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Discussion Paper

# Behind the Scenes of Impact Investment Policy-Making

In collaboration with the UK Government

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## Foreword

At the World Economic Forum Annual Meeting 2018 in Davos-Klosters in January, global heads of state unanimously echoed the message that they would put greater emphasis on sustainable finance, and impact investing in particular, in their policy agendas. To date, this has been the most significant signal that governments are becoming increasingly involved in the acceleration of impact investing, clearly recognizing the opportunity for institutional and private capital to play an important role in addressing complex social and environmental challenges.

As impact investment focuses on issues that are typically addressed by governments alone and offer opportunities for more efficient delivery of public services, policy-makers can play a critical role in mainstreaming this approach by providing the enabling environment needed for thriving multistakeholder engagement. For impact investing to reach its potential, it must be considered from the perspective of all stakeholders.

It is in this spirit that the World Economic Forum and the Government of the United Kingdom offer this paper, to catalyse progress in the global policy-making community by sharing best practices and approaches. The Forum's access to the senior-most decision-makers in the world and its work in sustainable and impact investing in particular has helped facilitate this effort. This work critically supports the aim to accelerate the evolution from the short-term investment mindset to one that focuses on long-term investments and sustainable impact.

We would like to thank all who have contributed their time and insights to this paper, and especially Christy Mitchell from the UK Government for her tireless effort in driving this work.

For more information on the Forum's Future of Sustainable and Impacting Investing initiatives, please contact [impactinvesting@weforum.org](mailto:impactinvesting@weforum.org).

**Katherine Brown, Head of Sustainable and Impact Investing Initiatives, World Economic Forum**

**Maha Eltogby, Head of the Future of Long-term Investing, Infrastructure and Development, Member of the Executive Committee, World Economic Forum**

Most people would like their savings to reflect their values and help build a better society. The UK Government is committed to making it easier for people to do this.

There is a significant amount of capital looking for productive investment opportunities. At the same time, there are many areas requiring capital to create and scale positive social and environmental outcomes. We want to bridge that gap and bring impact investing to the mainstream.

This paper demonstrates that impact investing is an area of interest to many governments and we are proud of the leadership role that the UK has played in this regard so far. We believe that by learning from one another we can mutually support the growth of impact investing around the world. Not only will it benefit our respective countries, but will also help us to meet our ambitious targets for a more sustainable global economy and rebuild trust in our capital markets.

With this paper we hope to stimulate wider debate on the most effective ways that we can help to develop the impact-investing market.

**Tracey Crouch, Minister for Sport and Civil Society of the United Kingdom**

**John Glenn, Economic Secretary to the Treasury of the United Kingdom**

## Definitions

**Impact investing** in the context of this paper refers to any investments made in projects or businesses with the intention of a measurable positive social or environmental outcome as well as a financial return. For the purposes of this paper, we align with the most globally recognized taxonomy by referring to it as impact investing and, in particular, impact investment policy-making.

**Sustainable investing** is a broader approach, incorporating environmental, social and governance (ESG) factors into investment decisions but prioritizing financial return while not necessarily intentionally creating and measuring the social or environmental impact.

This paper focuses on impact investing as a relatively small, yet fast-growing component in the sustainable finance toolkit, and many of those interviewed focus on impact investing from a social policy perspective.

It also draws on examples from the wider sustainable finance ecosystem, particularly green finance, looking broadly at investment in both developing markets and developed markets to encourage closer collaboration between the two areas of policy.

## Executive summary

Around the world, governments today are taking tangible action to advance their impact-investing policy agendas.

There is growing interest in how impact investing can achieve both domestic and international development policy goals, as well as some recognition that governments can help to build the market and scale the investment approach within the mainstream financial industry.

Drivers for government involvement in impact-investing are complex. Even so, three broad themes have emerged which, although not exhaustive, provide some insight into the drivers and accelerators for government interest:

- **Action agendas and global momentum**, such as the Sustainable Development Goals (SDGs), which have highlighted the role for the private sector in meeting global commitments
- **The drive for more efficient public services and social interventions**, particularly through the use of social impact bonds and pay-for-success models
- **Fostering innovation** by creating new, sustainable, market-led solutions to social and environmental issues

Government officials engaged in impact-investing policy explain how they advance this agenda, mentioning the “multifaceted role” they play as leaders, market stewards, enablers and direct market participants, being both proactive and responsive to market needs.

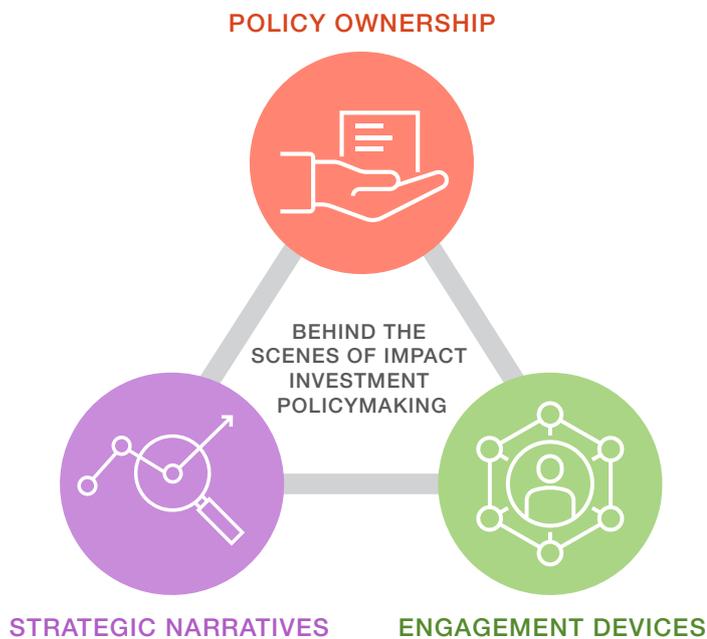
Policy-makers who coordinate elements of the impact-investing agenda also take on an internal advocacy role themselves since this agenda cuts across a multitude of domestic and international social and environmental issues. One crucial element of policy coordination is creating coherence and building knowledge across departments in central and local government.

Impact investing is a market with many moving parts. It brings together the public, private and social sectors as partners, collaborators and co-investors, and also sits across multiple government agendas.

**The key premise of this paper is that policy-makers have an opportunity to create a level of coherence to this cross-sector, multistakeholder space in the way they structure and design policy on impact investing.**

This includes:

- Putting in place the right model of **policy ownership** to ensure some coordination across government impact-investing agenda(s)
- Building **engagement devices** into the core of impact-investing policy design, not only to consult but also to seed new ideas and instigate market action
- Developing **strategic narratives** to successfully engage wider government and, in parallel, the private sector and civil society sector, in this agenda



### Learning 1: Policy ownership – How governments structure their capacity for action

**Key point:** The interviews conducted have highlighted that impact investing does not sit comfortably in any one government department but cuts across a multitude of social and environmental issues and domestic and international development policy areas. There is potential for impact investing to be used as a tool to achieve specific policy aims but, at the same time, it is difficult to map how it integrates into existing policy areas across government.

Consequently, the structure of policy ownership fundamentally shapes government's ability to elevate this agenda. No one model fits all and no single government is yet close to a fully integrated, cross-government, impact-investing structure. Allocating some policy ownership, however, enables coordination of government activity which may otherwise occur in isolated pockets across departments. Case studies from Argentina, Australia, Brazil, Canada, Netherlands and the UK provide a snapshot of different ownership models that have taken the form of:

- **Joint ministerial mandates** – Allocating ownership to the remit of more than one minister
- **Specific policy teams** – Structuring a team to coordinate parts of policy for impact investing across government
- **Departmental taskforces** – A group of officials from a single department who work to embed impact investing (and other forms of innovative financing) across policy teams
- **Specialist advisers** – Impact investing expert(s) brought in at a high level to advise government on how it could be used to help address specific social challenges

### Learning 2: Engagement devices – Building trust and transparency into the core of impact-investing policy design

Impact investing acts as a bridge between sectors: government, business, financial institutions and philanthropic organizations are partnering, collaborating and co-investing, each with different motives and ambitions. A well-functioning market must, therefore, be underpinned by trust and transparency.

Governments can help to facilitate this market dynamic by embedding engagement, transparency and collaboration into the core of impact-investing policy design. This concerns not only consultation processes but also using *strategic policy tools to instigate market action*. Case studies from Belgium, Brazil, Canada, Dubai, Netherlands and the UK offer examples of how this can work in practice, including:

- **Using creative ways to collaborate with the private sector beyond blended financing**, to build commitment and stimulate market action. Examples from wider areas of sustainable finance include the Global Islamic Economy Summit in Dubai, SDG Charter in Belgium and the Sustainable Finance Platform in the Netherlands.
- **Capitalizing on the soft power of government to galvanize mainstream interest in impact investing** Governments are in a unique position to make this agenda one of strategic national and international importance, which can be particularly helpful in securing engagement from businesses and financial institutions that have not yet fully engaged with impact investing.

### Learning 3: Strategic Narratives – Engaging wider government and, in parallel, the private and social sectors

Policy-makers who own or coordinate impact-investing policy in government often take on an advocacy role, introducing the concept and engaging wider government in the agenda.

It is, therefore, important to understand how certain narratives can be *used strategically* to engage stakeholders, including wider government, in this agenda. Case studies from Australia and Brazil provide examples of narratives and strategies used in practice, which include:

- **Leading with social outcomes** to highlight how impact investing can achieve better results than other policy approaches, incorporating elements of private-sector rigour and more robust measurement of outcomes
- **Developing targeted proposals for government departments** to identify how impact investing can be useful for achieving specific policy goals across government

## Why governments care about impact investing

Never before has there been such focus on how the private sector can do good for society and the environment. There is growing sentiment that businesses and financial institutions have a significant part to play alongside governments in tackling social and environmental issues at a national and global level.<sup>1</sup>

A number of international commitments have helped to galvanize this opportunity, including the 2015 Paris Agreement on climate change and the UN 2030 Sustainable Development Goals (SDGs), which have highlighted a significant role for the private sector in meeting ambitious and critical targets. Financial markets have also accelerated the trend by recognizing that ESG factors can have a material impact on business performance.<sup>2</sup> This has increased demand for good corporate governance and better ways of understanding how business practices affect the world around them.

Over the past decade, the focus has shifted towards investment for active, intentional impact and specifically, how businesses can intentionally create more social and environmental value and how capital can be deployed to achieve measurable positive outcomes alongside financial return, both domestically and for international development.<sup>3</sup> This is commonly known as “impact investing”.

Governments are becoming increasingly involved in the acceleration of the impact-investing market, recognizing the opportunity for private and institutional capital to play a significant role in addressing some of society’s most pertinent social and environmental challenges:

**“Globalization is currently in crisis, a significant crisis. And this huge challenge requires a joint effort from international organizations, states, businesses and civil society to find and implement solutions ... the states and the private sector need to invest in the common goods [sustainable economic development, the environment, health, education, security, social cohesion and human rights].”<sup>4</sup>**

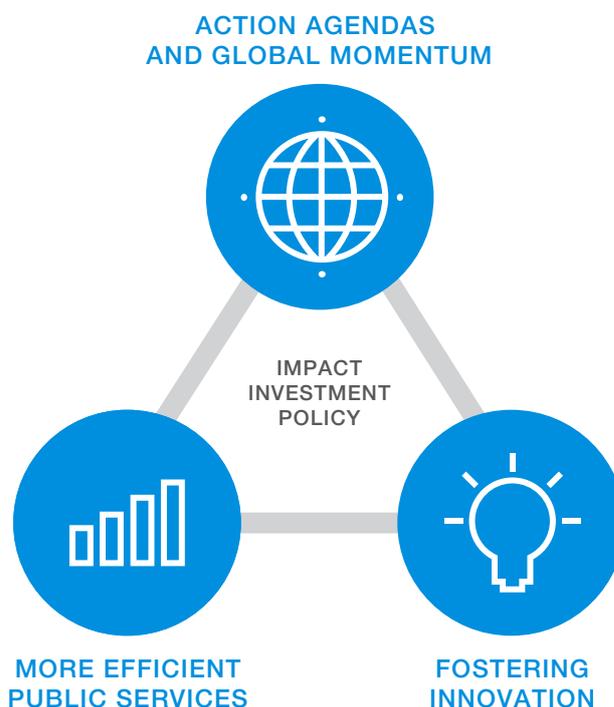
Emmanuel Macron, President of France

**“The challenge now is for industry to unlock the capital to boost impact investing even further, finding solutions to some of the burning injustices we face as a society and helping make sure the country works for everyone.”<sup>5</sup>**

Theresa May, Prime Minister of the United Kingdom

Political momentum is building for this agenda. Before taking a closer look at specific policy lessons, it is useful to summarize why governments are interested in impact investing. Conversations with policy-makers indicate that they are at varying degrees of exploring and understanding the scale of the opportunity at hand. A number of common themes have emerged which, although not exhaustive, highlight some of the most significant drivers and accelerators for government involvement.

It is particularly important to note here that impact investing is a broad term, encompassing investment for intentional social and environmental impact, for both domestic and international development goals. Often the different facets of this approach – for example, domestic and international development policy – have evolved somewhat separately in different areas of government. It is, therefore, difficult to pinpoint the exact drivers for impact investing more broadly. Three interconnected factors mentioned in many interviews have likely played a role in driving and/or accelerating government engagement with different types of impact investing:



**Action agendas and global momentum**, such as the UN SDGs and the Addis Ababa Action Agenda, have highlighted the role for the private sector in meeting sustainability targets

**More efficient public services and social interventions**, particularly through the use of social impact bonds and pay-for-success models

**Fostering innovation** by creating new, sustainable, market-led solutions to social and environmental issues



## Action agendas and global momentum

International action agendas such as the SDGs, which set out global targets for a more prosperous and sustainable planet by 2030, have acted as catalysts for government engagement with impact investing.

The United Nations Conference on Trade and Development (UNCTAD) estimated in 2014 that in developing economies there is a \$2.5 trillion annual funding gap to meet SDG targets, of which total cost expected is \$5-7 trillion.<sup>6</sup> Leveraging private capital has been widely discussed as a practical solution to meet this funding gap, which has undoubtedly grown since these figures were released. This has attracted global attention to impact investing as one approach to meet both international development and domestic sustainability goals.

It is now common for government departments to cite the importance of private-sector capital and innovative financing mechanisms to support development agendas:

**“The Dutch government invests substantially in the SDGs. But to realize these goals we need to mobilize trillions instead of billions, build partnerships with the private sector and use innovative ways of financing to leverage resources and maximize our impact.”**

Hans Docter, Director for Sustainable Economic Development, Ministry of Foreign Affairs of the Netherlands

Innovative financing has been applied to development agendas for many years. This suggests that action agendas may not have been the starting point for engagement with impact investing, but have instead helped to *accelerate* the conversation. The Chief Operating Officer and Head of Corporate Strategy at CDC, the UK Development Finance Institution, noted that global commitment to the SDGs has in

particular legitimized discussions on investing into *higher-risk solutions* that had previously struggled to gain traction.

In the United States, the largest government impact investor is the Overseas Private Investment Corporation (OPIC). The core concept of impact investing has been a part of OPIC's activities since it was founded in the 1970s, but it has become more of a focus with the greater recognition of the private sector's role in helping achieve sustainable and inclusive growth. Aside from instigating conversation, David Bohigian, Executive Vice-President of OPIC, noted that the SDGs provide a new lens through which private-sector investors can view their activities on both social and financial returns and have started to catalyse additional action and investment.

International forums are another motivator for government involvement. In the sustainable finance space, for example, South African interest grew from their participation in the Green Finance Study Group, established under the Chinese G20 presidency in 2016. The South African Treasury, during its participation, convened its own national working group to develop a framework for sustainable finance. The group will provide recommendations for a “national strategic approach” for sustainable finance to be published later in 2018.<sup>7</sup> In this case, the G20 forum, and the associated global momentum, *catalysed real government commitment* to the sustainable finance agenda.

The Global Steering Group for Social Impact Investing (GSG) is another G8 organization that has taken the lead in engaging governments in impact investing. Formed in 2015 as the successor organization to a taskforce launched under the UK presidency of the G8, it currently represents 15 countries through their National Advisory Boards. The Global Steering Group was cited in multiple conversations as a critical driver of government engagement:

**“The government became interested [in impact investing] mainly because of the backing from the G8 and Global Steering Group. With a significant amount of global momentum, there was a real fear of missing out.”**

Government official

France provides one example of how the GSG has helped to engage government: In 2014, the French National Advisory Board published its country report with a number of recommendations on how to scale the impact-investing market. One such recommendation proposed that the French government pilot social impact bonds (SIBs), public service contracts that pay for the achievement of agreed social outcomes, a particular model for impact investing.<sup>8</sup>

The GSG provided the government with debate and peer-learning opportunities with other countries that had already launched SIBs, and the government was able to implement the National Advisory Board's recommendation. This first "Contrat à Impact Social" (CIS – Acronym for French adaptation of SIB) is operated by ADIE, a French microfinance institution, providing microcredit in rural areas to boost job creation. This is one tangible example of how support and challenge from international organizations like the GSG have driven deeper engagement with government and accelerated policy development.



## More efficient public services

SIBs have been described as an innovative way of financing public services, in which "governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organizations and investors to pay for the delivery of pre-defined social outcomes."<sup>9</sup> They use private capital and measurement of outcomes to lead to more efficient ways of delivering public services, and investors only profit when the designed intervention has been successful. SIBs were highlighted by a number of stakeholders as an effective "entry point" for government engagement with impact investing.

In some cases, regional governments have taken the lead in championing impact investing through the use of SIBs. In Australia, for example, the state government of New South Wales pioneered Australia's first two "social benefit bonds" in 2013 to achieve better childcare and a reduction in domestic violence in the region.<sup>10</sup> The federal government has now announced a series of high-profile commitments in the Treasury's 2017-2018 budget, including an A\$10.2 million investment to trial the use of impact investing aimed at improving the welfare outcomes of young people at risk of homelessness. The progression of government interest in Australia highlights the importance of approaches like SIBs, which have a clear, well-developed narrative on cost-effective public services and better delivery outcomes.

This is also evidenced in other countries.

**"Social impact bonds were finally a good entry point for the Finnish government. They are tangible with a clear definition and we found that they enabled a basic level of understanding from all stakeholders. There was also a clear economic incentive because it was about taxpayers' money being used more effectively."**

Mika Pyykkö, Finnish Innovation Fund Sitra

In Japan, the Nippon Foundation has supported the Japanese government in piloting three SIB projects in family care, dementia prevention and employment for young people.

**"SIBs have really been the starting point for the Japanese government. It was helpful to use case studies and evidence from other countries that have pioneered this approach."**

Nanako Kudo, Nippon Foundation

The drive for more efficient ways of achieving social outcomes is also occurring at a larger scale. The first humanitarian impact bond was launched by the International Committee of the Red Cross (ICRC) in 2017, raising CHF 27 million from private-sector investors to improve services for people with disabilities in conflict-affected countries. The investors will be paid back with interest by "outcomes funders", including the Governments of Belgium, Italy, Switzerland and the UK, based on the outcomes achieved by three rehabilitation centres being built in Africa. There is a clear motive to provide more efficient and cost-effective social interventions, which has, in this case, driven government engagement with impact investing on a large scale.

The Department for International Development (DFID) in the UK is also driven by a desire to scale impact bonds for development outcomes. It has a £6.3 million development impact bond (DIB) pilot programme, which supports three impact bond projects in areas including income generation, disability and education. As part of the programme, they are coordinating a multi-donor group working to develop a joint strategy for using impact bonds at greater scale, leveraging in private-risk investment in public services that achieve the SDGs.

It is important to note here that although models like SIBs have in some cases driven or accelerated government involvement in impact investing, they are not without their critics. There has been some debate as to their cost-effectiveness; they can be complex and time-consuming to set up, as each bond is a bespoke arrangement between investors and outcome funders.<sup>11</sup>

While it is important to acknowledge the challenges, evidence clearly suggests that SIBs and DIBs have, in some cases, driven and/or accelerated government involvement and interest in impact investing. With a growing international evidence base of over 100 SIBs in more than 20 countries, this may provide further incentive to continue improving the SIB/pay-for-success model, share lessons learned across borders and strengthen the evidence base for success.



## Fostering innovation

Innovation is another recognized driver of government involvement, enabling businesses and enterprises to develop market-based sustainable solutions to social and environmental problems.

In this regard, Argentina is a particular case in point, where the government is seeking to attract more foreign investment into the country. With the rise of ESG, it is recognized that investors are increasingly looking to invest in companies with good sustainability practices. Private investors and corporates in Argentina have so far spearheaded the move towards impact investing, and government interest is growing.

**“In a competitive global market, Argentina should aim to be ahead of the curve and the government has started to think about using impact investing as a vehicle for fostering that innovation.”**

Maria Laura Tinelli, Chair of National Advisory Board of Argentina

In other cases, the innovation drive focuses on financing social enterprises. In Singapore, impact-investing efforts primarily concern access to finance for social entrepreneurs, to support the development of long-term, market-based solutions to social problems. The Ministry of Social and Family Development helped set up “raiSE” in 2015, which aims to build a vibrant ecosystem of social enterprises. It has since piloted a range of funds and accelerators that facilitate access to training, resources and financing through impact investing for social enterprises.

**“Developing social entrepreneurship is a bold initiative to progressively shift from relying just on charitable relief to creating systemic solutions.”**

Tan Chuan-Jin, Social and Family Development Minister of Singapore<sup>12</sup>

Similarly, in the UK, early market-building policy initiatives have aimed to expand access to repayable finance for the civil-society sector. The UK Dormant Bank Accounts Act (2008) has allowed more than £300 million from dormant bank and building society accounts to be used for the advancement of what the UK has called the “social investment” market, where the full sum was used for the creation of Big Society Capital in 2012, a wholesale institution for social investment intermediaries.<sup>13</sup>

In recent years, the focus in the UK and elsewhere has begun to shift. The narrative has widened from financing social enterprises to channelling significant amounts of private capital towards addressing economic, social and environmental issues more broadly. This approach requires a more significant role for mainstream businesses in taking account of the social and environmental impact they create, and for an increasing number of traditional institutional investors investing for impact.<sup>14</sup>

## Conclusions

The factors mentioned above have contributed to increasing government interest the world over. We note, however, that engagement in impact investing for domestic goals and impact investing for international development have often developed somewhat separately at government level and in different departments, even if often accelerated by the same drivers.

To liberate the potential for achieving social, environmental and economic impact at scale, domestically or internationally, it is crucial for governments to create effective capacity for action, think through the engagement process behind policy-making and formulate strategic narratives to take this agenda forward. It is clear that governments are looking to achieve different outcomes. Consequently, there is no single model of impact investment policy-making that is most effective for all cases. The interviews highlighted a few learnings and examples of how these models could work in practice.

### Learning 1: Policy ownership

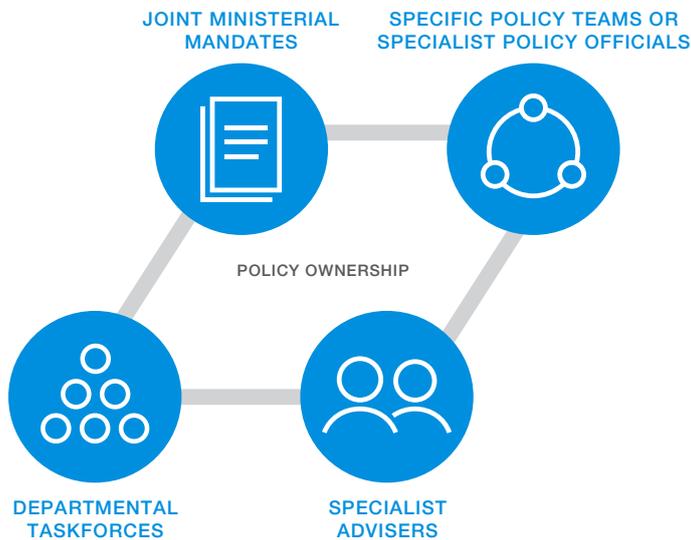
A distinct model of ownership is a basic element of any successful policy area.<sup>15</sup> The interviews suggested that in the impact-investing dimension, policy ownership is particularly significant for its cross-government nature.

**“Our biggest obstacle is educating other government officials as there is a very low understanding of impact investing. Policy officials have to go through a process of understanding ... supported by us.”**

Government official

The structure of policy ownership fundamentally shapes a government’s ability to elevate this agenda. It can enable teams or groups of policy officials, such as the Government Inclusive Economy Unit in the UK, or the Innovative Finance Taskforce in Ministry of Foreign Affairs of the Netherlands, to coordinate government activity on impact investing instead of it developing in isolated pockets across departments.

The wide array of government structures across borders makes it difficult to champion any single model of impact-investing policy ownership. However, one element common to all the models below is the ability to anchor both impact-investing knowledge in one place and coordinate the agenda across teams and departments. They simultaneously play an *anchoring and coordinating* role.



The examples that follow present primarily two types of models: impact investing for domestic policy and impact investing for international development policy. Among the country models explored, there are no examples of teams having ownership over both types of models. This suggests there is room for improvement in the way domestic policy and international development policy communicate and share lessons learned with regard to impact investing, although this finding is not explored in detail here.

### Joint ministerial mandates

#### Canada – Department of Employment and Social Development

In Canada, two cabinet ministers in the Department of Employment and Social Development have responsibility for domestic impact investing as part of a joint mandate to develop a federal strategy on social innovation and social finance.

**“By giving responsibility for the development of the strategy to the two ministers responsible for Employment and Social Development, and by mandating several of their cabinet colleagues to contribute to it, the government is signalling that social innovation and social finance approaches have the potential to address a multitude of complex domestic issues cutting across social, economic and environmental sectors.”**

Catherine Scott, Government of Canada Co-Chair, Social Innovation and Social Finance Strategy Co-Creation Steering Group

The ministers recently released a consultation document with a view to producing a comprehensive social innovation and social finance strategy for Canada in 2018. In the public consultation material, the department lays out clear reasoning for government intervention – to “find new and innovative approaches to persistent social problems”<sup>16</sup> – and identifies a diverse range of public-policy issues that the Government of Canada is seeking to help address, including skills training and employment for people with multiple barriers to employment, reconciliation with indigenous populations and social isolation among the elderly.

The department acts as a point of expertise on social innovation, social finance and social enterprise within the federal government, helping to coordinate the interests and activities of multiple departments while offering some clarity on what the government aims to achieve.

### Assigned policy team

#### Brazil – Ministry of Industry, Foreign Trade and Services – Secretariat of Innovation and New Business

**“The Secretariat of Innovation and New Businesses of the Ministry of Industry, Foreign Trade and Services is the main government actor in charge of connecting public policies on innovation with private-sector demands, focusing on entrepreneurship and technology innovation. It aims to promote innovation within Brazilian companies through mechanisms designed to support and foster the culture of innovation.”<sup>17</sup>**

In 2013, inspired by the global momentum of the G8 Global Steering Group, social finance practitioners formed a National Advisory Board and developed 15 recommendations for government to develop impact investing in Brazil. In 2016, Marcos Jorge de Lima, Minister of Industry, Foreign Trade and Services, began working with the task force to understand how the work corresponds to the ministry’s aim of increasing innovation through business.

The ministry was well-placed to become a base for this work – it had already made significant progress in fostering start-ups and entrepreneurs, including launching the largest enterprise accelerator programme for early-stage start-ups. It found significant synergy with the ministry’s portfolio to take on policy ownership for impact investing, adapting current skills and instruments to integrate the policy across the department. In one example, it has since launched a social impact accelerator programme designed for enterprises striving to create social and environmental benefit using models from previous programmes.

Impact investing as a policy area is the specific remit of a small team in the Directorate for Innovation and Intellectual Property. It acts as a co-ordinating team, working with other institutions, including the Civil House of the Presidency of the Republic, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Social Development, along with many others – to create a collaborative impact-investing agenda across government.

## UK – Government Inclusive Economy Unit, Department for Digital, Culture, Media and Sport

In the UK, domestic impact-investing policy is the primary responsibility of the **Government Inclusive Economy Unit** in the Department for Digital, Culture, Media and Sport.

Previously called the Social Investment and Finance Team, it had historically concentrated on the financing needs of social enterprises and charities and more recently began to explore broader opportunities for impact investing to create large-scale social impact. In 2016, the team was formally changed to the Inclusive Economy Unit to reflect this broader narrative and now works to build partnerships with the private and social sectors to find innovative ways of addressing some of the UK's most challenging social and economic issues. A large part of this work is devoted to developing the impact-investing market.

The Inclusive Economy Unit has a cross-government mandate to work in partnership with other departments such as the Treasury, the Department for Work and Pensions, and the Ministry for Housing, Communities and Local Government, on cross-cutting issues that impact investing can help address, such as social housing. It has also been working as a knowledge hub to support other policy-makers use this approach as a tool to achieve certain policy aims.

**“Our technical expertise, cross-sectoral experience and deep networks in the business and finance worlds make us a unique team. We are very outward-facing and believe that only by working in partnership with a broad range of stakeholders, from FTSE 100 firms to innovative social enterprises, and also with other government departments, can we help solve the most complex social issues.”**

Tom Le Quesne, Head, Government Inclusive Economy Unit, UK

It should be highlighted that the Inclusive Economy Unit coordinates impact investment for domestic policy, working closely with the Department for International Development, which co-ordinates impact investment for international development, and the Green Finance Taskforce, which is taking forward the green finance agenda within the UK government.

## France – Ministry for Economy and Finance, Directorate General of the Treasury

The **Social and Solidarity-based Economy and Impact Investing Unit** is responsible for the social impact investing policy. It was created in 2015 in the Directorate General of the Treasury after the G8 initiative on impact investing.

The unit works closely with the other units of the department in charge of French economy financing matters within the Treasury, as impact investing can cover a large array of financial services. It also acts as the primary source of advice

and knowledge for the Treasury regarding this investment approach.

Its main mission is to contribute to fostering a legal environment that is more conducive to developing domestic and international impact investment. For example, in 2018 the team will focus on two important issues: finalizing a framework for the “Contrats à Impact Social” and launching the first initiatives; and implementing a public label for social enterprises to channel medium and long-term savings towards these enterprises.

## Departmental taskforces

### Netherlands – Task Force on Innovative Finance for Development, Ministry of Foreign Affairs

Recognizing the need for other forms of financing beyond traditional public-sector funding, the Task force acts as a knowledge and expertise hub for innovative financing mechanisms as well as a coordinating unit to source new opportunities for innovative financing for international development policy delivery, such as DIBs and guarantees.

Policy staff and financial controllers from the Directorate General for International Co-operation (DGIS) comprise the task force. They not only share their experience but also explore new instruments to actively advise DGIS staff on project proposals with innovative finance elements. This work should be mainstreamed within DGIS in two years.

**“It has been very useful to have a dedicated task force made up of colleagues from across the department to actively seek new financing approaches, including impact investing, and embed it into our policy-making. It is challenging to move away from traditional grant-funding to new forms of financing but this task force has helped the organization to open up to consider and develop new ideas.”**

Johannes Gaemers, Project Manager, Innovative Finance for Development, Ministry of Foreign Affairs of the Netherlands

## Special adviser

### Argentina – Ministry of Social Development

Impact investing has been developing in Argentina since President Mauricio Macri was elected in December 2015.

The government has taken a pragmatic approach, integrating impact-investing principles into individual projects. Sebastian Welisiejko, previously Head of the Global Steering Group for impact investing, was appointed Secretary of State for Socio-Urban Integration in the Ministry of Social Development in 2018. His specialist expertise will help integrate impact investing into the financial strategies used to achieve their ambitious policy goals, particularly in engaging private capital in the investment agenda.

**“It is absolutely crucial for the public sector to attract private capital at scale to help bridge the financing gap we face across several social areas. This is something we will be increasingly fostering in our water, sanitation and other habitat-related investments across the country. There are over 4,300 slums and other informal settlements in Argentina, where over 3.5 million people live irregularly, without access to basic services; 40% of this population is under 15 years of age. Investing in infrastructure, businesses and social development in and for these communities can yield sound social as well as financial returns.”**

Sebastian Welisiejko, Secretary of State for Socio-Urban Integration, Ministry of Social Development, Argentina

## Learning 2: Engagement devices

Conversations with government officials, private-sector representatives and impact-investing experts strongly underscored the importance of incorporating strategic engagement in the policy-design process.

**“The most important part of developing our social innovation and social finance strategy has been the collaborative (or co-creation) process. Engaging diverse stakeholders in a meaningful way builds the momentum for action.”**

Blair McMurren, Director of Social Innovation, Employment and Social Development Canada

**“Government, business and non-profit sector collaboration is increasingly important to the growth of the impact investment landscape. Governments can help lead the way by embedding this into policy design.”**

Neil Britto, Executive Director, Intersector Project

By its very nature, impact investing “represents a marriage of public and private interests”<sup>18</sup>, bringing together government, the private sector and social sector collaborating, partnering and co-investing, each with different perspectives and motivations. The market needs to be built on a dynamic of trust and transparency. Governments can facilitate this by building these principles into the core of impact-investment policy design. Lessons can be drawn from green finance, where governments leading the way in this space have acknowledged the importance of *sharing knowledge* as a fundamental part of the market-building strategy and have conducted significant amounts of outreach with the financial sector, investors, corporates and the public.<sup>19</sup>

Interestingly, the lines are blurred between engagement and tangible action. In many ways, convening around impact investing is a policy initiative in itself and not just part of the design process. Initiatives in the wider sustainable finance space highlighted by government officials, such as the SDG Charter in Belgium and Sustainable Finance Platform in the Netherlands, have not just been used to engage but also to *seed ideas and instigate market action*. Throughout discussions, there was a strong sentiment that convening and collaboration initiatives, beyond formal blended financing instruments, had proven invaluable in moving the market forward.

### **Finding creative ways to collaborate with the private sector on impact investing beyond blended financing**

Blended financing models have received much international attention. In 2015, the Sustainable Development Investment

Partnership (SDIP) was launched at the United Nations Conference on Financing for Development in Addis Ababa. This collaborative platform, coordinated by the World Economic Forum and the Organisation for Economic Co-operation & Development (OECD), aims to catalyse \$100 billion of blended public/private sector finance to invest in sustainable infrastructure in developing countries.

The Blended Finance Taskforce, launched by the Business and Sustainable Development Commission in 2017, highlights the potential for this \$50 billion market to double in the next few years, as investors look to take advantage of risk-mitigation tools and Governments look to deliver on the international action agendas such as the SDGs.<sup>20</sup>

It is clear that blended financing is an important part of the sustainable finance narrative and provides one potential solution for addressing the funding gaps in creating a more sustainable global economic system. There is, however, an abundance of creative ways of engaging the private sector in addition to formal blended instruments, which move both the wider sustainable finance world and the impact-investment market forward.

**“Private-sector collaboration is central to our development agenda. But it’s not just about creating formal blended fund instruments, although that’s a significant part of it. It’s also a **mindset change**, ways of working collaboratively with the private sector beyond these formal instruments. We need to embed this collaborative, cross-sector way of working across our department to create real sustainable change.”**

Government official

Collaboration can also be used strategically to engage stakeholders, such as mainstream finance organizations that are not yet engaged in this agenda.

**“Governments have convening power to engage multiple stakeholders and facilitate an exchange of knowledge – in particular, it’s so important to bring **mainstream institutions and organizations into the conversation** who may not have engaged previously, as well as those who are already established advocates for sustainable finance and impact investing.”**

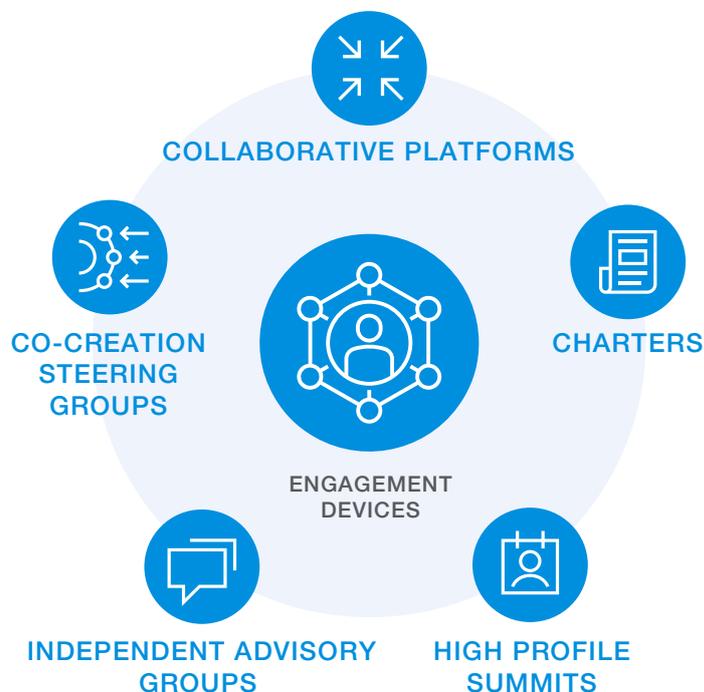
En Lee, Partner and Head of Asia Pacific at LGT Impact, Singapore

It is essential that those who are advocates for impact investing are brought in to government initiatives to drive the market forward, as they possess invaluable expertise and knowledge that could avoid reinventing the wheel. What is perhaps a more difficult task, but equally crucial, is reaching market segments that are currently *not engaged* with impact investing.

One way that policy-makers can do this is by incentivizing market involvement. Multiple interviewees emphasized how

they had successfully used the soft power of government and other international organizations to engage particularly effectively with the mainstream financial industry and business sectors. Government departments and international organizations have a unique ability to make the impact-investment discussions and initiatives of strategic national and global importance.

The following examples illustrate how governments have used engagement devices to drive tangible action and



engage new parts of the market. They provide evidence that engagement and collaboration should be a central part of impact-investment policy-making – not just as part of the consultation or discussion process but as *strategic policy tools to instigate market action*.

Models include:

### Collaborative platforms

#### Netherlands – Sustainable Finance Platform

The platform is a cooperative venture between De Nederlandsche Bank (the platform chair), the Ministry of Finance, the Ministry of Infrastructure and the Environment, and a multitude of industry and trade organizations such as the Dutch Fund and Asset Management Association.

Set up in 2016, the platform promotes cross-sectoral knowledge and collaboration and also convenes industry on particular topics. It comprises six working groups looking at particular issues such as the sustainability education

and communication working group – which is currently developing a training programme for senior managers – and the SDG impact measurement working group, which brings together financial institutions across the sector to develop a common methodology to measure the positive impact on the SDGs.

**“Currently there are already many promising sustainability initiatives at many financial institutions in different sectors. The Sustainable Finance Platform will enable banks, pension funds, insurers and assets managers to connect more easily with each other, as well as with the government and with financial supervisors.”**

Frank Elderson, Executive Director of De Nederlandsche Bank (DNB) and Chairman of the Platform<sup>21</sup>

## Charters

### Belgium – SDG Charter for International Development

The SDG Charter, led by Alexander De Croo, Deputy Prime Minister and Minister of Development Cooperation in 2016, outlines key commitments for the Belgian private sector, civil society and the public sector to help progress the SDGs. Although not specifically focused on impact investing, the charter highlights how governments can help mobilize cross-sector commitment and collaboration towards common goals, an approach that can be replicated in impact investing.

The charter sets out the role to be played by each sector and a number of commitments for organizations to sign up to, including “Recogniz[ing] the interdependence between the roles of the private sector, civil society and public sector, and the increasing need for these actors to work together – as true partners – in crafting impactful solutions to common global challenges.”<sup>22</sup>

The charter has been signed by more than 100 organizations and aims to establish concrete initiatives between signatories from the public and private sector, with five working groups being set up so far on: (1) health (2) renewable energy (3) digitalization (4) agriculture and nutrition, and (5) sustainable enterprise.

**“Now is the time to go from words to action. Companies that embrace sustainable development are better companies. And an international development policy without cooperation with the private sector can never be sustainable. Let the signature of this Belgian SDG Charter be the launch of a fruitful cooperation.”**

Alexander De Croo, Deputy Prime Minister and Minister for International Development

## High-profile summits

### Dubai – Islamic Finance and the Global Islamic Economy Summit

Islamic finance is rooted in the principles of Islamic Shariah and the financial products aim to create mutual well-being for both bank and client through profit and loss-sharing and the prohibition of interest. The Islamic finance market is expected to reach a value of \$3.25 trillion globally by 2020. Although not specifically impact investing, it is considered to be a unique form of socially responsible investment, and organizations like the Center for Financial Inclusion consider there to be significant potential to grow impact investing within Islamic finance.

The Global Islamic Economy Summit (GIES) is Dubai’s premier forum on the Islamic economy, organized by the Dubai Chamber of Commerce and Industry and Dubai Islamic Economy Development Centre. The summit aims to provide a platform for policy-makers and leaders “to connect and drive change”<sup>23</sup> in this fast-growing area of finance.

In the third GIES in October 2016, emphasis was placed on social development and ethical investment through keynote speeches by influential political figures such as the Minister for Financial Affairs, and the Chairman of the Dubai Chamber of Commerce and Industry. The GIES also presents the Islamic Economy Award, which “recognizes innovative world-class business initiatives and ideas that have contributed to the social and economic welfare of the Islamic economy”<sup>24</sup>. Launched in 2013 by the Vice-President and Prime Minister of the UAE and Ruler of Dubai, the award provides substantial recognition for businesses and organizations that contribute positively to Islamic society.

The GIES is not only an annual conference but also a platform that aims to drive market momentum for business innovation, incentivizing involvement by the private sector through high-profile awards. The summit helps position Islamic finance as a topic of strategic national and international importance.

## Independent advisory groups

### UK – Independent Advisory Group on Social Impact Investment

In 2016, two ministers from the Treasury and Department for Digital, Culture, Media and Sport jointly commissioned an independent advisory group to explore how social impact investments could be opened up to individuals, so that anyone could “invest in line with their values”. The group was tasked with developing a set of recommendations for industry and government for taking this forward.

The policy officials recognized that many actions needed to be taken forward within the mainstream financial industry itself and so the group dynamic needed to strike the right balance between mainstream practitioners and civil society representatives. The catalytic force behind the group was the chair, Elizabeth Corley, Vice-Chair of Allianz Global

Investors. The ministers invited Corley to lead the group and she was able to help the UK government secure significant support from within the financial industry. This included convening more than 40 firms, representing impact experts and philanthropic organizations as well as asset managers, pension funds, banks and financial advisers – many of whom had not yet deeply engaged with impact investment.

The group published its report in November 2017, on *Growing a Culture of Social Impact Investment in the UK*<sup>25</sup>, which lists a number of recommendations under five broad themes, including improving deal flow and the ability to invest at scale, and developing better reporting of non-financial outcomes. The report has garnered significant support from across the UK government, and Prime Minister Theresa May asked Corley to continue championing this work, driving the recommendations across industry and civil society.

**“The UK government asked me to chair the independent advisory group in early 2016 and our role as a group evolved over its lifetime. We now have a real opportunity to foster greater collaboration and catalyse a faster rate of progress, driving forward industry action and acting as a bridge between government and private sector.”**

Elizabeth Corley, Chair of the Advisory Group and Vice-Chair, Allianz Global Investors

## UK – Green Finance Taskforce

The government established the Green Finance Taskforce to bring together leading experts from the UK financial sector, academia and civil society to provide government with recommendations on how to accelerate the growth of green finance. The taskforce worked with more than 140 organizations and 12 government departments over a six-month period to produce its report, *Accelerating Green Finance*, to government, which included 30 recommendations grouped under 10 themes.

The work of the taskforce will form an important first step in setting the direction of travel for longer-term UK green finance policy and demonstrates the effectiveness of open policy making. The collaborative approach of the taskforce has also led to greater private sector action on green finance. Barclays, for example, launched a new green mortgage product in response to the taskforce report.

## Co-creation steering groups

### Canada – Co-creation Steering Group

The ministers responsible for the Department of Employment and Social Development recently launched a Co-Creation Steering Group to develop the first federal Social Innovation and Social Finance Strategy in close collaboration with the government. The Steering Group brings together 16 passionate and diverse leaders, practitioners and experts from multiple fields, including the community, philanthropic, financial and research sectors, along with a Government of Canada co-chair.

Officials with Employment and Social Development Canada observed that social innovation and social finance are difficult spaces in which to find solutions because each implicated sector comes with such a different array of interests. The department has structured and facilitated the co-creation process to invite constructive dialogue between a broad range of perspectives. Specifically, the Steering Group is charged with examining options for increasing access to funding and capital, developing skills and capacity, creating an enabling policy and regulatory environment, increasing access to markets for procurement, and ensuring both effective knowledge transfer and mobilization of networks. It is also seeking to create a virtual space for social innovators to share their stories of trying new approaches, overcoming barriers and achieving impact.

There is a clear focus on bringing in stakeholders at an early stage to build a market based on meaningful collaboration and partnerships, along with rigorous measurement of outcomes and a shared responsibility for market lift-off and growth. While testing the limits of many procedures and conventions related to government decision-making, the co-creation process has produced striking results to date in terms of robust co-design work, a strong evidence base and relationships of trust.

### Learning 3: Strategic Narratives

Conversations with policy officials revealed that knowledge and understanding of impact investing is not embedded in different areas of government. Engagement is patchy, with specific departments, teams or local governments championing the approach as one that could significantly progress policy goals, and others not engaged with the approach at all.

No governments interviewed were yet close to a fully integrated, government-wide impact investment policy agenda, and so it is often within the remit of a particular policy team or department to champion the approach and embed knowledge across wider government. Policy advocates and high-profile champions can, therefore, be catalytic for cross-government engagement.

In Brazil, for example, the impact-investing agenda has been enthusiastically led by Marcos Jorge de Lima, Minister of Industry, Foreign Trade and Services, who headed the development of Brazil's National Strategy of Business and Impact Investing. The policy team, led by the Secretary of Innovation and New Business, have been integral in championing impact investing across the Brazilian government. The combination of strong political support from Jorge de Lima, and policy official support catalysed significant attention, culminating in the President of Brazil launching the strategy in late 2017. An important part of their success so far has been the use of *strategic narratives* to obtain the support and engagement from other ministries in this agenda.

It is, therefore, important to critically discuss the use of strategic narratives for engaging wider government and, in parallel, the private sector and social sector, in this agenda. A comprehensive analysis of the success of specific narratives is outside the scope of this paper, but the case studies below provide interesting examples of narratives, including:

- **Leading with social outcomes** to highlight how impact investing can lead to better results than other policy approaches, which incorporates private-sector rigour and robust measurement of outcomes
- **Developing targeted proposals for government departments** to identify how impact investing can be useful for achieving specific policy goals across government

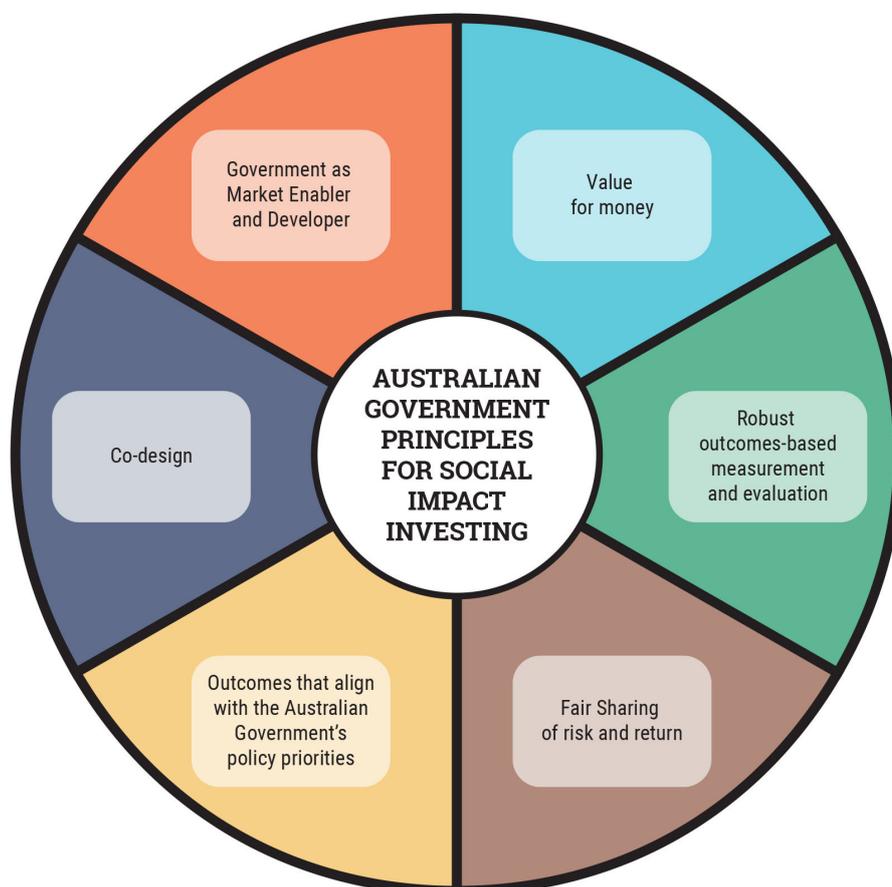
#### Leading with outcomes

##### Australia – Government Principles of Social Impact Investment

In response to its national consultation, the Australian Treasury published a synthesized set of principles which articulate government position on what it commonly terms “social impact investment” as a whole.

Outcomes are the dominant theme that runs through these principles. The document introduces social impact investing as an “outcomes-based approach that brings together government, service providers, investors and communities to tackle a range of policy (social and environmental) issues”.<sup>26</sup>

It also sets out six key principles that underpin government’s position on impact investing, two of which are outcomes-focused:



- *Outcomes that align with the Australian government's policy priorities:* Social impact investments should have a well-developed case for being able to successfully address social and/or environmental issues which are priorities for the government.
- *Robust outcomes-based measurement and evaluation:* Social impact investments should be made only when there is agreement between co-investors and their service delivery partners on the social or environmental outcomes to be achieved.

Using outcomes as a framework has enabled the Australian government to create a clearer narrative on why the government is interested in this approach and how it should be used – with particular emphasis on integrating private-sector rigour and robust measurement of outcomes leading to better policy results.

## Developing specific proposals for government departments

### Brazil – Impact Investment Consultation

Since the Brazilian National Advisory Board launched its country recommendations in 2015, the Ministry of Industry, Foreign Trade and Services has been developing a comprehensive, cross-government social-impact agenda.

In 2017, the Ministry launched a consultation for a new national impact-investing strategy. The steering group for the consultation involved 16 government agencies, including the Ministry of Foreign Affairs, the Ministry of Science, Technology, Communications and Innovations, the Ministry of Social Development and the Treasury.

**“Engagement with other government departments and agencies was crucial to the success of our consultation. We did our research and went through a comprehensive process of engaging each department. We created specific proposals that pinpointed how impact investing is beneficial to their policy goals, specifically where there were significant funding gaps.”**

Marcos Vinicius de Souza, Secretary of Innovation and New Business, Ministry of Industry, Foreign Trade and Services of Brazil

One example of a specific proposal was for a new programme to strengthen impact accelerators launched by the Brazilian Service of Support to Micro and Small Companies (SEBRAE) and Brazilian National Advisory Board, alongside the creation of an acceleration programme for impact business by the Ministry, called *Inovativa de Impacto*. Impact investment was a way to bring in private-sector expertise and private-sector capital to expand and strengthen their existing accelerator programme, with a particular focus on developing enterprises for social impact.

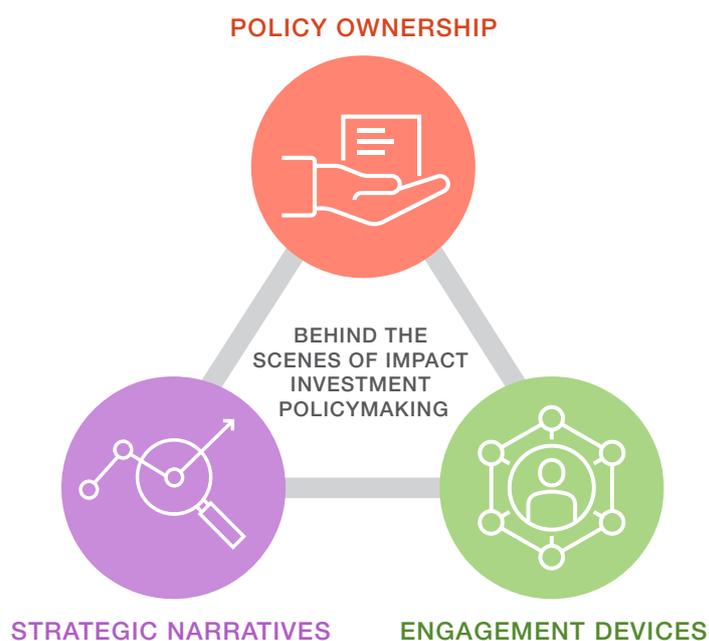
These conversations and proposals helped shape the four pillars of Brazil's national strategy on impact investing, ensuring continued cross-government involvement. The team who lead this work see themselves as “coordinators” rather than sole leaders. Understanding how the strategy can benefit policy right across government is one of the most important parts of their role.

## Summary

This paper has set out to explain *why* governments are interested in impact investing and *how* they can most effectively structure and design policy to develop the market and embed use as a policy tool.

Three key lessons can be viewed as a basic roadmap for governments seeking to develop policy in this field and also as a point of challenge and reflection for governments that have a more advanced impact-investing policy.

1. **Allocating specific policy ownership for impact investing can act as an anchor and point of coordination for this agenda, creating a level of coherence across government**
2. **Engagement and collaboration should be at the core of impact-investing policy, not only to convene but also to instigate market action and reach previously unengaged segments of the market**
3. **Policy officials should consider the strategic narratives that will resonate with wider government to engage them on this agenda, which is an important part of our role as policy advocates.**



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