REPORT SUMMARY:

Impact Investing Policy In 2014: A Snapshot Of Global Activity

INSIGHT AT PACIFIC COMMUNITY VENTURES and THE INITIATIVE FOR RESPONSIBLE INVESTMENT

NOVEMBER 2014

Supported by THE ROCKEFELLER FOUNDATION AND THE JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION
**FOREWORD**

**Dear friends,**

The past decade has been a time of exciting development for the still-young field of impact investing. Only seven years ago the sector’s name was coined during a convening at the Rockefeller Foundation’s Bellagio Center — since that time, we’ve seen a wave of investors using impact investing to address some of the toughest challenges of our time—from climate change and water scarcity to lack of access to health care, education, and affordable housing—and generating financial return along the way.

To call that progress encouraging would be an understatement — and the most exciting part is that there’s much more room to grow.

That growth will depend, in large part, on our ability to work together — sharing our insights, experiences and best practices in order to build an increasingly hospitable environment for the kind of catalytic change we want to see.

One way in which the Rockefeller Foundation is working to foster that collaboration is our participation in the United States Impact Investing National Advisory Board (NAB), which will support the efforts of the G8 Social Impact Investing Task Force. I’m honored to represent the Foundation on the NAB, and look forward to helping to promote the possibilities of impact investing on the international stage.

Increasing global momentum makes this a crucial moment for impact investing: emerging economies around the world have enormous potential and opportunity to create a new cadre of impact investors to support their own social goals. But that potential can only be tapped with the help of smart policy frameworks and a standard global approach for measuring important outcomes.

That’s why we were encouraged by this year’s White House Roundtable on Impact Investing and look forward to seeing other governments take a close look at what it will take to accelerate the success of the sector.

It’s also why I’m excited to share the Impact Investing Policy Collaborative’s Report Impact Investing Policy in 2014: A Snapshot of Global Activity. Our hope is that this comprehensive resource, consisting of insights from leading policymakers and practitioners, will help shape policy research and spark global innovation and demonstrate powerfully how sound policy can help grow the impact investing space.

I’m confident that the strong foundation that policy can provide – together with increased collaboration among the private sector, governments, philanthropies, and international institutions – will lead to a bright future for the twin goals of financial return and life-altering social change.

Sincerely,

Zia Khan

Vice President for Initiatives and Strategy
The Rockefeller Foundation
We would like to thank all the authors for their invaluable contributions to this report - we deeply appreciate their commitment to impact investing policy and their time for this project. Our many thanks to Rosemary Addis, Bob Annibale, Jake Benford, Lorenzo Bernasconi, Prashant Chandrasekaran, Cathy Clark, Celia Cruz, Guilhem Dupuy, Nisha Dutt, Jed Emerson, Nicole Etchart, Katie Grace, Mariana Guimarães, Karim Harji, Tessa Hebb, Julie T. Katzman, Anja-Nadine Koenig, Cyrille Langendorff, Leonardo Letelier, Thais Magalhães, Micah Sarkas, Ben Thornley, Renata Truzzi, and David Wood. Special thanks to Beth Sirul at Pacific Community Ventures and David Wood at the Initiative for Responsible Investment for their guidance and leadership.

We are grateful for the vision of the Rockefeller Foundation – Lorenzo Bernasconi, Brinda Ganguly, Zia Khan, and Rehana Nathoo have been thoughtful supporters of our work. We would also like to extend our gratitude to Debra Schwartz and Urmi Sengupta at the MacArthur Foundation for their continued partnership.

Special thanks to Brenna McCallick for excellent editorial and design contributions, and to Sarah Ritter and Patrick Duggan for their valuable inputs. We would also like to acknowledge the PCV and IRI teams for their continued work to engage private sector capital in the pursuit of a more inclusive and sustainable world. Our thanks also to the IIPC Advisory Council: Rosemary Addis, Francois Bonnici, Margot Brandenburg, Daniel Duku, Nicole Etchart, Tessa Hebb, Les Hems, Anja-Nadine Koenig, Joe Ludlow, Francisco José Carvalho Mazzeu, Pawan Mehra, and Ming Wong.

The contributing authors would like to acknowledge several people for their invaluable feedback on the various articles: Simon Bros-sard, Sandra Darville, Flavio Debique, Sarah Doyle, Monica Fernandez, Lourdes Gallardo, Usha Ganesh, Felix Gonzalez, Siobhan Harty, Nathaniel Jackson, Olivier Kayser, Lucie Klaersfeld, Margie Mendel, Visi Nords, Aunnie Patton, Douglas Pawson, Michelle Viegas, as well as a number of organizations and initiatives, which have informed their research and analysis. The authors' acknowledgments are listed in full in the online report reader, available at http://globalpolicy.iipcollaborative.org/.
Impact Investing Policy in 2014: A Snapshot of Global Activity is intended as a tool for practitioners and policymakers — those working to support development of the impact investing market — to do the following:

- Learn about ongoing public policy developments and their potential for influencing impact investing markets around the world;
- Understand how the public and private sectors can work together to better address critical social and environmental concerns in a given country context;
- Initiate and/or continue efforts to support market building and market mapping initiatives, using policy as a tool.

FRAMEWORK

Authors contributing to this report have taken diverse approaches and focused their analyses on a broad set of topics. The report provides a range of perspectives on how to look at the role of policy as a facilitator, initiator, supporter, and partner in shaping an impact investing market. The articles are framed around either a country or a thematic point of focus. They include:

- Conceptual pieces about the development and mapping of a specific policy system for impact investing;
- Examples of public policies that have supported market development in select geographies; and
- Insights from private actors into how impact investing intersects with other key market areas, such as international development and infrastructure investment.

TERMINOLOGY

Much like the field itself, this report contains a number of different, yet seemingly synonymous terms in reference to the concept of “impact investing.” Throughout the report, readers will encounter references to the following: social impact investing, impact investing, responsible investing, impact economy, social enterprise, among many others. Regardless of terminology, the overall focus remains the role and potential of policy to direct more private capital towards public purpose, where needed and feasible. There are, however, distinctions to each concept, which are the subject of several ongoing debates in the market. This report does not focus on streamlining definitions; for this collection of articles, these differences serve to distinguish geographies, sectors, and actors in their progress and efforts to build, scale and innovate in a particular market.

WHY ONLINE

IIPC and its platform, the GLE, currently engage practitioners from over 140 countries. Impact Investing Policy in 2014: A Snapshot of Global Activity contributes to IIPC’s vision of supporting market growth around the world. By presenting cases of current activity in impact investing policy, this report invites research, analysis and action to respond, scale, replicate and initiate further policy intervention.

In order to accommodate the iterative and dynamic nature of this report, the IIPC has striven to present it in the most user-friendly, accessible and engaging way. With the full report online at http://globalpolicy.iipcollaborative.org, our global audience can access the information in a manner most relevant to their interests, draw insights from previous IIPC research, and benefit from a wealth of additional resources associated with each report section.

In building this interactive online reader, the IIPC has sought to provide users with: global access, easy navigation, friendly design, and innovative tools; helping readers not only maximize their reading experience but practice environmental sustainability by reducing unnecessary paper use.
The articles in the report are framed around either a country or a thematic point of focus: ranging from conceptual pieces on the development and mapping of the policy system for impact investing, to examples of specific public policies that have supported market development in different countries, and insights from private actors into how impact investing intersects with other key market areas such as international development and infrastructure investment. The policies showcased are not meant to highlight best practice; the purpose of these articles is to show the range and depth of policy experimentation underway in different countries, and in some cases, initiate a discussion on the scope, scale and impact of these policy efforts. We recognize that the potential and need for policy development differs in each market. Our hope is that through the countries represented and policies discussed, the report provides a glimpse into the diversity of approaches that governments are undertaking.

This year has been especially significant for impact investing policy and market activity — with the reports by the Social Impact Investment Taskforce, and the affiliated National Advisory Boards and Working Groups. We welcome the work these groups have done, along with the several other private and public sector actors even beyond the G8 countries who have been introducing and driving these conversations in their own markets.

While the IIPC continues to expand its research, advisory and network capacity, we are also turning our attention inwards to the U.S. market through our Accelerating Impact Investing Initiative (AI3), where we’ve teamed up with Enterprise Community Partners to further the conversation on U.S. policy that supports the growth of impact investing. We look forward to continuing our research on domestic and international markets, to ensure the further development of effective policy for more inclusive markets.

Special thanks to our Advisory Council, our Fellows Network, and partners across the world. We are grateful for the vision and support of the Rockefeller Foundation, which was among the pioneers in recognizing the role that policy plays in driving more private capital to social and environmental impact. We also express our gratitude to the MacArthur Foundation and the UK Cabinet Office, who have shared and supported our vision for a global effort to think through effective policymaking in this fast moving, global field.

We hope that this report contributes to the discussion on the role of policy more broadly, not just among policymakers, but by practitioners across the private sector and civil society who are committed to developing innovative models and partnerships to enhance the impact of private sector capital.

Beth A. Sirull is President, Pacific Community Ventures, and David Wood is Director, Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University. They are the co-conveners of the Impact Investing Policy Collaborative.

IIPC CONCEPTUAL FRAMEWORK

Katie Grace

AN INTRODUCTION TO IMPACT INVESTING POLICY DEVELOPMENT

Over the past five years, the IIPC has created a number of different frameworks to try to understand what impact investing policy is and the processes that lead to effective impact investing policy development. From a simple graphic that maps policy by its role in the market, to a set of aspirational principles for impact investing policy development, these tools emerged from our engagement with the field and the policy makers engaged in it. Such instruments are primarily targeted at government officials looking to make sense of their existing and potential roles in the field.

Given the work we have done to date, we thought it would be useful to bring together all of our frameworks into a coherent whole, and provide a starting point for stakeholders interested in impact investing policy development. While there are several ongoing conversations globally and within individual countries on specific policy recommendations, this article presents a strategic roadmap for thinking about engaging with the policymaking process.

Many of the points that follow will be relevant regardless of the political infrastructure a particular stakeholder is facing, though it is important to keep in mind that the diversity of economic and sociocultural environments, market infrastructure, political framework, and institutional development have fundamental implications for the relevance and prospects of any given impact investing policy.

Here we look to illuminate what we have identified as key points and issues when thinking about impact investing policy development. We acknowledge that there is still much more to learn and understand about this space, and see this as a part of the early stage efforts to develop, with multi-sector stakeholders, an ongoing, global conversation around how policy can effectively support the development of just, sustainable societies through investments that prioritize superior social and environmental outcomes.

WHO SHOULD READ THIS?

In our experience, we have discovered that there is a broad set of policy entrepreneurs who want to understand how to engage around impact investing policy, from development to implementation. We have separated this group into three broad types: government officials, investors, and civil society actors. Within each of these segments, there can be sizeable diversity in interests, power, and access to resources, all of which inform the actions that a particular policy entrepreneur can take to achieve his or her objectives.

It is worth outlining the perspective of each of these groups:

- **Government Officials.** Government officials interested in impact investing can appear in elected, appointed, or hired positions; in legislative or executive institutions; or in local city councils and mayoral administrations, regional governing bodies, or the federal government. They may see impact investing as an opportunity to leverage additional funds to support the achievement of societal goals in a time of fiscal austerity, to build capacity in financial markets to address social priorities, or to build durability in private (for or non-profit) social service provision. We have found increased interest in impact investment policy, driven by different motivations, across geographical regions and social formations.

- **Investors.** Impact investors, whether asset owners or the managers of funds, may see policy as an opportunity to support their investment goals and proactively advocate for policy change. While many impact investors understand the relevance of impact investing policy to their work, some do not and will remain disengaged from policy conversations. Those that engage in policy conversations only occasionally develop policy proposals. However, these investors are crucially important to engage with “policy proposals. However, these investors are crucially important to engage in the policy development process and are often influential in the process of moving a policy towards approval and implementation.

- **Civil Society Actors.** In civil society actors we include, in essence, everyone else who has a voice in policy development — stakeholders who see impact investing as a way to support their identified social goals, including advocacy groups, think tanks and academics, nonprofit organizations, organized philanthropy, and others. These individuals often link policy to specific sector-specific targets, such as affordable housing, environmental sustainability, healthy communities, and quality jobs. They may also focus on specific geographies, and activities that can improve quality of life in them. This group often contributes to the development of, and advocates for, policy proposals to support those interests. For any individual policy, a proposal may develop and rise through the political process to implementation with help from policy entrepreneurs within and across these broad groups. The balance of support and influence will change by policy type, policy genesis, interest level, and political need. When looking at each policy, it is important to understand key stakeholders and their interests, as will be discussed in further detail below.
How is a holistic impact investing policy environment created? A good first start is to understand what policies exist currently, and to assess their effectiveness. The three columns of the the policy framework may help separate out policies to see if certain segments of the market have received less attention than others. This mapping can be done for the impact investing market as a whole, or for a particular sector or targeted outcome. It provides useful context, which must then be combined with an understanding of what problem a particular policy proposal, or set of proposals, should try to solve.

If policies are developed in the absence of work to understand existing policies and how they work, there is a reasonable chance that those new policies will end up duplicating existing work or end up less effectively targeting market needs. Understanding the policy environment, as well as the breadth of policy opportunities and how they fit together to support the impact investing market, will be important to seeing the opportunities for government intervention and figuring out how to leverage them well.

IDENTIFYING AND COORDINATING CAPACITY – THE WHEEL

Mapping the environment, and fully understanding what problems a policy is aiming to solve, are prerequisites for the actual policy development process. We started to sketch out what that process might look like from a market perspective in a 2012 piece with the World Economic Forum, "Breaking the Binary: A Policy Guide to Scaling Social Innovation." In this report, we built on the football to include three additional policy efforts that are important to impact investing policy development: engaging stakeholders, developing government capacity for action, and reviewing and refining policy.

WHAT DO WE MEAN BY POLICY?

When we talk about impact investing policy, we take a broad understanding of the word—we include any action taken by a government that supports the growth of impact investing markets. Policy here can include a legislative action, regulatory oversight, a commitment of financial or other resources, or merely a public show of support.

Some examples include:

- **UK Social Investment Task Force**, convened by the UK Treasury in 2000, assesses private investment in under-invested communities, and identifies ways to support enterprise development and wealth creation through policy.
- **India’s 2013 Companies Act**, which mandates new corporate social responsibility guidelines for corporations, requiring that they spend 2% of net profit on social development.
- **Tokyo’s Green Building Program**, launched in 2002, which requires that newly built or renovated buildings in the city over 5,000 square meters publicly disclose information on their environmental performance.
- **US Social Innovation Fund**, established in 2010, leverages federal grant dollars through public-private partnership to identify and grow community-based organizations that support economic opportunity, healthy futures, and youth development.

There are policies that have important implications for impact investing markets that were not designed as impact investing policies specifically. In part, this is because the term and concept are relatively new, but also because some countries have a history of involving private investment in the achievement of societal goals. These policies often have a sector or outcome-specific focus, and an effort to tie those policies to strategy around the “new” tool of impact investing can be useful in getting a better understanding of the policy environment.

MAPPING THE ENVIRONMENT — POLICY FRAMEWORK

In 2011, we released Impact Investing: A Framework for Policy Design and Analysis, in which we classified policy across two axes: the level of government involvement, and where the policy affected the impact investing market. The policy framework was a simple way of starting to understand the tools that a government can use to support impact investing, and what a holistic impact investing policy environment would look like.

A holistic impact investing policy environment should appropriately support the supply of capital (investors), the demand for capital (investments/investees), and the market infrastructure that brings them together. In some cases, appropriate support for a particular segment of the market, or a particular issue, may mean no policy intervention or a time delineated intervention, or a seemingly permanent solution. In general, a cohesive impact investing policy environment will have complementary policies that address the challenges for capital supply, demand, and market infrastructure.
The wheel can help policymakers, and other policy entrepreneurs, manage the process of policy development. Understanding who to engage among key stakeholders and where there is currently capacity to act, or to be developed, is important to getting policy proposals approved and implemented effectively.

Given a particular policy proposal, there will likely be a series of different types of engagement with different stakeholders. The first key piece in stakeholder engagement is making sure that the policy will do what you want it to—that means talking to the investors and other stakeholders involved to be sure that capital will be unlocked as initially envisioned or that the policy will be otherwise beneficial as intended. The second key piece is figuring out the supporters or opponents, both within and outside the government, of this policy, and coming up with an approach to address each of them. Likewise, it is important to see who else has an interest in having this policy be implemented, and how they can be pulled into an effort to support this policy. It is then of interest to understand who opposes policy implementation, for what reason, are they important, and what can be done (if anything) about them.

Stakeholder engagement relies on an assessment of stakeholder capacity to provide resources and support for a particular policy. Within that, it is especially important to understand the government’s capacity for action beyond the ability to approve a particular policy. For example, if the policy at hand is a co-investment proposal, can the government be an effective co-investor? Does the policy need additional support in implementation and oversight if it is approved? Are there skill, experience, staffing, or funding constraints that may impede the success of the policy being proposed?

While some capacity considerations may surface during the policy development process, it is worth taking specific stock of the government’s capacity to act in particular ways throughout the process of getting the policy approved and implemented. There may be opportunities to build capacity, and share learning, through the process of policy development that might be beneficial for governmental activity in the long term.

The wheel is useful for policy entrepreneurs seeking to move beyond a single policy proposal to build a set of long-term relationships within and without the government around impact investing policy. The wheel is useful for coordinating among policy proposals in the approval and implementation stage, and in supporting the actors and institutions broadly involved in the impact investing policy environment.

REVIEWING IMPACTS AND OUTCOMES – THE LONDON PRINCIPLES

In 2013, the IIPC network developed the London Principles,4 a set of inspirational touchstones for the impact investing policy development process. The Principles were designed to support a reflective approach to policy that drives learning and innovation over time to achieve important social objectives. The five principles include some common themes from previous sections:

1. Clarity of purpose reinforces strategy and policies that are integrated into existing policy and market structures, that target specific social objectives, and that clearly define the role for impact investing in achieving those objectives. Clarity of purpose allows governments to avoid inefficient use or misallocation of resources, insufficient policy support that impedes achievement of outcomes, and disjointed policy regimes.

2. Stakeholder engagement brings discipline and legitimacy to policy design. By institutionalising dialogue and feedback, with relevant stakeholders, governments can bring important additional resources to support impact investing strategies and policies. Effective stakeholder engagement ensures that all actors are included, manages expectations, and avoids the development of policies that are unfit for purpose.

3. Market stewardship entails holding a holistic vision for impact investing strategies and policies. It focuses on a balanced development of investor interest, investment opportunities, and mechanisms to deliver intended social outcomes. Effective market stewardship sets appropriate levels of regulation and mitigates unnecessary management of market activity.

4. Institutional capacity allows for the effective use of resources, adds value to existing policies, and creates the potential for developing innovative strategies and tools that address key social problems. Institutional capacity establishes resilient and resilient markets, and avoids sending mixed signals to investors and civil society on the potential for intended policies to deliver on their promises.

5. Universal transparency mandates that stated objectives are clear, and progress toward their achievement is openly measured and reported to relevant stakeholders and the public at large. Effective universal transparency enables leadership in public innovation, protects against the risk of real or perceived bias, realistically manages expectations, and empowers citizen participation.

These principles aim to describe a high-quality impact investing policy development process that will result in policies that are successful at achieving social objectives, using impact investing as a tool. Evaluating policy after it has been implemented is key to ensuring that it has achieved its targeted outcomes.

It is important to highlight here that the goal of impact investing policy is not to support impact investing as such. Impact investing is a tool, which may or may not achieve its goals of driving private capital towards more socially beneficial outcomes. The point of impact investing policy is to ensure that the social promise of impact investing is delivered in practice.

As evaluation may show, policy is not always, or the best, solution to a problem in impact investing. Given problem identification, an assessment of government capacity and stakeholder interest, it may be that there is an alternative, non-policy solution to a problem that will be more effective and/or appropriate. So when should policy take up this challenge? The London Principles, we hope, offer guideposts to when policy should focus on private sector investment, and how policy that does so can be made effective.

CONCLUSION

Our work, informed by engagement with policymakers and practitioners, highlights several key elements of impact investing policy reflected throughout this snapshot report:

1. All investment markets are shaped by public policy and have social implications; impact investing markets, and policy, are often the most obviously identifiable in identifying and promoting social outcomes.

2. Effective policy needs development, implementation, and evaluation capacity, both within and outside government.

3. The range of stakeholders necessary for a holistic and meaningful impact investing policy strategy is broad, and may include unfamiliar organizations.

We hope this piece sheds light on how policymaking in this fast moving space has been developing, and that our work has contributed to the discussion of how to make impact investing policy most effective.

Katie Grace is Program Manager at the Initiative for Responsible Investment, where she conducts research on public policy and impact investment, sustainable cities investment, and place-based frameworks for community development.

References:


**POLICY LEVERS FOR IMPACT INVESTING IN THE U.S.: AN ORIENTATION**

This policy landscape is an effort to look at the U.S.-specific context and bring together concurrent steps in the policy development process, as discussed in “An Introduction to Impact Investing Policy Development”.

As part of an effort to map and visualize the policies that activate and shape the multiple levels of government engagement in impact investing at the federal level in the U.S., the Accelerating Impact Investing Initiative (AI3) has developed the following graphic. The three levels on the graphic represent broad lenses through which policy entrepreneurs can conceptualize and categorize current or prospective policy activity in impact investing.

**Public Sector Leadership and Coordination:** The first lens in the graphic points to activities that develop government infrastructure and capacity at the federal level for impact investing policy development and implementation, and signal support for the field.

**Market Infrastructure:** The second lens focuses on where policies play an active role in developing the impact investing marketplace, through incentives and regulation that influence how much capital is available in the market, and how it is deployed and utilized.

**Sector Targets:** Finally, the sector-oriented lens fits impact investing policies into a broad segment of public interest focused on sector-specific social outcomes. This highlights the social good aspect of impact investing policies, and helps visualize where private investment fits in with existing sector-specific policies.

The graphic is meant to give policy entrepreneurs a sense of how the conceptual framework helps map the broad landscape of impact investing policy, and offer a visual prompt that helps place any particular policy under discussion under the umbrella of policies meant to motivate private capital to public purpose. This step is crucial both in explaining the value of individual policies, and in recognizing their importance in the field as a whole. Additionally, the graphic helps put stakeholders in relationship to each other, laying groundwork for a coherent narrative for the field, which can generate a broad-based network whose attention can be focused on specific policy priorities as they relate to the broader goals of the impact investment community—encouraging more and more effective private investment for social benefit.

The Accelerating Impact Investing Initiative (AI3) is a platform developed by the co-conveners of the IIPC – Pacific Community Ventures and the Initiative of Responsible Investment – in collaboration with Enterprise Community Partners. The AI3 seeks to advance effective public policies that support impact investing in the United States through research, multi-stakeholder engagement, and advocacy.

**Policy Levers for Impact Investing in the U.S.: An Orientation**

**Understanding the interconnected entry points for activating and shaping the impact investing market**

**Public Sector Leadership And Coordination:** Developing platforms and the capacity for …

**Market Infrastructure:** …designing the mechanisms that create sustainable market conditions for …

**Sector Targets:** …maximizing discrete social and/or environmental impacts.

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LEADERSHIP, LEGITIMACY, AND ACTION

The process by which the SIITF work was led and developed holds important lessons for the next stages of market building. Specifically, much of the galvanizing effect of the SIITF can be linked to a few key factors:

- Strong leadership, credibility and track record of the SIITF Chair, and indeed of many others involved in the SIITF and its structures;
- Legitimacy afforded by the origins of the SIITF and its mandate in the UK Presidency of the G8;
- Reinforcing effect of a distributed leadership structure that created a ripple effect in reach and influence;
- A rigorous, yet flexible process achieved by taking an entrepreneurial and collaborative approach; and
- A clear timeline for action.

The inclusion of government and sector representatives in the SIITF created an independent body that was neither inter-governmental nor sector-driven – yet had the strengths of both. Sir Ronald Cohen’s appointment as Chair by the UK Prime Minister added authority to the position. The origins of the SIITF and its mandate in the UK Presidency of the G8 provided legitimacy and an authorizing environment that encouraged participation and action, and helped to unlock resources for the work.

The SIITF structure presents the process as relatively neat and linear. In practice, the work of the different groups overlapped and intersected. The reach of the reports was enhanced through each group’s engagement with a cross-section of practitioners in the market. The dynamics will change again as the SIITF moves to implementation, and as more people and countries enter the discussion. The SIITF has indicated that it will continue to work to oversee implementation of its recommendations. The shape of that role is not yet determined and will be a key agenda item for the SIITF meeting in October 2014.

MOBILIZING MARKETS

The SIITF identified several essential dimensions of market building, and is one of only a handful of initiatives designed explicitly to undertake the task. The SIITF process also articulated a collective vision for a global impact investment market. The group made an effort to engage participants from different parts of the market system, while attempting to map the ecosystems of participating countries. At minimum, this effort provides a starting point for discussion and analysis; at most, it provides a basis for charting commonalities and differences across country settings.

Toward A Shared Vision For A Global Market

The SIITF report does not use the term “vision”, although some of the ancillary reports do (e.g. Impact Measurement Working Group 2014). However, the themes and messages of the report articulate the tenets for a thriving global market. The report offers a vision of an impact investment market underpinned by harnessing entrepreneurship, innovation and capital and the power of markets to transform the way we address social issues and deliver vastly better outcomes for people, with the ambition of scale pegged to unlocking $1 trillion for impact investment.

Engaging Market Participants

An approach that included governments, investors, the finance sector, entrepreneurs, the social sector, philanthropy, and, above all, the communities was built into the SIITF mandate. Members have not yet engaged with every part of the system, however. In particular, entrepreneurs and social organizations were less well represented than other groups, and there has been limited opportunity for meaningful public engagement on a large-scale.

From Here To There: Mapping

The SIITF process is one of the first to attempt the mapping of current ecosystems across countries. In particular the work involved a collective endeavor among a few developing markets, in addition to the G7, to identify the local and global factors shaping their markets. The SIITF concluded from this mapping exercise that there are common opportunities and challenges across markets, and the enormous potential for a global market is significant and encouraging. Participating countries found the process of working through a common mapping framework both challenging and useful. It required comparison of different starting points, strengths and weaknesses in market ecosystems, illuminating the limitations of the mapping template itself. As a consequence, at the country level, National Advisory Boards made adaptations to the framework for context. The resulting market maps can be adapted both in examining individual country contexts and in developing a global picture. No doubt there will be room for further refinements and enhancements to the market mapping process as the work is tested in more markets.

POLICY AT THE CENTER

The important role of policy in the development of impact investing has been clearly articulated by commentators, including in assessments of other market building initiatives. The SIITF gave particular weight to the central role of governments in impact investing; without government leadership, its development will be slow and its impact more limited.

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Policy at the Center

The role for the SIITF in this next phase is being determined. The National Advisory Boards are each assessing how they will take forward the movement and implementation in their countries. Another layer of leadership is also required, one linked to the global effort and the organizations that will need to act. Translating intention into action will require engaging a broader range of actors with the same urgency, capabilities and readiness to collaborate and co-create, particularly within governments.

Any policy action will need to be monitored over time to assess whether objectives are being achieved. However, market building and impact investment are both innovation stories at the core, and therefore success is dependent on constant trial, testing and adaptation.

Politics, Circumstance And Influence

Effectively influencing policy requires a range of factors to come together beyond active leaders. Government and policy are often conflated when, in fact they are quite distinct parts of the process. Not only do policy design and implementation involve different actions than policies, they are carried out by different actors – depending on whether they are inside or outside the government, elected or appointed officials. Those actors can be working in quite different ways and in different parts of the system with differing levels of influence.

Understanding the political and policy landscape will require leaders and champions who can navigate that terrain and influence effectively. Also, governments do not act in isolation; they are part of a dynamic system. As the SIITF has acknowledged, involving and mobilizing a broad range of actors – including in the private and civil society sectors – will be fundamental for the field to grow.

In relation to market building, overwhelmingly the emphasis is on actions that create incentives for new investment and innovation, while maintaining an outcomes orientation and helping to build market infrastructure. The SIITF focused heavily on governments’ role participating in markets as commissioners of social services. The recommendations indicate huge potential to help scale the market for impact investment by making decisive moves to commissioning on the basis of outcomes. An important second limb of the recommendations focusing on governments’ role as market participant is effective utilization of (co-)investment as a policy tool to encourage the flow of investment from other sources, particularly by de-risking opportunities in the early stages of the market. The SIITF identified several potential actions that would remove legal and regulatory barriers, clarify existing provisions to unlock capital and strengthen impact-driven organizations.

The SIITF’s conclusions reinforce the role of government as market builder and participant, enabling and catalyzing new markets, enterprises and innovation. Developing a better understanding of impact investment as a contribution to the policy toolbox will be critical for governments in leveraging limited public funds. A deeper, systematic consideration of the dynamics of market building for governments at both global and local levels will help scale impact investment, while benefiting other aspects of the financial system.

Adapting And Implementing For Local Context

The work of National Advisory Boards is informed by issues in individual markets and how action can and should be tailored for country conditions. Their reports underscore the importance of policy in each jurisdiction, though with differing degrees of emphasis in their country-specific recommendations and actions.

Differences across the National Advisory Boards reflect a range of regional variances, including systems of government and responsibilities between levels of government. For member states, the European Union adds another important level of governance to consider, as well as additional potential for political action – an issue reflected in the recommendations of some of the National Advisory Boards. Some National Advisory Boards have already proposed measures that apply high-level SIITF recommendations to their countries. How measures can or should be implemented also reflects structural, cultural and philosophical underpinnings, including whether the country in question has free market origins or underpinnings of a social or solidarity economy. Each country context is also shaped by existing institutions, economic and market conditions and regulatory frameworks as well as the maturity of its social impact investment market.

Evaluating Market Impacts Of Policy

The SIITF recognized the importance of considering how to capture and measure the market-level effects of particular policy interventions and the impact of SIITF recommendations.

Meeting the challenge of measuring market-level impacts for impact investing is particularly important because the growth of the field itself depends on setting goals and assessing progress. Enabling effective impact measurement is pivotal for an initiative like the SIITF, as well as for any government involved in impact investment. It will not only draw additional attention to critically needed market building efforts, but also present another opportunity to shape the next steps.

From Policy And Markets To Practice

The work ahead will require navigating the interface between policy and politics and between government and markets. The way forward will not be linear; it will need to be dynamic and responsive to the environment and to opportunities as they arise.

The role for the SIITF in this next phase is being determined. The National Advisory Boards are each assessing how they will take forward the movement and implementation in their countries. Another layer of leadership is also required, one linked to the global effort and the organizations that will need to act. Translating intention into action will require engaging a broader range of actors with the same urgency, capabilities and readiness to collaborate and co-create, particularly within governments.

Any policy action will need to be monitored over time to assess whether objectives are being achieved. However, market building and impact investment are both innovation stories at the core, and therefore success is dependent on constant trial, testing and adaptation.

Politics, Circumstance And Influence

Effectively influencing policy requires a range of factors to come together beyond active leaders. Government and policy are often conflated when, in fact they are quite distinct parts of the process. Not only do policy design and implementation involve different actions than policies, they are carried out by different actors – depending on whether they are inside or outside the government, elected or appointed officials. Those actors can be working in quite different ways and in different parts of the system with differing levels of influence.

Understanding the political and policy landscape will require leaders and champions who can navigate that terrain and influence effectively. Also, governments do not act in isolation; they are part of a dynamic system. As the SIITF has acknowledged, involving and mobilizing a broad range of actors – including in the private and civil society sectors – will be fundamental for the field to grow.
Extending reach of global market building beyond the G8 is not the only area where there is clear potential. Others necessary next steps include:

- Working with governments in developing countries to shape and build impact investment markets in their own right and not only as targets of impact investment.
- Deeper engagement of more advanced emerging economies, many of which are members of the G20.
- Developing platforms and networks – both online and in-person – that encourage and curate thought leadership in the field of impact investing, spanning language, cultural and sector divides to promote a functional movement and market at global scale.
- Exploring dynamics of federal systems and the contribution of state, regional and local governments.
- Further developing the retail market to ensure that impact investment develops in a truly inclusive manner, where ordinary citizens have options to participate.
- Considering angel investors as key player, particularly in nascent social impact investment markets, and encouraging and engaging with networks for impact investment.
- Conscious development of the range of intermediaries necessary to enable a well-functioning market, including a global market.
- Exploring the role of the corporate sector in stimulating impact enterprise18 and ‘social business.’25
- Developing a more comprehensive picture of impacts across social, environmental and cultural factors and at the investor and market level.

Stepping Forward

There is still much to learn to inform next steps, for the SIITF and for others that join the movement or work on sector and market development in their own countries. The significant work of sharing, analyzing and building upon this effort is just getting underway, even between the people and countries directly involved. The great examples of what is happening in impact investments that were presented to the SIITF should be shared more broadly so the stories can inspire and offer lessons to a broader audience. Some pieces presented in this global snapshot report contribute to that process. A number of other opportunities for sharing policy and practice are highlighted in more detail in the full version of this article.

For the complete version of this article, including the list of references and related resources, please visit the online report reader at globalpolicy.iipcollaborative.org.

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Anja Nadine-Koenig is a social investment and policy specialist with focus on developing and emerging countries. She is a Fellow and member of the Advisory Council of the Impact Investing Policy Collaborative (IIPC) and an associate of Endeva in Berlin.

1. This article is an abridged version of the paper by Rosemary Addis and Anja Koenig, the complete article is available online at www.iipcollaborative.org.
2. 2014 SIITF Report
3. Rosemary Addis is also the Australian observer on the Taskforce
4. See the SIITF website or the longer version of this article on globalpolicy.iipcollaborative.org for a visual representation of the structure.
5. See the SIITF website or the longer version of this article on globalpolicy.iipcollaborative.org for a visual representation of the structure.
6. SIITF Report 2014
7. The meeting is currently scheduled for the end of October, after this article had gone to print.
8. See Koenig 2014
9. SIITF Role and Remit 2013.
11. Jackson and Harji 2012
12. SIITF Report 2014
15. Jackson and Harji 2012
17. Addis, 2014; Bambrick and Gittelman, 2012
18. SIITF Report 2014
20. Scharmer and Kieser 2013
22. Bambrick and Goldman 2012; Addis et al 2013
23. SIITF Report 2014
24. e.g. Emerson 2000, Friedrich and Fulton 2009; Goodall and Kingston (2009); Harji and Jackson 2012; Addis et al 2013; Koenig 2014
25. SIITF Report 2014
**CREATING SOCIAL IMPACT INVESTING MARKETS – WHERE ARE WE NOW AND WHERE DO WE WANT TO GO?**

Anja-Nadine Koenig provides a practitioner’s perspective on landscaping the social impact market within a country or region, as a precursor to decision-making related to scaling impact investing activity. To understand the full growth potential of a market, Koenig advocates for taking a systemic view, as opposed to measuring activity only at the enterprise or sector level. In essence, in working toward the creation of a “mature” market, it is imperative to first grasp the existing market dynamics before developing pathways toward growth. Drawing on her own experience mapping the social impact investment market in Turkey, Koenig breaks down essential market functions, and identifies the overall market framework that drive and shape them. Through interviews with key players in the market, Koenig explores different stages of market development – from uncoordinated innovation, through the long phase of market building, onwards to growth and maturity.

Koenig begins with the premise that the performance of impact-driven organizations and other market participants is determined not only by individuals and organizations, but also by the environment in which they operate. Taking a systemic view, the author proposes a range of elements that should be considered in any market analysis. The structure put forth includes: core market activity (market demand, infrastructure and supply), government infrastructure, and approach to impact, leadership, and country-specific economic, political, social and cultural context.

The article tempers theory with examples of practical challenges that leaders and market researchers may face, especially when looking at nascent social impact investment markets in countries with limited availability of data and/or weak government leadership and institutional capacity. It lists and offers commentary on the various ecosystem mapping efforts undertaken for each of the participating countries in the Social Impact Investment Taskforce, as well as those of several other markets, including Turkey, Brazil, India, Morocco, and Hong Kong. It proposes a structure for market analysis that could be refined and adjusted to individual circumstances, but also developed further into a form of social impact investment market or social competitiveness index.

**IMPACT INVESTING IN CANADA – ITERATIVE EXPERIMENTATION WITH POLICY AND PRACTICE**

Karim Harji and Tessa Hebb provide an overview of existing policy developments and new policy experiments aimed at growing the impact investing market in Canada. While acknowledging that Canada’s market for social impact investing is steadily growing, Harji and Hebb note that the policy environment requires additional testing and experimentation.

This article reiterates the importance of, as well as the contextual factors that favor public policy to enable and facilitate impact investing activity. The authors analyze how enabling policy can overcome some of the barriers stifling the growth of Canada’s impact investing market, such as the prevalence of regulatory restrictions on investors and social enterprises, entrenched risk aversion among investors, and the challenges of introducing innovative structures to mobilize and incentivize private investment for financial and social returns. The article focuses on the role of policy testing and experimentation as foundational to achieving successful outcomes that can be replicated or adapted to other jurisdictions. Harji and Hebb identify robust impact metrics, transparency, iterative testing, and adaptation for local issues and contexts as integral conditions for transforming experiments into established policies.

This case study provides examples of how policies can progressively be developed and adapted, and reiterates the centrality of policy experimentation to a robust, supportive, and cohesive impact investing ecosystem. The authors are keen for further policy development to be designed, implemented and evaluated more intentionally, in order to exploit fully the interest in impact investing policy from across the public, private and non-profit sectors in Canada.

**SOCIAL IMPACT INVESTING IN THE GERMAN CONTEXT**

The German political, social and economic environment presents a unique study of how best to place impact investing to alleviate social service gaps within a state-led welfare system. Jake Benford summarizes the findings of Germany’s National Advisory Board (NAB), of which he is a member. Benford has drafted specific points of entry for impact investment, not only to complement, but to strengthen traditional service provision. In light of the challenges the German social system faces either to provide at-risk populations with a holistic, coordinated solution across a number of programs, or to scale existing, discrete initiatives, Benford lays out three areas for impact investors to step into: prevention, innovation and scaling.

While Germany has already seen the emergence of a number of diverse measures to channel private capital toward public welfare, Benford proposes a more systematic approach wherein impact investing contributes to current activity. Central to his analysis are tangible examples Benford offers to practitioners and policymakers to guide both groups toward mutual understanding, experimentation and future collaboration. The piece demonstrates not simply the need for private sector engagement in a developed economy, but also the complexity of integrating and aligning private investment capital within an established social welfare state and an environment characterized by associated cultural expectations.

**PREVIEW OF ARTICLES**

The following section presents brief overviews of the articles in the Impact Investing Policy in 2014 report. To access the full content and analysis, please see the online version of the report at [http://globalpolicy.iipcollaborative.org](http://globalpolicy.iipcollaborative.org).

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**Policy framework**

- **Market demand**
  - Social needs
  - Impact-seeking purchasers & beneficiaries
- **Market infrastructure**
  - Impact-driven organizations
  - Financial products
- **Market supply**
  - Impact capital channels
  - Impact capital sources

**Impact**

- Impact intermediaries
  - Financial intermediaries
  - Demand & supply-side support
- Market facilitation

**Leadership**

Anja Nadine-Koenig is a social investment and policy specialist with focus on developing and emerging countries. She is a Fellow and member of the Advisory Council of the Impact Investing Policy Collaborative (IIPC) and an associate of Endeavor in Berlin.

Karim Harji is a co-founder and partner at Purpose Capital, an impact investment advisory firm that mobilizes all forms of capital — financial, human and social — to accelerate social progress.

Tessa Hebb is the Director of the Carleton Centre for Community Innovation, Carleton University, Canada, focusing her research on Responsible Investment and Impact Investment.

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Read the full report at [http://globalpolicy.iipcollaborative.org](http://globalpolicy.iipcollaborative.org)
A recent study led by ANDE, LGT Venture Philanthropy and Quintessa Partners, on the Brazilian impact investing market identified 22 impact investors in the Brazilian market in 2014, citing that between 2012 and 2013 the number of new investors had tripled. Expanding the conversation on the Brazilian market which has so far not been examined through a policy lens, this article showcases two perspectives demonstrating the different initiatives being undertaken to explore the potential for developing financial business models that create social and environmental benefit.

The first perspective, written by the newly-formed Brazilian Social Investment Taskforce, provides a glimpse into the process and vision behind their ambitious venture into auditing a fragmented Brazilian market – characteristic of several developing economies. Through this exercise, the Taskforce was able to narrow its immediate focus and identify a select set of priorities based on a social impact and feasibility analysis of key issues areas. This article sees the Taskforce document the challenges inherent to this seemingly rudimentary exercise, from coming up with a definition for social finance that would be acceptable for all engaged stakeholders, to prioritizing activities for immediate and direct advocacy versus those relegated to other groups. By walking through this exercise, the Taskforce provides a useful point of reference for similar efforts initiated in other G20 countries and beyond.

A complementary perspective on market mapping to that acted on by the Taskforce, is that of NESsT – a private-sector organization operating in a different realm of the market – providing technical assistance and intermediary services to a large network of social entrepreneurs in Latin America and Eastern Europe. NESsT approaches market analysis by carefully dissecting existing policy interventions and social investment activity relevant to one specific sector – early childhood development. In mapping policy and market activity within a single sector, NESsT shows the significance of understanding the current landscape as a first step to inform future recommendations. This sector-level analysis by NESsT demonstrates how government intervention has the potential to build incentives, or to mitigate risk when developing impact enterprises in a sector and market as a whole.

Nicole Etchart is a co-founder and co-CEO of NESsT and currently leads its strategy and policy worldwide. Celio Cruz is the Executive Director at the Instituto de Cidadania Empresarial (ICE) – a civil society organization with a mission to engage leaders in community development.

*For a full list of contributing co-authors to this research, please visit the full article at http://globalpolicy.ijp.collaborative.org/.

Julie T. Katzman is the Executive Vice-President and Chief Operating Officer of the Inter-American Development Bank, the largest provider of development finance in Latin America and Caribbean. She was also a member of the International Development Working Group of the Social Impact Investment Taskforce, established under the U.K.’s presidency of the G8.

POLICY SYMBIOSIS TOOLKIT – HELPING INVESTORS ENGAGE WITH GOVERNMENTS

Adapted from a chapter in their new book “The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism,” Cathy Clark, Jed Emerson, and Ben Thornley outline practical steps for investors to engage with public policy actors. In their study of 12 outstanding impact funds, that anchors their current work, Clark, Emerson and Thornley found that one of the traits common to all of the analyzed funds was the influence of government and public policy leverage on private sector activity. This engagement with public policy infrastructure as private and public sectors look for partnership opportunities is what authors have termed “Policy symbiosis”.

Rather than just being a theoretical overview, the four-step toolkit outlined in the article provides go-to resources and examples of symbiosis in different country contexts for investors who are expanding their market activity: The key steps recommended are: to acquire knowledge, to build partnerships, to be visionary, and to proceed with integrity. Elementary as these steps seem at first glance, the substance lies in the interpretation, implementation and incorporation into overall strategy undertaken by leaders in the field.

Further, the piece provides several guidelines for investors with lists of questions and effective approaches by practitioners, including mainstream financial institutions, intermediary organizations and new funds.

POLICY SYMBIOSIS TOOLKIT – HELPING INVESTORS ENGAGE WITH GOVERNMENTS

Cathy Clark is the Director of the CASE Initiative on Impact Investing and a professor at Duke University’s Fuqua School of Business. Jed Emerson is a widely recognized, international thought leader on impact investing, performance metrics and sustainable finance. Ben Thornley is the Founding Partner of ICAP Partners, a consultant and collaborator on the business of impact investing, and a strategic advisor to pioneering Bay Area non-profits Pacific Community Ventures and RESEF.

INNOVATING THE ROLE OF THE PRIVATE SECTOR – LESSONS LEARNED FROM CITI COMMUNITY DEVELOPMENT

Citi has long established itself as a committed innovator, facilitating, and supporter of financial inclusion and access among underserved communities around the world. This article presents audiences with a diverse range of Citi’s initiatives in the field, and provides the private sector with specific examples of partnership and market building activity to advance investing for impact globally. Some examples discussed in the article include a collaboration with the Inter-American Development Bank to launch the Education, Youth and Employment bond to address poverty and unemployment in Latin America, a microloan program with CASA de Maryland to increase citizenship, an economic asset, among eligible residents, and a partnership with the Overseas Private Investment Corporation to provide capital to microfinance institutions in more than 20 different countries.

In writing about Citi’s impact to date, Bob Annibale shares Citi’s experiences and approaches for working to maximize its social imprint alongside business goals. Specifically, Annibale lays out Citi’s three-pronged strategy, which entails partnering with both public and private sector actors, contributing to long-term progress and ideas that can scale via early-stage investments, and focusing on global trends. Citi’s portfolio of community engagement spans geographies and sectors, demonstrating how a private sector organization can adapt to and even contribute to diverse regulatory environments.

This piece offers a particularly detailed look at the opportunities that exist for private sector actors. Market practitioners will be inspired to learn about Citi’s vision for maximizing financial inclusion, while policy makers will gain a better understanding of how their work can be complemented and supported by non-governmental actors.

Bob Annibale leads Citi’s initiatives and partnerships supporting community development and inclusive finance through financial inclusion, education, asset building, neighborhood revitalization, and small-business and micro-enterprise development.
Guilhem Dupuy and Cyrille Langendorff present a careful analysis of the “90/10” Solidarity Investment Funds and their potential to contribute to the domestic social economy and the growth in global impact investing activity. Since their formation in 2001, and through subsequent regulatory modifications, these funds prompted a new wave of capital directed to SRI causes in France. Likewise, the growth in awareness and viability of social finance initiatives has prompted the emergence of additional solidarity products in France, such as crowdfunding platforms and revenue-sharing investment funds.

Despite the momentum around the solidarity economy, there remain significant barriers preventing its full saturation, including the difficulty in establishing and fulfilling a set “solidarity designation”. In addition, the growth of the solidarity investments pool is exceeding that of the available social enterprises to absorb this well-intentioned capital. Together with a scarcity of venture capital funds dedicated to early-stage social enterprises and difficulties in systematizing impact measurement across France and Europe, make the body of challenges formidable for the impact investing market to overcome.

Dupuy and Langendorff suggest that with a typically more secure risk-return profile and versatility as far as asset allocation opportunities, 90/10 Funds have the capacity to generate meaningful developments in the French impact investing sphere. Practitioners around the world will gain valuable insight into how applicable these retail funds are to facilitating social solidarity products in France, such as crowdfunding platforms and revenue-sharing investment funds.

The year 2013 saw two significant regulatory shifts toward greater consideration for Environment, Social and Governance among investors and companies. In this article, Micah Sarkas of the Bertha Centre for Social Innovation and Entrepreneurship looks at the momentum generated by the 2011 amendments to South Africa’s pension fund regulation, Regulation 28, and the launch of the voluntary Code for Responsible Investing in South Africa (Crisis) in the same year, proposing an analysis of the impact these regulatory initiatives have made on responsible investing activity in South Africa since 2011.

While it is too soon to analyze whether this update to Regulation 28 has made a significant imprint on market transactions, Sarkas takes advantage of both primary and secondary research, to understand how the investment community is modifying its behavior and preferences in response to regulatory shifts. Sarkas sets an encouraging context for prospective impact investors, as he conveys a general interest and action toward integration of ESG principles among funds and private equity investment firms in South Africa. The endorsement of responsible investment principles by the Government Employees Pension Fund (GEPF) is likewise called out as a signal to both domestic and external fund managers of support and commitment from the public sector.

Despite the notable shift toward responsible investment in recent years, this article warns policymakers and stakeholders of a premature diagnosis and assessment of the amendment. There is still a substantial wait to see whether pension fund investments have truly re-calibrated to evidence a more socially-conscious focus. Similarly, even in light of the estimated and potential impact of Regulation 28, policymakers need to continue to adapt regulation in order to better facilitate responsible investment in the country.

Micah Sarkas is currently an Impact Investment Project Manager at the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business, University of Cape Town.

In this piece, Prashant Chandrasekaran and Nisha Dutt of Intellecap build on their organization’s research on the impact investing sector—specifically, how Corporate Social Responsibility (CSR) policies in India can help develop the sector further. Noting that the CSR law is but one of the drivers promoting private investment in the social sector in India, Chandrasekaran and Dutt point out the lack of risk capital invested in certain sectors and geographies by investors within the country. A large segment of the country’s impact investors directs early stage capital toward scalable and sustainable businesses and to the microfinance and financial inclusion sectors in particular. The authors see longer gestation periods and limited policy and regulatory support to for-profit businesses in some of these sectors as possible explanations for the limited capital flows.

However, even with a significant amount of development capital unlocked by the most recent CSR guidelines of 2013, CSR’s potential for addressing a broader range of social challenges is limited; it is currently intended to support social impact activity solely through funding non-profit businesses. While impact investing is hitting its stride in a few sectors within India, opportunities for investors to channel capital toward high impact, sustainable projects are constrained by both the policy and operating environments. As other market leaders look to India for guidance in developing their own impact investing ecosystems, the authors suggest using the CSR framework as a starting point, specifically, examining how it can be modified to allow for further and broader market growth.

Prashant Chandrasekaran is an Associate Vice President with the consulting practice at Intellecap where he works on inclusive business models, impact investing and landscape studies across development sectors.

Nisha Dutt is the Executive Director and Head of the Global Consulting and Research Practice at Intellecap, where she works on strategy and conceptualization of innovative solutions for businesses in high impact sectors such as agriculture, health care, and financial services.

Guilhem Dupuy is Advisor to the CEO of Ecophi Investissements, an asset management company subsidiary of Crédit Coopératif, where he is in charge of managing and developing social finance products and partnerships.

Cyrille Langendorff is Project Manager at the International Affairs Department of Crédit Coopératif, where he has been in charge of the financing of French solidarity organizations.

Leveraging CSR Policy to Develop the Impact Investing Market in India

Infrastructure investment, as an asset class, has received increased attention in recent years from a wide range of stakeholders. Policymakers and advocates see infrastructure investment as a way to promote economic and sustainable development, both for its immediate economic impacts in the wake of the financial crisis and its economic, and for the long-term implications of fixed-cost investment in the built environment. Institutional investors such as pension and sovereign wealth funds see infrastructure as, at least potentially, a long-term, stable cash-flow investment that meets their investment needs and can contribute to the lives of fund beneficiaries. How can investors and policymakers identify, and develop, investable opportunities that link social benefits to investor needs?

This article by Lorenzo Bernasconi and David Wood surveys efforts to build social standards into deal selection and preparation, and investor interest in infrastructure as an asset class with positive social impact. It explores what infrastructure might mean as impact investment at scale, and the lessons that impact investors in other asset classes might contribute to and draw from various efforts to develop high impact infrastructure investment. In particular, it looks at those efforts to measure the social impact of infrastructure investments, and how these can be embedded into investment decision-making.

Lorenzo Bernasconi is an Associate Director at the Rockefeller Foundation where his work focuses on innovative finance and impact investing.

David Wood is the Director of the Initiative for Responsible Investment at the Harvard Kennedy School; currently managing projects on RI strategy with pension fund trustees, mission investing by foundations, the changing landscape of community investing in the U.S., and impact investing and public policy.
The last year has seen increased public and private activity on efforts to grow impact investing in several country and regional markets – from the G7 countries to the launch of a Social Finance Taskforce in Brazil, new investment funds in Portugal, a convening at the Vatican, and many others. These market-building initiatives across regions and countries have shown that exchange of learnings through interconnected networks and communities of practice will be the critical element in enabling global innovation for impact investing. It has been a busy year for the IIPC – with the launch of this report, the launch and expansion of the work of the Global Learning Exchange on Social Impact Investing (GLE), and partnerships with leading actors driving impact investing growth worldwide. The following is a brief overview of some of the most exciting milestones from this past year.

**EXPANSION OF THE NETWORK**

In keeping with the IIPC’s objective to foster collaboration and partnership to further policy (and market) innovation for impact investing, the GLE was launched at the Social Impact Investment Forum in June 2013. The IIPC was invited to convene this action-oriented platform to expand dialogue, enhance collaboration, and increase knowledge, all with the aim of accelerating impact investing internationally. The initial building blocks of the GLE were put in place in collaboration with the World Economic Forum.

The GLE serves as a complement to the existing policy networks and focus of the IIPC, with engagement on market innovation through dynamic programming, a knowledge hub, and a global network of practitioners and policymakers. Its landmark program, the GLE Webinar Series is a convener of global conversations that have encouraged cross-country knowledge exchange in real-time and has presented information accessible and interesting to both new entrants to social investment markets, as well as more established practitioners. Each webinar has attracted a range of participants, including elected officials, bureaucrats, corporate CEOs, social entrepreneurs, financial service providers, among others. GLE webinar registrants have joined the webinar series from over 60 countries, while the GLE platform overall has attracted visitors from over 140 countries. Leveraging the networks of the IIPC, the GLE’s Network Partners include field leaders around the globe – organizations and individuals committed to working on issues critical to market development. They include government and multilateral agencies, global and regional social entrepreneurship networks, investors, funds, philanthropic foundations, intermediaries and service providers.

**RESEARCH AND ADVISORY ACTIVITY**

In addition to this milestone report, the IIPC has maintained its support of research initiatives across distinct topics and geographies; publishing six reports from its fellows in 2013-14. Taking advantage of its vast experience and knowledge, the IIPC played a significant advisory role in the work of the Social Finance Taskforce in Brazil, as well as initial conversations for an analogous initiative for the Nordic countries. Adding to its already impressive calibre, the IIPC Advisory Council welcomed new members this year, with the intention of continuing to draw on their knowledge and experiences in order to amplify impact by and outside of the IIPC network.

**FELLOWS REPORTS**

The IIPC Fellowships in Impact Investing & Policy Innovation, supported by the Rockefeller Foundation, provided six individuals and organizations an opportunity to landscape the current activity that points to impact investing in specific countries, and how policy is used as a tool to scale these markets. For most of these country markets, these are the first coordinated efforts at mapping policy and market activity focused on impact investing.

**BACKGROUND:** In the face of an unorganized market for impact investing in Canada, Nova Scotia’s Community Economic Development Investment Fund (CEDIF) program has emerged as a standout model for policy-makers looking to facilitate the deployment of capital toward local economic development. Initiated through the 1993 Equity-Tax Credit Act, the CEDIF program began in 1999 as an equity-tax program; targeting economic growth, cross-provincial capital outflows, and financial burdens on local small and medium-sized enterprises interested in raising equity capital. This Nova Scotia initiative has raised more than CAD$52mn since its inception in 1999 and, serves as a viable and transferable tool for policymakers looking to mitigate transaction costs for impact investors working in uncoordinated markets. Some of the transaction costs addressed via tax incentives include inconsistent social metrics for valuing impact, significantly higher legal costs incurred when structuring new financial products, and the need for performing greater due diligence.

**HIGHLIGHTS:** By working in conjunction with policy formulation and established securities regulations, the CEDIF program not only helps to mitigate transaction costs for investors, but also encourages the establishment of new intermediaries and the creation of new mechanisms to promote community-based investment among residents. Local investments are now eligible for up to 35% in provincial income tax credit, providing a great foundation for the CEDIF program to incentivize investors to direct private capital for multiple-bottom line returns from community-based growth.

**TAKEAWAYS:** Policymakers can use this example as an effective model for coordinating new community-oriented markets; facilitating the creation of a scalable market space for impact investing.

**BACKGROUND:** Despite maintaining a reputation for having a relatively strong and healthy economy, Germany has, nevertheless, proven to be an important market for social impact investing. While the state is generally expected to play a central role in the provision of social services, private and institutional investors operating in Germany have been motivated to direct financing toward addressing the cycle of persistent inequality of access to education and labor market inclusion, prevailing risk for long-term unemployment among the unemployed and low-qualified and deficits in poverty prevention.

**HIGHLIGHTS:** This report hones in on the education sector as a key parameter in the poverty cycle; identifying this sector as having both tremendous demand and opportunity for effective social impact investing. Providing a thorough overview of the market within the context of the education sector, this study emphasizes how nascent social impact investing and government involvement are in Germany. Some key recommendations to augment government participation in the social impact investing space include: taking initiative on spurring conversations and research to suss out potential for impact investing in Germany; establishment of organized forums to open up discussions between experts and key stakeholders; adapting policy to enable greater flexibility and certainty for foundations; configure tax policy to incentivize investment; and the creation of investable opportunities.

**TAKEAWAYS:** While the verdict on such a diverse list of prescribed actions is still subject to heated debate, the German social impact investing market has not remained static; social impact bonds and hybrid financing structures are now in the process of being developed – their uptake with investors will be indicative of how the social impact investing market will develop in Germany in the near future.
BACKGROUND: In light of its recent launch of the Social Innovation and Entrepreneurship Development Fund (SIE Fund), the government of Hong Kong has made a bold move away from maintaining a pseudo-monopoly in the provision of social services and grant funding. In addition to the five social funds analyzed in this report, the HK$500 million SIE Fund has been identified as a key driver of social innovation for poverty alleviation; encouraging Hong Kong’s government to transition away from its traditional delivery of social remedies.

HIGHLIGHTS: Despite its potential to scale the impact of private capital, Hong Kong’s social funds, with the SIE Fund at their helm, are still plagued by a few inhibitions, including the following: a general lack of long-term vision for alleviating social ills; and, a restrictive applicant profile, denying organizations which are not defined as non-for-profit, fund provisions. In order to assess the current state of development of the impact investing market in Hong Kong, as well as instill concrete steps to impel market growth, this report subscribed to the London Principles as an analytical framework.

TAKEAWAYS: Using the London Principles as a frame, authors of this report have taken a detailed look at the role of government and other stakeholders in Hong Kong, identifying the following:
1. Clarity of purpose: A long-term vision for social impact investing has not come from the government, owing to a generally timorous outlook
2. Stakeholder engagement: Social Funds operate outside the context of cross-sector stakeholder collaboration and knowledge sharing
3. Market stewardship: Sector development is stalled by a lack of clarity around the definition of social enterprises, as well as an aloofness about the importance of the role played by intermediaries
4. Institutional capacity: The design of social funds hinders the spirit of innovation by shadowing existing social welfare programs too closely
5. Universal transparency: A trepidation at media scrutiny and criticism has rendered the government social welfare programs too closely

BACKGROUND: The global trend of prioritizing Environmental, Social and Governance (ESG) considerations in investment decisions has not bypassed India. Investors in India have been found to place a higher value on businesses with stronger ESG disclosure and reporting. Furthermore, businesses with a greater commitment to ESG have been found to attract greater capital flows; with the potential to bring in as much as $80bn over the next 10 years. In 2011, in order to address this potential, as well as the various challenges faced by businesses seeking to enhance their ESG reporting (such as a lack of standardization and a significant data collection costs associated with screening and due-diligence), the Indian Government established the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVGs). These guidelines provide businesses with a metric to measure, manage and disclose their ESG impact and performance.

HIGHLIGHTS: Contextualizing the NVGs as a scion of the “Responsible Business” policy tenets in India, this report looks at the future of the NVGs as a viable tool to wield a monumental shift among businesses and investors toward impact-focused investments.

TAKEAWAYS: While the introduction of the NVGs is only a small step in transitioning the Indian market, Indian policymakers have already begun to think through how to apply these guidelines to future policies and policymakers worldwide. Keeping in mind that uptake of the NVGs will be indicative of the extent to which ESG information and principles drive business and investor behavior; Indian policymakers will need to continue to build on the adoption of the NVGs as a means of installing sustainability and impact measurement as market imperatives.

BACKGROUND: Similar to many other emerging markets, impact investing in Turkey has met overarching skepticism and a general lack of government support. Taking stock of key takeaways from various international experiences, this research is intended to provide the Turkish government with a framework for growing its social impact market, as well as some tangible action points to help integrate the government into current initiatives in domestic social entrepreneurship.

HIGHLIGHTS: Based on select interviews and research findings, social innovation and impact entrepreneurship in Turkey are inhibited in part by: limited financial inclusion for social enterprises, which are currently outside of defined population sectors covered by development finance institutions; philanthropic support allocated to small risky investments, risk capital directed toward larger, more established enterprises without consideration for social impact; and, a lack of formal prescription to include social investments in the public procurement mandate. Turkey continues to struggle with debilitating social and environmental sectors, leaving a strong case for evolving government involvement in a heretofore-unconventional capacity in the domestic social impact investing space.

TAKEAWAYS: While most policy interventions in Turkey have insufficient history to provide any meaningful evidence of (in)effective engagement, some key recommendations to spur government action include: taking a holistic approach to market development; initiating pilot projects; emphasizing measurement and evaluation of impact; and, implementing a varied approach to cater to the needs of the market based on its maturity status.