Social Impact Investment: *The Impact Imperative for Sustainable Development*

Center for Finance & Development, The Graduate Institute, Geneva
Geneva, Switzerland
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OECD Social Impact Investment Initiative

OECD Phase I Publication (2015)
Social Impact Investment: Building the Evidence Base

- Social Impact Investment definition
- Characteristics and Attributes of Social Impact Investment
- Social Impact Investment Market Framework
- Social Impact Investment Market Data

OECD Phase II Publication (2019)
Social Impact Investment 2019: The Impact Imperative for sustainable development

- Global state of the Social Impact Investment Market and regional perspectives
- Social Impact Investment Policy Framework and mapping of policy levers
- Data and measurement: Transparency principles
- The Impact Imperative and policy recommendations
The financing for sustainable development landscape

Source: Adapted from OECD 2018
The spectrum of capital: Moving towards greater impact

Social impact Investing

- Traditional philanthropy
- Venture philanthropy
- Social investing
- Impact investment
- Sustainable & responsible investing
- Fully commercial companies/investors

Focus

- Address societal challenges through the provision of grants
- Address societal challenges with venture capital approaches
- Investments with a focus on social and/or environmental outcomes and some expected financial return
- Investments with an intent to have a social and/or environmental as well as a financial return
- Adapt environmental, social and governance practices to enhance value or mitigate practices in order to protect value
- Limited or no regard for environmental, social or governance practices

Return expectation

- Social return only
- Social return focused
- Social return and sub-market financial market rate
- Social return and financial market rate
- Financial market rate focused
- Financial market rate only

Social Impact

Primary intention

Social and financial

Financial returns
What is the role of Social Impact Investment?

• New models are needed to fund, deliver and scale innovative solutions to social, environmental and economic challenges.
  – public funds in many countries have become depleted
  – social challenges have mounted

• Social impact investment - the provision of finance with the explicit expectation, and measurement, of a social as well as financial return.
  – Spurs social innovation
  – Increases accountability (measurement of social outcomes)
  – Enables sustainability of organizations addressing SDGs

• New financing models are developing at multiple levels and in parallel to traditional markets.
  – A growing range of social investment instruments have been developed, all with a different financial/social return profile.
According to the annual GIIN survey the market in 2017 had **USD 228.1 billion in AUM**.

- Currently, the majority of asset allocations are in:
  - North America (20%)
  - Latin America (16%)
  - SSA (12%)
  - Western Europe (11%).

- The main investment sectors:
  - financial services (19%)
  - energy (14%)
  - microfinance (9%)
  - housing (8%)

- A survey sub-sample showed an increase in impact investment allocations across every region from 2013 to 2017.
  - Substantial **growth in allocations to developing countries** in Africa, South East Asia and Latin America.

*Source: GIIN 2018 Annual Impact Investor Survey of impact investors (n=229) and sub-sample (n=81)*
OECD Social Impact Investment Market Framework

**SOCIAL, ENVIRONMENTAL AND ECONOMIC NEEDS**
Poverty, inequality, education, employment, health, climate, affordable and clean energy, etc.

**Demand-side**
- *Social purpose ventures* at various stages of development:
  - Social enterprises, non-profits, profit with purpose organisations, etc.

**Intermediaries**
- *Capacity-building*: Accelerators, incubators, service providers.

**Supply-side**
- *Public*: Governments, MDBs, DFIs, etc.
- *Private*: Institutional Investors, Foundations, Family Offices, HNWIs

**ENABLING ENVIRONMENT**
Social systems, regulatory and legal environment, tax laws, financial market development
Each region is analysed according to the OECD SII market framework

Regions covered:
- Sub-Saharan Africa
- MENA
- Asia
- Latin America
- North America
- Europe
- Fragile Contexts

Based on findings from:
- Research and interviews
- Regional workshops (Africa, Latin America, Asia)
- Case studies
Many social enterprises require **some initial grant funding** and/or **technical assistance** to help them develop and be able to later attract investment capital.

A **mix of investors** are engaging in social impact investing, including foundations, angel investors, venture philanthropists, social venture funds.

**Financing instruments** cover a broad range of debt and equity, reflecting both the needs of social enterprises at various stages of development as well as the preferences of investors.

The **timeframe** for these firms to reach sustainability and scale are often longer than the investors first expected and this needs to be taken into account in thinking about follow-on financing rounds.

Social impact **measurement** remains a key challenge.

More standardized ways of collecting social impact investment **data** is needed to capture information at a transaction level and contribute to building the evidence base about activity and approaches.

**Investment climate** and **regulatory environment** are key factors.
A simplified theory of change for social impact investing policies
# OECD Policy framework for Social Impact Investing

## POLICY INSTRUMENTS

<table>
<thead>
<tr>
<th>POLICY INSTRUMENTS</th>
<th>DESCRIPTION</th>
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</table>
| STEER              | - Definition of a national strategy  
                   | - Identification of a formalised function  
                   | - Internal government consultation  
                   | - Stakeholder partnerships |
| RULE               | - Certification  
                   | - Fiscal incentives (tax and investment relief)  
                   | - Legislation (fiduciary responsibility, social enterprises, unclaimed assets)  
                   | - Regulation (pension, public procurement, reporting standards)  
                   | - Social stock exchange |
| FINANCE            | - Awards, challenges  
                   | - Funds: outcome, venture capital, investment readiness  
                   | - Pay-for-success (outcome commissioning, SIB, DIB, SIINC)  
                   | - Technical assistance, capacity building  
                   | - Wholesaler, fund of funds, incubator, accelerator |
| INFORM             | - Communication  
                   | - Stakeholder consultation  
                   | - Research, studies, data publication |
OECD mapping of policy instruments
(590 policies in 45 countries)
Public levers to promote social impact investing domestically

<table>
<thead>
<tr>
<th>Policy and instrument type</th>
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Source: OECD Social Impact Investment 2019 "The Impact Imperative for Sustainable Development"
Public levers to promote social impact investing in development co-operation

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The roadmap to internationally comparable data
The Data Work Stream: A broader perspective

**Goal:** to move towards greater transparency in the SII market by increasing comparability of data

**Deliverables**
- Initial global data standards
- Transparency principles
- Piloting the data standards
- Longer term implementation plan

- GSG in Chicago in July 2017
- Data coalition 2018
- OECD SII Phase II Report January 2019
# The IMP Structured Network

## 1. Impact measurement & reporting
- **Impact management principles** to underpin an impact performance conceptual framework
- **Impact performance conceptual framework**, providing impact categories for organising and reporting data
- **Impact data and disclosure standards**, providing guidance on indicators (universal, issue-specific, bespoke)
- **SDG data** on the impact **context** in different countries

## 2. Impact classification
- **Impact classification** ‘Impact classes’ based on data, akin to asset classes in finance, with guidance for using impact data in portfolio construction

## 3. Impact benchmarking
- **Impact rating** to benchmark impact
- **Impact valuation** to compare impact

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Facilitated by:

**IMPACT MANAGEMENT PROJECT**

- **IFC**
- **SOCIAL VALUE INTERNATIONAL**
- **OECD**
- **GRI**
- **GIIN**
- **PRI**
- **UNDP**
- **World Benchmarking Alliance**
- **GSG**
The Impact Imperative for Sustainable Development

**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 within 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
Work in parallel to Global Social Impact Investment Initiative (GSG)

• Taskforce established at G8 Social Impact Investment Summit in London in June 2013
  – Chaired by Sir Ronald Cohen, 2 representatives per country (public + private)
  – Initial mandate for one year, meeting every two months:
    – Four taskforce working groups
    – G7 (+ Australia) National Advisory Boards
    – Set of Taskforce reports published on September 15, 2014

• Taskforce transformed into a Global Steering Group in July 2015
  – Several new countries joining each year, each creating a NAB
  – Working Groups + reports

For more information on the Global Steering Group activities visit: www.gsgii.org
EVPA WORK ON IMPACT STRATEGIES

• **Investing for impact**
  - Investors in new solutions to pressing social issues, taking on risks that no other actor in the market can take.
  - Invest smaller amounts, providing SPOs with in-depth non-financial support.

• **Investing with impact**
  - Investors that have access to larger pools of resources, but need to guarantee a certain financial return on their investment.
  - Able to scale proven solutions with viable business models, as they consider achieving a positive impact *alongside* the achievement of a positive financial return.

• **Investing for impact and investing with impact are both valid, and needed in the ecosystem...**
  - Investors *for* impact have a role to play in testing (and bringing to the market) new and additional solutions to pressing social problems, and in supporting SPOs that have no market outlet.
  - Investors *with* impact have a role in scaling proven social models, and in making sure impact consideration become part of all investment decisions.

THANK YOU!

For further information and to access the 2019 report visit:
https://oe.cd/SII2019

Contact:
Karen.Wilson@oecd.org