

Abstract

An estimate of 4 trillion USD of development resource is required in delivering the UN Sustainable Development Goals (SDGs) by 2030, yet an annual investment gap of 2.6 trillion USD remains to be closed in developing countries. In this regard, the fundamental role of Official Development Assistance (ODA), as a catalytic resource to engage the private sector in sustainable development, has been strongly emphasized. Similarly, the concept of impact investing has been widely discussed as a strategic use of development resource towards the SDGs in an effective and innovative manner, not only by creating social and environmental impact, but also through its virtuous cycle of continuous re-investment with financial return that is generated.

Impact investing is commonly defined as “investments made into companies, organizations, and funds with the intention to generate positive and measurable social and environmental impact, alongside a financial return,” and a diverse range of players constitute the impact investing ecosystem, from both private and public sector. Recently, major donor agencies, Multi-lateral Development Banks (MDBs), and Development Finance Institutions (DFIs) have recognized it as a new method to deploy development resource, and are actively promoting the impact investing business.

In line with the latest movement of major donor agencies, the Korea International Cooperation Agency (KOICA) could also adopt the practice of impact investing and achieve expected benefits compared to traditional ODA projects, which include the following: Δ mobilization of private resource; Δ private sector development in developing countries; and Δ enhancement of sustainability of development projects. First, KOICA could mobilize the private resource by providing risk capital to development countries, which experience lower voluntary private capital inflows. Second, contribute to private sector development in developing countries by offering Technical Assistance (TA) for the growth of innovative businesses and market creation. Third, secure the sustainability of development projects even after the completion, by supporting autonomous growth of private sector and re-investment of impact investing capital.

In the meanwhile, KOICA has been carrying out relevant studies on impact investing since 2013, and has been aware of the importance of donor agency's participation in the field. However, the actual introduction to the practice is still in the early stages of discussion. In parallel with this, due to the limited experience in the implementation of similar projects, KOICA has had difficulty in promoting the new business despite the numerous partnership proposals received from domestic and foreign institutions for impact investment projects. In such context, there has been a call within the Agency to seek practical advice to implement impact investing, raising the need for this research.

Therefore, this research aims to provide a practical assistance to KOICA to execute impact investing projects, by analyzing hands-on information of impact investment funds operated in developing countries, in which major donor agencies have participated, by reviewing internal and external conditions of KOICA, and by synthesizing the results, in order to identify challenges that the Agency would face when promoting the indicated business, and to provide relevant recommendations and advices.

In order to conduct the analysis on impact investment funds, different cases were selected for each of the following types of participation of donor agencies: Δ provision of capital to the fund created by other organizations; Δ co-creation of multi-donor fund; and Δ creation of single-donor fund. Three cases that were chosen are African Agriculture Capital Fund (AACF), Global Innovation Fund (GIF), and DFID Impact Fund (DIF). First, AACF is the fund in which the U.S. Agency for International Development (USAID) had participated after it was created by other organizations. Second, GIF is the fund which was created by collaboration of various donor agencies. Third, DIF is the single-donor fund created by UK Department for International Development (DFID). The research team carried out an in-depth analysis on practical information of each, including impact investment fund manager, fund mechanism, and development impact management.

In all three cases, donor agencies having similar characteristics to KOICA, used grants as financial instrument to participate in funds, and provided a separate Technical Assistance Facility (TAF), accounting around 10–20% of total investment funds. However, each case shows how donor agencies have taken different approaches in regard to their roles and positioning. In the case of AACF, USAID focused on promoting the participation of the private investors, by providing guarantee to reduce the investor risk. Whereas in the case of GIF, multiple donor agencies, including USAID and DFID, intended to support innovative ideas for sustainable development in developing countries, by providing flexible investments without being limited to specific sector. As for the case of DIF, DFID dedicated its role as a priming water for development of impact investing market in its early stage.

Considering different kinds of participation and that KOICA is yet at the introduction phase of impact investing, the Agency could participate in funds created by leading organizations, using its existing manpower and available budget. By doing so, KOICA could build up the practical experience, which would serve as a stepping stone to create its own multi- or single-donor fund later at the expansion and revitalization phase.

However, KOICA currently faces some challenges in regard to the implementation of impact investing, such as Δ burden of entry into a new field, Δ deficiency of dedicated team and personnel with expertise in investment, Δ constraints on business structure and budget size, and Δ lack of potential partners and business opportunities.

Based on these limits and concerns, the research team proposes the following actions to be undertaken by KOICA to promote impact investing: Δ to introduce impact investing through integration with the existing development projects; Δ to build and secure potential global partners; Δ to enhance internal understanding of impact investing; and Δ to organize a dedicated team and expand the professional manpower.

First, it is possible that KOICA incorporates impact investing within other business structures, including Development Innovation Programs, Global Disease Eradication Fund and Development Projects, to select the impact investment fund manager as private sector partner and implement the indicated business.

Second, it is necessary that KOICA concentrates on establishing and securing the network with potential global partners, who have a profound experience in developing countries, and who can share the common goals with KOICA. This is because for KOICA, who cannot carry out direct investment activities and has limited experience, it is important to cooperate with competent partners to successfully promote impact investing.

Third, it is recommended that KOICA develops a practical guideline for the execution of impact investing, and to plan internal education and training programs to alleviate the internal burden and enhance the understanding of employees about the new business.

Lastly, it is essential that KOICA designates a team to lead impact investing business within the Agency, and simultaneously expand the pool of professionals. In the introduction stage, a small number of existing personnel, who have experience in private investment and are scattered across the Agency, could be collected into a team to initiate the business. Later in the expansion stage, a dedicated team shall be properly established with relevant staff recruited from both interior and exterior.

In conclusion, impact investing in developing countries does not only effectively contribute to the achievement of SDGs, but also could serve as a means for KOICA to meet the expectations of global community and the Korean government, and as a new growth engine. However, in order to maximize the value and potential of impact investing business, it is now on hands of KOICA to convey a more positive attitude, and continuously endeavor to promote the business, accompanied by pan-governmental support and cooperation.