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Committee on Innovation, Competitiveness and Public-Private Partnerships

Team of Specialists on Innovation and Competitiveness Policies

Ninth session
Geneva, 3 – 4 November 2016

Report of the Team of Specialists on Innovation and Competitiveness Policies on its ninth session

I. Attendance

1. The Team of Specialists on Innovation and Competitiveness Policies (TOS-ICP) held its ninth session on 3 –4 November 2016.

2. A total of 73 delegates participated in the session representing national government ministries and agencies, academic institutions, the private sector, non-governmental organisations and international organisations.

3. Representatives of the following UNECE member States attended: Armenia, Azerbaijan, Belarus, Israel, Kazakhstan, Kyrgyzstan, Lithuania, Sweden, Turkey, Turkmenistan, Ukraine, United States of America.

4. Representatives from Mongolia, Nepal and Pakistan also attended the session.

5. The session was attended by a representative of the European Commission.

6. Representatives of the International Trade Centre, United Nations Development Programme, United Nations World Tourism Organization and World Health Organization participated in the session.

7. The following organizations (local authorities, academic institutions, intergovernmental organization, non-governmental organizations and private sector entities) attended at the invitation of the secretariat: Albourne Partners, Al Farabi Kazakh National University, BlueOrchard Finance AG, Bulgarian Chamber of Commerce and Industry (BCCI), Child and Youth Finance International, Center for Entrepreneurship and Executive Development (Bulgaria), ClearlySo, Climate-KIC, ECES European Chamber of Economics (Switzerland), École Polytechnique Fédérale de Lausanne, Global Entrepreneurship Network (Georgia), Graduate Institute of International and Development

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II. Adoption of the agenda and election of officers (agenda item 1)

8. The Team adopted its agenda as contained in document ECE/CECI/ICP/2016/1.

III. Substantive segment (agenda item 2)

9. The substantive segment of the ninth session of the TOS-ICP was devoted to an Applied Policy Seminar on “Impact Investing – Financing Innovation for Sustainable Development”. It provided an opportunity for international knowledge sharing, exchanges of experience and policy learning in this area.

10. In September 2015, the General Assembly of the United Nations adopted the 2030 Sustainable Development Agenda, which set ambitious global goals that commit the countries of the world to work towards achieving economic prosperity while protecting our planet and ensuring social inclusion.

11. The 2030 Agenda for Sustainable Development has acknowledged the potential that innovation offers for achieving its goals. It also recognizes the central role that the enterprise sector has in driving innovation for sustainable development. The Agenda thus calls for a renewed partnership between governments and the business community.

12. Entrepreneurs throughout the UNECE region have put much effort into developing innovative solutions that contribute to sustainable development in fields as diverse as healthcare, renewable energy, sustainable agriculture and clean technologies, among others. Enterprises small and large are also implementing innovative solutions to make their production and distribution processes sustainable.

13. Investors (among which business angels, venture capital funds and others), are increasingly interested in opportunities to invest in innovative companies that combine economic return with a positive impact on society. Thus, a good track record on sustainability can be an important asset for firms that are seeking to attract more financing.

14. In parallel, the extent to which entrepreneurial effort and private sector financial resources are invested in areas critical for sustainable development depends to a large degree on government policy. Public authorities have a crucial role in creating appropriate regulation to align private incentives with societal needs. They also can help to create demand for innovations in target areas. For example, authorities can: participate in sponsoring and co-financing early-stage innovation, target procurement to facilitate the emergence of markets for sustainable products, encourage sustainable production processes, and create incentives for those who finance later stage innovation.

15. The meeting featured an interactive discussion among private and public sector stakeholders in the UNECE region with the goal of identifying good practices for promoting impact investing in companies creating innovative solutions to sustainable development challenges.

16. The applied policy seminar was organised in five thematic sessions:

(a) Impact investing trends and prospects;

(b) Measuring impact – standards, certifications, regulation;

(c) Match-making – connecting innovators with investors;

(d) Mobilizing Impact Capital – social impact bonds, impact funds, impact banking, crowd funding, public-private cooperation;

(e) Country experiences, case studies, trends, good practices.

17. Issues discussed included the following:

(a) What qualifies as impact investing, how it works, who the main actors are, how much impact investing there is, what sectors it focuses on, how it impacts sustainable development, and how fast it is growing;

(b) Current practices for measuring impact, accounting for it, certifying impact statements through audits, the relationship between measures of impact and measures of purely financial performance, and the need for additional legislation and regulation in these areas;

(c) The role of and need for networking, associations, awareness-raising programmes, and other initiatives to match impact investors with projects and to make the right kinds of impact capital available to start-ups and other innovators working on solutions for sustainable development challenges;

(d) The various financing models which exist, extending: from grants to debt and to equity; from micro-finance to large engagements; from anonymous arm’s length to personalized hands-on relationships between investors and investees; from crowd funding to funding from high-net worth individuals and institutional investors; from direct lending to on-lending through local financial intermediaries; and from purely private to public-private funding;

(e) The strengths and weaknesses of these different financial models vis-à-vis different types of impact investment projects, the ways to sustain and encourage the mobilization of impact capital, and the pros and cons of legislation and regulation in this area.

Impact Investing Trends and Prospects

18. The overall size of the impact investment industry is close to US$80 billion, which is still less than one percent of assets under management globally. At the same time, it is not insignificant compared, for example, to total angel investments in the European Union (€6 billion in 2015), and it has been growing very strongly in many places in recent years.

19. The meeting agreed that impact investments could help create “win-win” situations where the old trade-offs between maximising rates of return to investment vs. the fulfilment of social objectives are no longer inevitable.

20. There was a discussion on the financial performance of impact investments and the relationship between financial return and social or environmental impact. In many fields, such as high-tech firms producing eco-innovations, impact investors expect, and often achieve, risk-adjusted financial returns comparable to, or even in excess of, those seen in “non-impact” investments. Impact investments that focus on firms addressing purely social objectives (e.g. the advancement of disadvantaged groups in society or persons with disabilities) may find it harder to achieve market rates of return.

21. Impact investors in firms creating innovative solutions to sustainable development challenges share many of the characteristics of “non-impact” investors in innovative firms, such as high risk tolerance, a capacity to identify high potential early and to react flexibly to change, the capacity to bridge key funding gaps; and an ability to help investee companies through their personal networks and connections as well as through mentoring.

22. It was argued that the additional dimension which characterizes impact investing is that while impact investors seek to invest in companies that promise a financial return, they also wish to invest in companies whose business models and products are aligned with their personal values.

23. With regard to international initiatives, important inter-governmental processes have been initiated in recent years, such as the G8 Global Social Impact Investment Steering group, which brings together policymakers and practitioners in finance, philanthropy, and business, in order to serve as a facilitator and a catalyst for a global market in impact investment. Such work can contribute to increased international collaboration across countries in particular by helping to establish benchmarks and by sharing best practices.

Measuring Impact – Standards, Certification, Regulation

24. There have long been well-established methods, standards and regulations to account for and report on financial performance. These are used by investors, asset managers and companies routinely when making financing and investment decisions. Measured financial performance has real consequences for companies: strong performance enables them to attract additional investments, while poor performance, over an extended period of time, will force them to close down.

25. By contrast, the measurement of social and environmental impact is still at a relatively early stage. There are several voluntary standards and methods such as the Impact Reporting and Investment Standards (IRIS) promulgated by the Global Impact Investing Network, social return on investment, the UN Global Compact Framework for Action on Social Enterprise & Impact Investing, the IFC's Environmental and Social Performance Standards, OECD Guidelines for Multinational Enterprises, ISO 26000, etc.. At the same time, more remains to be done.

26. Many companies, especially large ones, and impact investors use their own idiosyncratic measures, and many do not consistently measure impact at all. Rather than trying to measure actual impact ex post, some investors target sectors and business models where, ex ante, they expect to generate a large positive impact.

27. At present, strong or poor performance on measured impact often does not have real consequences for the companies in question. Looking forward, it will be critical to further develop and more broadly apply impact measures in order to grow both supply and demand for impact investment.

28. With regard to existing tools that can facilitate better measurement of impact investment, the following were raised as significant challenges:

(a) The need to obtain objective information directly from the stakeholders, especially vulnerable or disadvantaged groups, whose lives the investments intend to impact, rather than from the social-impact companies themselves;

(b) A lack of commonly accepted/used measures and hence difficulties in comparing performance across impact investors or investee companies;

(c) A lack of certification through independent audits, not only of the factual accuracy of what is being reported, but also of the completeness of impact reports;

(d) Perceived high costs of compliance, especially for start-ups and other small firms, who may lack the time, skills and resources to prepare sophisticated, audited impact statements, resulting in relatively low rates of impact reporting;

(e) Uncertainty regarding the extent to which any measured impacts can be attributed to individual investments; and

(f) Uncertainty about how well government programmes intended to support impact investing, such as tax credits, achieve their aim given the difficulty of measuring the impact of the investments.

29. At the same time, there were also examples of companies, even small ones, who are already voluntarily publishing audited impact reports on a regular basis.

30. While the development of more harmonized standards for impact measurement and reporting is being driven by the impact investing industry itself, there was broad agreement that additional government legislation is needed in order to ensure the broad-based adoption of independently certified reporting.

Match-making – connecting innovators with investors

31. A mismatch between the capital available for impact investment and investment opportunities is often cited as one of the main obstacles to the further growth of the impact investment market. Experts emphasized the role that networking by business and financial associations, awareness raising programmes, and other initiatives can have in enhancing the positive impacts of capital by matching it with a wider selection of start-ups and other innovators working on solutions for sustainable development challenges.

32. In this regard, a series of measures to foster capital mobilization for climate change through match-making were discussed. These involve improving decision metrics to ensure investors adequately assess risk-adjusted return related to climate change; unlocking investments through novel approaches such as blended finance; and raising awareness through education for decision makers so that they better understand climate risks and the benefits of impact investment become more tangible in public discourse.

Mobilizing Impact Capital – social impact bonds, impact funds, impact banking, crowd funding, public-private cooperation

33. Another important topic that was addressed is how to mobilize private finance for innovative solutions. This session discussed different financing models that could foster the mobilization of impact capital, including community shares, social impact bonds, impact funds, impact banking, micro-finance, crowd funding, and different examples of public-private cooperation through partnerships.

34. Each of these models have their strengths and weaknesses and need to be customised according to a project’s sector, firm size, stage of development, and degree of innovativeness. Some are better suited to small ventures and early-stage firms, others are more suited to scaling up successful businesses.

35. In some countries, programmes have been put in place to promote impact investments through social impact bonds; in others, some financial rules have been modified to allow the issuance of shares with lower reporting requirements and costs for firms (e.g. regarding prospectus, financial regulations) that will reportedly achieve a higher social or environmental impact.

36. One successful example of a public-private partnership in the financial sector showcased how it is possible to mobilize private capital for high-risk, high-impact projects in developing and emerging economies in the sectors of finance, agriculture and renewable

energy by implementing a layered financial structure in which the public sector investor provides first-loss risk protection to the private investors.

Country experiences, case studies, trends, good practices

37. There is interest in the start-up community in helping to solve global challenges. Successful examples were given of crowd-lending to support access to solar energy in developing countries. One key challenge is to identify business models that are adapted to the realities in the field, where the business environment may not be adequate and classic marketing strategies and business models cannot be copied. Government investment funds and business associations could help mitigate some of this risk by providing mentorship and sharing information, free of charge, on governance, climate and other local challenges.

38. Experiences from countries with economies in transition pointed to the most significant challenges affecting innovation and entrepreneurship. These include low levels of expenditure on research and development and, in particular, a lack of financing for innovation activities, which, as a result, are most often funded from companies' own resources. The migration of qualified personnel is also a challenge for entrepreneurship. In addition, outdated legislation and the need for policy consistency and coordination can reduce the efficiency of innovation activities. FDI flows remain low. Finally, external factors affecting the macro-economy can also have an impact on innovation funding. As a consequence, businesses cannot fully exploit their potential to innovate and contribute to the achievement of sustainable development outcomes.

39. In spite of these constraints, some firms have proven successful, including by penetrating markets in Europe, Asia and the Americas. Key drivers include the use of modern high technologies, an educated labour force, and government assistance in the form of subsidies and infrastructure, such as hi-tech industrial parks. Expanding these experiences across the board in national economies was highlighted as one road to be followed.

40. The moderators thanked the speakers. Team members were encouraged to benefit in their future work from the outcome of the discussions and the circulated materials, available on the website.[1]

41. The outcomes of the discussions at the meeting will lay the groundwork for developing good practices and policy recommendations to support impact investment into innovative solutions that address sustainable development challenges. They will also feed into the UNECE program of national Innovation for Sustainable Development Reviews and associated policy advisory services.

IV. Review of the work of the Team of Specialists on Innovation and Competitiveness Policies (agenda item 3)

42. The secretariat briefed the TOS-ICP members on the outcomes of the activities carried out since the eighth session, which included:

(a) The Policy Document: "Accelerating the adoption of innovations" (ECE/CECI/2016/3) submitted to the 2016 session of the UNECE Committee on Innovation, Competitiveness and Public-Private Partnerships;

(b) Publication of the Innovation Performance Review of Tajikistan in Russian (ECE/CECI/24);

[1] http://www.unece.org/index.php?id=43299#/

(c) Peer Review of the Innovation for Sustainable Development Review of Belarus in Minsk, Belarus, on 6 October 2016;

(d) Findings and recommendations of the Innovation for Sustainable Development Review of Belarus (ECE/CECI/2016/CRP.1);

(e) Eighth meeting of the SPECA Thematic Working Group on Knowledge-Based Development in Almaty, Kazakhstan on 22 September 2016 (jointly organized with UNESCAP;

(f) High-level International conference on “Laying the foundation in the ECE region for greater integration, economic development and achievement of the sustainable development goals” in Minsk, Belarus, on 26-27 October 2016;

(g) International conference on Innovative Entrepreneurship and Sustainable Development, organized jointly with the Government of Israel in Geneva on 2 November 2016;

(h) Policy advisory seminar in follow-up to the Innovation Performance Review of Armenia;

(i) Publication on Innovation in the Public Sector (ECE/CECI/22).

43. The Team expressed its gratitude to the Government of the Russian Federation for their financial contribution to its work.

44. The Team expressed its satisfaction as to the outcomes of the work carried out, which has effectively responded to the needs of countries, and particularly those with economies in transition, in accordance with its mandate.

V. Inter-sessional implementation plan for 2016 (agenda item 4)

45. The secretariat presented the implementation plan for 2016 - 2017 of the Team’s parent body, the UNECE Committee on Innovation, Competitiveness and Public-Private Partnerships which had been adopted at the 10th session of the Committee on 23-24 May 2016 (ECE/CECI/2016/5).

46. The Team agreed on its implementation plan for work to be undertaken in 2017 which is in accordance with the Inter-sessional Implementation Plan for 2016-2017 of the Committee on Innovation, Competitiveness and Public-Private Partnerships (ECE/CECI/2016/5).

47. The following outputs and activities will be delivered:

(a) A parliamentary document for the 2017 session of the Committee on Innovation, Competitiveness and Public-Private Partnerships on “Innovation for Sustainable Development: Entrepreneurship and Finance”;

(b) A publication based on the policy discussions held during the 2016 session of the TOS-ICP;

(c) The Innovation for Sustainable Development Review of Belarus to be published translated into Russian and launched in the country in early 2017;

(d) A national Innovation for Sustainable Development Review of Kyrgyzstan;

(e) Capacity-building activities and policy advisory workshops to support the implementation of the recommendations contained in Innovation Performance Reviews in Armenia, Belarus, and Kazakhstan, subject to the availability of extra-budgetary resources;

(f) Sub-regional capacity-building and knowledge-sharing conferences and workshops on policies for promoting knowledge-based development, including within the framework of the UN Special Programme for the Economies of Central Asia (SPECA) subject to demand from member States and the availability of extra-budgetary funding;

(g) A contribution to the substantive segment of the annual session of the Committee on Innovation, Competitiveness and Public-Private Partnerships in March 2017;

(h) A contribution to the substantive segment of the 70th Anniversary session of the Economic Commission for Europe in April 2017;

(i) A substantive contribution (organization of a session and/or side events) to the 2017 Multi-Stakeholder Forum on Science, Technology and Innovation for Sustainable Development to be held in New York on 15-16 May 2017.

48. The Chair encouraged Team members to participate in the planned activities and events. The decision will be subject to the UNECE Executive Committee's approval of the programme of work of the Committee on Innovation, Competitiveness and Public-Private Partnerships. He also reminded the Team that capacity-building activities require support through extra-budgetary funding and in-kind contributions and encouraged the Team to contribute to raising such extra-budgetary support.

VI. Other business (agenda item 5)

49. The Team agreed that its next meeting be held on 19-20 October 2017, subject to confirmation of room availability. Any changes in these dates will be made in consultation with the Bureau.

VII. Adoption of the Report of the session (agenda item 6)

50. The Team adopted the Report of the session.