INNOVATIVE FINANCING FOR DEVELOPMENT IN ASIA AND THE PACIFIC

Government Policies on Impact Investment and Public Finance for Innovation

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

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The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

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GOVERNMENT POLICIES ON IMPACT INVESTMENT AND PUBLIC FINANCE FOR INNOVATION

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FOREWORD

To meet the ambitions of the 2030 Agenda for Sustainable Development, financing for development needs to be scaled up dramatically. The current SDG financing gap is estimated at around $2.5 trillion per annum. Innovative financing has the potential to bridge this gap by attracting private sector capital to support development objectives and by repurposing private sector financing instruments to address persistent development challenges. Governments must provide incentives for the private sector to move from economic-driven investments to impact investments generating social, environmental and financial returns.

Science, technology and innovation (STI) has been identified as a key means of implementation for the SDGs. To realize its full potential of STI, we need policies and business approaches with supportive innovative financial models. Involving end users in defining problems and developing solutions; striking multi-sector collaboration to solve economic, social and environmental challenges, and building public private partnerships with supportive risk sharing mechanisms are some of the critical elements needed.

This report features a diverse selection of case studies on innovative financing mechanisms that have been implemented across the Asia-Pacific region. Cases include the India Impact Investment Council, the Thai Social Investment Taskforce, India's Corporate Social Responsibility (CSR) Law and Singapore's Women's Livelihood Bond. These demonstrate how countries have fostered impact investment and repurposed private sector tools for development objectives.

The report also illustrates how the problem-driven mindset is changing public financing for STI, exemplified by the research and development policy of the Republic of Korea. Other mechanisms such as the Social Outcomes Fund in Malaysia are engaging entrepreneurs in sustainable development.

Some of the innovative financing approaches described in this report have already been fully implemented, but others are still being developed and policy makers may need to give further consideration to potential risks and their mitigation mechanisms. Governments in the Asia-Pacific region must give high priority to conducting a thorough evaluation of innovative policy approaches to determine which ones can be adapted and made viable to a specific context. This evaluation can enable them to develop effective practices to unlock the potential of innovative financing for development.

I wish to thank the Ministry of Science, ICT and Future Planning of the Republic of Korea for generously funding this project, and the researchers at the Science and Technology Policy Institute of the Republic of Korea and the consultants at the Impact Investment Exchange for their intellectual input. I also thank the many leading contributors who provided their insights and comments to the report.

I hope this report will contribute to knowledge sharing and spark new ideas to help stimulate further action to develop the innovative financing solutions urgently required for the advancement of the Sustainable Development Agenda. ESCAP is committed to support its member States to develop innovation policies and strategies linked to their national development plans that will help close the SDG financing gap.

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EXECUTIVE SUMMARY

In the closing months of 2015, the United Nations General Assembly adopted an ambitious, all-encompassing agenda to guide the advancement of humankind for the next 15 years. The Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda on Financing for Development, collectively known as the 2030 Agenda for Sustainable Development (or '2030 Agenda'), called on all countries to advance the welfare of societies, economies and the environment. Science, technology and innovation (STI) were identified as key means of implementation for the 2030 Agenda.

While donor and philanthropic funds add up to billions of dollars, the cost of solving the world's most critical problems runs into the trillions, with an estimated $2.5 trillion annual funding gap to achieve the SDGs. To close the gap, it is imperative to implement innovations that can divert private capital towards development objectives. In addition, more innovative approaches to public financing for technology and the development of solutions to SDG challenges are urgently required to leverage STI to achieve the 2030 Agenda.

Innovative financing for development can be considered "anything different from standard investing or financing practice, that has the potential to deliver significant socio-economic or environmental impact".

This broad definition encompasses the multitude of ideas that have been tested in the field. The concept of investing for social and environmental value generation alongside economic return, for example, is different from the established private sector approach of investing purely for economic return. Similarly, public funding for 'problem-driven' research and development (R&D) is different from funding research excellence. While neither of these ideas are new, they diverge from standard practice and have not been applied at the scale required to meet the ambitions of the 2030 Agenda.

Innovative financing mechanisms for development

The scope of innovative financing for development is also broad and diverse. This report analyses Asia-Pacific experiences on introducing innovative financing mechanisms for development in five core areas:

1) Strategic leadership models that promote impact investing;
2) Policies that unlock corporate investment for development;
3) Private sector financing products for development;
4) Innovative public financing models for STI; and
5) Systemic approaches to finance and innovation as means for development.

This report provides case studies from the region to illustrate developments in each of those areas. The lessons learned from each case study can help policymakers evaluate the potential of different initiatives.

1) Strategic leadership models that promote impact investing

The SDGs aim to positively impact economy, society and environment. The balanced integration of these three dimensions of sustainable development must be the basis of future investment and financing strategies. The economic dimension generally dominates investment and financing decisions, thus the policy environment must incentivize investors to maximize synergies and minimize trade-offs between the objectives of economic growth, inclusive social progress and environmental protection. One such solution is impact investing, in which investments are made in companies, organizations and funds to generate social and environmental impact alongside a financial return.

Impact investment councils and social impact investment taskforces can build momentum for the development of an impact investment ecosystem. Industry-led structures, such as the Impact Investors Council of India, will naturally develop in more mature markets, while government-led social investments, such as the National Taskforce on Social Impact Investment in Thailand, have been a stimulus for the development of social capital in less mature markets.

Whether impact investing is led by industry or the government, policymakers must be engaged to encourage industry partners to support impact investment. Councils and taskforces must be tailored to address gaps in the local social capital market, support the growth of intermediaries that are best suited to address these gaps and contribute to the development of regulations.

2) Policies that unlock corporate investment for development

With their skills, financial resources and potential to deliver at scale, corporations will be critical to meet the ambitions of the 2030 Agenda. Governments can enact policies to promote corporate social responsibility (CSR) and encourage corporations to move beyond CSR and incorporate social and environmental values as part of the core business strategy and reporting process (also known as promoting 'shared value').

India has enacted a CSR Law mandating corporations to divert capital towards social and environmental objectives and leverage private funds for sustainable development. Such laws are relatively easy to replicate and move CSR from the fringes to the boardroom. To promote a more strategic use of CSR, such laws should require transparency and accountability.

Green public procurement can promote shared value in corporations and provide incentives for firms to engrain social and environmental considerations in their core strategies. When combined with green label and energy label initiatives and other measures, these policies have dramatically improved the energy efficiency of electrical appliances and been an incentive for firm-level innovation. For example, the Government of Singapore takes a holistic approach to promoting shared value in corporations through its Green Label, Energy Label and green public procurement initiatives. Policymakers aiming to develop or support green certification schemes in combination with public procurement should consider the following roles of government: providing for robust assessments of products and production processes; setting standards and progressively introducing more demanding certification and rating systems; and adopting holistic and integrated policies that stimulate consumer demand for green products, foster market development and enable the participation of small and medium-sized enterprises.

3) Private sector financing products for development

Governments in the region are increasingly exploring ways to use bonds and other private sector financing products to respond to a whole range of development challenges.

Bonds can leverage private sector investment for sustainable development. For example, the Women's