Enabling business innovation for inclusive and sustainable development

Note by the secretariat

Summary

The Sustainable Development Goals have contributed to transforming how businesses operate. Corporations are beginning to realign their priorities in the face of shifting demands from consumers, investors and employees. In addition, innovative business models such as social enterprises and inclusive businesses are emerging, which purposefully aim to address social and environmental challenges through market-based approaches and to provide livelihood opportunities, products and services to those at the base of the economic pyramid.

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

In addition, the present document highlights the important role that regional cooperation and South-South collaboration play in promoting business innovation for inclusive and sustainable development.

The Committee on Trade, Investment, Enterprise and Business Innovation may wish to share experiences related to national and regional cooperation and South-South collaboration, including effective practices and lessons learned, in promoting business innovation for inclusive and sustainable development.

The Committee may also wish to indicate the support required from the secretariat to promote the agenda on enabling business innovation for inclusive and sustainable development; make recommendations to the secretariat on advancing business innovation for inclusive and sustainable development, both nationally and regionally; and identify new and priority policy issues related to business innovation for inclusive and sustainable development that the secretariat should address in greater detail.
I. Introduction

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

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

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

4. The present document contains an overview of emerging policy options to promote business innovation for inclusive and sustainable development, drawing from policies implemented by member States of ESCAP. In addition, the present document highlights the important role that regional cooperation and South-South collaboration play in promoting business innovation for inclusive and sustainable development. The document also provides an overview of the work of the secretariat on this agenda and includes a proposal on issues for consideration by the Committee on Trade, Investment, Enterprise and Business Innovation.

II. Key concepts

5. Innovation is not just about technology. It can be defined as the implementation of a new or significantly improved product (good or service) or process, a new marketing method or a new organizational method in business practices, workplace organization or external relations.\footnote{Organisation for Economic Co-operation and Development (OECD) and Eurostat, \textit{Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data} (Paris, 2005).} In addition, social innovation can be defined as the process of developing and deploying effective solutions to challenging and often systemic social and environmental issues.\footnote{Stanford Graduate School of Business, Centre for Social Innovation, “Defining social innovation”. Available at www.gsb.stanford.edu/faculty-research/centers-initiatives/csi/defining-social-innovation (accessed on 25 November 2022).}

6. With these definitions in mind, and in the context of the 2030 Agenda, business innovation for inclusive and sustainable development can be defined as a new or significantly improved business model aimed at developing and deploying effective solutions to social and environmental issues.
7. Social enterprise and inclusive business are subsets of business innovation and can be defined as follows:

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

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

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

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

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

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

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

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

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Impact economy policy toolbox

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

A. Market facilitator

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

   a. National strategies that provide a framework for the development of impact economies;
   b. Dedicated central units to serve as expert centres, within national administration structures, for oversight and implementation of impact economy policies.

1. National strategies

11. Several Governments in the Asia-Pacific region have or are in the process of developing national strategies to guide and shape progress on business innovation for inclusive and sustainable development. Some Governments have developed specific stand-alone strategies to support social enterprises, including the Governments of the Republic of Korea (Social Enterprise Promotion Act), Thailand (Social Enterprise Promotion Act), Viet Nam (Law on Enterprise) and Malaysia (Social Enterprise Blueprint 2015–2018). These strategies typically include a range of supportive measures such as capacity-building, fiscal incentives, incubation facilities, market linkage services and certification for impact enterprises.
12. Governments are also putting in place specific strategies or programmes to promote inclusive business. As an example, the Government of Cambodia integrated inclusive business promotion in its National Strategic Development Plan 2019–2023, and it developed the Inclusive Business Enabling Environment strategy for Cambodia. The strategy serves to promote inclusive business through nine action areas that include approving an inclusive business strategy and action plan; developing an inclusive business coaching facility; setting up an inclusive business risk reduction fund to encourage inclusive business investors; and establishing a reporting system for monitoring and evaluating inclusive business impact. In 2021, Cambodia began the implementation of the strategy. The Government established the inclusive business promotion action plan, accredited the first inclusive businesses and gave awards to inclusive businesses.

13. Other Governments have taken a different approach to strategy development with regard to business innovation for inclusive and sustainable development. For example, instead of having a stand-alone strategy for social enterprise development, the Government of Indonesia has made social entrepreneurship a pillar of its five-year national plan. In Malaysia, the national entrepreneurship policy for 2030 includes the promotion of inclusive businesses. Following the elaboration of a landscape study, Malaysia is supporting inclusive business within its work on promoting small and medium-sized enterprise development. For example, in 2022, SME Corporation Malaysia established the Inclusive Business Value Chain Development Initiative to support selected inclusive business models. As another example, in 2022, the Prime Minister of Viet Nam approved the programme on support for private enterprises in sustainable business for 2022–2025, which includes the promotion of inclusive business models and circular economy-based business models.

2. Dedicated central units

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

15. For example, the Social Enterprise Promotion Act of 2006 promotes social enterprises in the Republic of Korea, and the Korea Social Enterprise Promotion Agency\(^7\) was set up as a dedicated government agency to oversee the implementation of the Act. The Agency focuses on the following areas:

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

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

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

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\(^7\) See www.socialenterprise.or.kr/_engsocial/.
16. As another example, in Cambodia – to support the implementation of the Inclusive Business Enabling Environment strategy – an institutional framework has been established. The framework comprises an inclusive business board to provide guidance; an inclusive business unit in the Ministry of Industry, Science, Technology and Innovation to serve as the secretariat of the board; and focal points in five government agencies and four business associations.

B. Market regulator

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

(a) Specific legal forms to enable impact-focused enterprises to register and be distinguished from mainstream businesses;
(b) Fiscal incentives to provide tax breaks for impact enterprises.

1. Specific legal forms

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

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

20. Other Governments are putting in place accreditation schemes to recognize inclusive business models. Cambodia has established an inclusive business accreditation system based on the regional Guidelines for the Promotion of Inclusive Business in ASEAN and has already accredited a first batch of 18 enterprises. Viet Nam is currently in the process of establishing an accreditation system for inclusive business.

21. Other Governments have implemented more informal initiatives, such as awards, to recognize impact enterprises. For example, the Ministry of Industry, Science, Technology and Innovation of Cambodia has named at least 10 local companies as champions of what is known as the Inclusive Business
Enabling Environment for Cambodia model. At the ASEAN level, the ASEAN Inclusive Business Awards are provided to recognize innovative business models in each ASEAN member State.

2. Fiscal incentives

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

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

C. Market participant

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

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

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

1. Access to capital

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

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

11 www.sidbivventure.co.in/samridhi_fund.html.
Credit guarantee programmes allow social enterprises access to loans under preferential conditions, with the funders providing guarantees to cover the default risk of the borrowers. Social enterprises often find it challenging to access conventional bank loans, as they are unable to provide the kind of collateral required. For example, the Korea Inclusive Finance Agency provides guarantees for loans worth up to $7 million for firms working on social issues. The provincial government of Shanxi and the Government of China are also guaranteeing a sovereign loan of $100 million issued by the Asian Development Bank to finance the Shanxi Integrated Agriculture Development Project. The aim of the project is to create 20,000 new jobs for poor and low-income people by supporting inclusive businesses.

2. Impact procurement

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

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

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

IV. Regional cooperation and South-South collaboration

Regional cooperation and South-South collaboration will be critical in promoting the business innovation for inclusive and sustainable development agenda more broadly and scaling up the new wave of businesses putting purpose alongside profit. In the Asia-Pacific region, the benefit of this approach is already bearing fruit.

In 2020, ASEAN Economic Ministers endorsed the Guidelines for the Promotion of Inclusive Business in ASEAN. The Guidelines are based on the policy experience of the Philippines; the findings of landscape studies conducted in Cambodia, Indonesia, Malaysia and Viet Nam; and the outcomes of a series of policy discussions.

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12 Korea Bizwire, “Gov’t to boost policy support for social impact investments”, 4 April 2018.
31. The Guidelines include 12 policy instruments for promoting inclusive business. These instruments include establishing a strategy and institutional support for the promotion of enabling environments for inclusive business; supporting greater recognition for firms that go beyond the bottom line through the giving of business awards; and, more importantly, establishing an accreditation system that can potentially be linked to benefits of a financial (tax incentives) and non-financial (priority in procurement and facilitation services) nature. The Guidelines are also aimed at encouraging Governments to set up a business coaching facility that provides specialized business advice to firms seeking to transform their business into an inclusive business or expand their inclusive business model. To ensure that firms have access to the necessary finance to invest in inclusive business models, and recognizing the availability of impact funding, the Guidelines include a proposal for the establishment of a risk-reduction facility that, by providing certain protection for investments, would help reduce the risk for investors and leverage further private investments into inclusive business models. It is noted in the Guidelines that the promotion of inclusive business can also be incorporated into existing private sector development programmes. It is also suggested that means of promoting inclusive business models within programmes for small and medium-sized enterprise development and social enterprises be explored. The endorsement of such Guidelines at the regional level have provided legitimacy for government officials seeking to promote inclusive business in their own countries.

32. South-South collaboration is also critical for effectively promoting innovative business models at scale as developing countries, as a whole, have a substantive and increasing economic impact. Countries in the global South have contributed to more than half of all global growth in recent years, and new financial institutions have helped generate infrastructure and sustainable development projects around the world. Moreover, there are many creative home-grown solutions to eradicate poverty and achieve the Sustainable Development Goals, and important economic, geographical and cultural linkages, as well as shared and common challenges and opportunities, that make South-South collaboration a very valuable proposition.

33. South-South collaboration has played a critical role in promoting regional cooperation on inclusive business in South-East Asia. The Philippines was a pioneer in the promotion of inclusive business models. In 2017, it hosted the first ASEAN Inclusive Business Summit to raise awareness and share insights on the way to promote inclusive business with other ASEAN member States. The discussions at the ASEAN level on inclusive businesses, including through the annual ASEAN Inclusive Business Summits, encouraged ASEAN member States to explore the potential in their own countries, for example by conducting national landscape studies. The lessons learned from these studies, together with an ASEAN study, were fed back into the regional discussion and generated support for the endorsement of the regional Guidelines for the Promotion of Inclusive Business in ASEAN. According to government officials, the regional Guidelines have served as a valuable reference for developing inclusive business strategies and activities. Peer learning, regional events and the ASEAN Inclusive Business Summits have provided a critical way for government officials to learn about how other countries are promoting inclusive business and to identify mechanisms that may be applied at the national level. Currently, there are ongoing discussions to explore common regional mechanisms (e.g. funding or an accreditation system) to promote inclusive business through South-South collaboration.
34. Coordinated private sector action beyond the national level will be critical to the achievement of the Sustainable Development Goals. For instance, Cambodia, the Lao People’s Democratic Republic, Thailand and Viet Nam are joining forces to promote closed-loop plastics and a more sustainable cassava value chain. In a globalized economy, where businesses compete internationally and can source technological and non-technological solutions globally, South-South collaboration becomes ever more important to avoid a race to the bottom and encourage common viable standards and access to technological solutions that promote more sustainable uses of plastic and development of a sustainable cassava value chain. South-South collaboration in this context requires a set of complementary actions at the policy, technology transfer and private sector development levels.

V. Work of the secretariat on business innovation for inclusive and sustainable development

A. Regional cooperation and South-South collaboration initiatives

35. The secretariat has supported several member States to promote business innovation for inclusive and sustainable development at the regional level and facilitate South-South collaboration.

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

37. The Government of Indonesia, the 2023 Chair of ASEAN, has expressed a commitment to carry the torch of promoting inclusive business under the ASEAN umbrella. The secretariat is working to support Indonesia with the organization of the next ASEAN Inclusive Business Summit, scheduled to take place in 2023; and the regional plan of action to promote inclusive business at the regional level.

38. In addition, in 2022, the secretariat supported a South-South dialogue between ASEAN member States and other Governments to export learnings from the ASEAN experience. More recently, ESCAP has engaged with the Bill and Melinda Gates Foundation to promote inclusive business models in agriculture and food systems in India, Thailand and Viet Nam. An important element of the programme is supporting regional exchanges of experiences and lessons learned, through annual regional forums, regional reports and a dedicated community of practice.

39. The secretariat has also engaged with the Government of Colombia to facilitate South-South collaboration between member States in the Asia-Pacific and Latin American regions to support knowledge-sharing and exchanges on effective government policy measures to promote business innovation for inclusive and sustainable development and the green transition of business.

40. The secretariat has also supported Cambodia, the Lao People’s Democratic Republic, Thailand and Viet Nam to develop a South-South and triangular collaboration programme on science, technology and innovation. As a result of this participatory process, the countries have put forward proposals that seek to address critical challenges, including sustaining economic growth, addressing plastic waste and promoting more sustainable agriculture. The
proposals follow a multi-pronged approach that combines policy and regulatory actions with support for business innovation and technology transfer and for making businesses an integral part of the equation.

B. National initiatives

41. The secretariat has supported several countries in the region to develop business innovation for inclusive and sustainable development at the national level.

42. With regard to research and analysis, to date, the secretariat has conducted social enterprise landscape studies to inform policy in Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka and Viet Nam.

43. With regard to the implementation of the ASEAN Inclusive Business Framework adopted in 2017 at the forty-ninth ASEAN Economic Ministers’ Meeting, ESCAP has supported ASEAN member States to develop national policies to promote inclusive business. This work has included conducting national inclusive business landscape studies in Cambodia, Malaysia and Viet Nam, and developing a road map for promoting inclusive business in wellness tourism in Indonesia. It has also provided advisory services to the Philippines, which resulted in two inclusive business bills being filed for deliberation in the upper house and lower house of the Philippines.

44. ESCAP is currently supporting, in collaboration with the Bill and Melinda Gates Foundation, the promotion of inclusive business models in agriculture and food systems in India, Thailand and Viet Nam. Such support will include policy advisory services – for example, to develop an inclusive business accreditation system in Viet Nam and to conduct landscape studies of inclusive business in India and Thailand. It will also include providing business coaching to 30 enterprises in India and Viet Nam that are seeking to develop or expand an inclusive business line.

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

VI. Guiding principles for business innovation policy development

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

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

48. It is important to recognize that business innovation for inclusive and sustainable development is in its infancy. The evaluation of the impact of the policy initiatives highlighted in the document should be a policy priority for Governments, together with continued innovative policy experimentation, to establish what works and, of equal importance, what does not. Through these activities, best practice policy toolkits can be developed to unlock the potential of business innovation to achieve the Sustainable Development Goals.
49. The interventions that work best in a given country will depend on context. Wider market conditions vary greatly from country to country, as do societal and government priorities. However, the following set of basic and practical principles can guide effective action:

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

(b) Multi-stakeholder engagement, including in the form of multi-stakeholder groups with government and private sector representation, which can support practical policy and strategy development;

(c) Alignment and integration of national priorities on business innovation for inclusive and sustainable development with economic policy, national development plans and the Sustainable Development Goals;

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

VII. Issues for consideration by the Committee

50. The Committee may wish to share national experiences, including effective practices and lessons learned, in promoting business innovation for inclusive and sustainable development.

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

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

(b) Provide suggestions on how ESCAP could support business innovation across common challenges, from managing plastic waste and supporting sustainability in agriculture value chains to developing talent, including through South-South collaboration;

(c) Provide guidance on expanding the promotion of inclusive business across Asia and the Pacific.