MIKTA
A partnership for progress

GSG Driving real impact

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KOREA National Advisory Board for Impact Finance 한국임팩트금융민간자문단

EY DK Impact Investing Advisory Board

Impact Investing Australia

Joint Forces for Impact Investing

The Potential of MIKTA Countries

AUSTRALIA

INDONESIA

REPUBLIC OF KOREA

MEXICO

TÜRKİYE

December 2022

About the Report*:

This report is the result of a collaborative process championed by the Impact Investing Advisory Board, Türkiye (EYDK) and the Global Steering Group for Impact Investment (GSG), with the valuable contributions, commitment, and trust of the GSG network members, Alianza por la Inversión de Impacto México, Seedstarters Indonesia, Korea National Advisory Board for Impact Finance, and Impact Investing Australia. This initiative falls within the context of Türkiye's term presidency of the MIKTA platform, a cross-regional group of the five G20 member nations working on the idea that cooperation could bridge divides between developed and developing nations and build consensus on issues which would be relevant to all regions.

The report highlights the current status of impact investing in the five MIKTA countries, as well as key challenges and opportunities locally. It also provides a set of policy recommendations for policymakers, which have been proposed considering the diversity of the group and the state of development in each country. The report includes the results of an online survey that has been conducted by EYDK with the participation of the project partners during the period of July-August 2022, as well as the country profiles which are publicly available through GSG's website.

This work aims to shed light on impact investment as a fast-growing and promising investment practice within the sustainable finance field and aims at encouraging further closer collaboration among MIKTA countries and between the impact investing ecosystem and policymakers locally.

About the GSG:

The GSG (Global Steering Group for Impact Investment) brings influential stakeholders from the private and public sectors together to collaborate on its mission to shift economies to deliver positive outcomes for all people and the planet. To achieve this objective, the GSG innovates, agitates, advocates, and orchestrates an effective and diverse global impact movement in close partnership with the National Advisory Boards (NABs).

The GSG's NABs currently cover over 35 countries, with more than 20 additional countries on the way to establishing their own NABs. A NAB is a local platform representing all the stakeholder groups needed to redirect significant capital flows towards positive social and environmental impact. Private-sector-led, yet in close partnership with national governments, NABs create awareness and market intelligence, help change policies, and mobilise additional financial resources for the public good. The GSG and its community are active in over 50 countries and partners with many organisations at the forefront of the impact sector.

*This report was solely developed as a concept note for a specific MIKTA side event that was held virtually on December 15th, 2022, with the participation of the project partners and the MIKTA Presidency. It is not an official policy document. Project Partners agree and acknowledge that data, statements and other information provided are for reference purposes only, without express or implied warranty as to accuracy, reliability, or fitness for any particular application.

*Country GDP and population information used in this report is taken from the IMF World Economic Outlook October 2022 database.

Executive Summary

Impact investment optimises risk, return and impact to benefit people and the planet by setting specific social and environmental objectives alongside financial ones and measuring their achievement. As more people and organisations get involved and become more successful in impact investing, there is a cumulative effect. Impact investing actively contributes to the solutions necessary for succeeding in Sustainable Development Goals in a transparent and collaborative manner.

GLOBAL PERSPECTIVE

Delivering on the long-term commitments of the world's political and private sector leaders, such as Sustainable Development Goals (SDGs) and the agreements on climate action, requires urgent, holistic action.

Public funds would not be enough for this, but with more than USD 250 trillion in investable assets, private sector investment could be mobilised to bridge the global funding gap for the SDGs. Government support would be essential in this regard.

Impact investing is positioned as an essential component of this process, with more than USD 1 trillion assets under management through its diverse and innovative financial vehicles and structures.

The value proposition of impact investing is also supported by a major paradigm shift:

- The shift in the values of consumers, talent, and investors transforming the social and economic fabric.
- Huge leaps in digital technology enable delivering and measuring social and environmental impact.

COMMON RECOMMENDATIONS OF MIKTA COUNTRIES

Despite the specificities and existing differences between MIKTA countries (Mexico, Indonesia, Republic of Korea, Türkiye, and Australia), this report showcases the fact that most of the challenges, opportunities and relatedly policy recommendations to advance impact investment is highly similar among these *five countries.*

Governments should prioritise impact investing and coordinate the efforts towards nurturing and scaling local ecosystems.

MIKTA NABs also pledge to:

- Meet quarterly for enhanced cooperation,
- Prepare a follow-up report for the year-end 2023,
- Establish a cross-regional convening platform.

Governments should work with the National Advisory Boards (NABs) and other key actors on platforms to support ecosystem development through:

- Awareness raising, capacity building, and networking.
- Adopting a national strategy and passing enabling legislation.
- Data transparency and impact measurement and management.
- Blending and channeling the existing pools of capital (e.g. pension funds, public resources, venture philanthropy) towards impact investing.
- Attracting conventional investors with incentives and innovative financial structures and vehicles.

Global Perspectives

There is an increasing global consensus that **societies should move towards more sustainable economic development models that are beneficial for people and the planet.** Almost a decade ago, the world committed to take real and concrete action to respond to today's global crises and challenges, including climate change and increasing inequality. Political and private-sector leaders have pledged ambitious commitments to make this progress, including the Sustainable Development Goals (SDGs) and the agreements on climate action (such as the Net Zero carbon pledges and the Paris Agreement).

However, time is running out to deliver on these long-term commitments. **It has become clear (and exacerbated with the financial crisis resulting from the COVID-19 pandemic) that public budgets are limited and insufficient to fund a just transition to net-zero.** The International Monetary Fund (IMF) estimated that an investment of USD 2.1 trillion per year will be needed to meet the SDGs in five priority areas (education, health, roads, electricity, and water and sanitation) in emerging markets alone by 2030.

Thus, there is an urgent need to scale up the flows of capital towards investment opportunities that can address pressing social and environmental challenges. Public money will not be enough, but positively, with the world's investable AUM estimated at around USD 250 trillion, there is more than enough private capital to bridge the funding gap for the SDGs.

To allow the critical mobilisation of private enterprise, innovation and capital, it is essential to create the conditions and frameworks for it to urgently flow sustainably, at scale and with integrity into investment opportunities that embrace a three-dimensional assessment integrating impact to the traditional risk-return tolerances, following and fostering the public effort to meet these challenges. Public capital, policy and regulation need to be key enablers to accelerate the flow of investment to where it can have the most positive impact.

This mandate to explicitly invest in and with impact falls to a subgroup of the sustainable investment sector known as 'impact investment'. It proactively seeks investment opportunities that create a positive impact on people and the planet while rigorously measuring and managing that impact. Impact investment can help achieve both domestic and international development policy goals as long as governments can help to build the market and scale the investment approach within the mainstream financial industry.

The global impact investment market is expanding at a fast pace. In 2019, its market size was estimated at USD 715 billion, and by 2022, **assets under management (AUM) in impact investment topped the USD 1 trillion mark.** This represents not only a significant milestone but also portrays its potential as a still-growing industry with rising demand.

Financial structures to achieve impact range from more complex transactions such as results-based financing models (when the rate of return to investors is determined by the outcomes and impact achieved by a given programme) to thematic bonds such as green, social, and sustainable (GSS) bonds that are linked to supporting specific types of social and environmentally beneficial investments. These impact financing instruments have seen rapid growth in recent years.

For example, whilst the first green bond was issued by the European Investment Bank (EIB) in 2007 for USD 807.2 million, in 2021, the issuance of all sustainability-focused bonds (GSS and sustainability-linked) peaked at over USD 1 trillion.

Investors, as well as civil society and regulators, are becoming increasingly aware of the need to give greater prominence to social and environmental issues in investment decisions. This marks a clear opportunity to build on the impact investment market growth and create the conditions for more of that investable capital to be deployed for positive impact.

Building on the work by the Impact Taskforce (ITF), two actionable pathways can be identified as top priorities to mainstream impact investment: 1) transforming the quality and transparency of information on impact and 2) fostering new investment instruments and vehicles in support of the SDGs and a just transition, especially in emerging markets where the funding gap is greatest.

Two powerful tailwinds of change exist to arrive at these destinations. The first is the shift in the social values of consumers, talent and investors, which is already influencing corporate behaviour. The second is the huge leaps in digital technology, creating new and innovative opportunities to deliver and measure social and environmental impact. However, the headwinds against change should not be underestimated: system inertia in the financial markets remains strong, while barriers to mainstream investment still exist in areas of greatest need and impact potential. Furthermore, disclosure of non-financial information is unfit for purpose, as data remains unavailable, unreliable and/or difficult to interpret, draw insight from or, compare.

These challenges and opportunities to secure the delivery of the long-term commitments and sustainable development goals should be addressed with sustained leadership, promoting global cooperation and new models of public private partnerships: the gap between rhetoric and delivery cannot be narrowed without a more coordinated, innovative effort between public and private sectors.

Global cooperation between governments could provide incentives to encourage impact investment, working collaboratively to mobilise capital at scale in support of key global sustainable development targets.

MEXICO

Population

130.1

Million

GDP (USD)

1.425

Billion

Region

Americas

Trends:

As per the 2018-19 market data, impact investing attracted around USD 107 million* in the country. Mexico being one of the largest and most robust economies in the region, this amount could rise visibly in the near future. The impact investing ecosystem is already displaying diverse and extensive activity with blended finance and catalytic capital projects. The second impact investing summit was held in September 2022 and clearly showcased this dynamism.

There are numerous capacity building efforts towards entrepreneurs, but these could work more effectively through a more holistic framework with the collaboration of all key stakeholders. The need for a shared language and targets, and cross-sector collaboration is key to unleash the potential of impact investing in Mexico. Alianza por la Inversión de Impacto México, the local NAB, has identified more than 50 organisations and funds that promote impact investing in the country. The government plays a critical role in developing an impact economy in Mexico, by creating policy incentives and an enabling environment for impact investment to flourish. Involving pension funds, public resources, and venture philanthropy and raising interest from conventional investors towards impact investing would greatly contribute to the growth and empowerment of the ecosystem.

Challenges:

1) Lack of a shared language and conceptual framework around impact investment. Overall awareness level is still low.
2) Still way to go for the public sector to prioritise impact investing and take key strategic and regulatory actions
3) Well-intentioned but mostly disjointed capacity building efforts at the impact measurement and management side.
4) Suitable instruments for creating large, diversified portfolios, and invesvtment appetite are not yet present to attract traditional investors

Opportunities:

1) A platform to bring all key stakeholders together could radically accelerate the growth through awareness raising and capacity building, as the foundation is already strong
2) Creating incentives and introducing new financial vehicles would increase the impact capital supply from pension funds, conventional investors, public funds, and venture philanthropy

Policy Recommendations:

1) Create a central government unit that would come together with key stakeholders to create a common language, a coherent national strategy, and the necessary legislation and incentives for the sustained growth and diversification of the local ecosystem.
2) Establish a framework to support impact entrepreneurs in terms of networking, capacity building, and access to capital.
3) Make impact investing a national priority and promote the shift from traditional investments to impact investing.

*Impact Investing in Latin America Trends: 2018 - 2019, The Aspen Network of Development Entrepreneurs, https://andeglobal.org/?action=tracking&file=2021/02/LatAm-Impact-Investing-2018-2019-EN.pdf

INDONESIA

Population

274.9

Million

GDP (USD)

1.289

Billion

Region

Southeast Asia

Trends:

Indonesia is young in terms of development of its impact investment market. Still, it is the largest in the region regarding the number of investors, capital deployed, and deals. During 2019-20, a combined USD 307 million was mobilised by both impact investors and mainstream investors with impact exposure*. The impact investment ecosystem is expected to grow further in the upcoming years as awareness in global financial markets increases. Potential to access early-stage capital, blended finance mechanisms, and local capital mobilisation are essential upsides in the Indonesian market.

Currently, Indonesia is experiencing a trend towards the adoption of greater sustainability practices by the private financial sector, as mainstream and impact investors are showing increasing interest in the sustainable finance and impact investment agendas. This encouragement is essential as broader support of key local stakeholders must still be stimulated. To date, most of the impact investment funds and key players operating locally are foreign. This is yet expected to change as the Indonesian Government provides robust support to the impact economy, building on the momentum created by the country's G20 presidency in 2022, which has pushed the public sector towards greater efforts to achieve the SDGs. Leadership by a dedicated government agency would also contribute greatly to this process,

Challenges:

1) Lack of early-stage funding for high-impact companies to increase capital flow to impact investing companies and enterprises.
2) Lack of government incentives due to low awareness about impact investment (as an emerging theme).
3) Lack of data and transparency, as well as fragmented information from various stakeholders.

Opportunities:

1) Private capital owners and impact investors have potential to become a catalytic force in leading mainstream investors into impact investment, by providing guarantees and financial support.
2) Indonesia's recent progress in the SDG-related contexts such as the Integrated National Financing Framework (INFF) could be replicated to impact investing.

Policy Recommendations:

1) Appoint a leading ministry or government agency to coordinate all required efforts from the public, private and third sector towards building a national impact investment strategy.
2) Create venture capital vehicles to invest in early-stage impact businesses (building on previous records from state owned enterprises creating such vehicles to invest in early-stage startups).
3) Create a matching fund facility (providing soft loans, matched and managed by private venture capital) for early-stage impact investment efforts, implementing a blended finance instrument.

*Investing in Impact in Indonesia, ANGIN, https://www.angin.id/wp-content/uploads/2021/06/ANGIN-Report-Investing-in-Impact-in-Indonesia.pdf

REPUBLIC OF KOREA

Population

51.6
Million

GDP (USD)

1.734
Billion

Region

East Asia

Trends:

South Korea's impact investment market is growing rapidly thanks to the support and success of national and local government policies. The government-led impact investing wholesaler and fund-of-funds pledged to disburse USD 668.6 million over the period of 2018-2022. At a smaller scale, impact investing by private sector investors is estimated to be around USD 198 mn as of 2021 - compared to the combined market size in terms of assets under management, which is estimated to be USD 950 million. The Social Value Solidarity Fund (SVSF) is an important step forward with the aim to invest USD 250.5 million over five years from 2020 to provide patient capital for social enterprises, to finance social projects, and to foster social finance intermediaries. Furthemore, regional governments are also committed to impact investment and have implemented impact vehicles such as social impact bonds (e.g. in Seoul and Gyeonggi).

Impact transparency movements are growing locally, with the establishment of the G7 Korea Impact Alliance (KIA) - supporting the global transparency efforts led by the Impact Taskforce (ITF) - and the Korea Impact Valuation Institute (KIVI) - launched in 2022 in collaboration with the Impact Weighted Accounting Initiative of the Harvard Business School. KIVI works on converting impact performance into monetary figures, developing standardised methods, and nurturing the much-needed experts in the field of impact measurement, management, and valuation.

Challenges:

1. Lack of investment from pension funds, family offices and foundations due to legal restrictions and strict fiduciary regulations
2. Low incentives from venture capitalist to form impact funds, and from traditional investment to invest in impact funds.
3. High dependency upon government-backed impact funds due to low predictability of the impact investment market (produced by lack of a consistent support from government)

Opportunities:

1. Growing government interest in ESG investing could also be channeled towards impact investing in strategic areas such as green-tech and just transition
2. Momentum created by the country's active, pioneering position in the global impact measurement, management and monetary valuation movements (following ISSB guidelines), can potentially bring new opportunities for impact investment locally.

Policy Recommendations:

1) Redesign the strategy and management principles of the Social Value Solidarity Fund (SVSF) to restore its original purpose as an impact investing market creator.
2) Expand government support for fund-of-funds for impact investing, promoting capital mobilisation through vehicles such as KVIC and K-Growth, and through Korea Development Bank.
3) Promote legislation on pension funds regulation to enable and unlock AUM to be directed to impact investing (including National Pension Services and other public pensions)
4) Engage private sector stakeholders in the discussions on ISSB adoption, to provide an alternative disclosure mechanism to ISSB guidelines based on local frameworks

TÜRKİYE

Population

84.7

Million

GDP (USD)

806

Billion

Region

Eurasia

Trends:

Capital markets are embracing sustainability-linked vehicles, alongside with the recent sustainability reporting requirements. In H1 2022, USD 1.4 billion was invested in Turkish startups, making Türkiye one of the most vibrant ecosystems in the region. As the leading market builder supported by the public, private, and third sectors, Impact Investing Advisory Board (EYDK), the local NAB, is channeling this potential to impact entrepreneurship for creating a strong demand base for impact capital.

With Ankara Development Agency also establishing an impact fund, the interest towards blended finance and impact intermediation are growing. Existing pure impact funds have USD 25 million committed as of December 2022. Funds managed by Idacapital have been an early advocate and May 2022 saw the first-ever early-stage impact fund, Founder One, being established as an act of venture philanthropy. While equity investments are expected to play the largest role at this stage, social impact bonds are also discussed among stakeholders. Capacity building in impact measurement and management would also be an essential part of the growth narrative. Türkiye has the potential to become a regional market entry point for impact investing.

Challenges:

1) Relatively low awareness and capacity building, especially in terms of impact management and measurement in the ecosystem.
2) Lack of legislation promoting impact investment.
3) Lack of accessible, comparable, and reliable data to effectively implement impact measurement.

Opportunities:

1) Türkiye has the potential to be the regional market entry point for impact investing due to its geopolitical position.
2) Build on the momentum created by sustainability - and ESG-linked regulations and government strategy.
3) Growth in venture philanthropy and blended finance could be channeled towards impact funds.
4) The multiplying, catalytic effect of the upcoming Istanbul Finance Center.

Policy Recommendations:

1) Create a central government unit that would come together with key stakeholders to create a common language, a coherent national strategy, and the necessary legislation and incentives for the sustained growth and diversification of the local ecosystem.
2) Establish a framework to support impact entrepreneurs in terms of networking, capacity building, and access to capital.
3) Make impact investing a national priority and promote the shift from traditional investments to impact investing.

AUSTRALIA

Population

26.9

Million

GDP (USD)

1.725

Billion

Region

Oceania

Trends:

As the most developed impact investing market in the Oceanic region, the 2019 market size estimation had been USD 13.9 billion. Public entities have played a key role in growing the opportunities for impact investing. Through successive budgets since 2017-18 the Federal Government has reinforced its commitment to supporting the development of the social impact investment market, while various state governments have piloted social impact bonds and other outcomes based procurement and funding practices. With a more supportive policy environment, increasing number of dedicated impact managers and intermediaries, and changing consumer perceptions and preferences, the future for impact investment looks positive, notwithstanding barriers that still need to be overcome. This is consistent with the latest investor survey (completed in 2020), which indicated potential market demand over the next five years in the vicinity of USD 77 billion. Furthermore, Australia also has a very large pool of superannuation (pension) assets managed by institutional superannuation funds (as at June 2022, A$3.3 trillion, of which A$2.2 trillion is managed by institutional superannuation funds.)

Australia participates actively domestically and internationally in accounting-led sustainability and integrated reporting forums. Specifically to impact investing, RIAA's IMM Community of Practice provides a peer learning forum to develop IMM capability.

Impact Investing Australia, established in 2014, acts as the Australian Advisory Board to the GSG and administered the Australian Government's $5.3 million Sector Readiness Fund (SRF) through its Impact Investment Ready Program, enabling for-purpose businesses to grow.

Challenges:

1) Lack of a wholesaler to anchor investments.
2) Lack of mainstream institutional investor participation in impact investment.
3) Need for greater transparency, consistency and comparability of impact date, and for more robust impact measurement and management.
4) Need for a more holistic, systematic, and supportive policy environment.

Opportunities:

1) Changes in social norms and consumer preferences are raising recognition of business case for sustainability.
2) Greater role for concessional capital providers including trusts and foundations to play in bringing more catalytic capital to blended finance structures.
3) Building capability, capacity and investment pipeline, including investment readiness, more early stage support, blended finance and concessional capital.

Policy Recommendations:

1) Establish a national impact investment wholesaler to anchor capital and due diligence to support further capital raising from private investors with government and private sector capital contributions.
2) Promote more outcomes-based government procurement and funding.
3) Create an early-stage foundation to support entrepreneurs.
4) Appoint an office for impact investment in the federal government to provide holisticleadership.

MIKTA NABs Pledge to...

Meet quarterly to inform each other of the local and regional developments and to seek for potential cross-border partnerships with GSG's support and direction.

Prepare a follow-up report for the year-end 2023 to assess the progress, to identify potential bottlenecks, and to jointly develop local and global solutions.

Establish a convening platform in which the stakeholders of MIKTA countries could come together to develop joint initiatives for enhanced cooperation.

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