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**Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific:**
**Trade and investment**
**Information and communications technology, science, technology and innovation**

# Policies to enable business innovation for inclusive and sustainable development

## Note by the secretariat

*Summary*

The Sustainable Development Goals have contributed to transforming how the private sector operates. Additionally, corporations are beginning to realign their priorities in the face of shifting demands from consumers, investors and employees. Innovative business models such as social enterprises and inclusive businesses are emerging which purposefully aim to address social and environmental challenges through market-based approaches and to provide livelihood opportunities, products and services to those at the base of the economic pyramid. In addition, a new wave of investors is shifting the investment paradigm from investing for profit to investing for impact.

Governments in the Asia-Pacific region have spearheaded policies to enable such business innovations. The present document provides an overview of emerging policy options to promote business innovation for inclusive and sustainable development, drawing from policies implemented by States members of the Economic and Social Commission for Asia and the Pacific.

The Commission may wish to consider the policy recommendations contained in the present document and provide guidance for the future work of the secretariat.

# I. Introduction

1. Business has been a source of innovation and economic dynamism in the Asia-Pacific region. However, to achieve the Sustainable Development Goals, innovative government policies that incentivize businesses to focus on creating social and environmental value, as well as economic value, are urgently required.

* ESCAP/78/L.1/Rev.1.

2. In response to this challenge, innovative business models and practices – such as social enterprise, inclusive business and impact investing – are emerging. They can be defined as business models and practices that aim to generate social and environmental impact together with economic return.

3. Social innovators and entrepreneurs, the driving forces behind the above-mentioned business models and practices, are stepping up in the region in response to the coronavirus disease (COVID-19) pandemic. From providing educational technology and e-health services for the most vulnerable to developing community tracing initiatives, the work of social innovators and entrepreneurs is more critical than ever in the context of the pandemic, as they can reach those whom the market is unable to account for.[1]

4. The pandemic is driving businesses to transform, opening the door for them to innovate in their role as creators of value for communities, employees, suppliers and the environment. Social innovators and entrepreneurs are at the forefront of building back better, creating a new vision for inclusive economies that work for society and the environment.

5. Governments in the Asia-Pacific region have spearheaded national policy innovation to promote social enterprise, inclusive business and impact investing. For the very first time, member States agreed, in Commission resolution 73/9, to support the development of enabling environments for social enterprise and impact investing as outlined in the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific. In addition, States members of the Association of Southeast Asian Nations (ASEAN) endorsed the Guidelines for the Promotion of Inclusive Business in ASEAN.

6. The present document contains an overview of emerging policy options to promote business innovation for inclusive and sustainable development, drawing from policies implemented by member States of the Economic and Social Commission for Asia and the Pacific (ESCAP).

## II. Key concepts

7. Innovation is not just about technology. It can be defined as the implementation of a new or significantly improved product (good or service) or process, a new marketing method or a new organizational method in business practices, workplace organization or external relations.[2] In addition, social innovation can be defined as the process of developing and deploying effective solutions to challenging and often systemic social and environmental issues.[3] With these definitions in mind, and in the context of the 2030 Agenda, business innovations can be defined as new or significantly improved business practices aimed at developing and deploying effective solutions to social and environmental issues.

[1] François Bonnici, "Why social entrepreneurs are critical to our response to and recovery from the COVID-19 crisis", World Economic Forum, 5 May 2020.

[2] Organisation for Economic Co-operation and Development (OECD) and Eurostat, *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data* (Paris, 2005).

[3] Stanford Graduate School of Business, Centre for Social Innovation, "Defining social innovation". Available at www.gsb.stanford.edu/faculty-research/centers-initiatives/csi/defining-social-innovation (accessed on 1 March 2020).

8. Social enterprise, inclusive business, and impact investment are subsets of social and business innovation and can be defined as follows:

(a) A social enterprise is a business that generates revenue in order to address social and environmental problems;

(b) An inclusive business[4] is one that provides goods, services, and livelihoods on a commercially viable basis to people living at the base of the economic pyramid, making them a core part of the value chain as suppliers, distributors, retailers or customers;

(c) An impact investment[5] is an investment made into a company, organization or fund, with the intention of having a social and/or environmental impact in addition to generating a financial return.

9. Collectively, these three concepts have been referred to as impact enterprises, which can be defined as financially self-sustainable and scalable ventures that are actively managed with a view to producing significant net positive changes in the well-being of underserved individuals, the communities in which they do business and the broader environment.[6] Impact enterprises form part of the broader emerging concept of the impact economy, which can be defined as a system in which institutions and individuals give equal priority to social impact and financial impact when making decisions about how to allocate resources.[7] An impact economy is thus a very different kind of system from a traditional capitalist economy that prioritizes only financial returns.

## III. Policy options to promote business innovation for inclusive and sustainable development

10. Governments can support business innovation for inclusive and sustainable development in many ways. The present section contains an overview of existing policy tools, grouped into three categories based on the following roles of government (see figure):

(a) A market facilitator, which creates strategies and organizations that enable actors;

(b) A market regulator, which implements laws that enable, support, and incentivize actors;

(c) A market participant, which takes part in market exchanges by providing impact capital or sourcing from impact enterprises. [8]

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[4] Group of 20 Development Working Group, "G20 inclusive business framework" (2015).

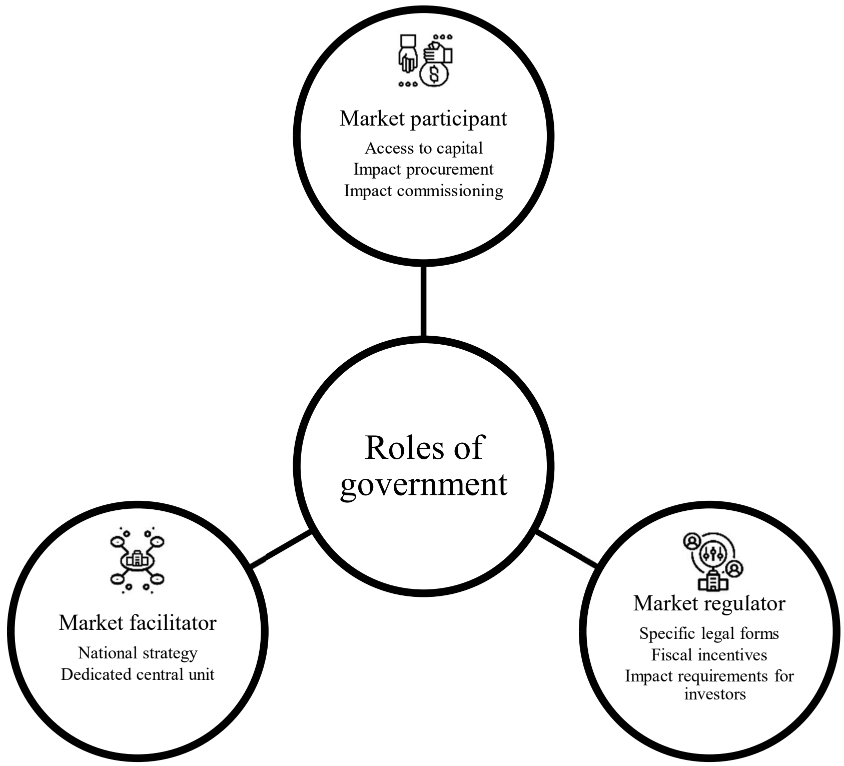
[5] Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry* (2009).

[6] Catherine H. Clark and others, "Accelerating impact enterprises: how to lock, stock, and anchor impact enterprises for maximum impact", SJF Institute and Duke University Fuqua School of Business, May 2013.

[7] David Fine and others, "Catalyzing the growth of the impact economy", McKinsey and Company, 5 December 2018.

[8] OECD, *Social Impact Investment 2019: The Impact Imperative for Sustainable Development* (Paris, 2019).

**Impact economy policy toolbox**




*Source:* ESCAP, based on the framework developed in partnership with the Global Steering Group for Impact Investment.

## A. Market facilitator

11. As market facilitators, Governments can develop strategies and create organizations that support, enable and incentivize the growth of the impact economy. In the Asia-Pacific region, Governments have used several policy tools in this regard, including the following:

(a) National strategies to provide a framework for the development of impact economies at the national level;

(b) Dedicated central units to serve as expert centres, within national administration structures, for oversight and implementation of impact economy policies.

### 1. National strategies

12. Several Governments in the Asia-Pacific region have or are in the process of developing national strategies to guide and shape progress on business innovation for inclusive and sustainable development. Some Governments have developed specific stand-alone strategies to support social enterprises, including the Governments of the Republic of Korea (Social Enterprise Promotion Act), Thailand (Social Enterprise Promotion Act), Viet Nam (Law on Enterprise) and Malaysia (Social Enterprise Blueprint 2015–2018). These strategies typically include a range of supportive measures such as capacity-building, fiscal incentives, incubation facilities, market linkage services and certification for impact enterprises.

13. Other Governments have taken a different approach to strategy development with regard to business innovation for inclusive and sustainable development. For example, instead of having a stand-alone strategy for social enterprise development, the Government of Indonesia has made social entrepreneurship a pillar of its five-year national plan. Additionally, the Government of Cambodia aims to offer opportunities for inclusive businesses and social enterprises as part of its National Policy on Science, Technology, and Innovation 2020–2030.

## 2. Dedicated central units

14. The aim of dedicated central units is to ensure that policies and strategies are implemented consistently for all policy functions and to serve as a focal point for both public and private actors. Central units exist mostly in countries with a national strategy in place.

15. For example, the Social Enterprise Promotion Act of 2006 promotes social enterprises in the Republic of Korea, and the Korea Social Enterprise Promotion Agency[9] was set up as a dedicated government agency to oversee the implementation of the Act. The Agency focuses on the following areas:

(a) Certification of social enterprises according to criteria outlined in the Act, granting them access to a wide range of benefits, and monitoring and evaluation of these enterprises;

(b) Capacity-building for social enterprises, including professional services, specialized training courses through the Social Entrepreneurs Academy, incubation support and social venture competitions;

(c) Supporting social enterprises by offering financial incentives, including a wage subsidy for disadvantaged or underprivileged people, reduced corporation taxes, tax breaks for corporate purchases of social enterprise goods and services, long-term low interest loans and preferential public procurement policies;

(d) Encouraging local governments to support the national strategy, as in the case of Seoul, for example, where the metropolitan government has implemented its social economy policy and social enterprise support plan to provide comprehensive support for social enterprises through business services, public procurement, education, incubation and social economic zones.

16. The Malaysian Global Innovation and Creativity Centre[10] is another example of a dedicated central unit. It has a bold vision to create a vibrant and sustainable start-up and social enterprise ecosystem built on impact-driven innovation and inclusivity and is focused on the following:

(a) Nurturing and helping local start-ups and social enterprises to become successful and sustainable businesses;

(b) Cultivating a creative, innovative and entrepreneurial culture;

(c) Enabling a thriving and sustainable entrepreneurial landscape;

(d) Catalysing globalization opportunities through market access.

[9] www.socialenterprise.or.kr/eng/index.do, accessed on 11 February 2022.

[10] https://mymagic.my/about, accessed on 11 February 2022.

17. A different approach has been taken in Bangladesh, where a national advisory board for impact investment, rather than a dedicated central unit, has been set up to help to shape the sector. Established in 2018, the national advisory board sets the strategic direction for developing impact investment in the country. It is headed by the Ministry of Finance and includes the relevant regulatory bodies and Bangladesh Bank, the country's central bank. The national advisory board is currently developing a national strategy and action plan for impact investment, in collaboration with the secretariat, the Swiss Agency for Development and Cooperation and the British Council. A similar model has been used in Sri Lanka, where the secretariat has supported the development and establishment of a cross-government working group on social enterprises.

## B. Market regulator

18. Governments can build an enabling environment for the impact economy by introducing favourable laws and regulations, including the following:

(a) Specific legal forms to enable impact-focused enterprises to register and be distinguished from mainstream businesses;

(b) Fiscal incentives to reduce the tax burden for impact investors or provide tax breaks for impact enterprises;

(c) Impact requirements for investors which mandate that asset owners include impact as a consideration in their investment decisions, and standardized approaches to impact reporting.

### 1. Specific legal forms

19. Several Governments have defined specific legal requirements which businesses must meet in order to be able to register as social enterprises. Viet Nam was the first country in South-East Asia in which social enterprises were recognized as distinct legal entities. In the Republic of Korea, a specific legal form was introduced in the Social Enterprise Promotion Act. The Government of Thailand passed a Social Enterprise Promotion Act in which criteria, as opposed to a legal definition, are used to distinguish social enterprises from mainstream ones.

20. Some Governments have put official accreditation schemes in place to certify social enterprises that fulfil the legal definition and accompanying criteria. These special registration and certification schemes allow Governments to grant benefits, such as fiscal incentives or preferential procurement. For example, the Impact Driven Enterprise Accreditation, conducted by the Malaysian Global Innovation and Creativity Centre, provides benefits such as an income tax deduction.

21. Other Governments have implemented more informal initiatives, such as awards, to recognize impact enterprises. For example, the Ministry of Industry, Science, Technology and Innovation of Cambodia has named at least 10 local companies as champions of what is known as the Inclusive Business Enabling Environment for Cambodia model.[11]

[11] Khmer Times, "10 companies receive special recognition", 12 May 2020.

### 2. Fiscal incentives

22. Several Governments have used fiscal incentives to specifically benefit impact enterprises. For example, in 2016, the Government of Thailand passed the Royal Decree on Tax Exemption to provide tax benefits to social enterprises as well as to investors in such enterprises. The Decree includes financial incentives for both social enterprises and organizations that invest in social enterprises. It also includes a requirement that social enterprises allocate 70 per cent of their profits to society or invest in social enterprise businesses, with shareholder dividends capped at 30 per cent of profits. Firms that invest in or donate to social enterprises will also be allowed a 100 per cent deduction on corporate income tax, financial aid for starting businesses, an interest rate subsidy, and research and development support.[12]

23. The Government of Viet Nam also uses fiscal incentives, encouraging the uptake and growth of social enterprises by providing incentives such as long-term leases on infrastructure and land at preferential rates or exemption from registration fees charged for the use of land. Social enterprises are subject to a 10 per cent income tax (lower than the usual rate), exempt from paying income tax for four years after they start generating taxable income, entitled to preferential import and export taxes and, in some cases, exempt from value added tax.

24. With regard to inclusive business, the Philippines was the first country in the world in which a specific policy for promoting the sector was adopted. Since 2017, registered inclusive businesses have been eligible for fiscal and non-fiscal incentives. The incentives are aimed at businesses in the agribusiness and tourism sectors.[13]

25. The Government of Singapore has also utilized fiscal incentives to encourage the issuance of green bonds under the Sustainable Bond Grant Scheme. The scheme covers the costs incurred by the issuers of such bonds in excess of the costs of issuing conventional bonds.

### 3. Impact requirements for investors

26. Some Governments in the region have voluntary codes in place for investors, including environmental, social and governance safeguards, corporate social responsibility spending guidelines and impact investment regulations. Under such codes, asset owners and companies agree to include predefined social and impact criteria in their investment decisions and, in most cases, in their reporting mechanisms.

27. The integration of environmental, social and governance safeguards into investment decisions and the concept of responsible investing are increasingly being encouraged by policymakers. The Cambodian Sustainable Finance Initiative, for example, includes mandated safeguards and standards for environmental and social impact created by private sector activity. In most countries, however, the regulations related to responsible investing are voluntary. Japan, the Republic of Korea and Singapore all have a stewardship code in place, which is a set of opt-in guidelines for investors including environmental, social and governance principles.

[12] Chatrudee Theparat, “Draft bill on social firms approved”, Bangkok Post, 11 July 2018.

[13] ASEAN, “Outcome report: second ASEAN Inclusive Business Summit”, 1 November 2019.

28. Governments are also creating corporate social responsibility spending guidelines. In India and Indonesia, guidelines have been implemented to mandate that companies of a certain size spend a percentage of their profits on corporate social responsibility activities. The Government of India recently announced that big companies would be able to invest in impact start-ups through certain predefined mechanisms as part of their contribution to corporate social responsibility.

29. In some countries, impact investment regulations have been introduced in order to increase the flow of private capital to impact-driven businesses. In India, the Alternate Investment Funds Regulations of 2012 allow impact funds to operate under a set of rules that takes into account their specific needs. In the regulation, social venture funds are recognized as a category and a specific legal form is established for them. A similar regulation was put in place in Bangladesh in 2015 in the form of the Securities and Exchange Commission alternative investment rules.

## C. Market participant

30. Governments can also strengthen the impact economy as market participants. They can do this by the following means:

(a) Providing access to capital, through programmes and government-run funds, to impact enterprises or impact investment funds;

(b) Embedding societal and environmental considerations in public procurement decisions;

(c) Impact commissioning, which includes policy measures such as payment-by-results contracts and government outcomes funds.

### 1. Access to capital

31. Several Governments have existing initiatives and policies to provide access to capital for impact enterprises. These initiatives include government-backed impact investment funds, credit guarantee programmes and green bonds:

(a) There are few examples of government-backed impact investment funds, as most of them are managed by the private sector. However, one such example is the Samridhi Fund in India. The Small Industries Development Bank of India has set up this $55 million social venture fund to provide growth capital, in the form of equity or equity-linked instruments, to companies with development impact in eight states;[14]

(b) Credit guarantee programmes allow social enterprises access to loans under preferential conditions, with the funders providing guarantees to cover the default risk of the borrowers. Social enterprises often find it challenging to access conventional bank loans, as they are unable to provide the kind of collateral required. For example, the Korea Inclusive Finance Agency provides guarantees for loans worth up to $7 million for firms working on social issues.[15] The provincial government of Shanxi and the Government of China are also guaranteeing a sovereign loan of $100 million issued by the Asian Development Bank to finance the Shanxi Integrated Agriculture

[14] www.sidbiventure.co.in/samridhi_fund.html, accessed on 11 February 2022.

[15] Korea Bizwire, "Gov't to boost policy support for social impact investments", 4 April 2018.

Development Project. The aim of the project is to create 20,000 new jobs for poor and low-income people by supporting inclusive businesses;[16]

(c) Green bonds, or bonds that are focused on investments with a positive environmental impact, have been set up by various governments. In China, the Green Credit Guidelines and the Guidelines for Establishing a Green Financial System are focused on increasing lending to innovative green businesses that are commercially viable. This increased lending includes green bonds that unlock private capital for projects with an environmental or climate change focus. The first green bond in Indonesia was introduced in 2018. In Malaysia, the Green Technology Financing Scheme was introduced in 2010 to finance the capital expenditure of companies producing green technology.[17]

### 2. Impact procurement

32. Several governments have supported impact enterprises and embedded social value in public procurement decisions by procuring from impact enterprises or integrating social and environmental metrics into procurement programmes.

33. For example, under the "Make in India" policy, a "Zero defect zero effect" certification for products and services was introduced. The certification includes parameters on minimal negative social and environmental effects. Enterprises with this certification are classified as preferred sellers in the Government e-marketplace, the country's e-procurement portal for public agencies. In Singapore, under the National Environment Agency Act 2002, minimum energy performance standards and a mandatory energy labelling scheme for certain electrical appliances were introduced. These standards are being used as a reference for implementing green public procurement measures.

34. In Seoul, a 2014 municipal ordinance on increasing the social value of public procurement serves to promote preferential purchase of goods or services produced by social enterprises. The ordinance also serves to support social enterprises with regard to business improvement and product and service development.[18]

### 3. Impact commissioning

35. By adopting payment-by-results tools, Governments can shift from a traditional focus on the purchase of inputs to the commissioning of social impact and outcomes. This approach can also attract additional private funding for public policies and help to generate ideas from a wider range of sources on how to best provide public services.[19]

[16] Asian Development Bank, *Inclusive Business Market Scoping Study in the People's Republic of China* (Manila, 2018).

[17] Bernama, "Green Technology financing scheme 2.0 receives encouraging response", Malaysiakini, 31 May 2019.

[18] Eunae Lee, *Status of Social Economy Development in Seoul: A Case Study of Seoul* (Seoul, Global Social Economy Forum, 2016).

[19] Miguel Maduro, Giulio Pasi and Gianluca Misuraca, *Social Impact Investment in the EU – Financing Strategies and Outcome Oriented Approaches for Social Policy Innovation: Narratives, Experiences, and Recommendations* (Luxembourg, European Union, 2018).

36. One of the most widely adopted payment-by-results schemes is the social impact bond. Social impact bonds help Governments to overcome challenges to invest in prevention and early intervention by bringing in impact investors who provide flexible funding to impact enterprises. Financial returns are tied to the delivery of measured social outcomes. The Government repays the investor only if the social outcome is achieved, adding a return for the risks they took.

37. The most extensive national experience in introducing social impact bonds in the region is found in Japan. In 2017, the cities of Kobe and Hachioji introduced social impact bonds to prevent chronic diabetic kidney diseases and mitigate the effects of colorectal cancer. In the Republic of Korea, the Korea Social Investment Foundation and the Department of Women and Family Policy of the metropolitan government of Seoul partnered to introduce a social impact bond on child welfare, and in Gyeonggi Province, a social impact bond targeting workforce development was introduced in 2017.

38. In some countries, outcomes funds have been launched in order to foster the development of the social impact bond market. An outcomes fund typically operates as the outcome payer in a social impact bond scheme. The first social outcomes fund in Asia was launched in Malaysia in 2017. It is managed by National Innovation Agency Malaysia.[20]

# IV. Work of the secretariat on business innovation

## A. Regional initiatives

39. In addition to supporting enabling environments for social enterprise and impact investing as outlined in the regional road map for implementing the 2030 Agenda, the secretariat has supported the promotion of social enterprise, in collaboration with ASEAN member States, through the ASEAN+3 Conference on Social Enterprises.

40. Leaders in ASEAN have encouraged Governments and the private sector to continue promoting inclusive business in their Vision Statement on Partnership for Sustainability and the Chair's statement of the thirty-fifth ASEAN Summit. The ASEAN Coordinating Committee on Micro, Small and Medium Enterprises also identified the development of regional guidelines for inclusive business to guide policy development in ASEAN member States as a priority deliverable for 2020.

41. The secretariat supported the development of the Guidelines for the Promotion of Inclusive Business in ASEAN, which have been endorsed by the Economic Ministers of ASEAN; ASEAN is the first region in the world to adopt such a set of guidelines. They provide a robust policy reference for ASEAN member States.

42. The Government of Cambodia, the 2022 Chair of ASEAN, has expressed a commitment to carry the torch of promoting inclusive business under the ASEAN umbrella, and the ESCAP secretariat is working in partnership with Cambodia on the ASEAN Inclusive Business Summit, scheduled to take place in 2022.

[20] Amanda Kee, "Making sense of impact investing in Asia", Asian Venture Philanthropy Network, 30 September 2019.

### B. National initiatives

43. The secretariat has supported several countries in the region to develop business innovation for inclusive and sustainable development at the national level and facilitate knowledge-sharing at the regional level.

44. With regard to research and analysis, to date, the secretariat has conducted social enterprise landscape studies to inform policy in Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka and Viet Nam. In addition, with regard to the implementation of the ASEAN Inclusive Business Framework adopted in 2017 at the forty-ninth ASEAN Economic Ministers' Meeting, ESCAP has supported ASEAN member States to develop national policies to promote inclusive business. This work has included conducting national inclusive business landscape studies in Cambodia, Malaysia and Viet Nam.

45. With regard to strategy and policy development, the secretariat has supported the development of many of the policy initiatives highlighted in the present document and has provided support to the Governments of Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Myanmar, Pakistan, the Philippines, Sri Lanka, Thailand and Viet Nam.

## V. Guiding principles for business innovation policy development

46. Governments in the region have demonstrated global leadership by implementing innovative and experimental policies to build ecosystems for social enterprises, inclusive business and impact investing.

47. The present document serves to highlight the breadth and diversity of policy approaches that Governments in the region have taken to harness the potential of business innovation for inclusive and sustainable development.

48. It is important to recognize that business innovation for inclusive and sustainable development is in its infancy. The evaluation of the impact of the policy initiatives highlighted in the document should be a policy priority for Governments, together with continued innovative policy experimentation, to establish what works and, of equal importance, what does not. Through these activities, best practice policy toolkits can be developed to unlock the potential of business innovation to achieve the Sustainable Development Goals.

49. The interventions that work best in a given country will depend on context. Wider market conditions vary greatly from country to country, as do societal and government priorities. However, the following set of basic and practical principles can guide effective action:

(a) Addressing real needs by conducting landscape studies to collect quantitative and qualitative data on the real needs of social innovators and entrepreneurs, which can be useful to ensure they are met by policies and strategies;

(b) Multi-stakeholder engagement, including in the form of multi-stakeholder groups with government and private sector representation, which can support practical policy and strategy development, as in the case of the national advisory board for impact investment in Bangladesh;

(c) Alignment and integration of national priorities on business innovation for inclusive and sustainable development with national development plans and the Sustainable Development Goals, as has been done in Indonesia, where social entrepreneurship has been included as a pillar of the country's five-year national plan;

(d) Appropriate and innovative policy development which takes into account local context and moves the field forward from a policy perspective;

(e) Regional cooperation, including the sharing of knowledge, effective practices and lessons learned, and regional guidelines such as the ASEAN guidelines for inclusive business, to help to scale up business innovation for inclusive and sustainable development.

# VI. Issues for consideration by the Commission

50. Members of the Commission may wish to share national experiences, including effective practices and lessons learned, in promoting business innovation for inclusive and sustainable development.

51. The Commission may wish to consider taking the following actions:

(a) Indicate the types of support, such as training and knowledge-sharing, tools, research and advisory services, that may be required from the secretariat to promote the formulation and adoption of national business innovation policies for inclusive and sustainable development;

(b) Make recommendations to the secretariat to advance business innovation for inclusive and sustainable development regionally;

(c) Identify new and priority policy issues related to business innovation for inclusive and sustainable development that the secretariat should address in greater detail.