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Strengthening implementation of the 2030 Agenda for Sustainable Development in the Asia-Pacific region

Policy approaches to scaling social enterprise and impact investment in Asia and the Pacific

Note by the secretariat**

Summary

The private sector – including start-ups, small and medium-sized enterprises, corporations and investors – will need to play an important role if we are to meet the ambitions of the 2030 Agenda for Sustainable Development. However, to fully support this Agenda, the private sector must engrain social and environmental purpose at the core of their economic business models. In this regard, more social forms of enterprise (“impact-driven” enterprises) and investing practices that focus on the generation of social and environmental value as well as economic return will be critical to generate inclusive and sustainable development.

Governments in the Asia-Pacific region have demonstrated global leadership through the implementation of innovative and experimental policies to build ecosystems for social enterprises, create enabling impact investment climates, and incentivize the mainstream private sector to adopt social enterprise and impact investment principles.

This paper provides an overview of the breadth and diversity of the policy approaches that Governments in the region have implemented to harness the potential of social enterprise and impact investment. It also provides policy priorities to unlock the potential of social enterprise and impact investment to support member States as they strive to meet the ambitions of the 2030 Agenda for Sustainable Development.

I. Introduction

1. To support the 2030 Agenda for Sustainable Development the private sector – including start-ups, small and medium-sized enterprises, corporations and investors – will need to engrain social and environmental purpose at the core of their economic business models. That is to say, more social forms of enterprise (“impact-driven” enterprises) and investing practices that focus on

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the generation of social and environmental value as well as economic return will be critical to generate inclusive and sustainable development.

2. The opportunity in the Asia-Pacific region is significant. With regard to corporations, 40 per cent of the Forbes 500 companies are headquartered in Asia.¹ While these entities can lead the way, small and medium-sized enterprises, who comprise 96 per cent of all enterprises, employ 62 per cent of the national labour force and contribute 42 per cent of gross domestic product, will also play a critical role.² Small and medium-sized enterprises could be valuable sources of innovation for sustainable development if the right incentives are provided to become more impact-driven. This is already happening in some parts of the region. With regard to investment, a survey published by the Global Impact Investment Network highlighted South Asia as well as East and South-East Asia as key markets for impact investment.³

3. In this context, the concept of social enterprise has the potential to have a real impact in the region with the growing recognition that the full integration of the three dimensions of sustainable development – economic, social and environmental – will be key in achieving the Sustainable Development Goals. A social enterprise can be defined as an organization committed to explicitly including social and/or environmental returns as part of its core business while seeking profit or return on investment.⁴ The broader concept of impact investment as a tool to finance the Sustainable Development Goals has also been gathering momentum in the region given its focus on investing to generate social and environmental value, as well as financial return.⁵

4. The Addis Ababa Action Agenda contains a commitment to promote social innovation,⁶ of which social enterprise and impact investment are key pillars. However, it is recognized that to truly harness its potential, Governments will have to actively work to facilitate more social forms of enterprise, create an enabling impact investment climate, and engage the mainstream private sector.

¹ See <http://www.newdelhitimes.com/collaborate-to-innovate-science-technology-and-innovation-for-sustainable-development123/>.

² Asian Development Bank, *Asia SME Finance Monitor 2014* (Manila, 2015).

³ See Global Impact Investment Network, *2016 Annual Impact Investor Survey* (New York, 2016), figure 14, p. 14. Available from https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf.

⁴ Shelagh Whitley, Emily Darko, and Grace Howells, *Impact Investing and Beyond: Mapping Support to Social Enterprises in Emerging Markets* (London, Overseas Development Institute, 2013). Available from www.cbd.int/financial/privatesector/g-datasocialinvest-odi.pdf.

⁵ Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry* (San Francisco, 2009). Available from http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf.

⁶ See United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development* (New York, 2015), paragraph 116. Available from http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

II. The emerging impact investing and social enterprise movement in the region

5. The cost of solving the world's most critical problems runs into the trillions – including an estimated \$2.1 trillion to \$2.5 trillion annual funding gap needed to achieve the Sustainable Development Goals.⁷ Private capital is urgently needed to fill this gap. Innovative finance solutions to mobilize private capital in new and more efficient ways towards development objectives have been pursued. One such solution is impact investment.

6. The Asia-Pacific region has been at the forefront of this trend. While data on impact investment is limited, the Global Impact Investment Network released a regional report on the landscape in South Asia, focusing on six South Asian economies which estimated \$9 billion of impact capital deployed between 2004 and 2014 in the six countries.⁸ To date, the level of impact investing remains relatively small. There are several issues hindering the growth of impact investing, one of which is the lack of investment-ready enterprises in the region.

7. Asia and the Pacific has also become a fertile environment for social enterprises. Although the diversity and sheer number of social enterprises throughout Asia and the Pacific complicate efforts to establish a holistic regional measure, country-by-country figures show there are significant pockets of social entrepreneurship in the region. A 2016 survey by the British Council found that Bangladesh is thought to be home to over 150,000 social enterprises. The study also estimates 450,000 social enterprises currently operate in Pakistan, and as many as 2 million in India.⁹ Similarly, there exist approximately 120,000 social enterprises in Thailand,¹⁰ and at least 20,000 in Australia.¹¹ Despite these promising numbers, more can be done to incentivize enterprises to promote environmental and social objectives, strengthen regulatory frameworks and implement policy innovations which enable social enterprises to develop.

⁷ ESCAP, *Financing for Transformation: From Agenda to Action on Sustainable Development in Asia and the Pacific* (United Nations publication, Sales No. E.15.II.F.6, 2015). Available from www.unescap.org/sites/default/files/Financing-for-Transformation-Final.pdf.

⁸ See Global Impact Investment Network, *The Landscape for Impact Investing in South Asia* (New York, 2015), figures 1A and 1B, p.1. Available from <https://thegiin.org/knowledge/publication/the-landscape-for-impact-investing-in-south-asia>.

⁹ British Council, *Survey: The State of Social Enterprise in Bangladesh, Ghana, India and Pakistan* (Manchester, 2016). Available from www.britishcouncil.org/society/social-enterprise/news-events/reports-survey-social-enterprise-BGD-GHA-IND-PAK.

¹⁰ See <http://asiafoundation.org/2015/08/26/challenges-in-the-malaysian-social-enterprise-scene/>.

¹¹ Social Traders, *Finding Australia's Social Enterprise Sector 2016: Analysis* (Melbourne, 2016). Available from www.socialtraders.com.au/app/uploads/2016/07/Fases-2016.pdf.

III. “Impact-driven” small and medium-sized enterprises could be the backbone of an economy for sustainable development

8. Small and medium-sized enterprises could potentially be a valuable source of innovation in the pursuit of the Sustainable Development Goals if the right incentives are provided to become more impact-driven SMEs or social enterprises.

9. Governments in the region have been at the forefront of experimenting with policy to support the growth of social enterprise markets. In North-East Asia, the Republic of Korea announced its Social Enterprise Promotion Act in 2007. The Act provides social entrepreneurs with management consultation and access to professional services, technical assistance and even provides subsidized rentals and reduced taxes. The metropolitan Government of Seoul also opened a Social Economy Support Centre that acts as an incubator for social enterprises. This initiative, in tandem with other strategies, has resulted in a 353 per cent growth in the number of social enterprises in Seoul between 2012 and 2015.¹²

10. In South-East Asia, Malaysia recently produced a Social Enterprise Blueprint 2015–2018¹³ to develop a social enterprise ecosystem which outlined a variety of policy measures, including building human capital by including social entrepreneurship in national education systems. Thailand has also actively focused on developing its social enterprise sector. The Government established the Thai Social Enterprise Office in 2010 and followed it up with the recent Social Enterprise Promotion Act which facilitates tax relief for businesses establishing social enterprises as well as tax incentives for impact investments.¹⁴ Viet Nam’s Enterprise Law was revised in 2014 to provide a legal definition of social enterprise and the Government committed to encourage, support and promote the development of social enterprises through measures such as facilitating the raising of capital and the formation of public-private partnerships.¹⁵ The Philippines and Indonesia are also in the process of establishing policies to promote social enterprise in their economies.

11. In South-Asia, the Governments of India, Pakistan and Bangladesh have taken steps to create an innovation ecosystem to support social enterprises. India’s entrepreneurship policy framework¹⁶ recognizes the emergence of social enterprise as a model for addressing social and environmental challenges through economic business models and has a focus on social entrepreneurship education through courses delivered by universities and academic institutions. A key objective of the Government of Pakistan’s Vision 2025 Plan,¹⁷ is to promote innovation and enterprise. To support this objective, the Government is establishing a Centre for Social

¹² See <https://avpn.asia/2016/06/16/building-a-social-economy-in-asia/>.

¹³ See <http://se.mymagic.my/en/publications/>.

¹⁴ See www.britishcouncil.org/society/social-enterprise/news-events/news-social-enterprise-set-to-take-off-in-thailand.

¹⁵ See <http://csip.vn/en/news/approved-social-enterprise-receives-legal-status-vietnam-0>.

¹⁶ Government of India, Ministry of Commerce and Industry, *Startup India: Action Plan* (2016).

¹⁷ Government of Pakistan, Ministry of Planning, Development and Reform, *Pakistan Vision 2025* (2014).

Entrepreneurship to function as an incubator for social enterprises.¹⁸ Bangladesh, viewed by many as the birthplace of social enterprise, recently held a policy dialogue – Social Enterprise: Policy and Practice – that resulted in a report to the Government on high-level policy steps that could be adopted.¹⁹

12. The policy mixes highlighted in the examples above include subsidies and tax incentives to encourage more social forms of enterprise, the provision of business support services and physical infrastructure to development high potential social enterprises, and a focus on social enterprise education to develop the next generation of more socially-minded entrepreneurs. Alongside the objective of developing more social forms of enterprise, the ambition of these policies is also that they will provide a pipeline of investible opportunities for impact investors.

IV. Creating an enabling environment for impact investing

13. Securing access to finance is a challenge for many small and medium-sized enterprises, and one that only gets accentuated in the case of social enterprises seeking to simultaneously pursue economic, social and/or environmental impact. Given that traditional investment decisions are made solely on commercial and economic criteria, creating an enabling environment for impact investment is critical. However, before implementing policies to create an enabling impact investment climate, the foundations for an effective investment regime must be in place. Fundamental policy objectives such as efficient processes for starting a business, resolving insolvency, strengthening protection for minority investors and contract enforcement must be first order priorities.

14. From this foundation establishing seed funds, innovative financing mechanisms and providing incentives to investors to consider social and environmental dimensions in investment decisions are potential policy avenues to explore. As examples, the Australian Government commissioned the Social Enterprise Development and Investment Fund to leverage private sector investment for social enterprises.²⁰ The Seoul Social Impact Bond will provide child welfare services over three years to a total of \$9.4 million. The services will work with children and young people in group homes to improve their social outcomes and build capacity for long-term independence and wellbeing.²¹ In Thailand, the Government incentivizes impact investment through tax reliefs. The Australian Government's Social Enterprise Development and Investment Fund aim to leverage private sector investment is an important objective as diverting private capital towards development challenges will be critical to mainstream the scale of delivery required to meet the ambitions of the 2030 Agenda for Sustainable Development.

¹⁸ See <http://www.pid.gov.pk/?p=15088>.

¹⁹ See www.britishcouncil.org.bd/en/events/social-enterprise-policy-and-practice.

²⁰ Government of Australia, Department of Employment, *Social Enterprise Development & Investment Funds (SEDIF) Evaluation Report* (2016). Available from <https://docs.employment.gov.au/documents/social-enterprise-development-investment-funds-sedif-evaluation-report>.

²¹ See <http://english.seoul.go.kr/seoul-implementing-sib-first-time-asia/>.

V. Moving impact investment from the margins to the mainstream corporations as social enterprises

15. To move impact investment from the margins to the mainstream, it must be delivered at large scale. Corporations are equipped to deliver innovation at scale. However, in order to create social and environmental value to complement their economic imperative, corporations need to move beyond the concept of corporate social responsibility and its focus on “public relations” or “community service” to redefine their objective as creating “shared value”.²² Creating shared value is the practice of creating economic value whilst explicitly incorporating social and environmental outcomes in the decision making process. Shared value is not corporate social responsibility, rather it is defining value across the three dimensions of sustainable development as part of the core business strategy and reporting process. Governments have a role to play in incentivizing mainstream reporting of societal and environmental impacts alongside economic returns.

16. Specific policies aiming to unlock shared value are rare, however India has experimented with policy applications on this agenda. In 2011, India released the National Voluntary Guidelines to encourage the adoption of responsible business practices and to mainstream disclosure and reporting on environmental, social and governance metrics in India.²³ The National Voluntary Guidelines were launched by the Ministry of Corporate Affairs and provide businesses with a framework to enable them to move towards responsible operational decision making and adopt a “triple-bottom-line” approach (economic, social and environmental).

17. In a move to incentivize shared-value creation, India is the first country to enshrine corporate giving into law in 2014. The law mandates companies with a certain turnover and profitability to spend 2 per cent of their net profit on activities across several categories, which include hunger and poverty, education, health, gender equality and women’s empowerment, skills training, environment and social enterprise.²⁴ In addition, companies that have to comply with this law are required to report on their activities. While this initiative could be seen as an extension of corporate social responsibility, the policy intent is to raise much needed finance for social and environmental challenges and to move conversations about corporate social responsibility from the fringes to the boardroom as companies are made to think seriously about their legal obligation.²⁵ Shared value could reshape capitalism by making the relationship between firms, society and the environment more explicit,²⁶ and Government has a key role to play in incentivizing this reshaping.

18. While corporations themselves can be a source of impact capital, incentivizing more impact-driven corporations could provide a more secure investment – when compared to an early-stage investment in a social enterprise – to attract mainstream capital from sources such as private equity

²² Michael E. Porter and Mark R. Kramer, “Creating shared value”, *Harvard Business Review*, Nos. 1-2 (January-February 2011), pp. 62–77.

²³ See http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf.

²⁴ See <http://www.eco-business.com/opinion/one-year-into-indias-csr-law-the-jurys-still-deliberating/>.

²⁵ See <https://www.theguardian.com/sustainable-business/2016/apr/05/india-csr-law-requires-companies-profits-to-charity-is-it-working>.

²⁶ Porter and Kramer (2011), op. cit.

funds, pension funds, insurance firms and sovereign wealth funds amongst others. However, incentives such as appropriate tax relief will be required to attract large scale investments in corporations which create public value but may generate below-market returns.

VI. Creating a market for impact investment

19. To ensure the long-term viability of impact investment, it will be critical for Governments to support markets for this type of investment. In this regard, potential policy priorities could include embedding impact investment principles in government procurement, trade agreements and stock exchanges.

20. Government procurement can represent large investment flows in economies and opening up procurement to impact-driven small and medium-sized enterprises and social enterprises would provide a valuable source of capital for their growth. Explicitly applying social and environmental criteria in the public procurement decision-making process could also incentivize more established businesses to engrain social and environmental purpose in their core business models. As examples, the metropolitan Government of Seoul enacted an ordinance to procure goods and services from social enterprises (\$57 million in 2015).²⁷ Additionally, the World Bank's new procurement framework for infrastructure projects – often the baseline for national procurement policies in developing nations – also allows for the inclusion of social and environmental impact criteria in the selection of vendors.²⁸ In an effort to address climate change, the Government of Singapore recently announced plans to procure only electrical products that have been certified with high energy efficiency. In addition, the Government will only procure printing paper that carries the Singapore Green Label, which indicates that the supplier practices sustainable forestry management.²⁹ The intent is that by having a sustainable, green procurement policy, private sector suppliers will consider sustainability in their business models so that they can retain market share.

21. In recent years, the multilateral trading system has witnessed an amplified volume of trade in goods and services with technology with significant environmental implications. In light of a changing climate and increased environmental degradation, trade policies for sustainable development must support the trading of technologies from conventional to environmentally sound technologies through a range of regulatory means and incentives. Environmental regulations have encouraged industry to reduce its climate footprint, signaling growth in the trade of “green” technologies. This has elevated global trade in environmental goods to \$1 trillion annually. With international efforts such as the Environmental Goods Agreement, global trade in environmental goods is projected to further grow to \$3 trillion by 2020.³⁰ An increased focus on trade policies that promote the transfer, dissemination and diffusion of innovations for sustainable development will

²⁷ See www.unescap.org/sites/default/files/pre-ods/CICTSTI1_7E.pdf.

²⁸ Jaroen Kwakkenbos, “Assessing the World Bank’s new procurement framework”, Briefing Paper (Brussels, Eurodad, 2015). Available from <http://www.eurodad.org/files/pdf/1546472-assessing-the-world-bank-s-new-procurement-framework.pdf>.

²⁹ See <http://www.channelnewsasia.com/news/singapore/government-to-lead-fight/2688166.html>.

³⁰ See <http://dfat.gov.au/trade/agreements/environmental-goods-agreement/Pages/environmental-goods-agreement.aspx>.

provide important avenues of growth opportunities for impact-driven enterprises.

22. It may be that the ability to list on a “social stock exchange” would make it easier for such firms to conduct an initial public offering and attract impact investors who are motivated to protect and advance the social missions of the firms in which they invest. Social stock exchanges have begun to emerge. The oldest and most established is the Impact Investment Exchange in Asia, which was established in 2005. The Exchange was developed to be Asia’s first private and public platform for social enterprises to raise capital.³¹

VII. Governments in Asia and the Pacific have demonstrated leadership and innovation but more analysis and evidence is required to establish effective practices

23. Governments in the region have demonstrated global leadership through the implementation of innovative and experimental policies to build ecosystems for social enterprises, create enabling impact investment climates, and incentivize the mainstream private sector to adopt social enterprise and impact investment principles.

24. This paper highlights the breadth and diversity of the policy approaches that Governments in the region have implemented to harness the potential of social enterprise and impact investment. It is important to recognize that both concepts are in their infancy. The evaluation of the impact of these initiatives should be a policy priority for the region alongside continued and well-evaluated innovative policy experimentation to establish what works and equally importantly, what does not. Through these activities, effective frameworks can be developed to unlock the potential of social enterprise and impact investment to support member States as they strive to meet the ambitions of the 2030 Agenda for Sustainable Development.

³¹ G8 Social Impact Investment Taskforce, *Impact Investment: The Invisible Heart of Markets* (2014). Available from [http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL\[3\].pdf](http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf).