



# **Creating an enabling environment for impact investment**

*Policy imperatives for governments*

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# Context

The cost of solving the world's most critical problems runs into the trillions, including an estimated US\$2.5 trillion annual funding gap needed to achieve the Sustainable Development Goals (SDGs).

Private capital is urgently needed to fill this gap.

Innovative finance solutions to mobilize private capital in new and more efficient ways towards development objectives have been pursued.

One such solution is impact investing.

# What is impact investing?

*Impact investments are investments made in to companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.*

*Impact investments can also be defined as investments in marginalized entrepreneurs and businesses*

# Impact investments require investible social enterprises

- Republic of Korea announced its Social Enterprise Promotion Act in 2007 which provides social enterprises with **business services, subsidized rents and reduced taxes.**
- Thailand's Social Enterprise Promotion Act provides **tax relief for businesses establishing social enterprises.**
- Malaysia's Social Enterprise Blueprint contains a variety of policy measures including **teaching social entrepreneurship in national education systems.**
- India's entrepreneurship policy framework has a focus on **social entrepreneurship education** through courses delivered by universities and academic institutions.
- The Government of Pakistan is establishing a Centre for Social Entrepreneurship to function as an **incubator for social enterprises.**

# Impact investment policies

## Governance, regulations and legislation

- India **Impact Investors Council**.
- Thailand National Taskforce on Social Impact Investment **incentivizes impact investment through tax reliefs**.
- Japan **unclaimed Property Legislation**.
- India **Corporate Giving Law**.

# Impact investment policies

## Direct funding initiatives

- Malaysia's **Social Outcomes Fund** will fund projects that assist marginalized communities.
- Australia's Water Abundance **X-Prize**: Innovators are incentivized to revolutionize access to fresh water by creating a device that extracts a minimum of 2,000 litres of water per day from the atmosphere using 100% renewable energy, at a cost of no more than 2 cents per litre.
- Metropolitan Government of Seoul **directive to procure goods and services from social enterprises.**
- Singapore **Green Label** policy.

# Impact investment policies

## Disaster Insurance

In May 2016, Sri Lanka was hit by the worst floods in 27 years which experts believe was a result of climate change. They caused economic losses of over US\$2 billion. A disaster insurance scheme undertaken by the Sri Lankan Government and facilitated by the country's sole reinsurer National Insurance Trust Fund (NITF) enabled the Government to promptly respond to the calamity and help thousands of affected citizens.

# Key messages

- Impact investing requires policies that foster a pipeline of investment-ready social enterprises (e.g. Pakistan Centre for Social Entrepreneurship).
- Impact investment can be incentivized through legislation (e.g. tax incentives).
- Direct government funding mechanisms are important sources of impact capital to build the market (e.g. Malaysia Outcomes Fund).
- Government procurement can incentivize more socially minded businesses (e.g. Singapore Green Label).
- Private sector financing instruments can be tailored to become impact investment instruments (e.g. Sri Lanka Disaster Insurance).



**Thank You**

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