

## Market Overview

South Korea's impact investment market, though nascent, is growing rapidly due to recent policy changes. Government-initiated impact investing wholesalers and fund-of-funds aim to disburse USD 668.6mn<sup>1</sup> over the next five years. Impact investing is gaining popularity among demand-side constituencies who have traditionally been supported by government contributions, and publicly available loans and guarantees. Market-building efforts led by the Korea National Advisory Board for Impact Finance (Korea NAB) aim to link domestic markets with global trends. By inviting speakers and showcasing global cases, such efforts raise awareness of impact investing among policymakers, foundations, asset owners and asset managers.

## IMPACT INVESTMENTS HIGHLIGHTS

### Supply of Impact Capital

- ▲ Most impact investments are government driven. Government-driven funding aims to supply USD 2.7mn for 2019, including loans, guarantees and equity investments, but excluding investment by the Social Value Solidarity Fund (SVSF). This figure is expected to increase over the coming years.
- ▲ Government-backed impact investors include guarantee organizations (e.g., Korea Credit Guarantee Fund, Korea Technology Finance Corporation), mutual financial institutions (e.g., National Credit Union Federation of Korea, Korea Federation of Community Credit Cooperatives) and fund-of-funds (e.g., Korea Venture Investment Corporation, K-growth).
- ▲ Private impact investors often cooperate with government-driven funds and act as general partners for impact fund-of-funds, although some traditional private asset managers and owners act as limited partners.
- ▲ Regional governments also provide impact capital, such as Seoul (USD 48.3mn) and Gyeonggi (USD 10mn), while five smaller regional governments have committed a combined USD 8.3mn as of 2019.
- ▲ SVSF, an impact wholesale fund, was established in January 2019. The fund aims to invest USD 250.5mn over five years from 2020, with the government matching private funding secured by the fund.

### Intermediation of Impact Capital

- ▲ South Korea's 20 impact fund-of-funds, and 28 certified venture capitalist and asset manager impact investors intermediate USD 250.4mn in AUM as of 2019.
- ▲ With the exception of impact fund-of-funds, the intermediation of capital from government-related agencies is largely conducted via existing regional branches.
- ▲ Intermediation of regional government funding is usually provided via loan and guarantee agencies (e.g., National Credit Union Federation of Korea, Korea Federation of Community Credit Cooperatives) or impact-focused intermediaries (e.g., Korea Social Innovation Finance, Korea Central Council of Social Enterprise Mutual-Aid Fund).

### Demand for Impact Capital

- ▲ Social businesses in South Korea can take different legal forms. Legal categories include social enterprises (certified and pre-certification), social cooperatives (certified), community businesses (certified) and self-sustaining businesses (certified). Social ventures are eligible for support from government-financed impact fund-of-funds if they meet government impact guidelines.

## Government and Regulation

- ▲ Social finance policy is coordinated by the Ministry of Strategy and Finance, Ministry of Labor, Financial Services Commission (FSC), and Ministry of SMEs and Start-ups. A secretarial post within the President's Office facilitates coordination between ministries.
- ▲ The FSC runs a quarterly social finance review committee.
- ▲ A revision of the 2013 Basic Law for Social Economy, incorporating policy levers to promote social finance, is being reviewed by the National Assembly. The Social Finance Promotion Policy, introduced by the President's Office and FSC in January 2018, has been the most significant policy impetus to date.

## Market Builders

- ▲ Korea NAB was established in 2018. Korea NAB advises government, builds media attention, develops new investment strategies and practices, and promotes measurement practices regarding impact investing. Korea NAB established Impact Management Korea (IMK) to develop consensus-based impact measurement and management standards, echoing the global Impact Management Project (IMP) initiative.
- ▲ The Korea Credit Guarantee Fund is developing a social business assessment system to enable social finance organizations to assess the financial and social value created by social businesses.

Indicators <sup>A</sup>	
GDP PPP (2011 US\$, billions)	1,849.6
Total Population (millions)	51
GINI Index	31.6
HDI	0.903
MPI	N/A
EPI	62.3

## KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
Korea Venture Investment Corporation (gov't funded)	D3Jubilee Partners	Test Works
Korea Venture Investment Corporation (gov't funded)	Coolidge Corners Investment	ECubeLab
K-Growth (gov't funded)	The Wells Investment	JibToss
Social Investment Fund (Seoul Metro City)	Korea Social Innovation Finance	Big Issue Korea
RBC Bank	BDC Capital	PlayLab
FTQ Pension Fund	InvestEco	BioDiaspora

## SPOTLIGHT DEALS<sup>B</sup>

Company	Total Funding	Investor	Sector
ToDoWorks	\$ 2M	D3Jubilee Partners	Disability and work
Enuma	\$ 4M	Yellow Dog	Education
Poyen	\$ 2.5M	SKE, Shinhan Alternative Investment	Environment

<sup>1</sup> Exchange rate used throughout the document: KRW 1 = USD 0.0008

## ABCs of the South Korean Impact Economy<sup>C</sup>

An impact economy is a just and equitable economic system in which positive impact – alongside risk and return – are embedded. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sections of society while taking concerns regarding our planet and its environment into consideration.

The following table shows actions undertaken by various stakeholders in South Korea that exemplify the adoption of strategies that **A**void harm, **B**enefit all stakeholders and **C**ontribute to solutions. Government has been prominent in fostering South Korea's impact investing landscape. The South Korea's social economy is a regional leader, with South Korea having been the first country in East Asia to introduce legislation defining social enterprises.

	Avoid Harm	Benefit all stakeholders	Contribute to Solutions
<b>IMPACT IN BUSINESS</b>	<ul style="list-style-type: none"> <li>▲ In May 2018, the SK Group announced that it would apply a double bottom line of social and financial returns to its businesses, the first large conglomerate in South Korea to do so.<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ In July 2018, Korea East-West Power was the first to issue a sustainability bond, raising USD 500mn for energy construction and SME financing projects.<sup>2</sup></li> <li>▲ There are 13 B Corporations in South Korea.</li> </ul>	<ul style="list-style-type: none"> <li>▲ In September 2019, there were 2,306 social enterprises, 1,242 pre-certification social enterprises and 16,246 social cooperatives, while there were 1,555 community businesses in March 2019 and 1,211 self-sustaining businesses in December 2018.</li> <li>▲ The Happiness Foundation, the CSR arm of SK Group, primarily provides support to social enterprises through mainstreaming impact investment among financial institutions. The foundation invests in social enterprises through loans, convertible bonds and equity. It has disbursed impact capital through direct investments in social enterprises (USD 4mn), government-run social enterprise funds (USD 2mn) and the Social Investment Fund (USD 4mn).<sup>3</sup></li> </ul>
<b>IMPACT IN INVESTMENT</b>	<ul style="list-style-type: none"> <li>▲ The South Korean National Pension Service (NPS), with close to USD 500bn in assets in Korea, is one of the largest players in the South Korean financial industry. On 12 April 2019, in a forum co-sponsored by UNEP FI, called "Mainstreaming Social Impact Investing in Pension Funds," South Korean presidential candidates discussed integrating environmental, social and governance (ESG) considerations into the national pension system.<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ Since the country's first green bond was issued in 2013 by Korea Export-Import Bank, the green bonds market has matured, and includes Hyundai Capital's USD 500mn issue in 2016 and the Korea Development Bank's USD 300mn trade in 2017.<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ In 2016, the size of the South Korea impact investment market was around USD 45mn.<sup>6</sup></li> <li>▲ In February 2018, Korea NAB was established, with support from the British Council and UNESCAP. Korea NAB was the third NAB in Asia after India and Japan.</li> </ul>
<b>IMPACT IN POLICY</b>	<ul style="list-style-type: none"> <li>▲ Since April 2019, South Korea has lowered taxes on liquid natural gas by as much as 74% and raised taxes on thermal coal by 27% to drive the country's energy mix toward more sustainable sources.</li> <li>▲ In 2016, the FSC released the Korea Stewardship Code, a voluntary agreement to improve corporate governance and include ESG factors in investment decisions.<sup>7</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ New procurement legislation, the Special Law for Promotion of Social Economy Business Products and Distribution Channel, similar to the United Kingdom's Social Value Act, is being developed. The law will stipulate that government, including government agencies, local governments and public entities, should procure a minimum of 5% in value from social economy businesses, increasing the current rate of 1.18%.</li> </ul>	<ul style="list-style-type: none"> <li>▲ In 2007, the Social Enterprise Promotion Act was introduced in South Korea, paving the way for the formalization of social enterprises. Legally recognized social enterprises can receive government subsidies, tax benefits and preferential treatment.<sup>8</sup></li> <li>▲ The government has pledged USD 120mn per annum to match private funding for SVSF. The Ministry of SME and Start-ups, and FSC began providing USD 100mn and USD 200mn per annum, respectively, to capitalize impact fund-of-funds, starting from 2018.</li> </ul>

Avoid Harm		
		Benefit all stakeholders
		Contribute to Solutions
	<p>▲ There is currently no legal obligation for financial investors to include ESG into their decision-making. However, the FSC 2016 Stewardship Code and the NPS 2017 Stewardship Code led to widespread adoption of ESG principles. The codes promote investment in firms that are ethical as well as law abiding. The active engagement of public funds in the corporate governance of their investments is expected.</p>	<p>▲ The Ministry of Environment, and the Korean Environmental Industry and Technology Institute introduced the Green Credit Card scheme in 2011. The Green Credit Card is an incentive scheme that provides rewards to credit card users for purchasing low-carbon and eco-friendly products, using public transport, and reducing utility consumption (e.g., electricity, water and gas).</p>
<p>IMPACT ON CONSUMPTION</p>	<p>▲ 75.2% of people in South Korea consider the environmental performance of products when making a purchase. The most frequently purchased eco-friendly products in South Korea are organic agricultural products (49.5%), energy saving products (38.6%), products made from natural ingredients including cosmetics and clothes (34.6%), recycled products (27.4%), and eco-labeled products (22.3%).<sup>9</sup></p> <p>▲ As of 2016, 55% of the economically active population in Korea owned a green credit card.<sup>10</sup></p>	

## SDG Dashboard and Trends

### CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges
 ■ Significant challenges
 ■ Challenges remain
 ■ SDG achieved
 ■ Information unavailable

### SDG TRENDS



↓ Decreasing
 → Stagnating
 ↗ Moderately improving
 ↑ On track
 ●● Information unavailable

## Key Initiatives

### Use of outcome-oriented contracts and develop the social impact bond market

Two small-scale social impact bonds have been issued by the Seoul and Gyeonggi governments, addressing the education sector and services for children with special needs. The National Assembly is reviewing a law that would enable the government to invest in social impact bond projects, which current legislation does not allow. The Ministry of Interior and Ministry of Foreign Affairs are inviting proposals for social impact bonds.

### Educational initiatives

Tertiary-level education (e.g., bachelor and master) programs focusing on the social economy are taught at Hanyang, KAIST and Sungkonghwe Universities. However, courses on impact investing remain rare in South Korea's higher education institutions.

# Road to Impact Economy

## PATH TO TIPPING POINT 2020

### Impact measurement and standardized reporting

Korea NAB has established IMK, a consensus-based impact measurement standard. At present, measurement efforts are pursued independently by investors and consultancies, and are thus in need of a concerted effort to develop comparable measurement scheme similar to the efforts of IMP.

### Clarify fiduciary duty

Asset owners and managers in Korea often fail to incorporate ESG impacts in their investment decisions due to the lack of an explicit legal requirement to do so. Overall, there is little pressure from private investors or society at large for impact investing. Policy measures to promote education and awareness of the importance of considering the impact dimensions of investments are needed.

### Build awareness around impact investment

Evidence gathering, awareness raising and educational efforts should go hand-in-hand to mainstream the adoption of impact portfolios. Despite Korea's global firms (e.g., Samsung and Hyundai), philanthropic foundations and family offices in Korea represent a small share of impact investing. Various institutional and legal reasons have slowed the adoption of impact investment principles and practices by these organizations. Efforts to mobilize foundational assets for impact investing should involve easing legal barriers, and providing tax incentives similar to the PRI and MRI reforms in the United States. Impact investing education for younger generations should be fostered across all educational levels.

### Regulation surrounding social impact investing organizations vs regular financial institutions

Capital size and experience requirements for asset managers are key barriers for many aspiring impact investors. License requirements should be customized for impact investors and intermediaries different from the requirements for mainstream asset managers.

### Regulation surrounding outcome-oriented contracts

Improving the legal basis to enable governments to allocate budgets for social impact bond and outcome-oriented projects needs to be accomplished.

### Fiscal incentives

Fiscal incentives for impact asset owners and managers are an important way to channel capital to Korean impact spaces. Providing inductive tax benefits to foundations and corporations involved in impact investing should be pursued.

## TRANSITION TO IMPACT ECONOMY 2030

- ▲ South Korea faces challenges around population aging, the environment and gender equality. Given South Korea's rapidly aging population and the high rate of poverty among elderly people, social purpose organizations that can provide employment opportunities, welfare services or community support for the elderly can address the growing demographic challenge. Similarly, South Korean social investors could support female social entrepreneurs to address the issue of gender disparity in opportunity.
- ▲ South Korea's social enterprise ecosystem was built and continues to thrive on government investment. Korean social enterprises receive government subsidies and often have difficulty achieving financial sustainability once government subsidies are discontinued. Fostering alternative sources of financing will be necessary to harness the potential of the social economy.
- ▲ South Korea's growth narrative remains environmentally unsustainable. Current environmental policies are insufficient to protect the environment, preserve the sustainability of resources or improve air quality. At the same time, the share of renewable energy production in South Korea is the second lowest in the OECD. Developing an impact economy will require proactive steps to counter environmental consequences of economic growth.

### Footnotes:

- <sup>1</sup> **Environmental Performance Index** Available in: <https://epi.envirocenter.yale.edu/>; All other **indicators** available in: <http://hdr.undp.org/en/countries>
- <sup>2</sup> Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, 'Total Funding' refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.
- <sup>3</sup> The **ABC** of the **South Korean Impact Economy** table is adapted from the IMP framework.

### Sources:

- <sup>1</sup> AVPN (2019). South Korea. Retrieved from <https://avpn.asia/markets/south-korea/>
- <sup>2</sup> AVPN (2019). South Korea. Retrieved from <https://avpn.asia/markets/south-korea/>
- <sup>3</sup> AVPN (2019). South Korea. Retrieved from <https://avpn.asia/markets/south-korea/>
- <sup>4</sup> UNEP (2017). Mainstream social impact investing in pension funds in South Korea. Retrieved from <https://bit.ly/33h5yva>
- <sup>5</sup> ESG (2019). South Korea ups its sustainability drive. Retrieved from <https://esg.theasset.com/ESG/35716/south-korea-ups-its-sustainability-drive>
- <sup>6</sup> Shanzhai City (2018). South Korea Government has decided to provide

intensive assistance to Impact Investing. The Medium. Retrieved from <https://bit.ly/2VpWzVP>

- <sup>7</sup> AVPN (2019). South Korea. Retrieved from <https://avpn.asia/markets/south-korea/>
- <sup>8</sup> AVPN (2019). South Korea. Retrieved from <https://avpn.asia/markets/south-korea/>
- <sup>9</sup> Korea Environmental Industry and Technology Institute (2015). Policy Handbook for Sustainable Consumption and Production of Korea. Retrieved from <https://bit.ly/35gN6Vc>
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  - ▲ UBS (2015). Prosperity to Purpose.
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  - ▲ <https://data.worldbank.org/indicator/SI.POV.DDAY?locations=IT> (Accessed 19/12)

SUPPORTED BY:

