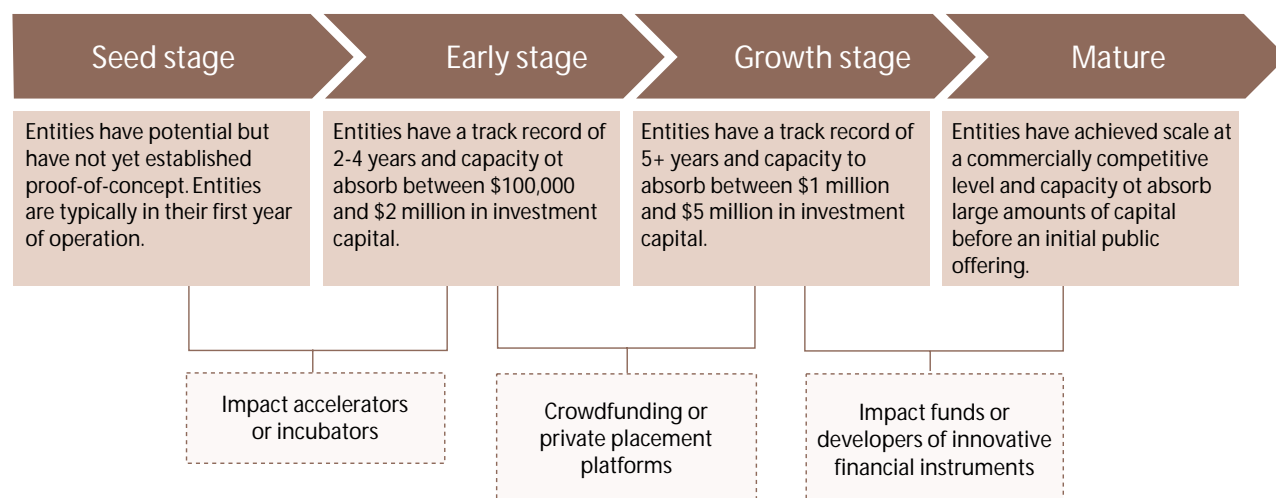
1. Bringing in new stakeholders from the private sector as providers of investment capital beyond grants; and
2. Aligning the supply of capital with demand by developing investment-ready social enterprises

that are equipped to absorb investment and create demonstrable contributions to the country's sustainable development agenda.

Thus, countries must adopt a tailored approach and develop different platforms for investors and other partners in the social capital markets value chain to help social enterprises as they transition from the initial stages of development into full maturity. Figure 2.9 depicts an overview of intermediaries and potential platforms.

Figure 2.9

## Types of intermediaries across the social capital markets value chain



Source: Adapted from IIX website, available from <https://iixglobal.com/what-we-do/> (accessed 10 September 2017).

### Embrace global best practices to influence local policy

The GSG provides a repository of knowledge and resources and a network to enable taskforces to share knowledge across boundaries. Best practices and lessons learned in one context can help inform policymaking when adapted to the local context.

### Lessons learned

This section summarizes lessons learned from taskforces across the world and key barriers that must be addressed for these platforms to play an effective role in achieving the SDGs.

- **Align governments and social impact investment taskforces:** National taskforces will gain more traction where there is a clear narrative around the purpose and potential of impact investing and a commitment from the Government. Synergies and close coordination in the United Kingdom between the Government and the Taskforce enabled the two bodies to develop policies in tandem. A supportive policy environment with two-way interaction is essential.

- **Customize approaches to local context:** Lessons learned in other parts of the world can provide useful guidance as countries formulate national goals for their own social impact investment taskforce. Policies must be adapted to the local context, especially policies to mobilize capital to finance the SDGs. A national taskforce must localize the approach to impact investing by identifying systemic gaps in the local social capital markets value chain and support the growth of intermediaries that are best suited to address these gaps.

### Potential for leverage, wider stakeholder engagement and replicability

Social impact investment taskforces do not directly mobilize capital, but can promote policies that encourage the investment of private capital and create incentives for private sector investment in innovations aligned with the SDGs. National taskforces are easy to replicate, but to have an impact they must win the commitment and buy-in of government actors and tailor their approach to the maturity of the impact investment market. Figure 2.10 summarizes the potential for leverage, wider stakeholder engagement and replicability of national taskforces.

Figure  
2.10**Potential for leverage, wider stakeholder engagement and replicability of national taskforces****Leverage**

National taskforces for impact investment focus more on influencing policies than on mobilizing capital. They can support policies such as tax relief laws or develop the ecosystem of intermediaries to increase the availability of capital for impact investing.

**Wider stakeholder engagement**

National Taskforces typically work with policymakers but they can also reach out to high net worth individuals, family offices, financial institutions and corporations and offer incentives for their support of impact investing.

**Replicability**

The GSS can facilitate the replication of the national taskforce model. To be effective in developing enabling policies for impact investment the taskforce must be recognised by the Government and tailored to the maturity of the national impact investment market.

**Guidelines for policymakers**

There is limited evidence related to the Thailand Taskforce at this stage. It was modelled on the UKSIIT, and the progress it has achieved indicates strong potential for the Thailand Taskforce to play a catalytic role in supporting the impact investment movement which has direct links to multiple SDGs. Governments in Asia and the Pacific would be advised to follow key guidelines if they choose to replicate the taskforce model:

1. **Obtain firm commitment from the national government:** UKSIIT was managed by the Cabinet Office, which has a coordinating role across the whole of Government.
2. **Build the impact enterprise ecosystem:** Creating an enabling environment for impact

investment must be paired with efforts to mobilize a supply of capital for impact investment and to build demand for capital by developing investment-ready entities that can absorb and deploy capital effectively.

3. **Leverage transboundary knowledge:** Linking through bodies such as the GSG enables taskforces around the world to access a repository of knowledge, resources, networks, best practices and lessons learned.
4. **Customize approaches to local context:** Taskforces must identify systemic gaps in the local social capital markets value chain, develop policies and support the growth of intermediaries that are best suited to bridge the gaps.

## Endnotes

<sup>1</sup> Freireich and Fulton, 2009.

<sup>2</sup> DFID, 2015.

<sup>3</sup> Mudaliar, Schiff and Bass, 2016, p. 14.

<sup>4</sup> McKinsey and Company, 2016.

<sup>5</sup> Impact Investors Council, 2017a.

<sup>6</sup> Bhatia, 2015.

<sup>7</sup> Unitus Seed Fund, 2013.

<sup>8</sup> Reserve Bank of India, 2015.

<sup>9</sup> Impact Investors Council, 2016.

<sup>10</sup> Ibid.

<sup>11</sup> For information on impact investment in Argentina, Paraguay and Uruguay, see Acrux Partners, 2017.

<sup>12</sup> National Advisory Board to UKSIIT, 2014.





# POLICIES TO UNLOCK CORPORATE INVESTMENT FOR DEVELOPMENT



## Key messages

1. With their skills, financial resources and potential to deliver at scale; corporations will be critical to meet the ambitions of the 2030 Agenda.
2. To deliver on their potential to contribute to achieving the 2030 Agenda in Asia and the Pacific, corporations must invest in sustainable development, for instance through corporate social responsibility, and, most importantly, incorporate social and environmental values as part of the core business strategy and reporting process (also known as 'shared value').
3. Governments can enact policies to promote corporate social responsibility. This has the potential to increase financing for development in the region.
4. Governments can promote shared value in corporations. Public procurement policies, such as green procurement, can also assist in engraining social and environmental considerations in the core strategies of businesses and better aligning public resources to the SDGs.

## Introduction

With their potential to deliver at scale, corporations must become partners in the efforts to meet the ambitions of the 2030 Agenda. The opportunity in Asia and the Pacific is significant given that many of the world's top companies in many different industries are headquartered in the region. Governments can enact policies to promote corporate social responsibility (CSR) and encourage corporations to move beyond CSR and incorporate social and environmental values as part of the core business strategy and reporting process (also known as promoting 'shared value').<sup>1</sup>

This chapter discusses policies to unlock corporate investment for development. The CSR Law in India mandates companies with a certain turnover and profitability to spend 2 per cent of their net profit in support of social and environmental objectives. The policy intent is to raise much needed

finance for social and environmental challenges, and to motivate companies to support sustainable development.

Governments can also promote shared value by providing incentives, creating markets through public procurement and changing consumer mindsets to demand products and services with higher social and environmental value. The Green and Energy Labels initiatives and the green procurement policy of the Government of Singapore, although not designed to directly unlock investment from the private sector to finance the SDGs, offer a holistic approach to promoting shared value in corporations and encourage them to prioritize environmental considerations. In response to climate change, the Government will procure only high energy efficiency electrical products and printing paper from suppliers practising sustainable forestry management. The Government's green procurement policy creates an

incentive for private sector suppliers to integrate sustainability into their business models to retain market share. The Green and Energy Labels initiatives

build social and environmental consciousness in consumers, who in turn demand more sustainable products from businesses.







## 3.1 CORPORATE SOCIAL RESPONSIBILITY LAW

### ►► INDIA

#### Overview

In 2013, the Indian Parliament passed an update of the Companies Act that included a provision requiring companies to invest a portion of their profits in corporate social responsibility (CSR), making India the first nation in the world to mandate CSR. This case study explores the effectiveness of the CSR Law in

increasing private financing for the SDGs. The case study discusses the structure of the CSR Law, its ramifications and early indications of its successes and limitations. It evaluates the impact of the CSR Law on the achievement of SDG 1 “No Poverty”, SDG 12 “Responsible Consumption and Production”, and SDG 16 “Peace, Justice and Strong Institutions”. The key features of the CSR Law are summarized in Table 3.1.

Table  
3.1

Key features of the CSR Law, India

Key features	Description
Type of initiative	Policy – CSR Law under the Companies Act 2013
Public sector actor(s)	Ministry of Corporate Affairs
Country	India
Sectors/beneficiary focus	All sectors
Funds mobilized	\$100 million increase in CSR funding from 2015 to 2016
Specifications	Eligible companies must spend 2 per cent of average net profits made during preceding three years on CSR activities
Sustainable Development Goals	  

#### Mechanism outline

Section 135 of the Companies Act 2013 requires companies in India to elaborate a CSR policy and spend “at least 2 per cent of the average net profits of the company made during the three immediately preceding financial years” on CSR activities. The requirement applies to any company incorporated in India, whether domestic or a subsidiary of a foreign company, and which had: (i) net worth of INR 5 billion (\$83 million) or more; (ii) annual turnover of INR 10 billion (\$160 million) or more; or (iii) net profit of INR 50 million (\$830,000) or more during any of the previous three financial years.<sup>2</sup>

The Act requires those firms to set up a CSR board committee to formulate and recommend a CSR policy and related activities. The membership of the committee must include at least three directors, one of whom must be independent. The Board must approve the policy, disclose the CSR policy and ensure that the activities included in the CSR policy are undertaken by the company. It also must issue an annual report inclusive of CSR expenditure and provide an explanation should the company fail to spend the required amount (Figure 3.1).

The Government has defined which activities may be included in CSR policies, including the following:



promoting poverty reduction; education; health; environmental sustainability; gender equality; and vocational skills development.<sup>3</sup> Companies can choose to invest in those areas or contribute their 2 per cent to central or state government funds earmarked for socio-economic development.

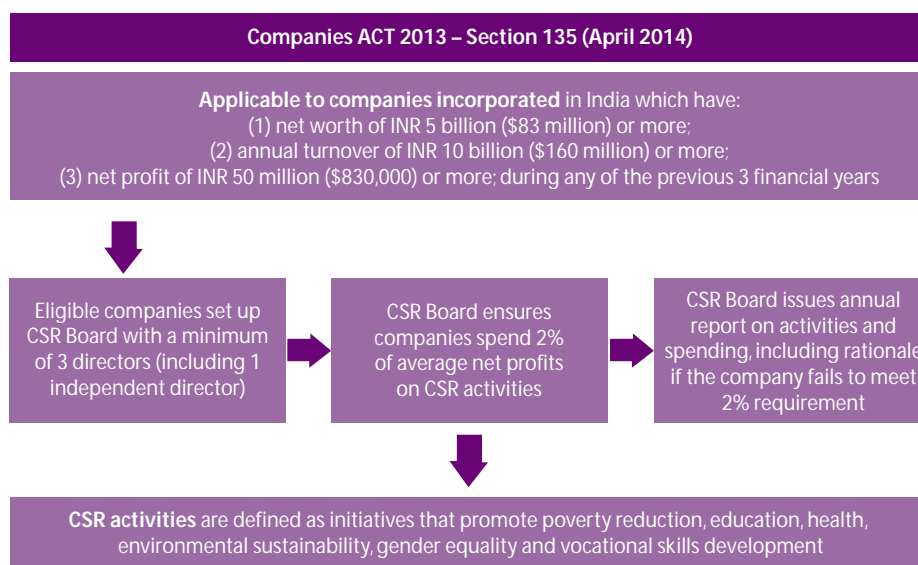
The objective of the CSR Law, articulated in General Circular No. 1/2016, is to involve corporations in “discharging their social responsibility with their innovative ideas and management skills and with greater efficiency and better outcomes”. Corporations are expected to give not only of capital but also innovation and management skills in the delivery of ‘public goods’. Moreover, General Circular No. 1/2016 states the preference that CSR funds should not be

allocated to Government Schemes.<sup>4</sup> The CSR Law encourages corporations to fund long-term programmes and projects (the funding of one-off events does not qualify as CSR) and to give preference to the local area and areas where it operates.

To effectively support sustainable development, corporations must move beyond the concept of CSR as ‘public relations’ or ‘community service’ and incorporate social and environmental values into the core business strategy and reporting process (also known as promoting shared value).<sup>5</sup> While the CSR Law in India focuses on channelling corporate funding towards social and environmental activities, it also moves conversations about CSR into the boardroom as a legal obligation.<sup>6</sup>

**Figure  
3.1**

### Provisions of the CSR Law, India



Source: Adapted from Ministry of Corporate Affairs, 2013.

### Stakeholders engaged

The CSR Law directly engages three groups: (i) public sector administrators of the legislation (the Ministry of Corporate Affairs) and facilitating bodies

(the Indian Institute of Corporate Affairs); (ii) private sector corporations subject to the CSR Law; and (iii) non-profit advisors to either of the above groups (Figure 3.2).

**Figure  
3.2**

### Stakeholders in CSR Law, India



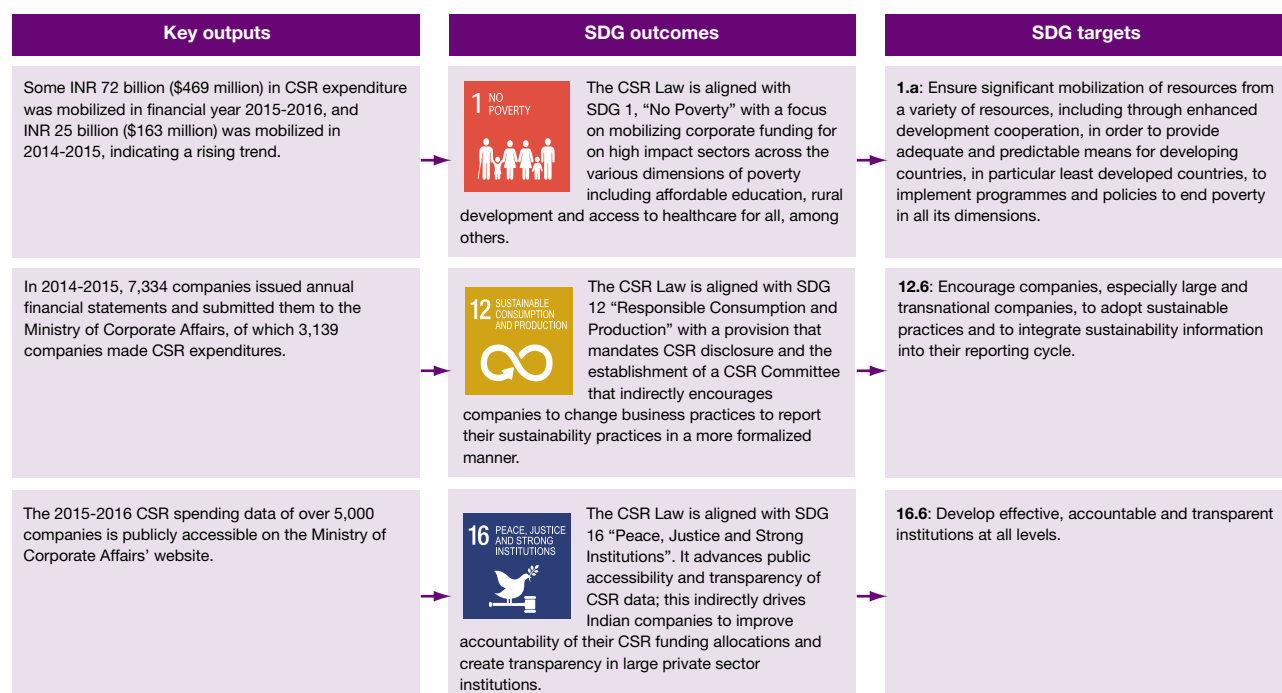
### Contribution towards the SDGs

The CSR Law targets SDG 1 “No Poverty”, SDG 12 “Responsible Production and Consumption”, and SDG 16 “Peace Justice and Strong Institutions” as outlined in Figure 3.3. In addition, there are certain

secondary SDGs that will receive increased financing from corporations as a result of the CSR Law. The top five sectors for CSR efforts in India are education (SDG 4) (see box 3.1), environment (SDG 13), livelihoods (SDG 8), health care (SDG 3) and rural development (SDG 10).<sup>7</sup>

**Figure  
3.3**

### Impact of the CSR Law in achieving the SDGs



Sources: Porter and Kramer, 2011; Ghuliani, 2013; and Ministry of Corporate Affairs, 2013, 2014a, 2014b, 2016 and 2017.

Box  
3.1

## Spotlight on STI

Microsoft India combines its CSR funding with advanced technology to magnify the impact and advance towards national sustainable development objectives. As a result of the 2 per cent requirement, Microsoft spends more on India-based CSR initiatives than it spends in other Asian countries.

Even before the CSR Law required it, Microsoft supported technology-related initiatives in India. For example, Microsoft's YouthSpark - Project Jyoti supports community technology learning centres, which provide a venue where people of all ages and abilities can learn about computers, use the Internet, explore careers, participate in community activities and develop technology skills, free of charge. There are over 1,425 community technology learning centres across India and the programme has trained over 500,000 young adults, 70 per cent of whom are in gainful employment or self-employed. YouthSpark - Project Jyoti also takes an enterprise approach to training and actively encourages the youth to develop an entrepreneurial mindset. Since December 2012, over 700 youth enterprises have been established as a direct result of the programme.

Source: Microsoft India 2017.

## Analysis

## Success factors

The CSR Law mobilizes corporate capital for development objectives. Through its reporting requirements, it has improved transparency around CSR expenditure. More could be achieved, however, if companies are encouraged to focus on achieving maximum social impact.<sup>8</sup> This section describes some of the factors that contributed to the success of the CSR Law.

## 1. Mandating CSR by law

The legal mandate is powerful evidence of the Government's commitment to the creation of social, environmental and economic value. Its achievements so far are highlighted below:

- **Financial year 2014-2015:** The 2 per cent CSR requirement applied to 10,475 firms, and 7,334 firms submitted their annual report with CSR activities as of 31 January 2016. Of those firms, only 3,139 reported CSR expenditure. Out of

total prescribed expenditure of INR 11,883 crores (\$1.857 billion) by these 3,139 companies, INR 8,803 crores (\$1.375 billion) (or 74 per cent) have actually been spent towards CSR activities.<sup>9</sup> The low numbers may reflect slow uptake of the new law in its first year.

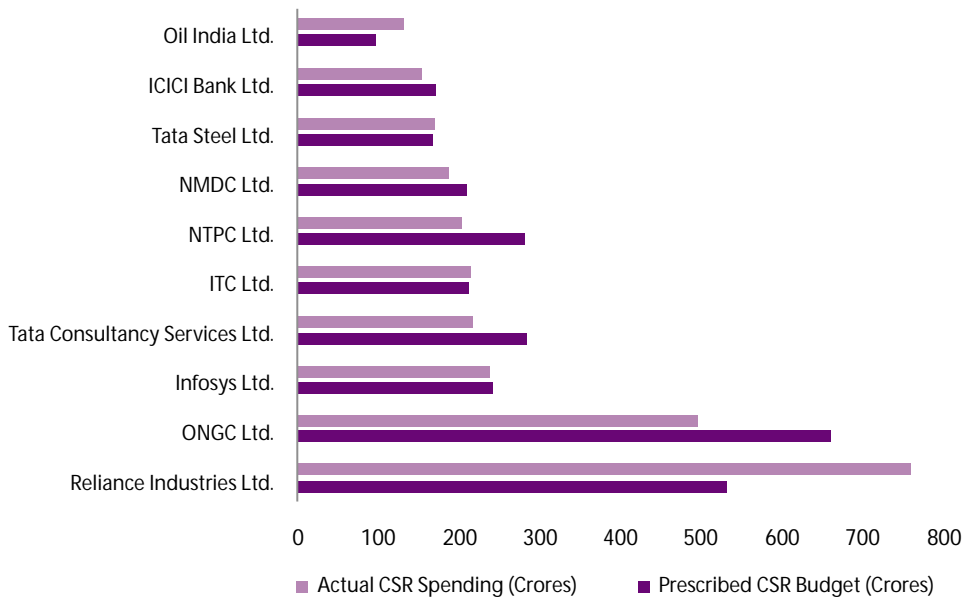
- **Financial year 2015-2016:** The CSR expenditure rose to INR 9,822 crore (~\$1.5 billion).<sup>10</sup> Out of the 5,097 companies who filed their annual report, 2,691 firms reported CSR expenditure (Figure 3.4). Of the top 100 companies in India, 52 per cent met or exceeded the required 2 per cent CSR expenditure in 2016.<sup>11</sup>

## 2. Mandating reporting of CSR expenditure and disclosure of rationale of non-compliance

The Law established accountability and transparency by requiring the CSR committee to disclose the CSR policy, expenditure on CSR and the rationale for non-compliance. For the financial year 2015-2016, CSR spending data of over 5,000 companies is publicly accessible on the Ministry of Corporate Affairs website.

Figure 3.4

Top 10 companies by CSR spending in financial year 2015-2016



Source: Adapted from Ministry of Corporate Affairs, 2017.

### Lessons learned

1. **High risk of non-compliance in the absence of enforcement mechanisms:** The CSR Law is an innovative and new policy, so the non-compliance of the majority of mandated firms is to be expected. Non-compliance may decrease as CSR becomes more widely understood, and stricter enforcement mechanisms could help increase compliance.<sup>12</sup> The Government does not review corporate CSR policies, programmes or projects. It relies on the firm's CSR committee and the Board to take the appropriate decisions. Furthermore, the Government does not monitor the implementation of CSR activities and considers the existing legal provisions (mandatory disclosure of the CSR committee, policy and expenditure; accountability of the CSR committee and the board) to be sufficient safeguards.<sup>13</sup>

2. **Firms need guidance on how to use CSR funds:** The CSR Law specifies how much capital to allocate, which activities are appropriate and mechanisms for disclosure and reporting of CSR expenditure. The CSR Law provides limited guidance, however, on maximizing the social impact of the corporate funds.

### Potential for leverage, wider stakeholder engagement and replicability

The CSR Law leveraged private sector capital towards development objectives. Careful analyses of the data on corporate giving before and after it was implemented can become important inputs to future iterations of the Law. Its requirements may lead to deeper corporate engagement in national development plans, not only as financing partners but also as knowledge partners. The Law is easily replicable and can be adapted to different contexts (Figure 3.5).

Figure  
3.5

## Potential for leverage, wider stakeholder engagement and replicability of the CSR Law, India

## Leverage



The CSR Law leverages private sector capital towards development objectives. Careful analyses of the data on corporate giving before and after it was implemented will show how effective it was. That data can become a valuable input to future iterations of the CSR Law.

## Wider stakeholder engagement



The Law has the potential to foster deeper corporation engagement in national development plans of governments.

## Replicability



The CSR Law is easily replicable and versions of it have already been adopted in Bangladesh, Indonesia and other Asian countries. Positive incentives have great potential and governments can encourage companies to practise strategic CSR that is closely aligned with their core competencies.

## Guidelines for policymakers

While it is easy to replicate the Indian CSR Law and countries including Bangladesh and Indonesia have already introduced similar legislation, policymakers can adopt the following two strategies in parallel to magnify the impact on the SDGs:

- There is a risk of non-compliance in the absence of **enforcement mechanisms**. Policymakers should develop effective compliance mechanisms in parallel to the development of CSR laws.
- Governments can direct funds towards certain sectors, demographics and types of

organizations to **maximize social impact of CSR funds**. Policymakers should evaluate the different modalities for effective use of CSR funds. For instance, the government of India has provided several clarifications on the activities in which the funds can be spent. The modalities that can maximize social impact will be very context specific. They will vary depending on national development priorities, the capacities of local civil society organizations, or the competence of corporations to propose CSR policies that support the SDGs and to conduct due diligence to select appropriate organizations.









## 3.2 GREEN LABEL, ENERGY LABEL AND PUBLIC PROCUREMENT ► SINGAPORE




### Overview

The Singapore Green Labelling Scheme (SGLS), initiated in 1992, is the leading environmental standard and certification mark in Singapore and the region. The SGLS is administered by the Singapore Environment Council, a non-profit non-governmental organization. To encourage greater energy efficiency, Singapore's National Environment Agency (NEA) introduced the Mandatory Energy Labelling Scheme (MELS) in 2008 and the Minimum Energy Performance Standards (MEPS) for air-conditioners and refrigerators in 2011.

Moreover, these labels and standards have been used as a reference for green public procurement measures the Government of Singapore has implemented. This case study assesses SGLS, energy labels and green public procurement as incentives for private sector suppliers to integrate environmental objectives into their core business; particularly objectives related to SDG 11 “Sustainable Cities and Communities”, SDG 12 “Responsible Consumption” and SDG 13 “Climate Action”. The main features of these policies are summarized in Table 3.2.

Table  
3.2

Key features of green label, energy label and green procurement, Singapore

Key features	Green label (SGLS)	Energy label (MELS)	Public procurement of energy efficient electrical products
Type of initiative	Eco-label	Certification scheme	Green public procurement
Developing bodies	Singapore Environment Council	NEA	NEA
Country	Singapore (with presence in over 27 other countries)	Singapore	Singapore
Sectors/beneficiary focus	Environment, energy	Energy efficiency, electrical products	Electrical products
Number of certified products	+3,000 over +65 categories	988	N/A
Sustainable Development Goals	  		

### Mechanism outline

In Singapore, increasing energy efficiency is a core strategy to mitigate climate change. By 2030, Singapore aims to do the following: (i) reduce its economy-wide energy intensity levels by 35 per cent (as compared to 2005 levels); (ii) stabilize its

greenhouse gas emissions with the aim of peaking around 2030; and (iii) reduce emissions by 16 per cent below 2020 business-as-usual levels.<sup>14</sup> Eco-labels were identified in Agenda 21 as a means of encouraging consumers to reduce unsustainable consumption and use resources and energy more efficiently.<sup>15</sup> According to the Global Ecolabelling

Network, eco-labels identify preferred products or services within a specific category, based on lifecycle considerations which encompass the environmental impact of a product's design, production, operations, maintenance and disposal.<sup>16</sup>

Governments have a role to play in encouraging eco-labelling and green certification for two key reasons:

- (i) Consumer choice has a direct impact on the demand and supply of products. By simultaneously educating consumers on energy efficiency and promoting environmentally preferable products, eco-labels incentivize manufacturers to innovate and produce more efficient products, thus improving industry standards. As more consumers consider the environmental footprint of a product's lifecycle when making purchases, manufacturers whose

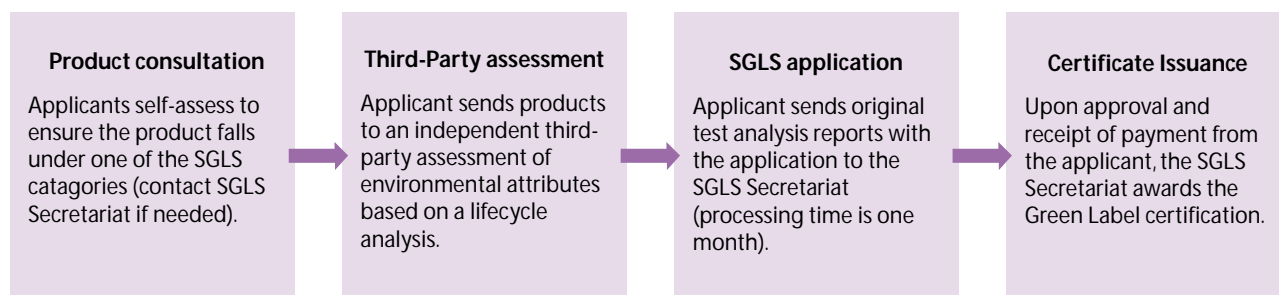
products are recognized by eco-labels and certifications stand to gain a competitive advantage.

- (ii) Eco-labelling is generally cheaper than regulatory controls, as it acts to empower consumers and manufacturers to make environmentally-beneficial decisions.<sup>17</sup>

SGLS is a voluntary, multiple-criteria based, third-party eco-labelling scheme that rates the overall environmental performance of a product and authorizes the use of environmental labels on certified products. The SGLS aims: (i) to empower individuals to make informed purchasing decisions; and (ii) to encourage manufacturers to adopt environmentally sustainable production methods. The Green Label is awarded to products that comply with stringent standards of environmental processes and procedures. The process for obtaining SGSL certification is outlined in Figure 3.6.

**Figure  
3.6**

**SGLS certification process**



Source: Adapted from Singapore Environment Council, 2017.

To date, over 3,000 products from 28 countries have received Singapore Green Label certification, across a range of categories, including building materials, lighting, cleaning products, office supplies and equipment, interior products, electrical products and household appliances.<sup>18</sup> SGSL is part of the Global Ecolabelling Network and adheres to its International Coordinated Ecolabelling System (GENICES).

To create an incentive for energy efficiency, NEA introduced the **Mandatory Energy Labelling Scheme (MELS)** in 2008. Under the Energy Conservation Act 2012, all 'registrable goods' (air-conditioners, refrigerators, clothes dryers, televisions, lamps) must carry energy labels. The 2012 Act requires importers

and manufacturers intending to supply those goods in Singapore to register as a supplier and register the goods they intend to sell. The product labels must meet established standards and appliance labels must state annual energy consumption and annual energy costs.<sup>19</sup> The label enables consumers to easily identify the relative energy efficiency of an appliance, with more ticks indicating greater efficiency.

In 2011, NEA introduced the **Minimum Energy Performance Standards (MEPS)** for air-conditioners and refrigerators, which was updated in 2013, and extended to cover general lighting in 2014. Products that did not meet the minimum standard were removed from the market. The minimum efficiency

standard required suppliers to offer more efficient appliances. Consumers benefit from MEPS because efficient appliances use less energy. The Government also benefits from MEPS because efficient appliances will help to reduce the national carbon footprint and fulfil its pledge to reduce emission intensity.<sup>20</sup> The NEA is considering a proposal to introduce a minimum efficiency standard for motors in late 2018. Motors account for about 80 per cent of electricity consumed by companies regulated under the Energy Conservation Act.<sup>21</sup>

The Government of Singapore is taking an active role in creating an eco-friendly economy and pushing private sector suppliers to integrate sustainability into their business models. The initiative, Public Sector

Taking the Lead in Environmental Sustainability (PSTLES), encourages public sector agencies to enact measures for energy efficiency, water efficiency and recycling. It calls for green public procurement and requires public sector entities to procure electrical appliances with higher MEPS ratings.<sup>22</sup> Public sector agencies should procure Singapore Green Label certified white printing paper. Policies such as PSTLES leverage government procurement to support private sector suppliers who comply with sustainability standards.

### Stakeholders engaged

The SGLS, energy labels and initiatives for green public procurement engage a range of private, public and non-profit partners (Figure 3.7).

Figure  
3.7

Stakeholders in SGLS, energy label and green public procurement initiatives, Singapore



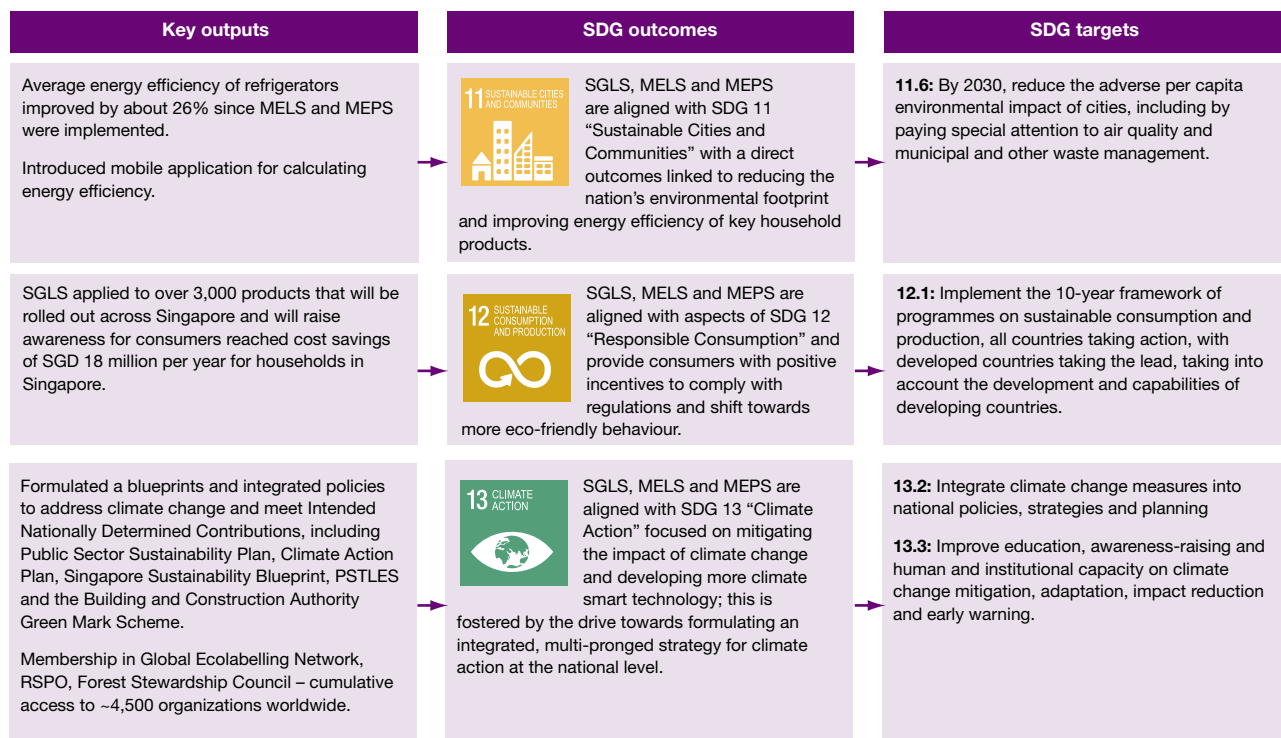
### Contribution towards the SDGs

The certification schemes and the PSTLES initiative have direct impact on SDG 11 “Sustainable Cities and Communities”, SDG 12 “Responsible Consumption”, and SDG 13 “Climate Action”. In addition, the energy labelling scheme also helps to address SDG 7 “Clean

Energy” due to its focus on increasing energy efficiency (Figure 3.8). While the initiative is contributing towards the SDGs, other complementary policies are needed to further reduce energy intensity. For example, household electricity consumption in Singapore has continued to increase, from 6,924 GWh in 2014 to 7,221 GWh in 2015.<sup>23</sup>

**Figure  
3.8**

### Impact of SGLS, energy labels and green public procurement in achieving the SDGs



Sources: National Environment Agency, 2016b; Singapore Environment Council, 2017.

## Analysis

### Success factors

Certification schemes are incentives to improve production processes and empower consumers to make informed purchasing decisions. The strengths and critical success factors of the SGLS and energy labelling schemes are as follows:

#### Robust assessment

SGLS certification is given to products that meet stringent and comprehensive criteria related to total environmental impact. The energy labelling scheme has a rigorous rating system that changes scope over time to reflect new technologies that enable even greater energy efficiency. The NEA has a database of all the products that have been certified, the brand, model type, energy capacity, annual energy consumption and cost, and the label/certification expiration date. Consumers can use this product-specific information to make informed purchasing

decisions. Civil society can use the information to raise concerns on poor environmental ratings.

#### Progressive introduction of more demanding certification and rating systems to foster innovation

The combination of mandatory schemes and more demanding rating systems creates incentives to produce energy efficient products. The certification and rating offer incentives to reach higher standards of efficiency and enable consumer to differentiate between products on that basis. A conducive regulatory environment will contribute to continually fostering innovations that can reduce the environmental impact of consumer products.

#### Integration of policies on energy efficiency

SGLS, MELS and MEPS and green public procurement are not stand-alone schemes but are implemented with other initiatives. For example, the Building and Construction Authority’s Green Mark Scheme rates a

building's environmental impact and performance according to the efficiency of its operations as well as the materials used in construction. Architects and suppliers select MELS and MEPS certified materials and appliances because they enhance the overall performance of the building and reduce its environmental impact. The PSTLES initiative also uses MEPS as a benchmark. The implementation of integrated schemes and initiatives drives national progress toward greater energy efficiency.

### Lessons learned

There are two overarching lessons drawn from the Singapore case study that should be considered by other countries looking to introduce similar initiatives:

1. **Complementary incentives:** While eco-labels can educate and encourage consumers to purchase more efficient products, the customer may have other priorities. Studies of eco-labels have revealed that price considerations outweigh ethical considerations as the price increases, thus cost concerns may overrule environmental consciousness for consumers.<sup>24</sup> To enhance the impact of the eco-labels and green certifications, policies and regulations such as Building and Construction Authority's Green Mark Scheme that provide incentives for home and business owners to choose environmentally preferential products may be required.
2. **Cost of registration, testing and certification:** Rigorous assessment criteria that are frequently-updated can act as a double-edged sword: they provide an incentive to bring the

latest technology to market, and they can drive research and innovation; but the cost of testing and certification are likely to increase as well and that cost is borne by the applying companies. For example, the new SGLS criteria on paper and pulp requires a more rigorous assessment, at a cost of SGD 4,600 (~\$3,400), a significant increase over the cost of the previous assessment method at SGD 1,500 (~\$1,105).<sup>25</sup> Governments must consider the trade-off between the cost and the rigor of testing and certification.

### Potential for leverage, wider stakeholder engagement and replicability

Certification schemes have a strong potential to incentivize enterprises to reduce their environmental impact as a core business objective. Green public procurement policies can add a further incentive. While those initiatives do not directly unlock private sector investment for progress towards the SDGs, they can motivate research and innovation to increase efficiency and reduce environmental impact. It is also important to note that such schemes can lead consumers to consider the environmental impact in their purchasing decisions. Businesses will move towards a shared value business models if customer demand is clear. Eco-labelling schemes are best suited for replication in more advanced economies where enforcement is relatively strong, and regulation of firms is robust. Green public procurement policies are easier to implement in countries with sound public procurement systems and where public procurement contracts are a significant incentive for businesses (Figure 3.9).

**Figure  
3.9**

**Potential for leverage, wider stakeholder engagement and replicability of eco-labelling and green public procurement, Singapore**

**Leverage**



Through public procurement, certification schemes have ability to incentives shared value models in the private sector and ensure that environmental value is generated through public expenditure.

**Wider stakeholder engagement**



The Green Energy label has strong potential to engage corporates in adopting environmental considerations in their core business models and to influence consumer behaviour with regards to environmental impact.

**Replicability**



Certification schemes are best suited for replication in more advanced economies where enforcement and regulation are strong. Public procurement policies have greatest impact in countries with strong systems for public procurement, where public procurement contracts are a significant incentive for businesses.

**Guidelines for policymakers**

In conclusion, learning from SGLS, MELs and the PSTLES initiative shows that certification schemes and green public procurement policies are effective ways to engage the private sector by regulating the product supply chain and build consumer demand for environmentally sustainable goods and services. The SGLS and other certification schemes across Asia and the Pacific show that governments can have a significant impact by supporting existing certification schemes or developing their own certification schemes. Policymakers may wish to consider the following if they aim to develop or support certification schemes in their own country:

1. **Provide for robust assessments** of total environmental impact.
2. **Progressively introduce more demanding certification and rating systems** to continually

foster innovation. Governments must consider the potential trade-off between this objective and the higher cost of more rigorous registration, testing and certification.

3. **Adopt holistic and integrated policies** that stimulate consumer demand and foster market development and enable the participation of small and medium-sized enterprises.
4. **Consider pricing with care.** Pricing can outweigh environmental considerations in consumer purchasing decisions. Through policies and regulations, governments can give incentives to offset the higher cost of some environmentally preferential products.
5. **Leverage green public procurement practices** to support eco-labels and schemes, encourage innovation and stimulate demand for energy-efficient technology from corporations and households.



## Endnotes

- <sup>1</sup> Porter and Kramer, 2011.
- <sup>2</sup> Ghuliani, 2013.
- <sup>3</sup> Ministry of Corporate Affairs, 2013, section 135; Ministry of Corporate Affairs, 2014a, 2014b and 2016.
- <sup>4</sup> Ministry of Corporate Affairs, 2016.
- <sup>5</sup> Porter and Kramer, 2011.
- <sup>6</sup> Balch, 2016.
- <sup>7</sup> Ernst & Young, 2013.
- <sup>8</sup> Balch, 2016.
- <sup>9</sup> Ministry of Corporate Affairs, 2017.
- <sup>10</sup> Ibid.
- <sup>11</sup> Arora and Sikarwar, 2016; and KPMG, 2016, p. 28.
- <sup>12</sup> Balch, 2016; Ghuliani, 2013; and Prasad, 2014.
- <sup>13</sup> Ministry of Corporate Affairs, 2016, p. 11.
- <sup>14</sup> National Environment Agency, 2016a, p. 51.
- <sup>15</sup> See United Nations, 1992; and Low, Gao and See, 2014.
- <sup>16</sup> Low, Gao and See, 2014.
- <sup>17</sup> International Institute for Sustainable Development, 2013.
- <sup>18</sup> Singapore Environment Council, 2017.
- <sup>19</sup> National Environment Agency, 2017a and 2017b.
- <sup>20</sup> National Environment Agency, 2012.
- <sup>21</sup> Reaching everyone for active citizenry at home, 2017.
- <sup>22</sup> Energy Efficient Singapore, 2017.
- <sup>23</sup> Energy Market Authority, 2016, p. 40.
- <sup>24</sup> Joshi and Rahman, 2015.
- <sup>25</sup> Shah, 2017.







# PRIVATE SECTOR FINANCING PRODUCTS FOR DEVELOPMENT



## Key messages

1. Governments in the region are experimenting with repurposing traditional private sector financial products – such as bonds and insurance schemes – for development objectives and to respond more efficiently to disasters.
2. Private sector financial products can raise capital and bring in private sector expertise and experience in effective partnerships for development.
3. Governments can reduce the risk associated with development financial products and attract more private investors by providing them with credit guarantees and by funding feasibility studies or impact assessments of the financial product.
4. To extend coverage, governments can pay the premium of basic insurance for those who are uninsured, leverage market size for discounts and include a reinsurance mechanism that reduces risk and financial burden.
5. Technology can make the administration of insurance claims more efficient and cost-effective and allow for quicker response to disasters.

## Introduction

Private sector financial products have been around for hundreds of years. Bonds date back to as far as 2400 BC. Fire insurance was offered for the first time in 1681 after the Great Fire of London.

The development of green bonds is a notable example of a private sector financing product used for development objectives. Green bonds are debt instruments targeted to green investments, and they provide an alternative to conventional project finance. In total, the Asia-Pacific region has around \$308 billion in climate-aligned bonds, some 44 per cent of the global total. China is driving growth in the green bond market, with \$246 billion (over one-third of the global

cumulative total) in climate-aligned bonds issued, followed by the Republic of Korea (\$20 billion) and India (\$17 billion).<sup>1</sup> Governments in the region are increasingly exploring ways to use bonds for a whole range of other development challenges. This chapter discusses the IIX Women's Livelihood Bond (WLB), which leverages private sector investment to support women's livelihoods.

This chapter also discusses the National Insurance Trust Fund (NITF) of Sri Lanka, which provides inclusive and affordable insurance and reinsurance schemes for health, agriculture and public security, as well as natural disasters. Development insurance can support inclusive coverage and play a critical role in enabling a swift response to natural disasters.

Insurance contracts that pay out quickly in response to clearly articulated risks may emerge as an alternative source of capital in response to disasters.<sup>2</sup>

By comparison, money from donors is typically collected only when a crisis has developed, delaying the response to disasters.





## 4.1 WOMEN'S LIVELIHOOD BOND ► SINGAPORE


### Overview

The Impact Investment Exchange (IIX) has developed the Women's Livelihood Bond (WLB) to raise capital in support of women's livelihoods. Although it is a private capital instrument, government bodies have played a key role: the United States Agency for International Development (USAID) provided credit protection for the WLB, and the Department of Foreign Affairs and Trade (DFAT) of Australia subsidised it. This

case study assesses WLB as a mechanism to leverage larger amounts of private sector investment for sustainable development. It evaluates the replicability of the initiative and effectiveness in reaching private sector actors (banks, law firms, auditors). It also analyses WLB effectiveness in advancing SDG 5 "Gender Equality and Women's Empowerment", SDG 8 "Decent Work and Economic Growth" and SDG 17 "Partnerships for the Goals" (Table 4.1).

Table  
4.1

Key features of WLB, Singapore

Key features	Description
Type of initiative	Bond
Public sector actor(s)	USAID, Australian DFAT
Country	Cambodia, the Philippines, Viet Nam
Sectors/beneficiary focus	Women, livelihoods, microfinance
Funds mobilized	\$8 million
Specifications	5.65 per cent coupon, four-year tenor
Sustainable Development Goals	  

### Mechanism outline

The WLB is an \$8 million debt security that mobilizes large-scale private sector capital for sustainable development by pooling microfinance institutions and social enterprises. This unique structure leverages capital to enterprises and institutions that would not have been able to attract investments individually. The initiative was designed to be replicable in a variety of countries and contexts and to offer attractive rates of risk-adjusted returns to investors who are interested in a double bottom line (economic and social returns). The structure of WLB differs from pay-for-success mechanisms such as social impact bonds or development impact bonds.<sup>3</sup>

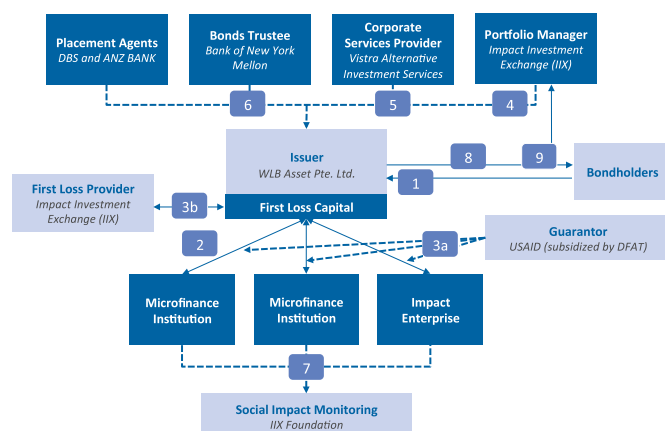
The WLB is expected to impact more than 385,000 women over its four-year tenor.<sup>4</sup> This instrument is

the first of its kind to be listed on a stock exchange. An overview of the WLB mechanism is provided in Figure 4.1.

The social return on investment of WLB is estimated at \$2.50 of social value for every \$1 invested.<sup>5</sup> The social due diligence process included an impact assessment for the bond and the assessment will continue to be conducted on a semi-annual basis. Women's empowerment through sustainable livelihoods is the common denominator across all borrowers, who each provide a critical service across the sustainable livelihoods spectrum, including access to finance, access to income generating assets, access to skills and access to technology.

Figure 4.1

## WLB mechanism



- 1 WLB Asset Pte. Ltd., a special purpose vehicle (SPV) wholly owned by the Portfolio Manager, issues US\$8.0 million in aggregate principal amount of Bonds to investors.
- 2 Part of the issue proceeds will be lent to the Borrowers. These Borrowers pay interest during the term of the Loans and repay the principal amount upon maturity of the Loans.
- 3a USAID provides a *pari passu* guarantee of 50% of the principal amount of the loans
- 3b IIX provides \$500,000 in first loss capital.
- 4 IIX is the Portfolio Manager. On an ongoing basis, IIX will be responsible for collecting payments under the Loans and monitoring compliance by the Borrowers with their obligations under the Promissory Notes
- 5 Vistra will serve as the Corporate Services Provider of the SPV. It will provide an independent board, serve as corporate secretary and provide record keeping, administration and accounting services to the Issuer.
- 6 BNY Mellon will serve as the Bonds Trustee. It will hold the Issuer's covenant to pay principal and interest on the Bonds on trust for the Bondholders and will act on behalf of the Bondholders in certain situations.
- 7 IIX Foundation will monitor the impact performance of the Borrowers and create periodic impact reports.
- 8 Bondholders are paid a semi-annual coupon and are repaid the principal at maturity of the Bonds.
- 9 Bondholders and Portfolio Manager split surplus funds at maturity of the Bonds.

Source: Adapted from IIX, 2017a.

## Stakeholders engaged

To develop WLB, IIX partnered with a diverse range of stakeholders (Figure 4.2). The role of USAID and

DFAT was to de-risk WLB through a 50 per cent *pari-passu* guarantee to give private sector investors additional security.

Figure 4.2

## Stakeholders in WLB, Singapore





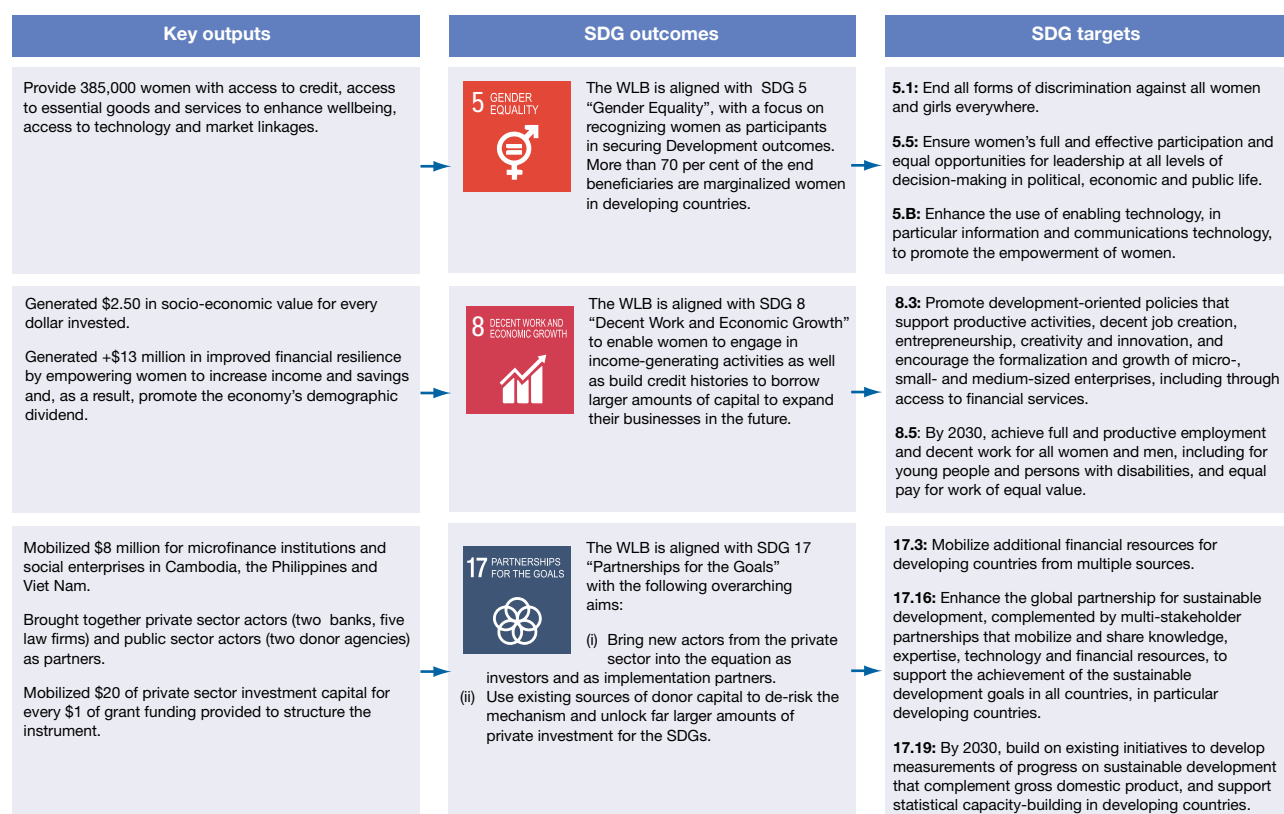
## Contribution towards the SDGs

The funds raised through WLB will aid women from marginalized or economically disadvantaged communities in the transition from subsistence to sustainable livelihoods. Figure 4.3 outlines the links between WLB outputs and progress towards achieving the SDGs. The focus on women's livelihoods has a clear link with SDG 5 "Gender Equality" and SDG 8 "Decent Work and Economic Growth". The

multi-sector collaboration within the WLB mechanism engages the public, private and philanthropic sectors and also promotes SDG 17 "Partnerships for the Goals". Additionally, WLB contributes to SDG 9 "Industry, Innovation and Infrastructure", in particular target 9.c, to significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 (Box 4.1).

**Figure 4.3**

**Impact of WLB in achieving the SDGs**



Source: Authors based on IIX 2017a and IIX 2017b.

**Box 4.1**

**Spotlight on STI**

Women need information and communication technology (ICT) tools to transition from subsistence to sustainable livelihoods. One of the enterprises in the WLB portfolio provides affordable mobile phones among other essential goods and services. With mobile phones, women can access a wealth of knowledge and resources to promote well-being (through health-care applications) and manage their income (for example, through e-wallets).

## Analysis

### Success factors

Three innovative features of WLB are critical to its success:

1. **Using government funding to mitigate risk and attract private sector investment:** Bondholders benefit from a 50 per cent pari-passu guarantee provided by USAID and subsidized by DFAT, giving private sector investors a high degree of security. To further protect investors, IIX provided a tranche of \$500,000 first-loss capital. First-loss capital is an innovative credit enhancement strategy that helps mobilize private sector investment capital. The WLB experience indicates that first-loss capital helped bring traditional investors into the Bond.
2. **Creating a pool of entities to increase the transaction size and diversify the portfolio:** The WLB pools social enterprises and microfinance institutions to leverage the strengths of both entities. An investor's portfolio can be tailored to his or her risk-return-impact requirements, combining relatively higher impact and financial return of social enterprises and the relatively lower risk profile of microfinance institutions. This pool can attract more impact investment capital than the entities could have accessed on their own. Pooling these entities into bonds with larger transaction sizes helps to cover the upfront structuring costs and is more attractive for mainstream investors as well as other private sector partners such as bankers and lawyers.
3. **Listing on stock exchange to report both social and financial performance:** Listing WLB on the Singapore Exchange (SGX) brings multiple benefits to private sector investors. First, it enables trading and adds secondary liquidity which is otherwise missing from the impact investing space. Second, it ensures the financial and social results are transparent. Finally, it enhances the credibility of the transaction.

### Lessons learned

Lessons learned from the WLB experience are outlined below:

- **Conducting a feasibility study:** The development of an innovative financial instrument must begin with a feasibility study, including the following analyses:
  - **Supply-side:** This analysis can help engage investors and obtain early buy-in. This can reduce time spent changing the structure at a later stage.
  - **Demand-side:** The bond structurer should conduct borrower outreach to lay the foundation for screening and selecting the final portfolio of borrowers. This outreach will enable the bond structurer to set appropriate target risk-return-impact parameters for the instrument.
  - **Local customization:** The bond structurer should conduct field visits to ensure the instrument is adequately customized to the local context and regulatory environment.
- **Strengthening de-risk mechanism:** Investors in WLB preferred to lower risk rather than maximize return. The opposite was indicated by initial supply-side research during the conceptualization phase. The first-loss component and a guarantee for future issuances helped to lower the risk for investors.
- **Obtaining a bond rating:** Ratings help investors assess the risk profile of the portfolio. For relatively small bonds, like WLB, the cost of the rating may not be justified. Rating a larger bond may be more feasible.

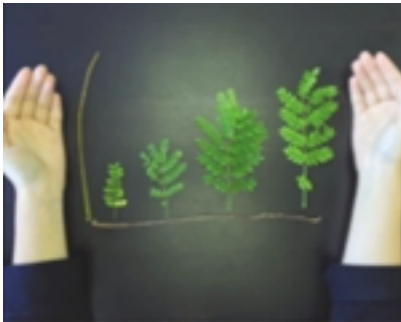


### Potential for leverage, wider stakeholder engagement and replicability

Government support for WLB enabled it to attract funds from both the philanthropic and private sector. The innovative model of the initiative has the potential to be replicated and customized to different countries and contexts, with due consideration given to the points raised in the Lessons learned section.



**Figure  
4.4**

### Potential for leverage, wider stakeholder engagement and replicability of WLB

Leverage	Wider stakeholder engagement	Replicability
		
<p>Government funding has the potential to unlock funds from both the philanthropic and private sector.</p>	<ol style="list-style-type: none"> <li>1. <b>Investors:</b> The WLB brought in private sector actors such as high net worth individuals, family offices, pension and endowment funds, impact funds, and financial institutions as investors.</li> <li>2. <b>Structuring Partners:</b> The WLB also brought in the private sector via banking and legal partners, thus tapping into their skills and networks as well.</li> </ol>	<p>The WLB can be replicated and customized to different countries and contexts. Feasibility studies will be key to help inform the design of the specific structure of the instrument.</p>

### Guidelines for policymakers

The WLB structure leverages government funding to attract larger amounts of private and philanthropic capital. The 50 per cent guarantee provided by USAID helped mobilize \$8 million from private sector investors ranging from high net worth individuals to institutional investors, 60 per cent of which were from Asia. Governments can play a vital role at different stages of implementing WLB-type structures:

1. To **de-risk the bond**, governments can provide credit guarantees (as USAID did for WLB) and subsidize the cost of these guarantees (as DFAT (Australia) did for WLB).
2. Governments can also provide **first-loss capital** in the form of a grant to help attract traditional investors.
3. Governments can provide **funding for a feasibility study**, a critical foundation element for the bond structuring process that can contribute to achieving a smooth implementation process, lower future cost outlays and a faster bond development timeline.
4. Governments can provide **funding for bond structuring** (as the Rockefeller Foundation did for WLB). Structuring involves four key work streams, which each require funding:
  - **Product development:** Determine the appropriate risk-return-impact parameters, develop the financial model, structure the guarantee, finalize key terms (bond size, tenor, coupon, etc.) and create legal documentation (information memorandum, loan agreements, legal opinions, promissory notes, etc.).
  - **Pipeline development:** Conduct dual financial and social due diligence to identify potential borrowers and eventually finalize the portfolio of underlying borrowers.
  - **Partnership development:** Finalize and coordinate implementation partners including: banks, law firms, social impact measurement professionals, guarantors, bond trustees and auditors.
  - **Bond placement:** List the bond on a stock exchange and sell the bond to private sector investors.
5. Governments can fund **ongoing monitoring and assessment** of the bond to ensure transparency of both social and financial results and encourage knowledge sharing, as the Rockefeller Foundation did for WLB to fund semi-annual reporting of financial and social metrics to investors and other key stakeholders.





## 4.2 NATIONAL INSURANCE TRUST FUND

### ► SRI LANKA




#### Overview

The Government of Sri Lanka established the National Insurance Trust Fund (NITF) in 2006 to curb low insurance coverage rates and provide affordable insurance and reinsurance schemes for health, agriculture and public security. Its main features are

summarized in Table 4.2. This case study assesses the impact of reinsurance schemes on the socio-economic resilience of marginalized populations in Sri Lanka. It also evaluates the contribution of NITF to progress in Sri Lanka towards SDG 1 “No Poverty”, SDG 3 “Good Health and Well-being” and SDG 11 “Sustainable Cities and Communities”.

Table  
4.2

Key features of NITF, Sri Lanka

Key features	Description
Type of initiative	Policy – Government funded insurance programme (National Insurance Trust Fund act no. 28 of 2006)
Public sector actor(s)	Ministry of National Policies and Economic Affairs
Country	Sri Lanka
Sectors/beneficiary focus	Health, agriculture, fisheries/Target group: uninsured
Funds mobilized	LKR 4 billion (~\$26 million)
Sustainable Development Goals	  

#### Mechanism outline

The fully state-owned NITF provides affordable insurance and reinsurance schemes for health, agriculture and public security. The statutory body was initially established with the goal of providing “Agrahara” (medical insurance) to all public sector employees and their families, but has since expanded to offer a suite of insurance schemes. Other insurance schemes include the National Natural Disaster Insurance Scheme; Strike, Riot, Civil Commotion and Terrorism Fund; the National Agricultural Loan Protection Scheme; Motor Insurance; and Non-motor Insurance. The Fund offers highly concessionary premium rates.

NITF is the reinsurer and underwriter for domestic insurance companies. They are required to place

30 per cent of their total liability with NITF. It benefits from a low expense ratio (14 per cent in 2015 compared to an industry average of 36 per cent), which reflects the fund’s diversified product portfolio and its smaller operating costs compared to a typical insurer, because most of NITF’s business is directed from the State.<sup>7</sup> Between 2015 and 2016, the gross written premium (GWP) of NITF grew 33 per cent, from LKR 5.06 billion (\$33 million) to LKR 6.73 billion (\$44 million), owing primarily to reinsurance premium income. In 2016, NITF paid out LKR 5.04 billion (\$33 million) in claims.<sup>8</sup> In 2017, the Cabinet approved LKR 500 million (\$3.25 million) to be paid as premium to NITF.<sup>9</sup>

In addition, NITF reinsures its own policies with A-rated securities (“A”, “AA”, “A+”). For example, the Agricultural Loan Protection Scheme is reinsured by

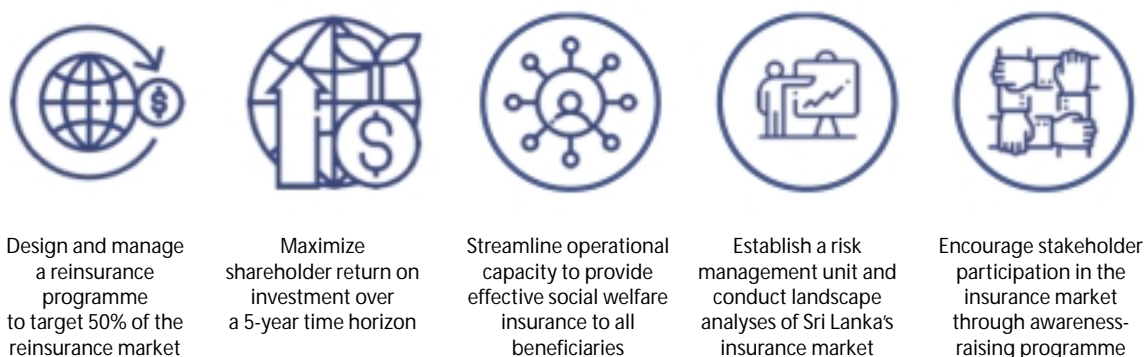


Hannover Re (50 per cent) and Swiss Re (40 per cent) and other global insurers (10 per cent).<sup>10</sup> The disaster insurance scheme is reinsured by Renaissance Re.<sup>11</sup> By reinsuring its own policies, NITF mitigates the risk it bears and provides liquidity to finance immediate post-disaster relief and recovery throughout the

country. The risk mitigation component is especially important to the natural disaster and crop protection coverage as risk levels are high due to volatile climate conditions. Figure 4.5 summarizes the main objectives of NITF.

Figure  
4.5

Objectives of NITF, Sri Lanka



Source: Adapted from [www.nitf.lk](http://www.nitf.lk).

The main NITF programmes are:

- **Agrahara:** Provides medical insurance to all public sector employees and their families, estimated at 2.5 million beneficiaries. Policyholders pay LKR 75 (\$0.50) per month to access high quality private health-care services and advanced medical facilities at discounted rates at NITF partner hospitals.<sup>12</sup>
- **National Natural Disaster Insurance Scheme:** Provides coverage for uninsured individuals affected by natural disasters, including fishermen, paddy farmers and agricultural farmers. Sri Lanka is highly susceptible to natural disasters and the scheme covers natural calamities such as flood, drought and wild elephant attacks.
- **Agricultural Loan Protection Scheme:** Provides coverage for banks and financial institutions that provide loans to paddy farmers

at risk of damages done to paddy crop due to natural disasters such as flood, drought or wild elephant attacks.

- **Agricultural Insurance Scheme for Farmers:** Provides direct compensation to farmers for damages. The scheme is administered by the Agricultural and Agrarian Insurance Board and funded by NITF.

### Stakeholders engaged

The NITF was designed by the Ministry of National Policies and Economic Affairs. Other ministries act as partners for specific insurance programmes. The Insurance Board of Sri Lanka regulates the insurance industry, signing memorandums of understanding and extending services to private hospitals and commercial insurers. Private insurers partner with NITF to provide insurance, while other service providers offer discounts or benefits to policyholders (Figure 4.6).

Figure  
4.6

## Stakeholders in NITF, Sri Lanka



## Contribution towards the SDGs

The key outcome of the NITF and other reinsurance schemes is enhanced resilience to financial, social and environmental shocks and stresses. Through NITF Catastrophic Reinsurance Cover (estimated at \$68.3 million), the Government protected large segments of Sri Lanka's uninsured population against natural disasters. NITF and the Government also leveraged cost savings to disburse targeted funds for emergency

relief operations, which served 400,000 displaced persons to date.<sup>13</sup> These efforts help marginalized populations to cope with disease, natural disasters, civil strife and terrorism, and the impact of those events on their lives, their families and their communities. Thus NITF contributed to the following goals: SDG 1 "No Poverty", SDG 3 "Good Health and Well-being" and SDG 11 "Sustainable Cities and Communities" (Figure 4.7).

Figure  
4.7

## Impact of NITF in achieving the SDGs

Key outputs	SDG outcomes	SDG targets
Gross written premium grew from LKR 5.062 billion (\$33 million) to LKR 6.732 billion (\$44 million) (2015-2016) (largely due to reinsurance premium income – 96% of gross written premium).  Paid out LKR 2.95 billion (\$19 million) in claims in 2016.	<b>1 NO POVERTY</b>  The NITF is aligned with SDG 1 "No Poverty" with a focus on improving systemic resilience of marginalized citizens in Sri Lanka by enhancing their financial security and better equipping them to respond to social, economic and environmental stresses and shocks.	<b>1.3:</b> Implement nationally appropriate social protection systems and measures to achieve substantial coverage of the poor and the vulnerable.  <b>1.5:</b> Build the resilience of the poor and vulnerable and reduce their exposure and vulnerability to climate-related disasters and their impacts.
"Agrahara" covers 2.5 million public sector employees and their families.	<b>3 GOOD HEALTH AND WELL-BEING</b>  The NITF is aligned with SDG 3 "Good Health and Well-being" by providing access to health-care coverage to victims of natural disaster, civil strife and terrorism, and illness.	<b>3.8:</b> Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
National Natural Disaster Insurance Scheme covers all uninsured citizens. It paid out LKR 3.95 billion (\$26 million) compensation to victims of the 2016 floods.	<b>11 SUSTAINABLE CITIES AND COMMUNITIES</b>  The NITF is aligned to SDG 11 "Sustainable Cities and Communities" with a focus on building inclusive, safe and sustainable settlements as a result of greater insurance coverage for vulnerable segments of the population, including farmers and fishermen, etc.	<b>11.5:</b> By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations.

Source: Prepared by the authors based on Ministry of Finance, 2017; www.nitf.lk/News; Munasinghe, 2017; Daily News, 2017; Sunday Observer, 2017b.

## Analysis

### Success factors

This section highlights some of the innovative features of NITF that distinguish it from other national insurance schemes.

#### Comprehensive and holistic coverage

As a statutory board under the Ministry of National Policies and Economic Affairs, NITF implements the Government policy of providing coverage for the uninsured. It serves segments of the population not traditionally covered by commercial insurers, particularly uninsured individuals, fishermen, households, small and medium businesses affected by natural disasters.

#### Leveraging private sector wealth

Government premiums, in combination with premiums paid by policyholders and reinsurance, have leveraged private sector wealth from global A-rated reinsurance agencies to pay claimants and fund emergency relief measures. The reinsurance mechanism reduces the risk and financial burden borne by the Government, and expands the capacity of NITF to provide coverage to greater segments of the population.

#### Agrahara e-card

Technology is improving the scheme's efficiency. The Agrahara e-card, encoded with the beneficiaries' personal details, was issued to public sector employees to enable them to access private health treatment at NITF partner hospitals and facilitate efficient settlement of hospital bills.<sup>14</sup> E-cards provide valuable information on access to health treatments that NITF can use to monitor and evaluate the scheme.

### Lessons learned

The lessons learned from the NITF Sri Lanka case may be relevant to other countries in the Asia-Pacific region:

- 1. Financial sustainability of insurance trust funds:** While an insurance trust fund may improve the efficiency of government spending, the cost of insurance will rise with the increasing incidence of natural disasters or civil strife.
- 2. Health insurance urban bias:** Agrahara provides access for public sector employees to high-quality health care in private hospitals, primarily located in urban areas. Beneficiaries from rural areas have to travel to urban areas to access specialized services.
- 3. Operational costs:** Currently, the claims process is entirely manual. Various ministry representatives are involved in verification and approval before the final issuance of claims. The use of digital applications could improve the efficiency and reduce operational costs of filing, verifying and issuing claims.

### Potential for leverage, wider stakeholder engagement and replicability

Together with the private sector, the NITF provides more inclusive insurance coverage. National insurance programmes are well positioned to engage private sector insurers, however, strong incentives are needed to reach rural and marginalized segments of the population. Buy-in from commercial insurance and active government support through policy interventions and direct subsidies can make the national insurance funds both effective and replicable. These factors are summarized in Figure 4.8.

Figure  
4.8

## Potential for leverage, wider stakeholder engagement and replicability of NITF, Sri Lanka

## Leverage



NITF leverages public funds to provide, together with the private sector, more inclusive insurance coverage.

## Wider stakeholder engagement



National insurance programmes are well positioned to engage private sector insurers. However, strong incentives are needed to expand reach to the rural and marginalized segments of the population.

## Replicability



Buy-in from commercial insurance and active government support through policy interventions and direct subsidies can make national insurance funds both effective and replicable.

## Guidelines for policymakers

Insurance programmes such as the NITF can improve socio-economic and environmental resilience which has direct positive implications on selected SDGs. Such initiatives can be further improved through enhanced technology, deeper partnerships with the private sector and targeted financing for the most vulnerable groups. Governments may also look into complementary measures to prevent and mitigate the impact of disasters.<sup>15</sup>

To replicate the NITF of Sri Lanka and enhance efficiencies, governments can take the following steps:

1. **Use digital technologies to minimize costs and maximize impact:** Technology can help scale the impact of reinsurance schemes while keeping down the cost to the government. Technology can dramatically reduce the paperwork and processing time. Mobile phone and smart phone technology can enable reinsurance schemes to introduce mobile and web-based applications to expand their reach and build up a strong repository of data that may inform the design of incremental improvements to existing
2. **Build strategic partnerships with private sector insurers:** Governments looking to replicate the NITF reinsurance initiative should convene stakeholders in the insurance industry to create a pooled insurance mechanism. The success of the initiative hinges on the ability of a government to attract private sector insurers to enhance the programmes reach and provide marginalized populations with access to a scheme that is affordable and customized to the local context.
3. **Set the well-being of end beneficiaries as a strategic priority:** The most direct way for a government to use insurance schemes achieve its social objectives is by providing targeted subsidies and increasing allocations of resources to meet the needs of underserved and uninsured populations. A government can also discount fees associated with accessing publicly financed social service institutions and resources. Sectors that are of national interest must take priority, and the initiative must be targeted to support marginalized people.

reinsurance programmes and lead to smarter, more high-impact programmes in the future.



## Endnotes

<sup>1</sup> ESCAP, 2016a.

<sup>2</sup> Barder, 2017.

<sup>3</sup> For more on social impact bonds and development impact bonds see Center for Global Development, 2013.

<sup>4</sup> IIX, 2017a.

<sup>5</sup> IIX, 2017b.

<sup>6</sup> IIX, 2017a.

<sup>7</sup> Fitch Ratings, 2016.

<sup>8</sup> Ministry of Finance, 2017, pp. 172-173.

<sup>9</sup> Munasinghe, 2017.

<sup>10</sup> Sunday Observer, 2017a.

<sup>11</sup> Munasinghe, 2017; and Daily News (Sri Lanka), 2017.

<sup>12</sup> Sunday Observer, 2017a. Public health-care services are available to all Sri Lankan citizens free of charge, but there are concerns about quality, efficiency and accessibility.

<sup>13</sup> John, 2016.

<sup>14</sup> Sirimanna, 2011.

<sup>15</sup> For example, Jayawardana, 2016.





# INNOVATIVE PUBLIC FUNDING MODELS FOR SCIENCE, TECHNOLOGY AND INNOVATION



## Key messages

1. Public funding for science, technology and innovation (STI), besides driving research excellence and encouraging private investment in R&D, can also focus on solving specific social and environmental challenges.
2. Public funding traditionally flowed to research and academic institutions, but social enterprises are gaining recognition as a potential source of innovation for development. Investors and governments are setting up funding mechanisms to explore their potential.
3. Policymakers must consider if pay-for-performance mechanisms are the best fit to address national priorities. These models are best adapted to outcomes that are easily measured and monitored, where it is possible to establish performance targets that trigger payments.
4. Governments have developed funding models to incentivize collaboration between the STI community, civil society, the private sector, citizens and across ministries to stimulate innovation.
5. Collaboration between different actors in the innovation system often requires a combination of high-level leadership, adjusting incentive structures, building a shared understanding and changing mindsets.
6. Unclaimed assets from dormant accounts are a source of funding that can be channeled to address social and environmental challenges through grants to non-profit organizations and investments in social enterprises.

## Introduction

Traditionally, public funding for STI encouraged research excellence and private sector investment in research and development (R&D) and innovation.<sup>1</sup> Recently, some governments have moved towards ‘problem-driven’ approaches to public financing of innovation. These approaches focus on solving specific social and environmental challenges through multisector collaborations, and problem articulation and definition with end-users is a critical feature of the process.

In addition, while public funding for STI has traditionally flowed to research and academic institutions, actors such as social enterprises have emerged as a potential source of innovation for development with governments setting up specific funding mechanisms to explore this potential.

The chapter discusses the Problem-Driven R&D Policy of the Republic of Korea, a niche area of R&D policy aiming at supporting research focussed on addressing social challenges. It also discusses Agensi Inovasi

Malaysia's recently established Social Outcome Fund which is part of the Malaysian government's efforts to direct capital toward social enterprises, and the Dormant Deposits Act of Japan, which channels unclaimed assets from dormant bank accounts towards social purposes.

If STI are to become key means of implementation for the SDGs, it will be critical for governments to experiment with innovative models for financing STI, to develop innovations that can be applied to specific SDG challenges and at the same time, engage the full range of actors in the innovation system.





## 5.1 SOCIAL OUTCOME FUND ►► MALAYSIA

### Overview

In 2017, the Government, through Agensi Inovasi Malaysia (AIM), created the Social Outcome Fund (SOF) to direct public funding for innovation towards social enterprises or social purpose organizations in marginalized communities. This case study analyses the engagement of SOF with social

enterprises and other innovators and evaluates the results of its outcome-focused approach. It describes the mechanics of SOF that engages social enterprises and social purpose organizations to achieve results on SDG 3 “Good Health and Well-being”, SDG 4 “Quality Education” and SDG 8 “Decent Work and Economic Growth”. The key features of the fund are presented in Table 5.1.

Table  
5.1

Key features of SOF, Malaysia

Key features	Description
Type of initiative	Pay for success facility
Public sector actor(s)	Agensi Inovasi Malaysia (AIM)
Country	Malaysia
Sectors/beneficiary focus	Education, health
Funds mobilized	~\$700,000 allocated to the fund
Specifications	Interest paid if government has ≥1.5 cost savings
Sustainable Development Goals	  

### Mechanism outline

The SOF is a pay-for-performance fund that supports the National Social Enterprise Blueprint — a three-year road map for the development of the social enterprise sector in Malaysia. The aim is to grow the sector to 1,000 enterprises by 2018. The fund reimburses investors’ upfront capital with interest if their investments yield cost savings for the Government and if pre-determined deliverables and social outcomes are achieved.<sup>2</sup> Payment is made only on ‘performance’, upon the achievement of certain pre-determined outcomes (Figure 5.1).

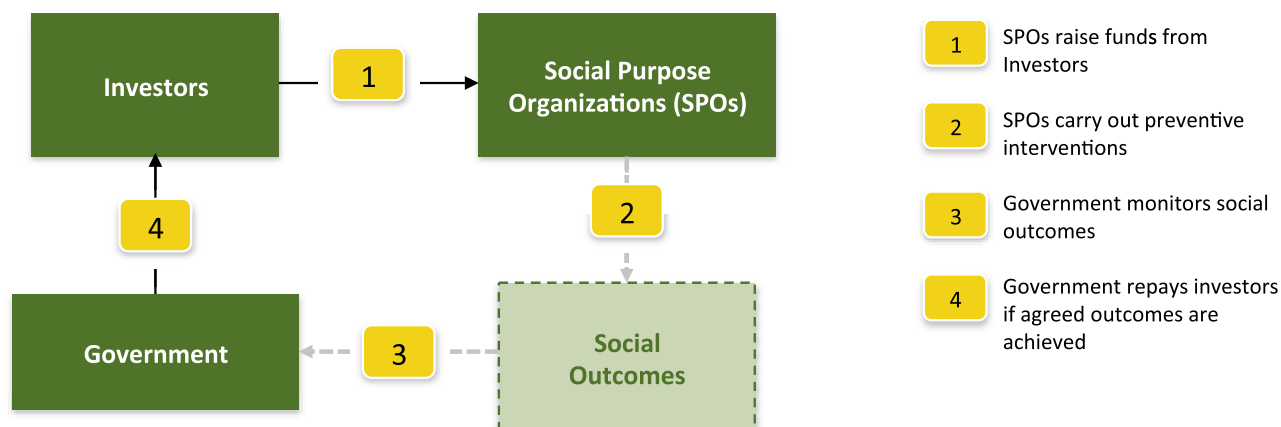
To quantify the impact of social interventions and create standardized performance metrics, AIM conducted a preliminary Social Progress Assessment

from July to December 2016, to map approximately 500 indicators across 40 priority social issues—each with baseline data and estimated costs for the government to deliver social services. AIM screens funding proposals submitted by social purpose organisations to ensure alignment with those indicators. AIM selects social purpose organisations that have both the operational capacity and an effective intervention strategy to achieve government cost-savings against cost benchmarks established in the Social Progress Assessment. To assess the impact of SOF, AIM evaluates the social and financial performance of investments against the Government’s benchmarks (in terms of cost saving measures) and the extent to which they encourage innovative solutions to address critical social needs in marginalized communities.<sup>3</sup>



Figure 5.1

## Social Outcome Fund mechanism



Source: IIX, based on interviews with AIM.

## Stakeholders engaged

As part of this broader initiative, AIM structured the SOF to engage corporations and foundations as upfront capital providers and social enterprises and

social purpose organizations as funding recipients. Private sector partners and social purpose organizations will be brought into the initiative in the coming months (Figure 5.2).

Figure 5.2

## Stakeholders engaged in SOF, Malaysia



## Contribution towards SDGs

The Fund supports sustainable development for the country's most underserved and marginalized populations, particularly individuals in deep poverty, destitute persons and persons forgotten by society. As the initiative is currently in the early phases of implementation, no concrete analysis can be made on the effectiveness of the mechanism. Figure 5.3

presents the target impact of SOF and the anticipated outputs that will drive forward the SDGs. The AIM Social Progress Assessment includes benchmarks and indicators that are clearly aligned with priority sectors identified in the eleventh 5-Year Plan of the Government of Malaysia and with SDG 3 "Good Health and Well-being", SDG 4 "Quality Education" and SDG 8 "Decent Work and Economic Growth".

Figure  
5.3

## Potential Impact of Malaysia's Social Outcomes Fund in achieving the SDGs



Source: Prepared by the authors based on interviews with AIM; Trading Economics, 2017; and World Bank, 2017.

## Analysis

### Success factors

While it is too early to point to results, the key innovation of SOF Malaysia lies in its potential to optimize government grant allocations.

### Strengthening public-private partnerships and investments

The Fund was designed to support the government's objective of scaling the provision of social services to marginalized communities. That objective had not been reached through a purely public-sector approach. The Government established SOF to fill critical gaps in social service delivery and catalyze new sources of funding.<sup>4</sup>

### Data, monitoring and evaluation

A system of benchmarks, monitoring and evaluation are embedded in the SOF pay-for-performance mechanism. The AIM Social Progress Assessment is part of a national initiative to create a standardized framework to quantify the cost of government-funded interventions and measure the social and financial performance of social enterprises. The AIM cost benchmarks will be compiled into a national database — a component of the social financing model.<sup>5</sup> The database aggregates evidence on government cost savings and serves as a resource for enterprises to show which interventions are working and where there are gaps in current efforts. The Government could also use the data to drive policies and regulations to better address social issues.

## Lessons learned

Although SOF is still in the early stages of implementation, some lessons have already emerged. The evidence confirms the difficulty of measuring and monitoring results which are linked to payments. Outcome-based funding models must focus on challenges where the desired outcome can be measured easily and more objectively.

## Potential for leverage, wider stakeholder engagement and replicability

By leveraging investment through the pay-for-performance mechanisms, SOF has the potential to unlock new sources of capital for Malaysia's growing impact enterprise sector. It may also engage investors and social enterprises to support the delivery of more cost-effective public services. The SOF model is replicable and similar structures already exist in other countries. These factors are summarized in Figure 5.4.

Figure  
5.4

### Potential for leverage, wider stakeholder engagement and replicability of SOF, Malaysia

#### Leverage



By leveraging investment through its pay-for-performance mechanisms, SOF has the potential to unlock new sources of capital for the impact enterprise sector.

#### Wider stakeholder engagement



The SOF can engage the investment sector to support cost-effective delivery of public services. With its focus on supporting social enterprises, the SOF also has the potential to engage this emerging source of innovation in the delivery of public services.

#### Replicability



The SOF model is replicable and similar structures already exist in other parts of the world.

## Guidelines for policymakers

The SOF can support an outcome-focused approach. The mechanism links the Government's objective of reducing costs and optimizing the allocation of funds while engaging social enterprises. There are three key roles that policymakers can play when looking to replicate the SOF structure in other countries in the region:

- **Acting as the outcome payer:** A government implementing an outcome-based funding mechanism provides the private sector financiers with a return on their investment if the target outcomes are met.
- **Funding the impact assessment:** Governments looking to replicate outcome-based funding

mechanisms must finance the upfront and independent baseline measurements and ongoing impact assessments to evaluate the change achieved by the intervention.<sup>6</sup> Baseline measurements will be used as a reference for setting the performance targets that will trigger payments. In Malaysia, AIM created a framework of cost benchmarks and quantifiable social impact indicators for measuring and monitoring impact.

- **Assessing the fit of SOF models:** Policymakers must consider if outcome-based models are the best fit to address national priorities. SOF models are best adapted to outcomes that are easily measured and monitored, where it is possible to establish performance targets that trigger payments.





## 5.2 SOCIAL PROBLEM-SOLVING R&D POLICY

### ►► REPUBLIC OF KOREA


#### Overview

The emergence of social, economic and environmental problems in the Republic of Korea (including an aging population, socio-economic polarization and water pollution) led to the development of the social problem-solving R&D policy. This government initiative aims to shift the purpose of STI from exploration and

theory to the search for solutions to development problems. The main features of this policy are summarized in Table 5.2. This case study will explore how this problem-driven approach to funding STI contributes to achieving the SDGs with a focus on SDG 3 “Good Health and Well-being”, SDG 6 “Clean Water and Sanitation” and SDG 11 “Sustainable Cities and Communities”.

**Table  
5.2**

**Key features of the social problem-solving technology development project, Republic of Korea**

Key features	Description
Type of initiative	Social problem-solving R&D policy
Developing bodies	Ministry of Science, ICT and Future Planning
Country	Republic of Korea
Sectors/beneficiary focus	Health, environment, energy, public safety
Funds mobilized	~\$3 million allocated annually to the fund from 2014 to 2016 (\$9 million so far)
Description	Social problem-solving R&D programme which is human-centric, pursuing better quality of life as well as economic development
Sustainable Development Goals	  

#### Mechanism outline

The science and technology policy of the Republic of Korea traditionally focused on developing and acquiring new technology to support national strategies for economic growth and industrial development. It was assumed that the output of public R&D projects would spread into society and provide solutions to economic and social problems. The Government generally did not focus on social acceptance of new technologies or consider the impact of innovations on the local user community. In developing the social problem-solving R&D policy, the Government aims to adopt an approach to innovation and technological advancement that responds to social and environmental needs. Table 5.3 presents

the characteristics of a social problem-solving R&D programme versus the traditional technology acquisition programmes.

Two projects are being implemented in the framework of this new niche area of R&D policy: (1) a multi-ministry R&D project for solving social problems; and (2) the social problem-solving technology development project led by the Ministry of Science, ICT and Future Planning.<sup>7</sup>

The Government advocated its social problem-solving R&D policy in the pan-ministerial “Strategy for a Happier Korea New Science and Technology Program (2012)”, in its implementation plan “Comprehensive Implementation Plan for Science and Technology-



Table  
5.3

Characteristics of social problem-solving R&amp;D projects, Republic of Korea

		AS-IS technology acquisition	TO-BE social problem-solving programme
Objective		Growth-based, focusing on national economic development	Human-centric, pursuing better quality of life as well as economic development
		R&D, R&BD      ► R&SD (Research & Solution Development)	
Primary Objective		Acquire scientific and technological competitiveness	Solve social problems
Characteristics		<ul style="list-style-type: none"> <li>– Technological fusion</li> <li>– Provider-centric R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>– Problem-solving fusion*</li> <li>– Recipient-centric R&amp;D</li> </ul>
Characteristics by stage	Planning	Research division-centric	Research division and policy division cooperation-centric
	Management	R&D progression-centric management (programme manager)	Problem-solving and change management (solution consultant)
	Evaluation	<ul style="list-style-type: none"> <li>– Research results such as papers or patents</li> <li>– Verification of research results, dissemination</li> </ul>	Extent of social problem resolution through the production and delivery of products and services or by systemic transition
Main impetus		Technological development	Exploration of social problems and systemization of service delivery

Source: Song, Seong and Lim, 2016.

based Solutions to Social Problems (2013)” and in the Ministry of Science, ICT and Future Planning social problem-solving technology development project. The aim of these public actions has been to enhance welfare and social development, address long-term structural issues and falling economic growth, and improve quality of life.<sup>8</sup>

The multi-ministry R&D project for social problem-solving has set up eleven projects within ten issue areas. Each project lasts five years and is based on multi-ministerial collaboration and has a strong emphasis in preliminary planning. Learning from implementation feeds back into more detailed planning.<sup>9</sup> Table 5.4 indicates the ten areas addressed by the pan-ministerial R&D project for social problem-solving.

The Ministry of Science, ICT and Future Planning created the social problem-solving technology development project with a timeframe of three years and an annual budget of \$3 million. Each year the projects targeted different social problems. In 2013 the

projects targeted youth obesity, the rising cost of cancer treatment and toxic chemical spillage. In 2014 the projects targeted algae and fine dust. In 2015 a technological development project was selected that targeted an economically vulnerable group.

The projects follow four principles. The first is to pursue demand-based R&D, exploring social problems in more depth, seeking feedback from the public and incorporating beneficiaries in the evaluations. The second is to pursue R&D related to law, regulations and service delivery. Recipients as well as diverse development stakeholders including R&D professionals and social scientists are drawn into the innovation development process to develop solutions to real-world problems. The third is to accelerate the development of practical innovations that could be used in daily life. Lastly, the principle of multi-ministerial collaboration is intended to support a ‘whole-of-government’ approach to innovation and exploit potential solutions from multiple sectors.<sup>10</sup>



**Table  
5.4****Major social issues and issues addressed under the social problem-solving R&D policy, Republic of Korea**

	30 major social issues	10 selected issues
Health	Chronic diseases, rare diseases, addiction and depression, neurodegenerative disorders	→ Chronic diseases
Environment	Household waste, indoor air pollution, water pollution, environmental hormones	→ Household waste, water pollution, environmental hormones
Culture and recreation	Lack of cultural opportunity, lack of cultural and recreational spaces	
Public safety	Sex crimes, food safety, cybercrime, household accidents	→ Food safety, cybercrime
Natural disasters	Natural disasters, chemical accidents, epidemics, radioactive pollution	→ Natural disasters, epidemics, radioactive pollution
Energy	Electricity supply, energy poverty	
Housing and transportation	Faulty and old housing, traffic congestion, traffic safety	→ Traffic congestion
Family	Isolation and suicide in senior citizens, domestic violence	
Education	Inequality in education, school violence	
Social equality	Inequality in medical care, information divide, the disenfranchised, discomfort in daily life	

Source: Song, Seong and Lim, 2016.

### Stakeholders engaged

Under the leadership of Ministry of Science, ICT and Future Planning, 17 different ministries participated in the pan-ministerial social problem-solving R&D programme focusing on technological development, practical application and service delivery through

division of labour and collaboration between participating ministries. In addition to the pan-ministerial collaboration, various stakeholders including experts, civil activists, citizens and private firms participated in the planning and implementation of the innovation activities (Figure 5.5).

**Figure  
5.5****Stakeholders in the social problem-solving R&D programme, Republic of Korea**




## Contribution towards the SDGs

The social problem-solving R&D programme has a direct impact on SDG 3 “Good Health and Well-being”, SDG 6 “Clean Water and Sanitation” and

SDG 11 “Sustainable Cities and Communities”. The contributions of the policy are summarized in Figure 5.6.

**Figure 5.6**

### Impact of social problem-solving R&D programme in achieving the SDGs

Key outputs	SDG outcomes	SDG targets
Address issues related to the growing aging population, provide appropriate health coverage to vulnerable social groups including senior citizens.	 <p>The social problem-solving R&amp;D programme is aligned with SDG 3 “Good Health and Well-being” that aims to ensure healthy lives and promote well-being for all at all ages.</p>	<b>3.8:</b> Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
Provide clean and safe water without water-bloom and environmental hormones.	 <p>Social problem-solving R&amp;D programme is aligned with SDG 6 “Clean Water and Sanitation” that aims to ensure availability and sustainable management of water and sanitation for all.</p>	<b>6.3:</b> By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.
Make cities and communities more sustainable and resilient to natural disasters, in particular those caused by climate change.	 <p>Social problem-solving R&amp;D programme is aligned with SDG 11 “Sustainable Cities and Communities” that aims to make cities and human settlements inclusive, safe, resilient and sustainable.</p>	<b>11.B:</b> By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-2030, holistic disaster risk management at all levels.

## Analysis

### Success factors

The social problem-solving R&D policy differs substantially from previous R&D programmes in terms of purpose, processes and stakeholders. Three factors enable the social problem-solving R&D programme to be truly transformative, as described below.

### Problem-solving as a main driver of R&D

The social problem-solving R&D projects are driven by demand instead of supply. Shifting the focus of the policy requires a systemic change of the whole policy process, in terms of policy setting, planning, implementation, project management and evaluation.<sup>11</sup>

### The Government as the establisher of platforms

While governments defined most R&D projects in the past, social problem-solving R&D enables various stakeholders to participate in the planning and implementation of the innovation activities. The role of government in social problem-solving R&D is no longer to identify a problem and provide solutions, but to set up open platforms where different actors can organize themselves to solve problems.

### Multi-stakeholder participation

Civil society and citizens, which had been excluded from other R&D processes, need to be at the heart of social problem-solving R&D programmes. This will require ‘participatory governance’, that is, the

participation of a variety of social stakeholders, beyond scientists and researchers, throughout the policy process.<sup>12</sup>

### Lessons learned

Three overarching lessons can be drawn from the social problem-solving R&D policy that may be useful for other countries looking to introduce similar initiatives:

1. **Changing innovation mindsets:** Social problem-solving R&D policy requires stakeholders to adopt new perspectives and implementation systems, but many planning and implementation practices reflect existing mindsets in the science and technology community. The mindsets of STI practitioners must shift from exploration and theory to the problem-driven search for solutions to real world challenges. Commitment to this new way of working increases the probability of success. This can be achieved through a more open and innovative attitude towards improving the R&D system and embracing new methodologies.<sup>13</sup>
2. **Strengthening engagement and mutual understanding between the scientific and the civil society communities:** The scientific and civil society communities often face difficulties in understanding each other. Civil society and stakeholder participation is still considered as a mere formality rather than as a valuable resource. Engagement and mutual understanding between these communities is

a vital component in the R&D process for social problem-solving. A system or methodology for communication and participation between different stakeholders, which has not been fully developed yet, is needed to ease these critical interactions.<sup>14</sup>

3. **Fostering cross-ministry collaboration:** Some projects have committees for collaborative coordination that include technological development experts of public R&D departments and social policy entities, but most projects do not. In many cases, communication and coordination between participating ministries is difficult and R&D projects are divided between different departments. Outcomes are enhanced when there is deep cross-ministry cooperation and a long-term vision of systemic transition to problem-solving R&D policy.<sup>15</sup>

### Potential for leverage, wider stakeholder engagement and replicability

The social problem-solving R&D policy of the Republic of Korea leverages public funding and knowledge from diverse stakeholders to address specific problems. The policy has the potential to engage new actors – including civil society and citizens – in the process of innovation and engage line ministries not directly related to STI. While it may be relatively easy to enact a social problem-solving R&D policy, its success depends on changing STI practitioners (researchers, public officials) mindsets and enabling swift collaboration between researchers, civil society and across ministries (see Figure 5.7).

Figure  
5.7**Potential for leverage, wider stakeholder engagement and replicability of social problem-solving R&D programme, Republic of Korea****Leverage**

The policy is not intended to leverage private sector capital but to leverage public funding and knowledge from a wide diversity of stakeholders to address specific problems.

**Wider stakeholder engagement**

In terms of wider stakeholder collaboration, the policy has the potential to engage new actors in the process of innovation – including civil society and citizens – and engage line ministries not directly related to STI.

**Replicability**

The social problem-solving R&D policy is easy to establish in any country. However, success will depend on the ability to change the mindsets of researchers and public officials, enabling swift collaboration between researchers and civil society and across ministries.

**Guidelines for policymakers**

Policymakers aiming to shift public funding of R&D to a more problem-driven approach should consider the following:

- **Building a shared vision of social problem-solving R&D.** Stakeholder buy-in can help to shift the R&D focus to real problems related to daily life in mainstream society or to the concerns of vulnerable groups. The government should issue a clear definition of the problem and appropriately weighted criteria for STI funding decisions.
- **Sustaining inter-ministerial cooperation:** Committed leadership at the highest level of government is required to ensure a ‘whole-of-government’ approach to innovation development. It is also needed to reinforce the concepts of open and collaborative innovation with civil society and citizens alike.
- **Exploring social challenges from the user perspective:** Governments must understand the social context of the problems as well as the needs of the ultimate beneficiaries of R&D programmes. The programme must have adequate resources and means to explore the social challenges from the user perspective.







## 5.3 UNCLAIMED PROPERTY LEGISLATION

### ►► JAPAN




#### Overview

In December 2016, Japan passed the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (hereinafter referred to as the ‘Dormant Deposits Act’ or the ‘Act’).<sup>16</sup> The Act aims to fund social purpose activities by releasing unclaimed assets of dormant bank accounts. This case study evaluates the impact of the Act

in tapping into private sector capital to finance the SDGs and explores the potential for countries in Asia and the Pacific (in particular, more advanced economies) to replicate the Act. It describes the design of the Act and its anticipated contribution towards the achievement of the SDG 4 “Quality Education”, SDG 8 “Decent Work and Economic Growth” and SDG 10 “Reduced Inequalities” (Table 5.5).

Table  
5.5

Key features of Dormant Deposits Act, Japan

Key features	Description
Type of initiative	Policy
Public sector actor(s)	Deposit Insurance Corporation of Japan
Sectors/beneficiary focus	All sectors
Funds mobilized	To be determined [expected \$440 million – \$520 million in 2019]
Sustainable Development Goals	  

#### Mechanism outline

The Dormant Deposits Act, which will be fully enforced in mid-2019, will channel funds from bank accounts that have been inactive for 10 years or more (no deposits or withdrawals) to the state-owned Deposit Insurance Corporation of Japan (DICJ). In the absence of such an act, financial institutions retain the funds in dormant accounts as private capital. The Act automatically applies to inactive accounts with a balance below ¥10,000 (\$90). If an account with a balance of ¥10,000 or more is inactive for nine years, the bank must notify the owner that his or her account will be considered dormant unless he or she makes a withdrawal or deposits additional funds within one year. Account owners will be able to recover dormant funds even after they are transferred to the DICJ. The

Financial Services Agency will: (i) transfer dormant deposits from financial institutions to the DICJ; and (ii) handle reclaim requests. Approximately ¥120 billion (\$1 million) in bank accounts become dormant every year and approximately ¥50 billion (\$450,000) is reclaimed later.<sup>17</sup>

Figure 5.8 outlines the framework of the Act. As the central fund collector, the DICJ distributes funds to a newly created private entity, the ‘designated utilization organization’ that is monitored by the Government. The Prime Minister will issue the management policies of the designated utilization organization. The designated utilization organization will select a number of regional and community foundations across Japan with positive track records to serve as fund allocation organizations, which will

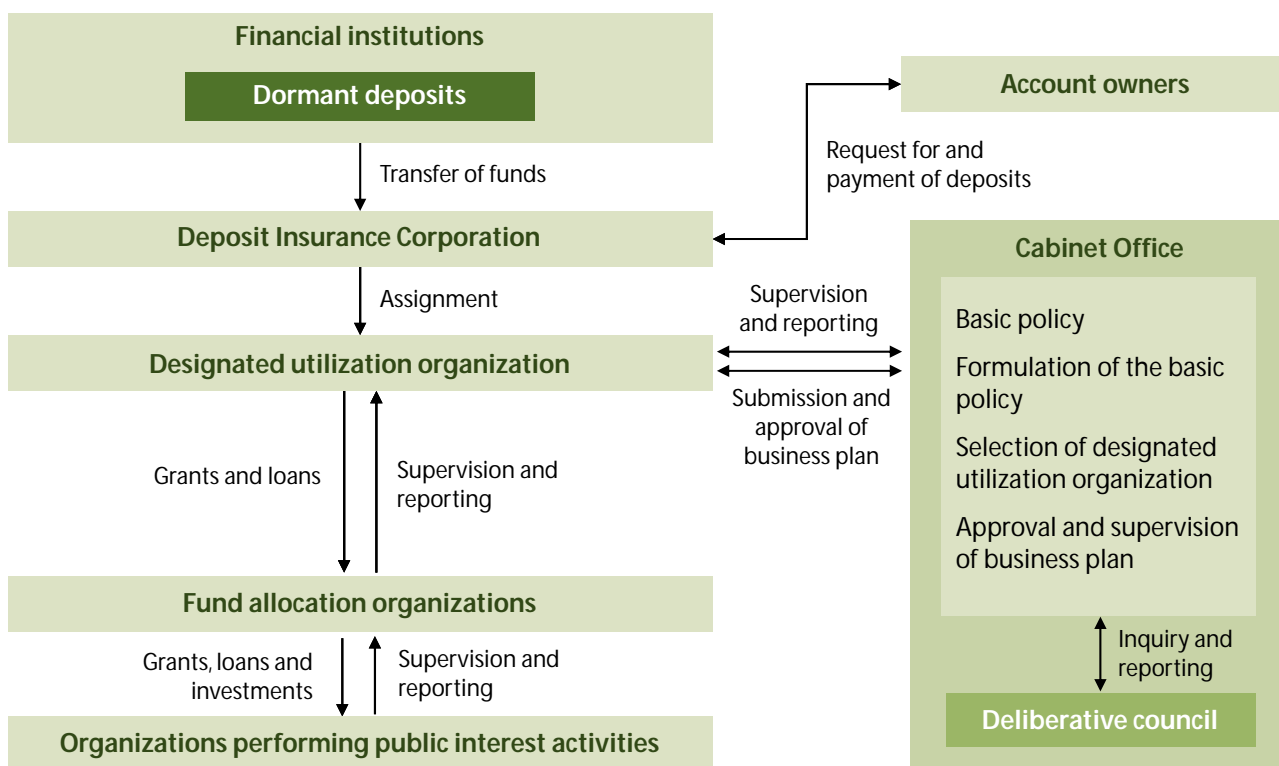


provide grants, loans and investments for projects undertaken by local civic groups.<sup>18</sup> Applicants for grants or loans will be publicly solicited, but religious and political organizations will not be eligible to apply. The selection process gives priority to programmes for children and young adults, and people facing severe

financial constraints or programmes that contribute to the revitalization of local communities. The Act stipulates that the funds must be directed to these areas, yet the Cabinet Office retains the ability to add or amend the target areas to align them to the social needs of the country and specific regions.

**Figure 5.8**

**Overview of the Dormant Deposits Utilization Act, Japan**



Source: Adapted from Uo, 2017.

Dormant assets schemes have been enacted in other countries (see some examples in Table 5.6), however only some (including those in the Bahamas, Ireland, Japan and the United Kingdom) earmark the funds

directly for social issues and sustainable development. In Japan, funds from the dormant account will be directed towards social problems to help close the persistent funding gap for social development.

Table  
5.6

## Selected international dormant assets schemes

Country	In-scope assets	Terms of firms' involvement	Conditions to reclaim assets	Payment of post-transfer interest	Reclaim guarantor	Use of unclaimed dormant assets
Australia	Bank accounts; life insurance policies; shares/dividends; investments; client money; superannuation	Mandatory participation	No time limit	Yes, but accrues only after July 2013	Government of Australia	Australian Treasury
Bahamas	Bank accounts; bank drafts; manager's checks; money orders; travelers' checks; credit card balance	Mandatory participation	25 years (5 years if balance <\$500)	Yes, if balance >\$500	Central Bank of the Bahamas	Projects for the general good of society
Belgium	Bank accounts; safety deposit boxes; insurance credits	Mandatory participation	30 years	Yes	Belgian treasury	Belgian Treasury
Canada (central and provincial schemes)	Insolvent distributions; utilities; life insurance/insurance policies; pension funds; corporate dividends; bank accounts; travelers' checks; tax refunds	Mandatory disclosure, voluntary participation	No time limit	Yes, but only for some assets and some provinces	Unknown	Federal/provincial revenues or local foundation (British Columbia only)
Ireland	Bank accounts; life assurance policies	Mandatory participation	No time limit	Yes	Department of Finance, Ireland	Charitable/social projects
Kenya	Bank accounts; insurance policies; utilities; checks; gift certificates	Mandatory participation	No time limit	No	Government of Kenya	Unknown
New Zealand	Bank accounts; life insurance policies; dividends	Voluntary participation	No time limit	No	New Zealand Crown	New Zealand Crown
United Kingdom	Bank and building society accounts	Voluntary participation	No time limit	Yes	Reclaim Fund Ltd.	Good causes
United States (state schemes)	Various	Mandatory participation via escheatment laws	Unlimited	No	State	State treasuries

Source: Commission on Dormant Assets (Government of the United Kingdom), 2017.

### Stakeholders engaged

The Cabinet Office is currently establishing a deliberative council and selecting the designated utilization organization. The DICJ is preparing operational guidelines for the management of the funds and the process of reclaiming assets in accordance with the Dormant Deposits Act. The Prime Minister will appoint members of the Council for Utilization of Dormant Deposits. The Council will

deliberate on the basic policy and preliminary plan, monitor the status of social purpose activities and make recommendations to the Prime Minister. Private sector financial institutions subject to the Act include the Bank of Japan, Mizuho and Shinsei Bank. Non-profit organizations and foundations, such as the Japan Fundraising Association and the Nippon Foundation, will receive funds for public interest activities (Figure 5.9).

Figure  
5.9

## Stakeholders in the Dormant Deposits Act, Japan



## Contribution towards the SDGs

The Dormant Deposits Act is expected to mobilize \$440 million – \$525 million each year by transforming funds from dormant accounts into loans and grants to non-profit organizations. This will help achieve two outcomes:

1. **Build the social investment sector:** The Act stimulates and supports the non-profit sector and increases social investment in Japan. Once it is fully implemented, the Act may have a similar trajectory and impact to the Dormant Bank and Building Society Act 2008 of the United Kingdom (Box 5.1).

Box  
5.1

## United Kingdom Dormant Bank and Building Society Accounts Act 2008

The Dormant Bank and Building Society Accounts Act 2008 classifies bank and building society accounts as dormant when they have not had any customer-initiated activity for more than 15 years. The central Reclaim Fund collects and manages the funds, fulfils reclaim requests and passes on surplus money for reinvestment in the community. The Act has provided funds both as grants and as investments. To date, the Reclaim Fund has transferred, through the Big Lottery Fund, £362 million (\$463 million) in grants to charities and good causes across the United Kingdom. In addition, the Reclaim Fund has provided capital to Big Society Capital, a social wholesale investment bank established by the Cabinet Office in April 2012. By 2013, Big Society Capital had committed £149 million (\$191 million) in social investment across a broad range of outcome areas. For instance, Think Forward, a non-profit organization, used these funds to support 900 disadvantaged young people with opportunities for education and employment.

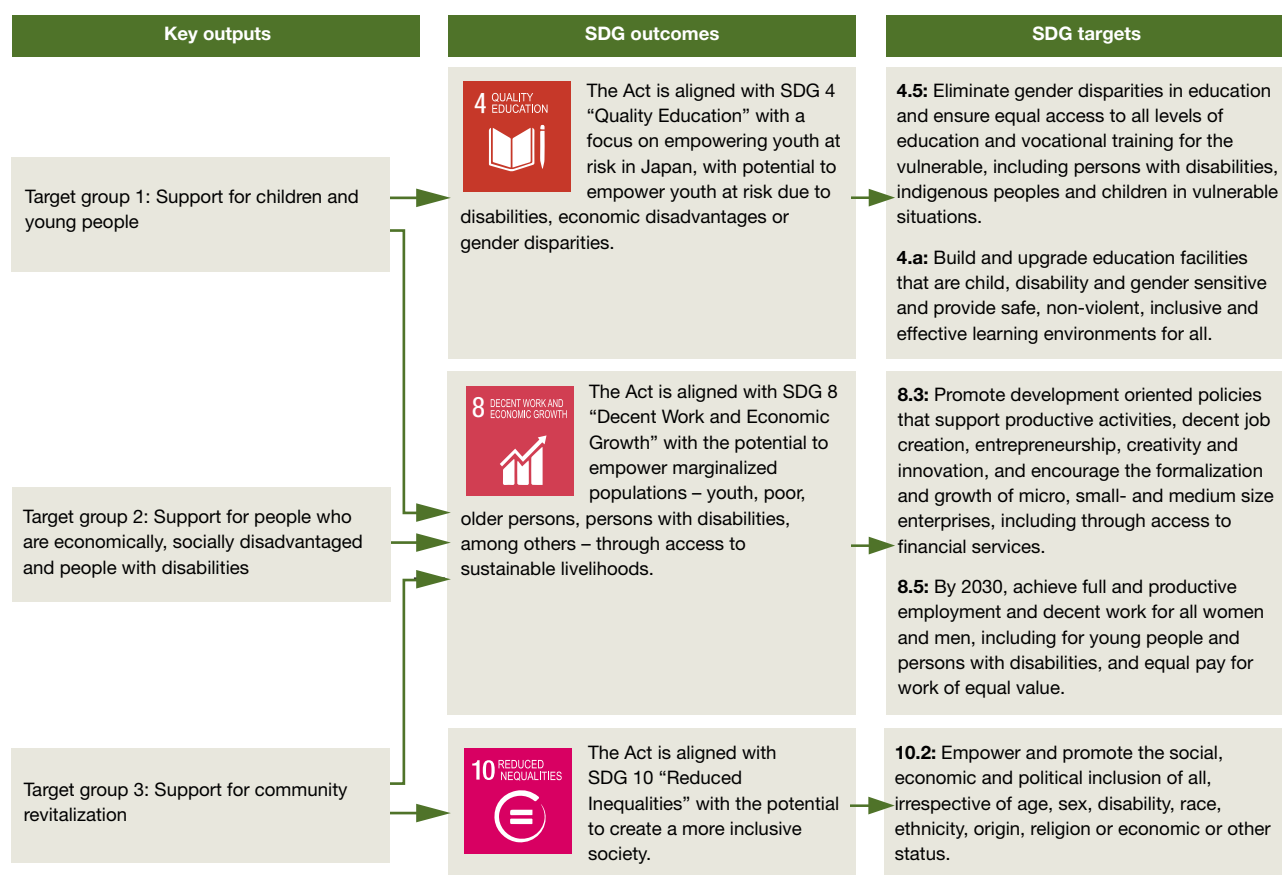
Source: United Kingdom National Advisory Board to SIIT, 2014.

2. **Targeting funds to priority issues:** The dormant funds will support three target areas: (i) children and young people; (ii) people who are economically or socially disadvantaged and people with disabilities; and (iii) community revitalization. In pursuit of these target sectors, the legislation is well aligned with SDG 4

“Quality Education”, SDG 8 “Decent Work and Economic Growth” and SDG 10 “Reduced Inequalities” (Figure 5.10). It could also contribute to SDG 1 “No Poverty”, SDG 3 “Good Health and Well-being” and SDG 17 “Partnerships for the Goals”.

Figure 5.10

### Potential impact of the Dormant Deposits Act in achieving the SDGs



Source: Based on <http://www.thinkforward.org.uk/> and <http://www.bbc.co.uk/news/uk-politics-39151754>.

## Analysis

### Success factors

The Dormant Deposits Act is an innovative way to unlock existing funds and channel them towards achieving the SDGs. The Act has two success factors:

1. **Unlocking existing funds for priority issues:** The Act ensures that the funds are distributed to a range of organizations, and prevents

intensive investment of the funds in major cities or specific regions. The designated utilization organization does not directly fund projects but engages existing funding groups in local communities to leverage local knowledge. This approach ensures that funds are provided to groups that understand and are aligned with local conditions. It also enables monitoring, assessment and technical support at the local level.

2. **Independence and control:** The designated utilization organization oversees the grant allocation that will be carried out by fund allocation organizations. These organizations are independent from government and banking bodies. Separating fund management from the provision of grants, loans and investments reduces conflicts of interest and provides for a double oversight mechanism.

### Lessons learned

Other countries have implemented similar legislations around dormant accounts, and there are three lessons learned from those experiences:

1. **Impact measurement:** Measuring impact can be a challenge in implementing legislation like the Dormant Deposits Act. Rigorous social impact measurement had been intended as a cornerstone of the investment strategy at Big Society Capital in the United Kingdom. A context-based outcomes matrix was designed for that purpose, but this approach was resource-intensive and Big Society Capital has since moved towards measuring outputs or inputs for firms within target sectors (such as housing) which are both financially and socially impactful.
2. **Bank compliance:** Big Society Capital relies on voluntary compliance with little to no

enforcement capability. As a result, banks have transferred as little as 50 per cent of the anticipated dormant assets, despite ample public-sector initiatives encouraging private sector involvement in impact investing (including a mandated equity investment in Big Society Capital from large banks). Countries that opt for the voluntary transfer modality should consider that the full use of dormant funds could be hindered by lack of compliance.

3. **Administrative challenges:** The management of the funds requires robust and transparent processes, including objective criteria for the allocation of funds and selection of projects. Countries should have mechanisms to avoid conflicts of interest and provide adequate oversight. At the same time, management processes must remain cost-effective and flexible enough to adequately respond to social challenges.<sup>19</sup>

### Potential for leverage, wider stakeholder engagement and replicability

By unlocking previously untapped resources, the Dormant Deposits Act has the potential to increase private funding for the achievement of SDGs. However, its role in engaging a wider range of stakeholders is more limited than other innovative financing mechanisms (Figure 5.11).

Figure 5.11

### Assessment of Japan's unclaimed property legislation potential for leverage, wider stakeholder engagement and replicability

#### Leverage



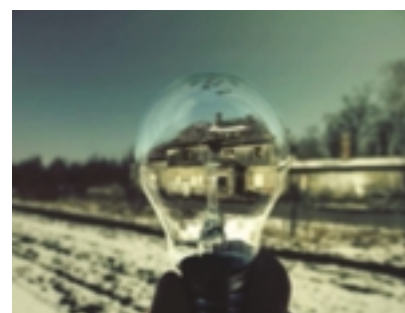
The Dormant Deposits Act will unlock financial resources in Japan, amounting to tens of billions of yen a year. The funds are directed into grants and loans to non-profit organizations.

#### Wider stakeholder engagement



The Government engaged various private sector actors through a consultation processes to design the current version of the Dormant Deposits Act. Once it is implemented, the Act will require minimal direct engagement with the private sector other than the financial institutions.

#### Replicability



The Dormant Deposits Act can be replicated in other countries through their legislative processes. Enforcement of the Act and management of funds are inherently complex, thus such legislation is best suited to countries with strong regulatory environments that will facilitate smooth implementation.

### Guidelines for policymakers

In summary, the Dormant Deposits Act has the potential to increase financing for the SDG, particularly in countries where there is a strong regulatory environment. To replicate the Act, governments should consider the ways it was implemented in different contexts (as listed in Table 5.6). Additional guidance for policymakers is outlined below:

- **Funding diverse entities and initiatives:** Funds should not be limited to supporting non-profit organizations, but can be directed towards social enterprises and other organizations with a public interest (including public research organisations, government departments providing social services) and which are positioned to create demonstrable and sustainable social and economic impact. A percentage of the funds could also be

earmarked to encourage the growth of the development sector, for example, to fund capacity building programmes for non-profit organizations and social enterprises or to de-risk innovative financial instruments by providing catalytic first loss capital.

- **Adopting a strategic blended capital approach:** The fund allocation organizations should adopt an appropriate approach for the stage of maturity and capital needs of the organizations that perform social activities for the public interest. For instance, early stage organizations can be provided with grant funding while growth stage entities should be considered for investment capital. Adopting a strategic blended capital approach will ensure that dormant account funds are used efficiently, and private capital is directed towards sustainable development.



## Endnotes

<sup>1</sup> ESCAP, 2016.

<sup>2</sup> Agensi Inovasi Malaysia, 2017.

<sup>3</sup> Ibid.

<sup>4</sup> Razak, 2016.

<sup>5</sup> Ibid.

<sup>6</sup> Rangan and Chase, 2015.

<sup>7</sup> Seong et al., 2016.

<sup>8</sup> Song et al., 2014; Yang, 2014.

<sup>9</sup> Song et al., 2014.

<sup>10</sup> Seong, Song and Lim, 2016.

<sup>11</sup> Song and Seong, 2013; Song et al., 2014.

<sup>12</sup> Song and Seong, 2013; Song et al., 2014.

<sup>13</sup> Song, Seong and Lim 2016.

<sup>14</sup> Song, Seong and Lim 2016.

<sup>15</sup> Song, Seong and Lim 2016.

<sup>16</sup> DICJ, 2017.

<sup>17</sup> Japanese National Advisory Board, 2016.

<sup>18</sup> Uo, 2017.

<sup>19</sup> The Japan Times, 201; Uo, 2017.





# SYSTEMIC APPROACHES TO FINANCE AND INNOVATION FOR DEVELOPMENT



## Key messages

1. Technology; governance, policies and regulations; institutions; infrastructure; human capital; knowledge and data; mindsets and the capability of actors and organizations to collaborate all have an impact on the success of development and innovative financing initiatives.
2. Technology has the potential to enable full financial inclusion. Simple, open, ubiquitous digital infrastructure enables financial inclusion innovations to scale up.
3. Political backing at the highest level has enabled systemic innovations to emerge and scale up.
4. Systems evolve in unforeseen ways providing new opportunities for innovation. Government approaches need to be agile and iterative to exploit windows of opportunity and to address detected challenges.

## Introduction

This chapter showcases systematic approaches to innovative financing for development, where innovative financing instruments have been introduced alongside several complementary initiatives. The exploitation of technology; adequate governance, policies and regulations; supporting institutions; access to infrastructure; availability of human capital; access to knowledge and data; mindsets and the capability of actors to collaborate all have an impact on the success of innovative financing policies. In addition, innovative business models, such as social enterprise models, and changes in social norms provide vital support to apply and scale up innovative financing initiatives.

The first case study in this chapter evaluates an ordinance of the metropolitan government of Seoul to procure goods and services from social enterprises, an innovation that has catalyzed a market for impact investment. The ordinance was one of several

measures enacted through the Social Economy Policy and Social Enterprise Support Plan to encourage impact investment. The Social Enterprise Support Plan provided for social entrepreneurship education, supported the incubation of social enterprises and helped businesses to qualify for impact investment funds.

The second case study in this chapter assesses JAM Trinity, a system that gives every person in India a bank account, a unique identification number and mobile connectivity to enable financial inclusion. Based on this system, a platform for electronic payments was built that can be used by anyone with a bank account and a mobile phone. This innovation in financing was possible because the Government took a leading role as creator, client (the Government disburses subsidies and salary payments through the platform), and supporter of an enabling legal and regulatory environment. This initiative leveraged the high degree of access to mobile infrastructure and the technological abilities of firms in India.





## 6.1 SEOUL METROPOLITAN GOVERNMENT'S COMPREHENSIVE SOCIAL ECONOMY POLICY ►► REPUBLIC OF KOREA

### Overview

Since 2009, the Seoul metropolitan government has enacted development policies oriented towards the social economy to address economic and social challenges such as growing inequalities, high youth unemployment rates and an aging society. Those comprehensive social economy policies have drawn national and global attention due to the improvements in economic and social welfare they have achieved.

This case study explores how a city government transformed its local economy and promoted

sustainable development by implementing innovative 'social economy' policies and innovative financing mechanisms. Table 6.1 summarizes the key features of the social economy development policies. The case study has a special focus on SDG 8 "Decent Work and Economic Growth", SDG 9 "Industry, Innovation and Infrastructure", SDG 10 "Reduced Inequality", SDG 11 "Sustainable Cities and Communities" and SDG 17 "Partnerships for the Goals". It draws lessons learned from the city government's comprehensive social economy support plan and offers recommendations for policymakers who may wish to implement similar policies to overcome their sustainable development challenges.

Table  
6.1

Key features of the social economy development policies, Seoul

Key features	Description
Type of initiative	City government policy
Key public sector actor(s)	Seoul metropolitan government, Ministry of Employment and Labour, Ministry of Strategy and Finance, Ministry of Interior
Country	Republic of Korea
Sectors/beneficiary focus	Cross sectoral
Funds mobilised	\$169 million (2012-2016), \$51 million in 2017, including \$28 million from public funding, \$14 million in loans from the social investment fund, and \$9 million from private funds
Sustainable Development Goals	    

### Mechanism Outline

The concept of a 'social economy' emerged in reaction to various social problems such as inequality, widening gaps between rich and poor and environmental destruction related to the development

of capitalist market economies.<sup>1</sup> In contrast to the market economy, wherein maximizing profit is the core focus of businesses, the social economy is characterized by social enterprises explicitly including social and environmental returns as part of their core business while seeking profit or return on investment.<sup>2</sup>



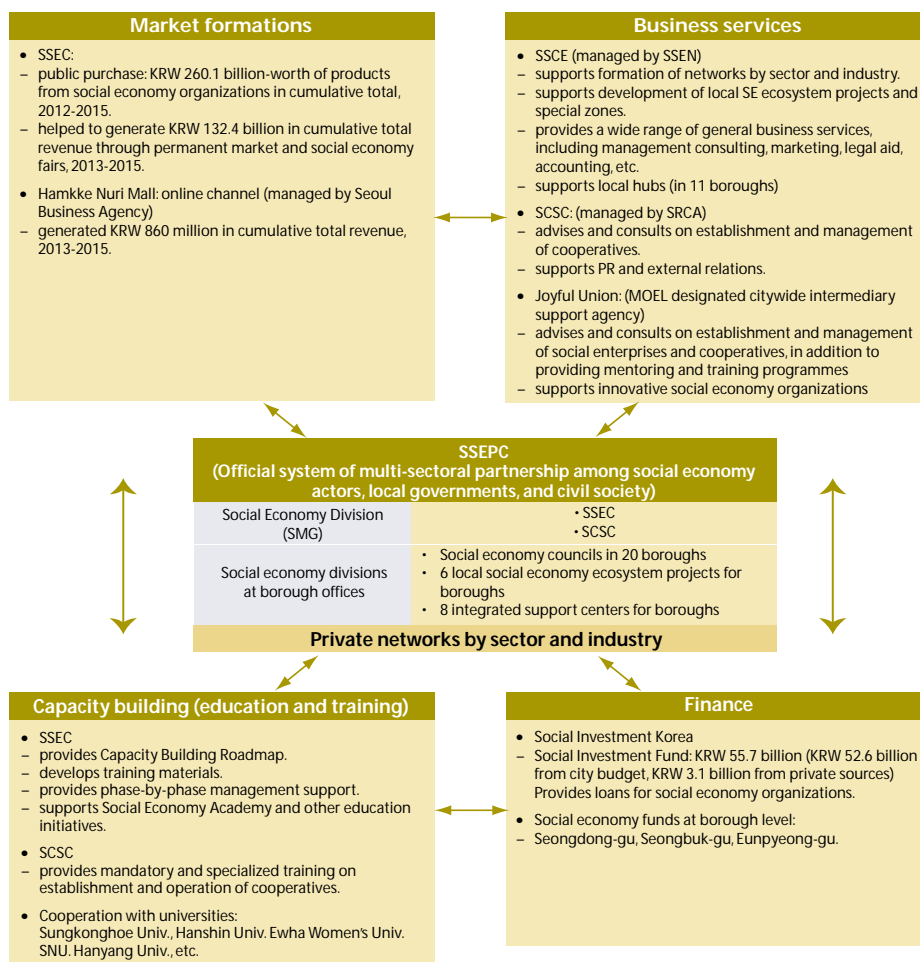
## Policy development

The Social Economy Policy of the Seoul metropolitan government was developed through multisectoral partnerships, from the policymaking stage through to execution. The city government established two intermediary organizations, the Seoul Social Economy Center (SSEC) and the Seoul Cooperative Support

Center (SCSC), to coordinate the work of the city government, borough offices and social economy organizations and networks, and to support the four policy areas: creating markets for the social economy; nurturing human resources and facilitating research; supporting business services; and providing funding (see Figure 6.1).

**Figure 6.1**

**The social economy support system, Seoul**



Sources: Lee, 2014; GSEF, 2016.

The national Social Investment Fund and borough-level social economy funds provide financial support to social economy projects. The Social Investment Fund was launched in 2012 with initial public funding of \$44 million, which is expected to be increased to \$70 million in 2017.<sup>3</sup>

The city government founded the Global Social Economy Forum (GSEF) in 2013 to encourage

international cooperation in this area through annual international forums, such as the Asia Network for Young Social Entrepreneurs. As part of the plan, Seoul will also host and support the Karl Polanyi Institute Asia to conduct research on social economy theories. The government also developed the Social Economy Capacity Building Roadmap (2014-2016) as the growth of the social economy depends on education and the development of human resources.



### Achievements and challenges of the Comprehensive Social Economy Support Plan

The first phase of the Comprehensive Social Economy Support Plan, from 2012-2016, aimed at increasing the social economy's market share by 2 per cent in the gross regional domestic product and 8 per cent in local employment by 2020. It also focused on establishing a well-organized system of intermediary organizations that could support social enterprises throughout each phase of growth, expand public markets and develop a local community-oriented social enterprise sector.

The more than 22 programmes implemented during the first phase had substantive qualitative and quantitative outcomes. The number of social enterprises increased fivefold during this period and their sales volumes doubled to reach \$1.290 billion in 2015. Despite the impressive achievements made during the first phase, challenges remain including the unsustainability of some social enterprises and low levels of public awareness. Table 6.2 summarizes the outcomes of the first phase of the Plan.

**Table  
6.2**

**Quantitative social and economic outcomes of the Comprehensive Social Economy Support Plan, Seoul (2011-2016)**

Output	Description
Number of social enterprises	Five-fold increase from 718 enterprises in 2011 to 3,501 enterprises in 2016
Sales volume of the social economy	Roughly doubled from \$607 million in 2012 to \$1.290 billion in 2015
Employment created by the social economy	Roughly doubled from 9,300 people in 2012 to 17,400 people in 2015
Volume of public procurement for products of social enterprises	Eightfold increase from \$10.2 million in 2011 to \$75.6 million in 2016

Source: Seoul Metropolitan Government, 2017.

The second phase of the Plan, with a funding of \$51 million, began in March 2017 and put strategies in place to overcome problems encountered during the first phase. The five strategies of the second phase are presented in Table 6.3. The goals set out for the

second phase include scaling up social enterprises, improving the quality of social economy jobs and increasing national and international awareness of the social economy.

**Table  
6.3**

**Strategies for the 2017 Comprehensive Social Economy Support Plan, Seoul**

Strategies	Description
Expanding the number of social enterprises	<ul style="list-style-type: none"> <li>Designating and managing preliminary social enterprises</li> <li>Providing financial support for the growth of social enterprises</li> <li>Consulting on social economy and management skills</li> <li>Nurturing best social enterprises</li> <li>Running academy on social economy</li> </ul>
Increasing procurement for social economy products	<ul style="list-style-type: none"> <li>Expanding procurement of social economy products</li> <li>Providing support for entering into the private market</li> <li>Running an online shopping platform for social economy products</li> </ul>
Expanding financing	<ul style="list-style-type: none"> <li>Restructuring Social Impact Bond</li> <li>Revitalising Social Impact Bond Projects</li> </ul>

Table  
6.3

(continued)

Strategies	Description
Expanding local infrastructure for social economy	<ul style="list-style-type: none"> <li>Establishing Social Economy Master Plan (2017-2021)</li> <li>Systematize public-private cooperative governance of the social economy</li> <li>Establishing support mechanisms city wide</li> <li>Establishing comprehensive support mechanisms at the borough level</li> <li>Creating service spaces for social enterprises</li> <li>Nurturing specialized social economy zones</li> <li>Creating a fashion cluster created by social economy in Sungsu borough</li> </ul>
Strengthening national and international advocacy and networking on social economy	<ul style="list-style-type: none"> <li>Strengthening international cooperation on social economy</li> <li>Organizing a social economy week</li> <li>Supporting the revitalization of fair trade</li> </ul>

Source: Seoul Metropolitan Government, 2017.

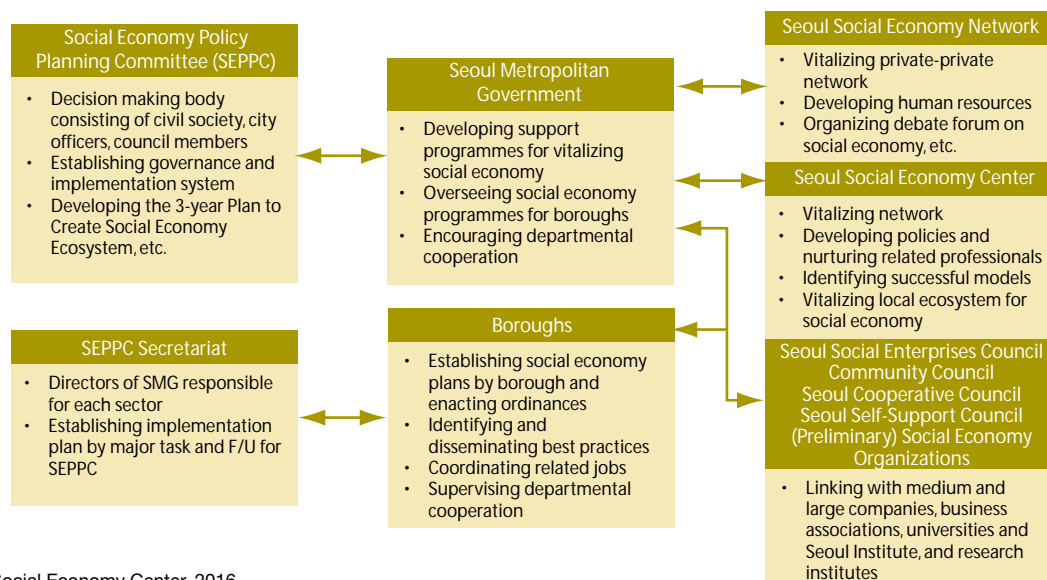
### Stakeholders engaged

The Seoul social economy policy has been driven by multisectoral partnerships and takes a bottom-up approach. The Seoul Social Economy Network – composed by representatives from cooperatives, social enterprises and intermediary organizations – was founded in 2012. Working with the Mayor of

Seoul, a new governance structure was established and the Network became the Social Economy Policy Planning Committee (SEPPC). The Committee consists of civil society, city officers and city council members and is at the core of policy formulation, implementation and evaluation. It plays a critical role in creating cooperative mechanisms for private-private and public-private partnerships.

Figure  
6.2

### Organizational structure of social economy entities, Seoul



Source: Seoul Social Economy Center, 2016.

The Seoul Social Economy Center plays an intermediary role between the city government, the Social Economy Policy Planning Committee and various related stakeholders (see Figure 6.2). It supports local development of the social economy and human resources. The 25 boroughs develop and undertake various programmes to meet their specific economic and social agendas.

### Contribution towards the SDGs

The social economy policies are aligned with most

SDGs but the most significant links are with SDG 8 “Decent Work and Economic Growth”, SDG 9 “Industry, Innovation and Infrastructure”, SDG 10 “Reduced Inequality”, SDG 11 “Sustainable Cities and Communities” and SDG 17 “Partnerships for the Goals” (Figure 6.3). The various measures the city government implemented have resulted in increasing local employment opportunities, greater availability of social services, expanding social housing for marginalized groups and increased international cooperation.

**Figure 6.3**

### Impact of the social economy policies on achieving the SDGs

Key outputs	SDG outcomes	SDG targets
<p>Local employment created related to the social economy doubled from 9,300 in 2012 to 17,400 in 2015.</p> <p>Number of social enterprises increased from 718 in 2011 to 3,501 in 2016.</p>	<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p> <p>The comprehensive social economy support plan is aligned with SDG 8 “Decent Work and Economic Growth”, as it contributes to decent jobs for marginalized groups and to increase the market share of the social economy.</p>	<p><b>8.3</b> Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.</p>
<p>Public procurement of products from social enterprises increased in value from \$10.2 million in 2011 to \$75.6 million in 2016.</p>	<p><b>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</b></p> <p>The social economy policy nurtures social economy organizations, which are mainly small-scale, by providing business consulting services and/or loans through the Social Investment Fund.</p>	<p><b>9.3</b> Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p>
<p>218 social enterprises provided social services to 1.6 million people in 2013-2014.</p> <p>Marginalized people account for 41% of the social economy employment.</p>	<p><b>10 REDUCED INEQUALITIES</b></p> <p>25 boroughs are developing and implementing various programmes to address their specific social and economic issues which are being addressed by social economy organizations.</p>	<p><b>10.4</b> Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.</p>
<p>Provided 359 social housing units for marginalized groups in 2015.</p>	<p><b>11 SUSTAINABLE CITIES AND COMMUNITIES</b></p> <p>Social housing for marginalized groups was provided through the Social Investment Fund.</p>	<p><b>11.1</b> By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.</p>
<p>Developed and implemented social economy policies and measures through multisectoral partnerships. The Social Economy Policy Planning Committee, and consisting of civil society, city officers and city council members, creates cooperative mechanisms for private-private and private-public partnerships. The Global Social Economy Forum was founded in 2013 to stimulate international cooperation on the social economy.</p>	<p><b>17 PARTNERSHIPS FOR THE GOALS</b></p> <p>The Global Social Economy Forum promotes international cooperation in social economy and provides capacity building programmes for developing countries.</p>	<p><b>17.6</b> Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, particularly developing countries.</p>

Sources: Seoul Metropolitan Government, 2017; Seoul Social Economy Center, 2016.

## Analysis

### Success factors

The success of the social economy policies is based on four pillars:

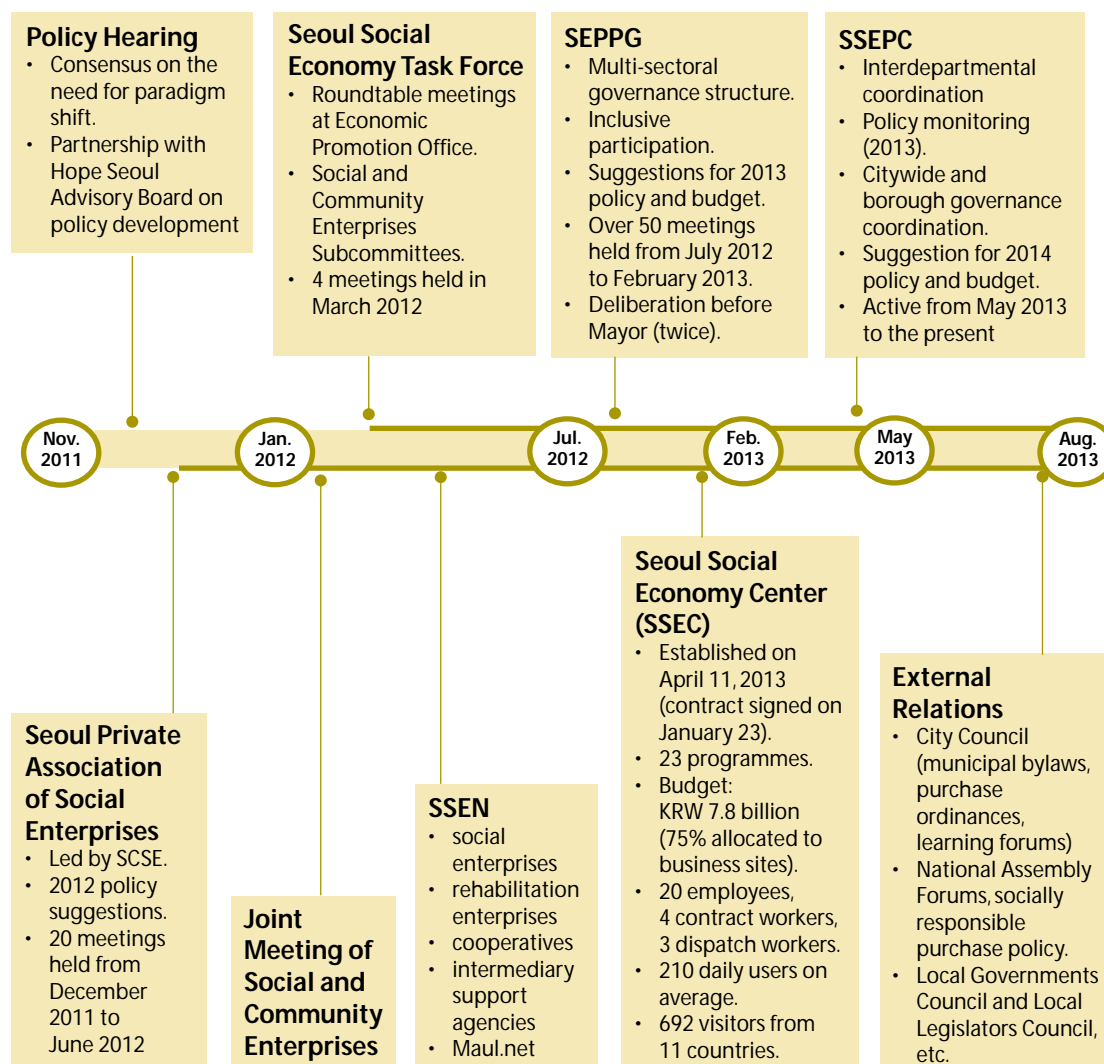
#### 1. A cooperative governance model that has encouraged private and public stakeholder participation throughout the whole policy cycle

One of the most remarkable and innovative characteristics of the social economy policy is that the

entire process, from policy formulation through to execution, was conducted through a multisectoral partnership.<sup>4</sup> The Seoul government was once quite centralized in terms of policymaking and implementation, but since 2011 it has transformed into a model of cooperative governance that promotes greater policy effectiveness, accountability and consensus on success metrics. The Social Economy Policy Planning Committee embodies the city government's emphasis on cooperative governance and promoted private and public stakeholder participation throughout the whole policy cycle (see Figure 6.4).

Figure  
6.4

Evolution of Seoul's Multisectoral Partnership for the Social Economy



Sources: Adapted from Lee, 2014; GSEF, 2016.

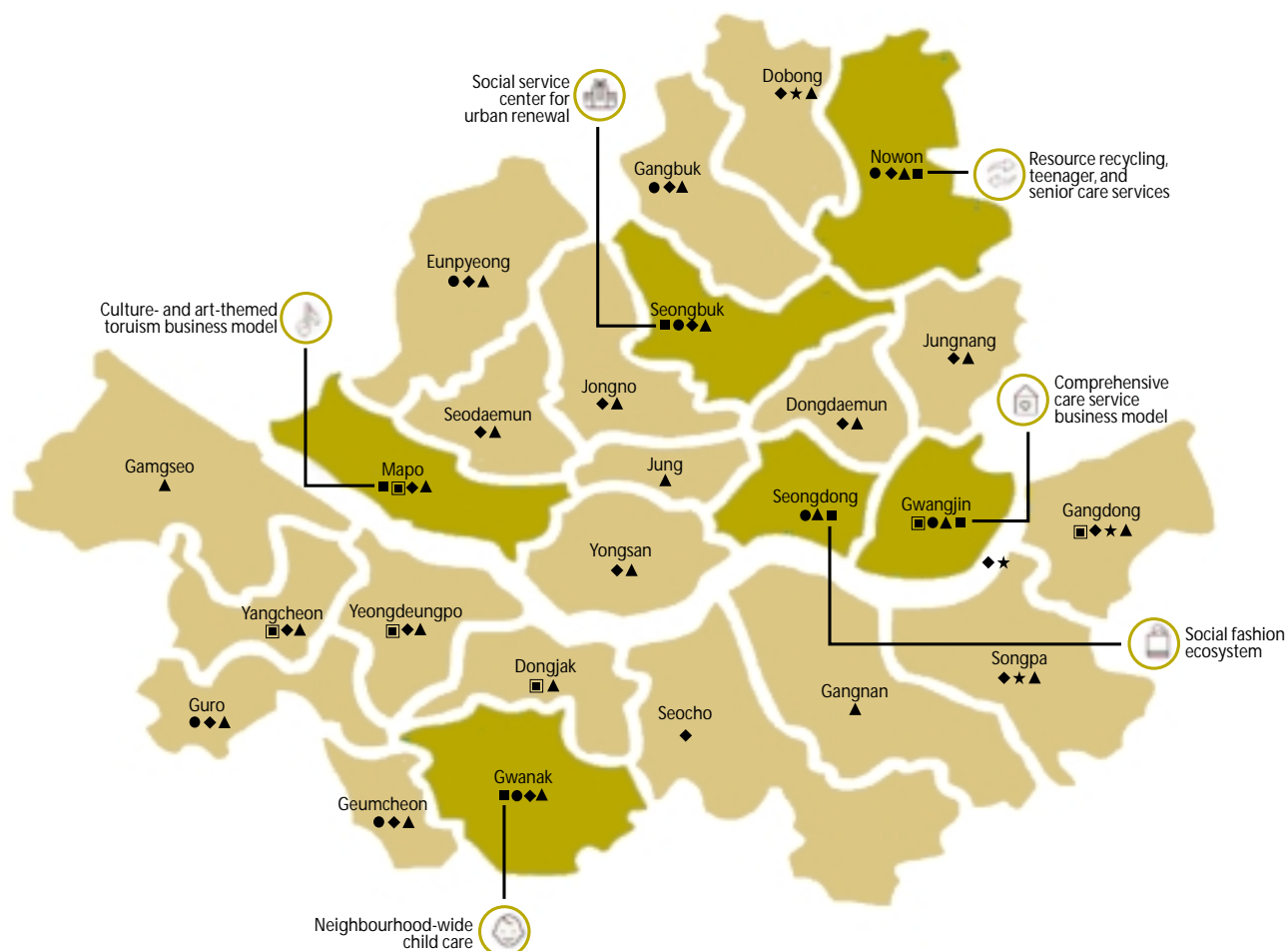
## 2. Creating social economy zones

Social economy zones are the outcome of a long-term programme to localize the social economy. This programme facilitated social economy projects tailored to local problems, and increased citizen participation in social economy projects. To date, Seoul has designated and supported 10 social

economy zones within its boroughs ranging from resource recycling, programmes for teenagers and senior care services, to developing a “social fashion ecosystem” (Figure 6.5). Each borough is eligible to apply for funding of up to \$44,000 over six months for Local Social Economic Ecosystem Development Projects in the preparatory phase and \$442,000 over three years for their implementation.

**Figure 6.5**

**Social economy zones in Seoul, 2016**



Source: Adapted from GSEF, 2016, pp. 8-9.

Note:

- ▲ Local self-rehabilitation centers (24 boroughs)
- Social economy ecosystem groups (6 boroughs)
- ◆ Social economy councils (20 boroughs)
- Social economy integrated support centres (8 boroughs)
- ★ Borough social economy support centres (3 boroughs)
- Social economy zones (preliminary) (6 boroughs)

### 3. Fostering an ecosystem for the social economy

The development of a social economy requires a number of elements including markets for social products and services, availability of finance, and a range of organizations and enterprises able to provide those social products and services. The city government is shifting its policy target away from supporting individual enterprises towards supporting the entire social economy. The Comprehensive Social Economy Support Plan contributes to this approach as follows: establishing a well-organized system of intermediary assistance; providing far-ranging assistance for each phase of enterprise growth; expanding the public market; and developing local community-oriented social enterprise sectors. Seoul's distinctive strategy for borough-level localization, the Local Social Economic Ecosystem Development Projects, enhances the sustainability of the social economy.

### 4. Expanding public procurement of services and products provided by social enterprises

The city government issued municipal ordinances and guidelines to promote public procurement of the services and products of social enterprises to strengthen those enterprises and provide them with business opportunities. Along with institutional measures, the city government operates a call centre and a taskforce to support the sales of social enterprises in the public market. The taskforce provides information about the services and products to procurement officials in borough offices. The Social Economy Navigation online platform provides matching services and information about social enterprises.<sup>5</sup> The average sales of social enterprises participating in public procurement jumped by 132 per cent in two years, and the share of social services in the public market increased from 35 per cent in 2014 to 44 per cent in 2015. The results suggest that the public market in Seoul is successfully functioning as a test market for the products and services of social enterprises.<sup>6</sup>

#### Lesson learned

#### 1. Increasing the value of goods and services generated by social economy organizations

At the end of 2015, social economy organizations in Seoul generated an aggregate annual revenue of \$1.3 billion (KRW 660,000 per organization), representing 17,900 new jobs (9.1 jobs per organization). These figures are roughly double those of 2011. The average pay from these organizations amounts to only 65 per cent of the average urban worker's monthly wage. To improve the quality of jobs in social economy organizations, the value of the goods and services of these organizations needs to improve. Nevertheless, the incomes of vulnerable groups have increased by 120 per cent compared to transfer incomes and incomes from for-profit businesses in the same industries. The ratio of employees with social insurance coverage is also 30 per cent higher in social economy organizations than in other businesses. Overall, it seems that social economy organizations provide greater social benefits to their employees.<sup>7</sup>

### 2. Making the transition from organization-specific support to mission-specific support

The city government developed programmes to support different organizations in the social economy, such as self-sufficiency enterprises, social enterprises, community businesses and cooperatives. These programmes have contributed to the development of the social economy, but many critical development challenges remain. Policymakers should incentivize social economy actors to respond to the most pressing challenges and support the development of different business models that operate in the social economy.

#### Potential for leverage, wider stakeholder engagement and replicability

The potential of the Comprehensive Social Economy Support Plan is summarized in (Figure 6.6). The Plan leverages public and private funds for the achievement of the SDGs and incentivizes and supports business sector engagement with social enterprises and citizens. The high level of commitment across a wide range of stakeholders and sustained over a long period of time may be difficult to replicate in other countries. It may be easier to replicate this approach on a smaller scale at the borough level or in a smaller city.



Figure  
6.6**Potential for leverage, wider stakeholder engagement, and replicability of the Comprehensive Social Economy Support Plan, Seoul****Leverage**

The Plan has leveraged public and private funds for the achievement of the SDGs through the national Social Investment Fund and social economy funds at the borough level, through the public procurement of social economy goods and services, and through the restructuring of the social impact bond. Private firms can contribute CSR to the Social Investment Fund, and thus contribute to social enterprises, social housing for vulnerable groups, and social projects.

**Wider stakeholder engagement**

The Plan incentivized and supported business sector engagement with social enterprises as well as citizens.

**Replicability**

The Plan is very comprehensive and may be difficult to replicate in other countries but the Local Social Economic Ecosystem Development Projects at the borough level can be replicated in other regions in Republic of Korea and in many developing countries. The bottom-up programme can localize the social economy by focusing on their specific social and economic issues. Best practices of boroughs identified in this programme can be disseminated to small and medium-sized cities or regions facing similar issues.

**Key guidelines for policymakers**

The experience of the government of Seoul in promoting social enterprises suggests that governments wishing to promote a social economy will need to consider the following:

**1. Increase awareness about the social economy**

The social economy has great potential as an innovative policy approach for achieving sustainable development goals at the local level. However, the level of awareness about the social economy in the national and international community is still low. Political leaders and citizens need to be informed about the benefits of the social economy, cooperative governance and localization, and the importance of multisectoral partnerships for promoting a social economy ecosystem.

**2. Test social economy policies at the small scale, using best practices of boroughs and/or small cities with similar challenges**

Developing a large-scale social economy requires time and substantial funding. However, social economy policies can be tested at a smaller scale, in boroughs or small cities. Testing can help inform policymakers and reveal best practices that can be applied in other areas with similar social and economic issues and or similar geographical characteristics. The government of Seoul shares its experiences in implementing Local Social Economic Ecosystem Development Projects with other cities facing similar challenges.

**3. Establish intermediary organizations to provide systemic support**

It may be necessary to establish intermediary organizations, like the Social Economy Support

Centre, that can support the social economy by providing human resources training, conducting relevant research and providing business services to social enterprises. Support centres at the borough level also conduct surveys on local problems, identify local resources, implement pilot projects, incubate social enterprises and monitor their business activities.

#### **4. Develop a market for social enterprise products**

Prioritizing the public procurement of goods and services provided by social enterprises can support

the growth of these firms, particularly as they tend to be relatively small and many are at an early stage of development. In Seoul, the Public Procurement Support Centre was set up to promote demand for the goods and services of social enterprises. To be competitive in the private market, social enterprises would benefit from support across the whole product development cycle (manufacture, management, marketing, consulting, training and sales).





## 6.2 JAM TRINITY ►► INDIA

### Overview




The Government of India has established infrastructure for financial inclusion, commonly known as the JAM Trinity, to enable every person to have a bank account, a unique identification number and a mobile phone. Building on this, a combination of public and private banks developed an open, interoperable payment system that works at very low cost and is accessible to anyone with a bank account and a mobile phone.

This case study assesses the effectiveness of this technology-based system in supporting the

achievement of the SDGs by allowing the introduction of new financial products and channels directly targeted to poor communities. The case describes the key elements of the infrastructure and its context, and explores its potential to spur financial inclusion, unlock funds for development activities and become a platform for multiple product and service innovations. The details of the initiative are summarized in Table 6.4. The initiative is driving forward SDG 1 “No Poverty”, as well as SDG 8 “Decent Work and Economic Growth” and SDG 17 “Partnerships for the Goals”.

Table  
6.4

Key features of India's JAM Trinity

Key features	Description
Type of initiative	Government-led, technology-based (unique identification, bank account, mobile technology platform) financial inclusion system
Public sector actor(s)	Federal Government and state governments
Country	India
Sectors/beneficiary focus	All sectors/Targets underserved communities
Specifications	300 million Jan Dhan bank accounts with cumulative balance of ~\$10 billion Identification numbers for 1.12 billion people (Aadhaar) Mobile phones for +1.1 billion people
Sustainable Development Goals	  

### Mechanism outline

India's JAM Trinity is a technology-driven public infrastructure to support financial inclusion. The system is composed of three different elements:

- A basic bank account (Jan Dhan) for every citizen, enabling access to basic financial services at a low cost (Box 6.1).
- A 12-digit unique identification number (Aadhaar) based on demographic and biometric data. Aadhaar is linked to a mobile number or

email address and, provides a digital identity that enable banks to remotely verify their customer's identity.

- A mobile platform for most of the country that functions even for those using feature mobile phones. Customers can make or receive a payment through the mobile platform without visiting a bank branch.

The combination of those elements enabled public and private banks to establish an open and interoperable low-cost payment system that is

accessible to everyone with a bank account and a mobile phone. To provide incentives for people to use Jan Dhan bank accounts, and thus for banks to eventually offer financial services to a wider range of citizens, the Federal Government and state governments are routing certain subsidies (e.g. for cooking gas and fertilizer) and salary payments through this platform. More than 338.6 million beneficiaries have now received direct benefit transfers, saving the Government \$7.51 billion over three years.<sup>8</sup>

As more people use Jan Dhan accounts, banks are piloting new digital financial services, mainly payment services, that leverage the country's new Aadhaar-

enabled payment systems and are enabling the financial inclusion of citizens that previously had no access to a bank branch. For example, customers from IDFC bank can now withdraw cash from mini-ATMs.<sup>9</sup> The mini-ATMs are managed by agents (often people managing local businesses but also government ration stores or women's savings groups) that pay an initial fee of \$167. Mini-ATMs consist of a tablet equipped with a biometric reader, a debit card swipe facility (to be used when the biometric reader fails), a printer, a data-enabled SIM card, and a PIN device. The mini-ATMs enables customers to make basic transactions including deposits, withdrawals and transfers.

### Box 6.1

#### Jan Dhan Yojana bank accounts

India's latest programme to promote financial inclusion, Jan Dhan Yojana, was launched in 2014. Under this programme, account holders can do the following:

- Receive subsidy payments directly into their account;
- Transfer funds and check balances through a feature phone;
- Receive a RuPay (domestic alternative to Visa and MasterCard) debit card;
- Enroll in an accidental insurance plan at \$0.20 a year for coverage of ~\$3,000;
- Enroll in a life insurance plan at \$5 a year for coverage of ~\$3,000;
- Enroll in a pension plan with a monthly payout of \$15-\$75; and
- Receive a ~\$75 loan from the bank after six months, depending on use.

Account holders are not required to maintain a minimum balance.

Some 260 million accounts were created over a span of two years. Adult bank account ownership increased to 63 per cent by mid-2015 from a base of 53 per cent.

A common issue in financial inclusion is that accounts lay dormant as customers see no interest in using them, but the data indicate that Jan Dhan bank accounts are in use at higher rates than accounts created under earlier programmes. Some 76 per cent of Jan Dhan accounts have a balance greater than zero and deposits totalled \$6.74 billion in mid-October 2016.

*Source:* Datwani, 2017.

The JAM Trinity has provided a strong basis for financial inclusion. The unique identification number, first established in 2010, has enabled the

development of a national digital infrastructure known as India Stack. Details are provided in Box 6.2.



Box  
6.2

## Spotlight on STI – India Stack

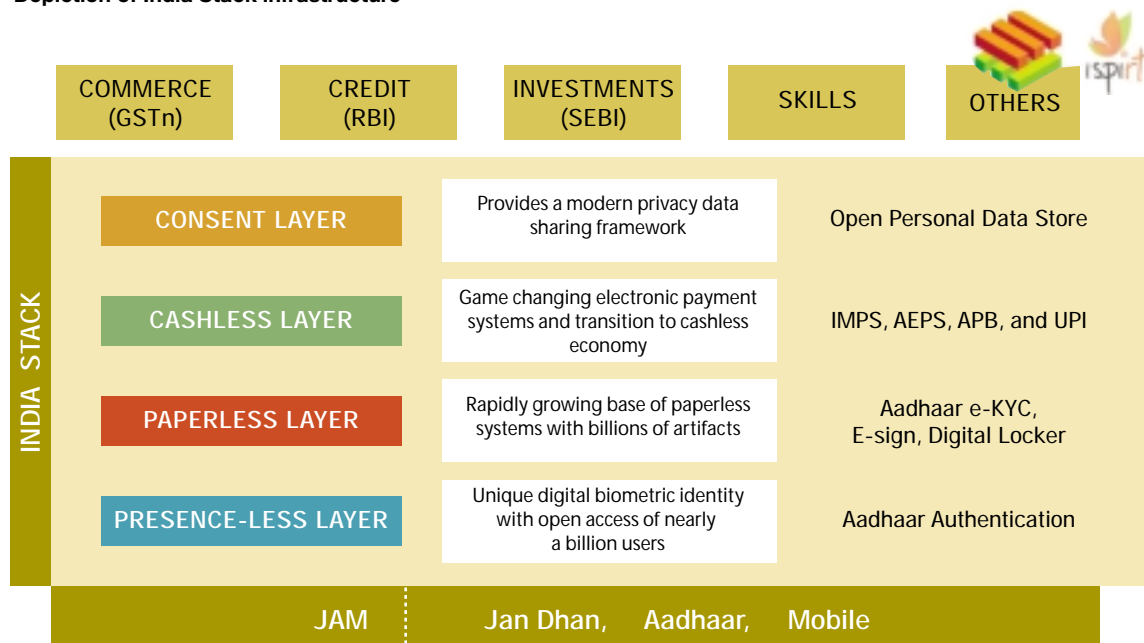
India Stack is an infrastructure supported by the Government of India. It is an open, interconnected system that enables governments, firms and citizens to provide and use multiple financial and non-financial services including digital payments and providing official documentation via digital means. This infrastructure has the potential to enable the digital transformation of India and to greatly simplify administrative and commercial procedures.

The India Stack infrastructure unbundles identity, signature, money exchange, document and data exchange. Its openness and unbundling make it easier to build applications.

Many of these frameworks are interoperable, based on open application programming interfaces and multi-provider, meaning multiple parties can create and use applications. These interconnected systems can be grouped in four distinct layers:

1. The presence-less layer: the Aadhaar authentication system (presence-less layer) provides authentication of the user, eliminating the need for verification through physical presence. The Aadhaar system can currently authenticate 100 million transactions per day in real time.
2. The paperless layer: systems in this layer enable citizens, banks, firms and governments to make paperless transactions. The Aadhaar electronic 'know your customer' (e-KYC) procedures and the digital locker system enable users to securely store and transmit personal data (such as bills or health records). Users can provide electronic consent to allow their data to be shared with banks, hospitals, or other entities.
3. The cashless layer: systems in this layer include the Immediate Payment Service, a real-time payment mechanism for mobile phones, and the Unified Payments Interface which enables users to access to different bank accounts from a simple mobile application.
4. The consent layer: the framework for data privacy and user control over their data resides in this layer.

## Depiction of India Stack infrastructure



Sources: Based on <http://indiastack.org/about>; and <https://www.slideshare.net/ProductNation/india-stack-towards-presenceless-paperless-and-cashless-service-delivery-an-ispirt-initiative>.



## Stakeholders engaged

JAM Trinity has engaged a wide range of stakeholders including policymakers at the highest level, and from different government administrations, seeking to promote financial inclusion (see Figure 6.7). Building on previous government financial inclusion efforts, Prime Minister Modi has supported JAM Trinity and made it one of his flagship programmes.<sup>10</sup> The Unique Identification Authority of India, the Reserve Bank of India and the Ministry of Electronics and Information Technology, as well as those ministries that have used Aadhaar to disburse subsidies are some of the public administration institutions involved in this process.

The National Payments Corporation of India, a non-profit company formed by Indian banks, regulated by the Reserve Bank of India, has been very active in promoting critical payment infrastructure such as the Immediate Payment Service and the Unified Payments

Interface. The Reserve Bank of India is another stakeholder in licensing new banks to promote further financial inclusion.<sup>11</sup>

Individual banks such as IDFC are increasingly providing services through this infrastructure. Ispirit, the Indian software product industry association, has also been contributing to this process, both at the policy level and by providing pro-bono support to India Stack, the set of open application programming interfaces built around JAM Trinity. Other information technology firms are also starting to provide services based on each India Stack infrastructure.

Legislators have been highly involved in discussing the role of Aadhaar and eventually adopting the Targeted Delivery of Financial and other Subsidies, Benefits and Services Act in 2016 that provides legal validity to Aadhaar.<sup>12</sup>

Figure  
6.7

Stakeholders engaged in JAM Trinity



## Contribution towards the SDGs

Outputs of JAM Trinity have been impressive. Over one billion people have obtained a digital identity in six years since its launch. Some 252 million people now have a Jan Dhan bank account and more than 338.6 million beneficiaries have now received direct benefit transfers through Aadhaar.

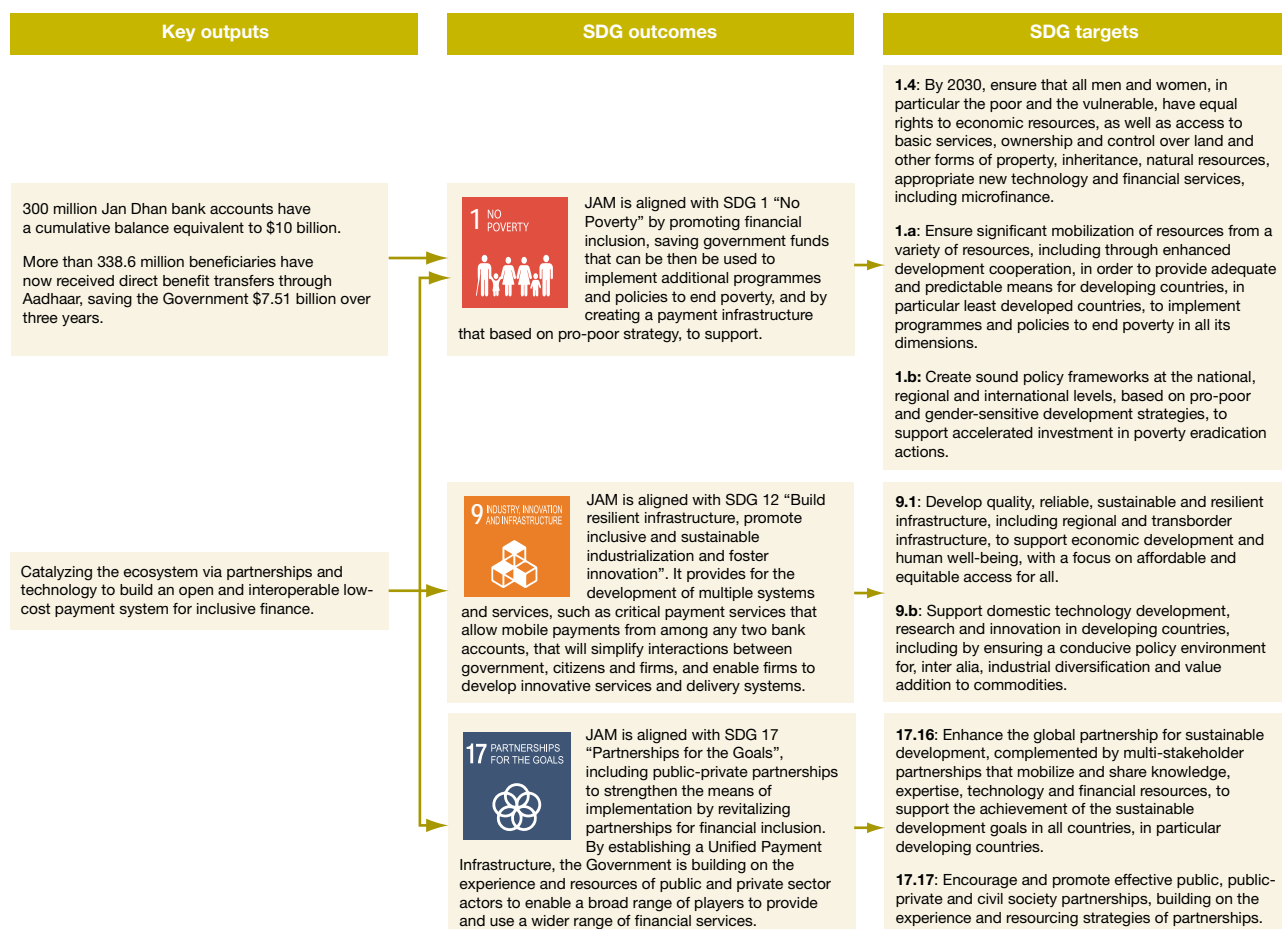
The system also creates substantial cost savings for banks, as the estimated time for retail customer onboarding has been reduced from six days to 1 hour.<sup>13</sup> This gives them incentives to provide more

services to more citizens.

JAM is set to transform how governments, firms and citizens interact. By simplifying administrative processes, reducing their cost and motivating further interactions, JAM provides a strong base on which to develop multiple applications – from banking services, such as the provision of loans based on the consented use of the customer digital footprints, to electronic toll collection and even eventually to facilitate portable education, skill and experience records.<sup>14</sup> Figure 6.8 summarizes the impact of JAM towards achieving the SDGs.

**Figure  
6.8**

## Impact of India's JAM in supporting the achieving the SDGs



## Analysis

### Success factors

JAM's key innovation lies in its effectiveness to establish a ubiquitous digital identity infrastructure, which linked to a mobile number and a virtual payment address, has provided the basis for the development of payment services and the smart simplification of interactions between governments, firms and citizens.

The four critical elements for this success are as follows:

- 1. Political support at the highest level:** The development of the programme has been closely and regularly monitored at the highest level.<sup>15</sup>
- 2. Its scale and systemic approach:** The unique biometric identification and the ubiquitous digital infrastructure together with access to mobile phones and low-cost bank accounts enabled the initiative to achieve greater financial inclusion through the development of multiple services and systems.
- 3. The engagement of capable private sector actors:** Banking and the software sector stakeholders participated actively through non-profit associations with a public and open mindset.<sup>16</sup> For instance, two critical institutions are the Unique Identification Authority of India and National Payments Corporation of India (which is an association of primarily public banks). Their public mindset has enabled them to collaborate with each other and build something relatively open and market-wide.

4. **The building of a simple, open, ubiquitous digital identity infrastructure:** It provides the basis for the development of unbundled but connected digital signature, payment, documents and data exchange systems, that enable governments, firms and citizens to interact. Many of these systems have been built as a public good, or at least a club good on a fairly open infrastructure that allows multiple players to easily build apps and solutions.<sup>17</sup>

### Lessons learned

As a complex and transformational project, JAM faced different challenges throughout its implementation. From those challenges the following lessons learned:

- Addressing legal and regulatory challenges: The legal validity of Aadhaar has been questioned based on privacy grounds all along its development. While having a biometric identification number was initially voluntary, since 2015/2016 it has been made mandatory for filing tax returns, opening bank accounts, securing loans, buying and selling property and even making purchases above \$780.<sup>18</sup> Critics have raised concerns about the possibility of breaches in the database storing the identity records.<sup>19</sup> In 2016, among disputed debates among lawmakers, the Aadhaar (Targeted Delivery of Financial and other Subsidies, benefits and services) Act was passed. The legal validity of Aadhaar has been challenged again at the highest court on right to privacy grounds. In a landmark ruling, on 24 August 2017, India's Supreme Court overturning two previous judgements and has unanimously ruled that citizens have a fundamental right to privacy. Following this judgement, a lower court is expected to rule on the validity of Aadhaar.<sup>20</sup>
- Responding to privacy and security concerns: Massive and interconnected databases can potentially be exploited by governments as a citizen surveillance tool and by private sector firms to create profiles that enable them to aggressively market their products, and are an attractive target for cybercriminals. Public concern on the security of digital records and fear of identity theft has been used as a strong argument by those opposed to a biometric identity.<sup>21</sup> There is an ongoing discussion among stakeholders on finding the right balance between sharing information and ensuring privacy and security, as well as the

technological and legal and regulatory means to do so.

- Addressing technical hitches and technological infrastructure: JAM has also encountered technical errors that prevented authentication. According to some sources, 30 per cent of the authentications come back negative (for example, finger print identification of manual workers are likely to have errors).<sup>22</sup> Other sources report difficulties in some areas to get adequate mobile signal to enable the authentication.<sup>23</sup> Some of these technical hitches will be easy to resolve as iris reading technology becomes cheaper to use. Others obstacles, such as ensuring internet access and reliable electricity in remote areas, will be more costly and difficult to overcome.
- Changing social use: The introduction of new technology and transforming the way things are done also requires changing social norms and uses. It will take time for some customers in cash-based societies to show an interest in using the Jan Dhan accounts.

While some of the challenges are of a technical nature, others are political, such as the extent to which public efficiency dominates privacy rights or the role of the State in promoting and regulating digital finance. Adequate consultation across a wide range of stakeholders may help address some of these political challenges. The Government of India has taken a consultative approach to address the regulation of digital finance. The Ministry of Finance constituted in August 2016 the Watal Committee, with broad representation from banking, mobile and technology associations, to review the payment systems and recommend regulatory and legal changes to promote digital payments.<sup>24</sup>

### Potential for leverage, wider stakeholder engagement and replicability

JAM has strong potential to leverage public and private financial resources for financial inclusion. It has engaged the private sector, particularly banks and the software industry. An increasing number of services are being provided based on JAM. India Stack could also be replicated in other countries, as layers do not need to be built all at once and countries do not necessarily need to start with the biometric digital identity infrastructure.<sup>25</sup> However, to be transformative it must have support at the highest political level, backing from the banking sector, sufficient digital infrastructure and services, and an enabling legal and regulatory environment (Figure 6.9).

Figure  
6.9**Potential for leverage, wider stakeholder engagement and replicability of JAM Trinity****Leverage**

JAM leveraged private finance for the SDGs by facilitating financial inclusion. It also leveraged public finance for the SDGs by substantively reducing public finance leakages. There is ample potential to further leverage private and public finance for the SDGs. Leveraging public resources by reducing inefficiencies will become harder as the system becomes more efficient. Yet, as the usage of JAM intensifies the, private sector is likely to be interested in providing additional financial services to those who are traditionally unbanked.

**Wider stakeholder engagement**

The private sector is fully engaged in this mechanism. Financial institutions have played a critical role in the development of the Unified Payment Interface. Firms are increasingly engaged as providers of applications and as users.

**Replicability**

JAM is being used for an ever wider range of applications, from buying a mobile phone, to receiving government funds. The system could be replicated in other countries but its complexity and scope requires the highest level of political support. Its replicability will be more effective in those countries with an enabling legal and regulatory environment, strong information technology infrastructure and services, and strong buy-in from policymakers and private sector actors. The initiative also requires the support of different groups of stakeholders ranging from financial institutions to multiple government agencies.

**Guidelines for policymakers**

The JAM Trinity, enables every person to have a bank account and a unique digital identification number, and provides a platform for receiving and conducting electronic payments. JAM and India Stack have also gradually enabled a systemic transformation in the way the public administration, firms and citizens interact in India, delivering economic and social returns at multiple levels. Governments considering the replication of this mechanism will need to consider the following:

- The critical role of government in leading the way as the creator of a new public good, as a user of the service, as the promoter of an

enabling legal and regulatory environment, and as an investor;

- Good practices for building an open, ubiquitous and robust digital infrastructure;
- The combination of elements necessary to build the new ecosystem and the sequence in implementing them;
- The consultative processes that can be used to address political challenges; and
- Factors (including institutional mindsets, market incentives, legal and regulatory frameworks) to encourage private sector involvement and enable wide multi-stakeholder participation.

## Endnotes

- <sup>1</sup> Social economy is defined in Seoul Metropolitan Government, 2017.
- <sup>2</sup> Whitley, Darko and Howells, 2013.
- <sup>3</sup> Seoul Metropolitan Government plans to raise private funds of KRW 10 billion through CSR and a crowd funding scheme.
- <sup>4</sup> GSEF, 2016.
- <sup>5</sup> More information is available on the Social Economy Navigation website: <http://senavi.org>.
- <sup>6</sup> GSEF, 2016.
- <sup>7</sup> GSEF, 2016.
- <sup>8</sup> Government of India, 2017.
- <sup>9</sup> Venkatesan and Murthy, 2017.
- <sup>10</sup> Datwani, 2017; Unnikrishnan, 2016.
- <sup>11</sup> See Government of India, 2016a. In 2015 the Reserve Bank of India licensed 23 banks, including 2 universal banks, 11 payment banks and 10 small finance banks.
- <sup>12</sup> Government of India, 2016b.
- <sup>13</sup> Varma, 2017.
- <sup>14</sup> ISpirit, 2016.
- <sup>15</sup> See Datwani, 2017.
- <sup>16</sup> Public sector banks still play an important role in India's economy (holding 70 per cent of banking assets). Their extensive branch network enables people to open accounts nationwide, and they encouraged the development of open infrastructure. Consumer trust in public sector banks has also been an important contributing factor (see Datwani, 2017).
- <sup>17</sup> Lakshmanan, 2016, argues the Unified Payments Interface is a club good. To build a payment application, an individual needs a payment services provider license that can only be bought in partnership with banks, who are members of the National Payments Corporation of India. Nevertheless, such requirements are part of the necessary payments regulatory control. A proposal has been made for the National Payments Corporation of India to open its governance structure to the participation of a wider range of banks and non-banks to ensure more independence.
- <sup>18</sup> BBC News, 2017.
- <sup>19</sup> Safi, 2017.
- <sup>20</sup> BBC News, 2017.
- <sup>21</sup> See for example, Roy, 2017.
- <sup>22</sup> The Economist, 2017.
- <sup>23</sup> Ibid.
- <sup>24</sup> Raman and Staschen, 2017.
- <sup>25</sup> Raman and Chen, 2017.







# RECOMMENDATIONS



Throughout the region, innovations in financing for development are creating new possibilities in the investment sector and accelerating progress towards the 2030 Agenda. This report showcased innovative financing initiatives, policies and economic models that have emerged in the region. The analysis of those innovations adds to the knowledge base on financing for development. The lessons learned from each case study can help policymakers evaluate the potential of different initiatives. Each case study also provided guidance for policymakers who may wish to replicate those approaches in countries throughout the Asia-Pacific region.

Some of the impact investment initiatives assessed in this report are still in the very early stages, nevertheless a clear initial conclusion from those experiences is that the foundation for an effective investment regime must be in place to create an enabling impact investment climate. Governments should place first-order priority on ensuring the ease of setting up a business, resolving insolvency, providing investor protection and contract enforcement. On their own, new mechanisms for financing innovation will not be sufficient. Technology; governance, policies and regulations; institutions; infrastructure; human capital; knowledge and data; as well as mindsets and the capability of actors and organizations to collaborate all have an impact on the success of innovative financing initiatives.

This report offers six strategic recommendations based on the case studies from the region. The lessons learned from those experiences, set out in section 7.2, guided the development of the strategic considerations for policymakers. Governments in the region may wish to replicate mechanisms outlined in this report, and section 7.3 presents the assistance

ESCAP offers for the implementation of innovative financing for development policies and strategies.

## 7.1 Strategic recommendations

### 1. Leverage national and transboundary knowledge networks on innovative financing for development

- Innovative financing for development must engage all relevant investment and financing stakeholders, including public financiers, mainstream private sector investors (such as banks and private equity firms), corporations, venture capital, impact investment funds and the philanthropic sector.
- A wide range of organizations, such as self-sufficiency enterprises, social enterprises, community businesses, and cooperatives participate in the social economy. Citizens and civil society play a key part in problem definition and in developing solutions. For example, they are an integral part of the social problem-solving R&D policy of the Republic of Korea. Civil society are included in the Social Economy Policy Planning Committee at the core of the Social Economy Policy process, and they participate at all stages from policy formulation to implementation and evaluation.
- Members of the Global Social Impact Investment Steering Group and the Seoul Global Social Economy Forum share knowledge, best practices and lessons learned and provide resources, networks and information for councils and taskforces.

## 2. Develop an impact investing strategic road map

An impact investing road map can guide the development of an innovative financing movement and empower public and private sector actors to participate more effectively. A well-structured road map should do the following:

- Outline the key impact investment needs (or systemic gaps) in alignment with the national socio-economic and environmental agenda;
- Assess the capabilities, approaches and interactions of actors in the impact investment system;
- Identify contextually relevant innovative financing instruments that (i) effectively unlock new sources of capital; and (ii) efficiently allocate existing sources for sustainable development; and
- Set a short- medium- and long-term strategy to adequately mobilize mission-oriented capital, develop the capacity of enterprises and organizations in the social economy and bridge the gap between the supply of mission-oriented capital and the financial demands of the social economy.

## 3. Develop ‘problem-solving’ public funding approaches for innovation

If STI are to be key means of implementation for the SDGs, governments must develop ‘problem-solving’ approaches to fund innovation. These approaches involve adopting new perspectives and implementation systems that require cross-ministry collaboration, mutual understanding between the scientific and civil society communities, a clear problem definition in collaboration with end beneficiaries, and appropriate weighted criteria for STI funding decisions.

## 4. Review and adopt a regulatory framework that supports innovative financing to achieve the SDGs

Innovative financing for development involves the adoption of new legislation (such as the CSR Law or policies to support social enterprises) and the review of existing regulations (such as public procurement directives). New and revised regulatory frameworks must be based on core principles of financial regulation including protection, proportionality, diversity and innovation and must recognize the role and needs of different actors including those of social enterprises and impact investors. At the same time,

regulatory frameworks must reflect the specific national developmental context and goals. Each aspect of social enterprises and impact investment regulatory frameworks, from the definition of social enterprises to their taxation regime, must be tailored appropriately. Above all, the aim of legislative and regulatory frameworks must be to achieve national progress towards the SDGs, rather than to promote a certain type of finance, technology or economic entity.

## 5. Develop innovative financing mechanisms as part of a broader innovation strategy

Innovative financing should be part of a broader strategy to meet the ambitions of the SDGs. Aligning innovative financing for development strategies to broader innovation policies and national development plans will enable synergies through policy coherence.

## 6. Experiment, evaluate and iterate

The evaluation of innovative financing for development strategies and mechanisms should be a policy priority for the region alongside continued and well-evaluated innovative policy experimentation to establish what works and what does not. Through an iterative cycle of experimentation and evaluation, effective practices can be developed to unlock the potential of innovative financing for development.

## 7.2 Selecting and designing appropriate innovative financing mechanisms: Key considerations

The innovative financing mechanisms outlined in this report serve different purposes and address different financing and development gaps. It remains for policymakers to select and design instruments that are appropriate to domestic development needs and regulatory frameworks. This section highlights the main considerations for policymakers.

### Strategic leadership for impact investing as an integral component of SDG strategies

- Impact investment councils and social impact investment taskforces can build momentum for the development of an impact investment ecosystem.
- Industry-led structures will naturally develop in more mature markets, while government-led social investment taskforces have been a stimulus for the development of social capital in less mature markets.

- Whether impact investing is led by industry or the government, policymakers must be engaged to encourage industry partners to support impact investment.
- Councils and taskforces must be tailored to address gaps in the local social capital market, support the growth of intermediaries that are best suited to address these gaps, and contribute to the development of regulations.

### Unlock corporate investment for development

- With their skills, financial resources and potential to deliver at scale, corporations will be critical to meet the ambitions of the 2030 Agenda.
- CSR laws mandating corporations to divert capital towards social and environmental objectives can leverage private funds for sustainable development, and move CSR from the fringes to the boardroom.
- CSR laws are relatively easy to replicate and they can promote a more strategic use of CSR when they require transparency and accountability.
- Green public procurement can promote 'shared value' in corporations and provide incentives for firms to engrain social and environmental considerations in their core strategies. Green public procurement policies combined with green label and energy label initiatives and other measures, have dramatically improved the energy efficiency of electrical appliances and incentivized firm-level innovation. Policymakers aiming to develop or support these mechanisms must consider providing for robust assessments, progressively introducing more demanding certification and rating systems, and adopting holistic and integrated policies that stimulate consumer demand for green products, foster market development and enable the participation of small and medium-sized enterprises.

### Repurpose private sector financial products for development objectives

- Bonds and other private sector financing products can be designed to address development challenges.

- Bonds can leverage private sector investment for sustainable development. To make development bonds attractive for private investors, governments can provide or subsidize credit guarantees to de-risk the bond.
- Governments can finance some of the stages of the development of the instrument, such as feasibility studies or impact assessments.
- Government engagement in insurance and re-insurance schemes has provided more inclusive coverage to citizens and supported more effective response to disasters. Governments can leverage their purchasing power to build strategic partnerships, pool resources and make the most of insurance and re-insurance mechanisms. Offering basic insurance products and providing targeted subsidies has helped meet the needs of underserved and uninsured populations.

### Experiment with alternative models for public funding of innovation

- Governments should consider complementing public funding for innovation with problem-driven mechanisms to address specific social and environmental challenges through multi-sector collaborations and through working with end users to define problems and to develop solutions.
- A social problem-solving R&D policy is easy to establish in any country. However, its success depends on changing the mindsets of STI practitioners (researchers, public officials) and enabling swift collaboration across ministries and between researchers and civil society.
- Social enterprises have emerged as potential sources of innovation for development. Pay-for-performance mechanisms, such as social outcome funds, can engage non-traditional innovators such as social enterprises or social purpose organizations to support national development strategies.
- Policymakers must consider if outcome-based models are the best fit to address national priorities. Social outcome funds are best adapted to solve problems that are easily measured and monitored, and where it is possible to establish performance targets that trigger payments.

- Consider the use of unclaimed assets from dormant bank accounts as a source of funding that can be channeled to address social and environmental challenges.

### Develop innovative financing mechanisms as part of a broader innovation strategy

- Financial resources, including innovative finance, are needed to support the achievement of SDGs. The success of innovative financing initiatives also rests on technology; governance, policies and regulations; institutions; infrastructure; human capital; knowledge and data; as well as mindsets and the capability of actors and organizations to collaborate.
- The comprehensive and sustained social enterprise strategies of the Seoul Metropolitan Government were implemented in a cooperative manner that created awareness about the social economy, supported intermediary organizations and developed a market for social enterprise products. This was a very ambitious strategy that was implemented on a large scale. Other countries can implement similar strategies on a smaller scale to test their effectiveness in a different context.
- Simple, open, ubiquitous digital infrastructure can enable financial inclusion at scale.
- Political backing at the highest level is required for systemic innovations to emerge and be sustained. Governments can lead the way as creators of a new public good, as users of the service, as promoters of an enabling legal and regulatory environment, and as investors.
- Systems evolve in unforeseen ways and create new opportunities for innovation. Government approaches need to be agile to exploit windows

of opportunity. They must also iteratively detect and address challenges.

## 7.3 Role of ESCAP

ESCAP can support member States in the region to implement innovative financing for development policies and strategies by doing the following:

1. Providing a platform for intergovernmental debate and knowledge sharing through its Committee on Information and Communications Technology and STI; and Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development.
2. Facilitating collaboration with bodies such as the Global Social Impact Investment Steering Group or the Seoul Global Social Economy Forum to enable member States to access a repository of knowledge, resources, networks, best practices and lessons learned by other councils and taskforces.
3. Supporting the development of Impact Investing Strategic Road Maps through the provision of strategic and technical advice.
4. Providing strategic and technical support to develop broad innovation policies and strategies linked to national development plans.

As the region's primary intergovernmental forum, ESCAP provides a unique platform to grow the movement for innovative financing for development and support member States to leverage its potential for the achievement of the 2030 Agenda. Innovative financing for development will be critical to bridge the significant annual funding gap needed to achieve the SDGs. This is the time for policymakers in the region to play a catalytic role in this movement – changing finance and financing change.



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