Social Finance Roadmap for Malaysia

2016 - 2020

Agensi Inovasi Malaysia

asia IIX

Capital Markets for Social Good™

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SECTION 1: CONTEXT

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EXECUTIVE SUMMARY

SOCIAL FINANCE: AN EMERGING PARADIGM SHIFT

Over the last five decades, Malaysia has enjoyed one of the highest economic growth records in Asia despite a multitude of challenges and economic shocks, setting it on track to achieve its aspiration outlined in the **11th Malaysia Plan: 'to attain our aspiration of an advanced nation that is inclusive and sustainable by 2020'**. The nation ranks 46th on the Social Progress Index, outranking majority of its neighboring South East Asian countries. However, there is still much to be achieved. To make the nations' Vision for 2020, 'People First, Performance Now', a reality, it is imperative to mobilize new resources that can achieve scalable and sustainable impact and address large-scale, persistent and emerging social and environmental problems that are straining the economy.

The Social Finance space is well positioned to leverage the power of capital markets to unlock resources required to mitigate these endemic issues by complementing, as opposed to replacing, existing development efforts. The Social Finance construct includes but is not limited to Impact Investing, venture philanthropy, strategic philanthropy and differs from traditional grant based donor or philanthropic models by explicitly expecting a social and/or financial return, mandating achievement of demonstrable outcomes. While traditional development approaches alleviate symptoms of social issues, Social Finance seeks to diagnose and fund/create cure for paths to address the root causes of these problems.

Social Finance is the manifestation of two emerging trends in the development space: an increased focus on programs that deliver sustainable value and a desire to support collaboration between public and private sector. With a global market size of Impact Investing (investments that are intended to create positive social impact beyond financial return) expected to reach $1 trillion by 2020 (JP Morgan, 2010), Social Finance represents an untapped resource for Malaysia to complement existing government funding earmarked for sustainable development.

However, mobilizing supply of impact-oriented capital solves only one side of the equation. Aligning capital with demand would involve identifying and supporting Impact Enterprises (IEs) that use market based solutions to achieve a social or environmental mission. IEs can either be mission driven for-profits or revenue generating non-profits that are focused on high impact sectors including clean energy, water and sanitation, waste management, affordable housing, sustainable agriculture, access to healthcare and quality education. These entities represent a shift away from the traditional NGOs, that are grant-based or reliant on philanthropic capital, towards more scalable and sustainable solutions that can create transformative change from the bottom-up.

Catalyzing the Social Finance ecosystem in a systematic way will not only position Malaysia as a regional leader in the emerging Impact Investing and Impact Enterprise (IE) space, it will also catapult Malaysia towards being an advanced economy and an inclusive nation that redefines capitalism to create equitable wealth and democratizes finance to transform lives.

RATIONALE FOR A ROADMAP

A Social Finance Roadmap will provide Agensi Inovasi Malaysia (AIM) with a guideline of how best to leverage the potential of this space by building the ecosystem in an effective, inclusive and collaborative way. AIM has been at the vanguard of the Social Finance space in Malaysia and has constantly explored new frontiers of innovation to expedite socio-economic progress in the nation. By developing a Social Finance Roadmap, AIM will be able to further this agenda using available information, data and analysis to create a deep understanding of the issues that need to be addressed as well as a systematic approach to undertake a multi-year perspective on investments. IIX has developed this Roadmap for AIM to use as a decision making tool that will act as the cornerstone of its larger initiative to catalyze the space. The Roadmap will also serve as a platform to create a common language to avoid intended outcomes being lost in translation among a diverse set of stakeholders. It will also seek to strategically align incentives of different ecosystem players towards a common outcome and ensure smooth implementation by embedding feedback loops and progress checks through the program.

The Social Finance Roadmap will be aligned with Malaysia's broader socio-economic agenda with an objective to mobilizing additional resources, capital and expertise from a diverse array of stakeholders to complement existing development efforts and position AIM at the vanguard of the Social Finance movement in and beyond Asia.

NAVIGATING THE INTERIM REPORT

- The foundation of the Report is laid out in **Section 1** by an in-depth needs assessment based on the 11th Malaysia Plan, identifying focus areas within each of the six strategic thrusts that Social Finance can play a role to accelerate.
- **Section 2** outlines key stakeholders (public, private and non-profit sector) that can play a role in helping the Malaysian economy transition towards a more proactive approach to solving development challenges. This is complemented with a framework for leveraging the power of innovation to design interventions that are scalable, sustainable, inclusive and collaborative.
- **Section 3** captures global trends and best practices that can be replicated in Malaysia by critically assessing policies, interventions and initiatives that have been tried and tested in other parts of the world.
- **Section 4** provides a customized set of innovative financial instruments that are designed specifically for the Malaysian context that can help the nation transition towards a more resilient, innovative and proactive paradigm.
- **Section 5** provides an overview of the ecosystem in Malaysia and defines concrete interventions and programs that can mobilize supply of capital across the capital raise spectrum, develop demand by improving the ability of high impact entities to effectively absorb and deploy capital and create conducive policies to bridge the gaps.
- **Section 6** details the building blocks that can create an enabling ecosystem and equip Malaysia with the necessary infrastructure to institutionalize Social Finance.
- **Section 7** outlines the Strategic Framework that will guide the implementation of the Roadmap over the short, medium and long term.
- **Section 8** highlights the importance of adopting a multi-stakeholder approach, provides an engagement model to involve more private and non-profit players in the space and outlines a stakeholder map based on the interviews conducted during the Roadmap development phase.
- **Section 9** provides a summary of the Roadmap and reiterates the outcomes it aims to achieve.

METHODOLOGY

To develop this Social Finance Roadmap, IIX adopted a systematic approach involving 5 key phases as outlined below [Figure 1].

FIGURE 1: SOCIAL FINANCE ROADMAP KEY DEVELOPMENT PHASES

PHASE 1: CONCEPTUAL PHASE

As a first step, IIX acquainted itself with Malaysia's national agenda as set forth the in the 11th Malaysia Plan (2016 – 2020), with the overarching goal for the country to achieve a 'advanced nation' status by 2020. This effectively laid the foundation for IIX to develop a Roadmap that will leverage the potential of the Social Finance space to accelerate this agenda via the six strategic thrusts outlined in the 11th Plan. For the purpose of this Roadmap, IIX defines the Social Finance space broadly to include initiatives, institutions and investments that are able to create blended value, balancing financial stability with positive social and/or environmental impact.

Traditionally, the main supply side players are 'Impact Investors' who deploy capital with the intention of generating positive impact over and above financial returns. Primary demand side players that absorb and deploy this capital to deliver value are 'Impact Enterprises' (IEs) that can be either mission driven for-profits or revenue generating non-profits. In order to have a comprehensive view of the ecosystem, other key stakeholders that have been identified include but are not limited to: (i) Private Sector: Corporates and Financial Institutions; (ii) Public Sector: Governments and Donors; and (iii) Non-Profit Sector: Non Government Organizations (NGOs) and Foundations

PHASE 2: EMPIRICAL PHASE

The Empirical Phase will entail collection of primary data through interviews, surveys and meetings with relevant stakeholders and experts and secondary data through desktop research, thereby laying the foundation for taking an evidence-based approach to develop the Roadmap. The IIX team conducted an in-depth analysis of existing online literature via desktop research and from reports provided by AIM to understand the country-specific trends. In addition, IIX drew from its sister entity, Shujog's extensive research reports and corroborated the information with primary data gathered from IIX's comprehensive network of industry experts, ecosystem players, academic partners and leaders in the space who provided strategic insights and perspectives to shape and strengthen the Roadmap. IIX conducted 24 interviews with a diverse spectrum of relevant stakeholders within Malaysia and beyond to fill in the information gaps and verify results based on secondary data.

PHASE 3: ANAYTICS PHASE

The Analytics Phase will involve a thorough evaluation and assessment of relevant information to identify gaps and opportunities and translation of results into insights/conclusions. IIX leveraged its expertise in the Social Finance space to synthesize data collected from the empirical phase and design to conduct the following:

- **Ecosystem Mapping -** Landscaping exercise to understand activity level and presence of organizations positioned to mobilize supply of capital, develop demand for capital and bridge the gap.
- **Gaps Analysis -** Identifying systemic gaps and opportunities in the ecosystem in terms of capital, capacity, market linkages, knowledge and talent, among others.
- **Thematic Evaluation of Innovation** - In-depth analysis of 4 core themes of innovation: (i) Inclusive Innovation (ii) Scalable Innovation (iii) Sustainable Innovation (iv) Collaborative Innovation
- **Stakeholder Analysis** - Creating a continuum of stakeholders and classification into Stakeholder Triad. Outlining an inclusive approach to assess needs and measuring effective power (weighted combination of stakeholder salience and influence).

- **Innovative Finance Landscape Evaluation:** Evaluation of innovative financial mechanisms. Selection from existing mechanisms or developing new mechanisms that are customized to address Malaysia's needs.
- **Country-Level Analysis:** Evaluating policy-related strategies adopted by other countries. Evaluating Malaysia's current regulatory and legal regime to develop framework for reform.
- **Sector-Level Analysis:** Assessment of social and environmental impact created by key sectors. Evaluating availability of and access to capital to scale impact in these sectors and in-depth analysis of current investment type (debt, equity, mezzanine, etc.), sources (public, private) and volume.

PHASE 4: DESIGN PHASE

During design phase, IIX interpreted data to identify patterns, connect the dots and formulate strategies that can effectively catalyze the Social Finance space in Malaysia. Although IIX draws on best practices and insights from across the world, the Roadmap has been specifically customized to the Malaysia context – addressing key systemic gaps and optimizing potential opportunities. This involves developing key implementation strategies with concrete milestones and timelines, identification of potential ecosystem partners and pre-empting points of resistance and developing risk-mitigation strategies.

PHASE 5: DISSEMINATION PHASE

In the final phase, IIX will share sections of the paper with relevant industry leaders, industry experts and local stakeholders. The dual objective of this will be to (i) solicit feedback, opinions and insights to strengthen and adjust the Roadmap as required; and (ii) use the paper as a tool to galvanize support from key ecosystem players to facilitate smooth implementation.

STRATEGIC NEEDS ASSESSMENT

IIX has conducted a needs assessment based on the six strategic thrusts identified in the 11th Malaysia Plan [Figure 2]. This will ensure the Roadmap is strategically aligned with Malaysia's national agenda and that the Social Finance space can be leveraged to accelerate development efforts. Although in the 11th Malaysia Plan each Strategic Thrust is focused on multiple goals in the 11th Malaysia Plan, the Needs Assessment Matrix is based on three core tenets per thrust that Social Finance is well positioned to strategically address. The Matrix is formed of five columns that outline (i) the current scenario in Malaysia; (ii) the 2020 target scenario per the 11th Malaysia Plan; (iii) systemic gaps identified that must be addressed to achieve the target scenario; (iv) how Social Finance can address these gaps; and (v) anticipated outcomes.

FIGURE 2: SIX STRATEGIC THRUSTS IDENTIFIED AS PER 11TH MALAYSIA PLAN

The Matrix first outlines the current scenario in Malaysia followed by the target scenario the nation aims to achieve by 2020. The next column identifies the systemic gaps that would impede intended progress that need to be resolved to place the country on a sustainable trajectory in terms of holistic development encompassing both economic growth and social progress. The following two columns outline the role of Social Finance in addressing these gaps - mobilizing the required capital, resources, stakeholders or expertise as required – and the anticipated outcomes that would create transformative change in Malaysia causing a shift towards a more inclusive, resilient and proactive paradigm. This Roadmap aims to capture lessons learnt from these precedents, consider their potential to be replicated in a Malaysian context and epitomize what the Social Finance space is capable of achieving, if adequately catalyzed.

The following sections outline the needs assessment conducted in detail, highlighting how Social Finance is well positioned to address systemic gaps and magnify potential opportunities for Malaysia to achieve a developed nation status by 2020. The Social Finance space will achieve the following five anticipated outcomes:

- Mobilize new sources of large scale, mission-oriented capital to expedite the 11th Malaysia Plan.
- Bring in new private sector players into the nation's sustainable development equation.
- Advance scalable and sustainable solutions (IEs) beyond traditional service providers (NGOs).
- Transform the lives of vulnerable groups and empower the *rakyat*[1] to become catalysts of social progress and economic growth.
- Embed systemic resilience by shifting Malaysia's national development strategy towards a more proactive approach that will simultaneously mitigate social risk and reduce future financial burdens for the government.

As discussed above, IIX has identified three core tenets under each of the six strategic thrusts from the 11th Malaysia Plan. There is potential for each of these core tenets to be addressed by Social Finance interventions, as exemplified by 18 corresponding case studies from across the region. The map below [Figure 3] provides a snapshot these 18 case studies; further details on each case study are provided in the following section.

FIGURE 3: MAP SHOWING 18 SUPPORTING CASE STUDIES

[1] (In Malay) the ordinary people, especially when considered in relation to the government.

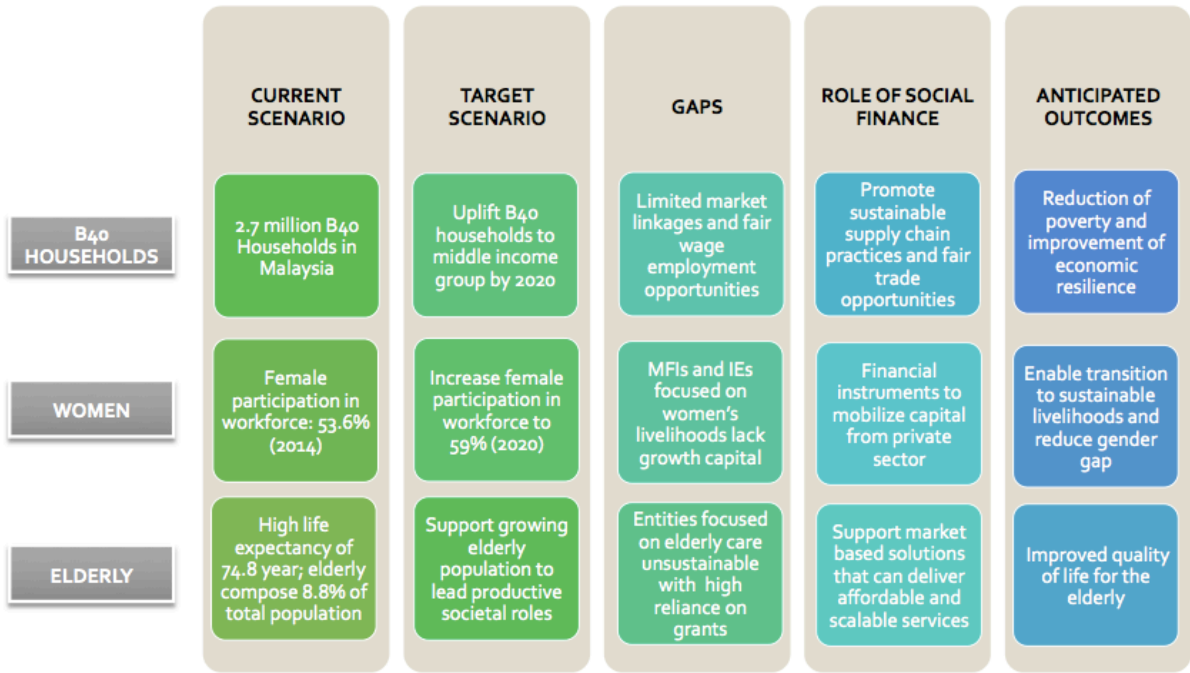
NEEDS ASSESSMENT: STRATEGIC THRUST 1

ENHANCING INCLUSIVENESS TOWARDS AN EQUITABLE SOCIETY

Strategic Thrust 1 focused on paving the way for a more equitable society while increasing wellbeing and quality of life across all segments. Inclusivity is the overarching goal of Malaysia's national socio-economic development agenda, ensuring that all citizens contribute towards growth and development regardless of gender, ethnicity, socio-economic status and geographic location.

Suggested Social Finance initiatives outlined in the section below can mobilize stakeholders across the ecosystem to make the economic, social and financial investments required to empower three key focus groups – B40 households[2], women and the elderly – to become change-agents, positioning them as catalysts that will equip Malaysia to transition towards a more inclusive socio-economic paradigm (Figure 4).

FIGURE 4: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 1: ENHANCING INCLUSIVENESS TOWARDS AN EQUITABLE SOCIETY



B40 HOUSEHOLDS:

The 10th Malaysia Plan (2011-2015) focused on enhancing economic potential of B40 households, making tremendous progress through government led human capital development and micro-enterprise support programs. However, there are still 2.7 million B40 households with a mean income of RM 2,537 in 2014. By 2020, the 11th Malaysia Plan aims to uplift the B40 households to a middle class status and increase the mean income to RM 5,270.

[2] The Bottom 40 (B40) group comprises an estimated 11.7 million or 40% of citizens in Malaysia that live within a household income of below RM3,050 per month.

Accomplishing this goal mandates increasing both the number of available employment opportunities and the average wage level of existing workers. It is imperative for the government efforts to be supported by other key stakeholders from the private and non-profit sectors that have the capital and resources to address both issues. Social Finance can play a role in achieving this, for instance, by encouraging corporates to be more strategic in terms of their Corporate Social Responsibility. Instead of one-time philanthropic donations, corporates can use funds internally to make their supply chains (the primary livelihood lifeline for B40 households) more inclusive and ethical. By adopting a bottom-up approach to strengthen livelihoods and income earning opportunities for B40 households, change can be created from the grassroots to uplift the B40 households to middle-income status. Using similar sustainable poverty reduction approaches will also control rising inequality and simultaneously improve economic resilience of the country.

CASE IN POINT

Unilever, Acumen and the Clinton Giustra Enterprise Partnership, an initiative of the Clinton Foundation, have launched a landmark Clinton Global Initiative (CGI) Commitment to Action called the Enhanced Livelihoods Investment Initiative (ELII) to improve the livelihoods of as many as 300,000 smallholder farmers and their communities in Africa, South Asia, Latin America, and the Caribbean. The ELII will be a three-year, minimum USD $10 million investment initiative to catalyze economic growth and alleviate poverty amongst low-income communities in the developing world, while creating more inclusive and sustainable value chains. One of the primary goals of the partnership, which leverages Acumen's and the Clinton Giustra Enterprise Partnership's market-based approaches to poverty alleviation, will be to create and scale-up privately-held enterprises which will support smallholder farmers and link them to Unilever's global supply chains and distribution networks.

WOMEN:

Women (representing 48.7% of the total population) are amongst the most marginalized and vulnerable members of the Malaysian society. The country ranks 102 out of 136 countries on the gender gap index. Even though women form 61% of the total graduate enrolment, because of high gender inequity, only 56% of women participate in the workforce (as labor or through entrepreneurship). The 11th Malaysia Plan recognizes the role of women in addressing the talent gap in Malaysia and by 2020, the Plan aims increase the female labor participation rate to 59% and enhance the role of women as decision makers. To achieve this, the nation must address a key systemic gap that keep women trapped in subsistence livelihoods - currently, Malaysian IEs and Microfinance Institutions (MFIs) recognize the importance of providing women with access to resources and capital to transition to sustainable livelihoods, but existing funding channels fall short of providing women-focused IEs and smaller MFIs (Tier 2[3] and Tier 3[4]) with the capital to scale their efforts.

Social Finance can accentuate gender inclusion by leveraging on the potential of innovative financial instruments to mobilize large amounts of capital from private sector players to support IEs and MFIs that are focused on women's livelihoods. By equipping these entities with the growth capital required to deepen impact and sustain operations, Malaysia will be well positioned to redefine the dominant narrative

3 Tier 2 MFIs size: total assets between $5 - $50 million
4 Tier 2 MFIs size: total assets under $5 million

from viewing women as victims to recognizing them as solutions. Empowering women has a powerful ripple effect on the rest of the economy – they are the backbone of rural enterprises and hold the key to food security and produce considerable multi-generational impact. Research reveals that improving a woman's financial stability will have tangible outcomes on improving the health and education of her children as well.

CASE IN POINT

The IIX Women's Livelihood Bond (WLB) is the first instrument in the IIX Sustainability Bond (ISB) series and is designed to unlock private sector capital for IEs and MFIs focused on women's livelihoods to scale operations, deepen impact and sustain results. A $20 million debt security, the bond will pool together a basket of high-impact entities into a Special Purpose Vehicle (SPV) based in Singapore. The SPV will issue the bonds that will be sold via IIX's Investment Banking Partners to accredited investors. This will be the first Impact Investing instrument to be listed on a stock exchange – IIX's Impact Exchange based in Mauritius, to provide an additional layer of secondary liquidity, ensure transparency of results and mitigate risk of mission-drift. The WLB focus countries are Cambodia, India, Indonesia, the Philippines and Vietnam.

The WLB represents IIX's commitment to the Clinton Global Initiative, is supported by the Rockefeller Foundation and has Sherman and Sterling as the official legal partners. Additionally WLB mitigates risk via credit enhancement features including a guarantee facility, provided by USAID. As such, the instrument effectively coalesces diverse stakeholders from public, private and non-profit sector to catalyze change.

ELDERLY:

The population aged over 60 in Malaysia is likely to increase from 8.8% in 2014 to 10.6% by 2020 with the average life expectancy at 74.8 years. The 11th Malaysia Plan aims to increase the participation of the elderly in the work force that will allow them to continue to lead productive and fulfilled lives. However, despite the positive results of strong initiatives on extending healthcare support that would enable this, the elderly face continue to face issues with mobility and poor availability of affordable equipment and care-giving services. Recognizing the gap, the Plan aims to improve social protection and enhance the living environment for the elderly but this would be highly resource intensive for the government to handle alone. Currently, most organizations that are focused on enhancing quality of life for the elderly are NGOs that are highly reliant on grants and donations in an increasingly resource constrained environment.

By effectively linking social sector initiatives with financing channels or creating self-sustaining revenue streams, Social Finance intermediaries can play a role in fueling market-based solutions that can ease part of the burden from the government. For instance, these intermediaries can launch initiatives to help NGOs focused on elderly care to become financially sustainable organizations that have potential to generate their own sources of revenue. This will shift the elderly care service sector towards a more sustainable trajectory that can effectively meet the anticipated growing demands, and simultaneously reduce financial expenditure of the government without compromising on the impact created.

CASE IN POINT

The Golden Concepts, an IE based in Singapore is aimed at enhancing lives of the elderly. The IE procures a wide range of eldercare products and provides easily accessible channels for the elderly and their caregivers to procure them. Elderly clients experience impact in terms of improved health by using these products that prevent falls and accidents, the costs of which are enormous and sometimes fatal. Not only does this prevent potential healthcare outlays by focusing on prevention, it also ensures the products are affordable for the target beneficiaries. The IE relies on revenue from sales as opposed to grants or donations, thereby allowing the management team to focus on scaling up services and sustaining impact over the long run.

NEEDS ASSESSMENT: STRATEGIC THRUST 2

IMPROVING WELLBEING FOR ALL

Improving Wellbeing for All has been identified as the second Strategic Thrust in the 11th Malaysia Plan, to further the health and wellbeing status of all citizens by addressing the socio-economic, physical, and psychological needs to enhance productivity and mobility.

Social Finance can unlock additional resources to accelerate government efforts and address some of the current structural impediments that are limiting progress on this front. Specifically, innovative financial mechanism and credit facilities can play act as game-changers for three core tenets – Preventative Healthcare, Affordable Housing and Road Safety – as detailed below [Figure 5].

FIGURE 5: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 2: IMPROVING WELLBEING FOR ALL

	CURRENT SCENARIO	TARGET SCENARIO	GAPS	ROLE OF SOCIAL FINANCE	ANTICIPATED OUTCOMES
PREVENTATIVE HEALTHCARE	High rate of death by diseases; Doctor : Patient ratio – 1:581	Address preventable diseases, Increase Doctor: Patient ratio: 1:400	Low investment in preventive measures	Mobilize upfront capital to invest in prevention and reduce future government expenditure	Improve cost-effectiveness of interventions and proactively address root cause of diseases
AFFORDABLE HOUSING	High demand for affordable housing by urban poor and rural communities	Improve availability of affordable housing for low and middle income groups	High upfront cost prevents home ownership for marginalized communities	Financial intermediaries to provide micro-loans enabling independent home ownership	Standard of living at micro level and increased national security at macro level
ROAD SAFETY	31.4 road fatalities per 100,000 vehicles	Reduction in fatalities by improving infrastructure and emergency services	Poor financial coverage for victims; limited resources for improving mobility	Leverage private sector expertise and capital to invest in systemic improvements	Reduced financial burden for all stakeholders

PREVENTATIVE HEALTHCARE

Malaysia performs relatively well on the Social Progress Index (SPI) for health and wellness (ranked 29th) when compared to countries with similar GDP. As of 2014, the ratio of doctor to population is 1:581 and the number of hospital beds was only 58,530. Further, people from the ages of 30-70 have a 20% probability of dying because of the four major non-communicable diseases - cardiovascular diseases, cancers, chronic respiratory diseases and diabetes. By 2020, the 11th Malaysia Plan aims to improve access to quality healthcare for all citizens by improving the doctor to patient ratio to 1:400 and ensuring 2.3 hospital beds per 1000 population. However, investment in prevention is a critical gap that still needs to be addressed in order to reduce the financial pressure of the government to execute these highly capital intensive interventions.

Social Finance can play a supporting role by unlocking upfront capital required to invest in prevention. Innovative financial instruments can bring in new private sector players into the healthcare sector to fund R&D, vaccination programs and screening tests that can save massive future capital outlays for the government and healthcare providers that would be required for treatments and cures. This will help Malaysia create a healthcare system that is proactive, cost-effective and sustainable in the long run.

CASE IN POINT

One of the key initiatives launched by Gavi is the International Finance Facility for Immunisation (IFFIm), which uses long-term donor pledges to issue vaccine bonds on the capital markets. The money raised from investors helps fund Gavi programs to meet immediate country demand for vaccines. This ensures a near-term positive impact on public health that strengthens and protects future generations. IFFIm has thus been able to raise $5 billion from investors, helping Gavi shift predictable donor funding through time.

This affords Gavi great flexibility, allowing it to access funds when needed most, not only when disbursable by its donors. The proceeds of vaccine bonds help ensure predictable funding and more efficient operations for Gavi, which has nearly doubled its spending on immunization programs since IFFIm was launched in 2006. In addition, Gavi can frontload funds when necessary for rapid roll-out of new and underused vaccines. For example, IFFIm funds enabled Gavi to stimulate country demand for the five-in-one pentavalent vaccine, enlarging the size of the market, attracting new manufacturers and reducing prices.

AFFORDABLE HOUSING:

When compared to countries with similar GDP, Malaysia has a relative strength for shelter (ranked 24th on the SPI) with 75.3% of poor households owning homes as well. The 11th Malaysia Plan aims to better increase availability of affordable housing through several government initiatives, such as Program Perumahan Rakyat 1Malaysia (PR1MA), Rumah Idaman Rakyat and Rumah Mesra Rakyat 1Malaysia, providing financial assistance to home owners as well as improving the regulatory framework to facilitate home ownership. However, the urban poor and marginalized rural communities continue to struggle with the high upfront costs required for home ownership.

Social Finance can complement public sector efforts through financing mechanisms for affordable housing, supporting intermediaries that provide microloans to financially excluded population segments (especially lower income, informal sector families) to own an independent home. This will allow the public sector to focus its limited resources on building and maintenance of low-cost housing and allow private sector players to address the issue of upfront affordability. A key strategic priority for the government, affordable housing is a basic human necessity at the individual level, improves informal workforce productivity at a community level and strengthens national security at a macro level.

CASE IN POINT

Micro Housing Finance Corporation Limited ("MHFC") is a mission-driven, financial intermediary with the objective to provide housing finance for lower income households (mostly in the informal sector) in urban India.

One of the issues stalling the development of low income housing is the lack of finance available to lower income households (especially those without documentation to prove incomes) to buy such homes. MHFC was set up to specifically address this gap.

The company received the necessary regulatory clearance from the National Housing Bank ("NHB") in the form of the Certificate of Registration ("COR") in Feb 2009 and sanctioned its first loan in June 2009, enjoying a zero default rate to date and a high GIIRS impact rating.

ROAD SAFETY:

In 2014 the "Global Burden of Disease" study (led by the Institute for Health Metrics and Evaluation at the University of Washington) revealed that worldwide, road injuries kill more people than AIDS. In 2013, the combined death toll from all unintentional injuries was 3.5 million people. Only heart disease and stroke were greater killers. Malaysia has the highest road fatality risk (per 100,000 population) among the ASEAN countries,[5] and was ranked among the top 25 most dangerous countries for road users, with 30 fatalities per 100,000 individuals.[6]. Further, road accidents can lead to severe impoverishment for economically disadvantaged urban citizens.

By 2020, the 11th Malaysia Plan aims to achieve an optimized response time of 8 minutes and reduce the road fatality index to two per 10,000 registered vehicles. However, the incidence of road accidents is increasing at an exponential rate in cities across the nation as it deals with the dual issue of escalating population and inadequate transportation infrastructure in densely populated cities. These factors make improved road-etiquette awareness and adequate financial coverage for accident victims critical constituents of a city's resilience infrastructure – both aspects have been identified as gaps in the current system.

5 http://www.sciencedirect.com/science/article/pii/S0386111212000076
6 according to research by the University of Michigan.

Social Finance can play a role by leveraging private sector expertise and resources to make systemic improvements. This can either be in the form of infrastructure to enable smoother mobility or by deploying capital for emergency services. This will effectively mitigate potential financial shocks on all stakeholders, providing a safety net for the families of low and middle-income victims and reducing the capacity constraints faced by healthcare providers. Additionally, philanthropic capital and private sector expertise can be combined to address the current lack of investment in road safety and emergency services - cited as one of the primary reasons for the increased fatalities in Malaysia. The following 'case in point' is a perfect epitome of such an intervention.

CASE IN POINT

The Toyota Mobility Fund (TMF) launched its first pilot program in Bangkok, Thailand, earlier in 2015, to address urban transportation challenges. The program reflects the Foundation's philosophy of combining Toyota's knowledge with the expertise of partners to enable more people around the globe to move safely, efficiently and enjoyably.

In Bangkok, Thailand's most populous city, TMF and Toyota Motor Thailand (TMT) will partner with Chulalongkorn University (Chula) in parallel with existing efforts led by the World Business Council for Sustainable Development to launch a comprehensive traffic and congestion management project that targets the heavily-congested Sathorn Road. The project, which will take an estimated year-and-a-half to complete (April 2015 – December 2016) and a 110 million Thai baht (approximately 400 million Japanese yen) investment, will create a road map to manage traffic control and flow by focusing on four areas:

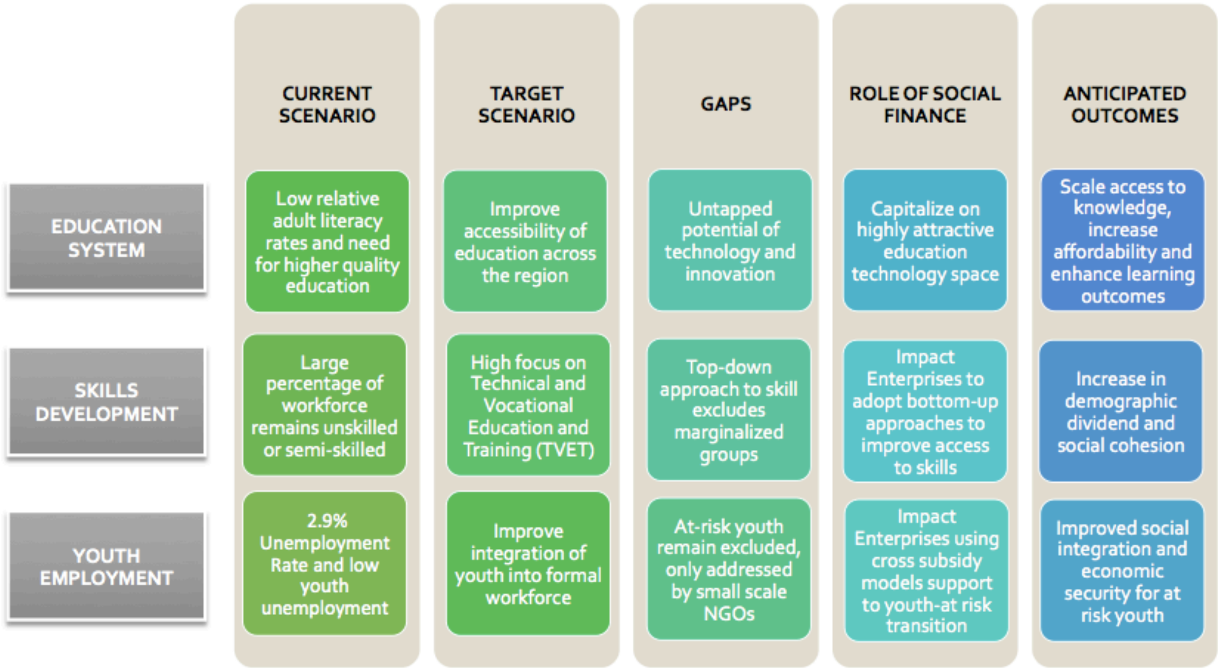
- Developing sustainable shuttle bus and park and ride schemes, as a measure of traffic-demand control;
- Designing information systems to quantify the benefits of multi-modality (or the regular use of multiple modes of transportation) to encourage people to change their behaviors;
- Identifying bottle necks and evaluating measures by utilizing a traffic simulation model; and
- Optimizing traffic signal operations by partnering with local police who now manage them manually.

NEEDS ASSESSMENT: STRATEGIC THRUST 3

ACCELERATE HUMAN CAPITAL DEVELOPMENT FOR AN ADVANCED NATION

Strategic Thrust 3 has identified investment in human capital as one of the key drivers of Malaysia's sustained economic growth. Ensuring an efficient, educated and skilled labor force that will boost productivity and attract investment capital to Malaysia is a pivotal national priority. Social Finance can advance this agenda by catalyzing market-based solutions that use innovative and inclusive approaches to strengthen three core tenets – access to education, access to skills and access to employment opportunities. Together, these three tenets form a holistic approach to developing Malaysia's talent across the 'human capital' value chain, with an overarching focus on empowering youth [Figure 6].

FIGURE 6: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 3: ACCELERATE HUMAN CAPITAL DEVELOPMENT FOR AN ADVANCED NATION



EDUCATION SYSTEM:

According to the SPI, Malaysia has a relative weakness in higher education and adult literacy, with weak performance on access to basic knowledge (ranked 83rd) and advanced education (ranked 42nd) dimensions when compared to countries with similar GDP. Access to quality education has been identified as one of the challenges, especially for poor households or remote regions. By 2020, the 11th Malaysia Plan aims to ensure 100% student enrolment from preschool to upper secondary and to place stronger emphasis on building a quality education system, which is accessible to all.

In 2013, the World Bank released its report, "Malaysia Economic Monitor: High Performing Education", which emphasized the importance for Malaysia to build a high-performing education system. World Bank country director for Malaysia, Ulrich Zachau said it was of concern that Malaysian pupils performed well below their peers standardized international assessments. He cited the 2012 Program for International Student Assessment (Pisa) in which 65 countries participated. Malaysia came 52nd for mathematics, 53rd for science and 59th for reading.[7]

The key gap here is a latent opportunity – despite the high mobile and internet connectivity in the region, there is minimal use of technology to provide access to quality education. The Social Finance space can address this via IEs focused on Education Technology (Ed Tech) – a sector that is quickly gaining traction across the world and is ripe for investment. **Ed Tech** is the effective use of **technological** tools in learning. As a concept, it concerns an array of tools, such as media, machines and networking hardware, and considers underlying theoretical perspectives for their effective application. Digitizing education can not only improve accessibility and affordability for children across the region, but also use innovative methods to magnify learning outcomes and enhance quality of education. A new report from the Alliance for Excellent Education and the Stanford Center for Opportunity Policy in Education (SCOPE) finds that when implemented correctly, technologycan produce significant gains in student achievement and boost

7 http://www.themalaysianinsider.com/malaysia/article/malaysians-have-good-access-to-education-but-quality-questionable-says-worl

engagement, particularly among students most at risk. Specifically, it identifies three important components to successfully using technology with at-risk students: interactive learning, use of technology to explore and create rather than to "drill and kill," and the right blend of teachers and technology.[8] By attracting private sector capital to invest in Ed Tech, Malaysia will be strategically positioned to leverage one of its core strengths (Malaysia ranks 26th on the Global Technology Index) to address this apparent weakness.

CASE IN POINT

For the past two years, Zaya co-founder and CEO Neil D'Souza has triumphed over astonishing odds in his mission to deliver digital educational resources to developing regions. He has piped digital books to nomadic herders in remote Mongolia and Khan Academy videos to orphanages in Indonesia. In January 2012, D'Souza, a former Cisco engineer, set up his headquarters in Mumbai to implement and scale affordable blended learning labs in schools and tutoring centers. All the equipment required fits neatly in a backpack. For roughly $3,000, the ZayaLabKit comes with Aakash tablets, earphones, speakers, a projector, a battery pack and most importantly, the ClassCloud, the server that delivers learning content, assessments, and a learning management system to the tablets in a local intranet network. Test based results include improvement in learning outcomes and higher retention of knowledge indicating improved quality of education in addition to affordable access.

SKILLS DEVELOPMENT:

Although Malaysia has significantly increased availability of jobs courtesy of the 10th Year Plan, one of the key challenges the nation has witnessed is relatively low labor productivity due to an inadequately skilled workforce. Marginalized communities and socially excluded segments of the demographic (women in particular), continue to face structural, and often intangible, constraints that prevent them from accessing skills development initiatives that will equip them with the training to improve their productivity levels and enhance their income earning capacity.

Recognizing this gap, the 11th Malaysia Plan positions Technical and Vocational Education and Training (TVET) as a game changer, channelizing efforts through departments such as the Malaysia Board of Technologist and the Industry Skills Committee. It is anticipated that 60% of the 1.5 million jobs to be created by 2020 will require TVET, mandating that individuals in the workforce continuously enrich and develop themselves to stay relevant in the changing economy and increasingly competitive global landscape. However, a top down approach by public sector may not be effective due to limited understanding of these complexities at the grassroots level.

On the other hand, IEs operate closer to the ground and are better positioned to play a pivotal role in addressing this issue, by using innovative, bottom-up interventions to provide target beneficiaries with access to a suite of services. This will equip previously excluded populations with the tools and resources to participate in the formal workforce and contribute to the nation's demographic dividend. Indirectly, this also improves social cohesion, strengthens economic security and consequently, reduces the nation's risk of lapsing into conflict.

[8] https://ed.stanford.edu/news/technology-can-close-achievement-gaps-and-improve-learning-outcomes

CASE IN POINT

Arzu Studio Hope weaves peace by helping women in Afghanistan break the poverty cycle. By giving them access to skills and market, Arzu is acting as a catalyst for resilience – enabling these women to become the authors of their own story in the nation's peacebuilding process. Arzu translates this into a simple equation: **Jobs + Education + Healthcare = Peace**

Arzu has impacted the lives of 2,000 beneficiaries, enabling more than 500 weavers, most of whom are women, to earn 68% more than the average Afghan per capita income, with 55% owning their own homes. Better income and access to Arzu's social program benefits has helped to provide access to education and healthcare, resulting in 20% of beneficiaries with at least one child in college and amongst women, all mothers to survive childbirth. Not only does this amplify Afghanistan's demographic dividend, it also has tangible multi-generational impact that can reduce the risk of these women and their families resorting to a life of violence or falling prey to conflict in the future.

YOUTH UNEMPLOYMENT

Malaysia has a low 2.9% unemployment rate and youth unemployment remains lower than both ASEAN and world averages. The government intends to continue to direct resources towards ensuring all youth have access to job opportunities and are equipped to be absorbed into the workforce. The 11th Malaysia Plan aims to intensify efforts to prepare youth for employment and secure job placements through programs such as SKK1M, NDTS and 1Malaysia Skills Training and Enhancement for the Rakyat (1MASTER).

To complement existing public sector initiatives, IE participation in workforce development will be essential for holistic development – in particular for youth at-risk that are in need of social integration. Currently, most initiatives in Malaysia focused on this vulnerable group are led by NGOs which are often small scale and unsustainable. IEs are ideal 'mid-range', neither too removed from the root of the problem like government initiatives, nor financially unstable with limited capacity like traditional NGOs. This enables them to help address the missing link between educating at-risk youth and integrating them into workforce using scalable and sustainable market based solutions.

IEs usually use innovative cross-subsidized models to meet a dual objective: (i) generate revenue to sustain the enterprise's own operations so it can continue to support beneficiaries; (ii) have a subsidized educational component so beneficiaries effectively be absorbed into the job market. These models usually have a revenue generating arm (for instance, a handicraft store that can employ youth that have been trained and sell the items produced to generate revenue streams) and a non-profit arm (that uses proceeds from the revenue generating arm to fund the upfront training). This allows the enterprise to be a sustainable business model, equipped to catalyze scalable change. The next 'case in point' is an epitome of such a model.

CASE IN POINT

Higher Ground Nepal uses an innovative, cross-subsidy model to build peace from the bottom up in Nepal, training and employing at-risk youth and women in their bakery and crafts enterprises to sustain operations for the Higher Ground Community Development Initiative (HCDI). These individuals have often been victims of violence, struggling to reintegrate with society and usually remain economically disadvantaged, which amplifies their risk of relapsing into lives of exploitation. Higher Ground Nepal's inclusive approach aims to break this vicious cycle of abuse by providing vulnerable individuals with redemptive employment opportunities, acting as a platform not just for them to lift themselves out of poverty and exclusion, but also to give them a voice at the peace table. HCDI further strengthens the nation's social fabric by promoting awareness for human rights and providing support to trafficking victims. As such, Higher Ground Nepal is a revolutionary organization using a market-based solution to support the entire human capital development process for at-risk youth, from rehabilitation to resilience building.

NEEDS ASSESSMENT: STRATEGIC THRUST 4

PURSUING GREEN GROWTH FOR SUSTAINABILITY & RESILIENCE

Malaysia ranks 51 out of 178 countries on the Environmental Performance Index. Despite its positive environmental record, Malaysia faces issues with deforestation, intensified flooding, pollution, overfishing, and the problem of waste disposal. To address these environmental externalities, the 11th Malaysia Plan aims to adopt green growth strategies to build a low-carbon and resource-efficient nation. Sustainable growth will not only reduce future expenditures but also lay the foundations of a robust economy that is based on environmental conservation. Social Finance can play an important role in addressing three core tenets of Strategic Thrust 4 – mitigating the risk of climate change, natural resource conservation and resilience against natural disasters [Figure 7].

FIGURE 7: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 4: PURSUING GREEN GROWTH FOR SUSTAINABILITY & RESILIENCE

	CURRENT SCENARIO	TARGET SCENARIO	GAPS	ROLE OF SOCIAL FINANCE	ANTICIPATED OUTCOMES
MITIGATING RISK OF CLIMATE CHANGE	33% reduction in greenhouse gas emissions (2010 – 2014); Passed Renewable Energy Act 2011	Ensure 40% reduction in emissions; increase RE capacity to 7.8% of total	Funding gap mandating participation from private sector stakeholders	Green bonds to leverage financial expertise, risk-appetite and resources of private sector	Accelerate green growth strategy and transition to low carbon economy
NATURE RESOURCE CONSERVATION	Increased forest coverage to 56.4%; improved regulatory and enforcement frameworks	Protect natural and ecological assets through stricter enforcement and new instruments	Need to strengthen linkage between social and environmental externalities	Leverage strategic philanthropy and investments to create alternate livelihoods	Protect local and indigenous communities and preserve ecological assets for the future
RESILIENCE AGAINST NATURAL DISASTERS	1 million people sheltered from floods, 34 hazard maps developed to aid disaster risk management	Improve disaster preparedness and response; 2 million people to be protected against floods	Efforts still focused more on recovery than resilience	Leverage donor and IE expertise and resources to invest in disaster preparedness	Improve ability to respond to, adapt from and transform after shocks and stresses

MITIGATING RISK OF CLIMATE CHANGE

Based on the efforts made in the 10th Malaysia Plan, as of 2014, Malaysia has witnessed 33% reduction in greenhouse gas emissions and 15% of household waste recycling rate since 2010. During the Plan period, Malaysia also introduced Renewable Energy Act in 2011. The 11th Malaysia Plan aims to adopt the sustainable consumption and production concept to reduce the country's carbon footprint. By 2020, renewable energy capacity is expected to reach 2,080MW contributing to 7.8% of total installed capacity in Peninsular Malaysia and Sabah. The Plan also aims to improve household waste recycling rate to 22% and ensure up to 40% reduction in greenhouse gas emissions. However, there is an immediate need for massive amounts of mission-oriented capital that can be invested upfront to accelerate these efforts and mitigate the burgeoning risk of climate change. It is imperative for the government to involve or incentivize private sector stakeholders to address the funding gap that currently exists.

Innovative financial instruments, such as green bonds, have been successfully used by nations across the world to address the issues that the age of the Anthropocene bring with it. These instruments can effectively leverage the resources, risk-appetite and financial expertise of banks and institutional investors, thus unlocking funds that can be invested with immediate effect into proactive 'climate action' initiatives such as renewable energy projects or green technologies. Not only will this magnify the scale of Malaysia's green growth strategy and help transition to a low-carbon economy, but it will also create demonstrable impact on the world's climate agenda.

CASE IN POINT

In October 2015, Sumitomo Mitsui Banking Corp (SMBC) raised $500 million through the sale of green bonds, becoming the first Japanese entity to issue an environment-friendly debt security in dollar form. SMBC said it plans to use proceeds from the sale to fund new and existing projects that promote renewables and increase energy efficiency. Bank of America Merrill Lynch was a joint book runner in the transaction. SMBC is a popular borrower in the international bond market; the green bond offering from the issuer reflects its strategy to diversify its funding pool and expand its investor base. Funding environmental projects through the sale of fixed income securities is a relatively new concept in Asia, but the market is growing fast. The region accounts for roughly 9% of global green bond issuances so far.

CONSERVATION:

Conserving Malaysia's rich natural and ecological assets is at the cornerstone of the nation's green growth strategy and is inextricably linked with defense against natural disasters. The 10th Malaysia Plan laid the ground work for this to implemented, achieving the increase of forest coverage from 56.4% in 2010 to 61% in 2014 and established regulatory and enforcement frameworks such as the National Conservation Trust Fund and the 1Malaysia Biodiversity Enforcement Operation Network to ensure concerted and coordinated efforts towards conserving biodiversity, combating poaching and reducing illegal wildlife trade. The 11th Malaysia Plan to strengthen and continue conservation efforts through enhanced regulations, new instruments and stricter enforcement.

The key gap that needs to be addressed to make this a reality is the missing linkage between social impact and environmental externalities. Conservation efforts cannot be executed in isolation – buy in from the local community whose livelihoods are depended on these resources is critical to ensure smooth implementation of conservation programs. Social Finance can play a catalytic role in supporting Malaysia's conservation efforts by directly addressing this issue to create alternate livelihoods for indigenous and local communities. Alternative livelihoods projects are a common conservation intervention that are designed to conserve biodiversity by substituting one livelihood activity that is causing harm to a species or habitat (such as bushmeat hunting or firewood collection) with another activity, or resource, that will cause less harm. Although its primary outcome is to alleviate threats to biodiversity, a strong secondary outcome is to improve the wellbeing of certain targeted groups of people.[9]

By unlocking capital, either in the form of strategic philanthropy or impact investment capital, Social Finance can promote sectors like ecotourism and integrated coastal management. Promoting these sectors indirectly helps to develop alternative livelihood options for indigenous and local communities, which in turn will lower illegal extraction of natural resources and aid conservation efforts.

CASE IN POINT

In 2014, Bloomberg Philanthropies launched the Vibrant Oceans Initiative with the goal of reversing declining fish stocks. A five-year, US$53 million grant commitment, the program seeks to promote reforms to boost fish populations in Brazil, Chile and the Philippines. Three U.S.-based organizations implement the program's integrated strategy to curb over-fishing through reform of small-scale (local) and industry fishing methods, while also providing financial strategies to make the transition to more sustainable practices.

- With a mission to protect oceans, **Oceana** focuses on industry-wide advocacy with national governments to (i) set and enforce science-based catch-limits and (ii) reduce the amount of sea life unintentionally caught/discarded from traditional fishing practices.
- Through on-the-ground engagement, **Rare** collaborates with local governments and coastal communities to implement management systems that encompass exclusive fishing rights for coastal fisherfolks, in exchange for creating protected areas that allow fishing stocks to replenish.
- A specialized investment and advisory firm, **Encourage Capital** looks to develop investment blueprints where private capital creates financial incentives and rewards for fisherfolks who transition to more sustainable fishing practices. Encourage plans to identify fisheries opportunities for Impact Investing across a spectrum of risk, return and impact.

Naturally renewing, fisheries can provide income, livelihoods and health benefits to local communities – if properly managed. The initiative boasts the largest philanthropic commitment for international reform of fisheries management. And for the first time, such a fisheries reform effort incorporates a private capital financing strategy.

RESILIENCE AGAINST NATURAL DISASTERS:

Malaysia is highly prone to natural disasters like flooding or prolonged drought triggered by the increased frequency and intensity of climate related disasters, with severe repercussions on the economy, livelihoods and safety of people. Among other resilience building initiatives, the 10th Malaysia Plan implemented 194 flood mitigation projects that protected one million people and created 34 hazard maps to aid response and risk reduction. Despite these efforts, the country ranks in the medium range in Southeast Asia on the INFORM Risk index that measure vulnerability and resilience against natural disasters. The 11th Malaysia Plan aims to further these initiatives by protecting two million people from floods, introduce coastal

[9] http://www.iied.org/judging-effectiveness-alternative-livelihoods-projects

erosion prevention efforts and involve both the community and the private sectors in disaster risk management. However, it is critical that Malaysia redefines the dominant narrative from disaster recovery and response to risk prevention and resilience building.

Social Finance can play a crucial role in bringing together diverse stakeholders, to fund disaster preparedness and management projects and invest in long term, transformative risk reduction interventions. Donors, IEs and INGOs can enable the nation to achieve a systemic shift towards resilience by using a combination of modern technology and training of the communities that are most affected by natural disasters to be better prepared. Investing in preventive measures today will save huge future government outlays of capital and also improve the ability of the *rakyat* to better absorb and adapt to chronic stresses like droughts or acute shocks like floods. The resilience dividend that the nation will reap from these efforts will play a pivotal role in shifting the country towards the status of a truly advanced nation by 202, allowing it to serve as the voice of progress within Asia and beyond.

CASE IN POINT

Since Nepal faces a number of hazards, an integrated U.S. Government approach to Disaster Risk Reduction (DRR), based on more than a decade of USAID engagement and now encompassing a "whole-of-government" effort, is being used to demonstrate best practices in disaster preparedness and mitigation. There is consensus among international donor agencies that a concerted emphasis on disaster risk reduction is a necessary and cost-effective investment, empowering communities to reduce and mitigate disaster risk, increasing their resilience to disaster events and strengthening government capacity to respond.

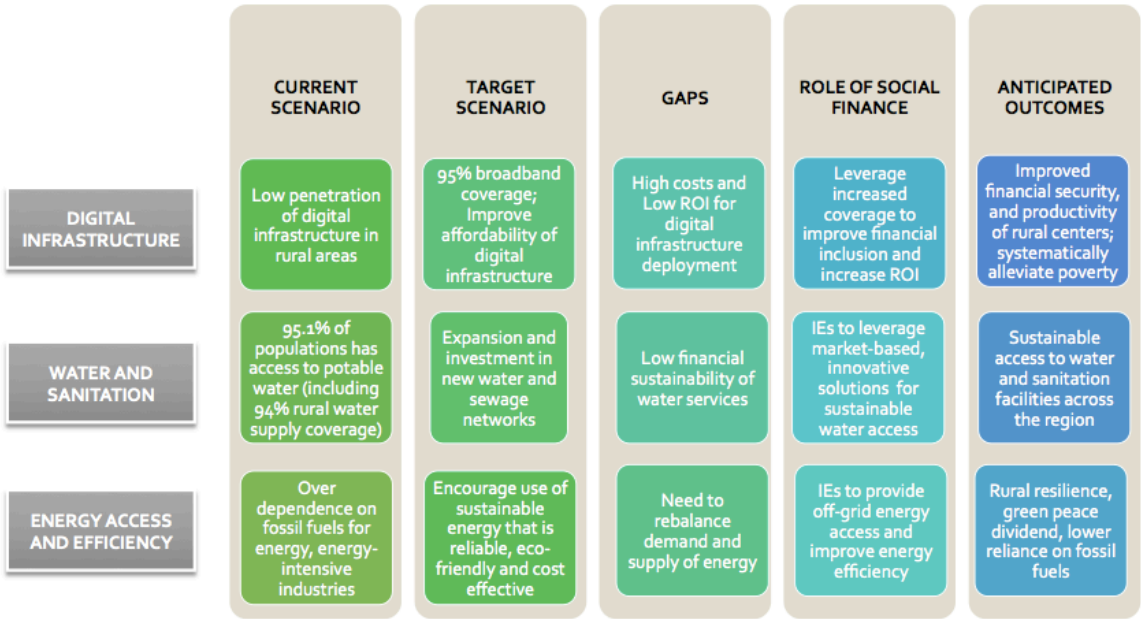
One of USAID's most enduring DRR partnerships in Asia has been with the Kathmandu-based National Society for Earthquake Technology (NSET). Established in 1993, NSET's mission is to reduce the risks associated with earthquakes in Nepal. NSET has improved the seismic safety of public schools, residences, hospitals, and other public structures in the Kathmandu Valley, and trained engineers and masons on proper building techniques. The ongoing school safety program retrofits schools while also training local masons by using the actual retrofitting as hands-on instruction and practice. As masons are responsible for the construction of 95 percent of the buildings in Nepal, their education is vital. USAID/Nepal is funding two housing reconstruction training and technical assistance projects, totaling $10.7 million to date. Building on previous investments, these projects will train an estimated 13,500 local construction professionals and educate more than 285,000 affected homeowners on building earthquake resistant homes over the next five years.

NEEDS ASSESSMENT: STRATEGIC THRUST 5

STRENGTHENING INFRASTRUCTURE TO SUPPORT ECONOMIC EXPANSION

Strategic Thrust 5 identifies infrastructure investments as the basis of long-term economic growth to boost connectivity, mobility and access to basic services. In Malaysia, given the large amount of capital outlay required for infrastructure development, this sector has been largely dominated by the public sector. The 11th Malaysia Plan looks to expand the horizon and include both private and non-profit sector into the infrastructure development equation. Social Finance can play a role in addressing key systemic gaps via three tenets - boosting digital infrastructure, providing access to clean water and improving the use of sustainable energy to achieve desired outcomes (Figure 8).

FIGURE 8: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 5: STRENGTHENING INFRASTRUCTURE TO SUPPORT ECONOMIC EXPANSION



DIGITAL INFRASTRUCTURE:

The 10th Malaysia Plan made tremendous progress in improving access to digital infrastructure. As of 2013, 70% of households have broadband; 77 Mobile Community Transformation Centre (Mobile CTC) programs involving more than 50 government and private agencies were organised, benefiting almost 135,000 people; 737 villages were connected through the Kampung Tanpa Wayar program and 971 telecommunication towers were constructed. The 11th Malaysia Plan aims to further improve coverage, quality, and affordability of digital infrastructure across the region. By 2020, the government aims to cover 95% of populated areas with broadband infrastructure. This high expected penetration level presents the country with a gap that is a representative latent opportunity – the country will have the chance to reach the most remote and marginalized communities in the region – currently untapped pillars of economic growth – to include them in the sustainable development agenda.

Social Finance can facilitate this by addressing a critical implementation key challenge - the high cost of deploying digital infrastructure with low return on investment. By leveraging on donor capital and partnering with corporates that have financial expertise, Malaysia can leverage the penetration of digital infrastructure and adoption of technology to improve financial inclusion in the economy through mobile money and e-wallets – concepts that have revolutionized poverty alleviation interventions in Kenya and Bangladesh. Access to capital will aid productive and income-generating activities for these previously excluded segments of the populations, thereby positively contributing to economic growth as well as social security. In essence, by streamlining the usage of digital technology for productive means by rural citizens, Social Finance can contribute towards improving the return on investment for deploying digital infrastructure in rural areas.

CASE IN POINT

bKash, is the world's second largest and fastest growing mobile money financial services platform, founded by Kamal Quadir and supported by BRAC Bank Limited, Bangladesh and Money in Motion LLC, USA among others. bKash offering an affordable and convenient banking solution to the poor, by utilizing mobile phones as a means of sorting and transferring money. bKash enables a customer to send, receive and pay money from their mobile phones, saving incredible amount of time and effort for consumers. Backed by the International Finance Corporation and the Bill and Melinda Gates Foundation, bKash is supporting over 16.5 million customers and 70 million monthly transactions in Bangladesh. The bKash model enables citizens to access the formal financial system by banking the unbanked, thereby creating positive social and economic growth. Using simple mobile phone technology, the bKash model is easy to customize and replicate in Malaysia.

WATER AND SANITATION

The 10th Malaysia Plan enabled provision of 188,270 water tanks to supply clean water to 251,200 households in remote areas in Sabah and Sarawak, provided 95.1% of population with access to potable water and achieved an impressive 94% rural water supply coverage. The 11th Malaysia Plan aims to improve the access to clean water services to 99% of the population and enhance the financial sustainability of the water services industry. However, high operational cost in rural areas acts as disincentive for private sector water service operators; consequently, this initiative will predominantly be funded or subsidized by the government.

Social Finance can reduce the government burden by promoting and scaling IEs that provide access to clean water services. IEs in the clean water services space can provide affordable solutions to clean drinking water with the innovative use of clean technology for both access as well as treatment of water. These IEs can cover a large population range, have positive social returns and have the potential to be financially sustainable. Market-based solutions can deploy innovative and scalable mechanisms that can provide affordable, clean and safe water to all parts of the region.

CASE IN POINT

In nature, wetland and floodplain plants biologically and physically clean water, supporting a variety of species including fish, birds, mammals, amphibians, insects and aquatic invertebrates and microbes. Wetlands can be created with ecological and environmental engineering knowledge to treat harmful flows of contaminated water, producing usable water in the process and supporting human welfare and ecological services. *Wetlands Work! (WW!)* designs ecologically engineered water treatment processes to transform domestic sewage and other waste streams into improved water. It uses common wetland plant species to provide an active root surface area, attached to which are trillions of microbes that kick-start a food-chain, breaking down the waste into food that is usable by numerous other organisms in the system. *Wetlands Work!* designs can be applied to communities in need of sustainable, low cost access to improved water. The water produced from constructed wetlands is usually non-potable, but keeps the local environment healthy, can be recycled for reuse, and sometimes can be treated further to meet WHO drinking water standards. Several of its flexible models have vast potential in off-the-grid rural areas and where poor, marginalized people live.

SUSTAINABLE ENERGY

In terms of access to energy, Malaysia has 97.6% of electricity coverage even in rural areas. The key challenge for the nation lies instead in the highly energy-intensive industries, over dependence on fossil fuels and low adoption of clean energy methods. The 11th Malaysia Plan aims to address these challenges by encouraging sustainable energy use that is reliable, eco-friendly and cost-effective while effectively supporting growing energy needs mandated by increasing economic growth. The key systemic gap is the need to rebalance demand and supply to reduce pressures on natural resources and shift towards a more energy-efficient economy. Additionally, it is critical to further support successful rural electrification projects through inclusion of the rural communities, by training them to operate and maintain these systems.

IEs can address both these concerns of improving energy efficiency and providing stable, sustainable access to rural communities in off-grid locations. By mobilizing capital to scale the efforts of these IEs, Social Finance can improve operational efficiency, increase the adoption of clean energy methods of producing electricity and reduce Malaysia's dependence on fossil fuels. IEs also have a high focus on equipping communities to maintain these services over the long term, thereby enabling the operational life of off-grid systems to be optimized and creating semi-skilled and skilled workers in rural communities. Using IEs as market-based solutions to create change also minimizes potential market distortions that are associated with using grant-based interventions to address these issues. Investing in energy access and efficiency will also enable Malaysia to enjoy the spillover benefit of a green peace dividend that is consequently reaped, elucidated by the 'case in point' illustrated below.

CASE IN POINT

Buksh Energy's Lighting a Million Lives initiative is ensuring a brighter future for the nation by tackling energy poverty in Pakistan, a nation that is in the midst of an energy crisis with 63% of the population in off grid areas. By providing low-income families with access to clean and affordable energy, Buksh Energy is stabilizing society and strengthening their economic capacity to reap a 'green peace dividend'. This reduces the nation's security risk by improving the country's energy independence, strengthening domestic stability through citizen involvement and using green technologies to mitigate security threats of climate change and resource scarcity – a increasing cause of conflict in the world.

As a pioneer of the clean energy movement, Buksh Energy has already **impacted over 1000 lives – majority of whom are women and children** – enabling Pakistan to transition to a sustainable, low-emission economy that will reduce poverty, trigger economic dynamism and catalyze the long-term peacebuilding process.

NEEDS ASSESSMENT: STRATEGIC THRUST 6

RE-ENGINEERING ECONOMIC GROWTH FOR GREATER ECONOMIC PROSPERITY

High value and growth intensive activities have been branded as the principal drivers that will enable Malaysia to attain the status of an advanced economy and inclusive nation by 2020 as per the 11th Malaysia Plan. Strategic Thrust 6's aims to re-engineer economic growth is a pervasive goal that draws from all aspects of the Plan. Social Finance can help Malaysia strengthen three core tenets that will have tremendous impact not just on social progress and the sustainable development agenda, but also on advancing economic prosperity: modernizing agriculture, creating scalable and sustainable SMEs and building competitive cities [Figure 9].

FIGURE 9: NEEDS ASSESSMENT MATRIX – STRATEGIC THRUST 6: RE-ENGINEERING ECONOMIC GROWTH FOR GREATER ECONOMIC PROSPERITY

	CURRENT SCENARIO	TARGET SCENARIO	GAPS	ROLE OF SOCIAL FINANCE	ANTICIPATED OUTCOMES
MODERNIZE AGRICULTURE	Contributed RM 455million to GDP; steady 2.4% growth rate; 57% labor productivity	Increase labor productivity to 68.8%, Improve self-sufficiency and create 1.6 million jobs	Need to mechanize agri-value chain and modernize farming techniques	IEs to use technology and innovation to deliver scalable, low-cost solutions	Improved income earning capacity of farmers and productivity of farmland
SCALABLE AND SUSTAINABLE SMES	Low growth of SMEs to	Scale SMEs to contribute to GDP growth and jobs creation	Lack of access to finance	Unlock new stream of investor capital for high impact SMEs	Improved productivity and growth of SMEs
COMPETITIVE CITIES	Rapid urbanization; Kuala Lumpur alone to contribute 14.8% of GDP in 2015	Re-engineer cities to stimulate growth and to use as source of competitiveness	Cities to shift focus from recovery/ response to proactive resilience	Mobilize diverse stakeholders to equip cities to build resilience to shocks and stresses	Cities as a source of competitive advantage

MODERNIZING AGRICULTURE:

As of 2014, the agricultural sector contributed RM 455 billion to the GDP of Malaysia at a growth rate of 2.4% per annum. The 11th Malaysia Plan aims to build on this positive momentum to increase agricultural labor productivity from 57.7% (2015) to 68.8% (2020), increase focus on agro-food to ensure the targeted self-sufficiency level of the food commodities and industrial commodity subsectors, and create 1.6 million jobs in the agri-value chain that will enable it to contribute 8.2% to the GDP, with an annual growth rate of 3.5%. Resilience in the agriculture sector is important to secure not only Malaysia's food sources but also economic growth. The Plan also mandates the need for increased research and development, especially in agriculture-climate modeling, which will be intensified to facilitate adoption of good agricultural practices extended to 500 new fruit and vegetable plantations, 160 new farms and 65 new aquaculture farms. These targets can only be achieved if there is a greater focus on mechanization and equipping farmers with the necessary tools and skills to increase both labor and land productivity.

Social Finance can play a key role in addressing the challenges in multiple ways. First, IEs (in the form of mission driven SMEs) can harness the power of innovation and technology to create scalable, market based solutions to overcome these inherent constraints in the agri-supply chain. Simultaneously, these entities can also deliver services that will increase income sustainability in the agriculture sector through the concept of agropolitan and contract farming. Using IEs as vehicles of change will help Malaysia attract impact investment capital to fuel operational growth, deepen value creation and magnify social impact in the agricultural sector. Second, by providing workshops and mentoring programs, stakeholders in the Social Finance landscape as well as universities can promote young agropreneurs, into successful and sustainable agribusinesses. For example, The Young agropreneurs program, a collaborative effort between Agrobank, universities, and agricultural training institutes, is an initiative that attracts undergraduates into agribusinesses as they receive priority start-up grants and soft loans. Finally, innovative financial instruments can be developed to unlock private capital for mechanization, while using government funding instead to de-risk the investment opportunity via guarantee facilities or first loss capital.

CASE IN POINT

To address food safety issues, EDC-HD, a Vietnam-based small and medium enterprise (SME), developed TraceVerified – an electronic food traceability solution. A paper-less, low-cost, user-friendly tracing system, the product tracks various food product supply chains in Vietnam. EDC-HD has provided electronic traceability services to Vietnamese exporters in various seafood and agro-product supply chains since 2011. In 2015, TraceVerified expanded its operational focus to include responsible farming households, food producers, distributors, and consumers in the domestic market. By tracking, collecting and disseminating verified information along designated supply chains, the product enhances accountability and transparency in food production.

The benefits of TraceVerified are multifold. By providing transparent information, the product benefits SMEs and smallholder producers by improving supply chain management and market linkages. By using TraceVerified to track the origin of products, consumers at one end of the value chain can make informed decisions about the food they buy. In addition, EDC-HD creates gender impact along the value chain. The majority of smallholder producers are women and the SMEs working with TraceVerified are identified as both women-owned and employing a high percentage of women.

SCALABLE AND SUSTAINABLE SMES:

As of 2014, small and medium enterprises (SMEs) contributed RM 1,606 billion to the GDP, contribute 19% of exports and comprised 98.5% of total establishments. The 11th Malaysia Plan will focus on developing resilient and sustainable SMEs to achieve inclusive and balanced growth. By 2020, the Plan aims at a dynamic growth of SMEs that will contribute in creating at least 9.5 million jobs and contribute to 25% of exports. However, a large percentage of Malaysian SMEs tend to face issues with low productivity, as they are unable to grow from the micro and small scale. For SMEs to scale, challenges such as lack of access to finance, limited operational capacity and inadequate human capital availability need to be addressed. This mandates providing SMEs with tailored mentorship and a comprehensive suite of support services that can also help them magnify their impact footprint.

Stakeholders in the Social Finance ecosystem can introduce new ways of financing for early stage companies by combining equity and loan financing. Impact accelerator and incubation programs can provide mission driven SMEs with the required investment readiness services (business plan, financial model), impact assessment frameworks (to quantify social outcomes) and tailored mentorship required to attract impact investment capital. Holistic, end-to-end support services that also enable the entities to articulate their theory of change will enable mission-driven SMEs to unlock a new stream of mission-oriented growth capital, which was previously unavailable to them. Scaling entities that follow this 'double bottom-line' model of achieving both, profit and impact, will enable the Malaysian economy to achieve its mandate of growing dynamic SMEs that are positioned to participate at the higher end of the global supply chain. Malaysia-based MaGIC has taken a lead in developing accelerator programs to advance this agenda in the country (more details in Section 5 of this report).

CASE IN POINT

The raiSE Social Enterprise Accelerator Program is a 6-months program for Impact Enterprises in Singapore to develop their capabilities to further scale or turnaround in order to accelerate growth. In partnership with Empact, the accelerator program is delivered through a series of curriculum, mentoring and hands-on support services. Empact is the official implementation partner of the program initiated by Singapore Centre for Social Enterprise (raiSE) and IIX is one of the technical assistance partners. The core features of the program are listed below:

- Equip core skills and tools required to build missing capabilities required for IEs; support can vary depending on participating IE's needs on business, financial and social impact related aspects
- Develop leadership ability and bring IEs to the next level via mentoring.
- Strengthen backend functions and other operational needs of the IE

raiSE will distribute S$30 million worth of grants and investments over five years to boost IEs. Funding comes from the Tote Board and the Ministry of Social and Family Development. The new scheme will also take over the existing ComCare Enterprise fund, which funded new and existing IEs.

COMPETITIVE CITIES:

Malaysia is among one of the most urbanized countries in East Asia, with an annual urban population growth of 2.46%. Cities play an important role in economic growth by providing for investment and trade opportunities. The city of Kuala Lumpur is expected to contribute 14.8% to the GDP in 2015. Recognizing the contribution that cities can make, the 11th Malaysia Plan aims to invest in competitive cities and regional economic corridors. By 2020, four major cities in Malaysia will be re-engineered to increase livability and stimulate economic growth.

However, a critical goal to achieve resilience in cities to enhance the capacity of its individuals, institutions and systems to survive and adapt regardless of chronic stresses or acute shocks. While chronic stresses (such as high unemployment, inefficient public transportation systems, endemic violence) weaken the fabric of society on a day-to-day or cyclical basis, acute shocks are sudden sharp events that threaten a city's resilience (such as floods, disease outbreaks, and terrorist attacks).

There are multiple Social Finance initiatives focused on urban resilience, often led by pioneering non-profit sector organizations and supported by private sector stakeholders who have vested interest in urban development. These initiatives can help Malaysia develop well-conceived management systems, purposefully create spare capacity to accommodate disruption and adopt an integrated, inclusive decision-making approach by coalescing diverse stakeholders (individuals and institutions) to create a sense of shared ownership. In essence, resilience-focused initiatives can establish an enabling environment that facilitates and empowers different stakeholders to operate concomitantly and mobilize large pools of capital that the public sector alone would not access to.

CASE IN POINT

In 2013, The Rockefeller Foundation pioneered 100 Resilient Cities (100RC) to help more cities build resilience to the physical, social, and economic challenges that are a growing part of the 21st century. Cities apply to become part of the 100RC Network. If selected, they are eligible to receive four types of support:

1. Support to hire a Chief Resilience Officer (CRO), an innovative new position in government that will lead the city's resilience efforts
2. Expertise to develop a robust resilience strategy
3. Access to a platform of partners providing technologies and services to help cities implement a resilience strategy. Partners include Microsoft, Swiss Re, and the Nature Conservancy.
4. Membership in the 100 Resilient Cities Network, a global network of cities already collaborating with and learning from each other.

To date, 67 cities have been selected to join the Network – representing one-fifth of the world's urban population. By 2016, 100 cities will be actively building a resilience strategy. One of the prominent Asian cities that is part of the network is Huangshi, a new city in south central China. The 100RC Network will appoint a CRO to help the city reduce pollution, recover abandoned sites and protect natural resources.

SECTION 2: INNOVATING SOCIAL SERVICE DELIVERY

Photo Credit: Damn Unique

INNOVATING SOCIAL SERVICE DELIVERY

TRANSITIONING FROM A REACTIVE TO A PROACTIVE STRATEGY

Ideally, government and policymaking bodies envision the ability to implement mandates with a level of foresight built into their design rather than the often less effective and more costly reactionary mechanisms that are usually standard. In matters of national emergency, where speed of policy development is most pressing, reactionary policy-making is well placed to serve this need. This was the case following the global financial crisis where the American Recovery and Reinvestment Act of 2009 authorized the distribution of $787 billion to create and save jobs and incentivize economic activity and investment. While much needed at the time of action, the large financial outlay might have been prevented had policy-making taken a more proactive stance from the outset.

In some instances it is feasible to pre-empt environmental and social concerns related to future sustainability issues. This is where Social Finance offers an effective means of aligning a nation's economic resources with vital societal concerns. In order to better dictate the content behind proactive policy measures, this section will focus on the following:

(i) Understanding the current direction of Malaysia's social agenda and the policies in place to guide this;

(ii) Understanding the role of ecosystem players, widely grouped under public, private and non-profit sector, within Malaysia's overarching social agenda; and

(iii) Determining the current effectiveness of ecosystem players within the social value chain in promoting development on a group level.

(I) UNDERSTANDING THE CURRENT DIRECTION OF MALAYSIA'S SOCIAL AGENDA AND THE POLICIES IN PLACE TO GUIDE THIS

As part of the 11th Malaysia Plan, the role of promoting social growth via collaboration and partnerships has been identified as one poised to have the biggest development impact. If done right, IEs will be well placed to receive a pool of funding dedicated to magnifying their impact with the larger goal of growing the development space in Malaysia. To this end, Malaysia has launched a Social Public-Private-Partnership (Social PPP) initiative with two core focus areas: 1) developing a PPP model for social good, and 2) empowering the social sector. For the pilot, Social PPP was designed to run four projects focused on education and capacity development of youth and disadvantaged people. Nine* corporate funders are involved with the Social PPP with the Malaysian government matching their contributions.

Pre-requisites to the effectiveness of the Social PPP include the identification of appropriate partners – on the private sector side these would be actors who provide untapped sources of capital and are willing to engage in Social Finance. Meanwhile on the recipient side, organizations must be well positioned to leverage on this capital and use it to scale in a manner that sustains their impact.

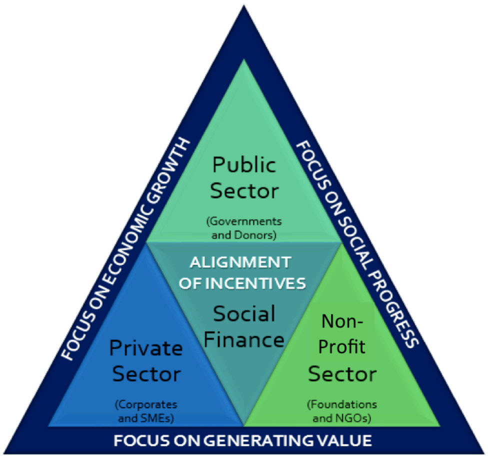
While the concept of the Social PPP does not necessitate government matching schemes (as proposed), given the novelty of a socially driven funding vehicle, this would certainly boost funding and mitigate lender risk. The Social PPP has tremendous potential to scale once it graduates from the pilot scheme. This is because it has the opportunity to move towards a revolving mechanism where corporate contributions take the form of investments that can generate financial returns by the IEs and ultimately flow back into a recyclable facility, thereby leveraging funding to a new level. With this potential in mind, the government-matching scheme can certainly nurture the social sector to a level of greater impact.

**Nine corporate funders involved with the Social PPP at the time of writing this report*

The concept behind the Social PPP offers a credible route to formalizing proactive policy making. The effectiveness of the mechanism can be determined by the level of cohesion among different stakeholders to create a purpose-driven model. As such, the policy requirements under the Social PPP need to be such that they are not operating in isolation to policies governing private sector participation in sectors identified under a socially focused umbrella. Thus, alternate policies and budgetary allocations that build the foundation of accomplishing Malaysia's social goals must be integrated into the Social PPP agenda across multiple touch points.

II) UNDERSTANDING THE ROLE OF ECOSYSTEM PLAYERS, WIDELY GROUPED UNDER PUBLIC, PRIVATE AND NON-PROFIT SECTOR, WITHIN MALAYSIA'S OVERARCHING SOCIAL AGENDA

FIGURE 10: ECOSYSTEM PLAYER TRIAD



The strategy paper "Translating Innovation to Wealth" does a good job of highlighting the overall agenda and direction of Malaysia's social innovation strategy. But this needs to be considered at a grassroots level where it is possible to determine measureable objectives and targets that can be set and eventually worked towards by different ecosystem players from public, private and non-profit sector as show in the Ecosystem Player Triad [Figure 10].

As such, it is important to consider the role of these actors in the current climate to determine how they can potentially align with what is proposed under the Social PPP.

PUBLIC SECTOR:

The government is well-placed to address the corners of Malaysia's social issues both under the umbrella of policy making and as an intermediary through its role in the allocation of funding. In order to understand where the public sector stands in relation to the larger social development goals, a multidimensional approach to dissecting their scope of work will be useful. Generally, the key questions that need to be considered are how enabling of an environment the government is able to create or foster social innovation, whether there is scope for them to play a bigger role, take on new roles or even reduce their involvement in certain aspects of the ecosystem.

A budgetary analysis of SME funding and entrepreneurship initiatives provides an understanding of the general roles embodied by the government within their scope of work around spurring competitive growth and innovation. Mission-oriented SMEs are key components of the Social Finance space that effective seek a double bottom line of profit and impact. Within this framework, the role of the Malaysian government can involve three overarching themes, which include (i) their ability to provide targeted funding, (ii) their ability to support enterprises to scale and (iii) their expertise in creating a strong infrastructure for intermediaries. Figure 11 provides examples of the 2016 budget allocations and which role of the government they fall under.

FIGURE 11: SME FINANCING BY TYPE OF GOVERNMENT ROLE[10]

1. As an effective mobilizer of capital

- **Shariah-Compliant SME Financing Scheme** - RM 1 billion, where the Government will subsidise 2% of the financing profit rate
- **SME Blueprint** – RM107 million to provide funding at various stages of business development
- **Entrepreneurs Acceleration Scheme and SME Capacity and Capability Enhancement Scheme** - RM60 million
- **SME Technology Transformation Fund under the SME Bank** - RM200 million to provide soft loans at 4%
- TEKUN will provide RM600 million of which RM500 million is for Bumiputera entrepreneurs and RM100 million for 10,000 Indian entrepreneurs through the Indian Community Development Scheme. In addition, SME bank will provide RM50 million to assist small-scale Indian entrepreneurs

2. As an effective capacity builder

- **Entrepreneurs Transformation Scheme** – RM60 million to strengthen competitiveness of entrepreneurs
- **SME Capacity and Capability Enhancement Scheme** -RM200 million to establish an SME Technology Transformation Fund under SME Bank to provide soft loans at 4%
- **Various youth entrepreneurship programmes** – RM30 million such as Global Entrepreneurship Community, BAHTERA, GREAT, 1ME
- **Youth Agropreneur Development Programme & Agriculture Entrepreneurs Financing Fund** – RM70 million
- RM50 million to enhance youth participation in economic and entrepreneurial activities

3. As an effective support system for intermediaries

- **Malaysian Innovation Agency** (AIM) – RM100 mil
- **Technology and Innovation Acceleration Funding Scheme** by Malaysia Debt Ventures Berhad – RM200 mil
- To accelerate demand-driven innovation activities through **Public-Private Research Network** – RM50 mil
- Various programmes under **MaGIC** and initial allocation for **Corporate Entrepreneurs Responsibility Fund** – RM35 million

The role that government plays to support the small business ecosystem must go beyond financing schemes for SMEs and entrepreneurs and should be directed towards capacity building. Policy makers can address this issue, given that building technical skills is an important aspect of encouraging growth and innovation in the country. The role of intermediaries is often an overlooked one, which is unfortunate given their ability to create an enabling environment for enterprises and investors alike to operate in. While funding for intermediaries does not have to be prioritized over alternative government roles, clear allocation of funding for private sector parties within this group offers the opportunity to open up newer sources of capital that may have previously been untapped or unavailable to government bodies. This would leverage on the government's ability to mobilize new forms of capital into SMEs, thereby moving Malaysia towards a path of sustainable social impact.

Additionally, current SME capacity building initiatives are focused one-dimensionally on business aspects – financial performance, operational capacity and expansion plans. There is negligible focus on the wider stakeholder community beyond shareholders and consumers or on other drivers of impact on the wider community and environment.

The 2016 budget intends to funnel funds into the financing schemes in Figure 11 via the following ministries noted in Figure 12. An important aspect of understanding how effective government policies have been in channeling funds to the sectors of biggest concern tend to depend upon whether the appropriate ministry is in charge of deploying the funding.

[10] http://www.bnm.gov.my/files/Budget_Speech_2016.pdf

FIGURE 12. FUNDING BY MINISTRIES[11]

It is apparent that financing for SMEs transcends across the snapshot of ministries highlighted in Figure 12 who in turn are responsible for allocating funds based on their mandated funding goals. It must be noted however that the funding going towards SMEs and entrepreneurship development is not representative of the amount of funding allocated to each ministry. For example, the majority of funding allocated to the Ministry of Science, Technology and Innovation is going towards spurring the development of entrepreneurship and SME growth, which is far more than funding from the remaining ministries into the SME development space. This highlights an important aspect of the government's agenda of becoming innovative via SME funding. Technology and agriculture are the key priority areas from what is apparent in sector focused SME financing initiatives. The remaining initiatives in SME funding do not have a pre-mediated focus apart from targeted funding for Indian entrepreneurs and youth. Perhaps there is greater scope for a more targeted or well-defined entrepreneurship and SME focused program either by sector or by target beneficiaries. To integrate a proactive approach into the government's budget allocation, program funding would have to be targeted to the relevant ministry that oversees the target sector or beneficiary focused financing schemes.

PRIVATE SECTOR:

Corporations: The role of publicly listed entities within the social and environmental sphere is largely related to Corporate Social Responsibility (CSR) with very little activity occurring in terms of socially driven investments outside of Islamic Finance. CSR in Malaysia has seen a drastic turnaround upon the signing of the United Nations Global Compact, which was spearheaded by the Bursa Malaysia and required all public entities to adopt CSR reporting requirements. The mandate requires companies to disclose their activities across four categories: Environment, the Workplace, the Community and the Marketplace. Alongside mandatory CSR regulations, private sector entities are encouraged to actively participate in the use of a triple bottom line approach via corporate responsibility awards such as the Prime Minister's CSR award, StarBiz-ICR Malaysia Corporate Responsibility Awards, Ansted Social Responsibility International Award among others that are a means of raising awareness about opportunities for corporate participation and engagement with civil society actors. The Malaysian Government indirectly provides tax incentives to businesses that implement broad CSR programs. In this regard, donations made to charities or non-trading institutions from income earned are usually non-deductible, as they are not wholly incurred in the production of income. However, the amount that can be deducted in respect of such gifts of money made by corporations is limited to 10 percent of their aggregate income in the relevant year. [12]

While Bursa Malaysia's role in developing the CSR framework is certainly headed in the right direction, more can be done to encourage these corporations to start embedding environmental and social goals within their value chain. While the necessity for reporting impact certainly places pressure on companies to comply for fear of repercussions, there is an apparent lack of strategic direction for the majority of companies. Instead, CSR appears to be perceived by many as purely philanthropic initiatives and rarely forms the core strategic element of their business model. At its best, CSR in Malaysia manifests itself in

[11] http://www.bnm.gov.my/files/Budget_Speech_2016.pdf
[12] http://congress.ustc.edu.cn/pro/2_.pdf

the form of active community engagement and support. This largely takes the form of grant-based funding and charitable giving, which is generally the more popular outlet for corporations to align their vision and mission with the good of the community. Investment arms of larger public entities are one way to ensure that capital is directed towards accomplishing social goals. However, this has been rare in Malaysia. Once corporations become more proactive in their approach, they have the potential to actively use their business model to divert a pledged portion of their resources towards social causes that have the potential to become financially sustainable. Examples of successful CSR programs that incorporate socially sustainable models in Malaysia are noted in Figure 13.

FIGURE 13: EXAMPLES OF SUCCESSFUL CSR INITIATIVES

Digi Communications	DiGi partners with a social enterprise called eHomemakers who manages a network of NGOs and homeworkers. DiGi sponsors 30,000 SMSes a month as it sees it as an opportunity to use its expertise in mobile communication to empower communities. DiGi was the first company to win Prime Minister"s CSR Awards and TM Berhad won the ACCA Malaysia Environmental and Social Reporting Awards in 2004 and 2005.
Shell Malaysia	As a corporate citizen, Shell contributes actively through its various social investment programs in partnership with other private, voluntary and community-sector organisations . The Shell Malaysia Sustainable Development (SD) Grants seeks to assist Malaysia-based NGOs, local academic institutions, the community and individuals in executing their SD initiatives with a focus on two main areas - environmental conservation and sustainable livelihood
Nestle Malaysia	In line with Nestlé's policy of creating shared value for both business and local suppliers, Nestlé in Malaysia began engaging local farmers in Kelantan to produce chillies as long ago as 1995. In return for providing the key ingredient for their Maggi chilli sauce, the Contract Chilli Farming Project provides the farmers with a secure market for their produce – via the local Farmers Organisation Board – at a pre-determined price.

The Malaysian Government indirectly provides tax incentives to businesses that implement broad CSR programs. In this regard, donations made to charities or non-trading institutions from income earned are usually non-deductible, as they are not wholly incurred in the production of income. However, the amount that can be deducted in respect of such gifts of money made by corporations is limited to 10 percent of their aggregate income in the relevant year. [13]

FIGURE 14: BURSA MALAYSIA'S BASELINE SURVEY RESULTS[14]

Bursa Malaysia's baseline survey provides a breakdown of the aspects of the CSR framework that are well utilized by the entities and identifies scope for improvement [Figure 14]. For instance, corporations seem

[13] http://congress.ustc.edu.cn/pro/2_.pdf
[14] http://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=1004&context=lien_reports

pre-disposed to target their CSR funding towards the workplace with the least amount of resources being diverted to the environment. The survey identified the much-needed support in building awareness about the realms of environmental impact with this aspect being excluded in many reporting measures. This poses a scenario where although CSR reporting infrastructure is in place there is a lack of awareness in relation to company's reporting requirements but also to the general idea of how to effectively align their business model with social causes in their community.

There is scope for more sustainable forms of financing to be explored within the CSR goals of a corporation. Donations can certainly be one aspect of a corporation's lending strategy but more can be done in terms of exploring sustainable forms of CSR. The perks of charitable giving in the form of donations go beyond social impact and essentially benefit the corporation via tax deductions that would otherwise not be the case if the corporation decided to use the same resources and direct it via social investments. Perhaps under the scope that Bursa Malaysia has outlined under their CSR mandates, there could be defined criteria of the different types of social investments available to the entities and depending on whether the entity meets certain thresholds, they can be eligible for varying degrees of lending that include but are not limited to donations, grant funding, credit loans to IEs and equity based investments. This would foster socially focused investments to be incorporated within the corporation's value chain and thereby integrate CSR well within the realms of their business model.

Additionally, Bursa Malaysia could consider putting in a 'social board' that will further strengthen this agenda, replicating the model adopted by IIX's Impact Exchange, a board on the Stock Exchange of Mauritius. Impact Exchange provides access to a range of Impact Investors that is much broader than those able to make private investments in IEs today. This will include charitable endowments, family offices, and other institutions, as well as high-net-worth individuals and retail investors. Establishing a social board on Bursa Malaysia could help to attract investment from existing Social Venture Funds as well.

Significantly, the Social Board will build on the momentum generated by the FTSE4Good Bursa Malaysia Index, which tracks the performances of companies that demonstrate strong Environmental, Social and Governance (ESG) practices. By bringing the concepts of sustainability and finance closer together, the FTSE4Good Index Series is a positive step in terms of the development of Social Finance in Malaysia. A Social Board will be an even greater milestone, with its added emphasis on the *outcomes* that arises from enterprises' activities. These outcomes will have to be independently verified by a third-party assessor, as compared to ESG metrics, which are usually self-reported and do not extend beyond the level of enterprises' *outputs*. The same applies for prevailing sustainability reporting frameworks, where the indicators reported tend to focus on what the companies are doing, rather than what positive changes the beneficiaries experience – a core component and performance indicator for Impact Enterprises.

Further, the FTSE4Good Index Series includes a set of negative screening criteria, where enterprises operating in particular sectors, such as weapons and tobacco, are excluded from the listing. A Social Board will undertake a positive screening approach, where enterprises are selected and evaluated based on the social and/or environmental impact that they are creating in various sectors. This approach will allow investors to benchmark and compare impact-related metrics on top of financial data, thus helping them make investment decisions based on their focus impact areas.

<u>SMEs:</u> Small and Medium sized enterprises have thus far been overlooked in terms of CSR requirements primarily because of resource constraints which make it difficult for them to take on more than what their daily business allows for. However, a regulatory body (and perhaps even a smaller arm of Bursa Malaysia) can provide oversight into the activities of SMEs that operate within socially-driven sectors and offer them specific guidelines to expand their impact with the hope that corporations under the general CSR mandate

also have the opportunity to divert their investments or resources into purpose driven SMEs. There is a very large gap in the market when it comes to the role of private sector entities and their ability to direct resources towards the good of society in a sustainable manner and this is one area where policy needs to be strengthened, potentially by creating a social stock exchange for small cap companies that are focused on generating social returns.

Intermediaries: Another important building block in the facilitation of Malaysia's movement into realizing its social goals are actors that offer technical or operational expertise to SMEs and grassroots organizations. These include banks, law firms, accountancy firms and other players who have dedicated pro bono programs or schemes to improve the capacity of constrained IEs to scale their impact.

There is more scope for these players to participate and can be enabled to do so with clearer policies in place. For example, Baker and McKenzie's CSR efforts in Malaysia are focused on pro bono and community development by offering their services to the Malaysian Federation for the Deaf, The Oracle Education Foundation among others. Private sector resources are well placed to embody the role of capacity builders and must be leveraged by policy makers to accomplish their social goals.

NON-PROFIT SECTOR:

NGOs and Foundations: There is a huge scope for NGOs to play a role in knowledge management and awareness building given the pressing needs of educating the ecosystem about alternative means of solving social problems and enabling private sector entities to engage in CSR more effectively. NGOs are often well equipped to reach the grassroots level and follow through on government policies in a manner that is suited to the entrepreneurs and small organizations that are working on the ground and are perhaps removed from the government's radar. With their ability to reach these dispersed populations, NGOs are well poised to not only act as well deserved recipients of corporate CSR programs but are even better equipped to connect private sector capital with on the ground projects that could potentially manifest into financially sustainable IE models. Currently, the Malaysian government is not fully utilizing civil society actors to their advantage. Figure 15 identifies few examples of targeted funding directed at NGOs primarily for their work with B40 populations.

FIGURE 15: GOVERNMENT ALLOCATIONS TO NGO PROGRAMS[15]

RM100 million	Socio- Economic Development of Indian Community Program in collaboration between NGOs and private skills training institutes
RM100 million	Private skills training institutions and NGOs to enhance skills of the B40 group to help them get jobs or start business
RM160 million	For NGOs to implement programs based on community development, solidarity, social welfare, health and safety.

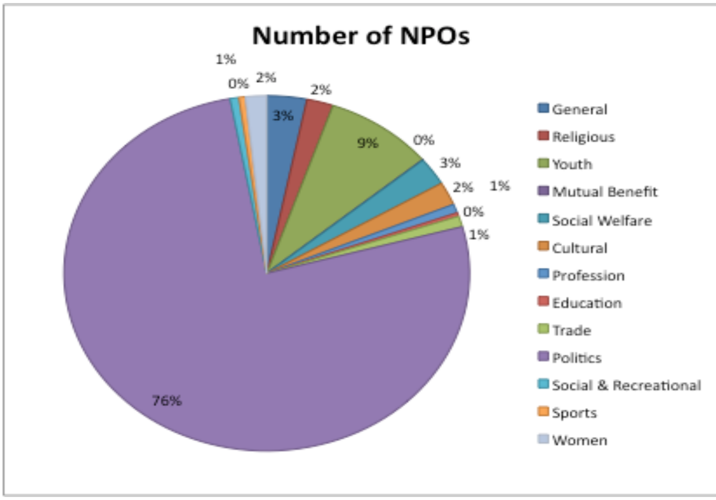
There is scope for further engagement in the form of capacity building and service delivery where the government engages NGOs to utilize government funds and serve the needs of marginalized communities. Similarly, they can be potentially engaged as consultants in the development of policies related to their field of expertise and as monitoring and evaluation partners to oversee the government's

[15] http://www.bnm.gov.my/files/Budget_Speech_2016.pdf

ability to meet measurable goals. Figure 16 shows the sector focus of non-profit organizations in Malaysia.[16]

The transition of the Malaysian economy into a high-income nation has meant local NGO funding from international donors has all but dried up. As a result, entities such as PT Foundation, which provides HIV/AIDS education, prevention, care and support programs, survive on government funding. This has resulted in an increase in the number of NGOs that are seeking to generate their own stream of revenue and shift towards an IE model that is self-sustaining.

FIGURE 16: SECTOR FOCUS OF NON PROFIT ORGANIZATIONS IN MALAYSIA



Currently, the NGO landscape is heavily based on politics. Within the social framework, youth and social welfare play the biggest role. Rather than undermining this group of actors, the government should view the presence of civil society actors as an opportune moment to further leverage their policy reach. Currently, there are barriers to make this fully effective. With the majority of foreign funding limited to government organized NGOs, autonomous NGOs are often face difficulty growing and are primarily supported by foundations.

CASE IN POINT: UNICEF'S MULTI-STAKEHOLDER APPROACH – SOCIAL INNOVATION LAB

The newest among a global network of UNICEF-supported Innovation Labs, the Social Innovation Lab in Malaysia pursues new approaches to critical issues facing children and young people. The Lab works to convene innovation and engagement for children through three core pillars of work: data, design and collaboration.

PROCESS:
The Lab partners with select civil society, government and private sector organizations to pursue 4 to 5 month design projects to create and test these new approaches. Through the design process, different cost effective service prototypes are built and tested with 'end-users' – children and young people, caregivers and frontline workers – to understand if and how an implementation might work in the local context. These prototypes are then adjusted until a solution is found that works for all stakeholders involved. The Lab contributes to this process via a multi-disciplinary team that includes social researchers, data analysts, designers, technologists, social issues-experts and practitioners.

IMPACT:
RapidPro is an open-source data collection tool developed by UNICEF that enables the building and sending of simple mobile-based messages and surveys via basic mobile phones. Real-time monitoring tools such as this will help assess the impact of new approaches developed within the Innovation Lab.

[16] http://versys.uitm.edu.my/prisma/view/viewPdf.php?pid=12940

In terms of foundation-based activity in Malaysia, this is generally related to the CSR framework provided by the Bursa Malaysia given that a large portion of foundations are corporate CSR arms and are therefore aligned to meet the goals of the governing body. Figure 17 highlights key activities of large corporate foundations in Malaysia. Apart from Air Asia Foundation that has a well-defined focus on IEs, most corporate arms of foundations support a wide array of themes as opposed to a dedicated sector or theme focus.

FIGURE 17: EXAMPLES OF FOUNDATION ACTIVITIES IN MALAYSIA

Berjaya Cares Foundation	Programmes and initiatives for underprivileged children and youth, outreach programmes for poor communities, providing aid to health related causes, conserving and protecting the environment, supporting Malaysian performing arts and culture, animal related causes, promoting staff well-being and providing international humanitarian aid.
Air Asia Foundation	Social Enterprise Awards are targeted at start ups looking to scale their business. Winners are awarded with seed funding and mentorship throughout the grant period. To date, 10 Social Enterprises have been funded across 6 countries (2 SEs in Malaysia).
CIMB Foundation	Community empowerment – enabling communities to identify causes relevant to them. The initiatives within the Community Link focus primarily on the environment, socio-economic development, health, culture and heritage, community sports and education.

(III) DETERMINING THE CURRENT EFFECTIVENESS OF ECOSYSTEM PLAYERS WITHIN THE SOCIAL VALUE CHAIN IN PROMOTING DEVELOPMENT ON A GROUP LEVEL

The Social Finance space is gradually sparking interest in Malaysia. Young professionals appear to be the face of the movement, partly because leading organizations like Myharapan and the British Council are heavily involved in developing youth-led enterprises. This is evidenced by the profiles of the winners of AIM's Social Innovation Challenge 2015 which was dominated by young entrepreneurs with high level of competency and skill sets that enabled them to engage with a wide range of people within their sector and beyond. A study by Social Finance™ UK also identifies 'reverse brain drain' as a dominant trend - majority of the Impact Entrepreneurs in Malaysia have received their education in the UK and have returned to the country to set up businesses that are both mission-driven and market-based. The study also reveals the disconnect and confusion among majority of the population on the concept of Impact Enterprise and the ability of social and financial returns to not only co-exist but to be co-created by market-based solutions. This mandates a need to educate the community and embrace them in the movement.

During the fifth Global Social Business Summit held in Kuala Lumpur in 2013, Malaysian Prime Minister Datuk Seri Najib Razak announced a RM20 million social business fund under the Malaysian Global Innovation and Creative Centre (MaGIC).[17] MaGIC has taken the lead in developing accelerator programs that can effectively build a pipeline of high impact entities that will be equipped with the tools, resources and networks to effectively infuse mission-oriented capital and deploy it to create transformative positive impact.

Other Social Finance intermediaries that are building the ecosystem in Malaysia include SGS – that helps corporates become more socially responsible, Khazanah Nasional – which intends to issue Malaysia's first Social Impact Bond (an innovative pay for success mechanism) and Social Enterprise Alliance Malaysia

[17] http://socialfinance.ca/2014/05/29/10-striking-features-malaysian-social-enterprise-landscape/#sthash.xVzszate.dpuf

that advises corporates on their CSR strategy and links them to IEs. There are also thought leaders that are sparking the dialogue and providing consultancy services such as Tandemic, that are playing a central role to ignite the Social Finance movement. Tandemic provides consultancy services to create meaningful social change, runs training and development programs to design human-centered products and services and engages in venture building to support development of IEs.

It is apparent that activity within the Social Finance sector is growing in Malaysia. However there is a divide between what is occurring within the public and private sector. While players in both sectors actively engage the non-profit sector, there is little overlap between the private and public sector efforts to collectively catalyze the space by leveraging on each other's unique expertise and available capital. While this will be resolved by the Social PPP, which will actively engage cross-sector collaboration, there are certain elements in policy that must be tackled first that are primarily related to their CSR agenda so as to develop the Social Finance ecosystem in Malaysia more effectively.

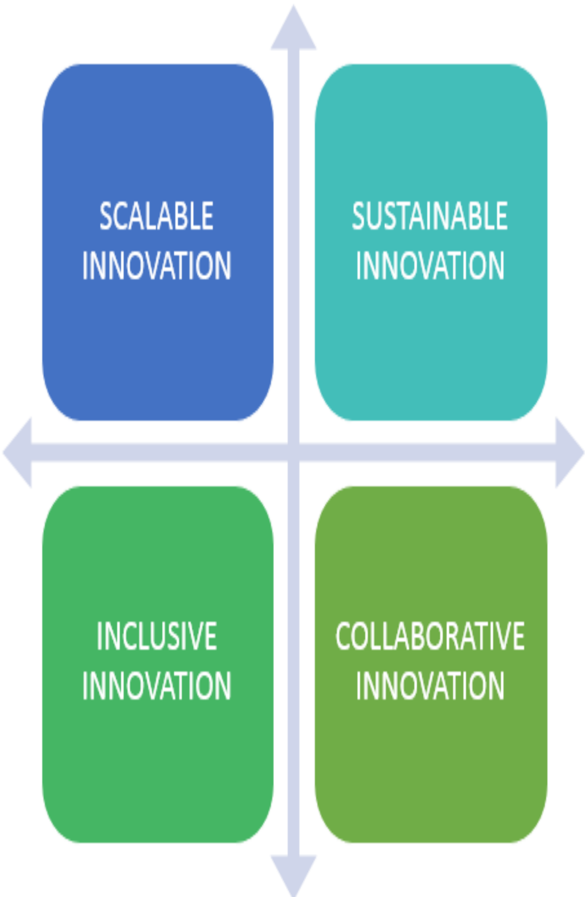
Identifying gaps in policy at the start will formulate an effective transition into a proactive strategy for the Malaysian government. Embedding this strategy across future policy instruments will enable a more sustainable path to achieve the Social Finance agenda. Section 5 of this paper outlines a holistic strategy to catalyze the Social Finance ecosystem to help Malaysia align incentives between these diverse stakeholder groups and transition towards a more proactive, unified paradigm. This will not only help reduce part of the financial burden on the government by bringing new players into the sustainable development equation but will also expedite efforts to achieve vision 2020 of achieving advanced nation status by addressing current market failures, optimizing key economic strengths and taking an inclusive approach to create change from the bottom-up.

FRAMEWORK FOR SOCIAL INNOVATION

Beyond policy, effective delivery of social measures can be directed by innovative mechanisms. Thus, innovation here is the idea of taking novel approaches and building on them via the mobilization of capital from untapped sources. The role of policy, if implemented successfully will be able to create a demonstrable grounding in new initiatives to tackle social issues. The goal of policy should be to allocate resources to ecosystem players that are best placed to accomplish an agenda. Given the level of resource constraints faced by public sector, there needs to be greater emphasis on incorporating well-defined roles across different actors. Private sector actors may be better placed to execute certain aspects of innovative financing while non-profit sector parties may be better equipped to offer on the ground support. Ultimately, the goal is to create a nurturing environment for these enterprises to thrive.

The role of Social Finance goes beyond unlocking capital for development. It also has a critical focus on ensuring every dollar unlocked is directed towards initiatives that have maximum impact on the target beneficiaries or issue at hand. Using innovation to create catalytic change can help achieve this mandate. In the realm of Social Finance, innovation goes beyond the traditional understanding of product innovation. It must be translated more broadly to encompass innovative processes or value-creation methods, innovative financial engineering that integrates private capital with public and philanthropic support and the use of existing or proven solutions in a new context to solve complex social and environmental problems.

FIGURE 18: FRAMEWORK FOR INNOVATION THROUGH THE LENS OF SOCIAL FINANCE

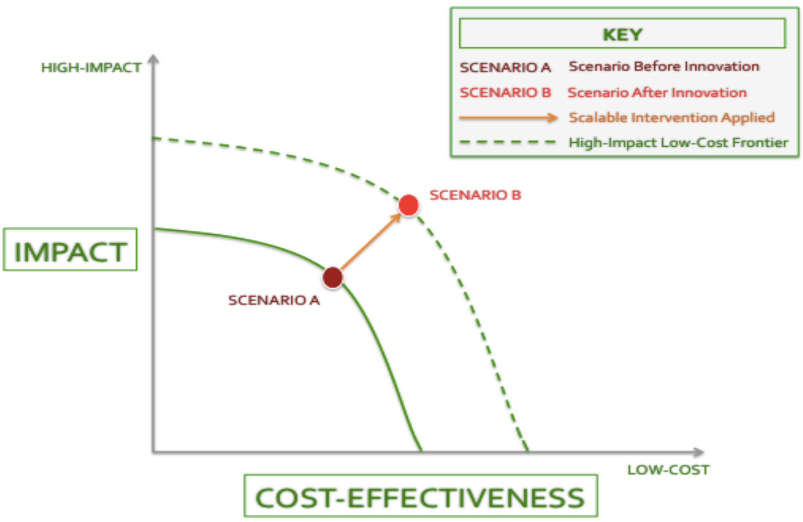


In order to garner a full-fledged approach towards innovation that is able to successfully incorporate inclusion, sustainability, scalability and collaboration, the following section provides illustrative examples of potential program goals that can be pursued by appropriate stakeholders. Figure 18 outlines a framework for categorizing the broad outcomes innovation triggered by Social Finance interventions can achieve:

(i) **Scalable Innovation**: Developing innovative, market-based solutions that leverage the power of technology to create scalable impact on target beneficiaries
(ii) **Sustainable Innovation**: Designing new, innovative approaches to address complex social problems, which have experienced public sector and market failure
(iii) **Inclusive Innovation**: Designing inclusive approaches to deliver value by empowering segments of the population that are traditionally excluded
(iv) **Collaborative Innovation**: Using innovative financial engineering to align disparate stakeholder incentives and create a collaborative approach to implement solutions

While fostering an environment where the flow of ideas is encouraged, certain mechanisms need to be in place to ensure that these ideas are scalable both in their ability to generate revenue and in their ability to be replicable to wider audiences. Funding unlocked by Social Finance initiatives should be actively directed towards initiatives that balance scale of impact with financial sustainability. IEs across the world are effectively leveraging the power of technology to develop market based solutions to address key social issues and can be rapidly scaled up to create transformative change. This is in line with goals of Malaysia's National Blue Ocean Strategy, which aims to create low-cost, high-impact models that can push out the innovation frontier (Figure 19).

FIGURE 19: PUSHING OUT THE INNOVATION FRONTIER



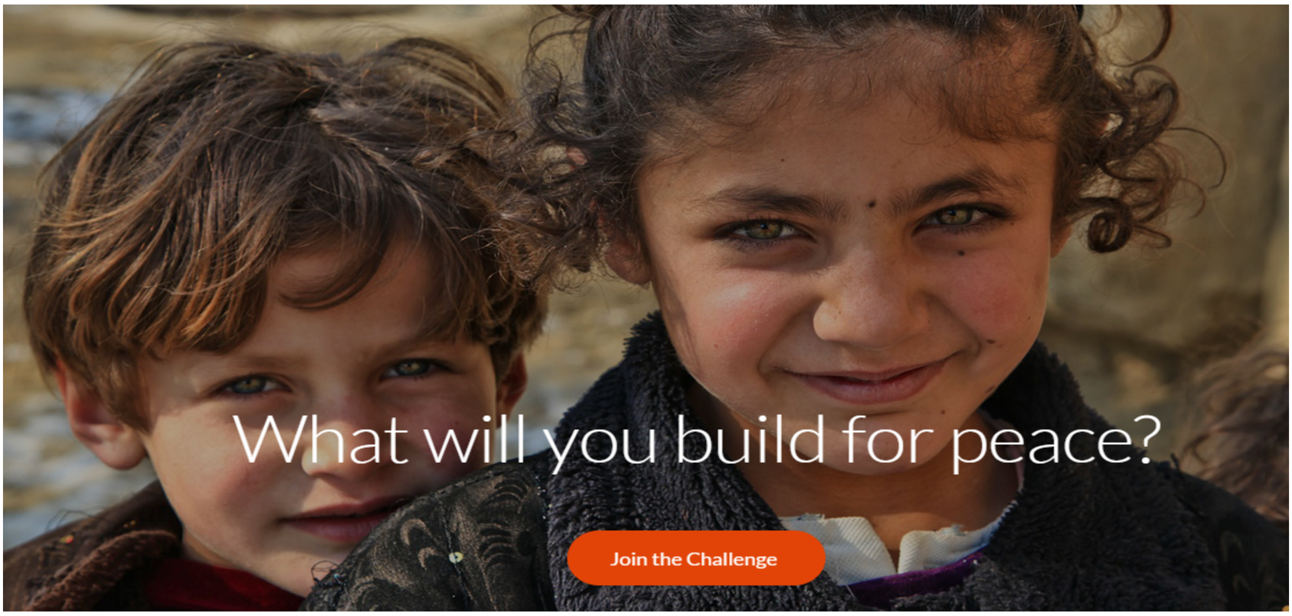
Market-based solutions can leverage the power of technology to shift the innovation frontier to create high-impact, low-cost models that effectively use funding unlocked by Social Finance to create scalable change.

CASE IN POINT

KOE KOE TECH

Koe Koe Tech's innovative apps are leveraging the power of technology to democratize healthcare in Myanmar. These apps are designed to educate and connect underserved populations to affordable healthcare, contributing towards the reduction of maternal mortality and infectious disease rates, encouraging behavior change for healthy living and stimulating rural markets by enabling purchase of low-cost, high quality medicine.

Koe Koe Tech's ability to increase access to affordable healthcare in a scalable way significantly reduces the economic burden of healthcare from the public sector – a key need in an economy emerging from conflict with a tremendous target market of 14 million families.



Sustainability is now a key driver of innovation that will force the world to change the way they think about developing long-term solutions to complex social problems. Social Finance intermediaries must think creatively about how to replicate proven approaches in new contexts to unlock value creation. Innovation comes about by thinking differently and creatively; by connecting seemingly unrelated ideas, and putting them together in unrelated ways, to produce something novel or original. For instance, innovation challenges do not need to be limited to tech-start ups. Competitions aligned towards the strategic goals of Malaysia are an effective way to use capital mobilized by Social Finance initiatives to support high-impact entities looking to create sustainable change in other ways.

CASE IN POINT

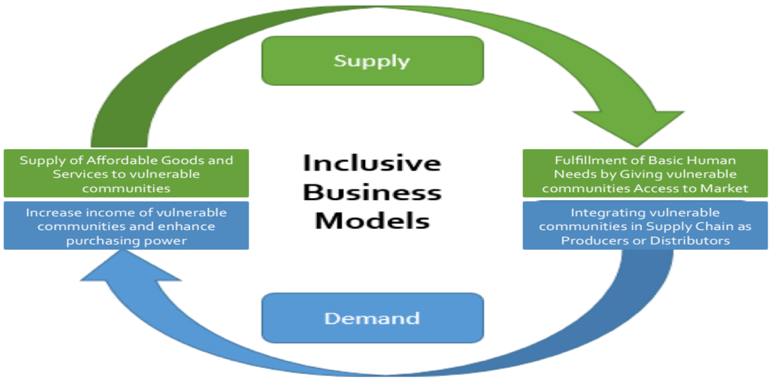
IIX N-PEACE INNOVATION CHALLENGE

Private sector enterprises have the transformative power to both exacerbate and ameliorate conflict, which is why strong supportive programs to foster the development of Impact Enterprises are needed in post-conflict regions. The IIX N-Peace Innovation Challenge aimed to identify and support 6 high-Impact Enterprises that are using market based solutions to build sustainable peace in Asia. By rethinking the dominant top-down narrative to conflict resolution, the competition acted as a platform for peacebuilding and capitalism to converge – to seemingly disparate concepts with conflicting logics. It is this kind of innovative thinking that triggers positive disruption of the status quo. Using proven business methods to deliver value in high-impact sectors, winners of the challenge seek to address the root causes of conflict by building systemic resilience and effectively reducing the risk of communities of lapsing or relapsing into conflict. This innovative approach to shifting the peacebuilding paradigm from focus on recovery to resilience can act as a game changer in at-risk countries.

For instance, Philippines winner – Coffee for Peace, uses a unique triple-bottom line formula to brew peace for over 800 families in the high-conflict zone of Mindanao: 'Farmers, Environment, Peacebuilding'. The farmers are paid a fair price for their coffee, empowering them with a sustainable livelihood. Tree planted provide much needed shade to the coffee plant and have a spillover 'green dividend' impact on the environment. Finally, Coffee for Peace acts as an avenue for dialogue for at-risk individuals to avoid conflict by building awareness on peace and reconciliation through targeted training and community building programs. This enables the IE to create long-term, transformative peace in the region.

This focal theme considers innovative solutions in terms of their ability to support the growth and impact of enterprises via a bottom-up approach. In order to apply an inclusive approach in practice, engaging organizations to look into making their value chains more socially focused offers an approach to innovative solutions from the bottom-up. For instance, Inclusive Business Models [Figure 20] can play an increasingly important role in not just driving forward the sustainable development agenda, but also in creating wealth for the most vulnerable (low-income women and at-risk youth) or economically disadvantaged populations (B40 households). Inclusive Business solutions can effectively empower marginalized communities as they develop innovative business models that allow them to (i) Produce affordable goods and services that meet basic needs (ii) Engage local labor and entrepreneurs in the supply chain (iii) Enable access to energy, communications, finance to women and youth (iv) Source raw materials from small-scale producers and (v) Increase the size of B40 households' wallets.

FIGURE 20: INCLUSIVE BUSINESS MODEL MECHANICS



Inclusive businesses are for-profit models that contribute to poverty reduction through the inclusion of low-income communities in its value chain.

CASE IN POINT

SUN INTERNATIONAL HOTELS

Since 2004, Sun International Hotels (SI) in Zambia has managed a local food sourcing program through which it procures fresh fruits and vegetables from 400 smallholder farmers. This has resulted in security of supply and reduced costs for the hotels and provided livelihoods opportunities to smallholders in the region.

The new pack house facility's centralized system can benefit both SI and smallholders, and serve as a collection and distribution point for inputs (e.g. seeds, fertilizers), raw materials (e.g. unrefined honey), fresh produce, and value-added products (e.g. honey). An automated system and use of ICT such as mobile phones further streamlines the procurement process for all parties. Finally, adoption of innovative, new climate change resilient technologies reduces vulnerability of smallholders to extreme weather conditions.

COLLABORATIVE INNOVATION:

It is imperative for Malaysia to embrace a collaborative approach to innovation that creates strategic options by combining shared objectives, capabilities, and investments with other ecosystem players. Growing resource constraints across all stakeholder groups calls for a more effective means of deploying capital that would engage various stakeholder groups. The Social PPP proposed by the government is well positioned to meet this form of innovation that can create synergies between public and private sector actors to scale impact. Innovation can also take the form of financial engineering that effectively breaks the silos between different stakeholder groups. Section 4 provides more details on how innovative financial instruments can foster collaboration to mobilize mission-oriented capital at scale.

CASE IN POINT

SOCIAL IMPACT BONDS

Social Impact Bonds (SIBs) harness private capital to achieve measurable gains on social challenges. SIBs improve the social outcomes of publicly funded services by making funding conditional on achieving results. Investors pay for the project at the start and then receive payments based on the results achieved by the project.

In 2010, the first SIB (GBP 5 million) was launched to tackle the increasing challenge and cost of managing recidivism in Peterborough. A consortium of six companies led by One Service managed to reduce recidivism by 8% by providing accommodation, medical services, family support, employment and training, benefits and financial advice.[18] However, the Peterborough SIB was collateral damage of massive policy reform - Transforming Rehabilitation, which caused the third cohort of the SIB to be cancelled. Transforming Rehabilitation was designed to deliver support to over 50 times as many people as the Peterborough SIB and involved an annual budget over 30 times bigger than the maximum payable on the third cohort of the Peterborough SIB (≈£1.7 million). It would be quite disproportionate to hold this reform off for another two years so that the Peterborough SIB could deliver services.

The key lessons is that although innovative mechanisms can certainly play a role in bridging the gap between development and finance, a collaborative approach where diverse stakeholder incentives are aligned is imperative. Additional concerns with use of SIBs in the Malaysian context are highlighted in Section 4.

[18] http://www.socialfinance.org.uk/impact/ criminal-justice/

SECTION 3: A GLOBAL PERSPECTIVE

Photo Credit: Stokpic

A GLOBAL PERSPECTIVE

OVERVIEW

In order to effectively assess the role government can play in structuring and nurturing the Social Finance space it is imperative for Malaysia to draw insights and adapt best practices from around the world. This section explores the Social Finance landscape in seven countries that have effectively used Social Finance to meet social sector needs. The section begins by examining three major OECD countries – UK, US, and Japan. It makes particular reference to the internal policies, structures and regulations that enabled the growth of robust Social Finance ecosystems in these markets. It also provides a snapshot of the external influence these countries wield on the global Social Finance landscape through their overseas development agencies. In addition, the section takes a comprehensive look at the internal structures for India and Thailand with a specific focus on interventions that mobilized the supply of capital (grants, guarantees, investments), developed demand for capital (capacity development programs, ethical procurement policies), or bridged the gap between demand and supply (reporting regulations, tax incentives). In each of these case studies, public policies either subsidise, reduce risk, provide better information or directly support funding to draw private capital into the development space. Finally, the section analyzes the local Social Finance landscape in Philippines and Indonesia to understand the challenges faced in an ASEAN context, and how best these can be addressed in Malaysia. This section will serve as a reference guide for Malaysia and explains what strategies have been adopted by UK, US, Japan India, Thailand, Indonesia and the Philippines to encourage the growth of Social Finance. It can be used as a benchmark to assess Malaysia's own progress.

It is worthwhile to mention the role of the international community in spurring governments to take action to develop Social Finance-friendly policies. Two bodies in particular, the G8 and the G20, have been instrumental facilitating international dialogue and action around the Social Finance space at a policy level. Following a dedicated Social Investment Forum in 2013, the G8 created the Social Impact Investment Task Force in 2014 with the aim of creating a global movement towards Social Finance. Through the Task Force, the G8 plans to build a collaborative and inclusive global social impact investment community to develop and share best practices in terms of policy and investment principles. The Task Force aims to create common frameworks to move towards global standardization of social impact measurement methodologies and metrics. The establishment of the Social Impact Investment Task Force has already had ripple effects in the wider international community, with an additional five non-G8 countries joining as 'observer' members and adopting its commitments to advancing the Social Finance movement. While the G8's initiatives are targeted towards knowledge exchange and influencing the strategic direction of Social Finance policy, the G20 involves itself in the space through direct funding and support to new models of innovative financing. In 2010, the G20, in collaboration with Ashoka Changemakers and the Rockefeller Foundation, hosted a competition to discover new models of innovative financing for SMEs. Following this, the G20 committed $528 million to launch an SME Finance Innovation Fund focused on scaling up winning proposals through technical assistance or capacity-building grants, risk sharing or first-loss capital, and direct investment capital. Additionally, the convening effect of the G20 fund significantly contributed towards mobilizing further collaborative public and private sector support for catalyzing funding for SMEs within its member countries.

UNITED KINGDOM (UK)

EVOLUTION OF SOCIAL FINANCE

The UK is a prime example of a government effectively wielding policy, legislation and funding to build and catalyze a Social Finance ecosystem. Over a decade of strategic interventions resulted in the creation of a Social Finance landscape that is characterized by sustained collaboration and engagement between public, private and non-profit sector stakeholders to achieve tangible social and environmental outcomes.

One such early intervention that proved instrumental in institutionalizing the Social Finance sector in the UK was the establishment of the **Office of the Third Sector (OTS)** (later renamed **Office of Civil Society**) in 2006. The primary function of this ministry was to catalyze the creation of specialized investment vehicles. It did this by supporting government agencies to create capacity building funds to improve the operational efficiency of Impact Enterprises providing services in their respective sectors. For example, with OTS support, the National Health Service (NHS) spun-off an investment fund in 2007 that provided blended financing options to enterprises in the healthcare sector to build operational capabilities and grow sustainably. Similarly, the OTS supported the establishment of the £70 million (approximately $100 million) Community Builders Fund in 2009 to provide financial and advisory support to community` organizations. (SF CH 15)

Another important step the British government took during its early attempt at trying to establish a Social Finance ecosystem was to create a specific corporate structure for IEs – the **Community Interest Company** (CIC). This was when the lack of a formalized legal structure presented a formidable barrier to entry for a number of IEs. CICs have built-in "asset locks" (where the assets owned by the entity must be channeled towards achieving a social purpose), and "dividend caps" which allow impact entities to raise capital and repay shareholder dividends while still ensuring that a significant portion of assets and revenues are channeled towards generating positive social and environmental outcomes. However, while the dividend cap (20% of initial value of shares or 35% of distributable profit) is effective at attracting grant funding to CICs, these restrictions represent a significant barrier to private sector capital owing to the difficulty for investors to recoup their investments.

The British government also effectively created the Social Finance ecosystem through policies and interventions that:

(i) developed the ability of impact entities to effectively absorb and deploy capital;
(ii) mobilized the supply of capital; and
(iii) bridged the demand-supply gap.

DEVELOPING DEMAND FOR CAPITAL

The British government has used various mechanisms to facilitate the building of a robust pipeline of sustainable and scalable Impact Enterprises. This includes funding and supporting capacity building programs. One particularly effective experiment was the three-year **Investment Contract and Readiness Fund (ICRF)** aimed at enabling high-Impact Enterprises to acquire the skills to raise investment and compete for public contracts. By offering grant funding for technical assistance and capacity building, the £10 million ICRF supported eight enterprises to raise investments and win contracts worth £35 million. Another successful initiative aimed at leveraging the power of intermediaries was the **Social Incubator Fund**, an investment vehicle focused on financing incubators that provide technical assistance and mentorship to IE start-ups. As of March 2014, the fund had provided over £10 million in funding to six incubator organizations.

On the procurement side, the **Social Value Act** (2012) exemplifies how policy can effectively use the government's buying power to drive social value creation. The Act requires local authorities to consider social value when making procurement decisions, thus incentivizing IEs while simultaneously leveling the field by giving them a leg up when competing with larger firms for public contracts.

MOBILIZING SUPPLY OF CAPITAL

The UK has been at the forefront when it comes to developing innovative structures and mechanisms to unlock private capital to achieve development outcomes. In 2002, the UK government matched £20 million in venture capital investment, half as a loan and half as an investment in the fund, to create specialist impact investment fund Bridges Ventures. This leveraged a further £120 million in private investment over the following six years and spurred interest in the development of other social capital funds.

Primary, and perhaps the most well-known among the UK's Social Finance structures is **Big Society Capital**, a 'social investment wholesaler', that was set up in 2012 with the government as a cornerstone investor. Big Society Capital effectively mobilized £400 million from dormant bank accounts to invest in Social Finance intermediaries through a variety of debt and equity instruments. As of 2015, Big Society Capital, along with its co-investors, had made upwards of £370 million available to charities and IEs in the UK.

The introduction of innovative financial products also facilitated the increased involvement of private sector players in social service delivery. Social Finance, a UK-based non-profit intermediary, structured the world's first **Social Impact Bond (SIB)** in collaboration with the Ministry of Justice to address the issue of high prisoner recidivism in 2010. The performance-based mechanism would see investors being repaid by the government on the achievement of social outcome targets after a six-year period. The SIB raised £4.9 million from private investors and channeled it into scaling up non-profits with innovative models and track records of achieving re-offender reductions. However, while the program did see certain reduction in reoffending rates, the SIB failed to meet its agreed upon interim outcome targets, and investors were not immediately repaid. SIBs as an instrument hold a lot of potential to reduce the costs of public programs and unlock private capital to address social issues. However, certain issues limit their effectiveness as a broad policy instrument including the misalignment of incentives among the stakeholders involved, the unsustainable concentration of risk at the end of the program, and the lack of standardization in terms of measuring social impact outcomes.

BRIDGING THE GAP

Measures like the establishment of a dedicated third sector ministry and the creation of enabling corporate structures like the CIC have helped the UK government attract private investors to Social Finance. The UK has also been effective at using tax incentives to direct the flow of capital towards social outcomes. The earliest version of this was a **Community Interest Tax Relief (CITR)** which was implemented in 2002 and encouraged private investment in targeted priority areas by providing a tax relief of up to 25% to those who invested in **Community Development Finance Institutions (CDFIs)**. CDFIs were instrumental in providing funding and technical support to early and growth stage IEs in the UK. To complement this scheme, and to provide IEs with access to additional affordable capital, the UK instituted **Social Investment Tax Relief (SITR)** in 2014. SITR is a tax incentive program aimed at reducing risks associated with social investment by providing tax relief to social investors while simultaneously broadening access to finance for Impact Enterprises. SITR assumes the form of a 30% tax relief on either debt or equity investments in qualifying social organizations and estimates the scheme could generate up to £480 million in social investment over the next four years.

Big Potential Fund

Big Potential is a 3-year grant fund set up by the UK government to deliver grant funding (approx. 20million pounds) to eligible early stage IE organizations **with the aim of improving the sustainability, capacity and scale of these organizations to enable them to deliver greater social impact.** The program raises awareness of the social investment market while supporting early stage Impact Enterprises with preparation for social investment or winning contracts.

Impact organizations will be able to access specialist support from Big Potential program partners before making an application for grants between £20,000 and £75,000 to undertake more in-depth investment readiness work with one of Big Potential's approved technical assistance providers. Slightly more advanced Impact Enterprises can avail grants between £50,000 and £150,00 to help close investment deals or secure contracts

This type of government intervention might be particularly applicable to the Malaysian Social Finance context which is characterized by a large number of seed and early-stage enterprises. It could prove extremely effective at building a robust pipeline of Impact Enterprises that are able to effectively absorb and deploy capital.

INFLUENCE ON THE GLOBAL SOCIAL FINANCE LANDSCAPE: DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

Through DFID, the UK deploys various financing instruments to leverage innovation and private sector capital to solve pressing international development challenges. Malaysia could glean valuable insights from the collaborative multi-stakeholder approach DFID assumes to increase capital flows to the social sector. Malaysia can also draw learnings from DFID's efforts at deploying pay-for-success mechanisms (such as Development Impact Bonds and SIBs), rigorous impact evaluation, and co-financing to accelerate the application of outcome-based impact approaches to unlock new capital for social investment.

In 2012, DFID launched its comprehensive Impact Program, aimed at providing financial capital and specialist advice to transform health and education services, local businesses, agriculture and basic utilities in Africa and South Asia. The 13-year project will make it easier for private investors with a willingness and passion to invest in projects that help the poorest to pull themselves out of poverty as well as deliver financial returns. It will provide market information about the transformational potential of enterprises that have developed products and services that can benefit the poor. It will also facilitate the use of Impact Reporting and Investment Standards (IRIS) metrics for consistent and comparable impact measurement and to provide clear and accessible data which can be shared with the wider investment community and inform future decisions and programs.

COMPONENTS OF THE DFID IMPACT PROGRAM

- The CDC-managed DFID Impact Fund which will provide capital to plug the gap in the supply of impact funding, kick-start promising funds and attract new investors by sharing the risks of early stage investments. Investments will also be backed by expert technical assistance to develop the operational capacity of the investee businesses. The Fund is structured to ensure that a proportion of the investment will be returnable capital, with money returned to DFID if the project is successful.
- Support to the Global Impact Investing Network (GIIN), in partnership with USAID, Omidyar Network and Rockefeller Foundation to provide better market and performance information to potential investors about innovative products and services that have successfully addressed development challenges faced by marginalized communities.
- Development of industry-wide standard metrics for investments which measure both financial return and development outcomes to enhance the ease and transparency of Impact Investing.
- Provision of expert investment training and business skills to more than 300 Investment Managers from developing countries to help develop and manage projects on the ground.

SNAPSHOT OF UK SOCIAL FINANCE KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
Office of civil society Social Incubator Fund DFID British Council Big Potential Fund Big Society Capital	Nesta Investments Truestone Impact Investment Threadneedle UK Social Bond Fund Goldman Sachs	Oxfam Vodafone foundation Schwab Foundation	**Intermediaries:** Bridge Ventures Resonance Global Development Innovation Ventures **Impact Enterprises** Oomph! Energise FSE

UNITED STATES OF AMERICA (US)

EVOLUTION OF SOCIAL FINANCE

Social Finance in the US thrives on a long-standing tradition of private philanthropy, a vibrant capital market that is willing to experiment with new and innovative social financing instruments and a number of policy initiatives. By providing direct funding, creating enabling financial and regulatory infrastructure, and seeking private and non-profit sector collaboration the US government has been instrumental in building the country's Social Finance ecosystem.

MOBILIZING SUPPLY OF CAPITAL

The two most prominent examples of government intervention effectively mobilising the supply of private sector capital in the US are the **Community Development Finance Institutions (CDFI)** Fund and the **Social Innovation Fund (SIF)**. The two funds have formed the nuclei of prominent social investment communities built on public-private partnerships and involving diverse investment strategies and instruments. Through these initiatives the government took the lead in supporting the development of a robust Social Finance sector.

Set up in 1994, the CDFI Fund focused on directing capital to financial institutions that supported low-income community development through a combination of grants, loans, guarantees and tax credits. By 2011, the Fund had provided $1.3 billion in direct financing to CDFIs, and had facilitated a further $10 billion in private sector investments through a variety of de-risking instruments. By creating knowledge and awareness about impact investment, nurturing and educating various stakeholders, and creating incentives to attract private sector capital, the CDFI Fund helped lay a strong foundation for social financing in the US.

The SIF established in 2009 by the 2009 Edward M. Kennedy Serve America Act, adopts a more sustainable, outcome-focused approach to investments by targeting innovative, high-impact and scalable enterprises and solutions. Since its inception the SIF has provided $241 million in federal grants, and leveraged an additional $516 million in private funding to over 180 Impact Enterprises operating in high-need communities across the US. The 2015 Social Innovation Fund grant competition announced it would provide approximately $40 million to eligible grant making institutions seeking to grow innovative, evidence-based solutions to challenges facing low-income communities nationwide in our focus areas of healthy futures, youth development and economic opportunity. In addition, approximately $11 million was made available for the continuation of existing grants. The SIF pools public and private funds to support high-potential initiatives in health, youth development and livelihood opportunities. It provides grants to grant-making intermediaries - primarily philanthropic and non-profit organisations- that have the expertise and experience in screening and developing high-impact programs. These intermediaries then match SIF funding and identify high-impact innovative programs through open competition. Successful high-impact programs recipients then, in turn have to further match the funds received and undergo rigorous impact evaluations to determine the effectiveness and scalability of their solutions. In this way SIF helps mobilise three-times the initial capital it puts on the table for social outcomes. By outsourcing program selection and development to these intermediary grant-makers through partnerships the SIF reduces its own cost of operation while enhancing the quality of control over various projects.

BRIDGING THE GAP BETWEEN DEMAND AND SUPPLY

Another significant role the US government has played in the development of Social Finance is that of a convener, which has helped boost private sector confidence in the Social Finance market. This is indicative of strong state backing (through regulation) and a firm political commitment (through legislation) to Social Finance.

The **New Market Tax Credit (NMTC)**, for example, was a pioneering initiative aimed at channelling private capital to address key development issues in economically distressed communities. The incentive provided investors with lowered transaction costs through tax credits of up to 39% of the value of equity investments in qualified community development entities. As of 2014 the NMTC program had financed over 4,700 enterprises, with $8 of private capital invested into community projects for every $1 of government funding. While the NMTC has proven to be an effective tool in alleviating poverty and income inequality at a relatively low cost to the government, there are lessons to be learnt from its implementation. The unintended consequence of the broad scope of the policy, for example, has led to a crowding-in of private capital to more profitable sectors like real estate (accounting for 68% of the total investment generated by the scheme), potentially depriving smaller borrowers in other high-priority sectors.

The US government has also successfully employed legislation to effectively increase the participation of private and non-profit sector players in the Social Finance space. The **Community Reinvestment Act (CRA**), for instance, spurred the formation of local development finance institutions that channelled financial resources to community development projects. US government initiatives have also played a key role in building awareness. Extensive research and advocacy by universities, philanthropic bodies (such as the Skoll Foundation and Rockefeller Foundation) and private sector associations [like the Global Impact Investing Network (GIIN)] helped push the boundaries of knowledge about Impact Investing and the Social Finance sector in the US. The US government championed these efforts and not merely as a cheerleader. Through its Knowledge Initiative (KI), for instance, the Social Innovation Fund collects and shares information around effective public-private collaboration mechanisms, benchmarks impact results of the Fund's intermediaries, and promotes innovative solutions for development. The Fund has invested $66 million to develop an evidence base for high-impact models, and set up an online platform in 2011 for its grantees to connect, collaborate and share ideas and resources. For instance, programs such as Jobs for the Future and the 'National Fund for Workforce Solutions provide training and support for over 40,000 low income workers to get jobs, improve their skills and increase their wages.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

Similar to the CIC in the UK, the US has also introduced a number of specific legal structures to direct mainstream finance towards social investment, including the Low-Profit Limited Liability Company (L3C), the Benefit Corporation, and the Flexible Purpose Corporation. Another ecosystem catalyst is B Lab, a nonprofit organization that drives this systemic change through four interrelated initiatives:

1) Building a community of Certified B Corporations who lead this movement and make it easier to tell the difference between "good companies" and good marketing;
2) Passing benefit corporation legislation to create a new kind of corporation legally required to create value for society, not just shareholders;
3) Helping investors invest for impact through use of the B Analytics data platform; and
4) Helping businesses measure, compare and improve their social and environmental performance through use of the B Impact Assessment as a free powerful educational tool.

Through the CDFI Fund, the government provides technical assistance and capacity building services to community development organisations – effectively enhancing their ability to absorb and deploy funding. Unlike the UK, however, government interventions on the demand-side are fairly limited in the US. This is perhaps owing to the strong existing network of private and non-profit sector intermediaries focused on developing a pipeline of sustainable and scalable enterprises.

INFLUENCE ON THE GLOBAL SOCIAL FINANCE LANDSCAPE: US AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

USAID is the development finance arm of the US government – it provides both financial and technical support to address global social challenges through a variety of programs and instruments including grants, guarantees, and technical assistance partnerships with other governments and organizations. Through credit guarantees, USAID works to bridge the financing gaps in developing countries through a risk-sharing mechanism with the local financial institutions, enabling local entities to gain greater access to private capital. For example, USAID has a 10-year $95 million credit guarantee program with the government of the Philippines. Under the program, USAID provides structured guarantees to partner financial institutions with the aim to increase SME access to credit and generate growth and employment in Tier II cities. USAID is further involved in de-risking these loans by covering

50% of the net first loss on loans to projects in priority sectors including healthcare, energy and agribusiness. The credit guarantee program has seen over 400 transactions between USAID and financial institutions, unlocking upwards of $3.7 billion in private capital for development globally. USAID is currently in advanced discussions with IIX to provide a guarantee for the Women's Livelihood Bond (a $20 million debt security that aims to raise capital from private investors for a basket of IE and MFI borrowers).

Through USAID, the government has also provided support for innovative instruments and programs to build the Social Finance ecosystem globally. The agency is a core funder of the Shujog ACTS (Assistance for Capacity Building and Technical Services) program – a unique initiative that leverages blended financing to offer capacity building, technical assistance and impact assessment services to Impact Enterprises in South and South East Asia. Additionally, in 2010 USAID and DFID pioneered an investment platform named Global Development Innovation Ventures (GDIV), aimed at investing in breakthrough development solutions globally. GDIV's focus is to channel resources towards innovative approaches with proven, radically successful results. GDIV will adopt the model of the pre-existing Development Innovation Ventures program at USAID, designed to source powerful solutions from anywhere in the world, test them using rigorous methods and staged financing, and bring to scale those that achieve social outcomes most effectively.

Other US-based organizations that have helped grow the Social Finance space beyond the US are Acumen and Root Capital. Acumen is a non-profit that raises charitable donations to invest in companies, leaders and ideas that are changing the way the world tackles poverty. Root Capital improves rural prosperity by investing in small and growing agricultural businesses that build sustainable livelihoods in Africa and Latin America.

Development Innovation Ventures (DIV) – USAID

What: USAID's Development Innovation Ventures is an investment platform that finds, tests, and scales new solutions to development challenges around the world.

How: DIV holds a year-round competition for innovative development solutions and screens winners based on cost effectiveness, scalability and tested impact.

DIV then uses a three-tiered staged finance model to invest in and test these ideas at various stages of growth:

Stage 1 // Proof of Concept Projects are establishing proof of concept that their approach works, and has the potential to reach millions for less money

Stage 2 // Testing of Scale Investments are testing promising ideas at wider scale to gather more evidence of their impacts and costs.

Stage 3 // Widespread Implementation Grantees are transitioning proven solutions to wider scale across multiple countries.

Results: DIV has invested in more than **100 solutions** in **17 sectors** and **35 countries** around the world. DIV's diverse portfolio is composed of grantees from the private sector (35%), NGOs (52%), and academic institutions (13%).

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
U.S. Department for Diaspora initiative Overseas private investment corporation USAID IFC U.S. Small Business Administration Social Innovation Fund	DBL Investors BAML JP Morgan Accion Huntington Capital	Halloran Philanthropies Skoll Foundation Lemelson Foundation Rockefeller Foundation Omidyar Network Calvert Foundation W.K. Kellogg Foundation Aga Khan Foundation Case Foundation	**Intermediaries:** Acumen Root Capital FSG Dalberg Ashoka RSF Social Finance SJF Ventures World Resources Institute Global Development Innovation Ventures **Impact Enterprises** d.light Better World Books Big Belly Solar Pharmajet

JAPAN

EVOLUTION OF SOCIAL FINANCE

The Social Finance space in Japan is growing and the ecosystem consists of various stakeholders like Impact Enterprises, NGOs, financial institutions, corporate funds, some intermediaries and the government. As per a report by the Japan National Advisory Board to the G8 impact investment taskforce, $247.7 m of Social Finance investment has taken place in Japan as of 2014. The opportunity for Social Finance in Japan is tremendous given the rapidly ageing population, growing income inequality, increasing fiscal deficits and the countries vulnerability to natural disasters.

Natural disasters have stimulated the growth of Social Finance in Japan. While the Kobe earthquake in 1995 catalyzed the NGO movement in Japan, the triple disaster at Fukushima in 2011 brought social investment on to the agenda for third and private sector stakeholders. The core strength of the Japanese society – resilience, collectivism and orderly response to chaos, came into play during the triple disaster and triggered a huge response from the world, especially from corporates. As a part of the recovery efforts, following the triple disaster, a number of social investment funds and programs were launched. For example, Mitsubishi Corporation (MC) launched the MC Disaster Relief Foundation with an aim to invest up to $1m in Impact Enterprises. Tohoku Common Benefit Investment Fund targeted at Impact Enterprise development in regions most affected by the earthquake was launched by Civic Force – a not-for-profit organization that helps with recovery after domestic natural disasters in Japan.

With Social Finance gaining momentum, many stakeholders are getting involved to develop the space. Many services have been developed to capacity build and professionalize the Social Finance space. To develop impact entrepreneurs, accelerators/ incubators and leadership organizations like Ventures Partners Tokyo, Institute for

Strategic Leadership and Ashoka Japan have emerged. Corporate pro bono services for business mentorship are gaining momentum. Further, the SROI Network Japan in its efforts to quantify impact generation is providing training and resources to impact entrepreneurs. In terms of supply of capital many avenues have become available in the last few years. The private sector is now playing a significant role in philanthropy and social investment with corporate giving makes up for 58% of the overall charitable market in Japan. Foundations have started to use alternate approaches to traditional grant making. Crowd funding are also gaining traction in with 28 crowd funding programs and websites in operation across Japan. Along with social banks and social investment funds, impact investment bonds have also offered by private sector firms like Daiwa Securities. These impact investment bonds are retail oriented financial instruments covering various development sectors. Bonds focused microfinance (in partnership with IFC, EBRD) and global warming (in partnership with World Bank) are some of the examples.

The government is another important stakeholder aiding the growth of Social Finance. Recognizing the need for social innovation and impact entrepreneurship, the government in Japan is engaging with Social Finance stakeholders through policy formulation and supply of capital.

MOBILIZING SUPPLY OF CAPITAL

Along with regulatory reform, the government has played a pivotal role in advancing Social Finance through supply of capital through various methods for the different stakeholders. Traditionally, the government has been responsible for service delivery. Over time, recognizing the importance of the third and private sector, the Japanese Government has placed mechanisms enabling private entities to deliver services to those in utmost need. The government has commissioned private and non-profit entities to deliver services and the revenue is paid by the government. The government views commissioning these entities as a cost reduction measure. From the non-profits and private entities perspective, the government-commissioned contracts have unlocked a new source for revenue generation. Estimates suggest that the government was responsible for 16.7% of revenue of non-profit organizations in 2012.

The government has also made debt capital available for non-profits at low interest rates. The Japan Finance Corporation (JFC) is an example. Launched in 2008, JFC is a public corporation owned by the government that supports the growth of non-profits by disbursing loans at a low interest rates. As of 2012, JFC has provided loans of a cumulative total of $50 m to 640 non-profits. In the past, the government has also provided monetary support to develop intermediaries in the Social Finance space. For instance, in 2002, the local government in Osaka launched a *social entrepreneur support project*. The project aimed at supporting Impact Enterprise intermediaries that provide capacity building and financing to community businesses. The project provided funding up to $ 60,000 for such enterprises. Further, Impact Enterprises are also eligible to apply for funding from different government ministries.

In 2015, a member of Japan's legislative house, the National Diet, has been seeking to secure a draft law to use dormant bank accounts in Japan that could transfer more than €500m per annum into the social investment sector. The draft law suggests that the dormant accounts money, estimated to be 80bn yen (€588m) a year, should be transferred to a foundation independent from government which will give out loans and grants to support three main areas: the poor and needy, children and young people, and rural areas. If implemented, the use of dormant bank accounts to fund social investment will grow Japan's Social Finance market.

BRIDGING THE GAP BETWEEN DEMAND AND SUPPLY OF CAPITAL

At various junctures, the government of Japan has implemented regulatory reforms which have enabled the growth of Social Finance by supporting various stakeholders and has encouraged the culture of giving in the country. For example, a legal amendment was made to the corporate law that removed minimum capital requirements allowing non-profits with revenue generation to set up as businesses in 2007. In 2009, the country witnessed a series of policies being implemented to ensure public service reform. To promote impact entrepreneurship and social innovation, a $ 210m social innovation fund was one of the implemented policies aimed at supporting and providing financing for more than 800 entrepreneurs. In 2011, the tax code involved in non-profit donation was revised to provide tax incentives to potential donors and non-profit organization. These regulatory reforms have enabled growth of the Social Finance space and encouraged donors to get involved in the space.

INFLUENCE ON THE GLOBAL SOCIAL FINANCE LANDSCAPE: JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Japan's bilateral aid agency – the Japan International Cooperation Agency (JICA) is an important stakeholder in advancing Social Finance both domestically and internationally. Established in 1974, JICA focuses on bilateral aid, Japanese ODA loans and Grant Aid. JICA also provides small-scale grants to international development organizations focusing on poverty alleviation, education, microcredit, environmental conservation, and other important social and environmental streams. Most recently, on 11 December, 2015, JICA signed an agreement with the Asia Climate Partners LP (ACP) for equity participation. ACP is a private equity fund jointly managed by Asia Development Bank (ADB), Orix Corporation and Robeco Groep N.V. The Fund is focused on investing in renewable energy, clean technology and other climate friendly companies that aim to generate financial, social and environmental returns. JICA has signed an agreement to contribute up to $ 94.3 million to the Fund. Through impact investment bonds, JICA is making efforts to raise funds from the public, especially individual investors. As of 2014, JICA has issued five rounds of retail bonds worth $500m, with one particular round attracting 6,000 individual investors. JICA has also been encouraging Japanese companies to target bottom of the pyramid segments domestically as well as in developing and emerging markets.

Japan is also a member of the G8 social impact investment taskforce spearheaded by the Prime Minister of UK. As a member of the task force, Japan is working towards making amendments and undertaking initiatives to further advance the Social Finance market in Japan. Finally, countries like Malaysia that are also disaster prone can learn from Japan's inclusion of Social Finance in their development agenda to ensure proactive initiatives to build systemic resilience using market-based solutions (more details in Section 4: Resilience Bonds).

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
Japan Nation Advisory Board JICA IFC EBRD Japan Finance Corporation	Mitsubishi Corporation Daiwa Securities Panasonic Bain & Company Trust Law ARUN	Nippon Foundation Sasawaka Peace Foundation MC Disaster Relief Foundation KIEO University	**Intermediaries:** Ashoka Japan Venture Partners Tokyo Impact Hub Tokyo Social Finance Institute Japan **Impact Enterprises** ETIC Carepro PEOPLE Hominsya

INDIA

EVOLUTION OF SOCIAL FINANCE

The advent of Social Finance in India traces back to 1982 when Ashoka Foundation provided the first grant funding to "funders of NGOs", the earliest formalized social entrepreneurs in the space. India's Social Finance ecosystem is now one of the most robust in Asia, driven by a large, growing base of innovative enterprises, a high volume of mission-oriented capital (from donor agencies, impact investment funds, HNWIs, corporates and foundations), and a diverse group of enabling intermediaries and networks.

MOBILIZING SUPPLY OF CAPITAL

Over USD 5 billion in private capital has been channeled into the development space in India since 2005 making it the most active Social Finance landscape in Asia. While donor agencies (ADB, CDC, OPIC) are responsible for the majority of these capital flows, social impact investment though private funds also accelerated rapidly during this period. India now houses the largest number of Impact Investing funds in Asia including established local entities like Aavishkaar and Lok Capital as well as international funds like Acumen, Unitus Capital and LGT Venture Philanthropy. Set up in 2001, Aavishkar was the pioneer Impact Investing fund in India. It has since deployed over $90 million across 45 enterprises, and has seen the largest number of exits across both MFI and non-MFI enterprises in the country. The Fund played a significant role in building the early Social Finance ecosystem, and in developing a track record to increase investor confidence in the space.

HNWIs and family offices are another significant source of Social Finance capital in India. This is reflected in the presence of a growing number of angel investor platforms including the Intellecap Impact Investment Network (I3N) and the Indian Angels Network, aimed at building strong networks among investors to provide greater access to seed capital for early-stage enterprises. A characteristic feature of the Indian Social Finance landscape is the involvement of an engaged and active diaspora network which remits nearly $ 70 billion to the country annually. In 2015, USAID in collaboration with the Calvert Foundation and several local financial institutions launched the Indian Diaspora Investment Initiative, aimed at leveraging these capital flows to fund development programs in the country.

Although the supply side of India's Social Finance landscape is primarily driven by private and non-profit sector capital, the government has also played a role in directing funds to address the needs of marginalized communities. The Reserve Bank of India (RBI) introduced Priority Sector Lending policies that mandate a certain percentage of small loans made by commercial banks go to underserved 'priority' sectors. These include agriculture (small and marginal farmers), clean energy (biomass, solar) and social infrastructure (i.e. schools, healthcare facilities, water and sanitation etc). The policy has been relatively successful in channeling resources to targeted sectors and facilitating the financial inclusion of marginalized populations. However, the broad scope of the policy has limited its social effectiveness to an extent. Financial institutions tend to favor lending to the most profitable borrowers within these priority sectors, resulting in a 'crowding-out' effect for smaller borrowers in need of growth capital.

BRIDGING THE GAP

There is a diverse and robust ecosystem of support services for the Social Finance space in India. These include specialized intermediaries like Unitus Capital, which helps broker deals between funds and enterprises, and specialized accountancy and law firms that cater to the Social Finance market.Strong networks like the Impact Investor Council (IIC) and National Association of Social Entrepreneurs (NASE) effectively bring together private sector stakeholders to pool resources and build advocacy efforts. Platforms like Intellecap's Sankalp Forum facilitate dialogue and interaction between stakeholders across the Social Finance spectrum, from enterprises to investors to intermediaries.

On the regulatory side, the Securities and Exchange Board of India (SEBI) has created certain enabling structures that reduce barriers to private investment. In 2012, SEBI introduced a specialized "Social Venture Fund" structure that entitles investors to certain government incentives if the fund meets determined social impact criteria.

In order to further involve the private sector in India's development agenda, the government pioneered new Corporate Social Responsibility (CSR) regulations in 2013. The new CSR laws require businesses to allocate 2% of their average net profits to socially responsible activities. This policy intervention could unlock a significant new source of capital for Impact Enterprises, particularly those operating in high-impact and low-return sectors such as water, sanitation, healthcare and education. If effectively implemented, these regulations could effectively harness a significant amount of private capital to create sustainable long-term impact.

INDIA'S FIRST DEVELOPMENT IMPACT BOND

While innovative financing instruments have not previously played a significant role in India's Social Finance landscape, the country saw the launch of the world's first Development Impact Bond (DIB) in 2015. Aimed at improving education and learning outcomes for 18,000 children in primary schools in Rajasthan, the DIB was formed as a partnership between Educate Girls (the local service provider) and UBS Optimus Foundation (the investor). The Children Investment Fund Foundation (CIFF) will pay UBS Optimus Foundation if certain targeted enrolment, literacy and numeracy outcomes are achieved at the end of the three-year bond period.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

Corresponding with the swell in Impact Investing capital, the number of Impact Enterprises in India also grew rapidly between 2005 and 2015. While there are still only a handful of mature Impact Enterprises, a significant number of growth-stage enterprises have successfully achieved scale. One of the primary challenges facing Impact Enterprises in India is a lack of operational and managerial skills.

There are several intermediary organizations that emerged to address this gap in the ecosystem including Dasra, Intellecap, Ennovent, Unltd, and the Centre for Innovation, Incubation and Entrepreneurship. These organizations build the ability of Impact Enterprises to effectively absorb capital by providing incubation, capacity building, technical and financial advisory services to early-stage entities.

DASRA

Established in 1999, Dasra is a strategic philanthropy foundation that has played a crucial role in the development of India's Social Finance landscape through knowledge creation, capacity building, strategic funding and collaboration with other key ecosystem partners. In its 15 years of operation, Dasra has equipped 608 social organizations with the tools and expertise required to scale their impact, and has mobilized approximately $49 million into the social sector in India. Dasra hosts an annual philanthropy forum, facilitating dialogue between stakeholders on key issues facing the Social Finance space. Through its research and knowledge management platforms, it broadens awareness on global best practices as well as on developments in the Social Finance space in India.

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
Indian Inclusive Innovation Fund National Bank of Agriculture and Rural Development (NABARD) National Innovation Council USAID DFID GIZ IFC	Mahindra & Mahindra DELL TATA Group Aavishkar Unitus Seed Fund Acumen Fund Caspian Contrarian Capital Lok Capital Grameen Capital India Limited Elevar Equity	Ashoka Foundation Gates Foundation Rockefeller Foundation Calvert Foundation Ford Foundation Deshpande Foundation Omidyar Network	**Intermediaries:** IIX Shujog Intellecap Dasra Villgro CIIE RTBI Impact Investors Council **Impact Enterprises:** Banyan Nation Mera Gao Power Satkriya Healthcare Sarvajal Under the Mango Tree Micro Home Solutions Aspire India

THAILAND

EVOLUTION OF SOCIAL FINANCE

The Thai government has played a pivotal role in the development of Social Finance by adopting a community-based, bottom-up approach within a strong overarching regulatory framework.

While the government has always been the primary actor in shaping the Social Finance ecosystem Thailand has recently seen private and non-profit sector stakeholders play more substantial roles in this space. The Social Finance landscape in the Kingdom is experiencing a gradual shift away from ad-hoc grant-making and towards more strategic, sustained corporate philanthropy programs.

MOBILIZING SUPPLY OF CAPITAL

The Thai government primarily finances social initiatives directly through grants and low-interest credit facilities and programs. For example, the Village Fund provides direct funding to the development of community development infrastructure in 800,000 sub-districts. Another effective means by which the Thai government mobilises capital for social sector investments is through 'sin' taxes and levies. Take for instance the $ 100 million it raises annually from the 2% tax on alcohol and tobacco sale. The Government of Thailand allocates that to the budget of the Thai Health Promotion Foundation, which then deploys these funds to finance IEs and Social Finance intermediaries across different sectors. The Foundation provides catalytic funding to over 1000 projects annually including social innovation challenges and capacity building programs.

BRIDGING THE GAP BETWEEN DEMAND AND SUPPLY

Thailand's Eighth **National Development Plan** (1997) marked the government's initial policy shift towards a "people-centred" development model that emphasized 'self-reliance' and sustainability in local communities. This Plan included the first regulation around the scope, purpose and characteristics of IEs in Thailand – a crucial step towards building strong Social Finance infrastructure.

The establishment of the **Thai Social Enterprise Office (TSEO)** in 2010 was another landmark step that clearly signalled the government's commitment to nurturing and development of social entrepreneurship. TSEO is tasked with building Thailand's IE community, developing and promoting government Social Finance policies, and creating a knowledge base around Impact Investing. TSEO helps formulate legislation, collaborates with other government agencies to develop tax incentives for impact investments, and develops common standards to measure and benchmark social impact.

Additionally, many international and regional INGOs and Foundations have established their regional headquarters in Bangkok, including Rockefeller Foundation, Oxfam and a number of UN agencies (UNICEF, UNESCAP, World Food Program). This has created regular access to the global dialogue which has spin-off effects such as increased capacity building programs focus on sectors such as health.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

The primary players involved in developing the ability of IEs in Thailand to demand and absorb capital are local and international NGOs. LGT Venture Philanthropy, for example, runs an accelerator program that provides both funding and technical assistance to develop early-stage IEs.There are two notable models of local non-profit sector organisations working to scale and develop IEs in Thailand – the **Population and Community Development Association (PDA)**, and **ChangeFusion**. PDA is a placement platform that matches corporate donors with community-based IEs through a **Village Development Partnership** program. For each community, a Village Development bank is financed with funds raised from the sponsoring partner. To date, over 50 such partnerships have been developed. PDA also provides impact entities with business skills training, and establishes microfinance development banks in rural Thailand. ChangeFusion is an organization that provides both investment capital and advisory services to IEs that innovate community-based solutions.

A noteworthy trend in Thailand over the past five years is the increased focus on strategic Corporate Social Responsibility (CSR). In 2007, a CSR Institute was established at the Stock Exchange of Thailand (SET), and the Asian Centre for Corporate Social Responsibility (ACCSR) was set up in 2009 on the Asian Institute of Technology campus in north Bangkok. This has led to an emerging paradigm shift in the way companies implement CSR initiatives, expanding beyond the traditional areas of community engagement, volunteering and ad hoc donations. For example, SCG, formerly known as the Siam Cement Group, is one of Thailand's oldest and most respected conglomerates. Founded by King Rama VI in 1913 to provide domestically produced cement for the country's growing infrastructure needs, SCG has had, since its inception, instilled a strong sense of social responsibility as part of its values. It is SCG's community development and engagement efforts that differentiate it from other firms, and these form the core of its "systematic philanthropy" developed over a period of several years. Overall, SCG reported that the Group spent THB 563 million in 2012 on "investments and expenditures regarding community development, social infrastructure and environment." Today the key elements of SCG's systematic community philanthropy appear to consist of: (i) a comprehensive assessment of community needs; (ii) identification of projects that best utilize SCG's core skills in meeting such needs; (iii) extensive engagement of the community in the design and execution of the projects, as well as consultation with relevant academics, government experts and other relevant parties; (iv) multi-project involvement between the company's employees and the community that stretches over several years; and (v) an underlying core intent of helping to build the capacities of the community in solving problems in a sustainable way.

The Central Group is an example of another company that is working with communities, taking a slightly different approach. In upcountry areas, Central is working closely with local communities to integrate them into their supply chain. In urban areas, the company is providing livelihood opportunities for disabled persons, working with community associations to create programs under a newly issued labor law.

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
Thai Social Enterprise Office Village Fund ADB IFC	Premier group NISE corp ResponsAbility LGT Venture Philanthropy Eco Asia	Oxfam Thammasat University Thai Health Promotion Foundation Centre for Philanthropy and Civil Society Rockefeller Foundation Mae Fah Luang Foundation	**Intermediaries:** IIX Shujog Change Fusion Ashoka AVPN **Impact Enterprises:** Population and Community Development Association Siam Organic Green Net SE

PHILIPPINES

EVOLUTION OF SOCIAL FINANCE

The Philippines has one of the most active Social Finance landscapes in Southeast Asia. This ecosystem, however, has largely been shaped not by government interventions but by the country's robust, proactive and innovative non-profit sector. However, despite the lack of strong government directives, there are valuable lessons to be drawn from the Philippine experience.

BRIDGING THE GAP BETWEEN DEMAND AND SUPPLY

The Philippines has a deep-rooted academic know-how about IEs and sustainable philanthropy. Ateneo de Manila University offers a degree in social entrepreneurship as well as a workspace for IEs and support organisations. Additionally, the Institute for Social Entrepreneurship in Asia (ISEA) was established in the Philippines, and contributes significantly towards knowledge development, resource sharing, and building IE networks in the country.

The Social Finance landscape in the Philippines has long been characterised by well-established networks and associations of NGOs, support organisations and IEs. The oldest among these, **Philippines Social Enterprise Network** (PhilSEN) was established in 1999 and laid much of the ecosystem groundwork by building relationships, creating, sharing and managing knowledge resources about IE in the local context. Another example is the PRESENT (Poverty Reduction through Social Enterprise) coalition, a network comprising a wide range of actors including small producer associations, academics, microfinance institutions and social service providers. PRESENT is involved in awareness building, advocacy, creating draft IE legislation, lobbying and policy engagement.

With the aim of fostering a wider policy framework to developing the Social Finance space, FSSI and fair trade organizations have lobbied to table an IE Bill that prioritizes lending and tax incentives, among other benefits. However, there is debate over whether the Bill is perhaps premature for the Philippines market, arguing that preferential provisions can still be accessed through existing laws. There are concerns about potential misuse via loopholes in the new Bill that would threaten to negate early successes of the space. As opposed to focusing on a Bill, or an inordinate focus on defining the sector, there is a growing dialogue that efforts to build other vital components of the IE ecosystem would be more catalytic.[19]

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

This nexus of extensive support networks and a strong knowledge and awareness base has facilitated the development of the vibrant ecosystem of IEs in the Philippines, comprising over 30,000 entities across different sectors. The key takeaway here is that supporting strong non-profit sector networks and associations while simultaneously embedding social entrepreneurship in pedagogy creates an enabling environment for the development of robust, sustainable Impact Enterprises. This could work well in the Malaysian context.

Another feature of the Filipino Social Finance landscape is the significant role private intermediaries and non-profit sector organisations play in building the capacity of Impact Enterprises. This includes local players such as the Peace and Equity Foundation (PEF) and *Gawad Kalinga*. PEF focuses on developing business solutions and investments for IEs that help rural households gain better incomes and move out of poverty. For instance, PEF and partner, ASPIRE, are developing an IE business model to help rural areas without electricity. Additionally, in 2001 PEF form debt swaps by tapping private capital market and facilitated the issue of zero-coupon PEACe Bonds (Poverty Eradication and Alleviation Certificates). These were ten-year, zero-coupon bonds issued by the Philippines Treasury Bureau of the

[19] Lien Foundation (2015), 'From Charity to Change'

Treasury. 15 banks bid for the bonds in a public auction that was won by Rizal Commercial Banking Corporation (RCBC). The original endowment of PHP 1.318 billion managed professionally, has grown to PHP 2 billion in 2015, and only the income from the earnings of the fund (PHP 100 million to 150 million per year) is used to fund PEF's activities. In its first decade of operations, PEF focused on communities in the country's 28 poorest provinces, funding basic services such as health, education, water, renewable energy and capital (the latter by providing guarantees to MFIs.

The Gawad Kalinga Community Development Foundation (GK) has been a pioneer in creating innovative solutions to poverty alleviation. GK is the brainchild of Antonio Meloto and has facilitated the development of 2,000 GK villages that take a multi-intervention approach to solving poverty related issues, including building homes, schools, clinics and micro-enterprises. Now incorporated as a foundation, GK's strong track record of having demonstrable social impact on these communities has attracted significant corporate funding. The GK movement has proved to be a powerhouse of both talent and inspiration with initiatives like GKonomics, an NGO incubating IEs in retail and design to promote sustainability of GK communities. This off-shot of GK has worked in 74 different communities with 50 IEs over the past 4 years. Another GK achievement is Human Nature, a for-profit IE set up in 2008 by GK volunteers. The mission was to launch a company for locally-made personal care products made from high value crops from which farmers could earn income. In 2012, Human Nature hit USD 5 million in sales and by 2013, Human Nature had 176 full-time employees who were paid almost twice the minimum wage. [20]

International intermediaries also contribute towards developing the ability of Philippine enterprises to effectively absorb investment capital. IIX successfully conducted its Impact Accelerator program in the Philippines in 2015 providing funding, tailored mentoring, and advisory services to four high-Impact Enterprises. EDM-Enterprise, an affiliate of a French non-profit, runs a social incubator, builds human resource capabilities, and provides enterprises with social impact consulting services. Removing barriers to entry for private intermediaries to come in and develop the demand side of the Social Finance equation would alleviate the necessity for governments to provide these services on its own, significantly reducing social service delivery costs.

A further aspect of the Philippines ecosystem that is perhaps replicable in Malaysia is the leveraging of existing government interventions (that are of shared value to Impact Enterprises) in the absence of a Social Finance specific legislation. This is particularly effective when it comes to extending broader SME and micro-SME financing support to IEs. For example, the 2014 **Go Negosyo Act** provided access to finance and technical services to MSMEs in the Philippines enabling them to scale and grow. Although not IE specific the criteria to qualify for these government support opportunities encompassed several growth and early-stage IEs that were then able to access these services. This could be an effective tool for Malaysia to deploy in the nascent stages of its ecosystem to mitigate the costs involved with pushing through IE-specific legislation while still providing IEs with avenues to access finance and technical support.

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[20] Gawad Kalinga, www.gk1world.com/home

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
ADB IFC British Council USAID	LGT Venture Philanthropy SSG advisors RTC Impact fund Manila Angels Philippines Angel Investment Network Beeck Center Chodos Impact Investing	Philippine Business for Social Progress Grameen Foundation Peace and Equity Foundation Ateneo de Manila University Gawad Kalinga Benito & Catalina Yap Foundation CARE International Foundation for a Sustainable Society Ayala Foundation	**Intermediaries:** IIX Shujog Ideaspace Kickstart ventures Philippines Social Enterprise Network Institute for SE in Asia **Impact Enterprises:** Coffee for Peace Anthill Sidlakpinoy Bote Central

INDONESIA

EVOLUTION OF SOCIAL FINANCE

With the majority of its 247 million-strong population living just above the poverty line, Indonesia has been one of the most favoured investment destinations for international impact investors including Unitus, LeapFrog, Aavishkaar and Bamboo Finance. Ecosystem builders such as Endeavor, Village Capital, Grameen Foundation, and Ashoka also have operations in Jakarta.

However, despite the significant capital and expertise flowing into the country, fundamental issues of underdeveloped financial and regulatory infrastructure, insufficient collaboration between stakeholders, and a lack of strategic planning continue to hinder progress in the development of Indonesia's Social Finance landscape. However, there are two key features unique to Indonesia's Social Finance ecosystem that are worth considering in the Malaysian context – mandatory CSR regulations and *Zakat* funds (see below).

MOBILIZING SUPPLY OF CAPITAL

Islamic finance plays a significant role in generating social value in Indonesia. The annual collection of *Zakat*, an obligatory charitable donation (equivalent to 2.5% of an individual's disposable wealth), amounted to IDR 2.1 trillion ($180 million in 2011). While these funds have traditionally been channeled towards religious conservation, non-profit sector organisations in Indonesia have recently begun adapting venture philanthropic models to direct this capital to address social and environmental challenges. For example, the LAZ Bank BNI, and *Dompet Dhuafa* both deploy zakat from local HNWIs in education, health and welfare initiatives.

Rumah Zakat, the second-largest collector of zakat in Indonesia, is pioneering an innovative philanthropic approach through a series of programs and projects focused on education and health. Through partnerships with local institutions including the Ministry of Social Welfare and the Islamic Development Bank, Rumah Zakat channels financing to NGOs, SMEs and high-impact IEs. In 2012 it channelled zakat worth IDR 177.8 billion to social investment assets including schools, hospitals, healthcare services and community development projects - reducing the government's social service delivery costs and generating social value for over 1.5 million beneficiaries.

The use of Islamic finance instruments to achieve social outcomes is a mechanism that is directly applicable to the Malaysian Social Finance landscape. Malaysia has long been a global innovator in the Islamic financial industry. The domestic sector is driven by a conducive environment and is characterized by continuous product innovation, a diversity of financial institutions from across the world, a broad range of innovative Islamic investment instruments, a comprehensive financial infrastructure and adopting global regulatory and legal best practices.

Malaysia also leads in the development of the sukuk (Islamic bond) market, introducing innovative and competitive sukuk structures that appeal to a wider investor base. Given this pre-existing enabling context, Malaysia can easily leverage Islamic instruments like zakat, wakaf (assets from deceased persons with no next of kin that are allocated and deployed for social purposes by specialized foundations) and sukuks to further unlock private capital for the development space.

BRIDGING THE GAP BETWEEN DEMAND AND SUPPLY

In 2007, the Indonesian government became one of the earliest pioneers in the world to legislate mandatory CSR policies. These required that companies in extractive industries to contribute a minimum of 2% of their net annual profits towards socially responsible investments.

With the oil and gas sector comprising 11% of Indonesia's GDP, this regulation could have potentially channelled significant amounts of private capital into the social space. However, insufficient oversight and a lack of political will resulted in poor enforcement of these regulations.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

Another significant challenge was the lack of sustainable and scalable projects that could absorb and deploy these corporate funds. Local market participants state that there is a 'disconnect' between the size and type of deals sought by investors and available opportunities that can effectively use capital.[21]

While there are some shining examples of IEs in Indonesia that have successfully raised capital (In 2013, Impact Investment Exchange Asia (IIX) in partnership with KKR provided technical assistance services and raised $900,000 in debt and equity investment for Indonesian processing enterprise East Bali Cashews) these are few and far between. As a result, the majority of CSR investments made in Indonesia are ad-hoc and irregular, lacking the strategic foresight necessary to effectively sustain programs for long-term impact.

[21] Impact Investment Exchange Asia (2015), 'Exploring the Nexus Between Peacebuilding and Capitalism'

PT Ruma is a prominent example of how a strong ecosystem of support can successfully scale an IE's operations and magnify its impact trajectory. Entrepreneurs, Aldi Haryopratomo and Budiman Wikarsa set up PT Ruma as a microfranchise business model that uses proprietary technology to enable micro-shopkeepers to sell prepaid airtime using SMS services and a basic phone. It should be noted that at the start-up stage, PT Ruma received significant financial, technical and incubational assistance in developing its model through financial (grants) and in-kind support (expertise) from Grameen Foundation and Qualcomm. The results have been highly successful in enabling the IE to become investment ready and reach the next stage of growth by raising two rounds of financing. The first consisted primarily of specialist investors with an interest in developing viable business models for social impact, such as Unitus Impact and Omidyar Network. The second round of financing in 2014 included existing investors, Indonesian private entities and two corporations in related businesses. PT Ruma is expected to provide risk-commensurate returns while delivering social impact, which is core to the company.

In the absence of surveys, the number of submissions to the British Council business plan competition can act as a proxy for gauging the growing momentum of IEs in Indonesia. In 2012, the response exceeded 1,000 entries for setting up community-based IEs. PT Ruma remains an exception rather than the norm with most of the IEs still at early stage.

The family foundations of Indonesia emerged with wealth generated in the 1970s or 1980s, and they typically supported traditional children-focused charities such as orphanages or agencies that organized surgery for needy children. Since then, private wealth in Indonesia has grown with the country's largest conglomerates owned by families, and this wealth continues to grow exponentially: In 2010, the number of HNWIs jumped 23.8 percent and it rose another 8.2 percent in 2011. Family Foundations and HNIs can be an excellent source of capital to develop the demand side of the Social Finance equation.

For instance, billionaire Dr. Ir. Ciputra is championing the development of enterprise culture among Indonesians via education and training at university as well as public access courses for the broader population.

The Uno family best shows how an established family foundation can undertake generational change and embrace social investment approaches. Under the leadership of Sandiaga Uno, the foundation has launched a sustained effort to nurture IEs by backing capacity building and incubation as well as launching a fund.

Another striking example is the Putera Sampoerna Foundation (PSF), which serves as an epitome of how strategic and entrepreneurial approaches can embraced by a family foundation to magnify their impact. Unlike many private foundations, PSF seeks to leverage its impact through an open, networked approach. Among many partnerships, PSF joined with USAID to develop Indonesia's first student loan program. The commitment to transparency and accountability allows PSF to successfully fundraise among corporates, and to date has received more than USD 70 million from over 250 corporates to supports its activities. Ultimately, PSF sees itself as an IE as well.[22]

[22] Lien Foundation (2015), 'From Charity to Change'

SNAPSHOT OF KEY ECOSYSTEM PLAYERS

PUBLIC SECTOR	PRIVATE SECTOR	NON-PROFIT SECTOR	INTERSECTION (SOCIAL FINANCE)
ADB IFC British Council Ministry of Social Welfare The Islamic Development Bank Indonesia Impact Investment Fund USAID	LGT Venture Philanthropy Uno Kapital Grassroots business fund Fenox Venture Capital Bisma Grupara Inc Unitus Seed Fund Aavishkar Leapfrog Investments Bamboo Finance KKR Village Capital Syailendra Capital	Bina Swadya Eka TIFA Foundation Mein R. Uno Foundation Putera Sampoerna Foundation Tahir Foundation Tanoto Foundation Rockefeller Foundation Oxfam Rumah Zakat Lundin Foundation	**Intermediaries:** IIX Shujog GEPI Inspirasia Endevor ID CECT Inotek **Impact Enterprises:** East Bali Cashews Bali Recycling Aliet Green Kopernik The learning farm Telepak

SECTION 4: SOCIAL FINANCE AND THE 11TH MALAYSIA PLAN

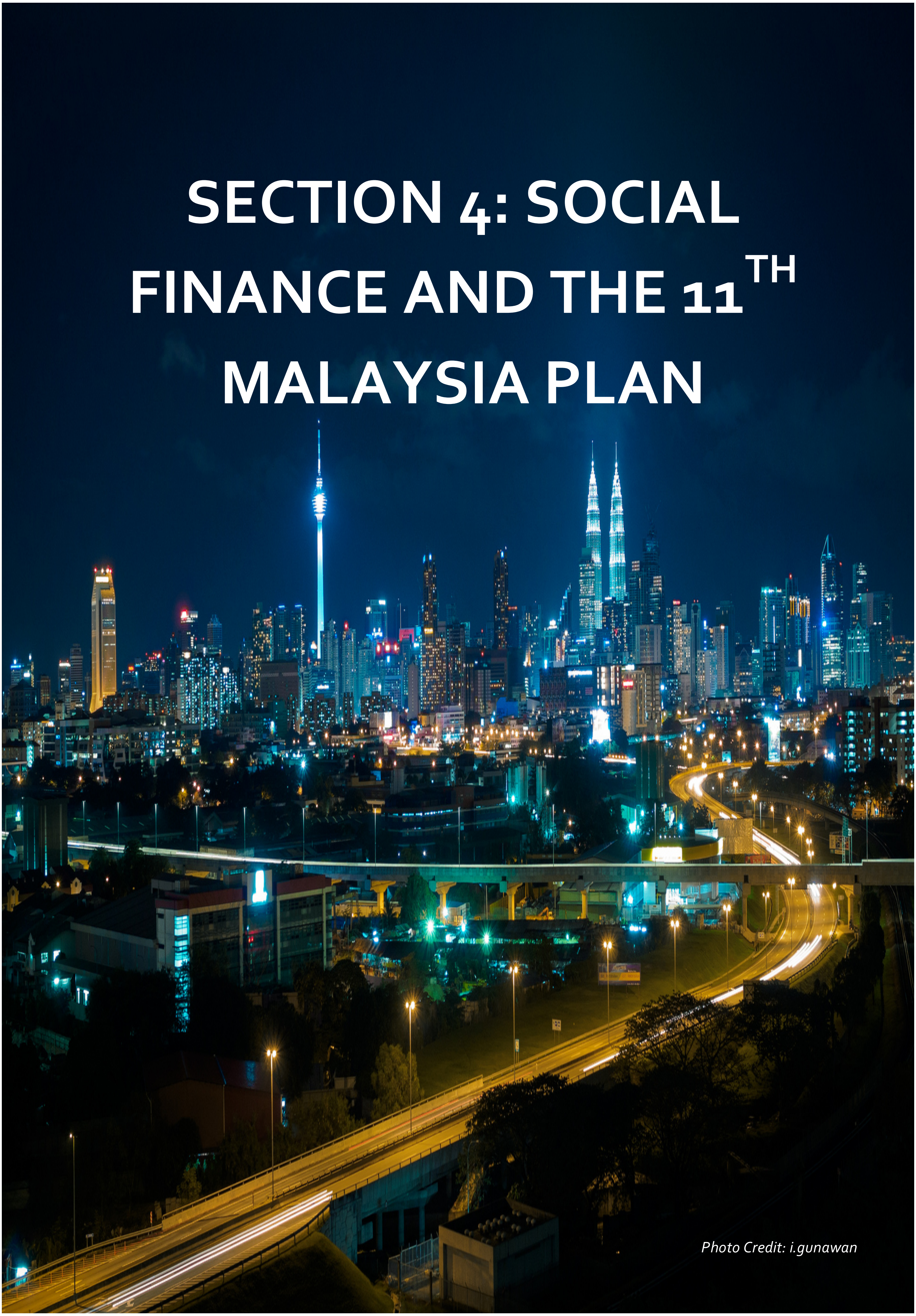


Photo Credit: i.gunawan

SOCIAL FINANCING AND THE 11TH MALAYSIA PLAN

EXPLORING THE NEXUS OF SOCIAL FINANCE AND THE 11TH MALAYSIA PLAN

Malaysia has made tremendous progress over the past decades with positive momentum in the nation's sustainable development efforts and economic expansion of 4.7% annually in the third quarter of 2015. The 11th Malaysia Plan lays the ground for a robust national agenda that is designed to accelerate holistic progress towards becoming an advanced nation that anchors growth on people with the *rakyat* positioned as the centerpiece of all development efforts. As outlined in the Needs Assessment section, there is strong potential for Social Finance to play a role in strengthening the strategy.

The objective of this Roadmap is to act as the cornerstone of the 11th Malaysia Plan, mobilizing new sources of capital to accelerate sustainable growth, bringing in new private sector players into the development equation and empowering people to act as change agents and catalysts for progress. The overarching objective of the Roadmap is to position Malaysia as a leader in the Social Finance space, acting as the voice of progress in and beyond Asia. The strategy outlined will have three pillars that guide implementation:

1. **Proactive:** Social Finance initiatives will be designed to shift Malaysia towards a more hands-on approach towards development and invest in prevention. Projects and products selected will not only magnify impact created in the short term, but will also reduce future outlays of capital expenditure required by the government in the long-term, resulting in a win-win outcome. Impact Enterprises and Impact Investments will be harnessed to address systemic social issues faced by the *rakyat* today, to build a stronger, more sustainable Malaysian economy tomorrow.

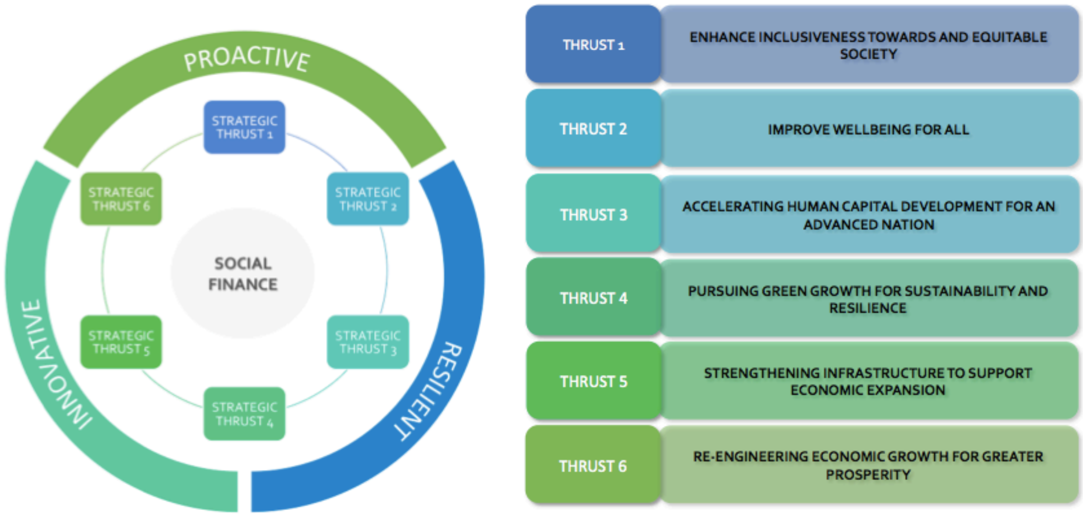
2. **Innovative:** Leveraging the four core themes of innovation, the Roadmap seeks to identify interventions that are scalable, sustainable, inclusive and collaborative. These four dimensions of innovation will ensure that Social Finance initiatives are designed to deliver value in three ways: (i) increasing affordability; (ii) increasing accessibility; and (iii) improving quality and depth of impact. This multi-dimensional approach to innovation will enable Malaysia to use Impact Enterprises and Impact Investing capital to catalyze the application of solutions that meet new requirements, unarticulated needs, or existing market demands of the *rakyat* and broader Malaysian economy.

3. **Resilient:** The Roadmap seeks to play on Malaysia's existing strengths to transition towards a more resilient nation that is insulated from environmental, social and economic shocks and stresses. The Social Finance strategy will be designed to magnify Malaysia's resilience dividend by equipping rural areas to create and take advantage of new economic and social opportunities that offer the capacity to recover after catastrophes and grow strong in times of relative calm. Urban cities will be equipped to use Impact Enterprises and Impact Investing mechanisms as vehicles to improve the capacity of individuals, communities, institutions, business and systems within a city to survive, adapt and evolve regardless of chronic stresses and acute shocks.

IIX has explored the nexus of Social Finance in juxtaposition to the 11th Malaysia Plan as outlined in Figure 21. This framework will be used as the basis to critically assess interventions, instruments or initiatives suggested as part of this Roadmap in the subsequent sections.

The proposed mechanisms to mobilize supply of mission oriented capital, develop demand to absorb and deploy this capital to create sustainable impact or bridge the gap between the two will directly promote with one or more of the aforementioned pillars to make Malaysia a more proactive, innovative and resilient nation. At the core, the initiatives will be aligned with the six strategic thrusts and sector focuses that are relevant to the space, drawing from gaps identified from the Needs Assessment Matrix.

FIGURE 21: THE NEXUS OF SOCIAL FINANCE AND THE 11TH MALAYSIA PLAN



As such, the framework will act as a litmus test to assess whether the proposed models can achieve intended results. This will help the Malaysian government develop an outcomes focused approach to support the development of networks, infrastructure, intermediaries, investors and research designed to accelerate the maturation of the Social Finance space. The overarching purpose of this framework is to use a structured approach for the government to use Social Finance as a means to address:

- Structural barriers that lead to under-provision of critical social goods (example: access to healthcare, affordable housing or sustainable livelihoods)
- Externalization of negative costs onto society (example: unsustainable use of land and natural resources) and investors not capturing positive externalities (example: spillover benefits of investing in clean energy or gender equality)
- Information asymmetry that inhibits flow of mission-oriented capital into market-based interventions (example: landscape dominated by NGOs as opposed to IEs) or ability to attract new stakeholders into the development equation (example: private sector participants to lend their expertise and/or capital to drive socio-economic progress)

LEVERAGING THE POWER OF INNOVATIVE FINANCE TO CATALYZE CHANGE

Going forward, using creative financial structures will be crucial to solving the complex challenges facing humanity today. A combination of innovations in both models and mechanisms will be required to accomplish transformative change in the Malaysian landscape. Innovative financing can introduce **new products** to address established problems (including new asset types), deploy proven approaches into **new markets** (including new customer segments), or attract **new participants** to the market (including private-sector players and commercially-oriented investors). For example, microfinance pioneers extended an established service to a new market and, eventually, new participants. Three distinct channels by which innovative financing creates value are:

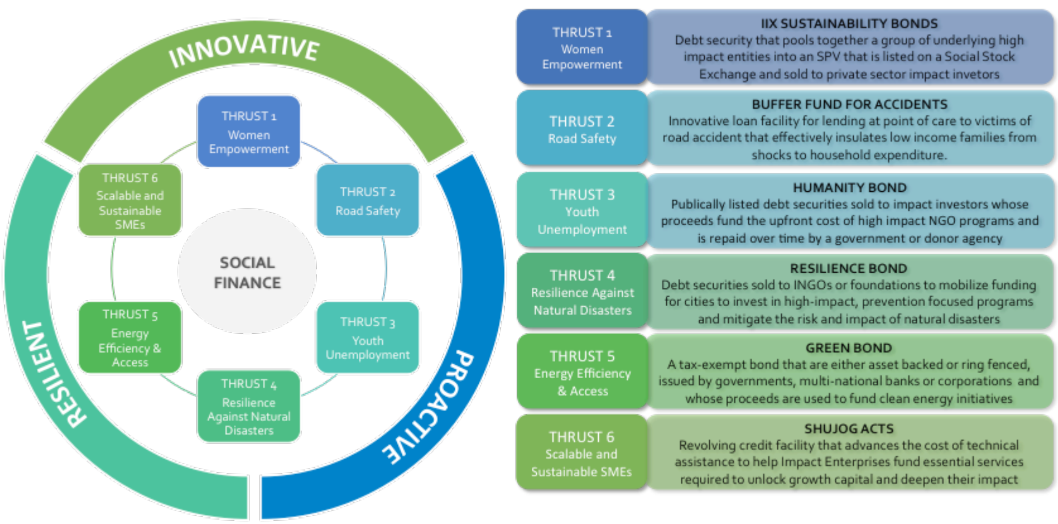
1. **Resource mobilization:** Bringing in additional resources by engaging potential partners or stakeholders who are traditionally not focused on mobilizing capital to achieve social outcomes.
2. **Financial intermediation:** Aligning disparate interests to leverage each partner's unique strengths to amplify impact, while also meeting their respective risk/return expectations.
3. **Resource delivery:** Allocating and deploying existing capital marked for social purposes in more impactful and sustainable ways.

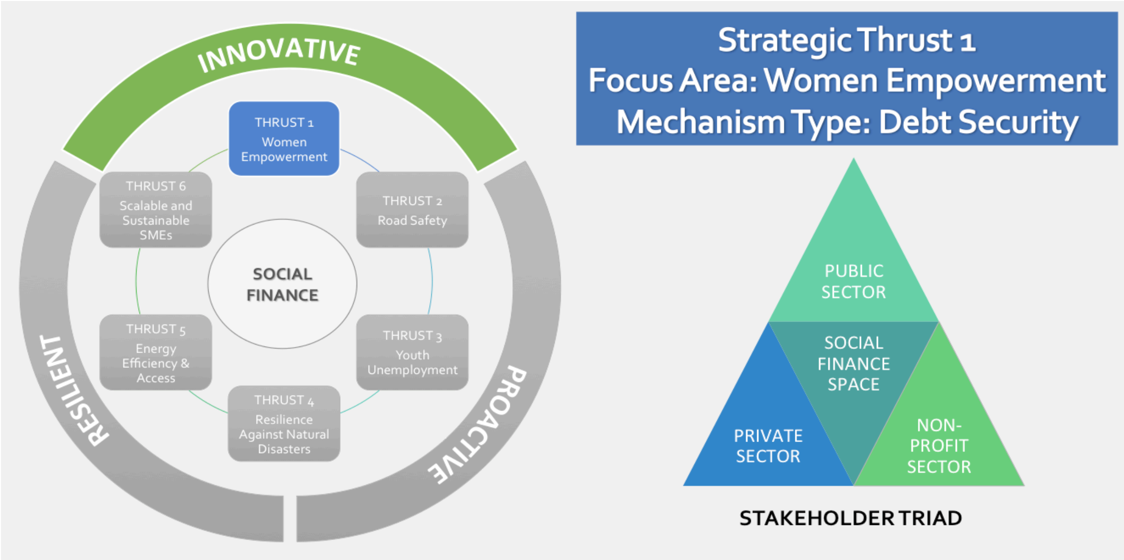
It is essential to be creative with financing to mobilize capital on the scale required and accommodate different risk and impact profiles. IIX has leveraged its expertise in innovative finance to:

1. Assess the feasibility of existing innovative financial products to facilitate the placement and management of capital for the purposes of expediting the 11th Malaysia Plan.
2. Explore new financial structures that are specifically designed to mobilize capital or develop demand for Social Finance initiatives that are designed to effectively accelerate progress, scale operations and sustain results.

The following section provides an overview of these mechanisms (Figure 22).

FIGURE 22: OVERVIEW OF RECOMMENDED INNOVATIVE FINANCIAL INSTRUMENTS





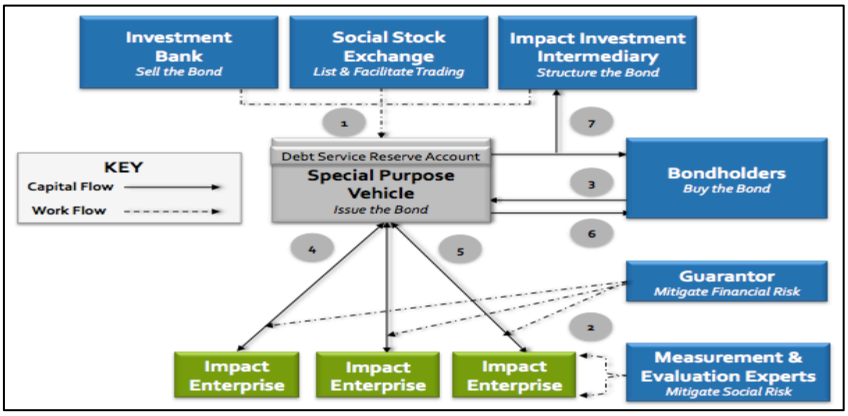
IIX SUSTAINABILITY BONDS OVERVIEW

IIX Sustainability Bonds (ISBs) are innovative financial instruments that effectively mobilize large scale private sector capital by pooling together a basket of Impact Enterprises (IEs) – entities which create positive social impact through their activities. ISBs are debt securities that pool together this group of underlying borrowers (IEs – revenue generating non-profits or mission driven for-profits), depending on their financial needs, repayment abilities, risk profiles and impact potential. ISBs are replicable instruments that can be customized to the Malaysian context and designed by any impact investment intermediary with expertise in innovative finance. These mechanisms can be designed to focus on target beneficiary (low income women, at-risk youth, among others) or priority sectors (livelihoods, energy, education, among others) in line with Malaysia's development needs.

BOND MECHANISM

ISBs coalesce diverse stakeholders from both, public and private sector to create an innovative new instrument that effectively unlocks private capital and redirects it towards achieving development outcomes [Figure 23].

FIGURE 23: OVERVIEW OF ISB MECHANISM



Step 1: The first step is for the **Impact Investment Intermediary,** the bond issuer, to structure the bond by: (i) designing the mechanism; (ii) developing the pipeline of underlying borrowers; (iii) coalescing partners; and (v) listing the bond on the **social stock**

exchange. Simultaneously, the **Investment Bank Partner** provides strategic input and sells the bond to accredited investors (bondholders).

Step 2: Guarantor (government or donor agency) provides added risk mitigation feature by guaranteeing either whole or part of the bond for a fee. Simultaneously, to mitigate social risk, **Measurement and Evaluation experts** conduct preliminary screening on potential underlying borrowers to measure and project impact before they are selected.

Step 3: Bondholders (accredited investors) purchase the bond, which is issued by the Special Purpose Vehicle (S.P.V.). This layer of secondary liquidity provides an exit option and added comfort to the investor.

Step 4: The amount raised is lent to the pre-selected group of underlying borrowers – **Impact Enterprises**. Over the life of the bond, the **Impact Enterprises** use this capital to magnify their impact and scale their operations.

Step 5: The **Impact Enterprises** pay the S.P.V. back the principal amount borrowed plus interest over the life of the bond. Part of interest earned from **Impact Enterprises** is held back to build up a Debt Service Reserve Account (DSRA) that acts as an inbuilt cushion or first-loss reserve account.

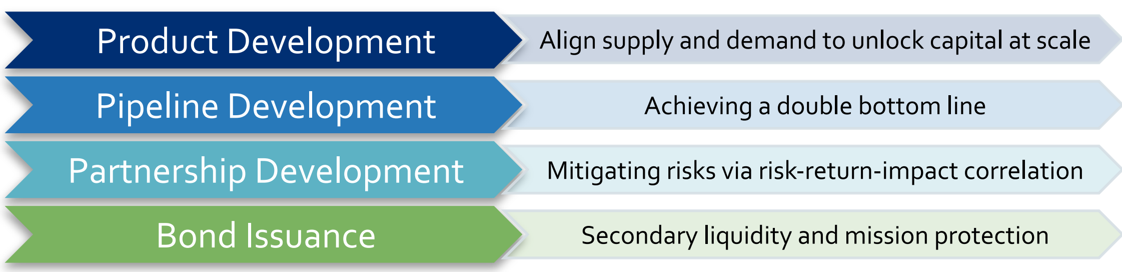
Step 6: The **bondholders** are paid a coupon on a bi-annual basis and are repaid the principal amount at the end of the bond maturity unless it is traded on the exchange. The bondholders are also provided with regular reports on the performance of the bond on both financial and social criteria.

Step 7: Upon bond maturity, if there is any unutilized amount left as part of the DSRA, the amount is split evenly between the **bondholders** (as a reward for taking on the risk) and the **impact investment intermediary** (as a reward for conducting a sound due diligence).

HOW ISBS ARE INNOVATIVE

The entire process, from structuring to listing, has four distinct phases [Figure 24]; each of these phases contain innovative aspects of ISBs that, upon replication and scale, promise to bridge the "pioneer gap" that Impact Enterprises face.

FIGURE 24: INNOVATION AT EVERY STAGE OF ISB DEVELOPMENT



Product Development: Align supply and demand to unlock capital at scale
Two aspects of the ISB design that enable the alignment between demand and supply to effectively unlock capital are outlined below:

- **Increasing demand by improving the ability of the bond to effectively absorb and deploy mission-oriented capital**: By pooling a group of underlying IEs together and adequately diversifying risk, ISBs open up investment opportunities that were previous excluded and provide a channel to attract greater amounts of impact investment capital that these entities could not have otherwise accessed on their own.
- **Increasing supply of mission oriented capital from new private sector players by adequately sharing risk between stakeholders:** Unlike pay for success instrument, repayment of principal plus coupon is not contingent on achievement of social outcomes. This element of financial certainty greatly enhances the ability of ISBs to attract from commercial investors – new participants that would otherwise not participate in social investments.

Pipeline Development: Achieving a double bottom line

The recommended approach to achieving a double bottom line via ISBs is outlined below:

- **Pre-Bond Issuance Dual Due Diligence on Underlying Borrowers:** Pre-emptively, the impact investment intermediary and the M&E partners coordinate to conduct a rigorous social and financial due diligence on potential borrowers ahead of finalizing the portfolio to assess three dimensions: risk, return and impact. The basket will include a group of IEs along with more mature entities in sector (example: MFIs, mid-size entities) which can lower the total risk of the portfolio and are well suited both to repay debt and to create impact at scale.
- **Post-Bond Issuance Ongoing Monitoring and Evaluation of Underlying Borrowers:** The due-diligence will be further strengthened by a strong ongoing Measurement and Evaluation (M&E) process with quarterly and annual reporting on results. Investing in strong monitoring and evaluation procedures will ensure both improved transparency of financial results and creation of demonstrable social impact.

Partnership Development: Mitigating Risk

ISBs view risk from a dual perspective – financial risk and risk of mission failure or social risk:

- **Mitigating Financial Risk Through Guarantee Facility Provided by Donor or Government Partner:** ISBs will include a guarantee facility, where partnering government or donor agencies will cover a portion of the losses in case of default. By incorporating aspects of blended finance, the ISBs aim to leverage on public funds from donor agencies to trigger and unlock larger amounts of private capital into the impact investment space.
- **Risk-Return-Impact Correlation Analysis By Measurement and Evaluation Partner:** As part of the ISBs' due diligence process, it is imperative for M&E professionals to conduct a social impact assessment for each of the borrowers. The findings will allow the bond structurer to analyze the correlation between social impact and financial risk, and start to understand the optimal ways to adjust the equation.

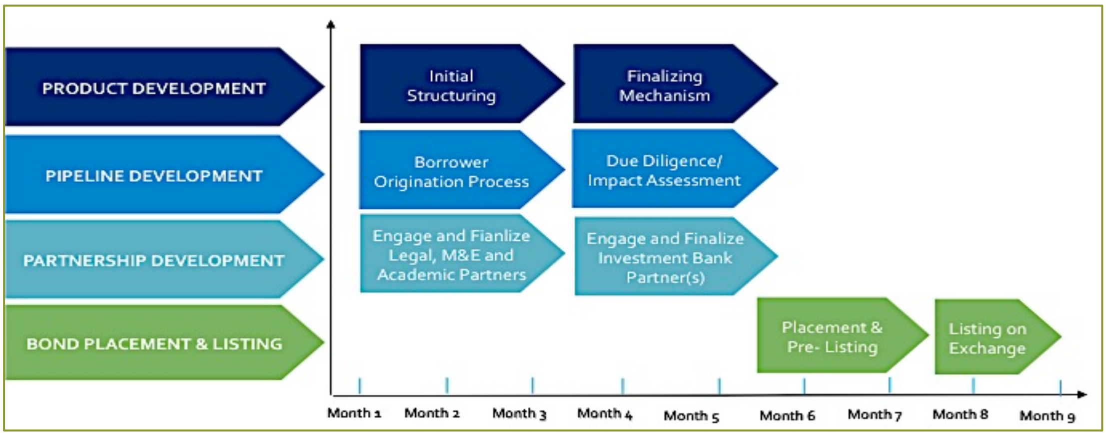
Bond Issuance: Secondary Liquidity and Mission Protection

The first ISB, the $20 million Women's Livelihood Bond will be listed on Impact Exchange, the world's first social stock exchange. ISBs designed for Malaysia could potentially be dual listed on both Impact Exchange and Bursa Malaysia. Benefits from listing on a social stock exchange include: (i) Secondary Liquidity – Allowing trading of securities and thereby providing an exit opportunity to investors (ii) Mission Protection – Mandatory adherence to rigorous impact criteria prior to listing and regular reporting of impact performance post listing (iii) Access to Global Investors – Increased exposure to international investors

BOND DEVELOPMENT PROCESS

The ISB development process is done over 4 key work streams: (i) Product Development (ii) Borrower Origination (iii) Partnership Development (iv) Bond Placement and Listing. These work streams, some of which go on in parallel, are spread over a 9 month duration as detailed in the timeline below [Figure 25]:

FIGURE 25: ISB DEVELOPMENT PROCESS



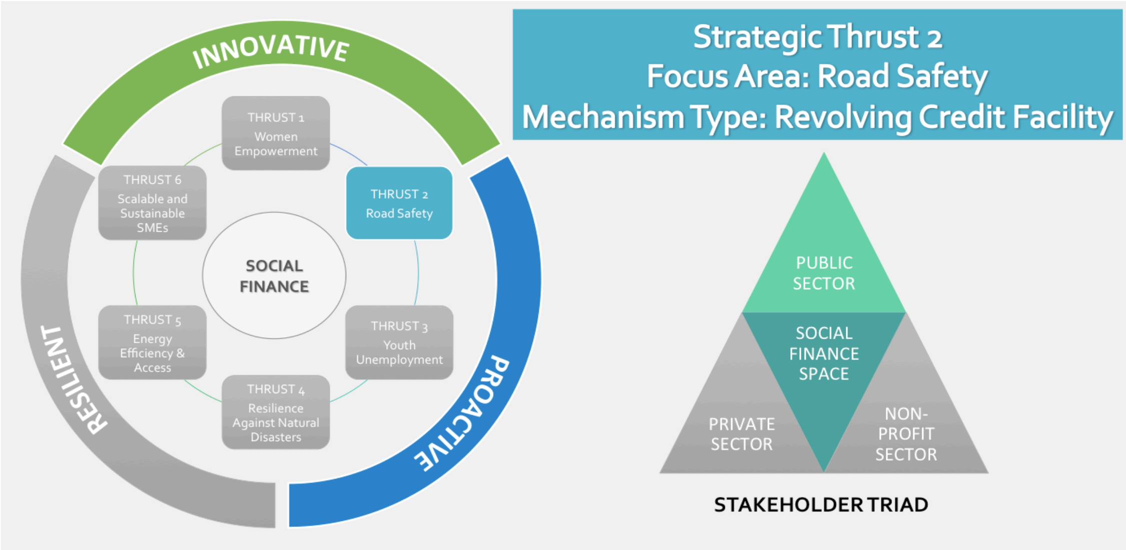
IIX SUSTAINABILITY BOND FOR MALAYSIA

ISBs are replicable instruments that can be customized to suit different geographic contexts from both a regulatory and a needs-based standpoint. The Women's Livelihood Bond (previously mentioned in Section 1) is the first in a series of ISBs developed by IIX. IIX recommends replicating the WLB structure in Malaysia to help mobilize capital from private sector investors to catalyze growth of IEs and MFIs focused on empowering women to transition from subsistence to sustainable livelihoods.

The bond can be designed to mobilize approximately $20 million from private sector investors and impact the lives of 1 million women and their families. Key outcomes include improved gender equality and increased demographic dividend.

The Malaysian government can play a dual role by: (i) funding the upfront cost for an impact investing intermediary to structure the bond (ii) acting as the guarantor to de-risk the investment (iii) enabling listing of bond on Bursa Malaysia.

BUFFER FUND FOR ACCIDENTS

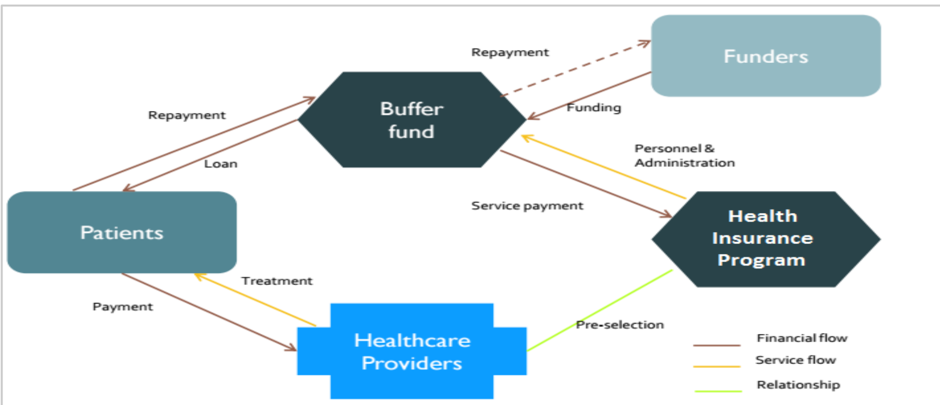


BUFFER FUND FOR ACCIDENTS OVERVIEW

IIX's Buffer Fund for Accidents (BFA) is an innovative loan facility for lending at point of care to victims of road accidents that effectively insulates their families from shocks to household expenditure. The BFA can be structured as a component of a broader health insurance program for urban poor that seeks to cover the cost of diagnostics, emergency transportation, emergency care, acute and long term treatment and hospitalization for victims – coverage of which is usually excluded as it drives up insurance premium significantly. By leveraging a ~$9 million government/donor-provided subsidy over the first five years to extend ~$100 million in loans – the Fund is projected to provide access to catastrophic healthcare for an estimated 1 million individuals on a rotational basis. Lending to patients and receiving repayment on an ongoing basis - as opposed simply donating the money for one time financial support - allows the BFA to work as a revolving facility that effectively addresses immediate needs while also working as a sustainable model that can provide support to future accident victims on an ongoing basis.

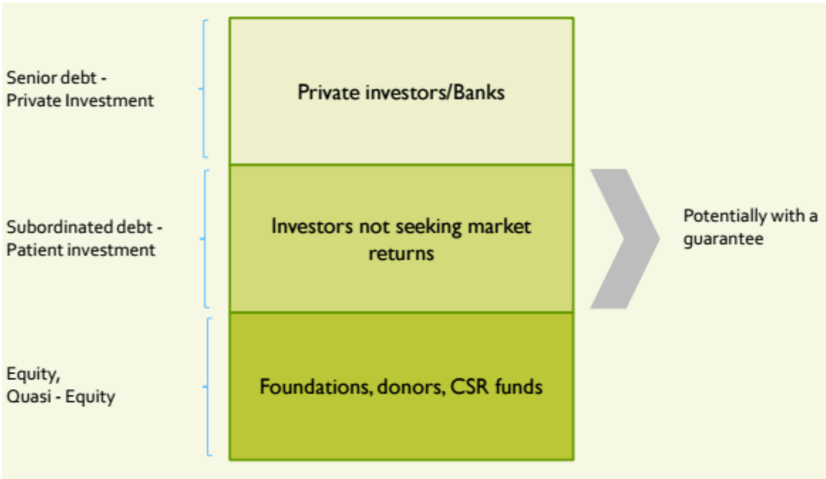
FUND MECHANISM

FIGURE 26: OVERVIEW OF BUFFER FUND FOR ACCIDENTS MECHANISM



Donor funding / first loss capital will be required initially to get the Fund off the ground and provide proof of concept to bring in other investors. Other financial tools can be used to leverage donor dollars including guarantees or ring-fencing sustainable pieces. The initial donor-subsidy needed is projected to decrease over time as the number of participants in BFA grows. The size of the subsidy is significantly smaller than the cost of outright funding access to healthcare services for the target group. The buffer fund capital structure can be a combination of senior debt, subordinate debt, equity and quasi equity to attract various profiles of investors with different risk/reward profiles [Figure 27]:

FIGURE 27: ANATOMY OF THE BUFFER FUND FOR ACCIDENTS



HOW THE BFA IS INNOVATIVE AND ENABLES PROACTIVE INTERVENTIONS

The BFA allows low-income families that are covered by the service package to borrow money at the point of care (clinic/hospital) to cover hospitalization in the case of catastrophic injuries inflicted by road accidents. Donors, impact investors, and commercial capital providers commit finances to set up the BFA, before the Fund can be drawn upon by eligible patients in need of treatment. The loans are paid back to the Fund over a 1, 3, or 5-year period – depending on the loan size. This allows the victims to access care they otherwise would not have been able to afford by spreading their payments over a period of time, as opposed to requiring out-of-pocket payment at the point of receiving care.

The BFA will be designed to suit factors unique to each city including required eligibility criteria, interest rate charged on loan, anticipated default rates and funder appetite and preferences. The structure allows healthcare financiers to leverage modest subsidies to set up the fund to achieve large scale financing of healthcare services for the poorest segments of a community. As such, the buffer fund presents one of the most innovative solutions for rapid reduction of Out-of-Pocket (OOP) spending and increased financial protection for the poor, and merits increased focus by philanthropic and institutional donors. The primary outcome is that the BFA can provide cities with an important resilience mechanism that uses innovative finance to achieve the optimal outcome while effectively balancing constraints of affordability, broad coverage and sustainability:

- **Broad Coverage** – BFA aims for broad coverage in terms of eligibility of population to give financial extensions to accident victims, providing access according to need instead of access according to ability to pay (ATP).
- **Affordability** – Loans provided from the BFA seek to make healthcare affordable and repayment fair to the patient.
- **Sustainability** – Given the finite nature of donor funding, BFA is designed to eventually move from philanthropy to sustainability. The fund will sustain itself by charging interest on the loan to the patients. IIX pre-empts that there will be a certain percentage of defaults on loan repayment which will be taken into account when structuring the Fund to ensure that the model is designed to eventually be sustainable regardless of defaults.

BUFFER FUND FOR ACCIDENTS FOR MALAYSIA

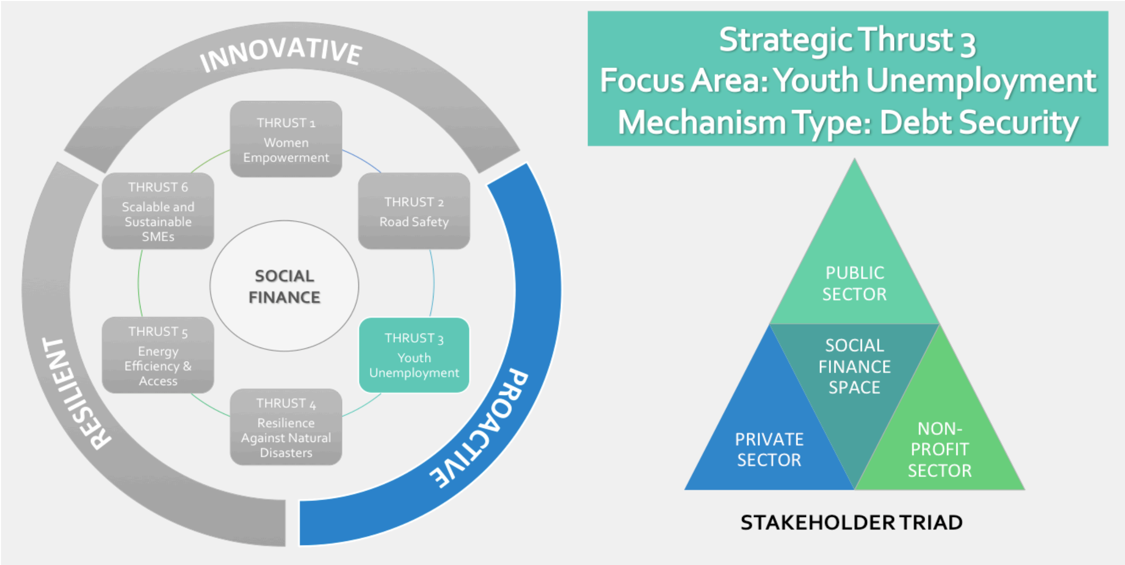
Most of the metropolitan cities across Malaysia are witnessing phenomenon of ever increasing growth of vehicular traffic due to population explosion coupled with large scale socio-economic activities. This has resulted in severe traffic problems on roads in terms of road accidents and deterioration in the eco-friendly environment due to an increase in noise and air pollution. The rapid growth of road accidents in most of the large metropolitan cities is increasingly becoming a great concern - Malaysia has the highest road fatality risk (per 100,000 population) among the ASEAN countries and more than 50% of the road accident fatalities involve motorcyclists.[23] Malaysia is among the top 25 most dangerous countries for road users, with 30 fatalities per 100,000 individuals, according to research by the University of Michigan.

Further aggravating the problem, low-income groups are particularly susceptible to road accidents, owing to the higher tendency to use two-wheeler vehicles. The urban poor are the most vulnerable demographic in terms of negative financial repercussions of road accidents – often lacking the resources to cover the high cost of hospitalization and medical care. It is imperative for cities to recognize the need to provide the necessary financial infrastructure and take robust measures to help low-income communities deal with the economic stress caused by OOP expenditure.

IIX was hired by BRAC Health Innovations Program (bHIP) to create a similar buffer fund for catastrophic healthcare financing for the poor. The project was led by Tim Evans, then the Dean of BRAC School of Public Health and currently the Director of Health at the World Bank. IIX's Buffer Fund for Accidents (BFA) can be replicated in Malaysia to address this need by providing an innovative mechanism that not only provides much needed access to capital to the families of road accident victims, but is also structured such that the Fund becomes self-sustaining after a period of time and can be used by the city for perpetuity. As such, the BFA is designed to help cities strengthen their inherent resilience to provide economic security to even the poorest sections of society. The Malaysian government can play a pivotal role by providing the $9 million upfront subsidy that will be required for the first five years before the fund can sustain itself.

[23] http://www.sciencedirect.com/science/article/pii/S0386111212000076

HUMANITY BOND



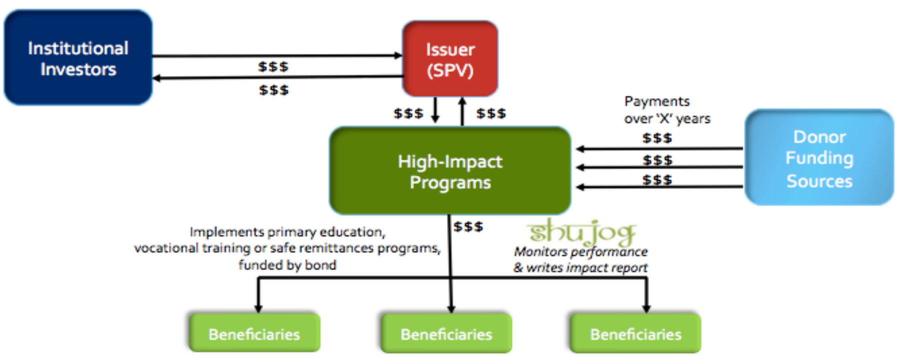
HUMANITY BOND OVERVIEW

Using a bond structure, Humanity Bonds are publically listed debt securities that can be sold to impact investors whose proceeds fund the immediate cost of high impact programs. The bondholders are then repaid over time by the bond issuer through pledged/committed donor funds. By accelerating the immediate availability of program funding, the Humanity Bond will facilitate the Malaysian government to frontload program implementation to make a **larger impact now** and **save more expenditure in the future**.

The closest model in Impact Investing to the Humanity Bond is the issuance by the International Finance Facility for Immunization (IFFIm). In an effort to vaccinate children today and prevent diseases from spreading, IFFIm raised USD$4.5 billion in capital markets for the GAVI Alliance, making large amount of funds available for the purchase and delivery of vaccinations immediately. With pledges from donor governments for future grants, IFFIm was able to raise six times the donor funds it would have received in the same period. This is equivalent to the ability to vaccinate millions of children.

BOND MECHANISM

FIGURE 28: OVERVIEW OF HUMANITY BOND MECHANISM



The mechanism of the Humanity Bond is outlined below:

I. Identify a specific issue/ funding gap or organization that benefits from accessing greater program funding **today.**
II. Determine **capital needs** and future donor streams.
III. **Structure** the Humanity Bond and create a potential retail and institutional investor base. Build in catalysts, such as guarantees (if required).
IV. Calculate potential **impact** of the Humanity Bond on its ultimate beneficiaries.
V. Enable **capital raise** by publicly listing the bond on **Impact Exchange with dual listing on Bursa Malaysia**.
VI. Provide the **capital upfront**/ cover the immediate costs to implement high-impact programs.
VII. Measure, monitor and demonstrate the impact while bond issuer **re-pays the investors**.

HOW HUMANITY BOND CAN ENABLE PROACTIVE INTERVENTIONS

The Problem: The Need for Upfront Capital

INGOs lack flexible financing option to fund upfront costs of high impact programs:

- Financial costs are rising for the government, NGOs and society and the traditional donor model has inherent constraints in terms of providing access to upfront capital.
- Preventive mechanisms, for example, to reduce child exploitation, involve improving social cohesion by investing in social infrastructure (education, employment opportunities, etc.) which is expensive.

But non-intervention today creates the need for larger capital outlays in the future:

- However, the cost of protection (building shelters, funding NGO rescue operations), prosecution (legal expenses, law enforcement) and reintegration (counselling, rehabilitation programs) is considerably more expensive.
- In such situations, having funds available upfront would have a higher impact on the lives of more children, preventing trafficking as well as rehabilitating those effected children sooner. Other examples include youth unemployment and vaccination programs.

The Solution: Humanity Bonds

By not taking more substantial and immediate measures for preventable social ills, the world's socio-economic sustainability will ultimately suffer. IIX proposes the Humanity Bond (HB) to provide the capital required for INGOs to invest in these priorities.

The Humanity Bond product is ideal for time-critical programs, for example, youth unemployment which can lead to a ripple effect of negative repercussions in the economy in the future. Private financing can be unlocked and massively directed towards long-term investments in these projects. In such situations, having funds available upfront would have a higher impact on the lives of more people at risk by preventing unemployment and addressing the root cause of the problem. In the case of youth unemployment this includes lack of education, adequate training and sustainable employment opportunities. It would also reduce the amount of investment that would be required at a later stage to fund more reactive strategies which are more expensive and often, less effective. For instance youth unemployment has a negative effect not only on the future employability of young people but contributes to increase in crime rates and can represent a serious burden on state finances. Additionally, non-integration of young people into a nation's job market leads to a huge negative effect on economic growth and productivity.

An M&E professional with expertise in conducting impact assessments must be on board as a partner to provide monitoring and evaluation services to determine the impact delivered by the INGO. The M&E professional must use an analytical framework for measuring impact of social organizations using a bottom-up approach that can be tailored to the beneficiary organization and its mission. Besides reporting on impact related performance, M&E professionals can also help identify the potential for wider sustainable impact that may be created over the longer term at a community or societal level.

HUMANITY BOND FOR MALAYSIA

As detailed above, the Humanity Bond can be used to accelerate some of the key focus areas of Strategic Thrust 3 of the 11th Malaysia Plan. The funds unlocked will be directed towards INGOs that are focused on providing employment to at-risk youth. The Humanity Bond can help bring both, private players and NGOs into the Impact Investing space by offering an attractive investment proposition that creates social/environmental impact and simultaneously generates modest financial returns. This can transform the financial landscape for service providers, resulting in an increase in immediate program funding, greater short and long-term impact creation and allowing Malaysia to scale up preventative programs.

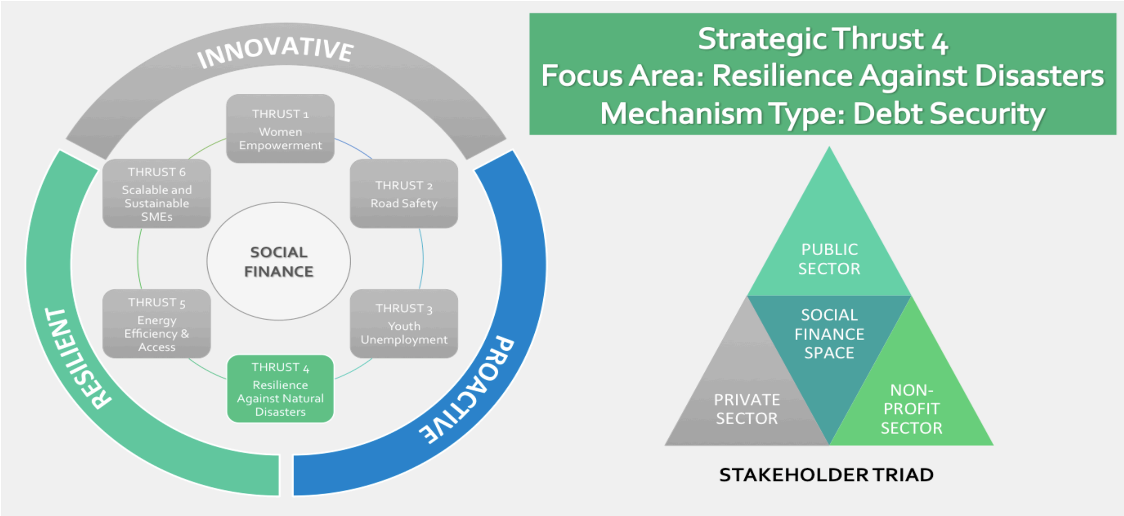
The entire structuring process will take an estimated 9 months based on IIX's past experience [Figure 29]. The Malaysian government (potentially, the Ministry of Human Resources (MOHR) or the Ministry of Education) can play a role by providing the upfront funding required for an impact investing intermediary with expertise in innovative finance to structure the instrument and by paying back bondholders over time.

FIGURE 29: TENTATIVE TIMELINE FOR DEVELOPING HUMANITY BOND

Indicative process	1. Scoping	2. Bond Structuring and Marketing	3. Implementation
Timeline	*3 months*	*6 months*	*TBD (contingent on bond maturity)*

Outputs	• Impact investing intermediary (bond issuer) to identify high-impact INGO aligned to Strategic Thrust 3
	• Impact investment intermediary and partner INGO to determine type of intervention
	• M&E partners to design performance metrics
	• Impact investment intermediary to identify streams of committed funding from government and conduct cost-benefit analysis
		• Impact investing intermediary to structure bond based on financial projections and estimated demand
		• Key security features to be defined:
		  • Target Return
		  • Risk Mitigation
		  • Anticipated Impact
		• Banking partner to market bonds to investors
		• Impact investing intermediary to initiate bond listing process on Bursa Malaysia and/or Impact Exchange
			• INGO implements the programs funded by the Humanity Bond
			• M&E professionals to periodically monitor and evaluate outcomes and provide progress report to key stakeholders: outcome payers (potentially the Malaysia government), investor, bond issuer, INGO management
			• Payment: as pledged government commitments are realized, the bondholders are repaid

RESILIENCE BONDS



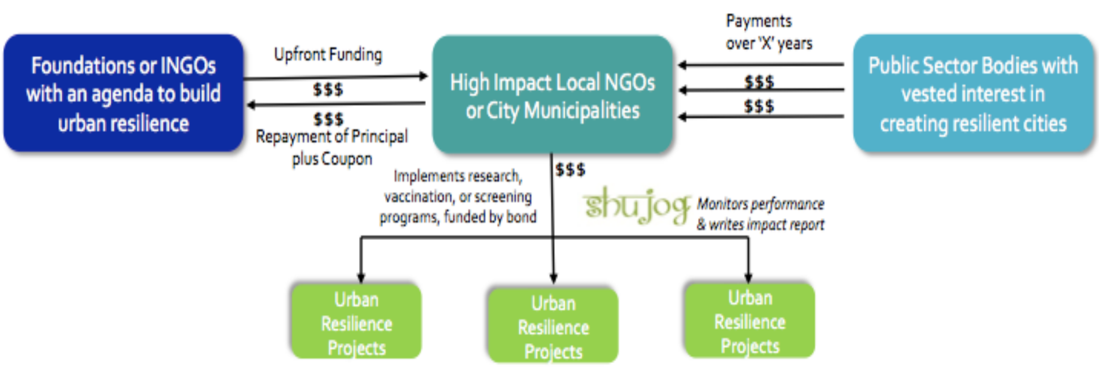
RESILIENCE BOND OVERVIEW

IIX proposes using a new innovative financial product - the Resilience Bond (RB) - to mobilize upfront to fund programs that seek to improve Malaysia's ability to deal with social, environmental and economic shocks and stresses. Using a bond structure, low-coupon debt securities are sold to foundations or INGOs with an agenda to invest in urban resilience and the proceeds are utilized fund the immediate cost of high impact programs that invest in preventative measures and build systemic resilience to social and environmental issues. By accelerating the immediate availability of program funding, the Resilience Bond will facilitate cities to frontload program implementation to make a larger impact now and save more expenditure in the future. The bondholders are then repaid over time by the bond issuer through pledged/committed public sector funds.

The Resilience Bond is modelled similar to the Humanity Bond in terms of the mechanism. Sources of pledged funds could range from municipalities with a vested interest in urban development to city-level public authorities investing in disaster-resistant infrastructure projects. However, due to the relatively low-coupon, the bonds are sold to foundations or INGOs instead of private sector investors.

BOND MECHANISM

FIGURE 30: OVERVIEW OF RESILIENCE BOND MECHANISM



HOW RBS CREATE RESILIENCE AND ENABLE PROACTIVE INTERVENTIONS

In an increasingly resource-constrained environment, it is imperative to engage relevant stakeholders that are positioned to solve issues on both supply and demand sides of the equation:

- **Proactive:** Investing a dollar today in initiatives focused on pre-emptively mitigating the impact environment shocks (such as earthquake resistance building) can have a very high pay-off in terms of future savings. However, governments cannot single handedly tackle endemic issues due to the requirement of large amounts of funds to scale programs. The RB is designed to mobilize upfront and untapped capital from foundations and INGOs and drive more follow-on investments in resilience building.
- **Resilience**: On the demand side, it is equally important to fund interventions that have a strong understanding of the issues and challenges on the ground. Often, a top-down approach by high level public sector bodies are too far removed from the grassroots to have a comprehensive understanding of the complexity of these issues. Proceeds from the RB are instead redirected towards local NGOs or city municipalities with a proven track record of building systemic resilience and improving the ability of the city to respond, adapt and transform to better deal with environmental shocks and stresses.

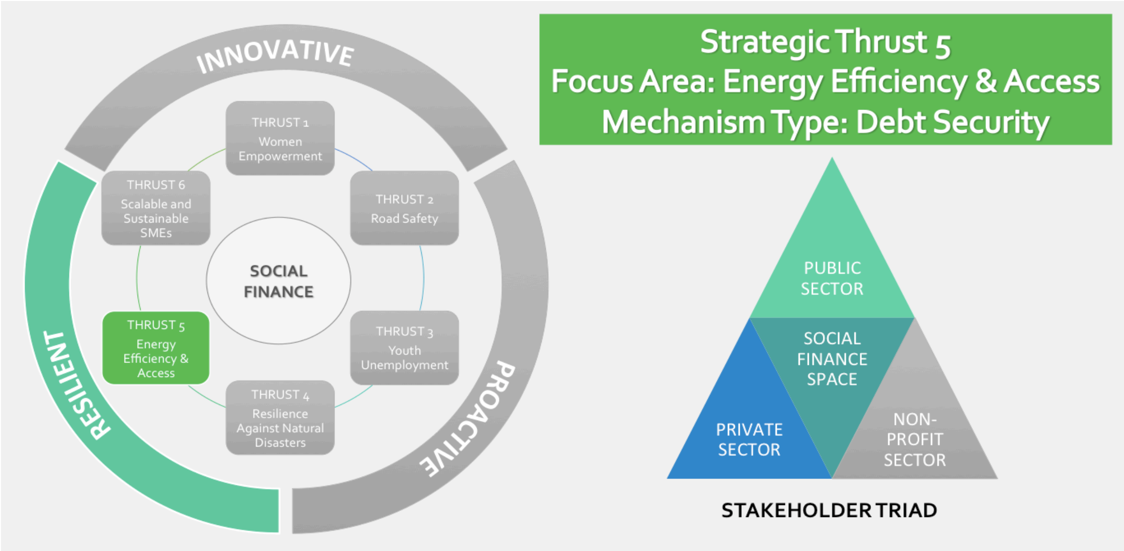
RESILIENCE BOND FOR MALAYSIA

Over 70% of Malaysia's population is concentrated in urban centers and small to medium sized cities are among the least prepared to tackle new challenges. Poor and vulnerable populations, which typically lack access to adequate infrastructure and services, will experience these impacts most severely. In the past two years alone over 200,000 Malaysians have been displaced on account of floods. Earlier in 2015, the Malaysia's government anticipated expenditure of approximately RM2 billion ($460 million) to rebuild areas affected by the monsoon season flooding. Majority of funds allocated towards the issue have been concentrated on ex-post recovery efforts. It is crucial to shift the dominant narrative towards investing in ex-ante resilience building initiatives to mitigate larger social costs and financial outlays that will be required in post disaster scenarios.

An impact investing intermediary can design a customized RB for Malaysia focused on building resilience to risks associated with flooding which continue to rise due to population growth in flood-prone areas, climate change contributing to more intense storms, and the aging of flood-management infrastructure. Programs the RB can fund include (i) Permanent monitoring of the risk of flooding (ii) Issuing regulations banning building, residing in, and access to identified risk zones and implementing specific protective systems such as alarm signals (iii) Building and developing infrastructure that will prevent, avoid or limit floods and protect the population (iv) Forming well trained and equipped management and rescue teams (v) Lowering water levels in hydraulic dams and increasing the flow of rivers.

The implementation timeline and the role of the government would be the same outlined in the section above on Humanity Bond. Sources to repay the bond could potentially be allocated from the Ministry of Environment of funds allocated towards disaster relief.

GREEN BONDS



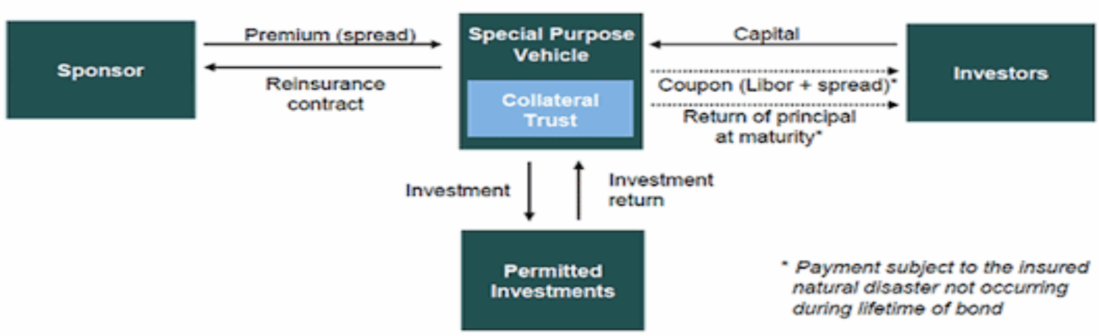
GREEN BONDS OVERVIEW

A "green bond" is functionally like any other bond issued by governments, financial institutions or companies. It is a tradable financial instrument that allows the issuer of the bond to borrow funds with a promise to pay back the money (i.e. the principal), usually with interest, by a certain date. The distinction is that green bonds are supposed to raise money for environmentally beneficial purposes only. Green Bonds are theme bonds, similar in principle to a railway bond of the 19th century, and are designed to:

- Allow institutional capital - pension, government, insurance and sovereign wealth funds - to invest in areas seen as politically important to their stakeholders that have the same credit risk and returns profile as standards bonds.
- Provide a means for governments to direct funding to climate change mitigation. This might be done by privilege qualifying bonds with preferential tax treatments.

BOND MECHANISM

FIGURE 31: OVERVIEW OF SAMPLE GREEN BOND MECHANISM



Green Bonds, a relatively new asset class, are fixed income securities that enable capital-raising and investment for new and existing projects with environmental benefits. All green bonds are investment grade; in 2014 approximately half have been issued by companies, a switch from 2013 when most green bonds were sold by international agencies such as the World Bank.[24]

The financial principle of a Green Bond is very simple and just a bond like any other bond. The lender takes the same credit risk on the borrower's repayment capability as in the case of a regular bond and, hence, if the price of the Green Bond is in line with the price where the issuer normally gets their funding, the risk/return will be in line with "regular" bonds. Importantly, this implies that a Green Bond can be bought by any investor with a fiduciary mandate who otherwise would be able to take risk on the issuer.

Social Finance intermediaries who are structuring the instrument must validate mandates and communicate performance in financial markets via a system where outcomes are quantified and results are measured, monitored and regularly reported. However, when we talk about transitions on a larger scale – such as finding financial resources to alleviate climate stress – there is a need to change the financial infrastructure and organizations to facilitate the transition. Organizations need to appreciate the new goals and the infrastructure needs to be able to identify and support the new objectives. There are various ways to do this but the most efficient is to leverage existing infrastructure.[25]

HOW GREEN BONDS CAN CREATE RESILIENCE

With the onset of green bonds, investors have the opportunity to support a low-carbon and climate resilient future. There is a strong business case for investing in energy efficiency projects that will lower future economic and financial risks for private sector players as well. The nature of the Green Bond is to enable mainstream fixed income mandates to engage and access climate finance. The strength is that it is enabling and engaging traditional bond mandates for climate finance, and thereby activates new pockets of money for "green" investments. The main purpose of the Green Bond is to be used as an instrument for business leaders to transform their organizations to be more comprehensive and address society challenges through their existing infrastructure.

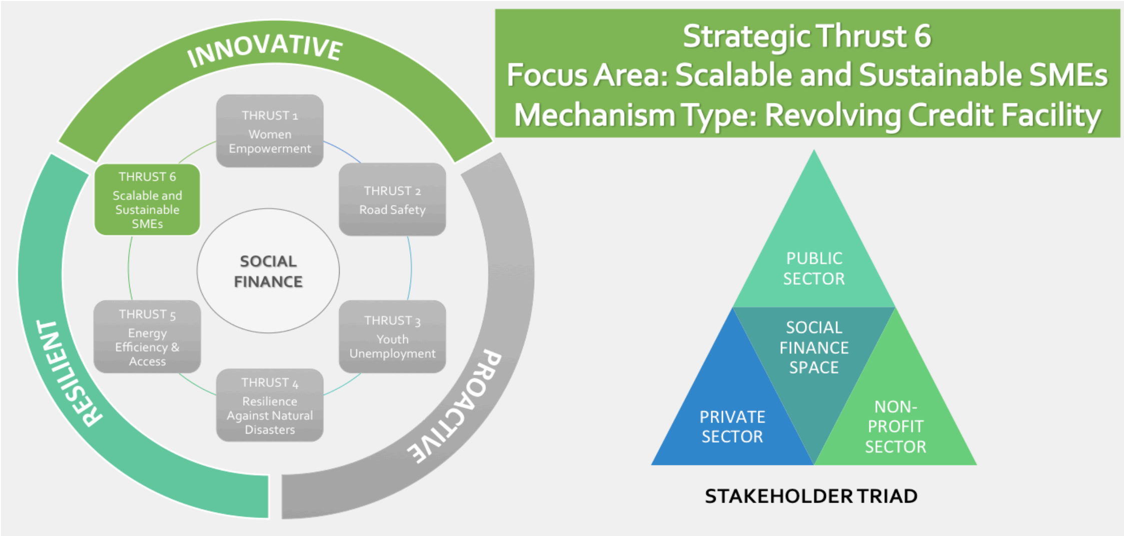
GREEN BONDS FOR MALAYSIA

IIX recommends developing a Green Bond for Malaysia to raise investment capital to scale energy efficiency projects. A precedent would be the Green Bond issued in 2013 when the Indian Renewable Energy Development Authority issued bonds to finance project development loans for renewable energy. The Bond will be developed in adherence to the Green Bond Principles (GBP), a set of voluntary process guidelines. The GBP provides issuers guidance on the key components involved in launching a credible Green Bond; aids investors by ensuring availability of information necessary to evaluate the environmental impact of their investments; and assists underwriters by moving the market towards standard disclosures that will facilitate transactions. Proceeds will be used to fuel projects aligned with Malaysia's green growth strategy as outlined in the 11th Malaysia Plan that will enable a transition from a resource and energy intensive economy to a nation that efficiently balances both supply and demand side constraints and considerations.

[24] http://www.economist.com/news/finance-and-economics/21606326-market-green-bonds-booming-what-makes-bond-green-green-grow

[25] http://sebgroup.com/siteassets/corporations_and_institutions/our_services/markets/fixed_income/green_bonds/the_green_bond_2014_10_22.pdf

SHUJOG ACTS



SHUJOG ACTS OVERVIEW

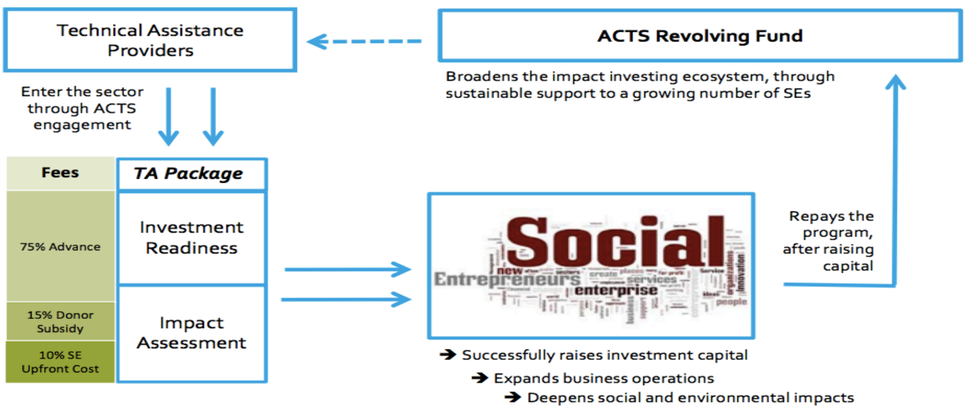
Shujog's award winning Assistance for Capacity Building and Technical Services (ACTS) Program prepares IEs to raise capital by advancing the cost of technical assistance (TA) and managing a network of technical assistance providers (TAPs). The following section uses Shujog ACTS as a case study that can be replicated in Malaysia to support high-impact SMEs reach the next stage of growth. In administering the program, Shujog supports IEs to showcase their financial and operational strengths to impact investors with TA that includes:

- A tailored package of investment readiness support from TAPs
- A rigorous impact assessment conducted by Shujog

As an IE becomes successful in raising capital, they reimburse the ACTS Program to allow Shujog to support even more IEs in a sustainable way. At the same time the program also expands the broader Impact Investing ecosystem by bringing in new TAPs.

PROGRAM MECHANISM

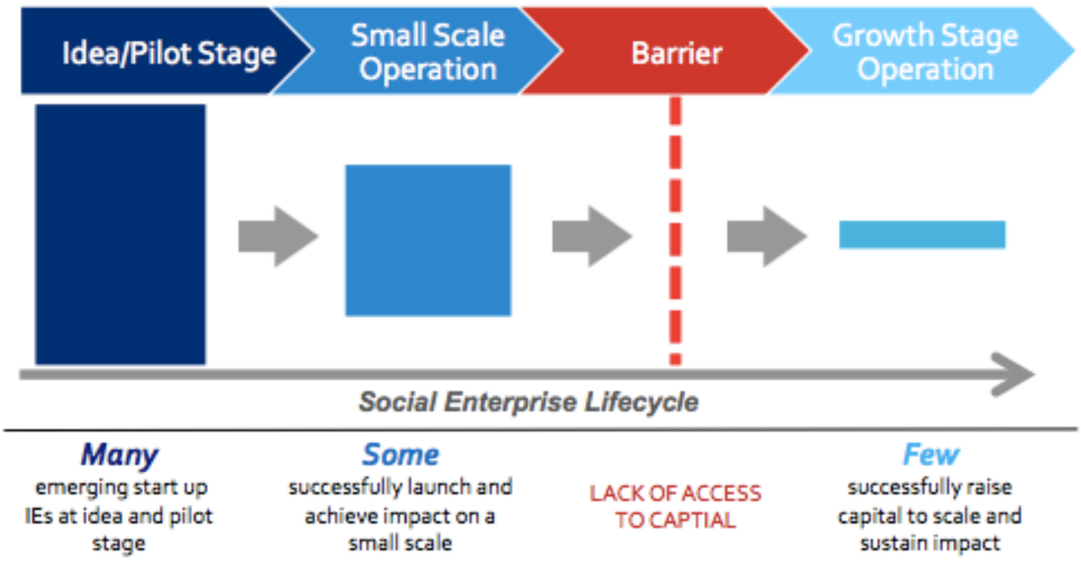
FIGURE 32: OVERVIEW OF SHUJOG ACTS MECHANISM



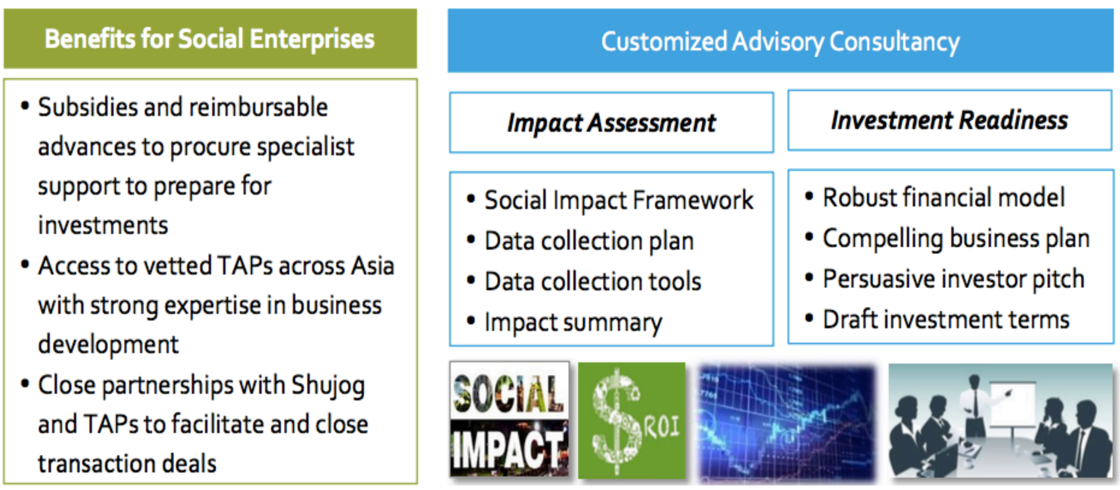
HOW SHUJOG ACTS IS INNOVATIVE AND CREATES RESILIENCE

Shujog ACTS solves a critical systemic gap for Asian IEs – access to growth capital [Figure 33]. There is a paucity of investible IEs who struggle to afford and access professional support to help raise capital. ACTS is a program that **builds the ecosystem** while **expediting specialized technical assistance** to prepare SEs to raise capital.

FIGURE 33: GAP ANALYSIS OF IMPACT ENTERPRISE GROWTH STAGES



Such revolving credit facilities will enable Malaysian IEs to get access to the critical suite of customized advisor consultancy services required to become attractive investment opportunities, mobilize capital from impact investors and transition to the next level of growth, as detailed below. These enterprises are usually focused on sectors that are at the core of embedding systemic resilience in a nation: sustainable agriculture, clean energy, water and sanitation, access to education and affordable healthcare. In turn, it also allows other ecosystem players (lawyers, accountannts, etc.) to play an effective role in growing the Social Finance space.

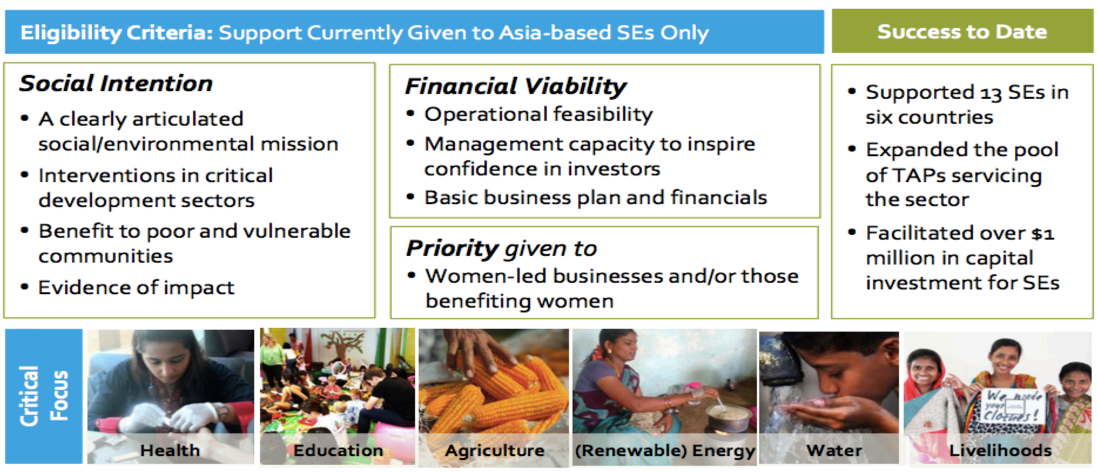


The key innovation lies in the fact that the program must be structured as a revolving credit facility. Not only will this systematically catalyze the entire Malaysia Social Finance ecosystem, it will also allow the fund to sustain itself after a point. To accomplish this, the program can pair IEs with vetted program TA partners *and* provide a blend of subsidies to cover the upfront cost of technical assistance When IEs raise capital, they can payback the program so it can continue to support more IEs. This revolving facility distinguishes from other existing options for funding support that are available as detailed in Figure 34.

FIGURE 34: DIFFERENTIATING THE SHUJOG ACTS MODEL FROM EXISTING FUNDING CHANNELS

SHUJOG ACTS FOR MALAYSIA

IIX recommends either replicating this model or opening up the current Shujog ACTS program to support high impact, mission driven SMEs in Malaysia that can enable the country to create both achieve economic growth and social progress using a bottom up approach. In particular, the program can place women empowerment at the center by prioritizing women-run IEs or entities where majority of the beneficiaries are women. These entities can be mandated to pay back a smaller portion of the technical assistance fee compared to other IEs – the difference is borne by the fund. The Malaysian government can play a role by providing the upfront funding required by ACTS that will be used by TAPs to get IEs investment ready. Other details of the existing Shujog ACTS program are outlined below:



RATIONALE FOR SUGGESTED MECHANISMS

The mechanisms suggested in the sections above are customized to the Malaysian context, both in terms of national agenda (alignment with the gaps identified in the needs assessment section) and feasibility (tailoring the instruments to the local context as opposed to blindly following international precedents). The section below briefly elucidates IIX's rationale behind the recommended innovative financial mechanisms, which has been guided by the three pillars aiming to shift Malaysia towards a more proactive, innovative and resilient paradigm.

IIX SUSTAINABILITY BONDS VS SOCIAL IMPACT BONDS

Social Impact Bonds (SIBs) are pay for success mechanisms that essentially shifts the risk from governments (funder of social outcomes) to private sector investors (who have a larger risk appetite). SIBs involve three players: an NGO or social service provider, a government agency and an investor. The idea behind a SIB is the investors pay the upfront cost of funding a social program that is executed by an NGO / social service provider. However, these results-based contracts do not function like a traditional bond – instead, repayment to investors by the government agency is contingent on the achievement of a pre-determined target outcome. Although these instruments have gained significant momentum over the past few years in the West, practitioners find their inherent complexity, stringent data requirements and high transaction costs have proved to be prohibitive factors when it comes to replication in the Global South. As of July 2015, there were a reported 44 bonds being utilized in developed countries versus 1 in developing country (launched in India).[26] The main issue with using SIBs in Malaysia is the limited interventions that achieve both, high impact on beneficiaries and high cost savings for the government. It is critical that these instruments serve a dual objective of creating both, financial returns and impact. If the suggested intervention is unable to result in significant cost savings for the government, they will be unable to repay the private sector investors back with a reasonable rate of risk-adjusted returns.

IIX does not define innovative finance as designing an instrument that is 'new', but instead as designing an effective mechanism that is tailored to the needs it must address within the specific context they must be addressed in. IIX Sustainability Bonds are different in structure from traditional pay for success mechanisms. The five main points of differentiation are outlined below:

	Pay for Success Mechanisms	IIX Sustainability Bonds
Impact – Measurement and Assessment	Impact is assessed after the instrument is issued/sold to investors	Social due diligence done prior to entity being selected, as well as during the life of the bond
Returns – Payment Terms	Investors are paid financial returns based on achievement of pre-determined social outcomes	Investors are paid risk-adjusted returns (principal + coupon) regardless of achievement of anticipated social outcomes

[26] http://www.brookings.edu/~/media/research/files/reports/2015/07/social-impact-bonds-potential-limitations/impact-bondsweb.pdf

Risk – Stakeholder That Assumes The Risk	Entire risk is shifted to investors	Risk is shared between investors and other partners (example: guarantor)
Borrowers – Legal Structure and Repayment Ability	Usually an NGO or Non-Profit – this mandates a third party pay back investors	Impact Enterprises and MFIs – borrowers themselves pay back investors over time
Liquidity – Exit Opportunity Available to Investors	Investors don't have any clear exit opportunity; full repayment is received upon bond maturity	Investors have the option to trade the bond on the Impact Exchange; thus, there is secondary liquidity

In summary, for ISBs, impact is determined vis-a-viz the money to be raised. While both instruments are highly innovative, ISBs have been designed to address the specific nuances and challenges that arise in the Asian context and can be easily adapted for Malaysia:

- In regions such as Malaysia where multiple factors could play into the achievement of social outcomes, it becomes difficult to measure impact and validate results solely based on a single intervention. This is further complicated by the fact that pay for success mechanisms mandate expensive M&E measures that put further pressure in an already resource constrained environment. ISBs take this into consideration by ensuring bondholders are paid regardless of social outcomes. Instead, the social impact is ensured in two alternative ways: (i) rigorous selection that assesses impact prospectively and projects potential impact trajectory; (ii) contractual obligations entered into with borrowers as part of loan agreement when entities are formally accepted into the portfolio; and (iii) listing on stock exchange that mandates regular reporting to investors and complete transparency of social performance.

- On the demand side, service providers such as NGOs are usually have limited ability to scale results in Asian countries, resulting in limited deal size and reduced attractiveness to private sector investors. Impact Enterprises and MFIs tend to be larger in size and are better equipped to absorb and deploy capital effectively to not only create scalable impact but also to repay bondholders over time. Thus, pay for success mechanisms tend to be limited in the amount of capital they are able to absorb whereas the entities that are part of the ISB portfolio are able to infuse capital more effectively.

- On the supply side, ISBs do not have any dependency on a third party (donor or government) to pay the bondholders, unlike pay for success instruments. ISBs are financially sustainable which allows them to be easily replicated and improves the chances of using the same structure to unlock capital in the future. With a pay for success instrument, the mechanism can be replicated only if the third party agrees to remain a part of the equation. In an increasingly resource constrained environment, ISBs are well equipped to tap into private sector capital and unlock the potential of capital markets to accelerate the global development agenda. Instead, ISBs leverage government funding to de-risk the investment through the guarantee mechanism that leverages private sector capital. This is an effective way to unlock use public sector funds that not only magnifies the amount of capital mobilized but also brings in new participants into the Social Finance space from the private sector.

URBAN RESILIENCE BOND VS CATASTROPHE BONDS

Catastrophe bonds are high-yield, 'insurance-linked' securities and meant to raise money in case of a natural disasters (hurricanes, earthquakes). CAT Bonds have a special condition that states that if the issuer (insurance or reinsurance company) suffers a loss from a particular pre-defined catastrophe, then the issuer's obligation to pay interest and/or repay the principal is either deferred or completely forgiven. The key advantage is that these instruments are completely uncorrelated with other economic and political events that affect other assets which allows them to diversify away part of the risk in an investor's portfolio. Over $40 million in CAT bonds have been issued over the past decade and predominantly bought by pension funds and other institutional investors seeking assets generating decent yields, particularly if the returns are uncorrelated to stockmarkets.[27]

However, CAT Bonds are not suitable for the Malaysia context for two key reasons:

1. With CAT Bonds, buyers are essentially assuming a catastrophe risk (which technically has a relatively low probability of occurrence), not a credit risk. In Malaysia's case, the key catastrophe is flooding - hedging flood costs using CAT Bonds may be difficult to model due to the relatively high probability and fairly regular nature of occurrence. Although Urban Resilience Bonds have lower yield, they are designed to mobilize a steady stream of returns to investors from pre-committed public funds. This non-linage to the actual occurrence of the associated disaster makes them a more stable, and hence a more attractive, investment opportunity.

2. More importantly, it is key for Malaysia to move a way from a reactionary mechanism and invest in resilience as opposed to response. Urban Resilience Bonds are designed to mobilize upfront capital to invest in disaster risk mitigation methods. This 'pre-emptive' approach makes them better tailored to mitigate the impact of floods in Malaysia than CAT Bonds, which are designed to mobilize funding for relief and recovery in a post-disaster scenario. To summarize, Urban Resilience Bonds can achieve cost saving for governments, generate a steady financial return for investors and proactively save lives of communities living in high-risk regions.

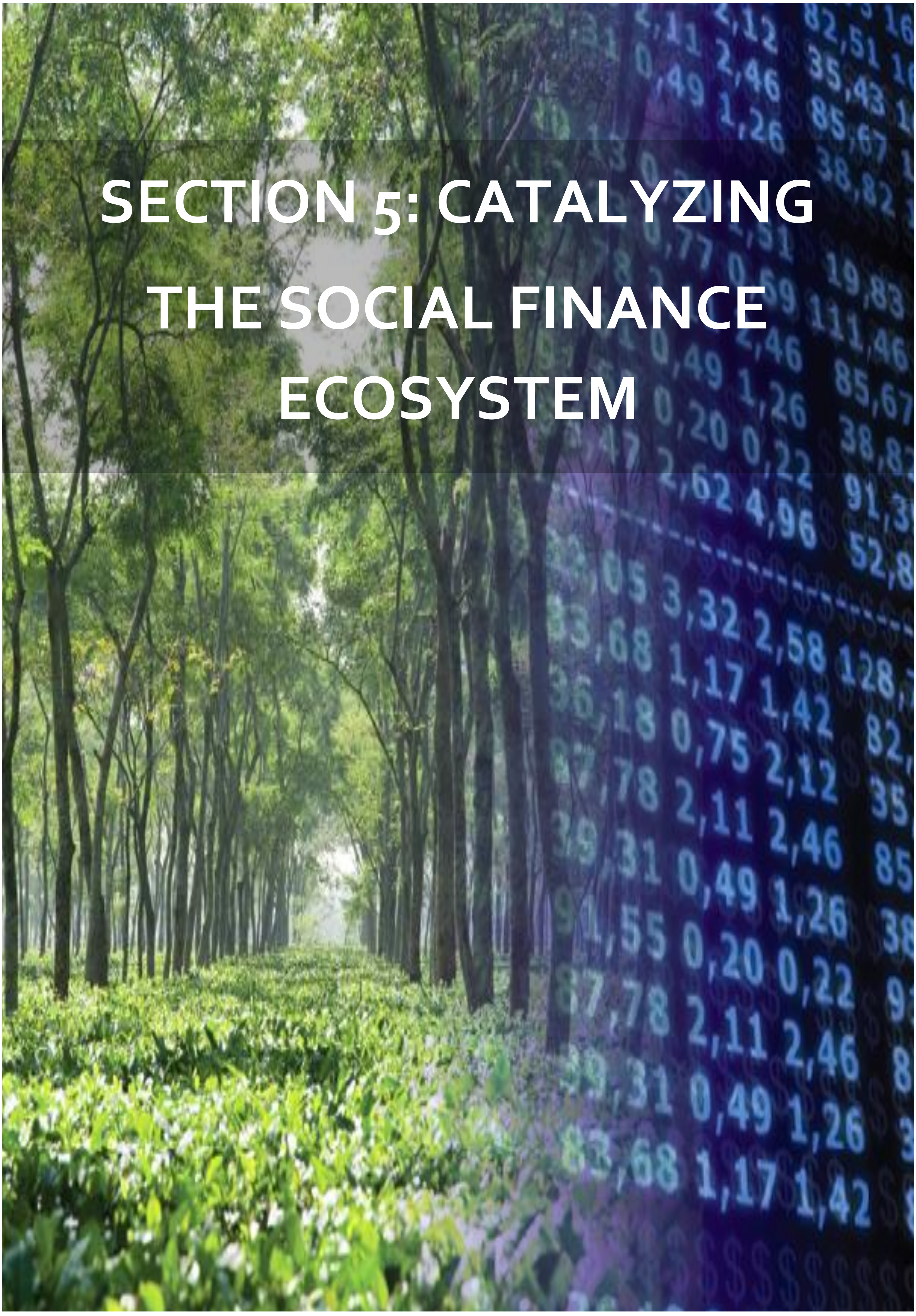
BUFFER FUND FOR ACCIDENTS VS PUBLIC SUBSIDY FOR EMERGENCY CARE

On average, 40% of healthcare services in Asia are financed by the public sector, either through the tax system or compulsory insurance mechanisms. In Asia, countries with low levels of publicly financed healthcare systems have a correspondingly high percentage of healthcare services financed through out-of-pocket (OOP) expenditures at the point of service delivery, in particular in the case of unpredictable healthcare costs such as those arising on account of road accidents. To ensure emergency care services are not just available but are also affordable for victims, financial shocks are usually mitigated by subsidies provided by the public sector. Consequently, this remains a permanent cost center for municipalities and cities that are witnessing an upward growth trend due to increasing urbanization and migration of population from rural areas to cities. This approach is financially unsustainable and cumbersome in terms of its delivery mechanism as well as highly reactionary in nature.

The advantage of using the Buffer Fund for Accidents is its ability to use this initial government subsidy to design a model that will be sustainable after a period of time. A revolving facility can ease a significant amount of pressure on government resources, freeing up funding that can instead be re-directed towards building improved infrastructure that will proactively reduce the incidence of road accidents.

[27] http://www.economist.com/news/finance-and-economics/21587229-bonds-pay-out-when-catastrophe-strikes-are-rising-popularity-perilous-paper

SECTION 5: CATALYZING THE SOCIAL FINANCE ECOSYSTEM



BUILDING AN EFFECTIVE SOCIAL FINANCE ECOSYSTEM

CATALYZING THE SOCIAL FINANCE ECOSYSTEM IN MALAYSIA

The following section outlines the recommended approach to build an effective and efficient Social Finance ecosystem in Malaysia. The objective here is not just to increase the total amount of mission oriented capital available (mobilizing supply of capital) but to also improve how efficiently this capital is utilized to increase the impact created per dollar (developing demand for capital). It is also essential to ensure the flow of capital is adequately facilitated whether through investment platforms that match impact investors to IEs or government regulations that redirect existing sources of capital to the places they are needed the most (bridging the gap). Finally, it is critical to acknowledge that the ecosystem is built not just on capital but also on skills and knowledge – for instance, private sector participants also bring additional value-adds such as expertise in managing risk and delivering value efficiently; non-profit sector players bring a deep understanding of the complexities of creating demonstrable social impact on the ground and measuring and evaluating these outcomes effectively.

Governments of the future will need to adapt and continuously evolve to create social value that is correlated with economic progress – developing the Social Finance ecosystem is one way to achieve this goal. Governments need to stay relevant by being responsive to rapidly changing conditions and citizens' expectations, and build capacity to operate effectively in complex, inter-dependent networks of organizations and systems across the public, private and non-profit sectors to co-produce public value (World Economic Forum, 2011).

To build the momentum of the space it will be essential for policy makers and public sector players to focus on developing the market, over and above provisioning of finance. This involves a range of interventions including the creation of proper incentive structures, provision of catalytic funding, enterprise and incubator development to stimulate demand, mandating disclosure of responsible investment practices and CSR practices, ethical procurement policies and certification of social purpose organizations. The argument is that governments have a role to play in relation to Social Finance as a market actor, and as market builder and steward to create the conditions for significant value creation for public good (Social Impact Investment Taskforce, 2014):

- **Market participant:** This role involves capturing new ideas and ways of doing things and adapting old ideas and practices that provide better solutions to social and economic problems; identifying opportunities more effectively to target and leverage public spending by attracting private capital.
- **Market steward:** This role involves stewarding the field of Social Finance, ensuring appropriate regulation, removal of barriers to action, and creating the conditions for replication and scale of what works.[28]

However, achieving critical mass remains a strategic challenge in most countries across the world that requires many actors to play a role. Governments are well placed to act as a convener to coalesce diverse stakeholders and generate both dialogue and action. Simply indicating government interest can send powerful market signals. Effective strategic use of

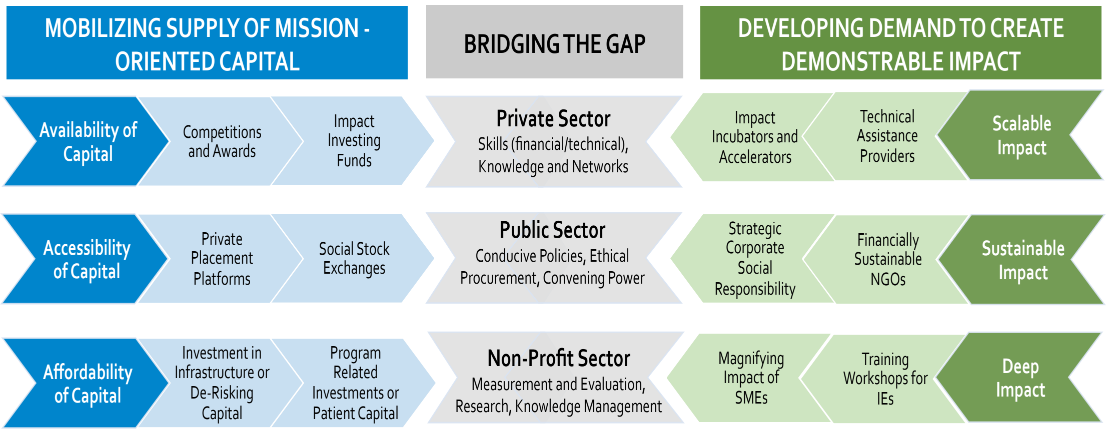
[28] Nicholls et all, 2014

this convening capacity can demonstrate leadership that gives others greater confidence to act. The following section outlines a Social Finance ecosystem framework that can be used to think about supply, demand and bridging the gap between the two. This framework is used as the basis to suggest different action points that key stakeholders are best positioned to intervene in to push the space from margins to mainstream.

OVERVIEW OF SOCIAL FINANCE ECOSYSTEM FRAMEWORK

The Social Finance ecosystem encompasses a diverse set of stakeholders who play myriad complementary roles in building the space in a holistic way. Creating a conducive environment mandates understanding the system from three overarching dimensions (i) Mobilizing Supply of Capital; (ii) Developing Demand for Capital (iii) Bridging the Gap [Figure 35]

FIGURE 35: SOCIAL FINANCE ECOSYSTEM



MOBILIZING SUPPLY OF CAPITAL

Mobilizing supply refers to efforts that result in three key outcomes:

- Increase in availability of capital indicating rise in quantum of capital available – This is primarily achieved by attracting impact investors to the region that can provide capital via debt, equity or mezzanine instruments. Impact investors seek a social/environmental return over and above a financial return. This group includes High Net-Worth Individuals (HNIs), Hybrid Investment Platforms, Financial Institutions and Foundations with Impact Investing arms, among others.

  Availability of capital can be amplified by the presence of funds focused on Impact Investing that pool together a group of growth- stage IEs to diversify risk and channel large scale funding from private sector investors or hybrid impact investors. Thus, funds can be a successful medium to unlock capital from private players that have limited appetite for risk but are willing to accept sub-market rate returns if the portfolio of organizations is able to achieve demonstrable social outcomes. Competitions and awards are another way to mobilize mission-oriented capital that would otherwise be used as grant capital, to be used to support idea-stage or young IEs that have high potential to scale.

- Increase in accessibility to capital indicating ease of access to capital – Private placement platforms (platforms that facilitate direct investment into organizations) are emerging intermediaries that can enable IEs to engage a variety of potential impact investors, particularly for early-stage IEs looking for investors that are willing to receive lower financial returns as a result of placing a value on the Social Return on Investment (SROI) as well. Private placement refers to the sale of securities to a relatively small number or select group of investors as a way of raising capital. It is the opposite of public issue, which entails sale of securities on the open market.

  Accessibility to capital is also magnified by the presence of Social Stock Exchanges (SSEs) that can link IEs to a broader investor base, unlock capital by providing secondary liquidity and effectively mitigate risk of mission drift of listed entities. SSEs mainly target mature IEs.

- Increase in affordability of capital indicating attractiveness of available capital – Governments and donors are well positioned to facilitate affordability of capital by de-risking capital and providing credit enhancements that can be leveraged to accelerate capital commitments from private sector investors.

  Similarly, foundations and INGOs are increasingly playing a role in the Impact Investing movement by providing investment capital through program related investments, patient capital (with a lower rate of borrowing/interest over a longer tenure than commercial capital) and seed-capital for young or idea stage organizations that need funds to achieve proof of concept and transition to the next stage of growth.

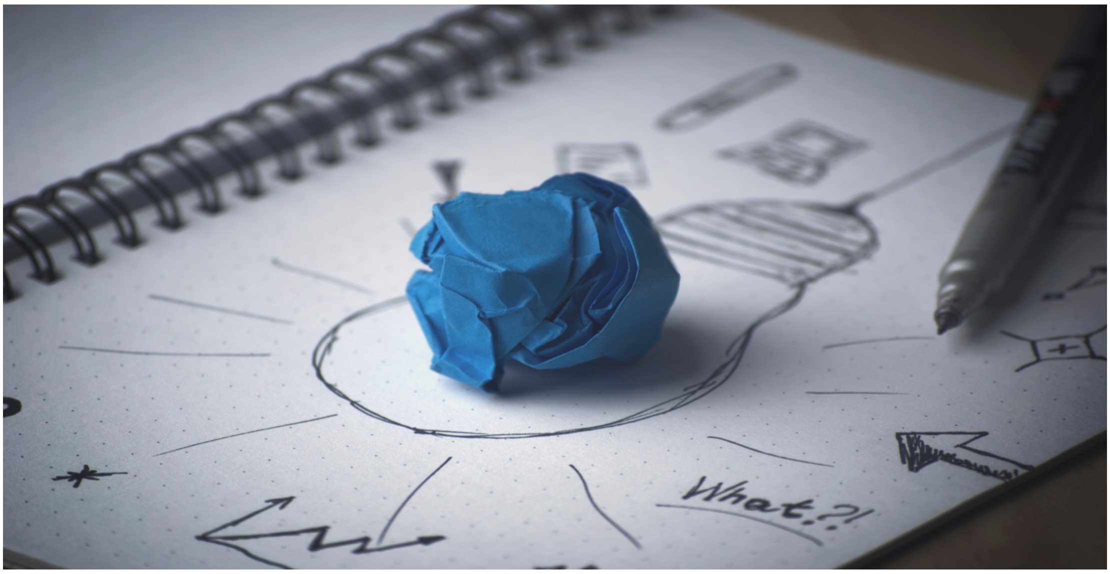
Mobilizing supply of mission-oriented capital solves only one side of the equation; it is imperative to simultaneously develop demand by magnifying the three dimensions of impact outlined below:

- Scalable Impact – Financial Intermediaries can equip IEs with the capacity for infusion and use of capital to scale both their operations as well as their impact trajectory. Technical assistance providers can equip IEs with the tools to refine their business plans, build robust financial models, sharpen their marketing strategies and transition from innovative ideas to investment ready enterprises that are more attractive to investors. This enables them to access capital required to achieve long-term, transformative impact. Accelerators and Incubators are ideal vehicles to provide the customized support required for early or idea stage IEs by equipping them with the tailored mentorship and customized suite of services required to achieve magnified social outcomes and to potentially replicate their success through expansion into new markets or regions.

- Sustainable Impact – CSR initiatives can be used as a medium to leverage private sector expertise to build capacity of IEs to absorb and deploy capital. Corporates can also provide strategic insights on an on-going basis to help IEs gain the expertise to differentiate their products and services, pre-empt potential risks and develop mitigation strategies to ensure sustained outcomes and increased probability of survival. Additionally, Social Finance intermediaries can help NGOs transition towards a more sustainable model to reduce their dependency on grants in an increasingly resource constrained environment.

- Deep Impact – Measurement and Evaluation (M&E) professionals help organizations to articulate their theory of change, systemically quantify their outcomes using rigorous impact metrics and align with industry standards by providing clarity on key figures such as SROI. This enables IEs to provide investors with evidence-backed results, thereby increasing the likelihood of attracting follow-on funding, and to translate the data into organizational learning to measure, monitor and magnify their impact. Additionally, it is essential to bridge the knowledge gap by providing IEs with access to training workshops that can provide them with a toolkit of concepts, strategies and skills (ranging from business and financial skills to impact assessment and marketing skills) that can be practically applied to deepen their impact.

BRIDGING THE GAP



Finally, a conducive environment mandates support from a diverse set of stakeholders that are positioned to align supply with demand as outlined below:

- Private Sector (Corporates/Financial Institutions/Professionals: lawyers/accountants) – Private sector support can transcend provision of capital to provide access to market through ethical supply chain practices or pro bono support by professionals such as lawyers and accountants. Private sector can lend their skills and expertise in the structuring of financial instruments, provide knowledge and resources to scale social innovations that can revolutionize the development landscape and leverage their extensive networks to provide tailored mentorship to high impact entities that can take a bottom up approach to creating systemic change in the nation.

- Non-Profit Sector (INGOs/Foundations/Think-Tanks/Academic Institutions) – Non-Profit sector organizations can help align supply and demand by providing action oriented research that can be used as an awareness-building or decision-making tool for market participants. Universities can play a key role in developing research and sharing knowledge to simultaneously develop the talent pool.

  Measurement and Evaluation (M&E) professionals help organizations to articulate their theory of change, systematically quantify their outcomes using rigorous impact metrics and align with industry standards by providing clarity on key figures such as Social Return On Investment (SROI) - outlined in Section 6 of this report: Impact Assessment Toolkit. Additionally, non-profit sector actors can bridge the knowledge gap by providing stakeholders with access to training workshops to help deepen engagement and spark a deeper dialogue.

- Public Sector (Governments/Donor Agencies) – Public sector organizations are positioned to play a pivotal role in creating an enabling environment by creating conducive policies that effectively link supply with demand, tax incentives that could attract new investors to the space and reporting regulations that would encourage more sustainable practices by corporates. The regulatory environment and fiscal policy can be important drivers, or disincentives, for development of Social Finance (Thornley et al., 2011). Microfinance and community development finance, which received significant support from public sector in the initial years, demonstrate the central role policy can play in encouraging and directing capital to Social Finance and influence potential and pathways for achieving critical mass (Jackson and Harji, 2012). Lessons from development of venture capital and early stage finance for growth enterprises also underscore the influence of policy (OECD, 2013).

Currently, Social Finance is in the nascent stages in Malaysia but has tremendous potential to grow and play a central role in vision 2020. The following section provides an overview of suggested interventions that can effectively catalyze the ecosystem by pulling together diverse stakeholders, aligning incentives and transforming the Social Finance landscape in Malaysia.

Photo Credit: Brian Snelson

MOBILIZING SUPPLY OF MISSION-ORIENTED CAPITAL

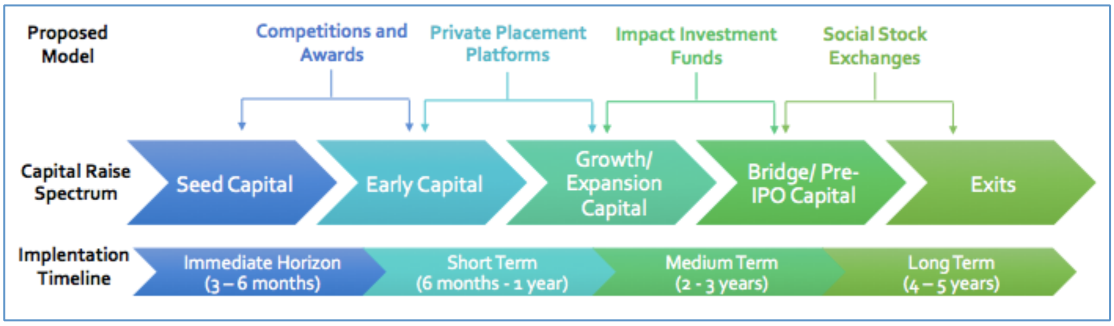
AVAILABILITY AND ACCESSIBILITY TO CAPITAL

CAPITAL RAISE SPECTRUM

In addition to innovative financial instruments, this section outlines other recommended models that are designed to unlock capital at different stages to ensure capital is both available and accessible. Figure 36 outlines the capital raise spectrum, highlighting that Malaysia will need to take a staggered approach to implementing these models.

Malaysia must not employ a 'one-size-fits-all' approach; instead it must design tailored models that can unlock capital to reach the next level of growth depending on the organization's needs and maturity. For idea-stage or young organizations, competitions or awards can provide entities with seed/early capital; private placement platforms help SEs raise early/growth capital; impact oriented funds target growth/pre-IPO stage ventures; and Social Stock Exchanges target large-scale, mature organizations.

FIGURE 36: CAPITAL RAISE SPECTRUM



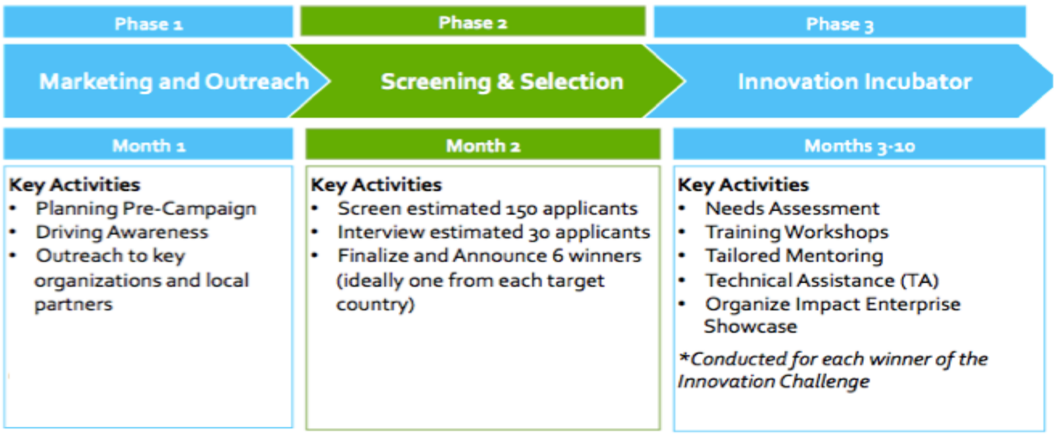
COMPETITIONS AND AWARDS

Impact Enterprise Competitions are a model that have been used as a medium to source, select and scale high-impact solutions to pressing social and environmental issues. Examples from the region include the DBS-NUS Social Enterprise Challenge (12 semifinalists receive mentoring and 3 winners receive prize money) and the IIX N-Peace Innovation Challenge (6 winners receive recognition and international exposure from the United Nations Development Program and the chance to receive follow-on investment readiness support from IIX to raise growth capital). Competitions are an ideal way to support idea-stage or young entities that need access to seed or early stage capital as well as mentorship to reach the next level of growth.

In 2015, AIM launched its own 'Berbudi Berganda: Social Impact Innovation Challenge' in Malaysia to select 12 high impact young organizations that had the potential to address key social issues facing the nation: youth unemployment, livelihoods for single mothers and homelessness. The 'Berbudi Berganda: Social Impact Innovation Challenge' went beyond the scope of traditional competitions to provide winners with tailored mentorship to measure and magnify their impact. The winners also received financial support to scale their operations and expand their impact on target beneficiaries.

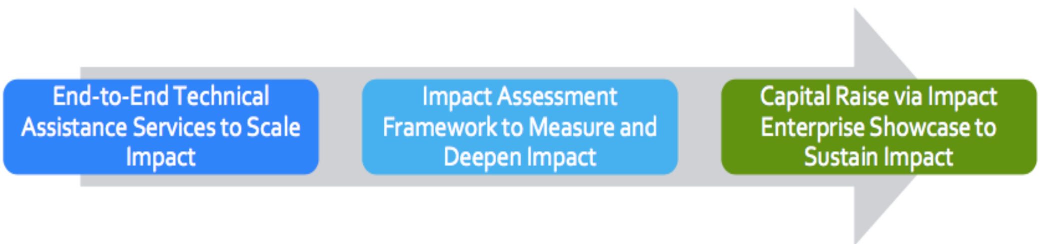
IIX recommends continuing the 'Berbudi Berganda: Social Impact Innovation Challenge' in 2016 and taking it to the next level using a three-pronged approach as detailed below. This approach suggests focusing on quality as opposed to quantity by reducing the number of winners from 12 to 6 and increasing the follow up support provided to these entities. The entire process is spread over 10 months as outlined below [Figure 37]:

FIGURE 37: TENTATIVE TIMELINE TO EXECUTE COMPETITION



Winners should be equipped with technical assistance to improve financial sustainability, scale impact, impact assessment frameworks to articulate their theory of change and connected to Impact Investors to potentially raise capital to sustain results. This will allow the Challenge to go beyond the scope of traditional IE competitions by ensuring supply and demand are aligned and that the capital mobilized for the winners is absorbed and deployed to maximize impact [Figure 38].

FIGURE 38: GOING BEYOND TRADITIONAL CHALLENGES



Recommended actors in the equation are:

- **AIM:** AIM will be the primary organizer of the Competition as detailed below:
  - Phase 1 Marketing and Outreach: Take lead by tapping into their extensive local networks
  - Phase 2 Screening and Selection: Final verdict on competition winners with input from IIX
  - Phase 3 Innovation Incubator: Funds investment readiness services (instead of prize money)
- **Social Finance Intermediary:** The Social Finance intermediary should provide support on execution of the key deliverables as detailed below:

- Phase 1 Marketing and Outreach: Provide input on thematic focus and marketing collateral
- Phase 2 Screening and Selection: Take lead on screening and selection of candidates
- Phase 3 Innovation Incubator: Provide investment readiness services to winners that includes technical assistance to improve organizational ability to absorb investment capital

Potential thematic focus area - Technology for Good: Focus on early-stage enterprises that have established proof of concept and are looking to use technology to scale impact. Suggested sector focuses include Green Technology, E-Health and EdTech. This will ensure that target organizations have high potential to achieve scale in a short time-span, even if they are relatively young.

PRIVATE PLACEMENT PLATFORMS

A critical barrier faced by early stage organizations is access to growth capital – majority of Asian IEs remain fixed in a state of 'suspended animation' when they hit the middle ground between seed and growth stage. Private placement platforms can provide IEs with access to impact investors who are willing to invest in opportunities that will generate positive impact alongside financial returns. The typical size of investment required by these entities ranges from USD 500,000 to USD 5,000,000. This capital can come in the form of equity, debt or mezzanine financing and generally sits between commercial capital (only seeking in financial returns) and grant capital (only seeking social impact) [Figure 39]:

FIGURE 39: TYPES OF CAPITAL FROM GRANTS TO COMMERCIAL CAPITAL

An epitome of a successful Private Placement Platform in the United Kingdom is Ethex (based in Oxfordshire), which lists a series of investment products (including Charity bonds and Cash ISAs to more traditional products such as equity and bonds) that have been screened based on a rigorous set of social and financial criteria. Sectors covered by Ethex include fair trade, renewable energy and affordable housing, among other high-impact sectors. Another example is Asia's largest private placement platform: IIX's Impact Partners, which has an extensive database of over 500 impact investors. Many of these investors are based in Asia and are generally High Net Worth Individuals (HNWIs) or family offices interested in moving beyond traditional philanthropy to create more long-term impact. Other impact investors also include institutional investors, private foundations (making program or mission related investments) or hybrid organizations (example:

Omidyar Network) that are interested to be a part of the Impact Investing movement. Over the past 3 years, IIX has achieved a strong track record and has successfully raised over USD 11 million in Impact Investing capital for 26 high impact deals.

In the short term (~1 year horizon: 2016-2017) it will be critical for Malaysia to establish such a network to provide early stage IEs with access to requisite growth capital. It is imperative to establish a private platform focused solely on Malaysia with a dual objective to:

i. Unlock impact investment capital from local Malaysian investors that are interested in receiving a social return on investment over and above risk-adjusted financial returns.

ii. Mobilize capital from international investors or the diaspora community interested in investing in Malaysia to achieve a double bottom line of profit and impact.

Key activities for the Platform to mobilize supply of capital include:

- Sourcing high-impact deals that are investment ready with a strong business model, financially sustainable and equipped to create demonstrable positive impact

- Assessing capital requirements (type of capital – equity, convertible debt, etc. and size of capital that can realistically be absorbed), prepare investor pitch and draft terms sheets for IEs

- Matching IEs with impact investors that share the same values to prevent risk of mission drift and investment preferences in terms of willingness to accept risk-adjusted financial returns along with social return on investment (SROI)

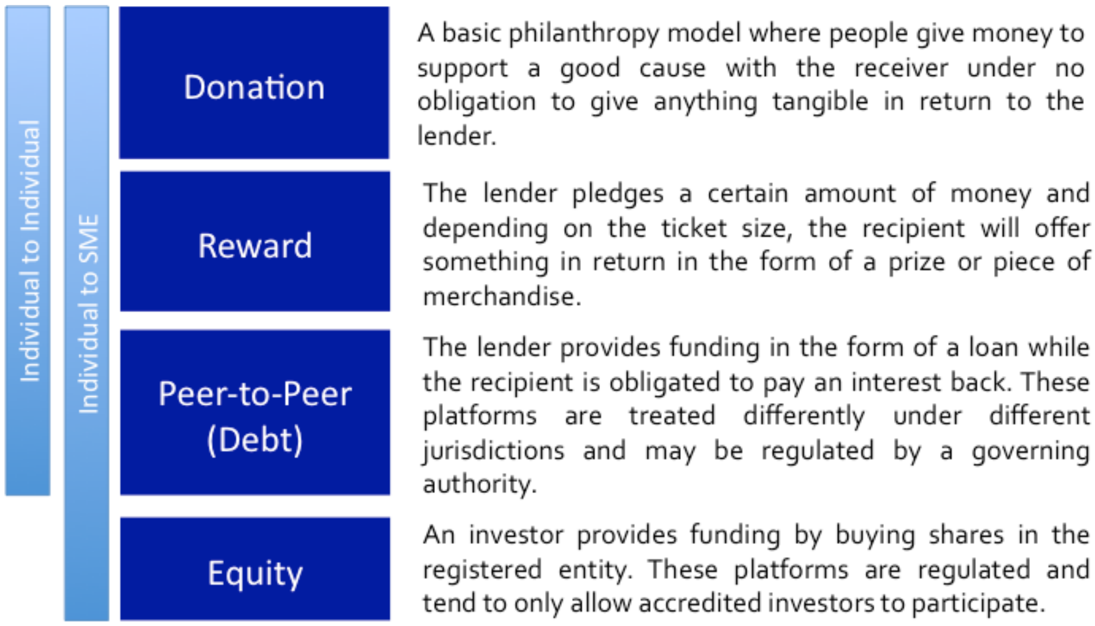
IIX recommends setting up a platform that is sector agnostic but prioritizes entities that have a focus on addressing key development needs of the nation including clean energy, sustainable livelihoods, water and sanitation, affordable housing and access to quality education.

Malaysia can also explore **Equity Crowdfunding** to meet the same needs. Crowdfunding refers to funding ventures by raising small amounts of money from a large number of people. For a nascent IE landscape such as Malaysia where early-stage IEs are most prevalent, Crowdfunding is a viable means of showcasing their projects while offering them an opportunity to achieve scale. ECF is well positioned to fill the funding gap that exists in terms of lending to IEs. Where banks may impose stringent lending regulations, more risk tolerant investors will be better poised to fill the funding gap faced by SMEs. ECF is also a great entry point for non-traditional investors to actively participate in high-impact investments and could be a potential pathway to pursue larger scale investments down the road.

There are variants to the Crowdfunding model that best serve different purposes depending on the needs of the enterprise (Figure 40). While donation and reward based Crowdfunding are ideal for getting new initiatives off the ground, peer-to-peer (P2P) and equity based Crowdfunding (ECF) platforms are much more apt for SMEs and IEs that are up and running and are looking to scale their activities rather than for start-up capital. As such, for the purposes of the Roadmap, the paper will limit its analysis to the potential impact of equity

Crowdfunding in bridging the gap between the supply and demand for socially focused investments.

FIGURE 40: TYPES OF CROWDFUNDING MODELS



Equity Crowdfunding (ECF) regulations in other parts of the world:

While rewards and donatons-based Crowdfunding platforms face the greatest leniency in terms of regulations, ECF tends to be more regulated and therefore operates within the legal structure of their jurisdiction.

In the **U.S.**, SEC regulations initially allowed ECF platforms to be limited to accredited investors. Following this, the SEC is now enabling retail investments with the clause that investors with a net annual income of less than $100,000 would be permitted to invest only 5% of their annual income every year. The **U.K.** requires ECF platforms to be regulated under the Financial Conduct Authority's rules. In terms of investor access, ECF platforms are allowed to deal with retail investors that have certified that they have not and will not invest more than 10% of their net assets in unlisted securities. The platforms are also required to ensure that the retail investor has the necessary experience and knowledge in order to understand the risky nature of these investments.

The U.K. has seen significant traction in equity Crowdfunding since it started out in 2011. £1.6 million was recorded to have been invested in seven deals while 2014 saw £24 million to have been raised across 101 equity crowdfundng platforms. While equity Crowdfunding is still a small proportion relative to peer-to-peer lending platforms in terms of investment sizes, it has been gaining traction in its ability to mobilize capital. While there is no evident data on how much capital has been channeled into Social Finance via ECF platforms, there has been an uptake of socially focused platforms within the U.K.. BuzzBnk, U.K.'s first crowd funding platform linked to the social enterprise sector offers IEs with the opportunity to seek low-interest or principal only loans. After a recent merger, the platform has 14,000 users and enables social and sustainable projects to access potential funding of up to £500 million with a target of enabling half a million crowdfunders into the platform by end of 2017.

While **Singapore** has not legalized equity Crowdfunding as yet, the Monetary Authority of Singapore (MAS) is proposing measures to facilitate securities based Crowdfunding to accredited and institutional investors. MAS is mindful that retail investors may not fully appreciate the high risks inherent in ECF investments, even if risk warnings are disclosed. On the other hand, accredited investors and institutional investors are likely to have more resources and experience investing in start-ups or SMEs, and would have greater capacity to make investment decisions in light of the inherent risks. It is also likely that accredited investors are better placed to assist start- ups and SMEs by contributing their expertise, experience, and contact networks. MAS also notes that SCF is still a relatively new form of financing for corporates, and is at a nascent stage of development, globally. As such, Singapore is inclined towards opening ECF to accredited investors in the first instance. Start-ups and SMEs can continue to raise funds from retail investors through other forms of Crowdfunding (such as donation-based and reward-based Crowdfunding).

Although ECF has yet to be officially legalized in Singapore, the MAS had allowed the launch of IIX's Impact Partners Platform in 2011, Asia's first private placement platform for investments into Impact Enterprises. The Impact Partners Platform is an online platform that connects accredited investors to pre-screened Impact Enterprises that are seeking investment capital in the form of equity and/or debt. While the mechanism of capital raise is inherently the same between private placement and ECF, the key distinction is that with a private placement platform, the operator cannot publicly market active deals. Impact Partners Platform is open to deals across South and Southeast Asia, and has facilitated US11.8 million across 26 investment deals.

Equity Crowdfunding for Social Finance in the Malaysian context:

Equity Crowdfunding is a key area to consider for Malaysia as it presents itself as complementary to the early-stage financing market and opens up its platform to previously untapped sources of finance. Equity Crowdfunding platforms enable investors to channel resources into social avenue by offering greater accessibility and smaller investment requirements; factors that can effectively facilitate investor buy-in in the long run.

Malaysia is already ahead of the region in legislating ECF. Currently, the Securities Commission of Malaysia has given the green light to six equity Crowdfunding platforms to begin their operations with no plans to cap the amount of platforms. In terms of investor participation, the SC is enabling all types of investors to be involved while placing a cap on their level of investments – retail, angel and sophisticated class of investors. The sophisticated investor takes on the role of the cornerstone investor and leads the investment, which allows retail investors to feel more comfortable. This is a less risk averse means of introducing a new platform in an infant market compared to other countries that either don't open up the platform to retail investors or slowly ease them in as part of later regulations.

Policy suggestions:

Many Crowdfunding platforms in the world such as SimplyGiving.com have a defined category for social sector causes and businesses. While thus far this has been limited towards donation or reward based platforms, it is worth exploring as a sub-division of Equity Crowdfunding and must be considered as an important pillar in defining the regulatory framework. In line with this, the role of private placement platforms should be explored as an alternative or even preliminary means of channeling investment capital into Impact Enterprises in Malaysia. With private placement being limited to the accredited investor class, the level of comfort associated with Social Finance investments can be developed slowly before tapping into ECF platforms that can be more readily open to retail investors. With the right regulatory conditions that balance strength of investees with flexibility for investor involvement, ECF will present itself as a potential platform for getting IEs on board.

Key points to be considered in the design of the regulatory framework for Malaysia include:

- **Targeting Retail or Accredited Investors:** An all-inclusive regulatory framework that extends to retail investors would be ideal. However, the complexities of dealing with a less sophisticated investor body and ensuring a full understanding of investments in securities at the first instance would be difficult. Thus, a cautionary approach might be better suited for Malaysia whereby ECF is initially opened up to accredited and institutional investors which would later make leeway for the general public to become involved as a next step. Another point to consider in favor of accredited investors is with regard to the ability of investees to receive follow on funding from investors once they graduate from the ECF platform. Having a track record of unsophisticated investors, while beneficial in the short run has greater ramifications in terms of acquiring later rounds of funding since this would not add to the credibility of the investee organization.

  Recommendation: Target accredited investors in the medium term and retail investors in the long term

- **Sector preferences**: While sector agnostic approaches to equity-based Crowdfunding will be prudent in order to cover a wider investor base, a clear platform dedicated to Impact Enterprises will help attract Social Finance. This could be explored by considering incentive structures that are built into regulations in a manner that spurs social sector interest and growth. For one, mandates that require equity based Crowdfunding platforms to incorporate high impact sectors into their structure would be an effective mechanism to create a targeted approach towards integrating social finance. Recommended high-impact segments as highlighted in the Needs Assessment previously include education, healthcare, energy, and, water and sanitation. Alternatively, incentives for an ECF platform to be solely dedicated towards high impact organizations can also be explored as a strategy to catalyze early-stage social financing opportunities.

  Recommendation: Incentivize platforms with a focus on Impact Enterprises to enter the Malaysian market

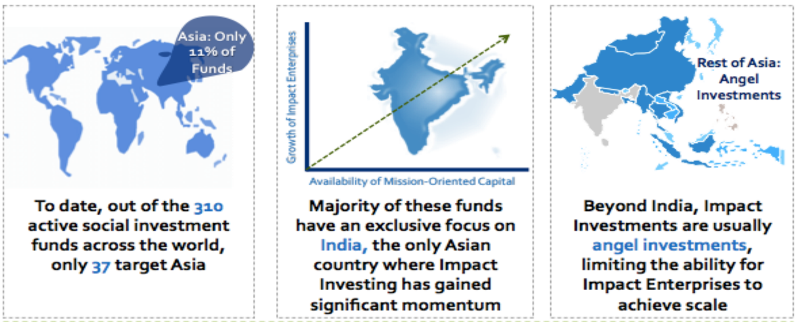
- **Number of Investors:** Investor relations can be an issue if a Crowdfunding platform does not limit the number of investors for each enterprise raising equity. As such, a mandate that limits the number of investors per Impact Enterprise on the basis of the entity's size will help avoid dilution of ownership for smaller companies.

Thus, it is imperative for the Securities Commission to have a clear idea of the objectives of the platforms they wish to authorize so that ECF serves as an effective means of channeling social finance.

IMPACT INVESTMENT FUNDS

Many impact investors choose to invest through funds whose social, environmental, and financial goals match their own. Impact Investment Funds are ideal vehicles for relatively larger IEs to access pre-IPO capital. As of 2014, out of the 310 active social investment funds across the world, 37 target Asia. However, a majority of these funds have an exclusive focus on India [Figure 41].

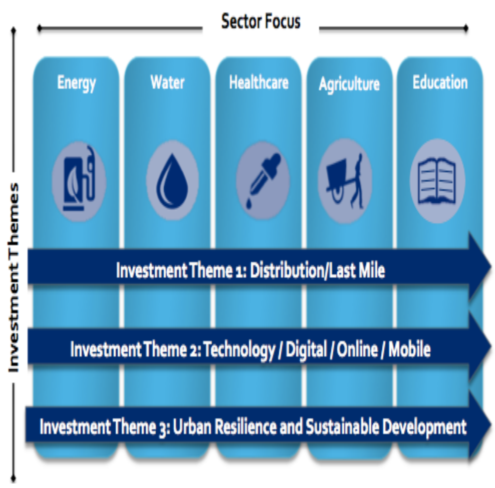
FIGURE 41: IMPACT OR SOCIAL INVESTMENT FUNDS IN ASIA



In Malaysia, the IE landscape is currently too nascent to have adequate demand for growth capital that justifies the costs of setting up a fund. A fund will be a more viable option in the medium term when the pipeline of recipients is better developed to effectively infuse larger quantities of capital.

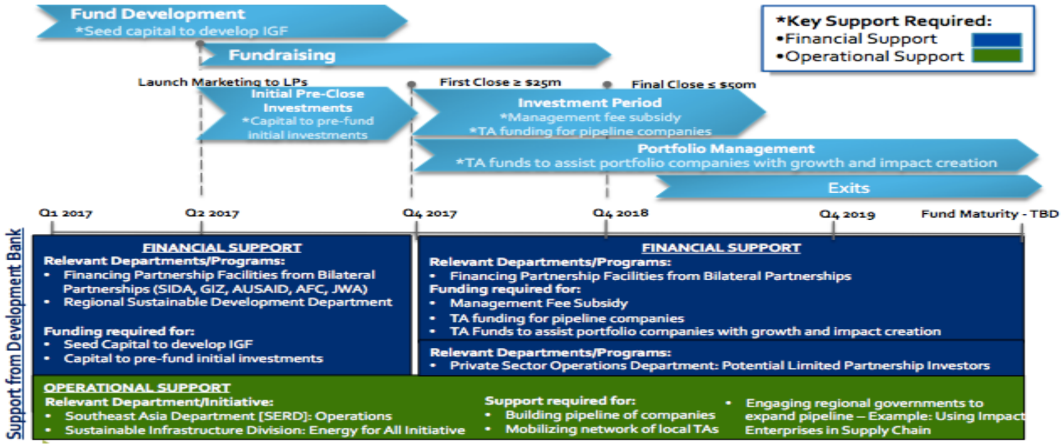
IIX recommends establishing a Malaysia focused fund after ~2 years (by when the market will be more mature with a stronger pipeline of IEs) that can leverage private sector capital to make direct investments into a portfolio of high impact entities. IIX can leverage its experience with setting up its own fund, the IIX Growth Fund, to design and manage the Malaysia focus fund to target investments across a range of priority sectors with an underlying focus on last mile distribution, technology and urban resilience [Figure 42].

FIGURE 42: SAMPLE FOCUS AREAS



IIX recommends establishing a partnership with a regional bank to provide additional financial and operational support to the fund manager. Tentative timeline and required support for setting up the Malaysia Impact Fund is outlined below [Figure 43].

FIGURE 43: TENTATIVE TIMELINE TO SET UP IMPACT INVESTING FUND



OUTCOMES FUND

This section is based on the Emma Tomkinson report on creating a social fund for Malaysia (for full report please see Appendix B). The report also suggests creating an 'Outcomes Fund' to be managed by AIM. The fund is designed to achieve two main objectives (i) to help the government reduce costs and shift risk by adopting a pay-for-success mechanism, whereby payment from the fund is triggered only on achievement of pre-determined target social outcomes; and (ii) to bring more liquidity into the Social Finance space and simultaneously catalyze the market for Social Impact Bonds.

To ensure the Outcomes Fund meets these objectives and effectively catalyzes Malaysia's Social Finance space, IIX recommends considering three key aspects when designing the mechanism:

1. Risk perception by potential investors: Payment by the fund is contingent on achievement of outcomes. This means shifting the risk of non-performance to investors who provide the capital upfront and are paid back only if certain impact targets are met. This could be a cause of concern in Malaysia, where the concept of Social Finance is relatively new with a high level of investor skepticism and absence of IEs or NGOs with a proven track record. AIM should consider (i) ensuring that potential returns received are commensurate with risk taken; or (ii) risk is capped with a certain amount paid back to investors out of the fund reserves regardless of outcomes and additional returns earned based on achievement of target outcomes. This will ensure the fund remains attractive to investors and achieves its goal of bringing new participants into the Social Finance space. One way to engage corporate investors would be through their CSR arms. CSR funds could be allocated to achieve pre-determined target outcomes. If the outcomes are successfully achieved, the capital repaid by the Fund can be redirected towards other social causes, as opposed being paid back to the corporate. This is a fantastic way to make the mechanism recycle committed capital, sustain itself and effectively scale the number of causes it has the capacity to address. However, to adequately incentivize corporates to participate in the first place, the government should consider embedding the Outcomes Fund into a CSR policy mandate as a recommended fund allocation strategy.

2. Cost and complexity of outcome measurement: Validating social outcomes will be a key cost center for the Fund. AIM will need to have a separate budget allocated for verification of impact which is often time consuming and expensive. The impact verification should be done by an independent third party that is well equipped to monitor, measure and report on results achieved. Additionally, AIM must be conscious of the fact that social outcomes are often hard to attribute to a single intervention and an upfront social due diligence must be conducted to collect baseline data and to ensure any deadweight is taken into account when assessing the net impact achieved by the intervention. The Fund should consider adhering to industry standards such as Social Return on Investment (SROI) that will help benchmark performance and compare opportunities in the long run. The core SROI analysis, for the outcomes fund, need not attempt to definitively quantify and capture all aspects of the benefits and value that accrue as a result of a successful program, but rather should aim to identify direct, demonstrable cost savings or revenue contributions that result from that intervention. Appendix C provides an outline of the standard SROI methodology.

3. Strategic Selection of Focus Areas: If the Fund supports certain organizations by paying for outcomes, it runs the risk of crowding out market-based solutions that might struggle to compete with these 'subsidized' interventions. To mitigate this risk, recommended focus areas for the Outcomes fund are high-priority areas that cannot always be completely addressed by market-based solutions and need the government to step in as an outcomes payer. These areas include (i) interventions that target certain marginalized or economically disadvantaged populations such as the elderly or low-income communities; (ii) interventions focused on providing access to affordable education at primary or secondary-level, prioritizing initiatives focused on remote locations or low-income groups; and (iii) environmental interventions that mitigating risk of climate change, promote conservation efforts (with dual social impact on local communities livelihoods) or support relief efforts or resilience against natural disasters.

SOCIAL STOCK EXCHANGES

Over the past 5 years, the world has witnessed a rise of Social Stock Exchanges (SSEs) aimed to bring an additional layer of liquidity to the Social Finance market. These trading platforms are intended to list mission-oriented debt securities or equity shares in publically listed Impact Enterprise. Launched in June 2013, IIX's Impact Exchange was the world's first social stock exchange and is the only public SSE for IEs to raise capital for a public market and for impact investors to have liquidity. It also includes nonprofits in its list of issuers, which can issue debt securities such as bonds. The first instrument to be listed on the Impact Exchange will be IIX's Women's Livelihood Bond in early 2016. Impact Exchange is operated by the Stock Exchange of Mauritius in cooperation with IIX and regulated by the Financial Service Commission Mauritius. Impact Exchange is a dedicated board of an established, regulated stock exchange, devoted to listing shares and bonds issued by IEs, NGOs and social impact funds (impact entities) that meet stringent listing criteria relating to social and environmental impact. Impact Exchange provides a unique opportunity for impact entities to raise investment capital to scale and deepen their social and environmental impact while offering impact investors the opportunity to invest in and trade securities issued by organizations that reflect their values.

Based on research by Stanford Social Innovation Review (SSIR), two of the other bigger exchanges are briefly described below[29]:

- UK: Social Stock Exchange opened in June 2013. The exchange does not yet facilitate share trading, but instead serves as a directory of companies that have passed a "social impact test"; it also acts as a research service for would-be social impact investors. The great news for social businesses is that it is never too late to get listed at an SSE and get much-needed visibility.

- Canada: Social Venture Connexion opened in September 2013. It holds itself up as a "trusted connector" whereby it provides social businesses with access to interested impact investors, service providers, high visibility, and a means to value their triple bottom line at affordable prices. Social Venture Connexion functions more like a private placement platform as opposed to an exchange where securities are traded.

Listing securities on a Social Stock Exchange brings with it significant benefits for the borrowers, investors, and most importantly, the end beneficiaries of the underlying bond funded programs:

- **Secondary liquidity –** Becoming a listed entity establishes a market for the issuer's securities, providing investors with a well-organized, transparent and regulated market in which to trade these securities. Liquidity offers early investors in impact entities the opportunity to exit their investments. If investors are not satisfied with the impact or financial results being achieved they could potentially sell the bond on the exchange. Thus, analyzing trading activity will serve as the basis for a good 'litmus test' on investor preferences and responses to social performance.
- **Mission protection** - Listing demonstrates an organization's commitment to its social and/or environmental mission as all listed entities meet rigorous impact criteria prior to listing and commit to ongoing impact reporting. The transparency provided by the dual reporting of financial results and social and/or environmental impact will publicly raise the issuer's profile and will draw more potential investors. This will lead to a more diversified group of investors, which may increase the demand for the issuer's securities and increase their value. It may also increase the availability of capital supply should an issuer need additional capital in the future.
- **Access to Global Investors** - Raising capital on Impact Exchange will increase the issuer's exposure to retail and institutional impact investors, the media and the general public. Many Institutional investors and fund managers are restricted in the securities in which they are permitted to invest. Institutional investors are typically restricted from investing in securities that are not listed on a regulated stock exchange. Fund managers are often restricted from investing in securities that do not have a publicly quoted price. By listing on Impact Exchange, an impact entity creates an investment opportunity for many institutional investors that would otherwise not exist. Impact Exchange has a global network of investors seeking impact investment opportunities. International investors account for over 35% of SEM's daily turnover.

[29] http://ssir.org/articles/entry/the_rise_of_social_stock_exchanges

- **Priority Alignment** – Bond financing allows issuers to focus on their core mission of serving society and/or the environment, unhindered by the pull on resources typical of traditional donor fundraising activities.
- **Accountability and Efficiency** - The requirements for rigorous disclosure will lead to better systems and controls, improved management accountability and greater operating efficiency within the organizations – in particular Impact Enterprises which are usually not subjected to extensive due diligence. Credibility in listed companies is reinforced by the existence of the stock exchange's regulatory framework. Having a number of institutional investors can bring with it increased business credibility, stability and wider business networks for an issuer as well.

A social stock exchange will be an important piece of infrastructure to catalyze the Social Finance ecosystem in Malaysia. In the long term when the market is more developed, the platform can list shares of mature IEs that are ready to be publically listed and can be opened out to the public and invite retail investors to become a part of the nation's sustainable development agenda and the global Impact Investing movement. This will truly help democratize capital markets in Malaysia.

Bursa Malaysia will play a central role in establishing a social stock exchange in the country and IIX can provide additional support to set up the exchange based on its experience in Mauritius. The two entities must be committed to supporting Impact Exchange issuers every step of the way – before, during and after their admission to listing. The Exchange should have a dedicated team in place to assist companies with any queries and to guide them throughout the admission process and a simple, cost-effective and competitive listing fee structure, to provide affordable entry and continued listing.

AFFORDABILITY OF CAPITAL

Increasing amount of mission-oriented capital available and improving access to the same is critical but insufficient. It is imperative for the capital to be affordable. This means that the cost of capital should be attractive to bring in new private sector investors into the Social Finance space offering them a reasonable rate of risk-adjusted returns. Impact investors have diverse financial return expectations. Some intentionally invest for concessionary returns in order to maximize impact or to catalyze additional investment capital by accepting a riskier position in a deal. Others pursue market-competitive and market-beating returns, some of whom are bound to do so by fiduciary responsibility. Most investors surveyed by the GIIN and J.P. Morgan in 2014 pursue competitive, market-rate returns [Figure 44].

FIGURE 44: TARGET FINANCIAL RETURNS SOUGHT BY RESPONDENTS (N ~ 146)

Source note: GIIN, J.P. Morgan, "Eyes on the Horizon," 2015.

Both public sector and non-profit sector players can play a key role in making mission-oriented capital more affordable, as detailed below:

PUBLIC SECTOR

There are three types of capital that the public sector can provide to ensure affordability of mission-oriented capital and leverage larger amounts of follow on funding from private sector players:

- **Grant capital:** Instead of using grant capital to support ongoing expenditure or to subsidies cost of essential services, it is advisable to use available grant funding to set up infrastructure to build the foundation of the Social Finance ecosystem. For instance, this could include the costs of organizing competitions or upfront/one-time costs associated with establishing private placement platforms, funds or a social stock exchange. Similarly, some of the mechanisms outlined in Section 4 also require initial grant capital that can be used to initiate sustainable interventions such as the Buffer Fund for Accidents and Shujog ACTS or to structure innovative instruments such as the Green Bond.

- **De-risking capital**: Innovative financial instruments listed in Section 4 often require public sector support to unlock larger funding from private investors. For instance, with IIX Sustainability Bonds (ISBs), a donor guarantee promises to cover a certain percentage of potential losses and repay investor in case of default of underlying borrowers. The guarantee effectively improves the risk-return profiles of Impact Enterprises and compensates for the operational challenges that young IEs have to overcome when they are at a growth stage. By incorporating aspects of blended finance, the ISBs aim to leverage on public funds from donor agencies to trigger and unlock larger amounts of private capital into the impact investment space. If borrowers do not default, the funds allocated by the guarantor can potentially be redirected for subsequent bond issues or other projects, allowing for a more efficient use of government funding.

- **Investment capital**: Finally, the government can also make direct investments into Social Finance related initiatives and instruments from its own budget. This can be accomplished by serving serve as an outcomes payer for innovative financial instruments such as the Humanity Bond, directly investing in instruments such as the Urban Resilience Bond for concessional/low rates of return or indirectly investing into IEs with high potential to scale through Impact Investing Funds.

NON-PROFIT SECTOR

There are two key types of capital that the non-profit sector can provide to play a role in catalyzing the Social Finance space by ensuring access to critical finance is affordable:

- **Program Related Investments:** Foundations and hybrid organizations are gradually shifting away from pure philanthropic models towards provisioning of more strategic forms of finance. Rather than give money away through grants, Program Related Investments (PRIs) allow these entities to make investments as loans or equity stakes in the hope of regaining their investment along with a reasonable rate of return. This arrangement allows foundations to increase the amount of money available to the social sector, while simultaneously building stronger and more sustainable socially minded entities. As part of a broader strategy involving Impact Investing and the market-based solutions of target recipients, PRIs stand to tackle tough social issues on a scale never before seen by moving beyond traditional notions of charity that, in many ways, continue to restrain large-scale progress. For example, in 2007 the Kellogg Foundation earmarked $75 million from its mission-driven investment program toward enterprises that directly provide nutritious food to at-risk children, their families, and their communities, and to ultimately aid access to healthcare. In 2011, the Bill & Melinda Gates Foundation, for example, used a PRI to acquire a $10 million equity stake in a for-profit biotechnology company.

  However, PRIs are currently being underutilized in Malaysia and across the region. Foundations must follow a special set of tax rules in order to avoid certain penalties; however, PRIs are exempted from many of these restrictions. A PRI is an investment not used for political campaigning or lobbying that 1) must be made primarily to further the foundation's tax-exempt purposes, and 2) cannot be significantly motivated by the intent to make a profit. Despite the perks, many in the legal community refrain from championing PRIs due to perceived risk to the foundation if this definition isn't clearly met.[30] It is critical for Malaysian policy makers to find solutions to the above concerns to encourage and enable use of PRIs. Not only are PRIs a relatively affordable source of capital available to IEs as compared to commercial investors or banks, they are also a fantastic way to use philanthropic capital more strategically to invest in transformative change. In particular, this would be a useful source of capital to explore for the purpose of Urban Resilience Bonds or other projects that can offer low financial return but high social impact and tremendous cost savings in the long run.

- **De-Risking Capital:** Similar to the role governments can play to de-risk investments, INGOs and Foundations can also play a role in providing the necessary financial support to provide private sector impact investors with the comfort to support new, innovative Social Finance initiatives that have higher perceived risks due to their novelty or lack of precedent and lower than market rate return due to (i) their mandate to seek a double bottom line of profit and impact, and (ii) correct pricing of negative externalities. The potential for large INGOs to guarantee investments and improve credit worthiness of innovative financial instruments is an avenue that should be explored by Malaysia. This concept of leverage is achieved by financing projects with higher risk lower return profile but strong potential to create impact, non-profit sector participants can

[30] http://www.forbes.com/sites/ashoka/2013/02/21/why-program-related-investments-are-not-risky-business/

maximize the impact of their spending to massively unlock larger amounts of private sector investments. In particular, INGO participation in instruments such as the Humanity Bond could provide much needed support to bring in new players into the development equation and scale the impact achieved by these mechanisms.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

Mobilizing supply of mission-oriented capital solves only one side of the equation. It is equally imperative to develop demand by improving the ability of the recipients of this to effective absorb and deploy capital to create scalable, sustainable and deep impact. The value of every dollar is magnified when entities can use funds available to optimize the outcomes achieved. In Malaysia, developing demand for capital is a more critical issue in the current scenario. The impact landscape is dominated by NGOs – which lack ability to scale or sustain results, and SMEs – which prioritize shareholder interests over creation of positive impact on other key stakeholders, including the broader community and the environment.

As outlined in the Social Entrepreneurship Roadmap designed by MaGIC, it is critical to develop the ecosystem of service providers in Malaysia. IIX would recommend going one step beyond Social Enterprises (entities that actively seek to generate both social and financial value), to expand the universe of service providers to Impact Enterprises. As defined in Section 1, IEs are high impact entities that can either be (i) for profit enterprises that are mission driven (this encompasses SMEs with a sustainable business model that is closely linked to generating tangible social or environmental impact beyond financial returns); and (ii) non-profit enterprises that are financially sustainable (this includes NGOs that are generating their own revenue streams either through their own operations or through a cross subsidy model that enables them to be financially stable even though they do not generate profit).

By bringing such organizations under the Social Finance umbrella, Malaysia will be able to develop demand in a more holistic way, capitalizing on the strengths of existing players and shifting them towards a more sustainable or high-impact paradigm as required.

SCALABLE IMPACT

INCUBATORS AND ACCELERATORS

Incubators and accelerators are fixed-term, cohort based programs that include mentorship and educational components and traditionally culminate in a pitch event or demo day with an aim to generate investor interest, build a customer base or attract potential partners to scale operations. These models are key catalysts in the start-up ecosystem with accelerators like Y-Combinator and TechStars having played a pivotal role in building the tremendous momentum behind the Silicon Valley tech-based start-ups.

These models are being replicated in the Social Finance space as well. The Unreasonable Institute runs an international incubation model; IIX has designed, supported and run its own accelerators across the region (in Sri Lanka, Singapore and the Philippines); and MaGIC launched a three-track model:

(i) The ASEAN track: A program to accelerate startups to be investment ready in 4 months and to build a strong ASEAN start up community by cultivating ASEAN relationships. The July 2015 intake had 50 start-ups as part of the cohort with no equity taken.

(ii) The SE track: Malaysia's first IE accelerator for bold new ideas to improve lives and build a sustainable world. The June 2015 intake had 25 start-ups as part of the cohort and provides RM 30,000 to pilot ideas.

(iii) Distro Dogo: A 10 week program led by 500 Startup and supported by MaGIC for growth stage enterprises across ASEAN that have already raised at least $150,000.

Fostering more incubator and accelerator models like this will be critical to stimulate the start up community in Malaysia and provide the necessary hand-holding to help transform innovative ideas into investment ready enterprises.

To develop a strong pipeline of mission-driven start-ups, IIX recommends embedding a sharp focus on three core aspects:

(i) Linking entities to industry expertise with relevant experience that can provide critical guidance and relevant mentors from other regions and sectors to ensure cross pollination of ideas and trans-boundary knowledge sharing on solutions

(ii) Providing training on impact measurement and evaluation to ensure progress is monitored and magnified not only to unlock further capital from impact investors but also as a part of organizational learning to expand the entity's impact trajectory

(iii) Ensuring support culminates with unlocking capital required to reach the next stage of growth for entities that have successfully achieved investment readiness

TECHNICAL ASSISTANCE PROVIDERS

Based on IIX's extensive experience with Impact Partners, IEs often require investment readiness support before they can be matched with investors. Technical Assistance Providers (TAPS) are capacity builders that equip IEs with the tools, resources and networks to help them become more attractive investment opportunities for investors.

TAPS differ from Incubators or Accelerators in two key ways:

- TAPS provide individual, one-on-one support to IEs whereas Incubators and Accelerators usually provide support to a cohort of entities

- TAPS usually focus on core deliverables (business plan, financial model, valuation) whereas Incubators and Accelerators usually have an educational or mentorship component

To compliment the Private Placement Platform recommended above, IIX recommends developing a network of TAPS that can provide IEs with the tools to reach the next stage of growth. The TAPs should provide a holistic suite of end-to-end investment readiness services - from strategic review and needs assessment to preparing investment terms and pitch presentations [Figure 45].

FIGURE 45: END TO END INVESTMENT READINESS SERVICES

- **Needs Assessment:** In the Needs Assessment, the TAP must evaluate the business needs of each Impact Enterprise and design a bespoke key needs matrix that guides engagement throughout the program. The aim will be to provide the enterprises with an 'as-is' and 'to-be' assessment, isolating key areas of focus with the potential to grow operations and scale. This usually involves a comprehensive site visit to each IE to review the operations, meet the management, and if possible, meet key partners in the value chain and beneficiaries.

  The TAP must address critical questions surrounding the mission, vision, management team, financials, value chain, customer segments and effectiveness of delivery channels, short-term and long-term strategy, and funding of an organization. This will allow the TAP to assess the organization on key areas (including operations, financial systems, pricing, marketing, sales, human resources, among others) and then distill this analysis into a concise Key Needs Assessment Matrix per enterprise.

  This Matrix will outline each entity's critical areas of improvement to better realize financial sustainability, as well as greater impact and ability to scale. This Matrix will serve as the foundation for the customized technical assistance plan.

- **Business Plan:** The first step of Technical Assistance is building a comprehensive business plan in order to enable financial sustainability, and any future capital raise. For the Business Plan, the TAP should support the enterprise to prepare a detailed management presentation that captures the key elements of the business. This includes (but is not limited to): Executive summary, Product/service description, Pricing and Sales, Business model, Organization structure overview, Operations, Risk assessment, Management team overview, Financial overview, and Social and/or environmental impact (completed by Shujog).

- **Financial Model:** For the Financial Model, the TAP should work with the organization to create a model showing historical and full projections for profit and loss (P&L) and cash flow with supporting schedules (historical information to be included to the extent that it is available from the enterprise). This could also include a valuation of the company for potential investors.

- **Impact Assessment**: The TAP should partner with an M&E professional which specializes in Impact Assessments, will work with the IE to create a Social Impact Framework. The impact assessments should ideally adopt a tailored, bottom-up approach, that provides a social impact framework to articulate the IE's theory of change and value their impact creation with rigorous impact metrics. The social impact framework created by the M&E professional will allow the IE to demonstrably measure its impact, making the organization more attractive to investors once it is ready to raise capital, and manage its impact.

- **Creating Marketing and Branding Strategy**: Entities must also be provided with a strategy to ensure they are able to adequately market their services to (i) reach end beneficiaries or key clientele (ii) attract strong talent and develop human capital (iii) involve potential stakeholders and partners improving ability to deliver value and in expansion plans (iv) stimulate support from the wider Social Finance community either in terms of resources, skills or networks that can further develop their brand and help them grow their operations

- **Preparing Investment Terms and Pitch**: It is critical for the TAP to lay the foundation for the enterprise to raise capital, by supporting the enterprise to create Investment Terms and an Investor Pitch. For the Investment Terms, the TAP should first analyze the capital requirements of the enterprise and outline the optimal investment terms for the entity to seek from investors. Regarding the Investor Pitch, the TAP must assist the IE to create a professional presentation that includes capital needs, proposed financial terms (if applicable), and a short and long term capital raising plan. This will equip the IE to be well equipped to pitch their innovative ideas to Impact Investors to raise the capital required to reach the next stage of growth.

One key challenge is the lack of upfront funds for IEs to afford the above services. The proposed solution to this issue has been outlined in Section 4: a revolving credit facility (similar to the Shujog ACTS model) that provides entities with access to funds to avail technical assistance services and repay the amount post capital raise.

STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

Traditionally, Corporate Social Responsibility (CSR) has been relatively non-strategic in nature with the main impetus being mitigation of reputational risk and compliance with regulatory requirements. Over the past few years, Asian corporates have gradually transitioned away from adhoc, one-off donations towards a more strategic approach that leverages the company's core expertise and is based on shared interests. This is a relatively new phenomenon across the world, which is based on concepts such as Prof. Michael E. Porter and Mark R. Kramer's Shared Value Initiative. Shared value is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business.

- **Reconceiving products and markets** – Defining markets in terms of unmet needs or social ills and developing profitable products or services that remedy these conditions. *Example*: BD developed a new type of safety syringe to reduce healthcare worker needle-stick injuries. This product innovation grew to $2 billion, approximately a quarter of the company's revenue.

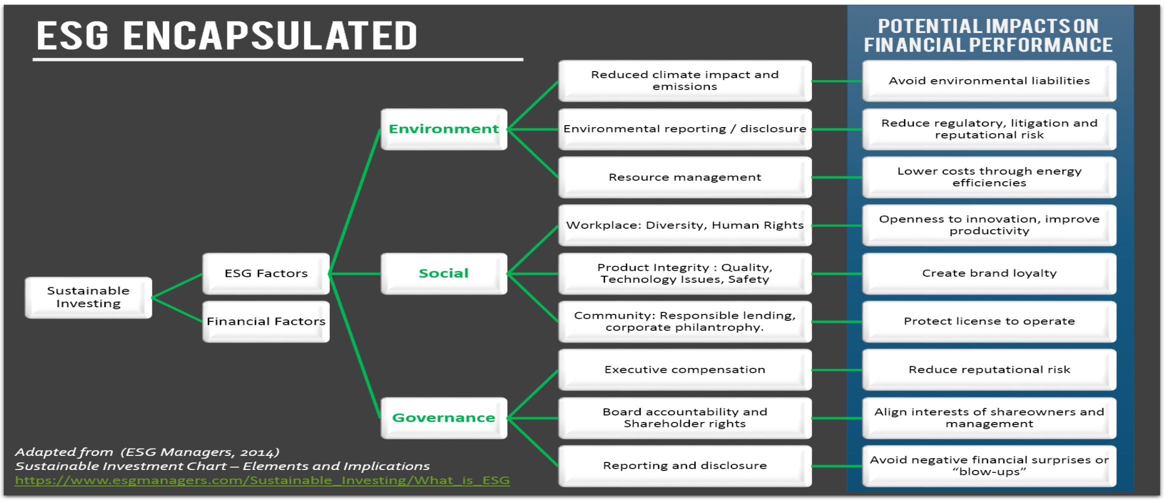
- **Redefining productivity in the value chain** – Increasing the productivity of the company or its suppliers by addressing the social and environmental constraints in its value chain. *Example*: By reducing packaging and improving delivery logistics, Walmart saved $200M in distribution costs while growing the quantities being shipped.

- **Local cluster development** – Strengthening the competitive context in key regions where the company operates in ways that contribute to the company's growth and productivity. *Example:* Cisco reduced a key constraint to growing its addressable server market by launching the Networking Academy to train over four million network administrators globally.

For Malaysia to achieve its goal of becoming an advanced nation by 2020, it will be imperative to bring corporates into the sustainable development equation. IIX recommends two strategies for using CSR initiatives to develop the demand side of Malaysia's Social Finance equation:

- The first step is to encourage corporates to look inward into their own operations to improve performance on key Environment, Social and Governance (ESG) metrics and embed more sustainable, ethical value chains. Figure 46 outlines the business case for adherence with these mandates to enhance productivity of internal operations and improve long-term financial sustainability of the organization. To implement this, policy makers will need to mandate in-depth sustainability performance reporting requirements issued on an annual basis along with the annual financial reports.

FIGURE 46: ESG METRICS ON FINANCIAL PERFORMANCE



- It is critical to note, that CSR needs to transcend the one-dimensional approach of provisioning of finance. Corporates have financial and technical expertise that can be leveraged to develop the capacity for IEs to create sustainable impact. To unlock this repository of skills and knowledge, IIX recommends introducing initiatives that can help make CSR in Malaysia more strategic in nature. For example, financial institutions and corporates can leverage their resources to support scalable growth of IEs and align the program with the company's impact agenda. Such initiatives will help to re-direct investment capital into the Social Finance space in Malaysia. Apart from enhancing the company's ESG and CSR agenda to create scalable impact, these initiatives can also be designed to strengthen and diversify employee engagement opportunities. In the post 2008 financial crisis era of conscious capitalism, corporates recognize the importance of creating demonstrable positive impact on the broader community as an appealing factor to attract and retain young talent. Findings from Deloitte's fourth annual Millennial Survey show that businesses, particularly in developed markets, will need to make significant changes to attract and retain the future workforce. According to the results, business should focus on people and purpose, not just products and profits in the 21st century.

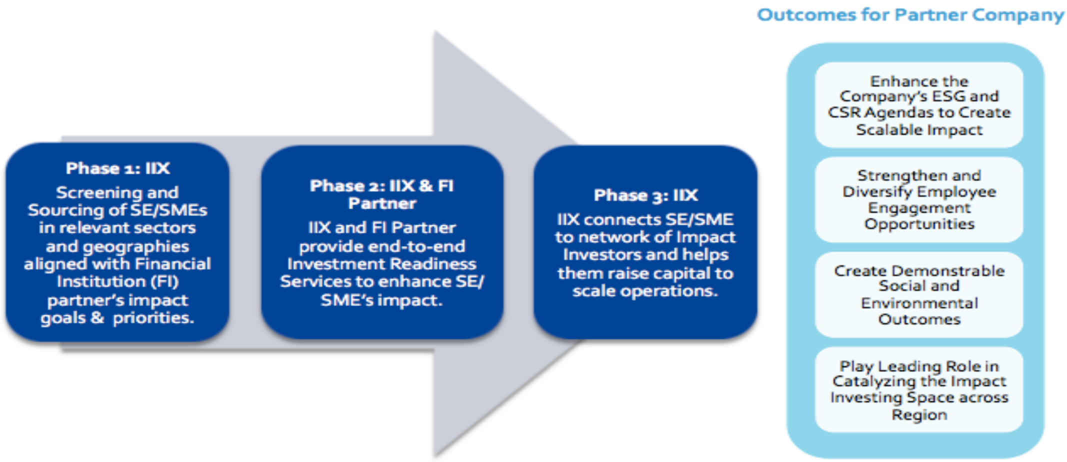
CASE IN POINT: Through its' Impact Enhancer Program, IIX has previously partnered with the Asia operation of New York-based financial institution, Kohlberg Kravis Roberts & Co. (KKR) to provide capacity building support to three IEs. Additionally, KKR employees were involved in the capacity building process, lending their skills and expertise to help the IE maximize its impact. All three IEs raised capital from impact investors as a result of the services received:

✓ East Bali Cashews is the first large-scale cashew processing facility in Bali and uses sustainable, eco-friendly business practices while creating employment for women from farmer households in Indonesia.

- ✓ Glovax is a fully integrated vaccine company in the Philippines that imports, distributes, and retails vaccines at affordable rates to low-to-middle-income Filipinos, many of whom cannot afford vaccines at standard health clinics.
- ✓ Banyan Recycling, an IE based in India, has developed a technology platform that maps and tracks recyclers in the city to bring in greater operational efficiencies in the waste collection value chain.

The program has a three-phased implementation approach as outlined below [Figure 47]:

FIGURE 47: IIX'S IMPACT ENHANCER PROGRAM OVERVIEW



The Impact Enhancer Program can play a key role helping early and growth-stage IEs to create sustainable impact and long-term value. Encouraging eco-system players to replicate this program in Malaysia will help build the pipeline of high-impact investment opportunities that can feed into Impact Investing Funds and Social Stock Exchanges in the long term.

FINANCIAL SUSTAINABILITY FOR NGOS

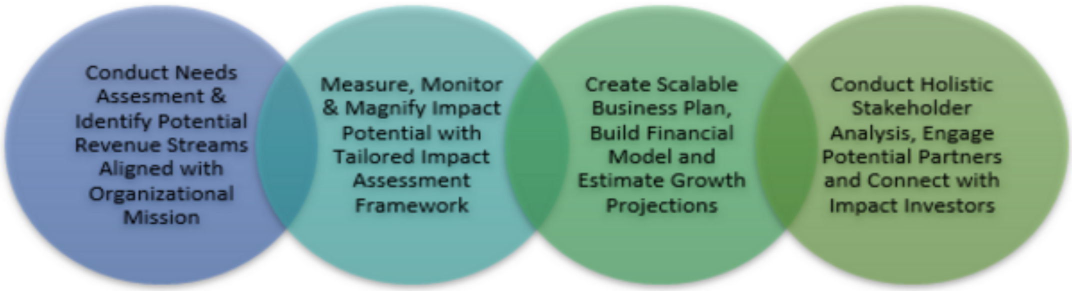
Currently, there are an estimated over 25,000 NGOs in Malaysia. Although it is important to acknowledge that these organizations have been a contributing force in developing the impact landscape, most NGOs remain relatively small operations that lack the operational capacity to scale outcomes and struggle to sustain the outcomes they were intended to achieve. A high dependency on only a few large sources of philanthropic or grant capital makes NGOs financially vulnerable as well as less of a charity, changing its culture and the way the NGO works. A broader funding base makes an organization not only more secure, but usually nimbler and more responsive too. The reality is that the traditional NGO model simply cannot be sustained in a time of shrinking government funding and increased call for efficiency and impact in international development. It is time to realize that NGOs need to become more independent from governments, financially resilient and accountable for their activities.[31]

In the Malaysian landscape, it will be critical for Social Finance intermediaries and ecosystem builders to work with NGOs to transform their grant-funded projects into financially sustainable entities. Moving towards a self-sufficient, market-driven model allows NGOs to achieve a wider development impact, greater value for money and a broader reach. IIX recommends embracing

[31] https://www.devex.com/news/from-ngo-to-social-business-why-and-how-84259

NGOs as part of the Social Finance equation by setting up a structured Financial Sustainability Program [Figure 48]. To enable this transition towards a more sustainable IE model, the intermediary must provide a holistic set of services ranging from evaluating impact and identifying potential revenue streams to restructuring operational strategy and developing innovative cross-subsidy models or financially sustainable spin offs. This is an approach that is being explored in Singapore, where similar to Malaysia the dominant narrative is governed by NGOs .

FIGURE 48: FINANCIAL SUSTAINABILITY PROGRAM PROPOSED PROCESS OVERVIEW



There are two anticipated challenges with implementing this model:

1. Large-scale, far-reaching change processes are often seen to be unaffordable by organizations. But, looking at the costs, a study conducted by Devex Impact found that successful change processes from NGO to IEs cost less than 5 percent of a year's turnover. On top of this, such change typically results in a significant increase in funding shortly after, meaning major returns of investment.

2. NGOs currently have a reasonably large portion of their expenses covered by donations, often from organizations or individuals that are seeking the associated tax breaks. It will be essential for Malaysian Policy makers to protect NGOs that are looking to be more financially sustainable from losing out on existing funding streams by permitting entities to continue to enjoy a tax break and provide donors with tax benefits. This makes it critical to distinguish between revenue generation and profit making to ensure non-profit entities are not penalized for transitioning towards an IE model.

DEEP IMPACT
MAGNIFYING IMPACT OF SMES

According to SME International Malaysia (2013), some advanced economies have succeeded because small and medium enterprises form a fundamental part of the economies, comprising over 98% of total establishments and contributing to over 65% of employment as well as over 50% of the gross domestic product. SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of new industries as well as strengthening the existing ones, for Malaysia's future development. It is critical to embrace them as key players in the Malaysian Social Finance ecosystem as vehicles of change that are well positioned to deliver value in a financially sustainable way.[32] IIX recommends launching an initiative to help Malaysian SME's optimize their impact and transition to an IE model. This initiative can potentially be introduced as part of existing initiatives under the SME Corporation such as the Business Accelerator Program

[32] https://comaif.files.wordpress.com/2013/09/2010-ebmc-abdullaah-et-al-empowering-smes-via-ipm.pdf

(BAP) or potentially introduce a new dimension of 'impact' into the rating system for the existing SME Competitiveness Rating for Enhancement (SCORE) diagnostic tool that is used to rate or enhance competitiveness of SMEs.

The key incentives for SMEs to transition to an IE model are three-fold:

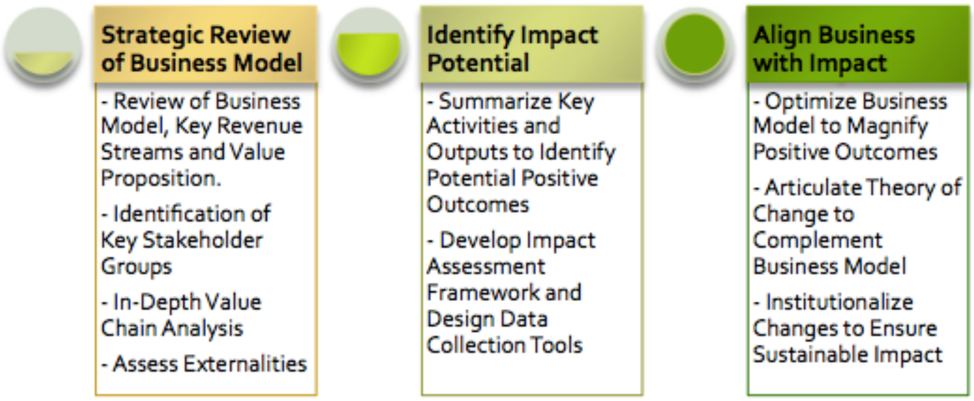
1. The opportunity to tap into impact investment capital thereby widening their potential funding source base in the short term.

2. The increased engagement and improved relations with the wider community that will raise productivity in the medium term.

3. The positive contribution towards the nation's sustainable development agenda will help mitigate long term operational risks and improve relations with regulatory authorities.

CASE IN POINT: Shujog's Impact Magnifier Program is designed to help SMEs deepen their impact, articulate their theory of change and transition towards an IE model. This is accomplished via a structured three-phased program as outlined below in Figure 49.

FIGURE 49: SHUJOG'S IMPACT MAGNIFIER PROGRAM



By taking an inclusive approach and embracing SMEs as a part of the Social Finance ecosystem, Malaysia will be well positioned to leverage these entities as engines of economic growth and catalysts for social progress. This will play a key role in enabling the nation to achieve the vision 2020 to become a developed economy with SMEs acting as the backbone of development. In particular, developing SMEs with a well-developed impact trajectory will require major changes in the manufacturing sector, which comprises 90% of SMEs in Malaysia. Other focus sectors for an initiative that helps SME's magnify their impact or transition to an IE model include: sustainable agriculture, eco-tourism and access to energy.

TRAINING WORKSHOPS FOR IMPACT ENTERPRISES

Currently, the concept of Social Finance is relatively new and unfamiliar in Malaysia, with under 1% of the population actively engaged in the space. This presents a dual challenge of (i) lack of awareness of the long term benefits of IEs to encourage SMEs and NGOs to adopt this new way of thinking of a double bottom line; and (ii) poor understanding among existing IEs of how to address key operational challenges, measure impact and raise capital.

As a solution, IIX proposes conducting a series of workshops to educate the space. These mini-academies or training workshops should serve as one-stop learning opportunity for individuals and organizations who are seeking to understand their role in growing the Impact Enterprise (IE) and Impact Investing space. With courses ranging from Impact Investing to organizational strategies and inclusive growth, the training workshops should exposes participants to the various ways they can create a sustainable social and environmental impact and contribute to building vibrant social capital markets.

These training workshops will help bridge the current knowledge gap in Malaysia of how best to address development issues (such as gender equality and environmental sustainability) using market-based solutions via IEs that can attract impact investment capital by introducing new players from the private-sector into the development equation. Knowledge management will be a key component of building the ecosystem and developing a pipeline of entities that are interested to participate in the Social Finance space.

RECOMMENDED IMPLEMENTATION MODEL

Two-day workshop can be conducted every quarter with the aim of offering participants a broad knowledge base of the Social Finance space while delving into specific elements of how this can be practically applied to bridging the gap between development and finance. These workshops can include panel discussions by leaders in the space to further strengthen the knowledge base and build a regional network of thought-leaders and industry experts.

Potential workshops topics are outlined below:

Business Planning and Operations	Impact Assessment
• Understanding Value Drivers for your Business • Business Model Canvas : Serving your Customer • Making strong presentations • Effective Communication: Branding & Messaging • Talent Management and Leadership Strategy • Planning for Growth and Scale • Pitching Your Business: Elevator Pitch Exercise	• Introduction to Impact Assessment • Theory of Change • Impact Framework **Capital Raising** • Why be financially sustainable? How to achieve financial sustainability? • When to and how to raise capital? • Planning for Capital Raising: What do you need?

The aim of the course offering should be to:

- Equip participants with a solid understanding of their role in growing the IE and Social Finance space in Malaysia
- Introduce the tools, methodologies and best practices being developed and deployed globally within an Asian context
- Employ practical case studies and apply collaborative work to take theoretical discussions into applicable practices
- Empower impact entrepreneurs, NGOs and SMEs with a toolset to create sustainable and positive impact

PRIVATE SECTOR

As mentioned in the sectors above, private sector participation should not be limited to provisioning of finance. There are three other aspects that corporates, law firms, auditors, accountants, banks, financial institutions and other private sector players can offer to bridge the gap between demand and supply of capital:

- **Skills and Expertise:** Private sector participates have core competencies that must be leveraged to maximize the potential of Malaysia's Social Finance space. In particular, financial institutions, auditors and law firms can offer their expertise in risk management, financial structuring and regulations to help design innovative financial mechanisms. For example, Shearman and Sterling is providing pro bono support to IIX to develop the Women's Livelihood Bond, providing critical advice on compliance with legislations and developing key documentation such as loan agreements, terms sheets and prospectus. On one hand, this provides additional comfort to prospective investors and makes the instrument a more attractive investment opportunity thereby mobilizing supply of capital. On the other, it helps protect the bond issuer from potential regulatory risks and ensures a through due diligence on the underlying portfolio of borrowers to ensure the instrument optimizes its impact potential while also balancing risk and return parameters.

- **Knowledge and Resources**: Corporates in specialized industries usually have access to wide repositories of market knowledge and best practices. Tapping into these insights can trigger social innovation by providing IEs with access to information to strengthen their solutions, take data-driven decisions that can help create cost efficiencies or use state-of-the-art technology to accelerate results. This can form the basis of a mutually beneficial partnership between corporates and IEs or creation of spin-off, high impact entities that are well equipped to massively re-direct mission oriented capital towards highly scalable solutions. This is exemplified by M-Pesa, launched in 2007 by Vodafone for Safaricom. M-Pesa is now the world's leading mobile money transfer service that has acted as a game changing solution to financial inclusion in Kenya, giving millions of people access to the financial system and reducing crime in otherwise largely cash-based societies.

- **Networks and Mentorship**: Finally, private sector players can also provide IEs with much needed mentorship that will help them magnify their impact and strengthen their business models. There are an increasing number of progressive business giants with visions of using their access to global networks to accelerate the sustainable development agenda in Asia. For instance, every year American Express supports hundreds of non-profit organizations and their founders through its corporate giving activities, which include using management trainings to address the leadership deficit in the social sector and help diversify the nonprofit landscape. American Express recently teamed up with Ashoka Changemakers to launch the Serve2Gether Consulting Social Innovators program, a 10-week partnership that matched American Express employees with 15 social innovators in the United States, Canada, Mexico, Argentina, and India. The goal was to provide budding change makers with pro bono consulting and tailored mentoring to help them reach scale or strengthen core operations. The program culminated in the submission of project plans, created with the AmEx consultants, for funding consideration.[33]

NON PROFIT SECTOR

Non-profit sector participants can bring a strong understanding of the complexities of social issues on the ground. Foundations, INGOs and other Non-Profits have extensive networks that can be tapped to identify target beneficiaries, analyze the challenges they face and develop robust solutions. Three key ways Malaysia must leverage the depth and breadth of experience of these players are outlined below:

- **Measurement and Evaluation**: Impact measurement is central to the practice of Impact Investing and vital to the growth of the Social Finance ecosystem in Malaysia. Measurement demonstrates the social/environmental impact that these investments are having, which further legitimizes the practice. Without it, effective Impact Investing could not occur. Effective impact measurement generates value for all impact investment stakeholders, mobilizes greater capital, and increases the transparency and accountability for the impact delivered. Impact measurement has the potential to:

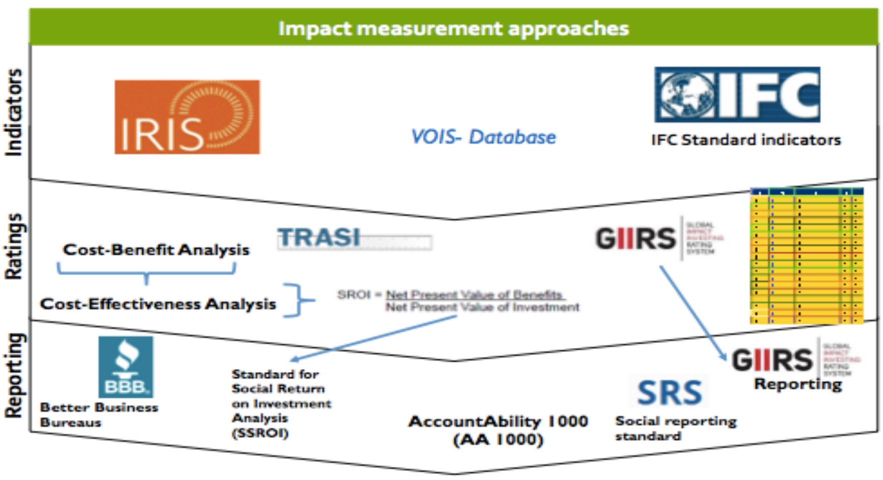
  ✓ Generate intrinsic value for all stakeholders in the Impact Investing ecosystem

  ✓ Mobilize greater capital to increase the amount of aggregate impact delivered by Impact Investing

  - Increase transparency and accountability for delivering on intended impact.

  There is an increasing demand from impact investors to provide a quantified assessment of the impact potential of investee companies in the form of Social Return on Investment (SROI). This industry has responded with sophisticated indicators, ratings and reporting frameworks to help IEs and other recipients of mission-oriented capital articulate their theory of change using the approaches detailed in Figure 50:

FIGURE50: IMPACT MEASUREMENT – REPORTING, RATING AND INDICATORS



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[33] http://www.forbes.com/sites/ashoka/2014/01/13/5843/

AIM has assumed a leadership position in Malaysia to develop an online toolkit for service providers to measure and assess their impact. This will ensure that interventions that receive funding are evidence based and have a high focus on results achieved. Section 6 of this report outlines Shujog's own bottom up methodology to assess impact that can complement the AIM toolkit. To date, Shujog has conducted over 80 Impact Assessments across Asia which can be used by diverse stakeholders for different purposes: (i) Corporates – to assess and report on their CSR initiatives; (ii) Governments, Private Investors, Foundations and INGOs – to assess their portfolio of investments, compare performance across recipients and strategize future funding allocation decisions; (iii) IEs – to benchmark performance, communicate results to unlock follow on funding to scale operations and for internal organizational learning to optimize their own impact footprint.

- **Research**: It is critical to tap into the growing body of research that can provide key stakeholders with the information required to design, fund and implement high impact solutions. In addition to available content from thought-leaders such as Skoll Foundation and Stanford Social Innovation Review, there are also extensive online repositories and free databases that are an excellent source of knowledge provided by institutions such as Foundation Center and Rockefeller Foundation. Universities also play a central role in contributing to the growing knowledge in the space. Malaysia must engage the academic community within and beyond the nation to play a role in building the Social Finance ecosystem to develop two dimensions of the ecosystem:

    i. **Action oriented research**: Universities can be commissioned to provide high quality research into key issue areas to form a baseline understanding of social issues, capture key trends, analyze big data to identify patterns, diagnose systemic gaps and design potential solutions to development problems that can be addressed by Social Finance. Theoretical research should be supported by inputs from practitioners on the ground such as Shujog, Dalberg and Monitor Deloitte that have strong research arms as well as an understanding of the practical challenges of implementation. Research should be used to inform decision-making and have concrete goals to facilitate progressive problem solving and produce guidelines for best practices.

    ii. **Talent development**: It is also important to use academic institutions as a means of knowledge sharing and building awareness, in particular among the youth of Malaysia. Research must be shared with graduates who will shape the future of the space in Malaysia. Universities must formally introduce new courses and electives into their curriculum to educate the new generation of potential entrepreneurs and ecosystem builders on the benefits of Social Finance, the growing Impact Investing movement and the option of using IEs as engines of growth. This will be critical to develop a pipeline of human capital that will be required to fuel other initiatives outlined in this report that aim to catalyze the space.

Knowledge Management: The existing knowledge gap in Malaysia is not limited to service providers (IEs, NGOs and SMEs). It expands across stakeholders from all sectors. 5% of IEs in the MaGIC national survey voted that the public has between very little or little understanding on IEs. IIX recommends conducting a series of Impact Academies for the broader ecosystem as well. Drawing from a wide spectrum of stakeholders from IIX's extensive network of across the region, attendance will comprise of policymakers, representatives of regional development banks, multilateral agencies, private sector investors (with a focus on local impact investors from Malaysia), representatives of financial institutions, leading entrepreneurs, M&E professionals and civil society members. The Impact Academy will seek to galvanize a broad coalition of innovative thinkers to play an active role in building the Social Finance ecosystem in Malaysia.

Suggested modules are listed in the table below:

Module Options	Core Learning Takeaways
Impact Assessor Accreditation Course 3 modules over 6 months for ecosystem partners to be able to conduct Shujog Assessments	• Theories and practice of impact assessment • Real case impact assessment with Shujog's guidance • Verification of real case assignment and accreditation
An Introduction to Impact Investing An introduction to Impact Investing for new investors and ecosystem players	• Key terms and actors in the Impact Investing landscape • Effective financial products for Impact Investing • Challenges and opportunities facing the sectors today • Measuring impact
The Importance of Impact Measurement Understanding why and how to implement social impact reporting and measurement for a IE	• Effectively deploying and communicating social impact • Understanding different metrics, tools, and actors popularly used in impact measurement today • Relationship to capital raised
The Growth of the Social Capital Markets An in-depth analysis of growth in the Impact Investing market and its implications in the development and finance sectors	• Historical overview of the social capital markets • New tools and terms being used to support its growth • Opportunities and challenges ahead for Impact Investing
Building a Vibrant Ecosystem A guide to navigating the dynamic and growing ecosystem of private, public, and individual players in the Impact Investing and social entrepreneurship space	• Traditional and newer intermediaries in the social capital markets • Identifying the major actors and participation opportunities within growing networks • Financial tools for effective Impact Investing
Creating Impact Investing 'Intrapreneurs' Learn about the unique position social 'intrapreneurs' play in creating change from within organizations	• Understand the unique position of *'intrapreneurs'* and the skills needed to carry out this role • Critical success factors that can effect change within organizations

Women and Impact Investing An inspirational course for those interested in inspiring women's role in Impact Investing, either as leaders of a IE or as investors	• Awareness of the barriers and potential for growth facing female-led enterprises • Understand the significance of women as leaders of IEs • Introduction to Impact Investing with a gender lens

The Impact Academy aims to foster informed dialogue, knowledge building, and practical applications of ways to intervene effectively in the catalyzing the Social Finance space in Malaysia. During the academy, participants will engage in learning exercises and workshops to strengthen capacity, practical knowledge, and importantly be exposed to the possibility to generate innovative collaborations to grow scalable IE opportunities within the Impact Investing space. Throughout the event there will be opportunities for networking, sharing both experiences and knowledge, and fostering potential partnerships between government, private, and civil society sectors.

PUBLIC SECTOR

POLICY FRAMEWORK

The regulatory environment and fiscal policy can be important drivers, or disincentives, for development of Social Finance (Thornley et al., 2011). The lessons from microfinance and community development finance demonstrate the central role policy can play in encouraging and directing capital to Social Finance and influence potential and pathways for achieving critical mass (Jackson and Harji, 2012). Lessons from development of venture capital and early stage finance for growth enterprises also underscore the influence of policy (OECD, 2013). For Malaysia, there are three important dimensions of the policy framework that will have a catalytic effect on the Social Finance space that are explained briefly below and outlined more in detail in Section 6 under 'Policy Analysis'.

- **Separate Legal Status for Impact Enterprises:** South Korea is an example of a country that has legally defined a 'social enterprise' as a company (i) which reinvests profits in the business or local community; and (ii) operates with the main purpose to realize a social objective. In 2006, the government enacted the Social Enterprise Promotion Act (SEPA) 2006. As of November 2014, there are 1,165 certified social enterprises in South Korea. The government aims to promote more than 3,000 certified social enterprises by 2017. Certification can play a pivotal role in developing the ecosystem in Malaysia, helping the nation track growth and potentially monitor impact. Additionally, for any policies or incentive structures to function, it will be critical to clearly define Impact Enterprises and provide them with a separate legal status or basic certification with clear eligibility criteria. Potential benefits include:

    - Eligibility for associated benefits, either in the form of tax incentives or CSR funding recipients (detailed below) that can mobilize supply of capital

    - Ease of tracking for ecosystem builders looking to develop demand and build a strong pipeline of investment opportunities that will feed into the aforementioned platforms (competitions, accelerators, private placement platforms, impact funds and social stock exchange, among others)

- **Tax Incentives:** The UK's Social Investment Tax Relief (SITR) helps IEs raise finance by offering tax relief to individual investors. To facilitate the smooth implementation and effective adoption of a similar law that uses tax incentives towards mobilize capital will mandate:

    - **Ensuring capital is directed towards target recipients:** The enterprise must be registered as a community interest company, a community benefit society with an asset lock or a charity registered either as a company or as a trust. Additionally, the IEs must have fewer than 500 full-time equivalent FTE employees, not more than £15 million in gross assets immediately before the investment and £15 million post investment. To replicate the law in Malaysia, the first step will be to have a separate legal status for IEs as detailed in the previous point and to clearly have an upper cap on the size of recipients, in particular on for profit entities.

    - **Ensuring benefits received from multiple sources are linked and adequately capped:** SITR is state aid granted under the European Commission's regulations on de minimis aid. The scheme under which aid is given must cap the total amount available to an enterprise from all forms of de minimis aid. This must be no more than €200,000 in any 3 year period. An investment will not qualify for SITR if the available tax reliefs on that investment, taken together with any other de minimis aid received in the 3 years up to and including the date of the investment, exceed €200,000. Similar restrictions will have to be placed to limit total support these entities may receive from other public sector sources.

- **CSR Reporting Regulations**: In 2013, India became the first country to mandate CSR when the Ministry of Corporate Affairs (MCA) notified Section 135 and Schedule VII of the Companies Act, 2013, will be effective from April 1, as part of the new Companies Act. The norms will apply to companies with at least Rs 5 crore net profit, Rs 1,000 crore turnover or Rs 500 crore net worth. These companies will have to spend 2 per cent of their three-year average annual net profit on CSR activities in each financial year, starting from FY15.[34] This policy has received mixed feedback from economists and industry experts, with many thought leaders expressing concern over how effectively the capital mobilized will be used. If Malaysia is to consider replicating such policies it will be imperative to develop a law that:

    - Clearly defines eligibility criteria of recipients and takes an inclusive approach to encompass Impact Enterprises
    - Ensures the law also incentivizes investment in the corporates' own value chain where there is significant potential to create positive impact on direct stakeholders
    - Creates transparent reporting requirements to ensure only inputs (funds deployed) are not tracked and instead outcomes are actively measured, monitored and magnified

ETHICAL PROCUREMENT

Governments can use their purchasing power to influence the development of markets. The economists advocating for a more active role for the state in stimulating innovation place significant weight on the role of government as 'creative consumer' (Janeway, 2013).

[34] http://indianexpress.com/article/business/economy/mandatory-2-csr-spend-set-to-kick-in-from-april-1/

CONVENOR

Governments are well placed to act as a convenor to bring parties together and generate dialogue and action. Simply indicating government interest can send powerful market signals. Effective strategic use of this convening capacity can demonstrate leadership that gives others greater confidence to act. To facilitate all the suggested interventions outlined in this section, governments can wield soft power to massively influence and accelerate action from different stakeholder groups, redirect capital that was not earmarked to create impact to fuel Social Finance initiatives and truly inspire a movement in the nation that embraces the potential for profits, people and planet to co-exist.

This mandates a need for the government to take the lead on steering the dialogue. IIX and Shujog propose to convene an Impact Forum in Kuala Lumpur in 2016, in partnership with Agensi Innovasi Malaysia (AIM) that will serve as a platform to facilitate the dialogue on using Social Finance to advance the nation's development agenda and the 11th Malaysia Plan. AIM has been at the vanguard of creating sustainable impact in Malaysia, playing a key role in shaping innovative solutions that change the status quo and acting as the voice of progress for mobilizing additional private sector resources to complement existing development efforts. This indicates a clear alignment with IIX's mission to effectively match impact investment capital with social sector development – promoting inclusive growth, economic development, and environmental sustainability and Shujog's mandate to broaden knowledge about the space. Both organizations are uniquely positioned to expand thought leadership around market-based solutions and have reached over 10 million underserved people through Impact Investing and creating over +$18 million in social value. IIX and Shujog have collectively exposed over 300,000 people to the Impact Investing space via previous Impact Forums that have been held across Asia.

The Forum will spark the discussion and coalesce key stakeholders from within Malaysia along with international market leaders, industry experts, thought leaders, practitioners and pioneers from across the world. The Forum can include interactive break-out sessions with live impact measurement training workshops and investor pitches for local IEs. Potential topics for plenaries, panel discussions and workshops include:

- Linking Finance With Development: Catalyzing Inclusive Business through PPPs
- Exploring the Nexus of Innovative Finance and Social Progress: Mobilizing Private Sector Capital to Create Sustainable Social Impact
- Impact Enterprises as Engine of Growth: Decoding the Sustainable Value Chain
- Technology to Scale Impact: Harnessing the Power of Innovation
- Strengthening Urban Resilience: Exploring the Role of Corporates in Green Growth and Building Cities of Tomorrow
- Serving As The Voice Of Progress: Malaysia's Role in Catalyzing Asia's Development Landscape

The Forum will not only be an opportunity to identify high impact, feasible interventions that can unlock private sector capital to address social issues, but also create an alliance of regional partners that can take learnings from the Forum to drive thoughts into action and accelerate efforts to achieve vision 2020. The overarching purpose of the Impact Forum is to position Malaysia as a leader in the Social Finance space in Asia and for AIM to set a precedent for other government agencies across the globe to promote high-impact models that effectively link finance with development. IIX also suggests potentially having another Impact Forum in 2020 that will capture the achievements, lessons learnt and path ahead to ensure the dialogue is continued well beyond the scope of this Roadmap.

SECTION 6: BUILDING BLOCKS OF SOCIAL FINANCE

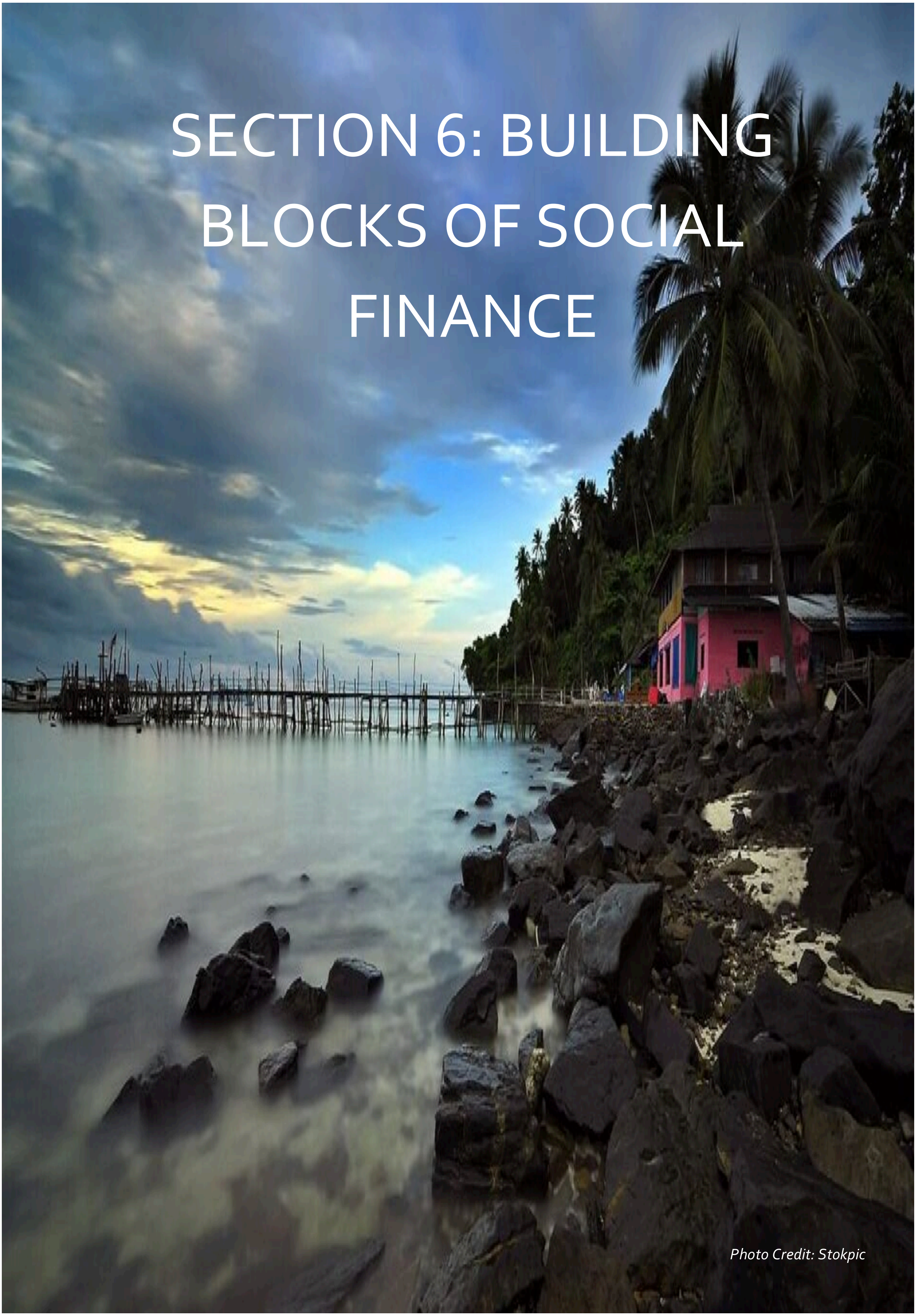


Photo Credit: Stokpic

SECTION 6: BUILDING BLOCKS OF SOCIAL FINANCE

The purpose of this section is to provide guidance on the three key aspects that form the building blocks of the Social Finance space and can support broader ecosystem development mentioned in the previous section: (i) Impact Assessment; (ii) Risk Management; (iii) Policy Analysis (iv) Islamic Finance.

IMPACT ASSESSMENT

Impact measurement is a key building block of a robust social finance ecosystem, adding value for all stakeholders involved. Consistently assessing impact on an on-going basis enables impact enterprises to determine if they are generating social outcomes in an effective, efficient and sustainable manner, and equips them with a tool to make future decisions. A standardized and credible impact assessment provides investors and donors with tangible evidence of social outcomes, facilitating fundraising efforts. Additionally, impact measurement systems increase public transparency and accountability, while simultaneously allowing impact organizations to effectively benchmark their performances.

However, as the impact measurement process is complex and resource-intensive, several entities lack the capacity and capability to access these services, particularly in the early stages of development. To address this affordability gap, AIM has developed a standardized Social Impact Measurement (SIM) toolkit to enable impact enterprises in Malaysia to conduct impact assessments regardless of their size, stage of maturity or sector focus.

AIM SOCIAL IMPACT MEASUREMENT TOOLKIT (SIMT)

The AIM SIMT assists emerging impact enterprises in Malaysia to effectively measure their social impact in two ways:

- Equipping IEs with a range of basic measurement tools that can be tailored to the context of individual interventions and programs
- Providing an overarching framework with step-by-step instructions to enable IEs to autonomously implement impact measurement tools in an effective and accurate manner

The AIM SIMT is built on the foundation of a 7-Step Cycle to Serve Better framework along with a 9-Box SIMT Matrix, developed by a Servebetter Consultancy. Guided by the 7-Step Cycle framework, the toolkit provides IEs with a detailed explanation of the performance measurement process, before suggesting potential tools, techniques and approaches that can be adopted by IEs to measure the outputs and outcomes of their programs.

7-STEP CYCLE TO SERVE BETTER FRAMEWORK

The 7-Step Cycle to Serve Better framework is a cornerstone of the AIM SIMT, and comprises seven consequential steps – each with a corresponding guiding question attached (Figure 51).

- Step 1: Purpose – Why Do We Want To Achieve This?
- Step 2: Plan – What Do We Want To Achieve?
- Step 3: Act – How Do We Want To Achieve?
- Step 4: Measure – How Will We Know That We Have Achieved?

- Step 5: Report – How Will Others Know What We Have Achieved?
- Step 6: Learn – What Have We Learned From Our Achievement?
- Step 7: Improve: How Can We Improve Further?

FIGURE 51: 7 STEP CYCLE TO SERVE BETTER

Step 1: Purpose – Why Do We Want To Achieve This?

In this initial step, the SIMT guides IEs to articulate both their long-term mission statement and the core values driving their organizations. Deriving from these, the IEs will then identify the specific need or problem statement they are addressing along with their target beneficiary groups.

Suggested Tools, Techniques and Approaches: Defining the Mission, Envisioning the Future, Stakeholder Analysis & Mapping, Clients/Beneficiaries Analysis, Needs/Problem Analysis, Problem Tree Analysis, and Policy Analysis.

Step 2: Plan – What Do We Want To Achieve?

Once IEs identify their core mission and target beneficiary group, the next step involves designing an intervention program that can effectively address or alleviate the challenges faced by this group. The SIMT helps the IE to map out a Theory of Change to articulate the outputs and outcomes of its intended intervention, accounting for both its internal capabilities as well as external factors that may affect its desired social outcomes. At this stage, the IE will also put in place an appropriate data collection and management plan for performance measurement.

Suggested Tools, Techniques and Approaches: SWOT Analysis; Program Logic Model; Theory of Change; Results Chain; Outcome Chain; Performance Monitoring & Evaluation Framework; Performance Monitoring Planning; and Performance Evaluation Planning

Step 3: Act – How Do We Want To Achieve?

In this stage, the IE will develop an operational action plan based on its internal capacity and capabilities. In this process, the IE will identify activities and inputs required, develop implementation strategies, ascertain development partners and draw up a budget and business plan. The IE will also put in place a risk management and mitigation plan to address any challenges that could potentially arise during the implementation stage.

Suggested Tools, Techniques and Approaches: Action Planning, Activity-based Costing; Results-based Budgeting; Fundraising Strategies; Volunteer Management; and Strategic Partnership

Step 4: Measure – How Will We Know That We Have Achieved?

This is a crucial step of the framework where the IE begins to measure its performance results. This performance measurement involves monitoring and evaluating the outputs and outcomes generated by a program through the systematic and on-going collection of performance data. For certain social outcomes that might be difficult to measure, proxy or surrogate outcomes are substituted. This data is then comparatively analyzed against planned performance indicators to gauge the social progress of the program or initiative.

Suggested Tools, Techniques and Approaches: Survey Questionnaire, Indicator Tracking Table; Outcome Stars; Balanced Scorecard; Critical Incident Technique; Program Evaluation; SROI; Appreciative Inquiry; and Social Accounting & Auditing

Step 5: Report – How Will Others Know What We Have Achieved?

Periodic reporting of both financial and social performance is a key step towards increasing transparency and establishing accountability with investors, donors, beneficiaries and other key stakeholders. To facilitate effective communication of impact results to external parties, the SIMT assists the IE to compile its performance information into a format that is easy to analyze and understand.

Suggested Tools, Techniques and Approaches: Performance Report Cards; Management Dashboard; Narrative Report; Data Visualization; Storyboard; Online Media Platforms

Step 6: Learn – What Have We Learned From Our Achievements?

It is essential for the IE to draw insights from its impact assessment results to inform its future actions and development plans. In this step, the framework equips the IE to review and interpret its performance data to identify opportunities for improvement and make well-informed decisions for sustainable and scalable growth.

Suggested Tools, Techniques and Approaches: Post-mortem Meeting; Debriefing Checklist; Gibb's Model of Reflection

Step 7: Improve: How Can We Improve Further?

Based on its findings from the previous stage, the IE will implement changes to improve the efficiency and effectiveness of its activities and operations. The framework emphasizes the on-going, cyclical nature of the impact assessment process, and aims to build a strong commitment within the IE to continue to deploy performance measurement as a key planning and development tool.

Suggested Tools, Techniques and Approaches: Plan-Do-Check-Action (PDCA) Cycle; Kipling's 5WIH; and Total Quality Management (TQM)

9-BOX SIMT MATRIX

The 9-Box SIMT Matrix forms a crucial support structure to the 7-Step Cycle to Serve Better framework. The Matrix provides IEs with a collection of diverse tools, techniques and approaches that can be deployed during each of the steps of the SIM framework. The broad scope of the suggested tools is to allow for the wide-ranging nature of impact enterprises operating in Malaysia. IEs at various stages of growth, and with diverse business models and sector focuses can tailor the toolkit depending on their individual needs and contexts. The table below provides a detailed snapshot of the planning and measurement techniques and tools suggested by the 9-Box SIMT Matrix.

SOCIAL IMPACT MEASUREMENT TOOLS MATRIX

STEP	LEVEL	ACTIVITIES	OUTPUTS	OUTCOMES
1. PURPOSE	BASIC	• Defining Mission • Visioning • Stakeholders Analysis & Mapping • Beneficiaries/Clients Analysis • Cause-Effect Analysis • Brainstorming	• None	• None
	INTERMEDIATE	• Impact Statement • Problem Tree Analysis • Objective Tree Analysis	• None	• None
	ADVANCED	• Kepner –Tregoe (KT) Method • Need Analysis • Policy Analysis	• None	• None
2. PLAN	BASIC	• SWOT Analysis • The Logic Model • Theory of Change (ToC)	• The Logic Model • Theory of Change (ToC) • Performance Monitoring Framework	• The Logic Model • Theory of Change (ToC) • Performance Monitoring Framework
	INTERMEDIATE	• Log Frame • Performance Evaluation Planning Framework	• Log Frame • Performance Evaluation Planning Framework	• Log Frame • Performance Evaluation Planning Framework
	ADVANCED	• Program Logic & Linkages (ProLL) Model	• program Logic & Linkages (ProLL) Model	• program Logic & inkages (ProLL) Model
3. ACT	BASIC	• Action Planning	• Action Planning	• Action Planning
	INTERMEDIATE	• Activity-Based Costing (ABC)	• Activity-Based Costing (ABC)	• Activity-Based Costing (ABC)
	ADVANCED	• Results-Based Budgeting (RBB)	• Results-Based Budgeting (RBB)	• Results-based Budgeting (RBB)

SOCIAL IMPACT MEASUREMENT TOOLS MATRIX

STEP	LEVEL	ACTIVITIES	OUTPUTS	OUTCOMES
4. MEASURE	BASIC	• Questionnaire (Structured & Unstructured) • Indicator Tracking Table	• Questionnaire (Structured & Unstructured) • Indicator Tracking Table	• Questionnaire (Structured & Unstructured) • Indicator Tracking Table
	INTERMEDIATE	• Critical Incidents Technique • Jacob's 5-Tier Approach Program Evaluation • Balanced Scorecard	• Critical Incidents Technique • Jacob's 5-Tier Approach Program Evaluation • Balanced Scorecard • Outcome Star	• Critical Incidents Technique • Jacob's 5-Tier Approach Program Evaluation • Balanced Scorecard • Outcome Star
	ADVANCED	• Social Accounting & Audit • SROI	• Social Accounting & Audit • SROI	• Social Accounting & Audit • SROI
5. REPORT	BASIC	• Performance Report Card • Dashboard • Social Networking	• Performance Report Card • Dashboard • Social Networking	• Performance Report Card • Dashboard • Social Networking
	INTERMEDIATE	• Story Board	• Story Board	• Story Board
	ADVANCED	• Data Visualisation	• Data Visualisation	• Data Visualisation
6. LEARN	BASIC	• Post-mortem Meeting	• Post-mortem Meeting	• Post-mortem meeting
	INTERMEDIATE	• Debriefing Checklist	• Debriefing Checklist	• Debriefing Checklist
	ADVANCED	• Gibb's Model of Reflection	• Gibb's Model of Reflection	• Gibb's Model of Reflection
7. IMPROVE	BASIC	• PDCA Cycle	• PDCA Cycle	• PDCA Cycle
	INTERMEDIATE	• Kipling's 5W1H	• Kipling's 5W1H	• Kipling's 5W1H
	ADVANCED	• TQM	• TQM	• TQM

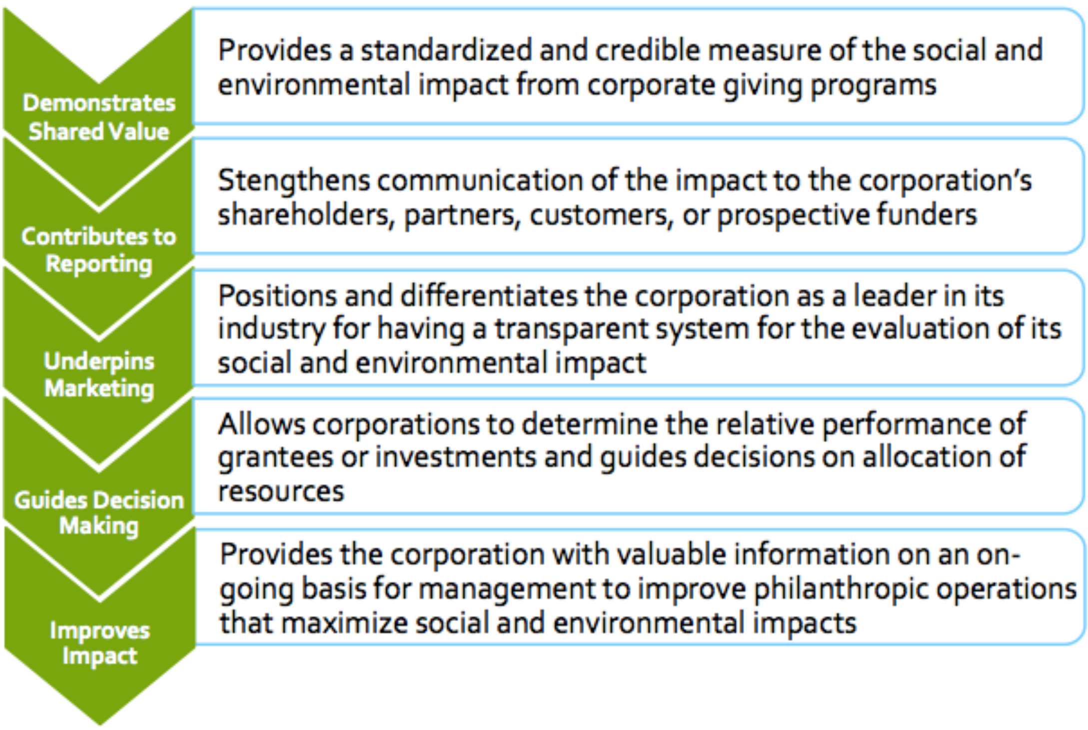
The AIM SIMT represents a crucial step towards standardizing the measurement of social impact outcomes in the country. As the entire toolkit is available online to impact enterprises, there is significant potential for the widespread adoption of the measurement framework and toolkit among various stakeholders in Malaysia's social financing landscape.

IMPACT ASSESSMENT FOR MALAYSIAN CORPORATES

What started as a form of corporate self-regulation to co-opt wider public scrutiny, Corporate Social Responsibility (CSR) has transformed into a legitimate business concern and consequential form of philanthropy. Corporations of all shapes and sizes have begun to treat CSR as not merely window dressing but a legitimate reflection of their core business values to leverage the corporate brand. At the same time, corporate philanthropy faces increasing pressure to demonstrate its value proposition (strategic, cost-effective, and aligned with business needs). However, CSR has at times been loosely defined, indiscriminately used as self-promotion, and historically difficult to quantify. According to BSR's 2014 State of Sustainable Business Surveys (with over 700 participants from across the globe), integrating sustainability into the core business remains the most significant leadership challenge facing companies (63% of all respondents) and only 39% of companies measure Return on Investment of their CSR efforts.

Moving beyond good intentions to reduce reputational risks, purpose-driven companies in Malaysia must distinguish themselves as responsible corporate citizens through increased transparency and accountability of their philanthropic gestures. To facilitate this, IIX recommends extending Impact Assessment Methodology to enable Malaysian corporates to analyze performance of their CSR initiatives and portfolio organizations. The advantages of this impact measurement are outlined below [Figure 52]:

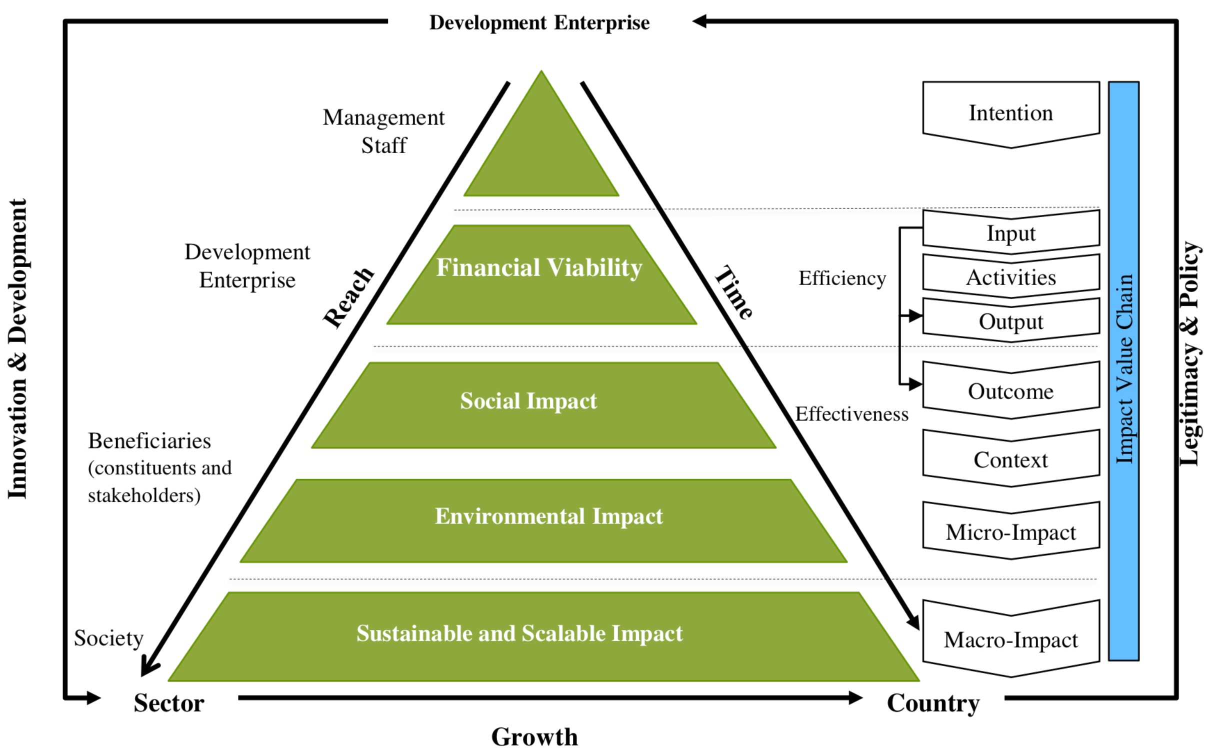
FIGURE 52: ADVANTAGES OF IMPACT MEASUREMENT



CASE STUDY: SHUJOG SUSTAINABILITY PYRAMID – AN EFFECTIVE TOOL FOR CSR ASSESSMENTS

Shujog CSR Assessments follow Shujog's proprietary methodology, which incorporates industry tools such as the Impact Reporting and Investment Standards (IRIS) metrics and the Social Return on Investment (SROI) calculations. This methodology marries impact creation with the financial health of the enterprise and assesses changes according to the Shujog Sustainability Pyramid. TM (Figure 53)

FIGURE 53: SHUJOG SUSTAINABILITY PYRAMID



In this methodological approach, the assessment team relies on the Shujog Sustainability Framework as a foundational tool, which can be visualized as the Shujog Sustainability Pyramid. The Framework employs a broad set of sector, country, and enterprise-specific indicators to assess the sustainability and impact of the CSR program and the resultant empowerment of stakeholders. This analytical approach balances the social science need to demonstrate effectiveness with incisive analysis to improve social initiatives. The work provides a management tool that corporations use to make educated, operational decisions that can lead to optimized impact generation.

Using a mix of quantitative and qualitative metrics, the data collection is tailored to the program's existing processes and procedures to strengthen transparency. By providing an effective tool for management, the assessment measures how the program improves the lives of beneficiaries, the environment, and society. Shujog offers support during program design as well as support to existing programs scaling up. In addition, Shujog can provide tailored and intensive training workshops to corporate staff to manage the philanthropy portfolio more effectively.

RISK MANAGEMENT

CONTEXT

Photo Credit: GotCredit

WHAT IS RISK?

Risk is potential of losing something of value. Values (such as financial wealth, emotional well-being or physical health) can be gained or lost when taking risk resulting from a given action, activity and/or inaction, foreseen or unforeseen. Risk can also be defined as the intentional interaction with uncertainty. Uncertainty is a potential, unpredictable, unmeasurable and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty. For traditional companies and commercial investors, there are different types of risk that impact business and investment decisions. Prominent risks are outlined below:

- **Strategy**: Risks emanating out of the choices made on markets, resources and delivery model which can potentially impact our long-term competitive advantage
- **Industry**: Risks relating to inherent industry characteristics including, competitive structure, technological landscape, extent of linkage to economic environment and regulatory structure
- **Counterparty**: Risks arising from association with other stakeholders, partners or entities in the value chain for conducting business. These include clients, vendors, alliance partners and their respective industries
- **Resources**: Risks arising from inappropriate sourcing or sub-optimal utilization of key organizational resources such as talent, capital and infrastructure
- **Operations**: Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, intellectual property, physical security and business activity disruptions
- **Regulations and compliance**: Risks due to inadequate compliance to regulations, contractual obligations and intellectual property violations leading to litigation and loss of reputation.

RISK IN THE CONTEXT OF THE SOCIAL FINANCE SPACE

In a purely financial context, risk is the chance that an investment's return will be different than expected, including the possibility of losing some or all of the investment. The Social Finance space broadens this definition to encompass not just financial risk but also social risk, owing to the dual nature of investments, seeking both financial returns and social returns. Inherently, impact investors have a higher risk appetite than commercial investors due to the social angle embedded in their investment ethos. This intention to create positive impact makes them willing to accept a lower rate of return and is considered a better use of their capital as compared to philanthropy where, once committed, the entire amount is forsaken. However, this also mandates a focus on risks that can have a negative impact on the intended social outcomes of the investment. Thus, risk of mission drift (intentional departure from mission to create social good) and mission failure (unintentional inability to achieve target social outcomes), are also scrutinized by impact investors in addition to the aforementioned business and financial risks.

This is further complicated by the fact that the Social Finance space is a multi-stakeholder environment and risks impact not just investors/shareholders and consumers/clients, but also employees, direct beneficiaries, the wider community and the environment. The risk of creating negative externalities (damaging spillover effects on the surrounding environment or wider community that are generated by the social initiative) can also reduce the 'net impact' created and must be carefully avoided. Finally, it should be noted that for IEs, social and financial success is inextricably linked. This makes it critical to focus on dual financial and social due diligence procedures as without financially sustainability, the IE's impact potential will also be compromised.

RISK MANAGEMENT

Risk management in the Social Finance context refers to minimizing the adverse impact of risks on both, financial returns and social mission. It is a systematic process used to ensure i) identification of risk; (ii) assessment of severity and probability; (iii) implementing control measures by either acceptance, avoidance, mitigation or transfer of risk; and (iv) finally, reporting to key stakeholders, optimizing management mechanisms and integrating it as a key part of the broader business strategy. Inadequate risk management can result in severe consequences for individuals, organizations, sectors, and even entire economies and is critical to the development of a robust Social Finance ecosystem. The following section explores (i) risk management approaches for impact investors and multi-stakeholder innovative financial mechanisms on the supply side and for IEs and other social sector entities on the demand side; and (ii) general guidelines on risk assessment in relation to other investment parameters (strategically assessing the risk-reward trade-off including a social angle) with specific recommendations for the Malaysian context.

RISK MANAGEMENT APPROACH FOR SOCIAL FINANCE INTERVENTIONS

This section outlines a broad risk management strategy for (i) demand side: Impact Enterprises; and (ii) supply side: innovative financial mechanisms. The objective is to take a holistic approach to financial risk management while balancing mission related objectives, protecting end beneficiaries and safeguarding the interests of other key stakeholders.

DEMAND SIDE RISK MANAGEMENT

This section outlines a risk management strategy for Impact Enterprises and other recipients of mission-oriented capital, not only to protect their own business to ensure financial sustainability, but also to consequently safeguard their core mission and all the other stakeholders that are impacted by the success or failure of the same. The content in this segment has been adapted from the 'Social Enterprise Learning Toolkit: Risk Management Module' by Propellor Social Enterprise Advisors and ENP (Enterprising Non Profits).

Definition of Risk for Impact Enterprises: The occurrence of an event that will impact the ability for the entity to accomplish its mission. Risk management is the process that enables the IE to cope with uncertainty by taking proactive steps to protect its assets, resources and beneficiaries. The benefits of a strong risk management strategy include:

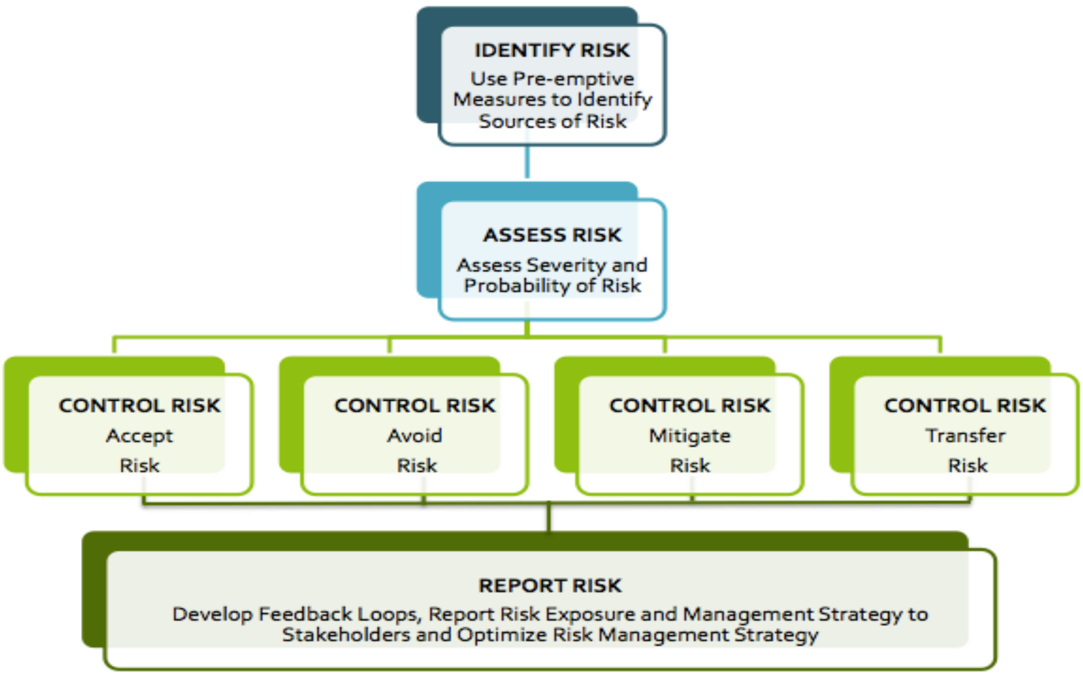
(i) Facilitates identification of risks and opportunities not already considered and effective constraint of risks to an acceptable level in line with investor and entrepreneur risk appetite.

(ii) Enables entrepreneurs to take an informed decision about implementing certain operational or financial decisions to protect both the business and the target beneficiaries.

(iii) Increases stakeholder confidence in achievement of desired outcomes, both financial and impact-related and enables IE to attract follow on investments.

Risk Management Process: The following section outlines the basic risk management process for IEs to follow to enable them to identify, assess, control and report risk [Figure 54].

FIGURE 54: RISK MANAGEMENT FRAMEWORK FOR IMPACT ENTERPRISES



STEP 1: IDENTIFY RISK

The objective of risk identification is the early and continuous identification of events that, if they occur, will have negative impacts on the project's ability to achieve performance or capability outcome goals. The first step is to identify sources of risk. Apart from risks already outlined in the section above under the Negative Externalities Triad, other potential risks that are common to IEs are captured in Figure 55 below:

FIGURE 55: POTENTIAL SOURCES OF RISK

People	Property	Liability	Income	Compliance
Workplace injuries	Partial or total loss of premises	Injury to clients, general public	Loss of grant funding	Laws & regulations - knowing what applies to your social enterprise
Death, disability, retirement	Theft of equipment, inventory, cash, information	Product liability	Revenue shortfalls	Legal responsibilities of employers
Resignation	Intellectual property compromised	Damage to property of others	Fire, floods, natural disasters	Workplace health & safety
Disengagement	Brand & reputation damaged	Breach of contract	Change in market conditions	Human Rights
		Professional liability		Privacy

This list is by no means exhaustive and will vary from enterprise to enterprise.

STEP 2: ASSESS RISK

Risk assessment is the determination of quantitative or qualitative estimate of **risk** related to a concrete situation and a recognized threat (also called hazard). It is critical not just to identify the existence of risk, but also to ensure that information is useful by determining the probability and severity of the risk. Figure 56 shows basic risk assessment framework that can be used to rank risk by severity and probability and multiply the result to assign a 'risk score' to each risk factor.

FIGURE 56: RISK ASSESSMENT MATRIX

RISK ASSESSMENT MATRIX				
SEVERITY / PROBABILITY	CATASTROPHIC	CRITICAL	MARGINAL	NEGLIGIBLE
FREQUENT	HIGH	HIGH	SERIOUS	MEDIUM
PROBABLE	HIGH	SERIOUS	MEDIUM	MEDIUM
OCCASIONAL	SERIOUS	MEDIUM	MEDIUM	LOW
REMOTE	MEDIUM	MEDIUM	LOW	LOW

Severity of risk refers to the consequent negative repercussions the event will have on the organization's operations. This can be assigned values (perhaps on a scale of 1 to 4 in the case of the matrix above) and quantified based on certain ranges of how much resources the organization will have to invest to address the issue (in terms of time and money). Probability of risk refers to the likelihood that the event will occur. Again, values can be assigned based on pre-determined ranges (example: frequent events = >80% likelihood of occurrence within given time frame; probable events = 50% to 90%; occasional events = 10% to 50%; and remote events = <10%). Multiplying the severity rank with the anticipated probability will allow the IE to prioritize risk and take appropriate course of action (as outlined in Step 3).

Although this framework can act as a guideline, IEs must assign their own values based on their risk thresholds in tandem with investor or entrepreneur preferences – what may have catastrophic consequences for one IE might be considered less critical for another based on their own available resources.

STEP 3: CONTROL RISK

Based on the assessment of intensity of risk and consequent prioritization, IEs must then carve out an appropriate action plan that weighs the costs of absorbing or accepting the risk against the benefits of controlling it, factoring the expenses associated with avoiding, mitigating or transferring risk as well. The four main recourses are outlined below:

- **Accept Risk:** Cover the cost of the risk by paying out of pocket in the event of occurrence; this recourse is usually taken for low priority risks.
- **Avoid Risk:** Eliminate risk factor either by exiting the investment, by leaving the market or shifting to a different region or beneficiary group or not producing the specific product the product or service that is triggering the risk.
- **Mitigate Risk:** Take pre-emptive steps to limit the severity of risk or probability of occurrence; this often comes at a cost and can entail an investment of both time and capital.
- **Transfer Risk:** Share cost with third party in case of occurrence of trigger event; shifting risk onto a third party is facilitated by the aforementioned risk capital vehicles, for instance: guarantee facilities, but these too come at a cost and will reduce potential return - limiting the downside of any investment also curbs the potential upside.

STEP 4: REPORT RISK

The final step is to develop a systematic way of reporting risk that is neither negligent nor onerous. This involves three steps:

- Building in feedback loops to regularly conduct the process of risk identification, assessment and control with an aim to review the effectiveness of the risk management strategy to limit costs and capitalize on potential opportunities.
- Risk that is measured should be adequately reported to concerned stakeholders and investors on one hand to ensure complete transparency and accountability.

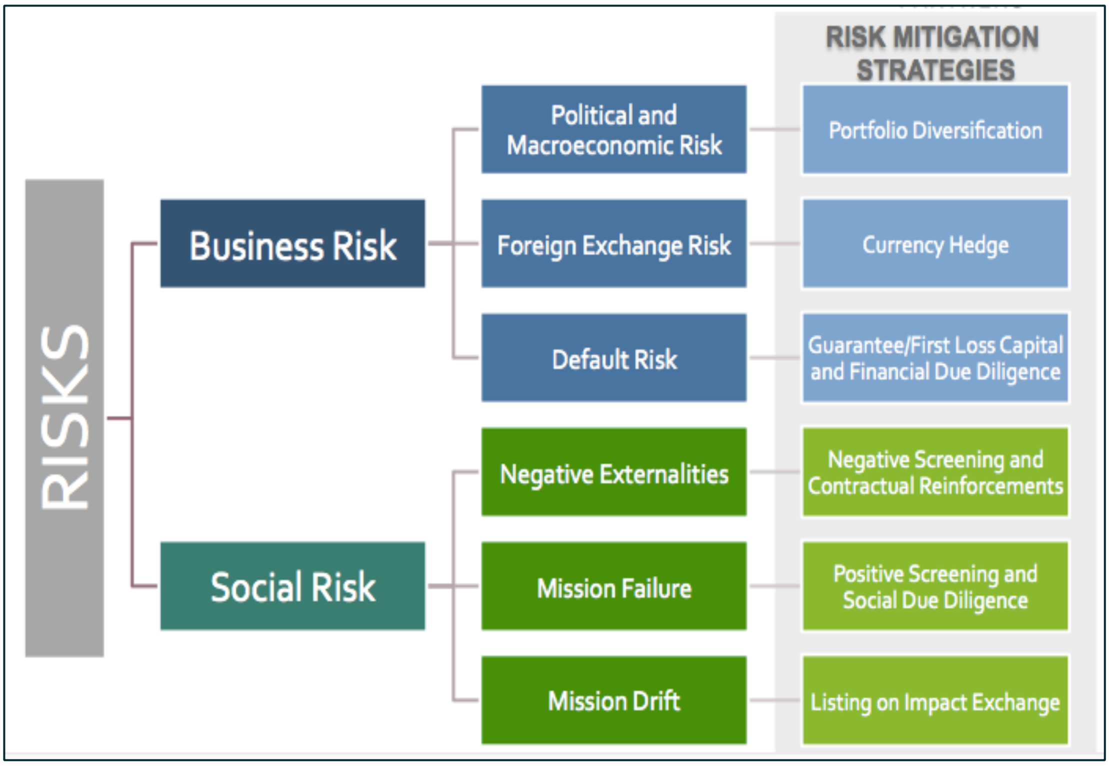
- Risk management is a dynamic process. IEs should conduct interim assessments where the gaps remain and what lessons can be learnt from experience and use these insights to adjust and strengthen the process on a regular basis.

SUPPLY SIDE RISK MANAGEMENT

Innovative financial mechanisms are often multi-party, cross-sector initiatives, which introduces complexities that traditional government-vendor contracts or pure financial transactions do not entail. This makes it essential for intermediaries that are structuring and managing the mechanism to play an active risk management role throughout the entire process, from deal origination through investor repayment.

IIX views risk through the dual-lens of financial and social risk [Figure 57]. The purpose of this section is to outline anticipated risks associated with impact investments and innovative financial instruments and suggest strategies to monitor, mitigate and manage these risks.

FIGURE 57: ANTICIPATED RISKS AND PROPOSED RISK MITIGATIONS STRATEGIES



FINANCIAL RISKS

There are three key financial risks in the context of Social Finance that have been identified by IIX:

- **Political and Macroeconomic Risks:** Political or country risk refers to the risk of investing or lending in a country, arising from possible changes in the business environment or policies that may adversely affect operating profits or the value of assets in the country. Impact Investors, like traditional investors, assess these risks using quantitative econometric models and financial analysis as well as qualitative methods and policy analysis. Macroeconomic risks are also a concern for investors that can result in fluctuations of the value of their assets, cause swings in share prices and lead to an unstable investment climate which deters foreign investors from entering a country. This complex set of factors can be of concern to impact investors in almost equal measures as it is to traditional investors.

However, it should be noted that investing in high-impact sectors can potentially prove to be a safer investment choice and a strategic addition to a larger portfolio because these entities are more insulated to economic shock and have relatively lower correlation with other asset classes (for instance, sectors like healthcare and education have relatively low correlation with sectors such as energy and transportation). Entities in the social sector are impacted with relatively lower intensity to market shocks. This is evidenced by the lack of impact of the 2008 financial crisis on MFIs which continued to give 14% returns on average during the period where traditional businesses were struggling to survive.

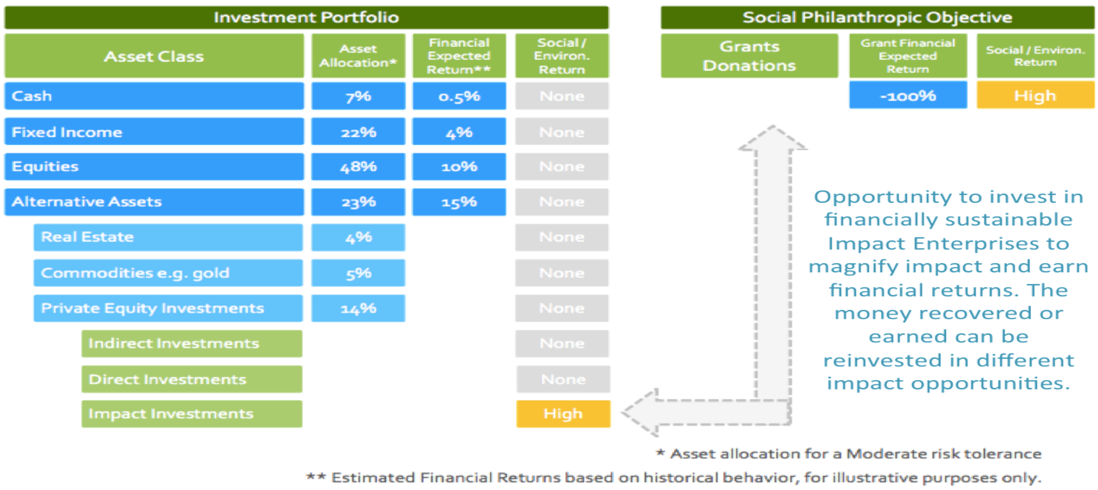
Risk Mitigation Strategy: Diversification refers to the process of allocating capital in a way that reduces exposure to any one particular asset or risk. Volatility of a portfolio can be reduced by investing in different regions, sectors and asset types that are uncorrelated – indicated they will be insulated from potential political or macro-economic shocks that affect other assets in the portfolio.

This is a particularly useful risk management strategy for innovative financial instruments or impact investment funds that invest in a portfolio of entities – diversification will allow them to mitigate unsystematic risk, i.e., sector or industry specific hazards that are inherent in a particular asset class.

An example of how unsystematic risk can be diversified is evidenced in the IIX Women's Livelihood Bond, where the underlying borrowers in the bond portfolio are spread across five countries (Cambodia, Myanmar, India, Philippines, Vietnam) and come from four different sectors (clean energy, financial inclusion via microfinance, fair trade and consumer retail).

For commercial investors as well, investing in financially sustainable IEs can present a good way to diversify their portfolio and to make more effective use of capital than would have otherwise been used for philanthropy. Capital invested in IEs can generate returns that can be reinvested in different impact opportunities (Figure 58) so the money can go a lot farther by (i) being used in a cyclical way to continuously create impact, instead of as a one-time donations; and (ii) funding sustainable, scalable IEs that achieve demonstrable social outcomes.

FIGURE 58: IMPACT INVESTMENTS AS A PORTFOLIO DIVERSIFICATION OPPORTUNITY



- **Currency Risk:** Currency risk arises from the change in price of one currency against another and exists when a financial transaction is denominated in a currency other than that of the base currency of the company or instrument. As a consequence, foreign impact investors are exposed to risk that stems from potential changes in the valuation of RM versus their local currency. Currency risk is a concern for two reasons: (i) Impact Investments or Social Finance capital may come from investors from other parts of the region or the world that are interested to invest directly in Malaysian IEs or in RM denominated investment funds or instruments; and (ii) Malaysia-based IEs may be part of a multi-country financial instrument, such as a bond where repayment of principal plus interest need to be made in a foreign currency.

  Risk Mitigation Strategy: A risk mitigation strategy would be to use a currency hedge to protect both borrowers and investors. Currency hedging is the act of entering into a financial contract in order to protect against unexpected, expected or anticipated changes in currency exchange rates. Thus, it acts as an insurance policy that limits the impact of foreign exchange or currency risk. Currency risk mitigation will be no different from in the Social Finance space than the traditional finance space. Thus, the potential investors in the social sector will need to protect him/herself from the current risk he/she will do with the traditional investments.

- **Default Risk:** The third key business risk impact investors are exposed to is a financial risk arising from technical default by the underlying borrowers for a fixed income instrument. This refers to potential deficiency arising on account of failure to make repayment of a loan or provide return on equity investments. A technical default indicates the borrower may be in financial trouble and thus cannot fulfill the agreed upon debt obligations or fails to generate projected profit.

Risk Mitigation Strategy: Guarantees or first loss reserves can insulate investors from bad debts and other risks arising from financial instability. As outlined earlier in this section, risk capital vehicles need to be created by public and non-profit sector stakeholders. This will not only protect investors from financial losses but is also a fantastic way to leverage grant or philanthropic capital to unlock multiples of the committed quanta of capital from private sector and other impact investors. By increasing risk tolerance will also bring higher amount of investment into new, innovative projects or financial instruments that may have a low credit rating owning to the lack of track record or precedents – a common limiting factor in the Social Finance space that can severely curtail growth.

SOCIAL RISKS

This section outlines three of the prominent social risks and suggests potential risk mitigation strategies around the same:

- **Negative Externalities:** While projecting the positive impact of Social Finance initiatives, investors and intermediaries must be cognizant of the potential spillover effect operations may have on the surrounding environment or community that may cause negative impact, which are termed as negative externalities. These externalities must be pre-empted, mitigated or removed all together. Although the by-products of an entity's activities vary from a case-by-case basis, potential risks based on key stakeholders are outlined in Figure 59:

FIGURE 59: EXTERNALITIES TRIAD

Employees: Potential issues that employees may be subjected to include exploitative labor practices that are often heightened by asymmetric power relationships that are highly prevalent in developing countries. The moral framing of exploitation extends to violation of human rights, gender-based wage discrimination and non-conducive working conditions that pose safety or health risks. Although these practices are against the mission of Impact Enterprises, latent or hidden issues must be pre-empted and addressed by rigorously assessing not just the direct workers and employees but also across the supply chain.

There is a strong business case for addressing these issues early using a proactive and preventative strategy. In the immediate term, the company will be effected by high turnover that negatively impacts productivity; in the medium term the entity may run into issues with local authorities, face push-back form the local community (thereby losing potential employee base) and result in loss of license to operate if reformative measures are not taken; and in the long-term, the cumulative impact of these externalities can put financial stability of the entity at risk.

Environment: Entities that have high reliance on natural resources, produce dangerous by-products and inefficiently manage their usage of energy and water supply can have spillover effects on the surrounding eco-system. On a global level this heightens the risks of issues such as climate change and at a local level this could impact land-degradation and natural habitat loss. Both issues have long-term trickle down effects on the community and can result in environmental liabilities and regulatory risks that could have high cost implications on the organization.

Additionally, unsustainable practices also present a lost opportunity in terms of cost saving on energy and other natural resources. This makes it imperative for the due diligence team to critically assess Impact Enterprises that are part of the ISB on spillover aspects that are not immediately obvious but could pose serious long-term financial and social risks that could jeopardize future operational efficiency and stability.

Corporate Governance: Internal management team of any entity does not operate in isolation – the entrepreneur/founder, executive management and board of directors are accountable to other stakeholder groups besides shareholders including beneficiaries/customers, employees and the broader supply chain, the local community and the environment. Transparency in management and reporting and a strong code of ethics to guide internal policies and governance are essential tenets that must be assessed to avoid conflict of interest, poor disclosure on material information, unreasonable executive compensation levels and weak board accountability.

Besides obvious litigation risks that could arise from discrepancies in corporate governance, there is also a reputational risk that the brand faces – both factors that could cost the organization massive financial losses. Although this has low probability for most IEs, the high cost involved in case an issue arises mandates a rigorous focus on pre-identifying and addressing these risks.

Risk Mitigation Strategy: Negative screening is a common risk mitigation strategy that has become increasingly applied even in more commercial contexts. For instance, several larger companies now produce sustainability reports that show adherence to basic Environment, Social and Governance (ESG) considerations. Impact investors can follow similar frameworks. Often, investors will request for certification that ensures a certain basic level of compliance with internationally accepted standards to ensure credibility (example: Fair Trade or ISO Certification).

Protection against risk of negative externalities can be further reinforced by contractual agreements that legally bind entities to adhere to certain basic standards. This will have the additional consequence of protecting investors against reputational risk that arises from investments in projects that create unintentional negative externalities, even if their core mission is socially driven. For instance, a livelihoods project that is creating employment opportunities to alleviate poverty but is causing unsustainable reliance of local community on dwindling natural resources.

- **Mission Failure:** Risk of mission failure arises when the social intervention itself fails to create intended positive outcomes. This is different from mission drift (outlined in the section below) which is the conscious trade-off between profits and impact, triggered either by operational and management decisions of the entrepreneur or by pressure created by financial targets set by the investors. Like all start-ups, smaller IEs are exposed to the risk of failure of the idea or concept from producing the desired results in terms of both tangible outputs and anticipated outcomes; this is magnified by the fact that most social problems are complex with a variety of extraneous factors influencing end results.

Risk of mission failure is a matter of more critical concern for pay for performance mechanisms like Social Impact Bonds (SIBs), (the structure of SIBs have been outlined in greater detail in Section 4 of this report). There are three key actors in a SIB structure: (i) impact investors – who buy the SIB and thereby provide the upfront capital to fund the intervention; (ii) NGO or other social sector entity – that uses these funds to implement an intervention aiming to create pre-determined social outcomes that are measured by a neutral third party; and (iii) governments or donor agencies – who are the outcome payer and pay the investors based on achievement of target social outcomes. Given that payment is based on performance, the entire risk is shifted on to investors, 'mission failure' and the risk of not meeting these social goals is of high concern to and has considerable repercussions on the impact investor. As a consequence, innovative or new ideas are often not funded by such mechanisms due to the inherent uncertainty and potential downside. This also results in such instruments being extremely expensive due to the high level of rigor mandated by the measurement and evaluation process. As outlined in Section 4, this is a key reason why SIBs have faced criticism from industry leaders when proposed as a solution in a developing country context.

Mitigation Strategy: Most impact investors are conscious of the risk of mission failure. This is the key reason they go one step beyond negative screening into positive screening by actively measuring results on an ongoing basis. This is usually done using an impact assessment framework with customized data collection tools and a final SROI number that allows for impact to be measured and monitored. Social and environmental performance is tracked with the same rigor as financial performance. When structuring innovative financial mechanisms and impact investment funds, risk of mission failure also makes it critical to conduct an in-depth, preliminary social due diligence on potential pipeline entities before they are accepted into the portfolio. This involves looking at the historical track record and estimating future impact using evidence based projections. It is also essential to build in feedback loops and constantly monitor progress on social or environmental indicators and metrics.

Organizations in the social sector that lose sight of their mission or misappropriate funds are held to relatively higher public condemnation than their commercial counterparts. For example, in July 2005 Singapore witnessed a scandal involving the National Kidney Foundation Singapore (NKF) following the collapse of a defamation trial which it brought against Susan Long and Singapore Press Holdings.. Allegations surrounding the scandal included the false declarations on how long NKF's reserves could last, its number of patients, installation of a golden tap in the Chief Executive Officer's private office suite, his salary, use of company cars and first-class air travel. This caused a massive backlash and fallout of donors to the charity, and subsequently resulted in the resignation of chief executive officer, T.T Durai, and its board of directors.[35]

Social due diligence and strong measurement and evaluation frameworks will not help IEs or issuers of innovative financial instruments to monitor their own impact to ensure they remain on track, but will also help them to report results that will unlock additional funding in the future. However, a cost benefit analysis must be done so that the overheads involved in managing these structures and controlling risk do not cause a strain on the actual execution of the project or hinder achievement of results. Finally, it should be noted that for IEs, social and financial success is inextricably linked. This makes it critical to focus on dual financial and social due diligence procedures as without financially sustainability, the IE’s impact potential will also be compromised.

- **Mission Drift:** The inherent challenge of operating an Impact Enterprise is managing the dual objectives of generating both, financial and social returns. This often translates to decisions and actions being in frequent opposition mandating calculated trade-offs: decisions to forsake social impact to capture market share or improve profit margins; or conversely, expanding the scope of positive outcomes on target beneficiaries at a

[35] "*Public anger over charity chief's salary*", John Burton,Financial Times, 14 July 2005

financial cost. Mission drift is different from mission failure where the intention to create impact remains a priority but the method of achieving the social outcomes itself fails. Mission drift is when an entity's efforts to meet its financial goals begins to take precedence over its social mandate, threatening to 'swing the pendulum' too far in the other direction.

Although market-based solutions are essential to ensure long-term sustainability, the feared results of this "mission drift" are that the organization will lose focus, and stray too far into the commercial realm, compromising its social mission. It is critical to set parameters on "how far is too far" on the mission-money spectrum. For instance, MFIs accomplish this by quantifying loan sizes, duration of client relationships, and interest rates before arriving at a model that is financially viable and at the same time, well positioned to create scalable impact. This requires strong market discipline coupled with an equally strong sense of ethics, integrity and leadership consensus about limits on factors that dictate: "how far is too far", in any direction.

Mitigation Strategy: 'Intention' is the key factor when assessing mission driven entities. However this is an intangible concept that is often difficult to pre-assess. Listing securities on a Social Stock Exchange (SSE) can help ensure transparency due to the high-level of transparency it entails. The regular reporting requirements and rigorous pre-screening of entities prior to listing on the SSE indirectly mandate these entities to commit to a certain level of social performance at par with generating financial results.

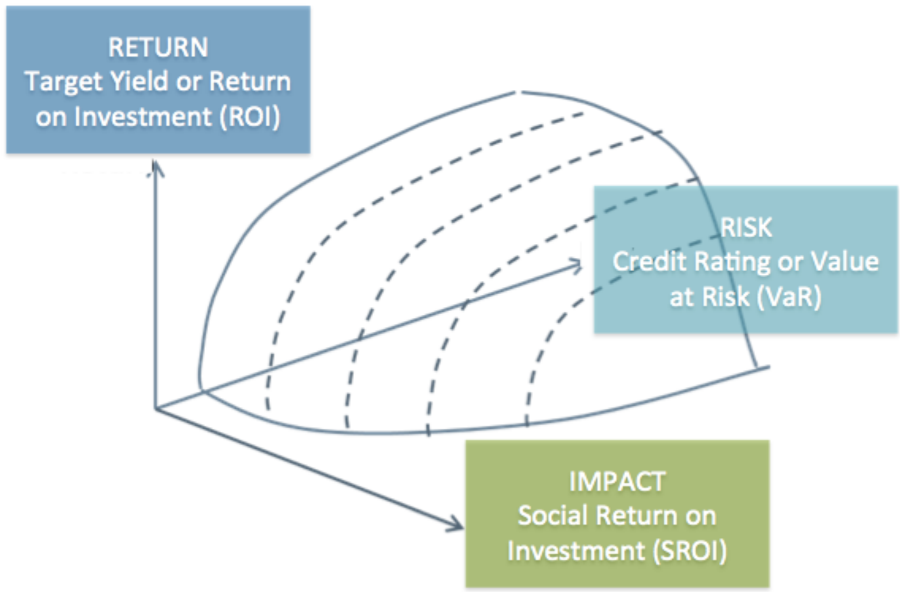
Additionally, listing on an SSE mitigates liquidity risk by providing investors with a platform by which to exit these deals. On the other hand, for non-listed entities that raise capital through private placement platform, it is critical for the intermediaries to play a role in screening investors as well to protect the recipients of impact investments and ensure they are not mandated by investors to shift course for which the capital was originally mobilized for.

GENERAL GUIDELINES

As elucidated in the sections above, dealing with risk in Social Finance is a complex, critical process. One key consideration is that risk should not be assessed in isolation when making investment or operational decisions. Traditional metrics considered by purely commercial investors are target rate of return and commensurate level of risk that bondholders would find acceptable.

In addition, IIX proposes taking a 3-D investing approach for mission related investments by introducing a third parameter: target impact. This entails creating a framework (Figure 60) below that estimate ranges of for each of the three parameters that are acceptable to investors and other stakeholders.

FIGURE 60: 3-D INVESTMENT APPROACH FOR IMPACT RELATED INVESTMENTS



For innovative financial mechanisms in particular, pre-determining risk-return-impact parameters is a critical part of the structuring process because it enables the bond mechanics to be completely aligned with key constraints and investor preferences from the onset. At the same time, investor interest on catalyzing impact and the consequent trade off with risk and return must also be kept in mind. This mandates a constant dialogue between Social Finance intermediaries who are structuring the instrument and other partners (banks, governments, IEs) to ensure alignment of incentives.

In summary, it is critical for investors and IEs alike to adopt a proactive, ex-ante approach to managing risk. A few measures that help build a robust Social Finance eco-system in Malaysia that is well equipped to deal with risks are outlined below:

- Government taking a lead on de-risking investments and creation of risk capital vehicles that can be leveraged to unlock greater amounts of capital from private sector participants that would not otherwise enter the Social Finance market
- Auditors and law firms incentivized or encouraged to play active role in risk mitigation by lending their expertise and providing pro bono financial and legal advisory services to both, Social Finance intermediaries and entrepreneurs
- Measurement and evaluation professionals to incorporate considerations of social risk identification and mitigation during impact assessments and ensure social due diligence is conducted with rigor that is equal in measure to financial due diligence
- Policy makers to encourage (or mandate) transparency of results of capital provided to Social Finance initiatives; this can be achieved through regular reporting requirements based on performance on both, social metrics and financial indicators

POLICY ANALYSIS

EXPLORING THE ROLE OF POLICY IN SOCIAL FINANCE

In order to enable traditional investors to embrace and participate in the novel concept of Social Finance, more has to be done to enhance Malaysia's social infrastructure and ensure that this is a space that thrives. The role of policymakers is to recognize that as IEs grow, they require more sustainable sources of financing from untapped parts of the market, i.e. non-traditional investors who seek more than financial returns. In order to create a more facilitating environment for these enterprises to grow, the government needs to introduce policies that initiate Social Finance as an asset class and directs more sustainable sources of capital to cater to the needs of growing IEs. Policies can also take the form of incentive structures that are key to transforming what may be a basic investor interest in Social Finance into actual capital allocations. For incentive structures to be effective, they need to consider how best to nudge ecosystem players into the intended direction and overcome any obstacles that are currently deterring their active participation. Five policy interventions analyzed in this section are:

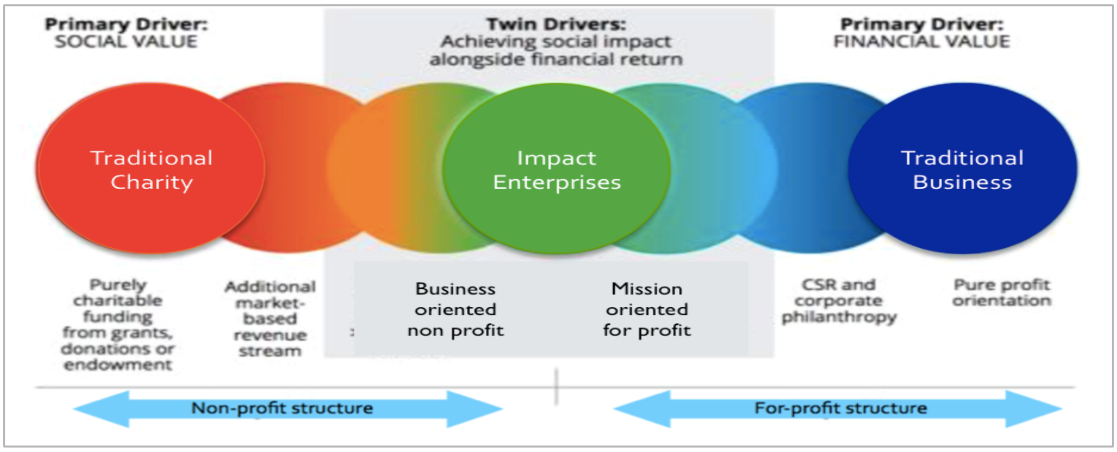
- **(i)** **Legal Definition for IEs:** Policy aimed to add clarity around the primary recipients of Social Finance capital and to complement other policies that aim to redirect capital into IEs;
- **(ii)** **Establishment of a Social Finance commission:** Institutionalizing Social Finance by setting up Social Finance Commission to catalyze the growth of the space.
- **(iii)** **Social Investment Tax Rebate:** Positive incentive structure aimed to give potential impact investors a financial concession to stimulate greater mission-oriented investments;
- **(iv)** **Corporate Social Responsibility (CSR) Mandate:** Negative incentive structure aimed to encourage corporates to be transparent and strategic about their CSR budget allocations; and
- **(v)** **Ethical Procurement:** Policy aimed to look internally at the government's own supply chain and introduce the notion of sustainable procurement.

LEGAL DEFINITION FOR IMPACT ENTERPRISES IN MALAYSIA

WHAT ARE IMPACT ENTERPRISES?

The term Impact Enterprise describes the purpose of a business, not its legal form. It broadly encompasses for-profit enterprises that are mission driven as well as non-profit organizations that are financially sustainable and generating revenue. IEs are the primary recipients of Social Finance capital. In the spectrum of organizations, IEs fall between traditional charities and traditional businesses [Figure 61].

FIGURE 61: IMPACT ENTERPRISE SPECTRUM



EXPANDING THE SCOPE OF SOCIAL FINANCE BEYOND SOCIAL ENTERPRISES

Given the nascent Impact Enterprise landscape in Malaysia, it is suggested that the definition of what constitutes Impact Enterprises be broadened so as to be more inclusive to those entities working to create a positive impact. IIX recommends broadening the scope of recipients of Social Finance capital to go beyond Social Enterprises and to recognize the potential of financially sustainable NGOs and high-impact SMEs to accelerate the development agenda. Malaysia currently has an estimate +25,000 NGOs and +80,000 SMEs that must be integrated into the Social Finance space to capitalize on existing infrastructure and breadth of experience. As such, policymakers should consider defining Impact Enterprises so as to encompass non-profit entities that are revenue generating as well as SMEs that are mission driven. This definition is intentionally broader than 'Social Enterprise' which, based on the Malaysia Social Enterprise Blueprint 2015 – 2018, have been defined as any legally registered organization that satisfies all the following requirements:

The primary mission of the organization is to address any of the social agendas listed below:

1. The organization takes all reasonable effort to execute the mission;
2. The organization is designed to use a commercial business model to sustain itself;
3. The majority of its profit is reinvested into carrying out its social mission; and
4. The organization fulfills its social agenda in a way that is both distinct and socially meaningful from any other traditional commercial enterprise, especially in operations and management.

Social agendas include, but are not limited to, activities aimed at the improvement of:

- Material living conditions for the bottom 40% income bracket;
- Health;
- Education;
- Productive and valued activities for bottom 40% income bracket;
- Governance and basic rights;
- Leisure and social interactions (inclusion of other members in society);
- Natural and living environment;
- Economic and physical safety;
- Children;

THE CASE FOR A LEGAL DEFINITION FOR IMPACT ENTERPRISES IN MALASYIA

While too narrow a definition will exclude participants, absence of any definition can potentially act as a barrier to growth. Three key reasons to define IEs are:

- **To institutionalize the Social Finance space:** A legal definition that outlines key parameters within which IEs operate (legal structure, intention to create impact, ability to generate profit while doing good, etc.) is critical for Malaysia – failing to identify these boundaries will leave the term Impact Enterprise so wide open as to be entirely insignificant. Additionally, triggering a movement behind the Social Finance space will be immensely challenging without clarity on the primary vehicles of mission-oriented capital. There is currently limited understanding of IEs among key stakeholders from public, private, and non-profit sector as well as among the common public that will inevitably limit them from supporting the growth of these entities.
- **To facilitate capital mobilization:** Introducing a legal definition can help providers of mission-oriented capital to identify target recipients beyond non-profits. For instance, as per the Malaysia Social Enterprise Blueprint 2015 – 2018, a key reason for wanting a formal legal identity or certification was because corporate foundations or CSR departments (i) found it problematic that profits come into a social project or (ii) have legal restrictions that make it difficult for corporate funders to support a private company or a Sdn Bhd. Giving IEs a legal definition will remove these artificial barriers and make it easier to allocate mission-oriented capital.
- **To ease the regulation process:** By clearly articulating which entities are IEs, it will be easier to facilitate an efficient registration process to incorporate these entities and to ensure they benefit from other policies that are designed to provide positive incentives to impact investors such as a Social Investment Tax Rebate. Entities that are incorporated as IEs can also be subjected to a different set of reporting requirements (to mitigate risk of mission drift and add transparency around impact metrics) and can be eligible to register on platforms suggested as part of the Roadmap such as the IE dedicated Equity Crowdfunding platform and the social stock exchange.

WHERE HAS A LEGAL DEFINITION OF IMPACT ENTERPRISES BEEN ADOPTED?

There exist exemplary cases wherein the enterprise law has been revised to provide a legal definition of Impact Enterprise to encourage, support and promote the development of Impact Enterprises. For instance, in Vietnam the amended law defines a Social Enterprise as a business whose main aim is to address a social or environmental issue and which re-invests a minimum of 51% of its annual profits towards its social or environmental mission.

The U.K. has been known to spearhead the term, "social enterprise" and has seen significant traction in the amount of capital mobilized by this legal entity. There are around 55,000 Social Enterprises with revenues of up to 27 billion pounds, accounting for 5% of the Enterprise workforce, and contribute 8.4 billion pounds each year to U.K. economy.

APPLYING A LEGAL DEFINITION OF IMPACT ENTERPRISES IN MALAYSIA

Two key dimensions that should be considered in the legal definition include:

1. Sustainability dimension, i.e. engagement in continuous economic activity, which distinguishes IEs from traditional non-profit organizations/ social economy entities.
2. Impact dimension: i.e. an explicit social purpose with ability to create demonstrable positive impact, which distinguishes IEs from mainstream (for-profit) enterprises and 'locks-in' the goals

of the organization to prevent risk of mission drift.

A separate framework should be established for Impact Enterprises and for the operation of Impact Enterprises. At this initial stage, issuing a legal document in a form of Government decree that provides an official definition of IEs would be appropriate. This will enable process of institutionalization of Impact Enterprises, and also prepare legalization of this sector at a later stage, when Impact Enterprises have massively grown with profound practical evidences. Key points to guide the process include:

- Criteria on compulsory and flexible characteristics of Impact Enterprises should be clearly defined;
- Preferential policy incentives to support Impact Enterprises in certain high-impact sectors, which the government deems necessary to encourage development or participation of these organizations;
- In term of public administration, the decree may stipulate the establishment of a department/agency within a ministry that is responsible for the administration, encouragement and support of Impact Enterprises.

SOCIAL FINANCE COMMISSION

OVERVIEW

The G8 Social Impact Investing Task Force was set up in 2014, comprising public, private and social sector representatives from seven countries and the EU, superseding the Social Impact Task Force (SIITF) in the UK. Other countries have also institutionalized the Social Finance sector through dedicated agencies including the Office of Social Innovation in the US, and the Ministry of Social Development and Innovation (MSDI) in British Columbia.

While the nuances of each commission might vary depending on the social and economic context of each country, these dedicated entities broadly focus on building the social investment space by engaging and involving multiple stakeholders. The US Office of Social Innovation, for example, is geared towards innovation and adopts a bottom-up approach, engaging social entrepreneurs and early-stage social innovation models. The G8 SIITF and the MSDI in British Columbia however assume more of a 'top-down' strategic policy advisory role. Each of these models has features, structures and programs that can be drawn on when developing a model for the Malaysian context.

ROLE OF A SOCIAL FINANCE COMMISSION

Establishing a Social Finance Commission in Malaysia will serve to institutionalize the sector and catalyze the domestic social Impact Investing market. Ideally, the Commission will bring together government agencies, corporations, foundations, institutional investors, philanthropists, and associations to build and develop Social Finance capacity across sectors in Malaysia. The Commission will assume the following broad roles to add value to Malaysia's Social Finance ecosystem: (i) **Commission as a Convener**; (ii) **Commission as a Hub for Knowledge**; (iii) **Commission as an Advisor**; and (iv) **Commission as an Igniter**.

COMMISSION AS A CONVENER

As a convener, the Social Finance Commission will bring together prominent stakeholders from government, business, finance, philanthropy and community organizations to facilitate dialogue and collaborate on how to support the Social Finance space in Malaysia. By creating this platform for knowledge exchange and cooperation, the Commission will enable network building among key ecosystem stakeholders, effectively bringing together diverse perspectives to develop solutions for challenges facing the sector.

COMMISSION AS A HUB FOR KNOWLEDGE

The Commission will act as a hub for knowledge, research and information related to the Social Finance space. By liaising with government agencies, NGOs and intermediaries, the Commission will consolidate and share information, case studies, and resources around best practice models. Informed by its working groups, the Commission will also create a knowledge base for performance benchmarks, asset allocation, standardized impact measurement guidelines, and information around government initiatives and Social Finance legislation.

COMMISSION AS AN ADVISOR

The Commission will assume the role of strategic advisor to its partnering government agencies with a focus on creating a comprehensive set of standards and guidelines that stakeholders across Malaysia can refer to. Through its various working groups, the Commission will review key developments in the local and international Social Finance markets, identify opportunities and make recommendations for the future growth of the sector. Under this mandate, it will also review asset allocation to investors (foundations, endowments, pension funds, banks etc) to ensure that allocation is aligned with overall development agenda for the space.

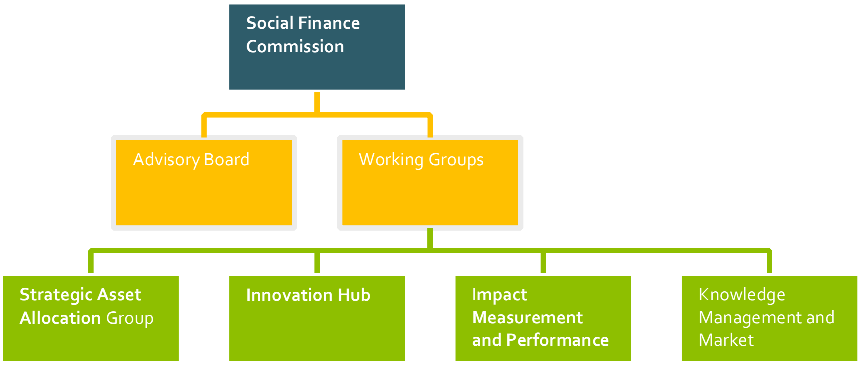
COMMISSION AS AN IGNITER

Drawing from the bottom-up approach of the US Office of Social Innovation, the Commission will have a strong emphasis on innovation – with a focus on developing opportunities for social innovation models to unlock private capital for the social sector in Malaysia. It will also engage in dialogue with public, private and non-profit sector stakeholders to encourage them to seek innovative solutions to existing social issues. Through its innovation-focused working group, the Commission could also work directly with innovative IEs to help them improve their technical and operational capabilities.

PROPOSED ORGANIZATIONAL STRUCTURE

A proposed organizational structure for a Social Finance Commission is outlined in Figure 62 below. Modeled after the design of the G8 Social Impact Investment Taskforce, the structure comprises of an advisory board (aimed at informing the overall work of the Commission and developing plans for future growth) and several working groups (designed to address specific challenges facing the IE landscape in Malaysia).

FIGURE 62: OUTLINED ORGANIZATIONAL STRUCTURE FOR THE COMMISSION



Social Finance Commission: Comprised of government officials, and prominent representatives from different stakeholder groups within Malaysia.

Advisory Board: Comprised of market leaders in the Social Finance Space from in and beyond Malaysia.

Working Groups: Comprised of industry experts and sub-dividied into four key groups:

- Strategic Asset Allocation Group: To recommend approaches to achieving specific allocation to Social Finance by institutional investors;
- Innovation Hub: To identify opportunities for social innovation, engage with stakeholders and nurture innovative business models;
- Impact Measurement and Performance Evaluation Commission: To standardize metrics used for measurement of social outcomes and to track progress towards development goals; and
- Knowledge Management and Market Intelligence Group: To engage with stakeholders to collect and consolidate case studies, research and best practice models to disseminate in the community.

SOCIAL INVESTMENT TAX REBATE

RATIONALE FOR TAX INCENTIVES

While tax incentives have been gaining traction in influencing mainstream investments into green initiatives such as clean energy via the Investment Tax Credit in the U.S. for instance or the Feed-in Tariff for solar energy producers in Malaysia, Impact Enterprises working to address social issues are often removed from overarching policies. Some may argue that there is a reason for this as pure social investors by definition are motivated by generating environmental or social return through their investments and therefore face no particular motivation from increasing financial gains that tax incentives serve to create. However, this ignores the set of investors that sit in the middle and wish to pursue blended returns in the form of financial gains and social impact.

For an investment category that is deemed novel and therefore risky as is the case with Social Finance in Malaysia, there needs to be external mechanisms in place that mitigate a portion of this risk from the outset and create public buy-in in the process. Tax incentives are one way to do this. Policymakers may fail to identify the necessity to cater to socially focused organizations when there are incentives in existence for the mainstream SMEs. This often occurs due to a general misconception that SMEs inherently create impact as part of their business, which is not necessarily the case. Measures targeted towards the general umbrella-term of SMEs have limited impact in leveraging what Social Finance can accomplish. For one, mainstream incentives are often designed for short-term equity investments, which would exclude many Impact Enterprises because of their legal structure and inability to accept investments of this nature.

CASE IN POINT: UNITED KINGDOM SOCIAL FINANCE TAX INCENTIVES

The UK set the precedence for positive incentive structures via tax relief measures by way of encouraging investments into Social Finance initiatives. As mentioned in Section 3, this was done through the Community Interest Tax Relief (CITR) that encouraged private investment in priority areas and the Social Investment Tax Relief (SITR), which used tax incentives as a means to reduce the risk associated with social investments (both debt and equity).

Upon evaluation, this tax incentive structure has been seen to mobilize a large amount of capital into the Impact Enterprise sector. It was noted that for every £1 invested by the public sector through accredited intermediary organizations called Community Development Finance Institutions (CDFIs) in the large Impact Enterprise lending market, a Gross Value Added return of £8.33 was generated. £63 million has been raised through CITR since its inception and £200 million was lent by CDFIs in the last reporting year alone. CDFI loan portfolios now stand at over half a billion pounds. As such, schemes such as this have contributed to attracting perhaps a few million pounds of investment into social ventures, and yet the sector as a whole contributes many billions of pounds to the country's GDP. Thus, there is a strong case to be made for tax incentives in shaping the Social Finance pathway in Malaysia.

It must be noted however, that Social Enterprises in the UK encompass only non-profit initiatives. Broadening the realm of incentives to include the scope under Impact Enterprises will have an even greater impact in Malaysia.

APPLICABILITY TO MALAYSIA

More needs to happen in Malaysia to spur activity on the demand side – impact entrepreneurs need to witness a strong and enabling market environment and infrastructure in order to consider entering the market and be a contributing asset to the level of attractive investment opportunities. On the supply side, there is an increasing numbers of investors seeking out opportunities to deploy capital with a view of creating both social and financial returns. This is particularly the case for corporate CSR funds, which currently lack strategic intent in Malaysia. With a favourable incentive structure available to corporate CSR funds, they will be more inclined to direct their capital to Social Finance initiatives. Current tax Incentives for CSR activities are limited to donations and are applicable only for non-profit recipients. This excludes a vast amount of activity occurring in the for-profit sector for mission driven entities.

Tax incentives have the ability to reduce the pressure on government funding, especially from what is currently directed towards civil society. With the right incentives in place, Social Finance has the potential to leverage private sector funding in a manner where public sector funding is often constrained.

INTRODUCING SOCIAL INVESTMENT TAX REBATES IN MALAYSIA

Incentive structures need to be formulated with the aim of slowly reducing government involvement in Social Finance, and enable a more active investment landscape that is catalyzed by private sector investors. There is a considerable body of evidence implying that there is a dearth of risk capital that holds back the social sector's potential to evolve and achieve greater development impact. The following are guidelines that can be used to formulate the incentive structure of using social investment tax rebates in Malaysia.

Objective of the Social Investment Tax Rebate: To provide tax incentives for social investments made by individuals, corporations, foundations and trusts into Impact Enterprises.

Qualification criteria for tax rebates: Social Investments into Impact Enterprises where the investment is used to finance business activities related directly to their operations. Policymakers may have discretion with regard to embedding clauses that exclude certain business activities that they feel may go against the development agenda of Malaysia. Of course this must be done whilst ensuring that exclusions do not result in market distortions that might be created in the case of priority sector lending. Please refer to the section above on the Legal definition of Impact Enterprises for a comprehensive description of what Impact Enterprises comprise of. The Impact Enterprise must not be a majority owned subsidiary of a parent company. It should maintain independent control. The Impact Enterprise must not be publicly listed.

Social Investment Size: Policymakers are advised to place a cap on the maximum amount that can be invested by an individual or organization such that there is a limit to the amount of relief that the government has to provide and thereby a limit to how much they do not receive in the form of income tax revenue. This cap may be adjusted based on investor type, i.e. the investment size of individual investors should differ from corporations, foundations and trusts.

Qualifying Social Investments: For an investment to be recognized as a social investment, the investor must take an equity stake in the Impact Enterprise in exchange for an offer of shares, or the investment should be debt-based. This is important as it enables Impact Enterprises to be unrestricted in terms of their legal structure and enable those enterprises without share capital to benefit from investments. Policymakers are advised to attach the necessary provisions to these social investments in order to ensure that the intent behind them is not motivated by tax avoidance. Efforts must also be placed to ensure that Impact Enterprises are not exploiting their terms to garner greater investor participation, i.e. that the dividends or loan interests are in alignment with reasonable commercial expectations of return.

Timeframe: Policymakers must consider attaching a reasonable timeframe against the social investment as a means of ensuring that investors do not misuse the incentive and pull out their investments within a short timeframe. The SITR in the UK attaches a 3-year period, prior to which the relief would be withdrawn should the investor pull out. Malaysia should consider a similar timeframe to ensure greater potential for development impact to be created from Social Finance.

CORPORATE SOCIAL RESPONSIBILITY LAW

CSR is usually considered a voluntary effort by companies, rather than a regulatory mandate that is forced upon them by an external body. As such, efforts to regulate CSR are often met with resistance from those who do not consider the issue to be paramount. The justification for mandating the allocation of CSR funds is stronger in the case of a resource-constrained society where public sector resources are insufficient or inefficient means of accomplishing the nation's social agenda. While CSR spending can be spurred through positive incentives such as tax reliefs mentioned above, this section will consider the effectiveness of using mandatory CSR policies to increase spending in priority sectors that can catalyze sustainable development through Social Finance.

CASE IN POINT: INDIA'S CSR LAW

India is the first country to have a CSR legislation that mandates that companies give 2% of their net profits to charitable causes. In India, the law applies to companies with a net worth of approximately US$80 million; turnover of at least US$160 million; or net profit that exceeds US$830,000. According to the Economic Times, about 8,000 Indian companies meet this definition, which would equate to nearly US$2 billion[36]. The law provides detailed guidelines regarding the kinds of activities that are eligible across several categories. This includes hunger and poverty, education, health, gender equality and women empowerment, skills training, environment, enterprise projects and promotion of rural and national sports.

While there is no penalty for non-compliance, companies are required to be transparent in terms of CSR spending and reporting measures in alignment with these parameters that has lead to increased transparency. This can act as a 'negative incentive' by mandating companies to state the reasons for non-compliance that can potentially increase their reputational risk and have a damaging effect on the company's brand equity.

The success in implementation however varies across companies – those who embed CSR initiatives in line with their business goals are the ones that create the most dollar value impact from the mandated 2% of profits to support social issues. On the other hand, those companies that use the mandate as a checklist and impose ad hoc methods to direct their CSR funding are unable to create the sustainable impact that a policy like this is designed to create. The clause in the CSR mandate that requires spending to be outside of an organization's business activities may be a factor that encourages unstructured allocation of CSR funds for those companies that do not have a deep understanding of the outcomes from CSR activities.

APPLICABILITY TO MALAYSIA

Currently, the status of CSR policies in Malaysia is non-imposing in terms of the government's regulatory influence, with the Bursa Malaysia recommending that all listed companies disclose their activities across four categories: Environment, the Workplace, the Community and the Marketplace. While it has a set of guidelines about CSR activities and reporting policies, this is all voluntary. Given the current CSR landscape in Malaysia, there exists a disparity in how CSR is viewed with the majority of listed organizations who have a tendency to simply support charitable causes that have little to no overlap with their business strategy. While there is nothing essentially wrong with this practice, the impact that can be created if top level managers use the same level of expertise that they use as part of their corporate decision making towards CSR activities is significant.

[36] http://www.bsr.org/en/our-insights/blog-view/india-companies-act-2013-five-key-points-about-indias-csr-mandate

CSR mandates usually set out minimum standards (as seen in the case of the Indian CSR law). How companies go about making their CSR strategies actionable is very much left to them. If there are no structures in place to guide these strategies, then the mandate alone is ineffective. Thus, more needs to be done from the ground up in order to ensure that if ever corporate CSR funding is pre-mandated, that these organizations be encouraged to allocate the funding effectively.

To ensure CSR funding is strategic and maximizes its impact potential, IIX recommends embedding two key guidelines into any policy introduced by the government:

1. Creating Shared Value: Shared value is a management strategy focused on companies creating measurable business value by identifying and addressing social problems that intersect with their business. The shared value concept can be introduced via a CSR mandate in two ways:

(i) Corporates should be encouraged to look inward and evaluate potential for creating impact through their core operations. Beyond compliance with traditional Environmental, Social and Governance (ESG) metrics, the CSR mandate should encourage corporates to channel their CSR funding towards initiatives that can make their supply chain more environmentally sustainable or socially inclusive.

(ii) Additionally, when designing a CSR agenda, corporates have to be encouraged to select causes that are linked to their own core business. For instance, banks should support financial inclusion. The dual benefit that arises from this is (i) it ensures that the corporate has a vested interest in continuing to support the cause over the long-term and will avoid the risk of creating false dependencies; and (ii) it gives the opportunity for the corporate to transcend to the role of a funding partner and add additional value by offering relevant skills, expertise and networks to magnify net impact of the initiative.

2. Investing in Sustainable Impact: There are three ways in which Malaysia can design a CSR mandate that will mobilize capital towards supporting sustainable impact:

(i) The mandate should allow companies to use their CSR funds to support IEs, which are better positioned to create scalable impact and sustainable results as compared to traditional NGOs. While it may be complex from a regulatory standpoint to permit investment into these enterprises, corporates should be allowed to support their growth, for instance, by funding technical assistance or impact assessment.

(ii) The mandate should also permit CSR funds to be used to fuel innovative programs that will help high-impact entities reach the next level of growth. This could potentially include interventions focused on IEs (Incubators/Accelerators/Competitions), NGOs (financial sustainability programs) or SMEs (impact magnifier programs).

(iii) The mandate should encourage companies to use their CSR funds to invest in innovative financial mechanisms (such as the Humanity Bond) where any return on investment earned can be recycled and reinvested in mission-oriented initiatives in the future. CSR funds can also be used to support structuring of these products or be used to de-risk investments in the form of guarantees, thereby opening up the floodgates of private capital earmarked for development.

ETHICAL PROCUREMENT POLICIES

WHAT IS ETHICAL PROCUREMENT?

Ethical procurement and purchasing primarily generates social benefits and social impact by focusing on procurement of goods, services and works that has a social dimension to sustainability as part of triple- bottom-line procurement.

Ethical procurement provides a mechanism for linking and integrating social and economic agendas, both in public policy terms and in broader societal and commercial terms. This effectively means that social outcomes are not relegated to social policy agendas, to welfare departments or to CSR sections within organizations. Rather, social outcomes become part of the businesses and government.

WHY IS ETHICAL PROCUREMENT IMPORTANT TO CONSIDER?

Social procurement is one way in which public sector bodies, corporations and nonprofit organizations can ensure that they are opening direct pathways for economic and social inclusion in addition to ensuring that the worst impact of exclusion are ameliorated. Social procurement sits alongside other asset based approaches to social exclusion, building on peoples capacities, harnessing people's potentials and redistributing wealth directly back into communities. In this way resources flow into communities rather than around them and this has a multiplier effect, building both wealth and wellbeing.

Ethical procurement policies can also stimulate social innovation in response to complex social and environmental issues and increase value for money by producing social, as well as economic, value through purchasing process. Approaches to ethical procurement can be defined as:

- Developing an explicit policy framework addressing how, when and why social procurement principles are adopted;
- Making efforts to encourage participation in procurement by diverse suppliers, including IEs;
- Incorporating community or public interest clauses into tender requests;
- Social tendering, where contractual terms are negotiated with social purpose businesses; and
- Distributed procurement, where funds and procurement decisions are devolved to a local agency or governance body in pursuit of social policy goals.

HOW DOES ETHICAL PROCUREMENT ALIGN WITH SOCIAL FINANCE?

Ethical Procurement aims to add social value in a procurement strategy. Ethical procurement practices ensure transparency and often specifically target social value. Shifting procurement to IEs has a significant potential to generate greater returns on investment to government and society, and may result in fairer and stronger local economies, more jobs for people with barriers to employment, important communities services, reduced poverty, renewed communities, and more sustainable environments. When sourcing from IEs, an ethical procurement strategy can embed socially responsible business practices during the nascent stages of a company's growth.

In addition ethical procurement is one of the most important tools in developing the market for IEs. Uses of ethical procurement within the IE context include:

- To indicate that an organization has screened their supply chains to ensure that they are socially responsible and ethical, that is, that they do no harm in relation to social indicators such as labor conditions and human rights of workers;
- To link the generation of social impact with the purchase of goods, services and works, thereby value-adding to the purchase;
- To refer to the procurement of social services – the contracting of services related to social care, social service and social welfare;
- To tackle corruption – by avoiding any potential form of nepotism and appropriation of funds[37];
- To increased investment by IEs in innovation and R&D.

However the market is vast and largely untapped resource. To stimulate ethical procurement, it is vital to build ethical markets, which can be defined as aggregated consumer-provider (demand-supply) exchange transactions of goods or services that have – as one of their defining product characteristics – a normalized notion of social and/or environmental benefit. All in all, ethical markets are economic spaces where consumers buy products that have added social or environmental value above other goods or services.

From an investor perspective, there has been a growing recognition of the connection between the allocation of capital and its human and environmental impact leading to a demand for a new set of investment opportunities, which have bolstered the social financing infrastructure. Given the context, a need for ethical procurement policy implies socially responsible screening to mitigate risk in the supply chain, leveraging procurement funds to generate a value-added, social impact, and procuring social services in a way, which moves beyond traditional philanthropy and grants. More importantly, ethical procurement policies, needs a greater push, both at the government and private levels to create avenues for IEs for providing economic and social value.

WHERE HAS ETHICAL PROCUREMENT BEEN ADOPTED?

In recent years, governments in some parts of the world have supported the development of procurement policies that incorporate social factors into their competitive review process. There has been particular interest in social procurement as a mechanism for stimulating the Social Finance market, as part of a wider policy framework that has involved considerable devolution of public service delivery to IE. The section below outlines a few brief examples:

United Kingdom: In UK, the sheer scale of government procurement spending is estimated to be £150-£200 billion in 2014. This implies that ethical procurement has the potential to shift the market across multiple industries and have a catalyzing effect on the ethical economy. In the UK, the establishment of IE Unit within Government in 2001 specifically supported this policy agenda. The UK Government has already taken a number of initiatives to create a legal and scale framework for the development of Social Finance, as well as to stimulate supply and demand.

In addition, the UK has also provisioned to train commissioners in Socially Responsible Public Procurement (SRPP), besides leveraging the Social Value Act, which requires all public sector

[37] https://www.nigp.org/docs/default-source/New-Site/global-best-practices/ethical.pdf?sfvrsn=2

procurement commissioners to consider the economic, environmental and social benefits before starting the formal procurement process.

Other countries, such as Canada, the United States, Brazil, Australia, and Ireland have also followed Ethical Procurement policies, to economic efficiencies, as detailed in the table below:

Country	Initiative	Policy Outcome
Canada	Sustainable procurement in the Sustainable Development Act	Purchasing from Aboriginal businesses through the Aboriginal Procurement Initiative
USA	Federal policies that promote procurement	Empowering women and minority owned businesses with some emphasis on purchasing from black and indigenous people
Brazil	Law which requires 30% of all food purchased by government for the school meal program, to come from small family farms	Directed $337 million in to 130, 000 small farms every year
Australia	Commonwealth Procurement Guidelines, which included an exemption clause related to Disability Enterprises	Purchase from Australian Disability Enterprises (ADEs) without first going to public tender
Ireland	Incorporated a contractual requirement that suppliers include within their bid an employment plan for including registered unemployed people to work on the contract	15 government contracts from seven departments ranging in value from £700 000 to £8.5 million and net job growth of 51 new positions

DEVELOPING AN ETHICAL PROCUREMENT POLICY FRAMEWORK IN MALAYSIA

The prime objective of the Malaysian Government procurement is to support Government programs by obtaining value for money through acquisition of works, supplies and services. To meet this objective close attention is given to price factors as well as non-price factors such as whole life cost, quality, quantity, timeliness, maintenance and warranty. The benefits or value from procurement commensurate with the costs involved and that the best procurement is well and thoroughly evaluated, reasoned and justified. Including Malaysian IEs in the government's procurement value chain will not only provide a sustainable platform for IEs, but also bridge funding and innovation gaps, by allowing IEs to partake at national socio-economic development.

There are four key aspects to consider when developing an ethical procurement policy framework for Malaysia:

1. **Develop strategic ethical procurement objectives:** Systematic approaches to ethical procurement through the public sector require policy frameworks that explicitly align government-purchasing decisions with socio-economic policy objectives. It is recommended to constitute and institutionalize a Responsibility in Procurement's guide on ethically responsible procurement to increase transparency, build a regulatory compliance, and enhance ethical procurement process.

2. **Education and awareness:** Sub-optimal government perceptions of legal compliance with regard to public procurement, and lack of interest in IEs, can significantly limit the potential for ethical procurement. This includes the perceptions of ministries involved in procurement

activities. Shift in perception towards understanding that every penny of public money spent is an opportunity to support IE and deliver social impact, will enhance the power of ethical procurement.

3. **Training and incentive structure:** Policies pertaining to train commissioners in Socially Responsible Public Procurement will build an ethical procurement environment. In addition, incentivizing the ethical procurement practice and embedding the work into performance appraisals will further enhance legitimacy and drive behavioral change.
4. **Social tendering:** Negotiated tendering has also been identified as a strategy for supporting new market entrants, particularly IEs. Social tendering can provide opportunities to communicate expectations, negotiate contract scale, and identify opportunities for sub-contracting arrangements that allow enterprises of different scale and scope to participate.

A three pronged ethical procurement strategy for Malaysia is outlined below:

Policy Area	Policy Origin	Policy Focus
Sustainable Procurement	Sustainable Development	Introduce policies that focus on green purchasing and environmental sustainability, including exploration of localized supply chains. Basic principles to follow include (i) procurement processes should 'do no harm', and (ii) purchasing should uphold basic human rights.
Socially Responsible Procurement	Corporate Social Responsibility	Introduce policies that redirect CSR funds towards creation of shared value across the corporate's supply chain, besides encouraging fair trade practices, diversity purchasing (from socially excluded or economically disadvantaged groups) and environmentally friendly procurement (minimizing externalities that may harm the natural ecosystem or contribute to environmental degradation).
Social Procurement	Impact Enterprises	Introduce policies that generate social value alongside purchasing and supply chain management through engaging Impact Enterprises as suppliers. A very real barrier for Impact Enterprises looking to access government procurement contracts is lack of scale and absence of legal definition. This is partially to do with the massive size and associated complexities in the government contracts. With these considerations in mind, IIX recommends introducing this policy as part of the government's long-term strategy by when the Social Finance ecosystem is expected to be more mature.

Reducing barriers to participation by diverse suppliers in the procurement process is consistent with the principle of competitive neutrality. To assist IE participation in ethical procurement, it will be imperative to make the procurement processes as visible as possible and to provide support to IEs that will train them in successful proposal writing for bidding/tendering. For instance, the UK's Department of Trade and Industry produced an extensive toolkit to facilitate IEs' successful tender for government contracts.

In addition, access to appropriate financing is important to the sustainability and competitiveness of all businesses. Where IEs are relied upon as a vehicle to fulfill public policy agendas, strengthening their resource base and preparing them to bid competitively for contracts is critical to those policy agendas. For instance, the UK's Impact Enterprise Investment Fund promotes IEs' participation in providing social and health care.

ISLAMIC FINANCE

PARALLELS BETWEEN ISLAMIC FINANCE AND SOCIAL FINANCE

The global Islamic finance industry has been on an upward trajectory, evidenced by its assets' double-digit compound annual growth rate (CAGR) of 17% between 2009 and 2013. The industry's assets are estimated to be worth USD1.87 trillion as at 1H2014, having grown from USD1.79 trillion as at end-2013. The global Islamic finance sector, although nascent compared to the world's total finance industry, has achieved systemic importance in several markets, including Malaysia.[38]

There are distinct parallels between Social Finance and Islamic Finance. Islamic finance is based on the principles of fairness, equality and ethics that lead to social well-being and sustainable economic activity. Social Finance has a similar rationale, broadly seeking sustainability, mission-orientation and green or ethical investment opportunities. In both instances, investors seek to achieve a strong return on their investments, besides accounting for social returns to the society and not just pure economic return.

Malaysia is the leading global hub of the Islamic Finance market, accounting for 67.7% of the total market size. Malaysia should build on this as part of its Social Finance strategy, specifically by exploring innovative new structures, such as IFFIm's Vaccine Sukuk or Khazanah Nasional's Sustainable and Responsible Investing (SRI) Sukuk, that are both Shariah-complaint and also well positioned to generate dual social and financial returns.

What are Sukuk?

Sukuk are the Islamic equivalent of bonds. Whereas a conventional bond is a promise to repay a debt with specified interest rate, Sukuk have to be structured in a manner that ensures that there is an underlying asset, the principal amount is not guaranteed and the return to investors is linked to the performance of the underlying asset.

Sukuk resemble public-private partnership financing whereby investors provide financing to purchase or construct an asset, own the asset and receive payments linked to its performance during the term of the financing and then finally, transfer them at maturity to the government.

Since Sukuk issuances began to accelerate, a number of different structures have developed, including partial ownership in receivables, lease based and profit and loss sharing partnership as well as exchangeable trusts. Sukuk can also be modified to include a social or environmental angle in the structure, as detailed in the following section.

What Makes a Financial Product Shariah-Compliant?

Islamic finance refers to a system of finance based on Sharia. Islamic financial principles are premised on the general principle of providing for the welfare of the population by prohibiting practices considered unfair or exploitative. The most widely known characteristic of the Islamic financial system is the prohibition on any fixed, predetermined rate of return on financial transactions. This ban on interest, is derived from two fundamental Sharia precepts:

- Money has no intrinsic worth. Money can increase in value only if it joins other resources to undertake productive activity. All financial transactions must be linked, either directly or indirectly, to a real economic activity; they must be backed by assets, and investments may be made only in real, durable assets.
- Fund providers must share the business risk. Providers of funds are not considered creditors (who are typically guaranteed a predetermined rate of return), but rather investors (who share the rewards as well as risks associated with their investment).

[38] Islamic Financial Services Board, 2015, 'Islamic Financial Services Industry Stability Report 2015'

CONVERGENCE OF ISLAMIC FINANCE AND SOCIAL FINANCE IN MALAYSIA

Malaysia has already taken steps to promote the intersection of Islamic Finance and Social Finance by issuing guidelines for the Sustainable and Responsible Investment (SRI) sukuk. The SRI Sukuk framework was first mentioned in the Malaysian 2014 budget speech by the Prime Minister (Ministry of Finance Malaysia, 2013) and consequently launched by the Securities Commission Malaysia (SC) in August 2014. This framework is part of the SC's Capital Market Masterplan 2, which aims to promote socially responsible financing and investment (Securities Commission, 2011). The Masterplan sets the agenda to develop a conducive environment for investors and issuers who are interested in sustainable and responsible investments, and to facilitate the growing trend of new innovative financial tools such as green bonds and SIBs (Securities Commission, 2014b).

There are two key reasons for Malaysia to explore the creation of Social Finance mechanisms that are aligned to Islamic Finance requirements:

(I) Existing Investor Base: The Social Finance landscape in Malaysia is currently in the nascent stages and requires time, resources and effort to educate potential investors about its existence, opportunities and long-term benefits. Thus, it is recommended in the short-term that Malaysia explores the creation of mechanisms that are Shariah-compliant to tap into the existing pool of capital that is already earmarked for Islamic Finance products. Instruments can be structured to allow for the conversion of investment capital into a donation at any point (as illustrated below in the Khazanah SRI Sukuk). Such instruments can be particularly attractive to the CSR arms of corporates looking to support the Islamic Finance space and at the same time fulfill CSR objectives.

(II) Robust Ecosystem: During the stakeholder interviews IIX conducted as part of the process to develop this Roadmap, several organizations highlighted their expertise in working with Islamic Finance and indicated interest in supporting the development of the Social Finance space in Malaysia, including Maybank, Tay and Partners and Abdullah Chan & Co. Having strong partners in place, leveraging their expertise with securities with which they are familiar and designing products that are aligned to Malaysia's existing strength in Islamic Finance will create strong synergies that can boost the Social Finance space as well.

The following section outlines four structures that effectively integrate Social Finance concepts within Islamic Finance structures. Malaysia could explore replicating one or more of these mechanisms, all of which fall within recommended target sectors outlined in Section 1 of the Roadmap (healthcare, climate change, financial inclusion and education) and are aligned to at least one of the six Strategic Thrusts identified in the 11th Malaysia Plan, as detailed below:

INSTRUMENT TYPE	FOCUS AREA	STRATEGIC THRUST
VACCINE SUKUK	HEALTHCARE	STRATEGIC THRUST 2: IMPROVING WELLBEING FOR ALL
GREEN SUKUK	CLIMATE CHANGE	STRATEGIC THRUST 4: PURSUING GREEN GROWTH
ISLAMIC MICROFINANCE	FINANCIAL INCLUSION	STRATEGIC THRUST 1: ENHANCING INCLUSIVENESS
SRI SUKUK	EDUCATION	STRATEGIC THRUST 3: ACCELERATING HUMAN CAPITAL DEVELOPMENT

INSTRUMENT: VACCINE SUKUK
FOCUS AREA: HEALTHCARE
STRATEGIC THRUST 2: IMPROVING WELLBEING FOR ALL

IFFIm is an international organization that finances child immunization and strengthens health systems related to it in some of the poorest countries of the world through the Global Alliance for Vaccines and Immunization (GAVI). Backed by nine sovereign governments—the United Kingdom, France, Italy, Norway, Australia, Spain, the Netherlands, Sweden, and South Africa—the organization raises money in the international capital markets to fund vaccination campaigns. This fundraising is handled by the World Bank, IFFIm's Treasury Manager, under the direction of the organization's volunteer Board of Directors.[39]

In December 2014, IFFIm issued its first Sukuk, a three-year, US$500 million transaction - the largest debut Sukuk ever issued by a global non-profit organization - with the World Bank acting as treasurer. The sukuk helped IFFIm diversify its investor base and secure competitive pricing and also helped raise the profile of GAVI activities among Muslim-majority countries.

This "Vaccine Sukuk" (similar in structure to the Humanity Bond detailed in Section 4) brought the concept of socially responsible investing to the Sukuk market, marking the first time most Islamic Finance investors considered investing in an instrument that provided both economic and social returns. The Vaccine Sukuk paid a competitive rate of return while supporting the immunization of more children in developing parts of the world, winning numerous awards from Euromoney's "best innovation in Islamic finance" to the Financial Times's "best achievement in transformational finance".

Malaysia could explore the creation of a similar Sukuk, modeled after the Humanity Bond structure. The ability of such an instrument to use the capital markets to front load donor pledges to expand preventative healthcare programs in Malaysia, combined with this innovative financial structure that allowed a conventional issuer to tap the Islamic finance markets, are two aspects that can make this mechanism ground-breaking for the nation's healthcare sector.

INSTRUMENT: GREEN SUKUKS
FOCUS AREA: CLIMATE CHANGE
STRATEGIC THRUST 4: PURSUING GREEN GROWTH

Three trends in the global financial market are converging to make Sukuk a potentially viable form of finance for green investments: (1) banks are reluctant to finance infrastructure due to stricter capital requirements; (2) an increasing number of investors are interested in 'environmentally sustainable investing' (in other words, investing to promote activities seen as positive for the environment); and (3) the market for Sukuk is growing significantly. While these three trends are distinct and not obviously related, taken together, they create a market opportunity for Sukuk to be used as a tool to finance environmentally sustainable infrastructure projects.[40]

Green activities in the Islamic finance arena can be traced back (according to the IFN database) to 2007 when Dubai Islamic Bank launched a four-year Principal Protected Water Note. The note offered investors participation in a basket of 10 stocks linked to the water industry, encompassing

[39] http://blogs.worldbank.org/arabvoices/vaccine-sukuks-islamic-securities-deliver-economic-and-social-returns
[40] http://blogs.worldbank.org/voices/islamic-sukuk-promising-form-finance-green-infrastructure-projects

water purification, desalination and waste management. In Malaysia, more Islamic financing for green initiatives is expected. The Islamic finance sector (as of last year) contributed almost 20% or RM300 million (US$80.78 million) of the RM1.5 billion (US$403.9 million) financing for 120 projects approved by the Malaysian Green Technology Financing Scheme.[41] The Green Sukuk and Working Party (GSWP) has been established by the Clean Energy Business Council (MENA), the Climate Bonds Initiative and the Gulf Bond and Sukuk Association (GBSA), to promote and develop Shariah-compliant financial products to invest in climate change solutions but is yet to make its debut.[42]

Green Bonds that are general obligations of an issuer generally have limited appeal to green investors unless all of the activities of the issuer meet the investor's environmental standards. Green Sukuks are well placed to address this issue since funds raised through the issue of a sukuk must be applied to investment in identifiable assets or ventures, for instance a renewable energy project. Consequently there is low risk that the investor's capital will be diverted and used for another purpose that has not been pre-identified.[43] Eligible assets for Green Sukuk as defined by Climate Bond Standards certification include: (i) Solar parks; (ii) Biogas plants; (iii) Wind energy; (iv) Ambitious energy efficiency; (v) Renewable transmission and infrastructure; (vi) Electric vehicles and infrastructure; and (vii) Government green payment/subsidy.[44]

A Green Sukuk, a Shariah-compliant hybrid of the Green Bond mechanism outlined in Section 4, in which the proceeds are used to fund a specific environmentally sustainable infrastructure project, could appeal to both sukuk investors and conventional environment-focused investors. Combining these two distinct investor bases would be a novel development for the capital markets in Malaysia.

INSTRUMENT: ISLAMIC MICROFINANCE
FOCUS AREA: FINANCIAL INCLUSION
STRATEGIC THRUST 1: ENHANCING INCLUSIVENESS

Shariah-compliant financial inclusion represents the confluence of two rapidly growing sectors: microfinance and Islamic finance. With an estimated 650 million Muslims living on less than $2 a day globally (Obaidullah and Tariqullay 2008), finding sustainable Islamic models could be the key to providing financial access to millions of Muslim poor who strive to avoid financial products that do not comply with Sharia (Islamic law). Consequently, Shariah-compliant financial inclusion has recently galvanized considerable interest among regulators, financial service providers, and other financial inclusion stakeholders.

Estimates on the size of the global Islamic finance industry in 2011 range from US$1 trillion to US$1.35 trillion. This represents a doubling in the size of the sector in just five years. The number of Islamic financial institutions also continues to rise, with CGAP reporting 348 institutions (up from 221 in 2007). Unlike the Islamic microfinance industry, which remains heavily subsidized, profitability in the Islamic finance industry is quite impressive. A vast majority of institutions (80 percent) show positive pre-tax profit growth. However, similar to Islamic microfinance, the Islamic finance industry represents only 1–1.5 percent of the global financial market.[45] An estimated 1.28 million clients in 19 countries use Shariah-compliant microfinance services. A majority of these

[41] http://www.islamicfinancenews.com/ifn-sector-analysis-sri_ethical_green
[42] http://www.mifc.com/index.php?ch=28&pg=72&ac=147&bb=uploadpdf
[43] http://blogs.worldbank.org/voices/islamic-sukuk-promising-form-finance-green-infrastructure-projects
[44] https://www.climatebonds.net/projects/facilitation/green-sukuk
[45] https://www.cgap.org/sites/default/files/Focus-Note-Trends-in-Sharia-Compliant-Finanicial-Inclusion-Mar-2013.PDF

clients (approximately 82 percent) reside in three countries: Bangladesh (445,000 clients), Sudan (426,000 clients), and Indonesia (181,000 clients).

The supply of Islamic financing products for the poor is largely limited to Murabaha and Qard Hassan loans. Murabaha is a "cost plus mark-up" sale contract often used to finance goods needed as working capital. Typically, the client requests a specific commodity for purchase, which the financier procures directly from the market and subsequently resells to the client, after adding a fixed "mark-up" for the service provided. Ownership of the commodity (and the risk inherent thereto) strictly lies with the financier until the client has fully paid the financier. The mark-up is distinct from interest because it remains fixed at the initial amount, even if the client repays past the due date. Murabaha is the Islamic microfinance product with the largest outreach (672,000 customers and total portfolio of assets of approximately US$413 million). Nevertheless, Murabaha is often viewed as the Islamic product most closely resembling a conventional loan, with the mark-up often considered camouflaged interest.

According to Sharia, the Qard-Hassan (or Benevolent) loan is the only type of permissible "loan." A Qard-Hassan loan is relatively easy to administer, and perhaps more importantly, it is the Islamic financial product that can most easily be applied to consumption smoothing as opposed to enterprise financing or asset building. Consequently, these loans reach the second highest number of clients after Murabaha—an estimated 191,000 clients, including 80,000 in Lebanon and 56,000 in Bangladesh. The total loan portfolio is US$156 million. However, in practice, Qard-Hassan loans are often not priced to cover their administrative costs (though such charges are permissible), and they are also typically forgiven in the event of default (even though the taking of collateral is permitted). Consequently, Qard-Hassan loans are often dispersed as a form of charity rather than as a self-sustaining business, funded by donations such as zakat (the giving of alms constituting one of the five pillars of Islam) or sadaqa (voluntary charity).

As shariah compliant MFIs seek to expand their portfolios and extend the impact of their operations to more beneficiaries, they will require access to capital, which ideally should be provided through Islamic Finance structures. Creating a hybrid version of the IIX Sustainability Bond (detailed in Section 4) could be explored as a next step, where instead of pooling together a group of traditional MFI's and IEs, the portfolio would comprise of Shariah-compliant underlying entities and the Bond mechanism also would be modified to adopt either a Murabaha or a Qard-Hassan structure.

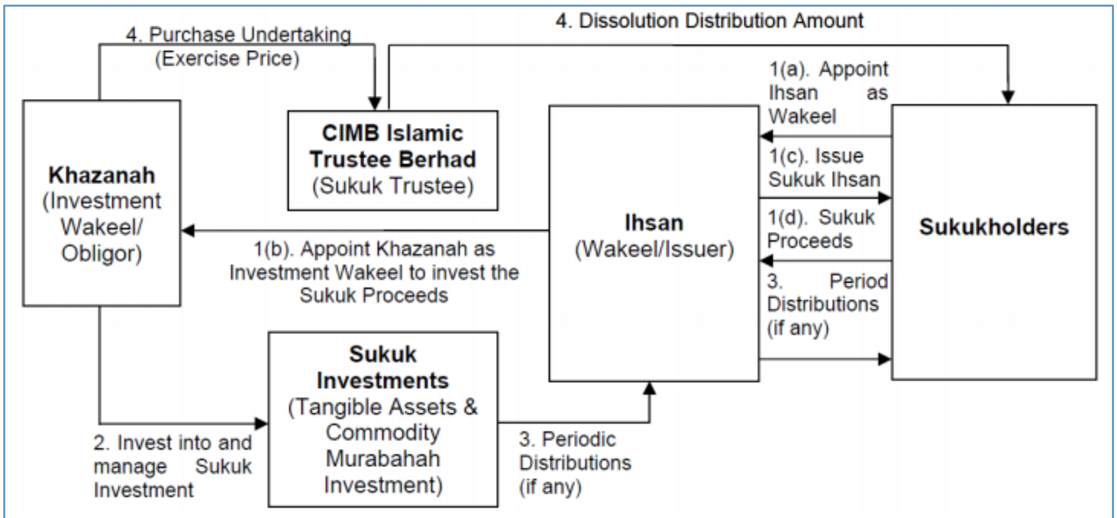
INSTRUMENT: SUSTAINABLE AND RESONSIBLE INVESTMENT (SRI) SUKUK
FOCUS AREA: EDUCATION
STRATEGIC THRUST 3: ACCELERATING HUMAN CAPITAL DEVELOPMENT

In 2015, Khazanah Nasional issued Malaysia's first social-impact sukuk. This instrument is an excellent example of the integration of Social Finance concepts into an Islamic Finance structure and is an excellent reference case as Malaysia seeks to build both its Islamic Finance and Social Finance sectors. The RM100 million, seven-year Sustainable and Responsible Investment (SRI) Sukuk was fully subscribed and it was priced at 4.3% per annum. Local agency Ram Ratings assigned the sukuk a AAA rating, making it the first social-impact bond to be rated globally. Proceeds go towards funding schools under the Yayasan AMIR Trust School Program. Yayasan AMIR is a not-for-profit foundation incorporated by Khazanah to improve accessibility of quality education in Malaysian Government schools through a Public-Private Partnership with the Ministry of Education. The Sukuk was issued via a Malaysian incorporated independent special purpose vehicle, Ihsan Sukuk Bhd. This issuance was under Ihsan's RM 1 billion Sukuk programme, the first of its kind approved under the Securities Commission's Sustainable and Responsible Investment Sukuk framework. Khazanah said a diverse investor group including foundations, corporations, banks, pension funds and asset management companies subscribed for the Sukuk.[46]

The social impact of this "Pay-for-Success" structure is measured using a set of predetermined Key Performance Indicators ("KPIs") which are assessed over a five-year observation timeframe. If at maturity the KPIs are fully met, Sukukholders will forgo or contribute up to 6.22% of the nominal value due under the Sukuk, which in effect will reduce the yield to 3.5% per annum. The adjustment is considered as part of Sukukholders' social obligation in recognizing the positive social impact generated by the Trust School Programme. If KPIs are not or partially not met, Sukukholders will receive up to the nominal value due under the Sukuk as agreed at issuance.

Another unique feature of this Sukuk is that it allows Sukukholders to convert their investment in the Sukuk into a donation at any point during the tenure. The structure is in accordance with the Islamic principle of Wakalah bil Istithmar, which further attests Khazanah's continued effort to push the envelope on transaction innovation and the positioning for Islamic structures. CIMB Investment Bank Bhd is the sole lead arranger and sole lead manager, and Amanie Advisors Sdn Bhd and CIMB Islamic Bank Bhd are the joint Shariah advisors for the deal.[47] Figure 63 gives a detailed outline of the structure:

FIGURE 63: OUTLINE OF KHAZANA SRI SUKUK STRUCTURE



Source: CIMB (2015)

CONCLUSION

In summary, building on its leadership in Islamic Finance and on the success of the Khazanah SRI Sukuk, Malaysia should leverage its expertise in Islamic Finance to create Shariah-compliant Social Finance mechanisms. Creating hybrid versions of the Humanity Bond, Green Bond or IIX Sustainability Bond could be a potential first step in the short term.

[46] http://www.thestar.com.my/business/business-news/2015/06/04/khazanah-rm100m-sustainable-sukuk/
[47] http://www.thestar.com.my/business/business-news/2015/06/04/khazanah-rm100m-sustainable-sukuk/

SECTION 7: ROADMAP STRATEGIC FRAMEWORK

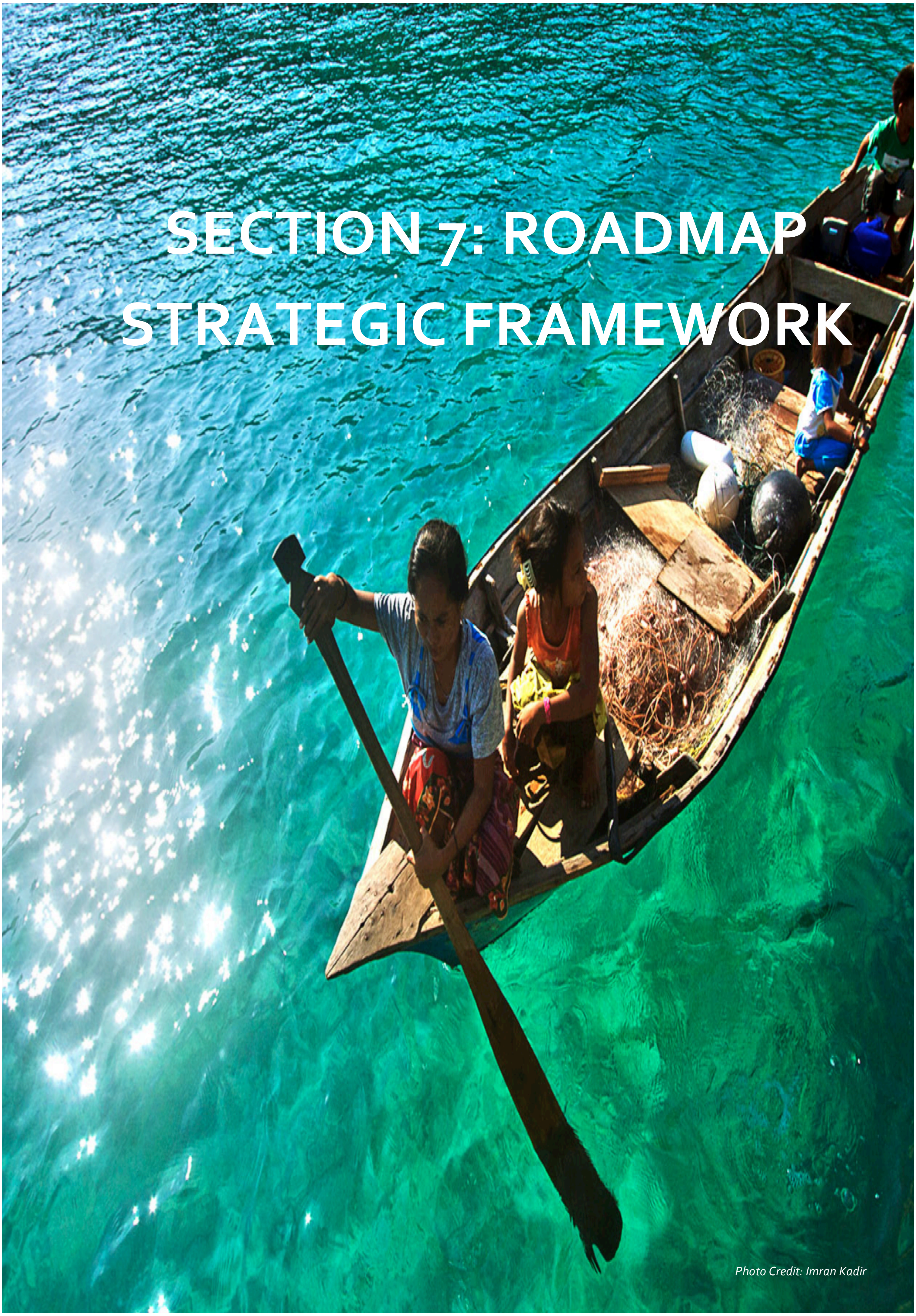


Photo Credit: Imran Kadir

SOCIAL FINANCE ROADMAP AND IMPLEMENTATION STRATEGY

OVERVIEW OF STRATEGIC FRAMEWORK

IIX has developed a strategic framework [Figure 64] to guide the implementation of the Social Finance Roadmap for Malaysia across a 5-year duration. This framework is designed to achieve three overarching outcomes:

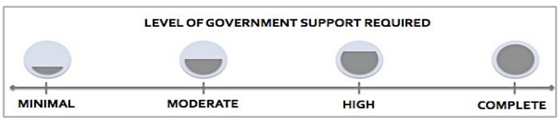
1. **Reduced Dependency on Government:** The level of government support required to implement Social Finance interventions substantially reduces from short to long term, thereby reducing dependency on public sector funding for development and creating cost savings for the government.

2. **Matured Social Finance Space:** The Social Finance ecosystem will transition from nascent stage to maturity by mobilizing new sources of mission-oriented capital, by bringing new stakeholders (particularly from the private sector) into the development equation and by building a strong pipeline of high-impact organizations that can effectively absorb and deploy this capital.

3. **Accelerated Socio-Economic Progress:** By 2020, Malaysia will be well positioned to achieve advance nation status by accelerating sustainable development in adherence with the Six Strategic Thrusts outlined in the 11th Malaysia Plan (detailed in Section 1).

FIGURE 64: STRATEGIC FRAMEWORK OF IMPLEMENTATION STRATEGY

	Short term (2016)			Medium term (2017 - 2018)			Long term (2019 - 2020)		
	Recommended Intervention	Key Strategic Thrust(s)	Government Support	Recommended Intervention	Key Strategic Thrust(s)	Government Support	Recommended Intervention	Key Strategic Thrust(s)	Government Support
Developing Demand	Incubator	Strategic Thrust 3		Accelerator	Strategic Thrust 1 Strategic Thrust 3 Strategic Thrust 5		Accelerator	Strategic Thrust 5	
	Financial Sustainability Program(NGOs)	Strategic Thrust 1		Revolving Credit Facility for TA	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Impact Magnifier Program	Strategic Thrust 6	
	Competition (Inclusive Innovation)	Strategic Thrust 1 Strategic Thrust 3		Competition (Sustainable Innovation)	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Competition (Scalable Innovation)	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5	
Mobilizing Supply	Islamic Finance Bond	Strategic Thrust 1		IIX Sustainability Bond	Strategic Thrust 1 Strategic Thrust 3		Social Stock Exchange	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5 Strategic Thrust 6	
	Humanity Bond	Strategic Thrust 2		Equity Crowdfunding Platform	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Buffer Fund for Accidents	Strategic Thrust 2	
	Outcomes Fund	Strategic Thrust 1 Strategic Thrust 3 Strategic Thrust 4		Green Bond	Strategic Thrust 4		Resilience Bond	Strategic Thrust 4	
Bridging the Gap	Knowledge Management: (1) M&E Tools (2) Workshops	N/A		Knowledge Management: (1) Research (2) Academy	N/A		Knowledge Management: (1) Data Bank (2) e-Academy	N/A	
	Advocacy: Malaysia Focused Forum	N/A		Advocacy: Regional Conference	N/A		Advocacy: International Convening	N/A	
	Policies: (1) IE Definition (2) Commission	N/A	N/A	Policies: (1) Tax Rebate (2) CSR Law	N/A	N/A	Policies: (1) Ethical Procurement	N/A	N/A
Outcome 1: Net Government Support Required	High Government Support Required			Moderate Government Support Required			Minimal Government Support Required		
Outcome 2: Social Finance Space Maturity	Social Finance Space transitions from nascent to early stage			Social Finance Space transitions from early stage to growth stage			Social Finance Space transitions from growth stage to maturity		
Outcome 3: Socio-Economic Progress	Malaysia deepens correlation between economic growth and development			Malaysia experiences improved ranking on Social Progress Index			Malaysia positioned to achieve advanced nation status in adherence with 11th Malaysia Plan		



To achieve these goals, it is critical for Malaysia to adopt a structured, step-by-step approach as outlined in the strategic framework. A brief explanation of the framework is provided below:

Columns: The Columns are split into (i) short-term (2016), medium-term (2017 - 2018) and long-term (2019 – 2020). Each 'term' is further subdivided into three sub-columns that indicate:

- **Recommended intervention** based on both current ability of the ecosystem to implement the intervention and need for the intervention to appropriately address strategic social and economic priorities of the country.

- **Key Strategic Thrust(s)** linked to focus areas highlighted in the need assessment [from Section 1] based on issues the that the intervention is best equipped to address.

- **Government Support** to either (i) fund upfront costs to execute the initiative, such as accelerators (in which case the recommended intervention will leverage a larger amount of funding from private/third sector as follow on investment capital) or; (ii) pay for outcomes achieved, such as the Outcomes Fund or Humanity Bond (in which case the mechanism will be designed to help the government achieve cost saving in the long-term).

Rows: The rows are split into three sections (explained below) and the anticipated outcomes are summarized at the end of each phase:

- **Developing demand to achieve demonstrable impact:** Developing demand focuses mainly on building a strong pipeline of IEs, creating sustainable NGOs and positioning SMEs to contribute to development [based on Section 5].

- **Mobilizing supply of mission oriented capital:** Supply focuses on using innovative financial instruments and other social financing mechanisms to mobilize mission-oriented capital from multiple stakeholders [based on Section 4 and 5].

- **Bridging the gap:** Bridging the gap focuses on recommended policies, advocacy efforts and knowledge management tools to align supply and demand [based on Section 5 and 6].

The following section explains the rationale for recommendations suggested for each phase and provides more detail on the anticipated outcomes.

DEVELOPING DEMAND TO CREATE DEMONSTRABLE IMPACT

SHORT-TERM STRATEGY

The Social Finance ecosystem is currently in its nascent stage in Malaysia. In the short-term, the objective of the Roadmap is to lay the foundation to build a pipeline of high-impact service providers via the following three interventions.

INTERVENTION 1: INCUBATOR

Rationale: In the short term, IIX recommends introducing more incubators focused on IEs to help transition innovative ideas into investment ready enterprises. These models are ideal for Malaysia in the short-term when majority of IEs are young and require high level of support to achieve sustainability.

Recommended Focus Area: In the short-term, recommended focus sectors for IEs that will form part of the incubator cohort include access to education, skills development and youth unemployment; these areas fall under Strategic Thrust 3: Accelerating Human Capital Development.

Government Support: IIX recommends adopt a blended finance model for incubators where the government provides the upfront capital required to set up the program and Corporate CSR funding is tapped into to provide the remaining funding required to cover ongoing costs of program execution. Corporates can also be engaged to support the program by sharing skills (providing pro-bono mentorship) or other resources (free office space, equipment or use of technological inputs).

INTERVENTION 2: FINANCIAL SUSTAINABILITY PROGRAM

Rationale: In the short-term, it is also critical to enable the existing NGOs in Malaysia to explore more sustainable models and potentially shift to an IE structure (where they retain their non-profit status but generate revenue streams through their own operations) through a structured Financial Sustainability Program (outlined in Section 5). Introducing such an initiative is important for three reasons: (i) To help Malaysia build the pipeline of high-impact organizations that can achieve results over the long-run; (ii) To reduce reliance of the non-profit sector on grant funding or donations that can create unsustainable dependencies; (iii) To learn from the Malaysian NGO's deep understanding of social problems at the grassroots and to equip these organizations to scale their current impact.

Recommended Focus Area: In the short-term, recommended focus areas for NGOs to be targeted by the Financial Sustainability Program include organizations that support B40 households, economically disadvantaged women and at-risk youth, aligned with the core tenants of Strategic Thrust 1: Enhancing inclusiveness towards and equitable society. These are the common focus areas for Malaysian NGOs that have potential to create high impact but often struggle with long-term sustainability and achieving growth.

Government Support: The government should seek to enter into strategic partnerships with large foundations to co-finance the Financial Sustainability Program. In the short-term, the government should provide the upfront capital to set up the program through a Social Finance intermediary organization with the relevant skills. Instead of providing grant capital to their portfolio of beneficiary NGOs, the partner foundation can provide the remaining funding required to cover the ongoing costs of the Financial Sustainability program.

INTERVENTION 3: COMPETITION – THEME: INCLUSIVE INNOVATION

Rationale: The AIM Berbudi Berganda Social Innovation Challenge in 2014-15 is a precedent that can be replicated across the short, medium and long-term. IIX recommends launching the next Challenge in Q3 2016. A competition in the short-term can serve as a useful tool to (1) act as a litmus test to understand the current state of the IE pipeline, based on strength of applications received; (2) use grant capital that would be awarded to the winners to instead fund investment readiness services that will enable the winners to unlock growth capital from impact investors; and (3) act as a platform to symbolize public sector support for the Social Finance space to all other stakeholders.

Recommended Focus Area: The theme of the competitions should be adjusted depending on the phase of the Roadmap. In the short-term, the recommended theme for the competition is 'Inclusive Innovation' (explained in Section 2). Applicants that address Strategic Thrust 1 or Strategic Thrust 3 should be targeted. This competition will complement the previous two initiatives detailed above to create a strong pipeline of entities that address some of Malaysia's key social issues, using innovative solutions that can create transformative change using a bottom-up approach.

Government Support: In the short-term, the government should provide the entire upfront funding to run the competition as well as the capital required to get the winners investment ready. However, it is important to note that the initial grant funding provided by the government will be leveraged to mobilize a larger amount of growth capital for the winners from private sector players during the capital raise process.

MEDIUM-TERM STRATEGY

By 2017, there will be a pipeline early-stage IEs in Malaysia. In the medium-term, the objective of the Roadmap is to help these entities transition to growth stage, with reduced dependency on government support. The three recommended interventions to facilitate this are detailed below:

INTERVENTION 1: ACCELERATOR

Rationale: In the medium-term, IIX recommends increasing the number of Accelerator programs focused on IEs. These programs are less resource intensive than incubators and are typically directed at early-stage enterprises that have already established proof of concept. This is ideal for Malaysia in the medium-term, when there will be a relatively stronger pipeline of IEs but entities would still require the right mentorship and tools to reach the next stage of growth.

Recommended Focus Area The recommended target sectors for IEs in the accelerator cohort include four dimensions of the sustainable livelihoods spectrum: (i) access to skills (such as entities that focus on quality education or TVET); (ii) access to market linkages (such as fair trade entities); (iii) access to credit and capital (via financial inclusion); and (iv) access to basic resources to aid productivity (such as clean energy); these areas primarily fall under Strategic Thrust 1: Enhancing inclusiveness towards an equitable society, Strategic Thrust 3: Accelerating human capital development and Strategic Thrust 5: Strengthening infrastructure to support economic expansion.

Government Support: IIX recommends adopting a blended finance model where the government provides a relatively smaller part the upfront capital required to set up the program and Corporate CSR funding pools are tapped into to provide the remaining of funding required to cover ongoing costs of implementation and potentially provide follow-on investment capital for ideas that achieve scale and are aligned with the company's broader strategy. Corporates can also be engaged to support the program by sharing skills and knowledge (example: providing pro-bono mentorship).

INTERVENTION 2: REVOLVING CREDIT FACILITY FOR TECHNICAL ASSISTANCE

Rationale: In the medium-term, IIX recommends introducing a revolving credit facility to fund the upfront cost of technical assistance for IEs. The program can be modeled after Shujog ACTS (outlined Section 4). This will also help grow a network of local technical assistance providers in Malaysia that can provide capacity building services to contribute towards building a pipeline of IEs that are well positioned to attract investment capital to reach the next stage of growth.

Recommended Focus Areas: Based on the traction Shujog ACTS has witnessed, program will see activity in sectors such as affordable healthcare, access to education, clean energy and water. These areas fall under Strategic Thrust 2: Improvement of wellbeing for all, Strategic Trust 3: Accelerating human capital development and Strategic Thrust 5: Strengthening infrastructure to support economic expansion.

Government Support: The credit facility relies on an initial pool of grant funding that 'revolves' when capital is raised by the IE. Considering the lack of widespread understanding around the notion of Social Finance in Malaysia, it is likely that the private sector will only consider funding such initiatives if there is also support from the government. The government should provide a relatively smaller portion of initial capital pool with local or regional banks providing the remaining portion, potentially from their CSR budget.

INTERVENTION 3: COMPETITION - THEME: SUSTAINABLE INNOVATION

Rationale: IIX recommends repeating AIM's Berbudi Berganda Challenge in 2018. For the medium-term, the recommended theme is 'Sustainable Innovation', with winners selected based on their ability sustain both operations and impact-creation over the long run. Ideally, applicants should have demonstrated proof of concept and now require a tailored suite of services to address operational challenges, increase market competitiveness and enhance long-term productivity.

Recommended Focus Areas: In the medium-term, applicants that address Strategic Thrust 2, 3 or Strategic Thrust 5 should be targeted, complementing focus sectors of the two aforementioned initiatives.

Government Support: In the medium-term, the government should provide majority of the total funding required to cover part of the cost to set up the competition as well as part the grant capital required to get the winners investment ready. Private sector sponsors can be brought in to fund the remaining portion of implementation costs and should also be encouraged to lend their expertise to mentor the winners.

LONG-TERM STRATEGY

In the long term, the focus should shift towards equipping these high-impact entities with the tools to achieve scale. In addition to continuing some of the aforementioned initiatives, three recommended interventions to facilitate this final phase of implementation are detailed below:

INTERVENTION 1: ACCELERATOR

Rationale: In the long-term, IIX recommends expanding existing accelerators, either by introducing more cohorts or by increasing the cohort size. These programs are essential to continuously develop pipeline of investment ready IEs and ensure demand remains aligned with increasing supply of mission-oriented capital. Besides providing technical assistance, such accelerators should also strongly emphasize the outcomes measurement capacities of participating IEs, thereby facilitating their access to a growing pool of impact investment capital that prioritizes both social and financial returns in equal measure.

Recommended Focus Areas: The recommended areas are sectors with high potential to scale. This includes entities using digital infrastructure (example: digital financial inclusion) or green technologies that can be easily replicated (with emphasis on use of solutions such as solar energy that also create social impact in terms of cost saving, improved health outcomes and increased productivity). These sectors would primarily fall under Strategic Thrust 5: Strengthening infrastructure to support economic expansion.

Government Support: By this stage, Social Finance intermediaries should be well positioned to run sustainable accelerator models relying on capital from potential impact investors as opposed to government funding. The government can limit its role to that of an influencer by sharing knowledge based on past experience and providing these entities with exposure through their advocacy and knowledge management efforts.

INTERVENTION 2: IMPACT MAGNIFIER PROGRAM - FOR SMES'

Rationale: As one of the key long-term interventions, IIX recommends integrating SMEs into the Social Finance space through the Impact Magnifier Program (outlined in Section 5). The Impact Magnifier program will enable SMEs to either deepen their impact or to transition completely to an IE model which proactive seeks a double bottom line. Further, by this stage of the Roadmap, the development of impact investments as a viable source of capital should also incentivize SMEs to embrace the tenets of Social Finance and magnify the potential impact that they can create.

Recommended Focus Areas: The Impact Magnifier will directly address one of the core tenants of Strategic Thrust 6, which aims to create sustainable and scalable SMEs.

Government Support: IIX recommends adopting a blended finance model to implement the Impact Magnifier program. Relevant public sector bodies can provide a small portion of the cost to set up the program and large corporations that are interested in building sustainable value chains can fund the remaining costs of program implementation.

INTERVENTION 3: COMPETITION - THEME: SCALABLE INNOVATION

Rationale: In the long-term, AIM's Berbudi Berganda Social Innovation Challenge should be organized around the theme of scalable innovation, with a focus on digital infrastructure and the ability of IEs to harness the power of technology to magnify impact and achieve exponential growth. Applicants should already have a clear value proposition, scalable business models and strong revenue streams.

Strategic Thrust(s): At this stage, accelerators should make the transition to focus on the use of technology to create impact, through sectors such as Fintech, Edtech and eHealth. Enterprises in such sectors have significant potential to scale rapidly as such models are easily replicable across different markets and are aligned with strategic Thrusts 2,3 and 5.

Government Support: In the long-term, the government should provide the only the upfront funding to set up the competition and select the. Private sector partners should be engaged to fund the cost of providing the winners with investment readiness services to unlock growth capital.

MOBILIZING SUPPLY OF MISSION ORIENTED CAPITAL

SHORT-TERM STRATEGY

In the short-term, the objective of the Roadmap is to mobilize mission-oriented capital with the government taking the lead by introducing innovative financial mechanisms designed to achieve two main objectives (i) to unlock upfront capital to fund high-impact initiatives today that will save larger outlays of government expenditure in the long term (Humanity Bond) (ii) to make the Social Finance space more attractive to other stakeholders by enhancing liquidity (Outcomes Fund) and aligning with existing investor values (Islamic Finance Bond). Three recommended interventions include:

INTERVENTION 1: ISLAMIC FINANCE BOND

Rationale: Malaysia is the epicenter of the Islamic Finance space, which has multiple thematic crossovers with the goals of Social Finance. In the short-term, IIX recommends structuring an Islamic Bond that the local investment community is familiar with and can simultaneously achieve development goals. This would represent a potential avenue to bridge the current lack of familiarity of Social Finance among local stakeholders that are already supportive of Islamic Finance

Recommended Focus Area: Recommended focus sector for the Islamic Finance Bond is financial inclusion and should be primarily targeted towards empowering B40 households with access to credit and finance. This would fall under the scope of Strategic Thrust 1: Enhancing inclusiveness towards and equitable society.

Government Support: The government should cover the upfront cost of structuring the instrument and the Bond should be sold to private sector investors. The cost of structuring will be a small fraction of the total amount of capital that is unlocked by the instrument. This is also a fantastic opportunity to involve more ecosystem players in the equation, such as banks that can lead the placement process and lawyers with experience in dealing with Shariah-compliant securities.

INTERVENTION 2: HUMANITY BOND

Rationale: The Humanity Bond can follow on the success of the IFFIm's bonds that raised $5 billion in capital markets resulting in readily available cash for Gavi immunization programs (highlighted as a case study in Section 1). Considering there is a successful precedent to follow, it is advisable to replicate this instrument as part of Malaysia's short-term Social Finance strategy to mobilize capital. It must be noted that this is not a pay for success mechanism and program funding should be redirected towards initiatives that have proven success.

Recommended Focus Area: Recommended focus sector for the Humanity Bond is healthcare, which would fall under the scope of Strategic Thrust 2. The Humanity Bond is best suited for programs where there is a clear advantage in unlocking capital today to save more lives and prevent larger expenditure in the future, such as vaccination programs.

Government Support: For the Humanity Bond, the government would need to (i) fund the cost of structuring the instrument (ii) pay back the private sector investors over time (principal plus a reasonable coupon). However, funding preventive healthcare initiative will enable the government to save millions in future capital outlay that would be otherwise be required to fund hospitals and medication as well as immeasurable social costs to the *rakyat* that suffer from preventable diseases.

INTERVENTION 3: OUTCOMES FUND

Rationale: In the short-term, an Outcomes Fund (outlined in Section 6) will incentivize other stakeholders to address key sustainable development challenges in Malaysia and bring liquidity into the space.

Recommended Focus Areas: Recommended focus areas for the Outcomes fund are high-priority areas that cannot always be completely addressed by market based solutions and need the government to step in as an outcomes payer. These areas include (i) Strategic Thrust 1: interventions that target B40 households or the elderly; (ii) Strategic Thrust 3: interventions focused on providing access to affordable, high quality education; and (iii) Strategic Thrust 4: mitigating risk of climate change, conservation efforts (with dual social impact on local communities livelihoods) and creating resilience against natural disasters.

Government Support: The government would assume 100% of the cost of (i) structuring and managing the fund mechanism; (ii) paying for the outcomes; (iii) funding a third-party Measurement and Evaluation expert to assess and validate successful achievement of target outcomes that will trigger payment. IIX recommends that AIM take charge of fund management and administration.

MEDIUM-TERM STRATEGY

In the medium-term, the objective of the Roadmap is to tap into new sources of capital and bring new stakeholders into the Social Finance space that would not traditionally participate in the development agenda (such as private sector players). Three recommended interventions include:

INTERVENTION 1: IIX SUSTAINABILITY BOND (ISB)

Rationale: In the medium-term, IIX recommends structuring an innovative financial instrument modeled after the pioneering ISB – the $20 million Women's Livelihood Bond (outlined in Section 4). By this time, the WLB will have been floated on Impact Exchange and the Blueprint Paper detailing the bond structuring process will have been made publicly available so Malaysia will have a precedent to follow. Through the ISB structure, Malaysia will be able to unlock large amounts of private sector capital for development and engage with a wide spectrum of stakeholders: investment banks, lawyers, auditors, academic partners and foundations.

Recommended Focus Area: Recommended focus areas for the ISB are to follow the WLB precedent and focus on (i) women, directly addressing gender equality issues in Malaysia; and (ii) sustainable livelihoods that can cope with and recover from shocks and stresses, provide income generating opportunities for the next generation and contribute to wider development goals. This will primarily fall under the scope of Strategic Thrust 1 and 3.

Government Support: The government should cover the upfront cost of structuring the mechanism. The government can also come in to de-risk the Bond by providing a guarantee; this will be leveraged to unlock larger amounts of capital from private sector investors. This is also a fantastic opportunity to involve Stock Exchanges more deeply in the Social Finance space to list the Bond.

INTERVENTION 2: IE DEDICATED EQUITY CROWDFUNDING PLATFORM

Rationale: Although there are already six Equity Crowdfunding (ECF) platforms in Malaysia, ECF is still in its infancy in the region, and it will require some traction with both investors and the regulatory authorities before a dedicated platform for IEs can emerge. However, by the end of 2017, by when both concept, ECF and Social Finance, are better established in Malaysia, an IE dedicated ECF platform will be better positioned to jump-start the deal flow and mobilizing greater amounts of capital. The platform can combine elements from both ECF platforms and existing IE private placement platforms from across the region. Details on the recommended structure of the IE dedicated ECF platform are outlined in Section 6.

Recommended Focus Area: IIX expects key sectors will most likely include healthcare, education, clean energy and water. IEs in sectors typically have proven ability to achieve scale, making these entities inherently attractive for investors that are seeking dual social and financial returns. These areas are aligned with the recommended interventions to develop demand in the medium-term and primarily fall under Strategic Thrust 2: Improvement of wellbeing for all, Strategic Trust 3: Accelerating human capital development and Strategic Thrust 5: Strengthening infrastructure to support economic expansion.

Government Support: The government should assume the cost of establishing and managing the platform (potentially under the purview of the Securities Commission). Both investors and IEs that wish to list on the platform can be charged a fee to fund administrative expenses involved with running the platform.

INTERVENTION 3: GREEN BOND

Rationale: Green Bonds have become increasingly adopted across the world as viable instruments that offer acceptable returns while contributing towards a low-carbon and climate resilience future. Importantly, introducing Green Bonds at this stage of the Roadmap will capitalize on the precedence set by the Islamic Finance Bond that was proposed in the short-term. The principles of Islamic Finance Bonds and Green Bonds are quite similar, with increasing discussion over the possibility of green *sukuk* issuances, which can be explored in the medium term. Additionally, issuing Green Bonds will build on the momentum of increased focus on the clean energy sector on the demand side.

Recommended Focus Areas: The Green Bond will directly address climate change issues and fall under the purview of Strategic Thrust 4: Pursuing green growth for sustainability and resilience. Owing to the nation's rapid economic development, is important for Malaysia to be a part of the global dialogue on global warming that is a escalating concern across the world; issuing a Green Bond will be symbolic of the government taking a proactive step towards 'climate action'.

Government Support: Typically, it would be the government who would issue the Green Bond to raise capital for environmentally themed purposes and then repay the capital plus interest over time. However, it should be noted that investing in climate change mitigation upfront potentially through clean energy projects could help the Malaysian economy reap a significant 'green dividend'.

For instance, clean energy projects require high upfront investment but generate substantial cost saving over time and can create demonstrable socio-economic impact on the local community, over and above positive environmental impact. More details on the Bond mechanics are outlined in Section 4.

LONG-TERM STRATEGY

In the long-term, the objective of the Roadmap is to make Malaysia a more attractive 'impact investing' destination and help shift the space from the margins to the mainstream by mobilizing capital at scale. Three recommended interventions include:

INTERVENTION 1: SOCIAL STOCK EXCHANGE

Rationale: Although a social stock exchange has the potential to unlock large amounts of mission-oriented capital, many elements have to be in place before it becomes a reality. First, the pipeline of IEs and innovative financial instruments has to be sufficiently mature in order to absorb the requisite amounts of capital that would justify a public listing on an exchange. Additionally, regulatory authorities such as the Securities Commission must work along side the Social Finance Commission and Bursa Malaysia to design key features of the exchange. With these considerations in mind, IIX recommends that that an exchange only be established when the space has reached maturity.

Recommended Focus Area: Based on IIX's experience, IEs that are most likely to list on a social stock exchange will be focused on high-impact sectors including healthcare, education, agriculture, energy and water. These are primarily aligned with the core tenants of Strategic Thrusts 2,3, 5 and 6.

Government Support: The government will only play the role of a facilitator in establishing a social stock exchange, potentially in partnership with Bursa Malaysia. There will be no cost involved and a reasonable listing fee can be charged to entities that wish to list on the exchange.

INTERVENTION 2: BUFFER FUND FOR ACCIDENTS

Rationale: By 2020, a large portion of Malaysia's urban population will be living in cities. This will also entail escalating risk of road accidents and corresponding rise in healthcare costs. The Buffer Fund for Accidents (BFA) is a revolving facility designed to support victims of accidents and ensure their families are effectively insulated from economic shocks of large hospitalization costs. Such a mechanism would be a useful piece of infrastructure to implement in the long-term. More details are outlined in Section 4.

Recommended Focus Area: The BFA will primarily improve wellbeing and sits within the healthcare sector. As such, it falls under the purview of Strategic Thrust 2.

Government Support: The government should fund the cost to structure and manage the BFA. Private-sector players (such as large private hospitals and insurance companies) can contribute the initial pool capital that can be lent out – potentially tapping into their CSR budgets. The mechanism is designed such this initial pool of capital is only required for the first five years, after which the BFA is designed to be self-sustaining based on interest repayments of the loans.

INTERVENTION 3: RESILIENCE BOND

Rationale: The Resilience Bond (RB) is designed to mobilize upfront capital to fund programs that improve the nation's ability to deal with social, environmental and economic shocks and stresses (details in Section 4). Shifting the narrative from donating for relief to investing in resilience requires a long time frame for stakeholders to embrace the principles of Social Finance and for public sector bodies to be given the requisite mandates to consider such innovative approaches. With these considerations in mind, IIX recommends introducing the RB as part of the long-term strategy.

Recommended Focus Areas: Flooding remains a persistent issue for Malaysia and presents a clear case for the RB; aligned with the mandates of Strategic Thrust 4.

Government Support: The government should fund the cost of structuring the mechanism and is also the ultimate outcome payer. As the government enjoys savings for public expenditure in the long run, they will be able repay lenders using pledged/committed funds (that would have otherwise been used for relief efforts).

BRIDGING THE GAP BETWEEN SUPPLY AND DEMAND

SHORT-TERM STRATEGY

KNOWLEDGE MANAGEMENT:

1. IMPACT ASSESSMENT TOOLKIT

Rationale: AIM has developed an impact assessment toolkit in partnership with Servebetter Consultancy (outlined in Section 6) to enable IEs and NGOs to articulate their theory of change, measure their impact and communicate progress. It is critical for the government to use this as a starting point to create a repository of baseline data with the objective to assess results across high-impact sectors and share this knowledge with other stakeholders to grow the Social Finance space.

Government Support: AIM has already funded the development of this toolkit which will be made publicly available online in Q1 2016.

2. TRAINING WORKSHOPS

Rationale: In parallel, it is also critical to address the current knowledge gap in the space and provide training workshops to educate potential users on impact measurement tools and methodologies. Target audience could range from heads of Corporate CSR departments to impact entrepreneurs.

Government Support: The government should cover the cost of producing the content for the workshop and a small fee can be charged to participants to cover the remaining cost associated with venue expenses and trainer time.

ADVOCACY: MALAYSIA-FOCUSED FORUM

Rationale: The government must serve as the voice of progress and build the momentum behind the Social Finance space. Advocacy efforts in the short-term can take the form of a Malaysia-focused Forum in Q3 2016. The Forum should have a three-pronged agenda to (i) highlight success stories from existing Social Finance initiatives in Malaysia (example: showcasing winners of the Innovation Challenge); (ii) spark though-leadership and knowledge sharing by bringing in key industry leaders from within and beyond Malaysia (iii) showcase this Social Finance Roadmap as a cornerstone of the 11^{th} Malaysia Plan to initiate engagement with key stakeholders and pave the way forward.

Government Support: The first Forum would require the government to provide financial support. IIX believes AIM is best suited to lead the dialogue and execute the Forum on behalf of the government, given their contribution to the space via developing this Roadmap, designing the Impact Assessment Toolkit, launching the Berbudi Berganda Challenge and spearheading other initiatives to build the infrastructure for the Social Finance ecosystem to grow.

POLICIES

1. IMPACT ENTERPRISE LEGAL DEFINITION

Rationale: In the short-term, Malaysia should consider introducing a legal definition for IEs (outlined in Section 6). Having IEs formally recognized as legal entities will ease the implementation process of interventions suggested in the medium and long-term, such as CSR mandates, Ethical Procurement, eligibility for Equity Crowdfunding platforms and applicants for competitions.

2. SOCIAL FINANCE COMMISSION

Rationale: During stakeholder interviews, key feedback received was the need for a single centralized agency to govern, manage and catalyze the Social Finance space if it to transition from nascent stage to maturity by 2020. Setting up a Social Finance Commission in the short-term will help to institutionalize the Social Finance space and guide execution of this Roadmap either in tandem with or as a sub-initiative of AIM. Details on the recommended structure of the Social Finance Commission are outlined in Section 6.

MEDIUM-TERM STRATEGY

KNOWLEDGE MANAGEMENT:

1. ACTION-ORIENTED RESEARCH

Rationale: At this stage, it will be imperative to have local academic partners join the Social Finance dialogue. Sanctioning action-oriented research will help expand the data available to the government, identify systemic gaps, highlight opportunities to create high impact and inform future decision making to help other ecosystem players shape Social Finance initiatives in a more informed manner. Mapping exercises, landscape studies and other analytical research pieces will form an important knowledge base to help catalyze the ecosystem. These studies will also to help guide decision making for the Social Finance Commission, established in the short-term. Additionally, partnering with local universities to develop research will lay the ground for other engagement opportunities, including efforts to expand the talent pool (discussed below).

Government Support: Research projects can be co-funded by the government, its academic partners, large-foundations, INGOs or think tanks (depending on the nature of the research and which stakeholder the findings would be most relevant for).

2. IMPACT ACADEMY

Rationale: In parallel, it is also critical to address the widening talent gap. Setting up impact academies in partnership with local universities will help build awareness and equip young talent with the tools, skills and networks to help grow the space. It is critical to train both potential impact entrepreneurs and impact investing professionals on the nuances of the Malaysian Social Finance space and share best practices from across the world. Without the right human capital, the Social Finance space will struggle to maximize its potential in Malaysia. Details on impact academy (including recommended modules) are outlined in Section 5.

Government Support: The government should partner with local universities to fund these impact academies, with the government contributing a relatively smaller part of the upfront cost (to design the program content and structure) and universities covering majority of the remaining cost (to fund ongoing expenses of implementation such as venue and trainer costs).

ADVOCACY: REGIONAL CONFERENCE

Rationale: Advocacy efforts in the medium-term can take the form of a Regional Conference, held in 2018. AIM plays a major role as a convenor that remains relevant throughout the entire Social Finance Roadmap and should be in charge of managing the event. The Regional Conference should focus on two aspects: (i) building the momentum, through highlighting successful initiatives and pioneering efforts from stakeholders that have supported implementation of the Roadmap; and (ii) promoting thought-leadership at a regional level, through guest speakers who are leading practitioners from both within and beyond Malaysia. The Conference will help build strategic alliances with Social Finance actors from across the region that will facilitate implementation of recommended long-term interventions. The Conference will also deepen engagement with more local players who are interested in participating in the growing Social Finance movement. As a convenor, AIM will also benefit from the insights shared at such events, to enabling environment in order for the Social Finance space to thrive.

Government Support: The Regional Conference should be partly funded by the government with the remaining costs being covered by sponsorships from other stakeholders that have a vested interest in developing the space. This could include corporates that are increasingly exploring ways to contribute to the sustainable development agenda and other private sector players that have played a role in implementing Roadmap in the short or medium-term.

POLICIES

1. SOCIAL INVESTMENT TAX REBATE

Rationale: The medium-term will be a realistic target for the implementation of a Social Investment Tax Rebate. Beforehand, the government will have to build on the initial policy analysis done in Section 6 by consulting both regulatory authorities and key stakeholders in order to determine the most effective incentive structure. An inherent challenge will be general education around the notion of Social Finance; legislating tax incentives without the appropriate levels of understanding in the market can be counterproductive and lead to distortions and abuse. By the medium-term, it is expected that the other initiatives recommended as part of the Short-Term and Medium-Term strategies will have laid some of the groundwork to facilitate this process.

2. CORPORATE SOCIAL RESPONSIBILITY LAW

Rationale: In the medium-term, introducing a Corporate Social Responsibility (CSR) law around disclosure could prove to be a useful way to have corporates participate in the space in a more structured manner. Learning from the Indian CSR 2% mandate as well as the progress made by B-

Corps and the Shared Value Initiative in the West, Malaysia can use soft policies to encourage more strategic forms of CSR. It is imperative to note that during the medium-term, these efforts will not only help mobilize additional capital into the Social Finance space, but will also help maximize impact achieved by existing capital that is already earmarked for Social Purposes. Details on the proposed design of the CSR law are outlined in Section 6.

LONG-TERM STRATEGY

KNOWLEDGE MANAGEMENT:

1. DATA BANK

Rationale: Stakeholder interviews conducted during the creation of this Roadmap expressed concern over this data gap arising from lack of impact related data that is comparable and standardized with the rigor of financial market information. This could act as a potential barrier for the development of Social Finance in Malaysia. To address this issue, it will be critical to create a Data Bank, a platform to aggregate impact metrics across sectors and help benchmark performance. The Data Bank will achieve three overarching objectives:

(i) To bring added transparency into the Social Finance space: This will attract more mission-oriented investment capital to high impact organizations.

(ii) Provides capital/asset allocation basis: This will allow investors to compare impact performance across sectors and intervention models to guide decision-making.

(iii) Supports investment product development: This will accelerate development of new investment products and help open up social investments to mainstream capital markets.

Government Support: The government should partner with a leading local academic institution to fund and manage the Data Bank in tandem with a Measurement and Evaluation professional with expertise in impact assessment.

2. ONLINE IMPACT ACADEMY

Rationale: In order to advance the Social Finance space in the long run, it will be essential to leverage the power of technology to foster human capital and skills development in a more resource and time-efficient manner. As Malaysia transitions to a digital economy, IIX recommends making launching impact academy courses online. The online platform has the potential to effectively expand the Social Finance ecosystem by providing sophisticated training tools to broaden the knowledge of key players (from Impact Investors to Policy Makers), developing standardized frameworks to help homogenize measurement and evaluation across the industry and to help absorb new professionals (who would not traditionally be exposed to this space) by certifying coursework thereby creating talent pool that can be effectively developed and tapped into.

Government Support: The government should partner with local universities to fund Impact Academies. The government should cover the upfront cost to set up the program and universities can cover the remaining portion of the cost required for program implementation and administration. The online impact academy could potentially adopt the Mass Open Online Course model used by organizations such as Cousera, that charge a small fee for certification to ensure the intuitive is sustainable.

ADVOCACY: INTERNATIONAL CONFERENCE

Rationale: Advocacy efforts in the long-term can culminate in an International Conference hosted in 2020. The conference has two sets of objectives: (i) Local Level Objectives: to showcase Social Finance success stories from Malaysia (from competition winners to entities that were part of various accelerator programs) and to recognize achievements of stakeholder that supported the implementation of the Roadmap (with a focus on innovative financial instruments that helped bring in new players into the sustainable development equation); (ii) Global Level Objectives: to create engagement opportunities with international Social Finance players, to develop a network of industry leaders from across the world and to establish Malaysia as a key participant in shaping the global dialogue on sustainable development and the role of Social Finance.

Government Support: The third Forum can be partly funded by the government with majority of the costs being covered by a mix of ticket sales and sponsorships from large financial institutions that are interested in supporting innovative financial mechanisms and catalyzing the Social Finance space on a global scale. IIX recommends that AIM remain the main organizers in charge of pulling the conference together and shaping the agenda.

POLICIES: ETHICAL PROCUREMENT

Rationale: To build on the progress of the short and medium-term interventions in terms of developing viable IEs in Malaysia, the government should look to implement ethical procurement policies in the long-term. By looking inward at their own supply chain policies, the Malaysian government will send out a strong signal to other stakeholders in support of the Social Finance space and the growing IE community. This will set encourage government-linked companies and major corporates in Malaysia to follow the governments suit and play a key role in mobilizing more capital towards sustainable value chains. Not only will this address growing income inequality issues that is escalated by rapid economic growth, it will also help empower marginalized communities to increase their demographic dividend, improve national resilience and put Malaysia on a more sustainable growth trajectory.

ANTICIPATED OUTCOMES

As discussed at the beginning of this Section, the Roadmap seeks to achieve three overarching outcomes that are discussed more in detail below:

OUTCOME 1: REDUCED DEPENDENCY ON GOVERNMENT

Over the duration of the Roadmap, there is a clear reduction in the level of government supported mandated to implement the recommended Social Finance interventions. This support gradually reduces with time as new stakeholders increasingly begin to see the merit of participating in the Social Finance space. In the short-term, most interventions will have high reliance on public sector funding, either for implementation or as an outcome payer. In the medium term, this dependency is reduced to government supporting the upfront costs of most interventions, and participants from private and non-profit space contributing with resources including capital, skills and networks to execute the intervention. In the long-run, there is only limited reliance on government for financial support. This is illustrated in Figure 65:

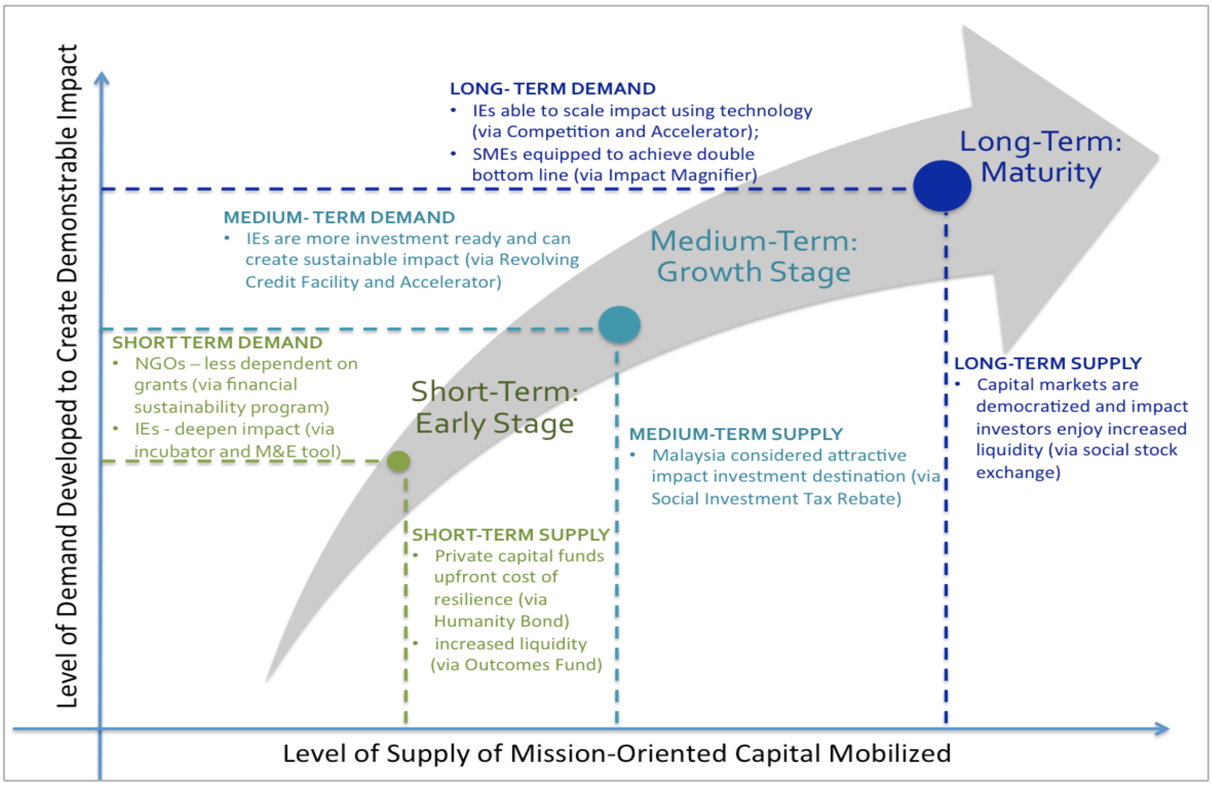
FIGURE 65: REDUCED LEVEL OF GOVERNMENT SUPPORT REQUIRED OVER TIME

SHORT-TERM High Government Support	MEDIUM-TERM Moderate Government Support	LONG-TERM Low Government Support
• Focus of government expenditure shifts from reactionary to proactive approach (via innovative financial instrument such as Islamic Finance Bond & Humanity Bond). • Multi-stakeholder approach helps create strategic alliances with private and non-profit sector (via forum & training workshops).	• Government realizes tangible cost savings from development-related issues (via Resilience Bond and Buffer Fund for Accidents). • Blended finance & shared value concepts mobilize private capital for development (via CSR Mandate)	• Government shifts role from financer to facilitator (exemplified by reduction from of spending on bridging the gap). • Government is able to leverage minimal capital to unlock larger amounts from other stakeholders (exemplified by reduction from of spending on developing demand).

OUTCOME 2: MATURED SOCIAL FINANCE SPACE

The Roadmap adopts a structured approach towards catalyzing the Social Finance ecosystem, ensuring that over time demand and supply are in alignment. There is a gradual progression from nascent stage to maturity over the course of five years that is facilitated by systematic interventions that are introduced across the Roadmap keeping in mind the needs of the ecosystem and its capacity to make optimum use of the recommended mechanism. This progression is illustrated in Figure 66:

FIGURE 66: TRANSITION OF MALAYSIAN SOCIAL FINANCE SPACE FROM NASCENT STAGE (SHORT-TERM) TO MATURITY (LONG-TERM)



OUTCOME 3: ACCELERATED SOCIO-ECONOMIC PROGRESS

The Roadmap's overarching outcome is to accelerate socio-economic progress in Malaysia by bridging the gap between development and finance. By 2020, the Social Finance market will have played a pivotal role in positioning Malaysia to achieve advanced nation status as detailed below:

Short-Term Outcome	Malaysia experiences improved ranking on Social Progress Index *(See Appendix A for current ranking details)*
Output 1	Improved performance on Basic Human Needs Dimension (triggered by improved health outcomes through focus on Strategic Thrust 2)
Output 2	Improved performance on Foundations of Wellbeing Dimension (triggered by improved education outcomes through focus on Strategic Thrust 3)
Output 3	Improved performance on Opportunities Dimension (triggered by improved social cohesion through focus on Strategic Thrust 1)
Medium-Term Outcome	**Malaysia experiences deepened correlation between economic growth and development**
Output 1	Malaysian *rakyat* empowered to improve both earning capacity and quality of life (via IIX Sustainability Bond focusing on Strategic Thrust 1 and 3)
Output 2	Malaysia enhances ability of investments to generate double bottom line (via Equity Crowdfunding platform and Green Bond focusing on Strategic Thrust 4)
Output 3	Malaysian economy positioned on sustainable growth trajectory (via increased participation from private sector across initiatives focused on all Strategic Trusts)
Long-Term Outcome	**Malaysia well positioned to achieve advanced nation status by 2020 in adherence with 11th Malaysia Plan's overarching goal**
Output 1	Higher demographic dividend (achieved by interventions aligned with Strategic Thrust 1, 2 and 3 implemented over short, medium and long-term)
Output 2	Higher resilience dividend (achieved by interventions aligned with Strategic Thrust 4 and 6 implemented over short, medium and long-term)
Output 3	Higher green dividend (achieved by interventions aligned with Strategic Thrust 4 and 5 implemented over short, medium and long-term)

SECTION 8: STAKEHOLDER ENGAGEMENT

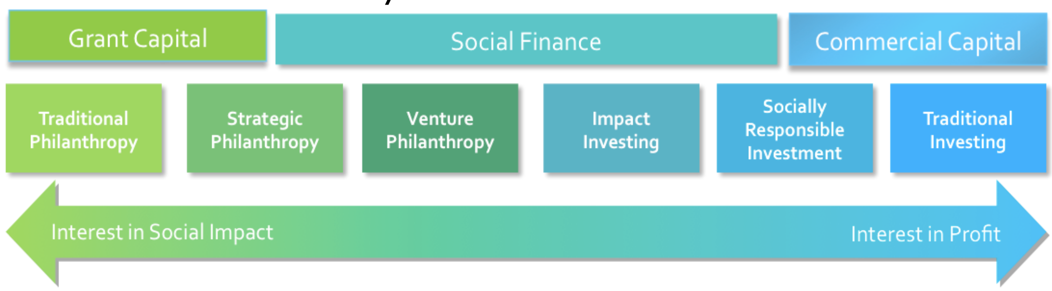
Photo Credit: Eric Montfort

STAKEHOLDER ENGAGEMENT

Multi-stakeholder partnerships for sustainable development are a central element of contemporary sustainability governance and are a critical component of the Social Finance Roadmap for Malaysia. The sheer scale, complexity and dynamic nature of development issues mandate a unified approach from diverse stakeholders. IIX recommends taking an inclusive approach to catalyze the ecosystem in Malaysia, involving players from public, private and non-profit sector to help support the growth of both Social Finance intermediaries and IEs across the short medium and long term. There are three overarching objectives of involving multiple stakeholders in the Social Finance equation:

1. **Changing the Dominant Narrative:** In order for Social Finance to transition from its current nascent stage to maturity by 2020, it will be necessary to have a buy-in from multiple partners who can help build the momentum behind the space. The current narrative is polarized in terms of intention of different ecosystem players, with traditional philanthropy focusing uni-dimensionally on creating impact while traditional finance focuses purely on profit-maximization. Incentives are distinct and public, private and third sector often work in silos. As illustrated by Figure 67, Social Finance sits between these two extremes and seeks to align diverse incentives and create synergies through long-term value creation. By adopting a multi-stakeholder approach, Malaysia will be better positioned to redefine the narrative and build inherent understanding that there is not necessarily a trade off between profit and impact.

FIGURE 67: SOCIAL FINANCE SPECTRUM



2. **Mobilizing Resources for Sustainable Development:** Currently, driving forward the sustainable development agenda is considered the responsibility of the Government. It is imperative to use Social Finance as a means to engage with other key stakeholders and shift or share part of the resource requirement needed to achieve the goals outlined in the 11th Malaysia Plan. As detailed in Section 7, this approach will help reduce dependency of government funding to execute Social Finance interventions over the duration of the Roadmap. Additionally, it will also help the government leverage the skills, expertise and networks from private and non-profit sector to create transformative change and accelerate the achievement of development goals.

3. **Building Positive Relationship with Private Sector**: As articulated in Section 7, Social Finance interventions involve a wide spectrum of private sector players: corporates, financial institutions, banks, law firms, audit firms, consultancies, among others. This will create positive relations between public and private sector, which could lead to follow on engagement

opportunities for the government's other initiatives to drive forward both economic growth and social progress.

This section outlines two tools to achieve these objectives: (i) Stakeholder Engagement Model: a step-by-step framework to help inform, consult, collaborate with and empower stakeholders; and (ii) Stakeholder Mapping: a list of potential partners the government can engage with to implement the interventions suggested in Section 7.

STAKEHOLDER ENGAGEMENT MODEL

The Stakeholder Engagement Model will help the government adopt an inclusive approach towards catalyzing the Social Finance space. There are four key phases of Stakeholder Engagement:

STAGE	INFORM	CONSULT	COLLABORATE	EMPOWER
ACTIVITIES What needs to happen?	• Build Awareness • Highlight Synergies	• Gather Insights • Align Incentives	• Implementation Partners • Funding Partners	• Evaluate Progress • Reward Results
RATIONALE Why this is important?	• Galvanize Interest • Create Resonance for Early Buy-In	• Pre-empt & Mitigate Risks • Foundation for Future Engagement	• Leverage Skills and Expertise • Reduce Dependency on Govt. Funding	• Learn and Optimize Strategy • Create Pull Mechanisms
METHOD How it can be done?	• Media & Workshops • Share Parts of the Roadmap	• Interviews & Web 2.0 Tools • Forums & Conferences	• Ecosystem Development • Build Strategic Alliances	• Feedback Loops • Positive Incentives

INFORM

- **Building Awareness:** The first step of Stakeholder Engagement is to provide balanced, objective, accurate and consistent information to assist stakeholders to understand what Social Finance is, why it is important for Malaysia and how it works. This will galvanize interest in the space and seek to create a deeper understanding of how this is aligned to the 11th Malaysia Plan. Different media channels can be utilized to facilitate this such as the online newsletters, electronic direct mails (EDMs) and AIM's website. It can also be facilitated via the Knowledge Management tools suggested in Section 7 such as impact academies and training workshops.

- **Highlight Synergies:** It is imperative to highlight why Social Finance is relevant to stakeholders and how they can play a role in catalyzing the space. For instance, there is a strong business case for investing in high-impact sectors that will appeal to private sector stakeholders and there are significant merits of using market-based solutions to sustain and scale impact that will appeal to non-profit players. By highlighting these synergies, the concept of Social Finance will seem less 'foreign' and will create a sense of resonance among stakeholders. Sharing parts of the Social Finance Roadmap is one method by which to educate potential stakeholders on where they fit into the equation and potentially trigger early buy-in and support for interventions.

CONSULT

- **Gather Insights:** Inviting stakeholders to provide insights on different Social Finance interventions sends out a strong signal that the government is taking an inclusive approach and is keen to address concerns and aspirations from both private and non-profit sector. This is an important step towards pre-empting any potential risks during the implementation phase that could act as barriers towards achieving target outcomes. The stakeholder interviews conducted as part of the Roadmap development process were a first step in this direction [please see the acknowledgements section for a complete list of stakeholders interviewed]. To complement this, Web 2.0 tools are new, effective forms of engagement, including through technologies such as social media, surveys, wikis and blogs. They facilitate information sharing, collaboration and increased transparency and will effectively place stakeholders at the center of a more open and collaborative relationship with government.

- **Align Incentives:** It is critical to use the consultation phase to align diverse incentives between different stakeholders as well. By understanding what different stakeholders can bring to the table and what their potential concerns are, the government will be better positioned to use Social Finance as a platform to connect different ecosystem actors. This will lay the foundation for future engagement opportunities. For instance, innovative financial instruments require multiple players to provide their expertise, skills and capital to achieve outcomes: lawyers, bankers, measurement and evaluation professionals, regulatory authorities, social finance intermediaries, impact investors and IEs. Forums and conferences are excellent ways to facilitate this as they can open a two-way communication channel and help build strategic alliances with key stakeholders.

COLLABORATE

- **Implementation Partners**: It is important to involve diverse stakeholders throughout the implementation process to disintegrate the current silos within which public, private and non-profit sector players operate. Additionally, it is critical to develop a strong network of local and regional Social Finance intermediaries that can execute same or similar initiatives. Leveraging the expertise of diverse players will foster a culture of innovation, encourage cross-pollination of ideas between sectors and facilitate trans-boundary knowledge sharing.

- **Funding Partners**: Building strategic partnerships, particularly with private sector players, will help mobilize new sources of capital to complement existing government resources earmarked to address development issues. By diversifying the funding pool, Malaysia will be able to effectively reduce the dependency on the government and unlock funds to address critical social and environmental issues today that can result in massive cost savings in the future.

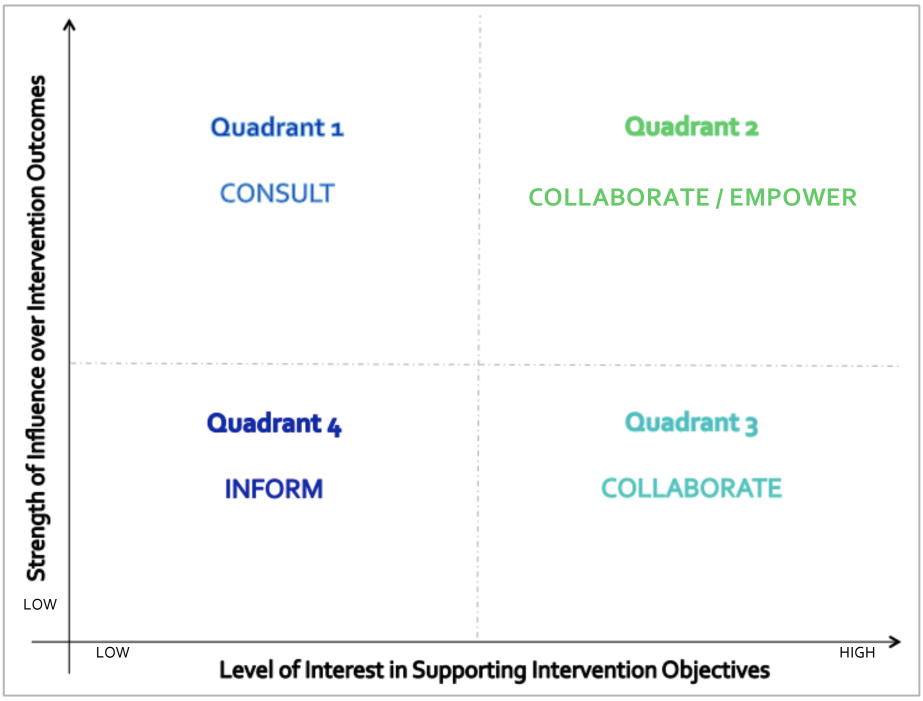
EMPOWER

- **Evaluate Progress**: The final phase of stakeholder engagement seeks to empower different actors to participate more actively in the Social Finance space. To facilitate this, it is critical to evaluate progress and share findings with different participants so they are aware of how their inputs contribute towards achievement of outcomes. Failure must be used as a stepping-stone towards success and achievements must be recognized to help constantly learn from and optimize interventions. This can be achieved by building in feedback loops and sharing interim progress updates on different interventions as well as on the Roadmap as a whole.

- **Reward Results**: An effective way to empower stakeholders is to celebrate their work and reward the results their support has enabled. This can be achieved through positive incentives such as awards or public recognition of achievements. Not only will this create a pull mechanism to bring more stakeholders into the Social Finance space, it will also ensure continued support from existing participants.

The Stakeholder Matrix outlined in Figure 68 will determine the nature of engagement (inform, consult, collaborate or empower) that is required with each stakeholder. The Matrix can be used to map each stakeholder onto a quadrant reflecting their (i) level of influence over intervention outcomes (on the Y axis); and (ii) level of interest in supporting intervention objectives and becoming a part of the Malaysian Social Finance movement (on the X axis).

FIGURE 68: STAKEHOLDER MATRIX



STAKEHOLDER MAPPING

Building on the interventions suggested in Section 7, types of stakeholders that can be involved in different interventions have been listed in Figure 69. The list has been further bi-furcated into potential funding partners and potential implementation partners. Selected partners should be local, regional and international stakeholders, who will foster a culture of trans-boundary knowledge sharing. This initial stakeholder mapping exercise is by no means exhaustive; it is merely a starting point to initiate the stakeholder engagement process detailed above. The list will continue to evolve over time as the Malaysian Social Finance ecosystem gains traction and maturity.

FIGURE 69: STAKEHOLDER MAPPING

	Short term (2016)			Medium term (2017 - 2018)			Long term (2019 - 2020)		
	Recommended Intervention	Implementation Partner(s)	Funding Partners()	Recommended Intervention	Implementation Partner(s)	Funding Partner(s)	Recommended Intervention	Implementation Partner(s)	Funding Partner(s)
Developing Demand	Incubator	1. Social Finance Intermediary	1. International NGO	Accelerator	1. Social Finance Intermediary	1. Foundation	Accelerator	1. Social Finance Intermediary	1. Corporate
	Financial Sustainability Program (NGOs)	1. Social Finance Intermediary	1. Foundation 2. International NGO	Revolving Credit Facility for Technical Assistance (IEs)	1. Social Finance Intermediary	1. Financial Institution	Impact Magnifier Program (SMEs)	1. Government 2. Social Finance Intermediary	1. Foundation 2. Corporate
	Competition (Inclusive Innovation)	1. Government	1. Corporate 2. Multilateral Organizations	Competition (Sustainable Innovation)	1 Government	1. Corporate	Competition (Scalable Innovation)	1. Government	1. Corporate
Mobilizing Supply	Islamic Finance Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Bears structuring cost* *- Private investors buy the Bond*	IIX Sustainability Bond (ISB)	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Bears structuring cost* *- Private sector impact investors buy the Bond*	Social Stock Exchange	1. Stock Exchange	*- IEs / bond issuers pay listing fee*
	Humanity Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt (Ministry of Health) pays for outcomes* *- Bond is sold to private sector impact investors*	Equity Crowdfunding Platform	1. Government	*- Investors/IEs pay membership fee*	Buffer Fund for Accidents	1. Social Finance Intermediary 2. Government	1. Insurance Company 2. Hospital
	Outcomes Fund	1. Government 2. Measurement and Evaluation Organization	*- Govt. Pays for outcomes, M&E costs and fund management / administration*	Green Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Issues Bond* *- Private sector green investors buy the Bond*	Resilience Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	1. Government
Bridging the Gap	Knowledge Management: (1) M&E Tools (2) Workshops	1. Government 2. Measurement and Evaluation Organization	1. Government	Knowledge Management: (1) Research (2) Academy	1. Government 2. University	1. International NGO	Knowledge Management: (1) Data Bank (2) e-Academy	1. Government 2. University	1. Corporate
	Advocacy: Malaysia Focused Forum	1. Government	1. International NGO 2. Multilateral Organizations	Advocacy: Regional Conference	1. Government	1. Corporate 2. Foundations	Advocacy: International Convening	1. Government	1. Corporate 2. Financial Institution

SECTION 9: SUMMARY

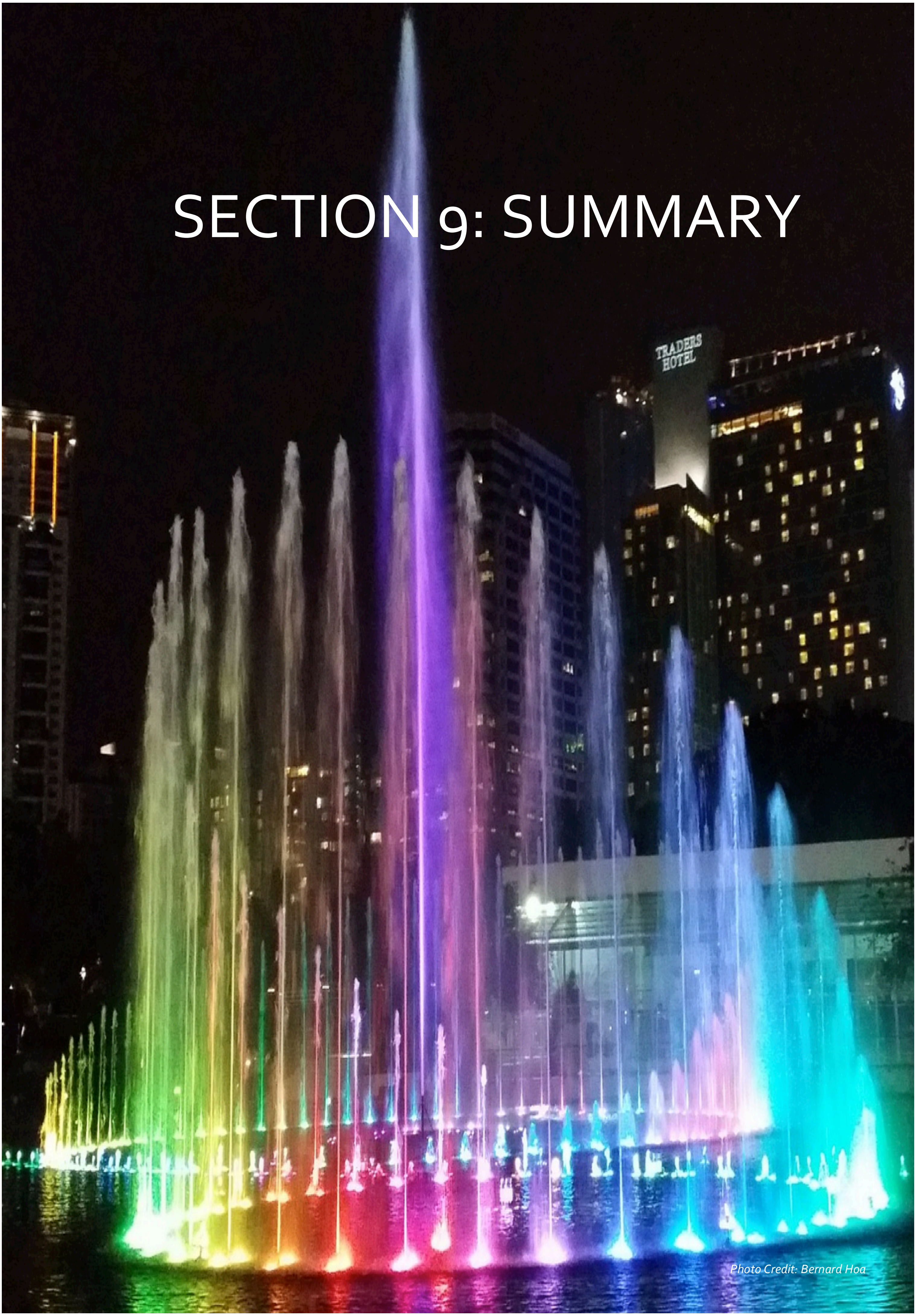


Photo Credit: Bernard Hoa

SUMMARY

The Social Finance space has the potential to transform Malaysia by bridging the gap between two seemingly distinct concepts: development and finance. The Social Finance Roadmap has been designed as a tool to provide the Malaysian government with a guideline of how best to accelerate the country's development agenda by building the ecosystem in an effective, inclusive and collaborative way. The Social Finance Roadmap aims to act as the cornerstone of the 11th Malaysia Plan to help Malaysia achieve three target outcomes:

1. **Reduced Dependency on the Government:** By 2020, the Malaysia government will be able to transition from its current role as the nation's 'funder' to its 'catalyzer' through Social Finance initiatives that effectively mobilize new sources of capital and bring new actors into the development equation.
2. **Matured Social Finance Space:** By 2020, the Social Finance space will have achieved maturity with an increase in supply of mission-oriented capital from new ecosystem players and strong demand to create demonstrable impact that can create scalable and sustainable change.
3. **Accelerated Socio-Economic Progress:** By 2020, Social Finance will help position Malaysia not only to achieve advanced nation status, but also to expand the definition of 'advanced' to mean an inclusive nation that redefines capitalism to create equitable wealth and democratizes finance to transform lives.

A brief overview of the report's sections have been summarized below:

SECTION 1: CONTEXT AND STRATEGIC NEEDS ASSESSMENT

Section 1 builds the foundation of the paper by offering a lay of the land in terms of the six Strategic Thrusts outlined in the 11th Malaysia Plan. Based on a strategic needs assessment, three Core Tenets have been identified within these Thrusts as areas that Social Finance is equipped to address, detailed in the table below.

Strategic Thrusts	Core Tenet 1	Core Tenet 2	Core Tenet 3
Strategic Thrust 1: Enhancing Inclusiveness towards and Equitable Society	B40 Households	Women	Elderly
Strategic Thrust 2: Improving Wellbeing for All	Preventative Healthcare	Affordable Housing	Road Safety
Strategic Thrust 3: Accelerate Human Capital Development for an Advanced Nation	Education System	Skills Development	Youth Employment
Strategic Thrust 4: Pursuing Green Growth for Sustainability & Resilience	Mitigating Risk of Climate Change	Natural Resource Conservation	Resilience against Natural Disasters
Strategic Thrust 5: Strengthening Infrastructure to Support Economic Expansion	Digital Infrastructure	Water & Sanitation	Energy Access Efficiency
Strategic Thrust 6: Re-engineering Economic Growth for Greater Economic Prosperity	Modernize Agriculture	Scalable and Sustainable SMEs	Competitive Cities

SECTION 2: INNOVATING SOCIAL SERVICE DELIVERY

Section 2 highlights the importance of Malaysia transitioning from a reactionary to proactive strategy on a policy level through to the way private and civil society stakeholders operate in contributing towards socially driven goals. There is high potential for Public-Private Partnerships to create proactive solution to address Malaysia's social issues by examining how ecosystem players operate within their individual scope of activity and how they can leverage their impact through cohesive collaboration and ultimately promote development on a group level.

Additionally, this section highlights that it is critical for Malaysia to harness the power of scalable, sustainable, collaborative and inclusive innovation to magnify the impact of any given intervention.

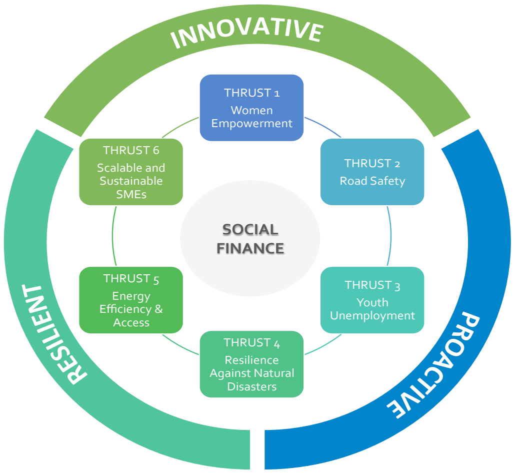
SECTION 3: A GLOBAL PERSPECTIVE

Section 3 presents a review of the state of Social Finance in seven countries, along with their successes and prominent initiatives which leads to the conclusion that the best performing ecosystems are one in which demand and supply are aligned. Learnings from this section can be used as a tool for Malaysia to benchmark its own progress in developing the Social Finance ecosystem and also presents itself as a case study into what interventions have worked effectively for other countries at different stages of progress. A brief summary of key interventions used in other countries is listed in the table below:

	Developing Demand	Bridging the Gap	Mobilizing Supply
United Kingdom	• Investment Contract and Readiness Fund • Social Incubator Fund • Social Value Act	• Community Development Finance Institutions • Social Investment Tax Relief • Community Interest Tax Relief	• Big Society Capital • Social Impact Bonds • DFID Impact Fund
United States	• Development Innovation Ventures	• New Market Tax Credit • Community Reinvestment Act	• Community Development Finance Institutions Fund • Social Innovation Fund
Japan	• JICA's Grant Aid	• Social Innovation Fund	• Japan Finance Corporation • National Diet
India	• Dasra • Centre for Innovation, Incubation and Entrepreneurship	• Securities and Exchange Board of India's Social Venture Fund • CSR Regulations 2% law	• Priority Sector Lending Policies • Indian Diaspora Investment Initiative
Thailand	• Population and Community Development Association • ChangeFusion	• Thai Social Enterprise Office	• Thai Health Promotion Foundation • Sin Taxes
Philippines	• Go Negosyo Act • Gawad Kalinga Community Development Foundation	• Philippines Social Enterprise Network • Poverty Reduction through Social Enterprise • FSSI's Impact Enterprise Bill	• Poverty Eradication and Alleviation Certificates (PEACe Bonds)
Indonesia	• PT Ruma • Putera Sampoerna Foundation (PSF)	• CSR policies	• Rumah Zakat • LAZ Bank BNI • Dompet Dhuafa

SECTION 4: SOCIAL FINANCE AND THE 11TH MALAYSIA PLAN

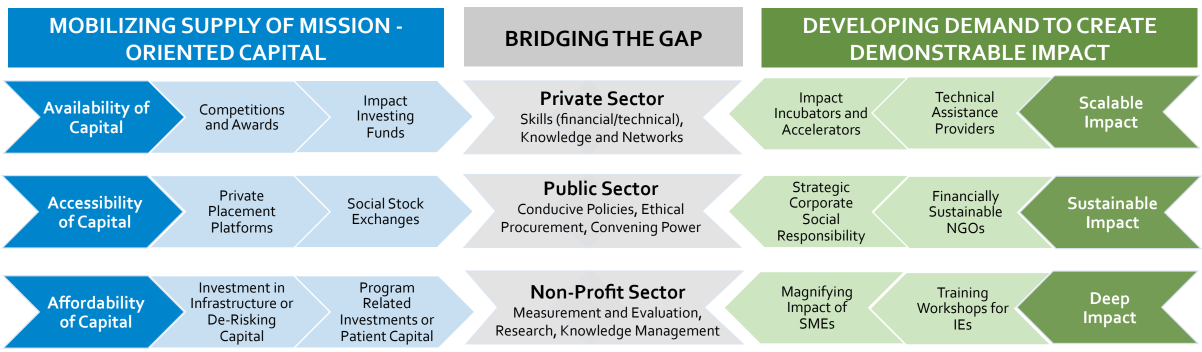
Section 4 explores the need to align the Social Finance space to the 11th Malaysia Plan and to leverage the potential of innovative finance to achieve the nation's key development goals. The graphic below provides an overview of the recommended mechanisms that aim to make Malaysia more socially and economically resilient, foster a culture of innovation and shift the dominant narrative from responding with relief to proactively investing in change.



THRUST 1 Women Empowerment	**IIX SUSTAINABILITY BONDS** Debt security that pools together a group of underlying high impact entities into an SPV that is listed on a Social Stock Exchange and sold to private sector impact investors
THRUST 2 Road Safety	**BUFFER FUND FOR ACCIDENTS** Innovative loan facility for lending at point of care to victims of road accident that effectively insulates low income families from shocks to household expenditure.
THRUST 3 Youth Unemployment	**HUMANITY BOND** Publically listed debt securities sold to impact investors whose proceeds fund the upfront cost of high impact NGO programs and is repaid over time by a government or donor agency
THRUST 4 Resilience Against Natural Disasters	**RESILIENCE BOND** Debt securities sold to INGOs or foundations to mobilize funding for cities to invest in high-impact, prevention focused programs and mitigate the risk and impact of natural disasters
THRUST 5 Energy Efficiency & Access	**GREEN BOND** A tax-exempt bond that are either asset backed or ring fenced, issued by governments, multi-national banks or corporations and whose proceeds are used to fund clean energy initiatives
THRUST 6 Scalable and Sustainable SMEs	**SHUJOG ACTS** Revolving credit facility that advances the cost of technical assistance to help Impact Enterprises fund essential services required to unlock growth capital and deepen their impact

SECTION 5: CATALYZING THE SOCIAL FINANCE ECOSYSTEM

Section 5 emphasizes the importance of adopting a holistic approach towards building the Social Finance ecosystem in Malaysia. The section details the mechanics of recommended interventions that are categorized under three overarching dimensions: (i) Mobilizing Supply of Capital: To ensure quantum of capital is not just available but is also easily accessible and affordable; (ii) Developing Demand to Create Demonstrable Impact: To ensure there is a strong pipeline of high-impact organizations that are equipped to absorb and deploy capital to effectively create scalable, sustainable and deep impact on target beneficiaries; and (iii) Bridging the Gap: To ensure that demand and supply are aligned and multiple stakeholders (from public, private and non-profit sector) participate in catalyzing Malaysia's Social Finance space and accelerating the nation's development agenda.



SECTION 6: BUILDING BLOCKS OF SOCIAL FINANCE

Section 6 details four key dimensions that can build the foundation for Malaysia's Social Finance space to achieve maturity:

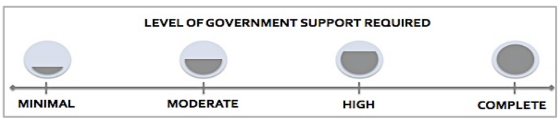
- **Impact Assessment:** The first dimension suggests a strong approach to impact assessment based on the rationale that without being able to measure and communicate results, progress will be constrained and decision making regarding resource allocation will be inefficient and non-optimal.

- **Risk Assessment and Mitigation:** The second dimension recommends a holistic view of risks, including not just financial risks but also social risks. A robust risk assessment and risk mitigation strategy can have a transformative effect on target outcomes of any Social Finance intervention that is seeking to address complex social issues in a sustainable way.
- **Policy Analysis:** The third dimension provides an analysis of different policy interventions that the Malaysia government should consider in order to create a conducive environment for Social Finance actors to thrive. Policies explored include (i) Legal definition for IEs; (ii) Social Finance Commission; (iii) Tax Incentive Structures; (iv) Corporate Social Responsibility mandates; and (v) Ethical Procurement.
- **Islamic Finance:** The forth and final dimension explores the potential of Islamic Finance to expand the pool of capital available for sustainable development. This segment explores four innovative structures that embed Social Finance concepts into Islamic Finance structures: (i) Vaccine Sukuk; (ii) Green Sukuk; (iii) Islamic Microfinance; and (iv) Sustainable and Responsible Investment Sukuks.

SECTION 7: ROADMAP STRATEGIC FRAMEWORK

Section 7 provides a detailed overview of the recommended implementation strategy for AIM. The ecosystem must be developed swiftly yet systematically, introducing interventions when they are best positioned to achieve target outcomes. The framework is designed to gradually reduce the level of support required by the government overtime, based on the assumption that initially government involvement and commitment to the Social Finance space will attract other players from private and non-profit sector overtime.

	Short term (2016)			Medium term (2017 - 2018)			Long term (2019 - 2020)		
	Recommended Intervention	Key Strategic Thrust(s)	Government Support	Recommended Intervention	Key Strategic Thrust(s)	Government Support	Recommended Intervention	Key Strategic Thrust(s)	Government Support
Developing Demand	Incubator	Strategic Thrust 3		Accelerator	Strategic Thrust 1 Strategic Thrust 3 Strategic Thrust 5		Accelerator	Strategic Thrust 5	
	Financial Sustainability Program(NGOs)	Strategic Thrust 1		Revolving Credit Facility for TA	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Impact Magnifier Program	Strategic Thrust 6	
	Competition (Inclusive Innovation)	Strategic Thrust 1 Strategic Thrust 3		Competition (Sustainable Innovation)	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Competition (Scalable Innovation)	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5	
Mobilizing Supply	Islamic Finance Bond	Strategic Thrust 1		IIX Sustainability Bond	Strategic Thrust 1 Strategic Thrust 3		Social Stock Exchange	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5 Strategic Thrust 6	
	Humanity Bond	Strategic Thrust 2		Equity Crowdfunding Platform	Strategic Thrust 2 Strategic Thrust 3 Strategic Thrust 5		Buffer Fund for Accidents	Strategic Thrust 2	
	Outcomes Fund	Strategic Thrust 1 Strategic Thrust 3 Strategic Thrust 4		Green Bond	Strategic Thrust 4		Resilience Bond	Strategic Thrust 4	
Bridging the Gap	Knowledge Management: (1) M&E Tools (2) Workshops	N/A		Knowledge Management: (1) Research (2) Academy	N/A		Knowledge Management: (1) Data Bank (2) e-Academy	N/A	
	Advocacy: Malaysia Focused Forum	N/A		Advocacy: Regional Conference	N/A		Advocacy: International Convening	N/A	
	Policies: (1) IE Definition (2) Commission	N/A	N/A	Policies: (1) Tax Rebate (2) CSR Law	N/A	N/A	Policies: (1) Ethical Procurement	N/A	N/A



SECTION 8: STAKEHOLDER ENGAGEMENT

Section 8 is the final segment of the Roadmap, which emphasizes the importance of engaging different stakeholders in the development of the Social Finance space based on three key reasons: (i) **Changing the Dominant Narrative:** By adopting a multi-stakeholder approach, Malaysia will be able to build inherent understanding that there is not necessarily a trade off between profit and impact. (ii) **Mobilizing Resources for Sustainable Development:** Currently, driving forward the sustainable development agenda is considered the responsibility of the Government. It is imperative to use Social Finance as a means to engage with other key stakeholders and shift or share part of the resource requirement needed to achieve the goals outlined in the 11th Malaysia Plan. (iii) **Building Positive Relationship with Private Sector**: Social Finance interventions involve a wide spectrum of private sector players: corporates, financial institutions, banks, law firms, audit firms, consultancies, among others. This will create positive relations between public and private sector, which could lead to follow on engagement opportunities for the government's other initiatives to drive forward both economic growth and social progress.

The section goes on to outline a stakeholder engagement model and map different stakeholders that could potentially be involved to fund or implement for suggested interventions:

	Short term (2016)			Medium term (2017 - 2018)			Long term (2019 - 2020)		
	Recommended Intervention	**Implementation Partner(s)**	**Funding Partners()**	**Recommended Intervention**	**Implementation Partner(s)**	**Funding Partner(s)**	**Recommended Intervention**	**Implementation Partner(s)**	**Funding Partner(s)**
Developing Demand	Incubator	1. Social Finance Intermediary	1. International NGO	Accelerator	1. Social Finance Intermediary	1. Foundation	Accelerator	1. Social Finance Intermediary	1. Corporate
	Financial Sustainability Program (NGOs)	1. Social Finance Intermediary	1. Foundation 2. International NGO	Revolving Credit Facility for Technical Assistance (IEs)	1. Social Finance Intermediary	1. Financial Institution	Impact Magnifier Program (SMEs)	1. Government 2. Social Finance Intermediary	1. Foundation 2. Corporate
	Competition (Inclusive Innovation)	1. Government	1. Corporate 2. Multilateral Organizations	Competition (Sustainable Innovation)	1 Government	1. Corporate	Competition (Scalable Innovation)	1. Government	1. Corporate
Mobilizing Supply	Islamic Finance Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Bears structuring cost* *- Private investors buy the Bond*	IIX Sustainability Bond (ISB)	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Bears structuring cost* *- Private sector impact investors buy the Bond*	Social Stock Exchange	1. Stock Exchange	*- IEs / bond issuers pay listing fee*
	Humanity Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt (Ministry of Health) pays for outcomes* *- Bond is sold to private sector impact investors*	Equity Crowdfunding Platform	1. Government	*- Investors/IEs pay membership fee*	Buffer Fund for Accidents	1. Social Finance Intermediary 2. Government	1. Insurance Company 2. Hospital
	Outcomes Fund	1. Government 2. Measurement and Evaluation Organization	*- Govt. Pays for outcomes, M&E costs and fund management / administration*	Green Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	*- Govt.: Issues Bond* *- Private sector green investors buy the Bond*	Resilience Bond	1. Social Finance Intermediary 2. Bank 3. Law Firm	1. Government
Bridging the Gap	Knowledge Management: (1) M&E Tools (2) Workshops	1. Government 2. Measurement and Evaluation Organization	1. Government	Knowledge Management: (1) Research (2) Academy	1. Government 2. University	1. International NGO	Knowledge Management: (1) Data Bank (2) e-Academy	1. Government 2. University	1. Corporate
	Advocacy: Malaysia Focused Forum	1. Government	1. International NGO 2. Multilateral Organizations	Advocacy: Regional Conference	1. Government	1. Corporate 2. Foundations	Advocacy: International Convening	1. Government	1. Corporate 2. Financial Institution

In summary, by shifting the paradigm from reactionary to proactive interventions, from economic growth to holistic value generation and from operating in silos to engaging multiple stakeholders, Social Finance will allow Malaysia to achieve its goal of becoming an advanced nation by 2020. This mandates adopting a strategic approach to developing all aspects of the ecosystem by mobilizing new sources of capital and bringing new players from the private sector into the development equation. The Malaysia Government is positioned to play a catalytic role in implementation of the Social Finance Roadmap, with the overarching goal of creating a nation that will serve as the voice of progress within the region and beyond.

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Kimberly Teh, Senior Executive, Agensi Inovasi Malaysia (AIM)

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Rosemary Addis, Founder & MD, Impact Investing Australia

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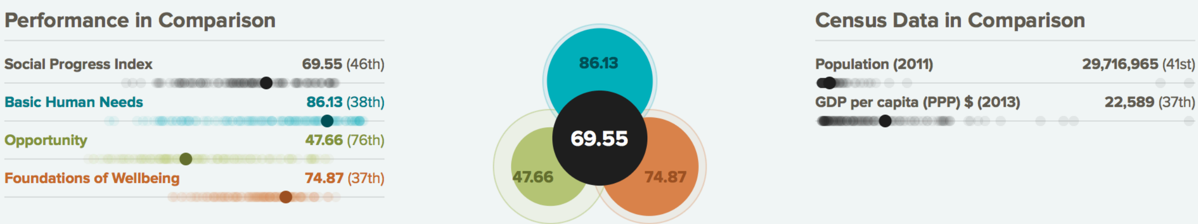
APPENDICES

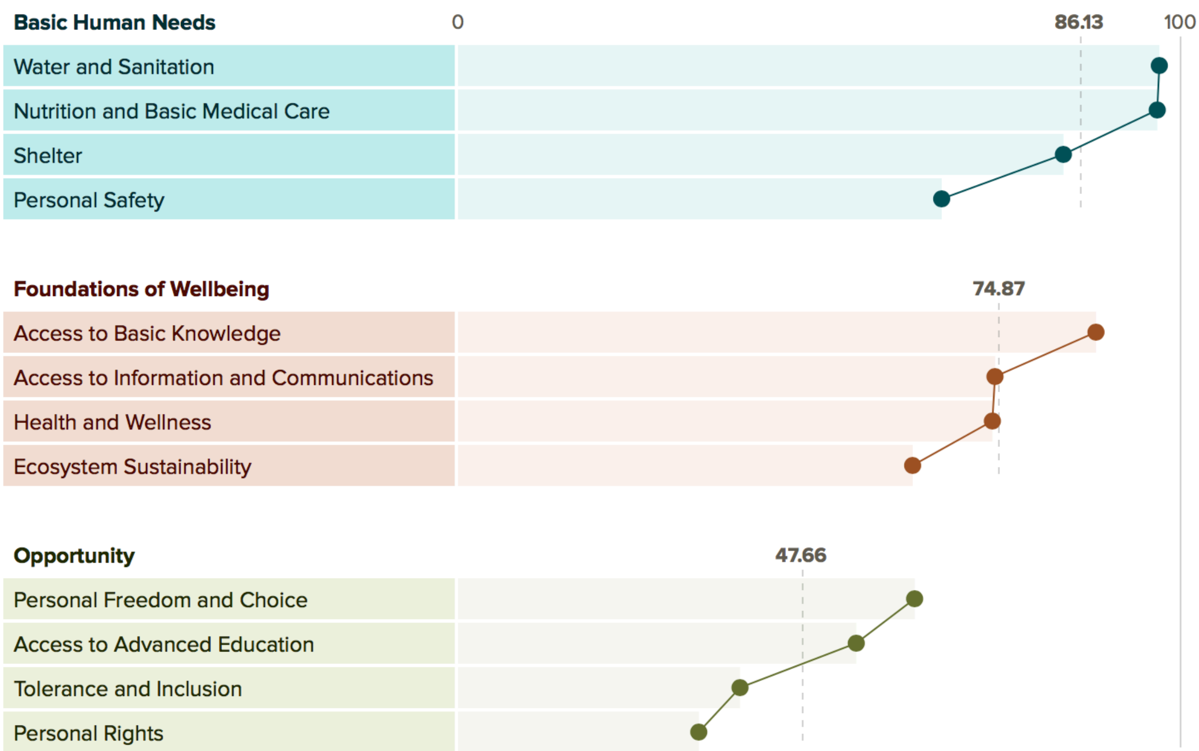
APPENDIX A. MALAYSIA SOCIAL PROGRESS INDEX PERFORMANCE

MALAYSIA

Share

In the Basic Human Needs Dimension, Malaysia performs best on **Water and Sanitation** and has most opportunity to improve on the **Personal Safety** component. In the Foundations of Wellbeing Dimension, Malaysia scores highest on **Access to Basic Knowledge** but lags on the **Ecosystem Sustainability** component. In the Opportunity Dimension, Malaysia is strongest on **Personal Freedom and Choice** and has the most room to improve on **Personal Rights**.





APPENDIX B. SOCIAL FUND FOR MALAYSIA – EXCERPT FROM REPORT BY EMMA TOMKINSON

An investment fund that is tailored to the particular characteristics, strengths and challenges of Malaysia.

A fund for Malaysia should be focused on early market development; on flexibility, experimentation and learning. This is an opportunity to generate a track record for social purpose organisations individually and as a sector and to attract different kinds of investors into different social enterprise models.

Recommendation 1: Consult with the sector and other stakeholders on the procurement process and the details of the fund itself

- This will help organisations get ready to apply to the fund
- Consultation will enhance the ability of the fund to reflect key characteristics of Malaysian society, its organisations and its people
- Consultation will lead to greater ownership and buy-in from stakeholders, including across government
- Consultation will help pick up any key issues/risks with the initial design
- Build in a 3-6 month 'pilot' phase to continue learning and adjusting to feedback from stakeholders

Recommendation 2: AIM awards grants to intermediaries and/or social purpose organisations

- AIM awards grants to intermediaries to grant on to other social purpose organisations according to a model they propose – similar to the Hong Kong model
    - builds capacity of intermediaries
    - allows a range of incubators, grant programs, low-no interest loan funds, venture philanthropy or equity-style investments, matched-funding schemes
- Grants that match private finance for social purpose organisations
    - encourages social purpose organisations to form relationships with private investors
    - allows AIM to target particular social issues in different rounds of funding
- This would act as a logical companion/next step to the Berbudi Berganda program

Recommendation 3: Include a technical assistance fund

- Have a fund that can provide grants organisations that will need legal, financial-planning, digital, measurement, business-planning and other technical assistance.
- This fund could be used to apply for or make the best use of other funds. It could also be used to implement adjustments and innovations to other funds as they progress.

Recommendation 4: Encourage collaboration.

- This is most evident in Canadian approach, but rewarding organisations that work together can be built into any model. This could be multiple organisations that work with the same groups of people (a 'collective impact' model) or alliances between NGOs and universities or businesses or local governments.

Recommendation 5: Outcomes measurement should play a key role throughout the entirety of the funding process.

- Be clear about the objectives of the fund from the beginning and measure progress against these objectives on a regular basis.
- Ask recipients of all grants to state their objectives clearly and plan to measure their progress against them on a regular basis.

COMPARISON OF FUND OBJECTIVES

KEY	
Dark	Evident
Light	Somewhat evident
Blank	Not evident at all

	CAPACITY BUILDING	SOCIAL INNOVATION	SOCIAL INVESTMENT	SOCIAL IMPACT BONDS
	Build the capacity of new or small organisations	External organisations addressing social issues where innovation delivers more value to society	Creating a market: • finance for social purpose organisations • social and economic returns for private investors	A contracting and financing model: • governments purchase outcomes from external parties • social investment as working capital
UK: Big Society Capital				
UK: Commissioning Better Outcomes & Big Lottery Fund				
US: The Social Innovation Fund				
Australia: Social Enterprise Development & Investment Fund				
Canada: Community and College Social Innovation Fund				
Hong Kong: Social Innovation and Enterprise Fund			No external investors	
Republic of Korea: Seoul Social Investment Fund				
Key Features	• Grant programs • Small amounts of funding	• Encourage risk • Encourage collaboration • A combination of grant, loan and equity investment structures	• Build capacity of intermediaries • Encourage financial sustainability of market • Loans and equity	• Investors take financial risk • Social outcomes measurement • Payment for social outcomes

ADVICE ON FEATURES OF A FUND

THE PROCESS OF SETTING UP THE FUND

- Open and transparent consultation with organisations that would be receiving the funding – and final construction that reflects consultation - on:
  - eligibility for funding
  - selection criteria
  - procurement process

  "The combination of comprehensive desktop research and early engagement with leading practitioners was critical to the team's ability to develop a clear vision for the SEDIF and identify the most appropriate mix of features to include in its eventual design.[48]"
- "Given that social investment is a relatively new field of practice, it was essential to supplement the literature reviews with dialogue with experts and practitioners to gain a thorough understanding of the design options and to tailor them for the emerging Australian social investment market.[49]"
- The Australian SEDIF benefitted from releasing a consultation paper that set out the literature, proposed structure for the funds, goals and key elements such as fund manager eligibility. It was used to get feedback from key major stakeholders and also for a brief public consultation[50].
- It is important to adequately resource the public sector project team.
- Ensure the objectives of the fund are clear and, if possible, collect baseline data on these objectives to be used in future evaluations.[51]
- Contract external experts where expertise within team is weak.
- Expect and allow for joint refinement of proposals from potential intermediaries.[52]
- Making loans for the first time is a very slow process– in the first three years of their SEDIF fund, SVA only made six loans.[53]
- Work with other agencies across government:
  - Identify potential areas that the fund could affect, and keep track of which social issues are funded over time
  - Inform other government agencies of progress in their areas and work with them on ideas to improve
  - Have a contact person in each agency who is responsible for communication in regards to the fund
  - Encourage the funding of multi-faceted programs and facilitate agencies working together.
- If an external organisation will distribute the funds, they should be working closely or jointly with AIM (2 days a week for 3 months was the commitment by UK Cabinet Office during the establishment of their Investment and Contract Readiness Fund) to design and implement the processes. This collaboration:

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[48] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 11
[49] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 11
[50] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 15
[51] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 19
[52] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 21
[53] http://socialventures.com.au/work/sva-social-impact-fund/#box_section_3

  - creates a sense of shared goals
  - breaks down a sense of 'us' and 'them' preventing future miscommunication
  - allows the sector to understand AIM strategic priorities
  - allows for AIM to understand implementation challenges.
- Build in a 'pilot phase' of the first six months or so to:
  - mitigate expectations of immediate results
  - gives space to review and adjust processes
  - promotes perception of mistakes as valuable learning opportunities rather than failures
  - sets expectations for significant changes to be made to initial structure/process.
- Provide a sample funding agreement with the initial call for intermediaries. This will provide them with clarity and save time with later negotiations.[54]

WHO DELIVERS FUNDING

AIM should distribute funding if:

- There is a lot of interaction with other government agencies required e.g. an outcomes fund for social impact bonds that will be contracted by other government agencies.
- AIM has sufficient resource and would like to control who gets the funding.
- There is no external organisation that can adequately manage distribution of funding.

One or more external organisation should deliver if:

- there exists or can be established one or more external organisations that could reliably and efficiently distribute funds on behalf of government
- there is more than one fund to be established, and managing these funds exceeds government resources
- it is desired that a fund be established that is a mix of government and private capital
- there is ability to afford the price of management fees when they are factored into interest

External organisations may be more cost-effective if:

- They are non-profit themselves, as they will not be required to maximise profits for shareholders.
- The funds are shared between fewer intermediaries so that they are large enough in size to operate effectively e.g. a loan fund should be larger than US$30 million[55].
- They operate out of less expensive cities[56]

WHERE FUNDING COMES FROM

- Dormant accounts for BSC have taken too long to receive – the process should be expedited[57]

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[54] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 24
[55] Interview with a distributor of Australia's SEDIF funds
[56] http://commoncapital.blogspot.co.uk/2014/04/how-to-make-social-investment-more.html#more

- Investigate dormant accounts as a separate issue – it is likely to take years and legislative change, and thus the establishment of a fund should be an independent project
- Be less conservative [than BSC] with how dormant accounts are calculated, and be more flexible with what social purposed they can be used for (e.g. ESG listed equities) [58]
- Don't give external investors a return target – it makes conversations more difficult and leads to less flexibility as to what returns are being sought as an organisation[59]

FEATURES OF THE FUND

- Develop a clear mandate of market building with financial sustainability a subsidiary objective[60]
- Don't give strict definitions about what can and can't be invested in – this attempt at clarity has resulted in inflexibility and confusion - ensure that key infrastructure organisations can be invested in to ensure quick effect and always come back to the objectives of the fund to make decisions[61]
- Allow flexibility of who can apply to fund – don't stick to rigid legal definitions of organisations - allow more broad indication of impact practice.[62]
- Agree minimum funding sizes and publicise.[63]
- Regular evaluation and review: build evaluation of the fund in from the start and review frequently (e.g. quarterly). Each review should examine the evidence from evaluation and adjust the features of the fund in response. An expectation of improvement should be established at the beginning, so that there is an appetite to find things to do better[64].
- Include a technical assistance or contingency budget to support areas of innovation in distribution of funds. With any new programme, as you experiment, all kinds of potential leads come up. Encourage the fund distributors/investment panel to come up with relevant 'innovations' for the fund (not programs, just ways or areas the fund could distribute money differently) and to support them if aligned to overall programme purpose[65].
- Include a budget to grant technical assistance to organisations that need help putting together proposals for the fund e.g. Commissioning Better Outcomes fund.
- Work towards a cost-effective way to deliver social investment to small or emerging organisations. Other markets haven't managed this yet, but it should be a clear long-term objective.

GRANTS, LOANS, EQUITY OR OUTCOMES PAYMENTS

When considering whether AIM should deliver grants, loans, equity or outcomes payments:

- All funds that have a mandate to generate returns from loans or equity (i.e. do not offer grants) have not managed to engage with smaller or emerging social purpose organisations

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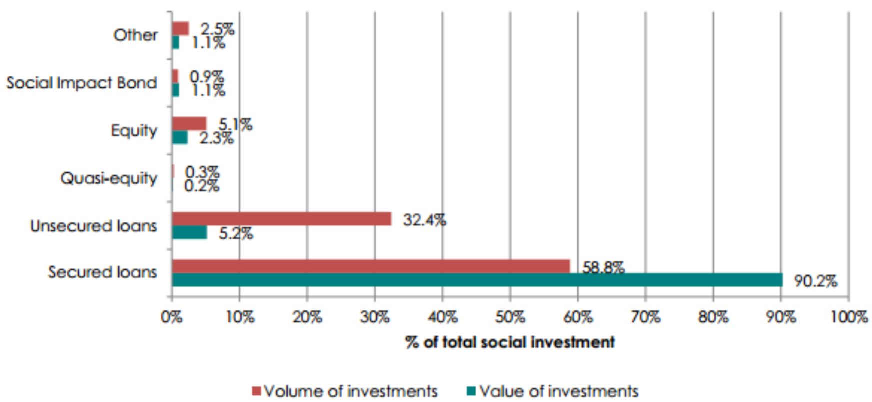
[57] email interview with administrator of the funds
[58] email interview with administrator of the funds
[59] email interview with administrator of the funds
[60] email interview with administrator of the funds
[61] email interview with administrator of the funds
[62] email interview with administrator of the funds
[63] email interview with administrator of the funds
[64] advice of UK fund administrator
[65] advice of UK fund administrator

- Big Society Capital was set up to generate returns, which meant it couldn't award grants or 'soft loans'[66], but they now see grants as vital to establishing a social investment market and are encouraging others to provide grants to organisations they might eventually fund[67].
- There are some things about an investment-only mandate. It avoids challenges of convincing people that it's not all about grants, and investors can be more hands-off[68].
- Outcomes-based funding is very difficult to budget for. If the fund budgets for maximum payments, then there will definitely be money that is not spent. It is, however, difficult to estimate how much the fund should be over-committed to eventually pay the budgeted amount. For example, if the fund is US$20 million and commits to a maximum of $20million in outcome payments for social impact bonds, then it could expect to award $10-$15million of those payments. So should it commit to a maximum of $25million? Or $30million? It is almost impossible to estimate this amount when there is no historical data to guide you.
- Outcomes-based payments are committed well before they are delivered, which results in a long time lag and difficult budget treatment until delivered.
- The ability to create separate pots of funds that can be used for different purposes would be useful[69]
- The majority of the UK social investment market is secured loans, similar to Australia. Secured loans are difficult for emerging organisations to get as they require existing assets of value. Social impact bonds form a tiny part of the UK market (similar to other markets). See table below.[70]

Figure 4.3 Types of social investments in 2011/12 (as a proportion of total value and total volume of all investments)



THE DIFFICULTY OF SMALL LOANS

- "The average annual turnover for a social enterprise is £187,000. The average UK social investment is £264,000 and most of these investments are secured loans."[71] This means that

[66] http://www.thirdsector.co.uk/news/Article/1090205/Interview-Nick-ODonohoe/
[67] http://beanbagsandbullsh1t.com/2014/02/28/report-from-emerging-market/
[68] email interview with administrator of the funds
[69] email interview with administrator of the funds
[70] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210408/Social-Investment-Report1.pdf p22
[71] http://beanbagsandbullsh1t.com/2014/05/10/the-end-of-the-beginning/

average or below-average sized organisations that don't own buildings cannot access social investment in the UK.

- Nick O'Donohoe from BSC says that funding under US$385,000 from one of their intermediaries will need to be at least partly a grant. Intermediaries funded by BSC cannot make small loans available for less than 10% interest per annum and small organisations cannot affort interest at that rate.[72]
- "For BSC and the SIFIs to stack up financially, the cost of capital for frontline social enterprises has to be so high that almost no-one wants it. Or the deals so big that almost no-one can take it. It's no wonder that social investment is coming under increasing fire.[73]"
- The answer to small loans might be to disintermediate, to use something like a crowdfunding platform to efficiently provide smaller parcels finance that can be financed by 'mass participation' with lower management costs[74]. Crowd-sourced equity is undergoing major reform in many major developed countries (Emma can provide summary paper from Australian Government if desired).

MATCHED FUNDING

- Mixing grant funding with investment might allow a lower cost of capital.[75]
- Matched funding with private investment encourages a greater range of investors to interact with social purpose organisations.
- Nick O'Donohoe, CEO of Big Society Capital, expressed frustration with the length of time between committing and transferring funds, "Once you make a commitment, then you've got to actually close the transactions – sometimes that's just a legal process and sometimes it's contingent on [SIFIs] achieving matched finance. I have to say it's been disappointing how long the closing process has taken. If you take an LGT for example, they closed a month or so ago, we committed £10million contingent on the fact that they would raise another £10million and it took them a year to do that – they had to meet with 500 different investors.[76]"
- BSC has now begun doing unmatched loans as well "'We realised, after about a year, that [closing transactions] was taking longer than we thought. The most important way we tried to change that was to try to persuade our board to make unmatched financing available where appropriate.' Fortunately, the board agreed so: 'We have now agreed to fund two organisations on an unmatched basis – that's just our money. That was quite a big step for us – it's a way to shorten the period between our commitment and them actually opening their doors to the frontline.'[77]"

ENCOURAGING INNOVATION

[72] http://beanbagsandbullsh1t.com/2014/02/28/report-from-emerging-market/
[73] http://commoncapital.blogspot.co.uk/2014/04/how-to-make-social-investment-more.html#more
[74] http://commoncapital.blogspot.co.uk/2014/04/how-to-make-social-investment-more.html#more
[75] http://commoncapital.blogspot.co.uk/2014/04/how-to-make-social-investment-more.html#more
[76] http://beanbagsandbullsh1t.com/2014/02/28/report-from-emerging-market /
[77] http://beanbagsandbullsh1t.com/2014/02/28/report-from-emerging-market/

Several funds have found that the requirement to pay back funds, with interest, has led to risk-averse fund distribution. This contrasts with the innovation objectives of their funds. Suggested options for encouraging innovation are:

- Regarding investment for innovation, one thing that AIM can do is grant money (as oppose to invest it) to an intermediary to on invest. This means that the intermediary should be allowed to invest to meet the need of frontline social enterprises, and not to have to push investors' return expectations onto organisations that may be unable to repay on such terms. This situation should provide lots of flexibility, and encourage experimentation, during early market development. This should be seen as a unique opportunity to build a new market, generate track record and learning and to attract different kinds of investors into different social enterprise models.
- A time limit on committing funding e.g. three years, would encourage fund managers to get the money out the door and be more innovative. This was feedback from Australia's SEDIF funds, which have resulted in less innovation than desired. The funds are generally awarding larger, secured loans[78].
- It is challenging to simultaneously foster social innovation and develop a robust market for social investment in the same program. AIM could develop separate programs/ policy arms in AIM or develop different pots of funding with different rules.
- The Canadian CCSIF differs from the other funds, as it is a grant without further funding or financial sustainability as a goal. In combination with its focus on community and economic locality, it may encourage a deeper collaboration to address community issues and focus social innovation.
- The Hong Kong SIE Fund has a strong focus on innovation and capacity-building.

ENCOURAGING DELIVERY OF GOVERNMENT CONTRACTS

- Most of the early funds (ChangeUp, Futurebuilders and the Social Enterprise Investment Fund [SEIF]) set up by the UK Government have failed to deliver more public sector contracts to social purpose organisations.[79]
- The Social Outcomes Fund has struggled to distribute its funds
- "Charities and social enterprises don't exist in a political vacuum. If a social organisation takes on a public contract, it isn't just taking on a contract, it's engaging with the system that produced that contract and the political assumptions and decisions that underpin it.[80]" David Floyd

[78] Interview with distributor of Australia's SEDIF funds
[79] http://beanbagsandbullsh1t.com/2014/08/18/delivery-costs/
[80] http://beanbagsandbullsh1t.com/2014/08/18/delivery-costs/

UK: BIG SOCIETY CAPITAL

Big Society Capital was launched in April 2012 by the Government of the United Kingdom. It was established by law as an independent financial institution that would receive the proceeds of dormant bank accounts and invests via **loans and equity** in social finance intermediaries. It is the only fund in this collection that expects intermediaries to pay them back.

OBJECTIVES

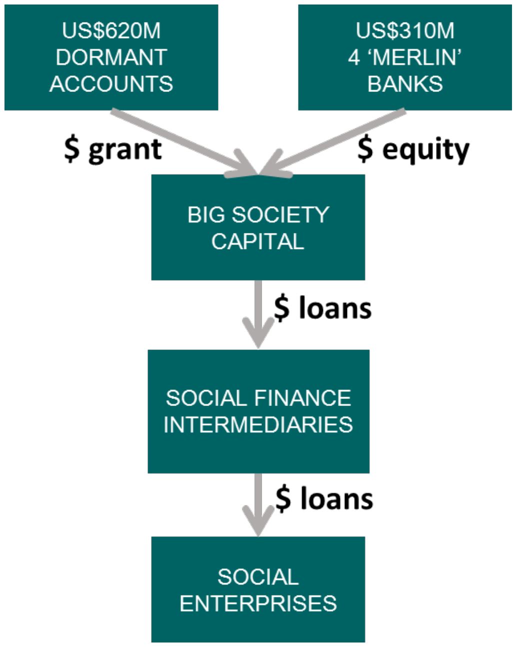
- Grow the social investment market in the UK to enable Social Investment Finance Intermediaries (SIFIs) to become financially robust.
- Build the capacity of the domestic social investment market to meet the needs of social purpose organisations.

BSC's new three-year strategy, published May 2nd 2014 outlines four key elements of their vision for the next three years and seeks to correct some of the issues they've had so far:

- Improving access to finance for small and medium sized charities and social enterprises
- Helping the most innovative approaches to tackling social problems grow and replicate
- Building mass participation in social investment
- Bringing far greater scale in the financing of social issues[81].

HOW IT WORKS

For SIFIs, the length of the application to Big Society Capital is of a minimum of 1-2 months, with stages including an expression of interest, an application and the completion of due diligence.



INSIGHTS

- "BSC has been furiously seeking ways to outsource the wider obligations bestowed on it by the fundamentally political nature of its creation. In particular, providing finance for small charities and social enterprises (which, in reality, is most of them) – which O'Donohoe told [David Floyd] in February is 'just not possible' on a commercial basis[82].
- Money has been distributed very slowly and in smaller portions than expected – only US$20 million in the first 2 year David Floyd "Over the same period, Big Lottery Fund awarded grants worth US$1200 million – meaning that Big Lottery currently gives out more .. in the average week than BSC invests in a year. [83]"

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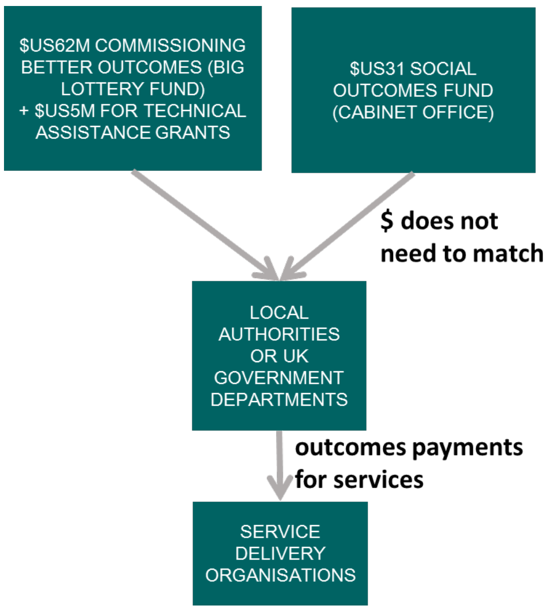
[81] http://bigsocietycapital.com/blog/our-strategy-next-three-years
[82] http://beanbagsandbullsh1t.com/2014/12/31/pretty-good-year/
[83] http://beanbagsandbullsh1t.com/2014/05/10/the-end-of-the-beginning/

UK: COMMISSIONING BETTER OUTCOMES AND THE SOCIAL OUTCOMES FUND AND

In 2013, the Big Lottery Fund[84] launched the Commissioning Better Outcomes fund alongside the Cabinet Office's 2012 Social Outcomes Fund. The purpose of these funds is to encourage government agencies (at all levels) to develop Social Impact Bonds (SIBs). The Funds are "top up" funds to assist with payments to SIB investors, proposed to average 20% of the total **outcomes payments**.



OBJECTIVES

Commissioning Better Outcomes:

- Improved skills and confidence of commissioners with regards to the development of SIBs.
- Increased early prevention is undertaken by delivery partners
- More delivery partners, including VCSE organisations, are able to access new forms of finance
- Increased learning and an enhanced collective understanding of how to develop and deliver successful SIBs.

Social Outcomes Fund

- Increased innovation in public service delivery through outcomes based commissioning.
- Improved cross-government working in public service delivery and encouraging co-payment by different commissioners.
- Increased number of SIBs addressing complex needs and demonstrating ability to replicate
- Increased capacity for SIBs as a long term tool of government to improve outcomes and reduce costs, by supporting SIBs that test cashability of savings and ensure evidence is gathered to:
    - determine performance of interventions on their primary outcome
    - increase evidence on the impact of interventions on wider outcomes
    - improve outcome valuation[85].

HOW IT WORKS

The joint application process is open from July 2013 to be closed July 2016 with the final outcomes payments made in March 2023. One application is to be completed to apply for both funds, with fund administrators deciding the most appropriate fund for each applicant. It is a two-stage application

[84] The Big Lottery Fund is an executive non-departmental public body, sponsored by the Cabinet Office.
[85] https://www.biglotteryfund.org.uk/sioutcomesfunds

process, consisting of an expression of interest and a full application. There is no minimum or maximum funding available for each organization. The expected average amount of funding is around US$1.54 million and successful applicants are able to apply for development funding between US$15,000-US$230,000.

INSIGHTS

The fund improved its impact by focusing on outcomes and building in tailored monitoring from the start.[86]

The funds have struggled to distribute their money – they well over-estimated the number of social impact bonds that would be developed and have contracted Social Finance to get local authorities interested.

Corporation for NATIONAL & COMMUNITY SERVICE | SOCIAL INNOVATION FUND
Finding what works. Making it work for more people.

US: THE SOCIAL INNOVATION FUND (SIF)

The Social Innovation Fund (SIF) was announced in 2009 as a key initiative of the Obama administration as a program of the Corporation for National and Community Service (CNCS). It awards **grants** to stimulate public and private resources to spur innovative ways to address deep social issues using evidenced results. In 2014 the SIF initiated its Pay for Success (PFS) financing program that grants funds to organisations testing approaches to develop social impact bonds.

OBJECTIVES

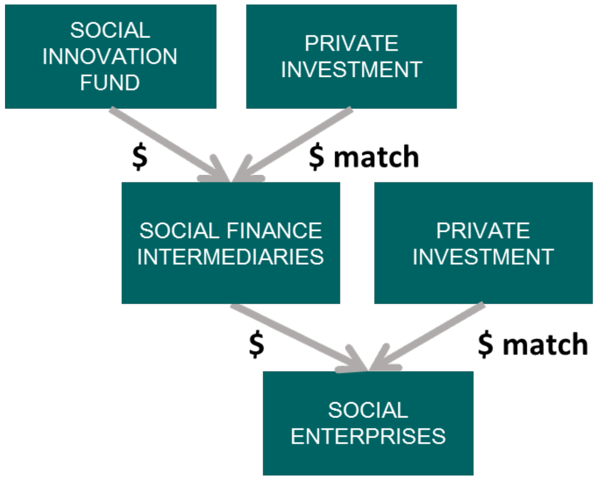
- grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States
- invest in three priority areas: economic opportunity, healthy futures, and youth development
- focus on experience and evidence from both intermediaries and the organisations they award grants to[87] which may restrict participation by new entrants or innovative programs

Michelle Obama, the First Lady- "*The idea is simple: find the most effective programs out there and then provide the capital needed to replicate their success in communities around the country.*[88]"

HOW IT WORKS

Began 2010, the SIF has awarded funds of $229.3 million to 26 intermediary grantees, which has funded 217 non-profits, leveraging more than $516.3 million in non-federal match commitments[89]. SIF:

[86] Big Lottery Fund: Triennial Review 2014 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318937/Big_Lottery_Fund_triennial_review_main_report.pdf
[87] http://www.nationalservice.gov/programs/social-innovation-fund/evidence-evaluation
[88] http://capitalresearch.org/2010/12/the-obama-administrations-social-innovation-fund/
[89] http://www.nationalservice.gov/programs/social-innovation-fund



- Awarded across 37 states and one district
- Has covered more than 100 cities
- Has awarded on average between $1million- $10 million for 3- 5 years to intermediaries, with an additional 1-to-1 match commitment.
- Has led to social purpose organisations awarded funds from intermediaries from $100,000 annually for up to 5 years, with an additional 1-to-1 match commitment.
- Provides significant technical assistance to social enterprises for implementation and evaluation
- Has a pay-for-success component launched in 2014, with $12 million in funds for the first year. Grantees receive between $200,000- $1,800,000 per year over a three year project period, matching that 1-to-1.

INSIGHTS

- Issues and tension have arisen from the funding structure, fund matching and the current capacity of the social investment market in the US. Some organisations are struggling with the 3:1 match.
- A trade-off and tension between innovation and evidence is displayed with the search for organisations with evidence of impact and those with potentially transformative, new approaches[90].
- Some grantees, particularly smaller and newer ones, have had difficulty with compliance standards (prohibition on certain types of spending, stringent financial reporting, or staff background checks).

AUSTRALIA: THE SOCIAL ENTERPRISE DEVELOPMENT AND INVESTMENT FUNDS (SEDIF)

The Social Enterprise Development and Investment Funds (SEDIF) announced in 2010, was set up by the Australian Government Department of Education, Employment and Workplace Relations (DEEWR). The funds are distributed through three intermediaries, mostly as **loans**.

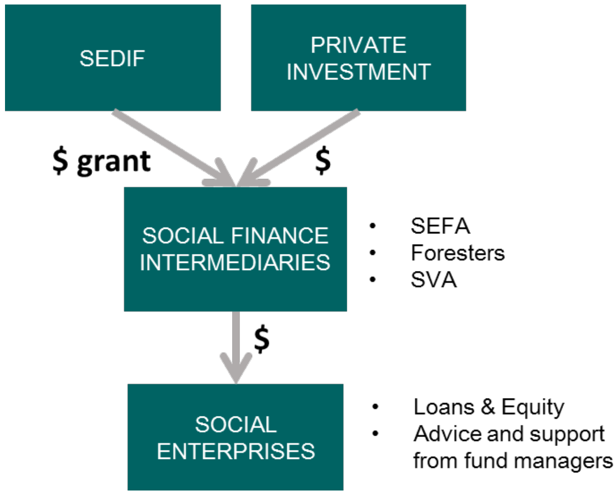
OBJECTIVES

- to improve access to finance for social enterprises
- generate a social, cultural or environmental impact
- to catalyse the development of the social investment market in Australia

HOW IT WORKS

[90] http://www.ssireview.org/blog/entry/innovation_to_impact_obamas_social_innovation_fund_at_four

There are three, different fund managers:



1. **Social Enterprise Finance Australia (SEFA)** (US$7.8m from Government, US$7.8m debt and equity from private investors) offers loan products to social enterprises along with business advice and support. Successful applicants must have a clear social mandate, a viable plan to create economic value, and a proportion of surpluses generated are to meet social objectives.
2. **Social Ventures Australia (SVA)** (US$3.1m from Government, US$3.9m from private investors for units in a trust) offers loans and equity investments, with the average expected investment to be US$390,000, to a maximum of US$780,000. Loans are usually between 5-7 years in duration and close to market rates. Early stage funds are offered to provide capacity building grants, which are of US$39,000 yearly.
3. **Foresters** (US$4.7m from Government, US$4.7m purchase of unit trusts by Christian Super) provides tailored loans, with no directors' guarantees, transparency and competitive rates. In 2014, Foresters added the Early Stage Social Enterprise Fund to its Community Finance Fund and Social Enterprise Finance Fund. The Early Stage fund has made smaller loans, which perhaps recognises that the existing funds weren't addressing this need. Foresters' funds have made 24 loans across the following annual turnover values which shows that they are lending to smaller organisations than other funds:
    - 10 loans to organisations with less than US$200,000
    - 4 loans to organisations between US$200,000 - US$800,000
    - 10 loans to organisations with annual turnover above US$800,000[91]

INSIGHTS

- Took over two years to implement[92]
- There were no organisations offering finance specifically to social enterprises prior to the SEDIF. SEFA was established in response to the program, with support from Triodos Bank in the Netherlands. Foresters and Social Ventures Australia already existed, but social enterprise funding was a new function for them.[93]

[91] http://foresters.org.au/u/lib/mob/20141215134329_2d818e55b9209b813/2014-sedif-impact-report.pdf
[92] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 6
[93] https://docs.employment.gov.au/system/files/doc/other/sediflessons_2.pdf p 7

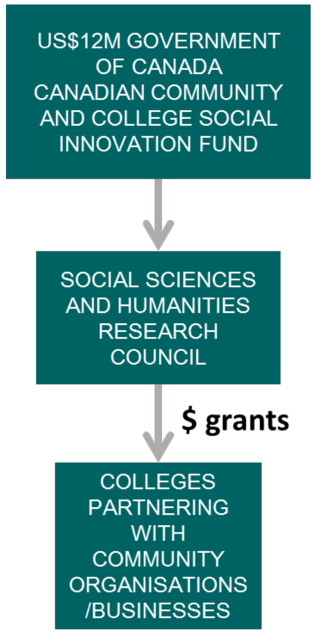
CANADA: COMMUNITY AND COLLEGE SOCIAL INNOVATION FUND (CCSIF)

The Canadian Community and College Social Innovation Fund (CCSIF) was announced in November 2014 from the Government of Canada, to find more effective ways of delivering community services and strengthening local economies. The Social Sciences and Humanities Research Council (SSHRC) of Canada will administer the fund, facilitating a competition for institutional grants available for Canadian college and polytechnic institutions only. The fund is encouraging multi-sector partnership approaches with partner organisations from the private, public and/or not-for-profit sectors. The competition deadline for funding is set at March 2, 2015, with the Fund expected to launch in June 2015.

OBJECTIVES

- foster social innovation by connecting Canada's colleges and polytechnics with the research needs of local community organizations
- facilitate the development of collaborative social innovation research

Brent Herbert-Copley, Social Sciences and Humanities Research Council of Canada- *"Canadian colleges are uniquely qualified to work with community partners to advance meaningful, relevant solutions to pressing social issues that weaken our communities.*[94]*"*



HOW IT WORKS

The Fund is small, US$12 million, to be distributed over 3 years. College and polytechnics can partner with community organisations and businesses to apply for funding of up to US$160,000 for 1- 3 years (plus up to an additional 20% to offset associated overhead and administrative costs) to undertake projects. Target issues include poverty, crime prevention, community safety and economic development.

Application Criteria for Grants includes: Applicants to be only Canadian Institutions

- Co-applicants may be Canadian or International (Post-Secondary Institutions only for International co-applicants)

INSIGHTS

- The CCSIF is the fund that most promotes collaboration
- The CCSIF is the most locally focused of all of the funds
- This fund will distribute all funds at once, which may reduce administration costs
- The fund will only deliver grants, so will have no ongoing management costs

[94] http://www.sshrc-crsh.gc.ca/news_room-salle_de_presse/press_releases-communiques/2014/social_innovation-innovation_sociale-eng.aspx

HONG KONG: THE SOCIAL INNOVATION AND ENTREPRENEURSHIP DEVELOPMENT FUND (SIE FUND)

The US$64 million Social Innovation and Entrepreneurship Development Fund (SIE Fund) was announced in late 2012 and launched in September 2013. Administered by a Task Force under the Commission on Poverty Hong Kong Government, the SIE Fund aims to address the alleviation of poverty and tackle social exclusion issues through innovation and cross-sector collaboration. Funding is open to social entrepreneurial individuals and organisations. Financial support to individuals and organisations may be in the form of **grants, matching grants or equity investments**[95].

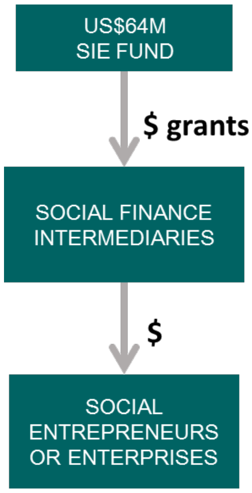
OBJECTIVES

To establish or support schemes and experiments with a view to attracting, inspiring or nurturing social entrepreneurship to develop innovations that air at creating social impact and build social capital for supporting poverty relief in Hong Kong.

Professor Stephen CHEUNG Tan-leung, Chairperson of the SIC Fund Task Force- "*The SIE Fund is tasked with the objective of linking up resources and efforts from different sectors to support social innovators to tackle social problems. As the Fund is set up under the Commission on Poverty, our focus will very naturally falls on poverty alleviation and prevention of social exclusion.*[96]"

HOW IT WORKS

The initial fund size is US$64 million (from the Lotteries Fund) with a fund allocation of US$13 million to the first round of intermediaries, announced in December 2014. The SIE Fund brings together the business, academic, impact investor, philanthropic sectors to participate in collaborative social innovation. The intermediaries behave more like incubators than hands-off funders.



Funds will be distributed by four intermediaries:

- The Hong Kong Council of Social Service
- PolyU Technology and Consultancy Company Limited
- SOW (Asia) Foundation Ltd
- The Yeh Family Philanthropy Limited

INSIGHTS

This is much more like an incubator fund, but what is interesting is that the four intermediaries will have different models, so the differences may provide learning opportunities. There is no apparent external/private investor matching component to this funding

[95] (from Shangshang Chen's research proposal)

[96] http://www.sie.gov.hk/en/who-we-are/task-force/chairman.page#sthash.Xl4lv2rH.dpuf

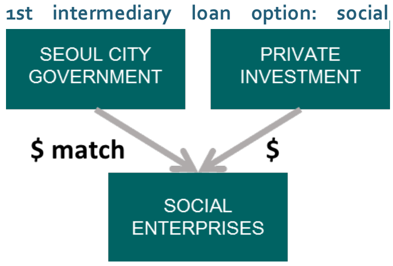
REPUBLIC OF KOREA: SEOUL SOCIAL INVESTMENT FUND

Korea Social Investment is a corporation established to introduce social investment and finance to Korea. Among its functions it administers the Seoul Social Investment Fund, which was launched January 1 2013. Korea Social Investment receives and screens applications, selects organisations and arranges **loan** agreements on behalf of Seoul City. It then manages the process of repayment.

OBJECTIVES

- Solution of social problems
- Creation of social investment market
- Provide alternative finance- financial sustainability
- Private and public governance
- Promotion of welfare of people

1st intermediary loan option: social

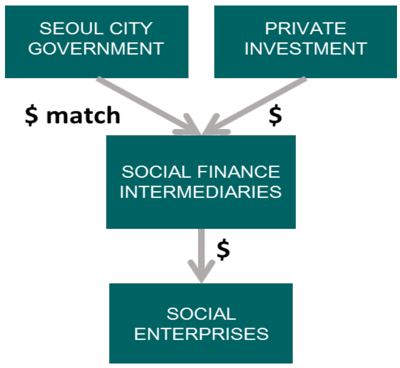


Application Criteria: (A) Corporates in Seoul creating social, environmental, cultural and educational value OR (B) expanding the social economy by supporting these businesses.

Under five categories of funding:

- Social Finance Intermediaries (matched loans)
- Social housing
- Social Business (social enterprises)
- Social Venture Business (incubators)
- Business in Town (businesses supporting local administrations with addressing social problems)
- Cooperative Association

2nd intermediary loan option: businesses supporting social enterprises



HOW IT WORKS

The fund has the potential to provide up to US$100 million with half, around US$50 million, provided by Seoul City Metropolitan Government. Social enterprises raise money from private sources (donation, equity, debt, reserves) and applies to the City of Seoul for a loan to match the amount raised. The interest rate on loans is between 0% and 2%. Eligibility and repayment models are different for each of the funding categories.

INSIGHTS

The five-category funding model allows for simultaneous funding and growth in several areas. It appears that real thought has been put into the differing structures of each category. Using Korea Social Investment to distribute the entire amount may be more efficient, but may result in less learning or innovation. The external/private investor matching component is limited to the 'social finance intermediaries' component.

APPENDIX C. SROI METHODOLOGY

The SROI and Social Impact Framework provide a starting point to analyze the social and environment impact created by the enterprise. In isolation, the SROI has limited intrinsic value. Without sufficient context or analytical interpretations, straightforward conclusions about the scale or depth of impact cannot be easily drawn. Nor is the SROI readily comparable across organizations, sectors, or regions. Rather, the SROI (large or small, inclining or declining) invites more nuanced analysis to determine how the particular business model lends itself to impact creation (e.g., buyer-supplier relationship).

Nonetheless, the numerical value of an SROI has specific meanings and interpretations, especially around the important and psychological threshold of 1. If the SROI falls below 1 for a variety of reasons (e.g., the business has high Opex and creates little impact in the lives of beneficiaries or impacts only a few beneficiaries superficially), Shujog provides recommendations to the organization on what would be required to increase the SROI ratio. This suggestion may rely on sensitivity analysis; assessment of the business operations; and assumptions underlying its business (and consequently social impact) model. A declining SROI might occur for organizations which continue to scale operations rapidly. In some cases, the way the business creates impact cannot keep up with an influx of investments. If such entities seek to sustain social and environmental impacts over time, they must consider ways to incorporate meaningful value creation into their business operations, expansion plans, and financial decisions. Here, Shujog considers the extent to which the enterprise forgoes financial returns for social impact and vice versa. In other cases, a declining SROI may balance out over time, where impact creation experiences a natural lag time in relation to initial investments.

If there are multiple beneficiary groups, Shujog calculates impact per stakeholder, in order to make comparisons and draw appropriate conclusions. By examining the value of impact created for the different stakeholder groups, as well as the different types of impact created for the different stakeholders, Shujog determines for whom the organization most effectively creates value.

In addition to mapping the social and environmental impact of the enterprise, Shujog also evaluates the efficiency and effectiveness of the organization against its mission. Efficiency measures the number of units produced and clients reached, as well as the impact created by the organization for each dollar spent of its activities. For efficiency, some questions that Shujog addresses include:

- What is the projected SROI (i.e., measure of social value created for each dollar spent on the organization's activities)?
- To what extent and in which areas does the enterprise create social value in a cost-effective manner?
- How economically has the enterprise created social value?

To evaluate the efficiency of the enterprise, Shujog looks at the process of implementing its activities. This analysis reveals how outputs are achieved (e.g., the types and quantities of services delivered, the beneficiaries of those services, the resources used to deliver the services, and any possible gaps in implementation). To the extent applicable, Shujog also benchmarks the SROI against similar organizations, as a measure of the efficiency by which the organization creates social impact.

As a measure of quality in service delivery, effectiveness measures changes effected by organizational inputs (e.g., supply chain), activities (processes), and outputs (such as sales and distribution) – in relation to the mission and socio-environmental objectives of the enterprise. For effectiveness, some questions that Shujog considers include:

- Which stakeholder groups are projected to experience the greatest amount of material change?
- Are these stakeholder groups the targeted beneficiaries according to the enterprise's mission?

To evaluate the effectiveness of the enterprise, Shujog estimate the outcomes, or changes, that directly resulted from the activities. Using a combination of qualitative and quantitative evidence, the assessment focuses on intermediate-term outcomes and impact to determine how an enterprise realizes its stated mission.

Another area of analysis includes the capacity of the enterprise to scale and sustain operations overtime. An organization's scalability refers to (i) its ability to expand operations to handle a growing amount of work in a capable manner or (ii) its ability to be enlarged to accommodate that growth. Sustainable impact reflects commercial and social viability of an enterprise to create surplus as a going concern over the long haul (i.e., an enterprise that remains in business for the foreseeable future). Such viability depends on resiliency over time – businesses that can survive shocks because they are intimately connected to healthy economic, social and environmental systems. Shujog examines how these businesses create economic value and contribute to healthy ecosystems and strong communities.

For sustainability and scalability, Shujog explores the following questions:

- How viable is the business model to sustain impact creation over the medium term?
- In relation to relevant peers, does the enterprise forgo acceptable levels of financial and economic returns to the benefit of social and/or environmental impacts?
- Will expansion and economies of scale enable the enterprise to attain financial self-sufficiency leading to the realization of its stated mission?
- As the enterprise scales operations, to what extent have social value expanded commensurately?

This analysis looks at the degree of sustainability considered essential for the success of the organization, not only as a going concern but also an impact enterprise. To evaluate the sustainability of the enterprise, Shujog first evaluates financial viability (i.e., the soundness of the business plan and financial model). If the enterprise intentionally creates social and environmental impacts, then this value creation is expected to expand in tandem with operational growth.

THE SEVEN PRINCIPLES OF SROI

1. Involve Stakeholders: ***Inform what gets measured and how this is measured and valued by involving stakeholders.*** Stakeholders are those people or organizations that experience change as a result of the activity and they will be best placed to describe the change. This principle means that stakeholders need to be identified and then involved in consultation throughout the analysis, in order that the value, and the way that it is measured, is informed by those affected by or who affect the activity.

2. Understand what changes: ***Articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended.*** Value is created for or by different stakeholders as a result of different types of change; changes that the stakeholders intend and do not intend, as well as changes that are positive and negative. This principle requires the theory of how these changes are created to be stated and supported by evidence. These changes are the outcomes of the activity, made possible by the contributions of stakeholders, and often thought of as social, economic or environmental outcomes. It is these outcomes that should be measured in order to provide evidence that the change has taken place.

3. Value the things that matter: ***Use financial proxies in order that the value of the outcomes can be recognized.*** Many outcomes are not traded in markets and as a result their value is not recognized. Financial proxies should be used in order to recognize the value of these outcomes and to give a voice to those excluded from markets but who are affected by activities. This will influence the existing balance of power between different stakeholders.

4. Only include what is material: ***Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.*** This principle requires an assessment of whether a person would make a different decision about the activity if a particular piece of information were excluded. This covers decisions about which stakeholders experience significant change, as well as the information about the outcomes. Deciding what is material requires reference to the organization's own policies, its peers, societal norms, and short-term financial impacts. External assurance becomes important in order to give those using the account comfort that material issues have been included.

5. Do not over-claim: ***Only claim the value that organizations are responsible for creating.*** This principle requires reference to trends and benchmarks to help assess the change caused by the activity, as opposed to other factors, and to take account of what would have happened anyway. It also requires consideration of the contribution of other people or organizations to the reported outcomes in order to match the contributions to the outcomes.

6. Be transparent: ***Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.*** This principle requires that each decision relating to stakeholders, outcomes, indicators and benchmarks; the sources and methods of information collection; the different scenarios considered and the communication of the results to stakeholders, should be explained and documented. This will include an account of how those responsible for the activity will change the activity as a result of the analysis. The analysis will be more credible when the reasons for the decisions are transparent.

7. Verify the result: ***Ensure appropriate independent assurance.*** Although an SROI analysis provides the opportunity for a more complete understanding of the value being created by an activity, it inevitably involves subjectivity. Appropriate independent assurance is required to help stakeholders assess whether or not the decisions made by those responsible for the analysis were reasonable.

Source: SROI Network

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