SOCIAL IMPACT INVESTMENT: THE IMPACT IMPERATIVE FOR SUSTAINABLE DEVELOPMENT

HIGHLIGHTS
OVERVIEW: THE IMPACT IMPERATIVE IN FINANCING SUSTAINABLE DEVELOPMENT

This publication is a sequel to the OECD 2015 report on social impact investment (SII), *Building the Evidence Base*, which set out a distinct typology and framework for social impact investing to differentiate between SII and conventional investments, particularly in terms of explicit and measurable impact goals. Based on findings from research, surveys, interviews, expert meetings, workshops and regional round tables conducted since the previous report, this second study brings new evidence on the role of SII in financing sustainable development. It depicts the state-of-play of SII approaches globally, comparing regional trends, and assesses its prospects, with a special focus on data issues and recent policy developments. Importantly, it provides new guidance for policy makers in OECD and non-OECD countries, as well as providers of development co-operation, development financers, social impact investment practitioners and the private sector more broadly, to help them maximise the contribution of social impact investing to the 2030 Agenda. In particular, it provides four sets of recommendations—on financing, innovation, data and policy—for delivering on the “impact imperative” of financing sustainable development.

INTRODUCTION

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

THE PARADIGM FOR FINANCING SUSTAINABLE DEVELOPMENT IS SHIFTING

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

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

The 2015 OECD report *Building the Evidence Base* sought to set out a distinct typology and framework for impact investing to differentiate between SII and conventional investments. Importantly, impact investors should define and have explicit and measurable impact goals. Table 1.1 details the OECD characteristics and attributes of impact investing. Building upon this work, the *OECD Development Co-operation Report 2016* set out the potential of social impact investment for developing countries and provided recommendations for scaling up SII to achieve development outcomes.
Social Impact Investment (SII) provides finance to organisations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns. It is a way of channelling new resources towards the Sustainable Development Goals (SDGs).

The global social impact investment market is growing rapidly

- The number of impact investors rose from fewer than 50 pre-1997 to well over 200 in 2017
- SII assets under management currently represent USD 228.1 bn
- 56% of it is allocated to emerging markets
- The OECD has mapped 590 SII policies in 45 countries

SII brings not only funding but innovation, accountability and sustainability.

But how can we make sure that investments actually deliver positive social, environmental and economic results?

The risk of “impact washing” is compounded by:

- diverse definitions of impact investing
- the lack of internationally comparable data
- underdeveloped impact measurement practices

Policy makers & practitioners need to embed the impact imperative.
Achieving the Sustainable Development Goals is not just about financing but also shifting where the financing is going, innovating new approaches, addressing data gaps and putting the right policies in place.

**FOUR ACTION AREAS**

**FINANCING**
- Ensure financing is going where it is needed most and that no one is left behind
- Focus on engaging local investors to build sustainable financing markets
- Transition from concessional finance to commercial sustainability

**POLICY**
- Require the ex post assessment outcomes of policy initiatives
- Ensure that impact represents a substantive commitment between the public and private sector
- Leverage development co-operation as a vector for policy transfer

**INNOVATION**
- Catalyse innovation and experimentation in addressing social, environmental and economic challenges
- Develop an ecosystem of actors that promotes innovation
- Recognise the role of the public sector in scaling pilots that are working

**DATA**
- Facilitate transparent, standardised and interoperable data sharing
- Ensure funding of data infrastructure
- Develop a framework and coordinate approaches for assessing impact

**IMPACT**

Some elements adapted from Freepik & Noun Project.
Table 1.1. Social impact investing list of characteristics, attributes and eligibility

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


FINANCING FOR SUSTAINABLE DEVELOPMENT SHOULD BE FOCUSED WHERE IT IS MOST NEEDED

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

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

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

Social impact investment is the provision of finance to addressing social needs with the explicit expectation of a measurable social, as well as financial, return. A core characteristic and challenge is the measurement and management of social and environmental outcomes alongside financial returns. SII investors can range from those who are willing to provide concessional funding to more traditional investors seeking market rate returns coupled with social impact.
Social impact investment focuses on piloting new private sector models aimed at achieving impact in more effective or efficient ways. Lessons and approaches from SII can bring greater effectiveness, innovation, accountability and scale to investments, increasing their economic, social and environmental outcomes.

**THE PRIVATE SECTOR IS INCREASINGLY ENGAGING IN SUSTAINABLE INVESTMENT**

A growing number of private sector actors are focusing on investing for specific social, environmental or economic outcomes, including those outlined in the SDGs. This includes foundations and philanthropists who have traditionally focused on using grants and are now including investment models which focus on achieving financial sustainability alongside social returns. On the other end of the capital spectrum, mainstream investors have increasingly been moving from a sole focus on financial returns to seeking to mitigate environmental, social and governance risks, and, for a growing number, to pursuing investment opportunities which focus on achieving specific positive outcomes. It is estimated that there were USD 22.89 trillion assets under sustainable investment strategies in 2016. Figure 1.3 details the spectrum of capital moving towards greater impact.
**Figure 1.3. The spectrum of capital: Moving towards greater impact**

<table>
<thead>
<tr>
<th>Focus</th>
<th>Return expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional philanthropy</td>
<td>Social return only</td>
</tr>
<tr>
<td>Venture philanthropy</td>
<td>Social return focused</td>
</tr>
<tr>
<td>Social investing</td>
<td>Social return and sub-market financial market rate</td>
</tr>
<tr>
<td>Impact investment</td>
<td>Social return and financial market rate</td>
</tr>
<tr>
<td>Sustainable &amp; responsible investing</td>
<td>Financial market rate focused</td>
</tr>
<tr>
<td>Fully commercial companies/ investors</td>
<td>Financial market rate only</td>
</tr>
</tbody>
</table>

**THE GLOBAL SOCIAL IMPACT INVESTMENT MARKET IS GROWING RAPIDLY**

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

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

Regional and global studies indicate that allocations to developing countries continue to grow. While the GIIN survey does not capture the full impact investment market, the data demonstrate the significant role SII plays in emerging economies. The main sectors for impact investments in 2017 were financial services (excluding microfinance), which received 19% of AUM; energy, which received 14%; microfinance, which received 9%; and housing, which received 9%.

*Source: OECD, based on earlier versions from various organisations.*
BOX 1.2. bKash

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

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

SOCIAL PURPOSE ENTERPRISES ARE KEY DRIVERS OF INNOVATION

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

BOX 1.3. ROOT CAPITAL

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


A VARIETY OF FINANCING INSTRUMENTS ARE BEING DEPLOYED

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

INNOVATIVE PAY-FOR-SUCCESS MODELS ARE BEING FURTHER DEVELOPED

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

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

SOCIAL IMPACT INVESTMENT IS GROWING IN EVERY REGION

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

SIGNIFICANT DIFFERENCES EXIST ACROSS COUNTRIES

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

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

BOX 1.4. SOCIAL IMPACT INCENTIVES IN PRACTICE: CLÍNICAS DEL AZÚCAR

Clínicas is a social enterprise operating in the Mexican healthcare sector to address specific needs of patients diagnosed with diabetes. More than 12 million people in Mexico are diagnosed with diabetes. Clínicas has driven down costs and made specialised care available – even for poorer demographic groups. The low-cost clinics have reduced the annual cost of diabetes care for patients by 70%. In 2017, a social impact incentive (SIINC) was developed by Roots of Impact in partnership with the Swiss Agency for Development and Cooperation (SDC), the Inter-American Development Bank, Ashoka, and New Ventures in order for Clínicas to scale up operations and serve those most in need. Ongoing SIINC premiums are based on the achievement of proven social targets, which are then disbursed by the outcome payer SDC. The model allowed Clínicas, who had previously been concerned about the commercial viability of higher percentage of BoP clients (i.e. above 30%), to pilot a custom BoP clinic which now has 62% BoP clients. Since implementation, initial results have shown an increase in the proportion of BoP across the organisation, which has enabled Clínicas to reach more people in most need of lower cost diabetes care.

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

Social, environmental and economic needs define the scope for social impact investment, but these vary significantly across and within countries. The SDG Index by the SDSN Secretariat and Bertelsmann Stiftung, which scores 156 countries, found that none is on track towards achieving all 17 SDGs. As efforts increase to engage the private sector in addressing the SDGs, it is critical that funding is going where it is needed most, which includes addressing some of the toughest social, environmental and economic issues and in some of the more challenging contexts. While impact investors have a critical role to play in this regard, to date, the majority of investments have been focused on financial services, energy and agriculture.

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

**POLICY LEVERS TO FOSTER SOCIAL IMPACT INVESTMENT**

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

**THE OECD POLICY FRAMEWORK FOR SOCIAL IMPACT INVESTMENT IS AN ANALYTICAL TOOL FOR GOVERNMENTS**

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

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

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Determine</td>
<td>What role the government wants to play, based on the maturity of the SII market</td>
</tr>
<tr>
<td>Identify</td>
<td>The needs expressed by service providers and end beneficiaries, possibly through impact evaluations on previous interventions, and understand how the behaviour of the market actors needs to change</td>
</tr>
<tr>
<td>Set</td>
<td>The policy objectives in alignment with the political agenda</td>
</tr>
<tr>
<td>Select</td>
<td>The most appropriate type of intervention and instrument, allocate the necessary resources for implementation and design the delivery mechanism.</td>
</tr>
</tbody>
</table>

**Figure 1.4. From policy making to market outcomes**

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

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

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

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

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

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

**Policy instruments have been mapped in 45 countries**

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

**International initiatives are paving the way for national uptake**

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

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

Figure 1.5. **Number of social impact investment policy instruments mapped by region and perimeter**
Public levers promote impact investing domestically

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

The government’s own structure plays an important role in creating a favorable enabling environment, accompanied by the production and dissemination of information to the benefit of all market players. Political leadership is fundamental to steer the momentum across public and private actors, for instance through the establishment of a dedicated function within the public apparatus, the adoption of a national SII strategy or stakeholder consultation.

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

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

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

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

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

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

Financial instruments targeting the supply side are, by far, the most frequently used in development co-operation. Some DFIs (CDC Group, Overseas Private Investment Corporation, DEG) have established a more precise definition for their impact approach, but for the rest, the distinction between social impact investments and the remaining portfolio is more blurred. Blended finance funds and facilities play an increasingly important role in channelling impact funds to developing countries. Nonetheless, even so-called social impact funds rarely meet the requirements of the OECD definition, especially with regards to the intent of the delivery organisation and the investor’s return expectation.
THE ROADMAP TO INTERNATIONALLY COMPARABLE DATA

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

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

TRANSPARENCY PRINCIPLES PAVE THE WAY FOR COMPARABLE AGGREGATED DATA

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

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

BOX 1.5. THE SOCIAL IMPACT INVESTMENT TRANSPARENCY PRINCIPLES*

- A collaborative ethic has been critical to the success of our efforts to date.
- Transparency is essential to preserve that collaborative ethic.
- Transparency is essential to scale our efforts.
- Transparency requires regular and standardised reporting by all who seek to be accountable for generating a positive impact from investments.

* Tomas Carruthers, CEO of Project Heather, was the driver behind the development of the Transparency Principles under the OECD SII Initiative.
DATA STANDARDS ARE NEEDED TO INTERCONNECT SOCIAL IMPACT INVESTMENT DATA

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

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

Source: Karl Richter under the OECD Social Impact Investment Initiative.
CONNECTING ACROSS DATA SOURCES AND PLATFORMS
A full picture of the social impact investment market requires looking also at contextual data on the enabling environment and other financial flows, as well as data about social needs. Under the OECD SII initiative, a non-exhaustive database of databases has been developed to facilitate the link to other relevant data sources.

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

DEVELOPING A CO-ORDINATED APPROACH TO MEASURING IMPACT
An increasing number of impact measurement approaches are emerging from both international organisations and the private sector. Alongside the OECD Social Impact Investment Initiative, a range of efforts have come together to build common practice around impact measurement and management. This includes the Impact Management Project facilitated by Bridges Impact, the GIIN’s Navigating Impact project and the World Economic Forum’s Shaping the Future of Sustainable and Impact Investing initiative.

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

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

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

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

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

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

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

THE INNOVATION IMPERATIVE

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

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

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

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

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

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

THE DATA IMPERATIVE

Facilitate transparent, standardised and interoperable data sharing. Stronger evidence is needed to inform market stakeholders such as governments, development finance institutions and private sector investors as well as businesses and entrepreneurs. This requires co-ordinated efforts in the development and implementation of data standards as well as linkages between existing data platforms.

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

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