

Driving impact policy making

A GSG Action Guide

November 2022

Introduction



Either as a market participant, regulator or market builder, the public sector has a unique, key role to play in enabling and driving impact economies that serve people and the planet, responding to the pressing challenges of our time.

Whilst the meaning of “impact” for the world of business and investment is increasingly clear (i.e. by incorporating impact as a key variable for decision making alongside the traditional dimensions of risk and return), the equivalent for governments remains somewhat diffuse.

Most government, political figures and public officials would typically claim that public sector activity is inherently about impact, in pursuit of public good and wellbeing. But, is it really? Are governments around the world doing enough to focus on the delivery of social and environmental outcomes, at the required scale and with integrity? What is the meaning of “impact” for a sector that does not optimise its decisions based on risk and return, like investors and businesses do?

We at the GSG work closely with our NABs and partners to both reflect on the role of government in delivering impact economies, pushing the boundaries of current thinking and knowledge through innovative approaches, and to work together to drive real policy change across jurisdictions, globally.

This action guide, building on years of technical analysis and lived experience, seeks to provide practical tools for NABs aiming to design, advocate and influence their governments to implement successful impact policy strategies.

Like every GSG effort, this guide has been developed with and for the NABs, true drivers of change on the ground, many of which are prioritising policy advocacy as part of their own national programmes.

THIS ACTION-ORIENTED DOCUMENT IS STRUCTURED AS FOLLOWS:

SECTION 1: Why prioritise government engagement? stresses the importance for NABs to engage with governments in a context of growing interest (and still limited capabilities) from policymakers in the field of impact and impact investment;

SECTION 2: High-level principles for effective government engagement describes a series of principles identified by the GSG Policy team for the design and implementation of a robust and effective policy advocacy and public sector engagement strategy. The principles build on direct experience, existing policy frameworks and a rich history of joint, practical work with NABs;

SECTION 3: Lessons learned presents a series of key learnings from NABs' past experiences in engaging with their governments, finding common ground for the benefit of our global community.

1. Why prioritise government engagement?

The impact policy agenda needs to be at the centre of the transition towards a new economic system that puts impact at the heart of both i) all investment decisions and ii) every government action, as a necessary step towards responding to the most pressing challenges facing our societies.

As such, the public sector needs to acknowledge the crucial role of private capital in helping scale much needed impact solutions, recognising that government budgets alone will never be enough.

The GSG, both centrally and (especially) through its NABs, is in a unique position to help and steer government in that process, as trusted conveners of key stakeholders from the private sector, civil society, academia, philanthropy and others working to generate intentional, positive and measurable impact through their activities.

Whilst only few NABs have direct government

representation in their membership, all have an equally important role in fostering innovation, leveraging the power of the GSG global network, showcasing best practice and positioning themselves as relevant allies to government officials and key public sector stakeholders.

In recent years, a growing number of governments around the world are increasingly understanding the role of private capital in driving systemic change, and as such have taken steps to catalyse impact investing in support of more sustainable and inclusive economies, either through direct action (i.e. through public investment or outcomes-based commissioning of services and goods) or through enabling regulation.

With much progress to still be made, NABs need to work closer and more effectively with their governments to enhance their distinct roles in support of impact, as described in table 1 below:

TABLE 1: the role(s) of governments in impact policymaking

MARKET FACILITATOR	MARKET PARTICIPANT	MARKET REGULATOR
<p>Creating organisations, initiatives and systems that enable and educate on impact</p> <p><i>Example: National strategy for impact investment, Central Government Unit</i></p>	<p>Supporting the impact investment ecosystem through direct investment and the commissioning and procurement of impact products and services</p> <p><i>Example: Outcomes-based commissioning in government programmes</i></p>	<p>Passing laws and regulations in support of the impact ecosystem</p> <p><i>Example: Specific legal form for impact businesses, Guidance for sustainability reporting / impact transparency</i></p>

2. High-level principles for effective government engagement / impact policy advocacy

Over the past years, the GSG consolidated a framework approach to impact policy making, identifying principles, tools, best practices and case studies globally, in collaboration with its strategic partners and network organisations.

This section will focus on the base principles to design a robust and resilient policy strategy. These have been organised around three main building blocks, which are not to be necessarily followed sequentially.

Even though policy development cycles are highly idiosyncratic, and depend on each country's political culture, institutions and market maturity, we believe this general framework can significantly contribute to inform NAB efforts to influence policy making domestically, building on common challenges, barriers, opportunities and solutions. The consistency and effectiveness of the

recommended approach will naturally rely on NAB capabilities and resources, access to and connections with government bodies and officials and other local factors.

Finally, before even thinking of engaging with the government to push a specific impact policy agenda, it is essential to assess whether private capital can actually play a role in delivering better and/or more solutions, acknowledging that some social sectors present greater opportunities for private impact capital to i) improve or create solutions, ii) scale existing approaches that have had shown success in "pilot mode", or iii) to drive change in both fronts. However, in social issue areas where there is less of a role to be played by capital (i.e. emergency responses, most direct assistance programs) market solutions should not be forced.

PRINCIPLE #1: IDENTIFY PRIORITIES

An effective policy advocacy strategy needs to clearly identify and prioritise key initiatives and actions, to retain focus and maximise buy-in from key stakeholders.

NABs aiming to drive a consistent policy agenda should carefully analyse the intersection of four critical dimensions:

▲ **Issues:** by embracing an issue-centred approach, any strategy needs to start by identifying, sizing and characterising a given country's most pressing social and environmental problems, including in relation to the SDGs and the Paris goals. No government is interested solely in means and instruments, but all can (should) relate to proposals with the capacity of overcoming the main problems facing society. Policy proposals should be, above all, relevant to transform realities for good.

▲ **Tools:** revisiting the existing **impact policy tools** and best practices (including those identified by the GSG), in the light of the local context (and given their ability to drive change as per the first point above).

▲ **Political momentum:** understanding government (political) priorities, which will steer efforts and maximise chances of buy-in.

▲ **Institutional environment:** evaluating the country's institutional, legal, regulatory and business frameworks/environments, to understand what is and what is not possible to deliver (or what needs to change to enable action).

Social and environmental issues

Impact policy solutions should be seen as nothing more (and nothing less) than a 'means' to deliver social and environmental transformation. In other words, whilst the design and technical aspects of the different impact investment vehicles are essential, no real impact can be achieved without closely relating these to the issues we seek to address.

With the intention of keeping the effort grounded on and relevant to the resolution of social and environmental issues, it is critical to ground the identification of priority areas on strong analytical foundations. From this analysis, issue areas in which impact investing could play a most relevant role should be identified. Research of reliable public data and academic publications, including country progress on the SDGs, can serve as a starting point. It is also useful to assess what are the particular issue areas in which the government is failing to deliver. GSG NABs have conducted such analysis in house through their staff and secretariat, or in partnership with consultancy firms, think-tanks or academic institutions that form part of their boards.

Impact policy tools

Instruments and policies in the "impact policy toolkit" need to be analysed in the light of different national and local contexts, to assess their relevance to and applicability in a given market. Many of these grow from the GSG seminal [report](#) from 2018 "Cataly-

sing an Impact Investment Ecosystem: A Policymaker's Toolkit", with further work from the GSG and other impact market builders and stakeholders enriching the toolbox in recent years.

This includes relevant and ever evolving developments on results-based financing / commissioning in the public sector (possibly the single most important step any given government should take in their journey to drive impact economies), as captured in the 2021 GSG and EOF [report "Tying Funding to Results"](#). More recently, the work of the GSG-led [Impact Taskforce \(ITF\)](#) contributed actionable recommendations and clear pathways to boost private capital in support of a just transition, focusing on the role of the public sector (and other stakeholders) to scale private, impact capital mobilisation and improve impact transparency.

As they evaluate the local relevance of these and other tools, NABs should reflect on their applicability to their national political, normative and cultural context, evaluating the main adaptations needed for local adoption.

Political momentum

Objectively pressing issues and relevant tools to help tackle them risk meaning little if they are not in line with a given government's political agenda. When devising an advocacy strategy NABs should hence take a tactical approach rooted in the understanding of what matters most to their administrations.

Likewise, it is also critical to understand the emerging priorities of non-governmental stakeholders in the local market, with an emphasis on the NAB, its members and key allies but also on investors and other private sector actors which the strategy may target. Securing early engagement and support from the private sector and civil society organisations, encouraging its participation and/or boosting current initiatives, is crucial to maximise potential for public-private collaboration.

Institutional, legal and regulatory frameworks

Finally, any policy prioritisation exercise should seek to understand the main regulatory, legal and institutional aspects of the local market, which will i) help determine what is possible in terms of priority initiatives and/or ii) indicate areas where lobbying/advocacy should be focused (those with critical gaps for the growth of the impact sector).

Such a "feasibility" analysis will not only help understand whether there is an adequate enabling environment to implement the policy strategy, but also serve as a means to identify new areas for potential advocacy based on regulatory change to unlock impact investment by setting new drivers or removing existing barriers and restraints.

The analytical approach summarised in Figure 1 can (should) be assessed from both national/federal and sub-national government perspectives, for which there will be distinct opportunities. At the same time, policy

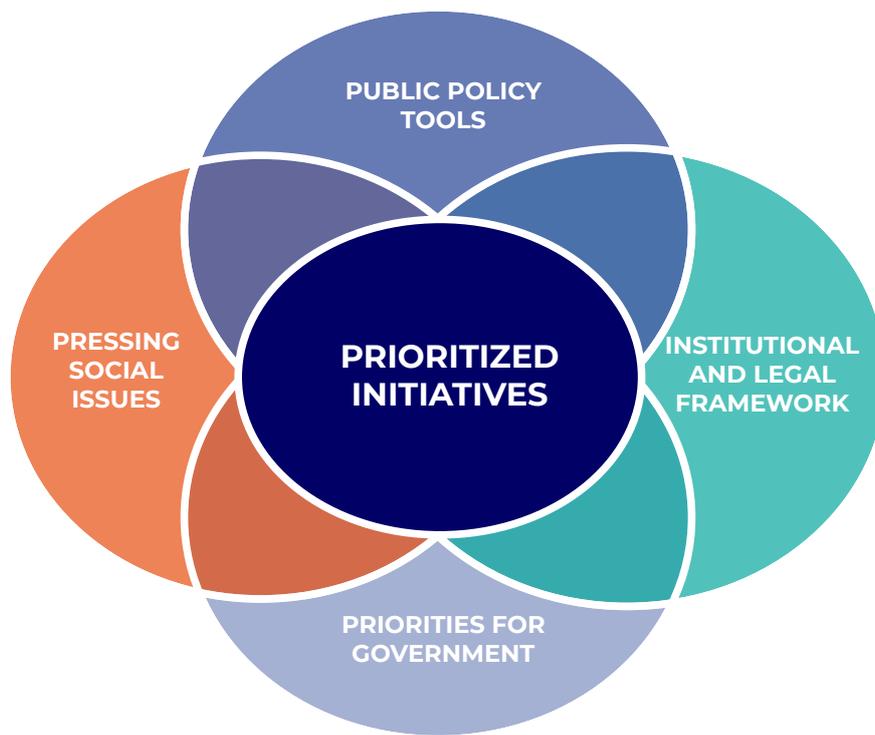


FIGURE 1: the interjection of the high-level principles can help focus and prioritise a NAB's policy advocacy efforts

efforts by a NAB need not be necessarily (or solely) focused on functions and responsibilities of the executive power.

There are competences inherent to sub-national governments (provinces, districts) that could merit local advocacy/incidence, and initiatives that engage parliament and other legislative bodies. In fact, over the years we have seen great leadership emerging from municipalities or provincial governments in different countries, with many NABs having stronger connections at the local level than nationally.

NABs are encouraged to ask themselves some of the following questions, associated to this “cross-cutting” dimension of the analysis:

- ▲ How can policy tools be adapted to subnational levels?
- ▲ Which provinces/districts present the greatest potential in view of our efforts and objectives?
- ▲ Do the most pressing social issues at a national level coincide with those at a regional/local level?
- ▲ What is the relationship between national and subnational governments in terms of responsibilities and political affinity?
- ▲ What type of investment and business regulations are in place at the sub-national level? Are there regulatory blockages emerging from the central government?
- ▲ How can the NAB leverage contacts and relationships with key government officials and other stakeholders at a subnational level?

TABLE 2: Examples of policy initiatives at different government levels and powers (illustrative)

LEVELS	EXECUTIVE	LEGISLATIVE
NATIONAL	<ul style="list-style-type: none"> Launching an impact capital wholesaler Mandating impact transparency through regulation 	<ul style="list-style-type: none"> Specific legal form Fiscal incentives Change in fiduciary duty
SUB-NATIONAL	<ul style="list-style-type: none"> Outcomes-based commissioning at the municipal level State/municipal level procurement 	<ul style="list-style-type: none"> Local tariffs and incentives

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PRINCIPLE #2: IDENTIFY THE RIGHT CHAMPIONS IN GOVERNMENT

For obvious it may sound, any NAB-proposed policy strategy needs to secure adequate

levels of early buy-in and continued engagement from key officials and decision makers in government, with real capabilities and power to push initiatives forward. NABs need to nurture such relationships wisely, investing their often limited resources in building strategic connections with government counterparts that can act as an entry point for top-level and sustained engagement. It is not uncommon that a given NAB spends months working with passionate and technically sound officials with little influence in decision making, or conversely, finds an opportunity to meet and present ideas to the highest ranking officials (sometimes reaching the president, prime minister or other senior figures in the cabinet), with high perceived impact but no operational follow up.

So what should the ideal government “champion” be like?

- ▲ **Innovative and a doer:** open to innovation in investment, finance and public spending, while also being actively

involved in policy-making. Action-oriented and committed to the implementation of impact initiatives.

▲ **Influential:** with real power to act as a “bridge” between the NAB, the wider impact and investing community and decision makers in government, “rooting from the inside” and being an impact ambassador whilst working with external parties.

▲ **Political/operational balance:** it is usually “second-line” officials, such as junior ministers (called secretaries or under-secretaries of state in some countries) who best balance technical know-how with real influence.

▲ **Looking for solutions:** impact tools on its own will spur little interest in government officials. Instruments and vehicles become relevant only if they are perceived as relevant to help deliver more and better outcomes in a given issue area - the mandate of the policymaker. It is therefore strategic to build on the issue analysis (as per the framework in the previous section) and map which ministries, government agencies or members of the parliament are closer to that agenda (e.g. the Ministry of Education for a results-based financing instrument seeking to improve learning outcomes or reduce drop-out rates).

PRINCIPLE #3: DEFINE YOUR ROLE AS A NAB (AND DELIVER!)

NABs should be very clear, from the onset, on which role they are capable of / willing to

play in driving policy change. This will help NABs define their priorities, positioning and tactics, whilst building a credible commitment towards government and wider stakeholders.

The useful framework [“Should You Agitate, Innovate, or Orchestrate?”](#) (Battilana & Kimsey, 2017) can help NABs understand the different roles they can play in promoting social change (applicable to policy advocacy or other activities).

Following from this framework a NAB can:



Agitate, bringing the grievances of specific individuals or groups to the forefront of public awareness;



Innovate, creating an actionable solution to address these grievances; and/or



Orchestrate an effort, coordinating action across groups, organisations, and sectors to scale the proposed solution.

At the same time, changemaking organisations need to focus on three main tasks: communicating, organising, and evaluating. By **communicating**, leaders can establish a shared sense of the tension between the current reality and the desired goal(s), and a shared vision of how to implement a solution. **Organising** requires coordinating collective action toward change by developing processes, systems, and sometimes structures such as formal delivery bodies. Finally, leading social changemakers need to continuously

evaluate progress. This is critical for a movement to keep sight of its purpose as it grows, and to continue to motivate participants in the face of obstacles.

These tasks differ depending on the role chosen as a core function, as summarised in table 3 below:

TABLE 3: Actions, tasks and challenges as per different organisational roles in driving societal change:

	AGITATOR	INNOVATOR	ORCHESTRATOR
ACTIONS	Articulate critique Mobilise diverse parties around it	Develop actionable solution Show how it improves the status quo	Mobilise all parties around solution Ensure adoption
COMMUNICATING	Highlight a problem	Innovate Explain how it is better	Tailor message to different constituencies (maintaining overall coherence)
ORGANISING	Launch collective action	Build coalition of supporters	Broaden and sustain collective action
EVALUATING	Does agitation resonate with movement's participants / establish common purpose?	Does the solution address the problem in a feasible way?	Is there any progress toward change adoption?
CHALLENGES	Fragmented agitation Stalled solution	Blindness to negative consequences Potentially messy	Mission drift and dilution

Source: Battilana, J. and Marissa Kimnsey (2017)

The boundaries between these roles may blur (with organisations playing multiple roles either at once or sequentially), but it is important to build policy strategies understanding their differences and knowing which role(s) a given NAB will want / be able to assume - as the challenges differ and each requires different kinds of resources and actions. This will enhance the strategy's efficiency, effectiveness, and clarity.

When deciding which role to play, a NAB may reflect on the following questions:

- ▲ What are the NAB's real capabilities, both within (board, secretariat and staff) and in its extended network?
- ▲ What is the NAB's current positioning in the impact ecosystem, and in particular vis a vis the initiative/s it intends to prioritise?
- ▲ Which role(s) fits best with the NAB's mission, purpose, strategy and strengths?

3. Key lessons learned

The principles presented above, far from being a conceptual abstraction, build on lived experience, best practices and, most importantly, past and ongoing work by NABs aiming to influence their local policy environments - many of which are working closely with the GSG Policy Team and exchanging experiences in workshops and gatherings.

Recent NAB workshops and policy-centred exchanges (included dedicated sessions at the GSG GLM and during NAB dialogues) inform a series of globally-relevant learnings that can help any NAB aiming to drive effective advocacy efforts, from the most established to the NAB Taskforces in formation:



STAY ISSUE-CENTRED AND COUNTRY-SPECIFIC:

work on the design of dedicated development programmes and investment vehicles relevant to both the specific social/environmental issue(s) being addressed and to each particular market. As stressed in previous sections, the initiative should always be focused on the issue to be solved, promoting impact policy tools as the most efficient and/or innovative practice to deliver concrete solutions (and not the other way around). In doing so, do not lose sight of the fact that cross-country lessons are of much value, but actual solutions must ultimately be tailored to local contexts: there are no “one-size-fits-all” recipes, nor silver bullets. The first step, as presented in the principles above, is to identify the most pressing social and environmental issues locally, the government’s priority areas, and the legal and regulatory framework for impact investment in the country. Many NABs, including Colombia, Israel and the Central America RAB, have conducted such analysis with help from local consultancy firms, think-tanks or academic institutions.

@NAB Colombia 

NAB Colombia is working with the GSG team and local stakeholders to propose innovative impact solutions to boost flows of capital towards slum-upgrading programmes tackling the widespread issue of urban informality in the country

2

BUILD STRONG COALITIONS TO DRIVE EFFORTS LOCALLY

from design to action, local ownership of flagship initiatives is crucial. NABs and other local players not only have a unique understanding of their markets, but also the ability to engage meaningfully and credibly with key stakeholders on the ground. These will typically range from communities and organisations most familiar with the issues at stake, to investors, sponsors and, of course, the public sector. Policymakers should be approached by representing a collective voice, i.e. a coalition of actors with consonant beliefs, missions and values (who may or may not formally be part of the NAB), to have greater influence. It is also fundamental to invest sufficient time and resources (human, financial and other), working with a bi- or multi-partisan spirit and engaging civil society and grassroots movements, thus consolidating this unique value as trusted brokers of change.

@NAB Japan



In JAPAN the GSG NAB gathers a truly diverse and senior group of changemakers, including top executives from financial institutions, investors, philanthropic organisations, development agencies, academia and corporates. Its political neutrality and inclusivity have proved to be key in catalysing the movement domestically.

3

THINK AND ACT STRATEGICALLY

Strategy is the overarching plan or set of goals expected to be achieved. It defines your long-term objectives and provides the pathway for completing a mission. Tactics are the specific actions or steps to undertake to accomplish that strategy. They are concrete, and oriented toward smaller steps and a shorter time frame. The strategy should imply clarity on when in the policy development process to intervene. Additionally, NABs should be acutely conscious of their resources, stakeholders, connections and programmes, but most importantly, of the specific policymakers and/or government agencies they will target. With this in mind, developing an action plan with alternative tactics and scenarios in mind will help reduce frustration and timeloss while re-thinking the stakeholders map and the pathway into policymaking. Different tactics might work well in different contexts, and will most probably change in time.

@US Impact Alliance



In the USA, the US Impact Investing Alliance has managed to advance its mission in the midst of a highly polarised domestic political landscape and drastic changes in government since their establishment. To achieve this, it adapted to the changing environment, shifting priorities and tactics within their overarching strategy, maximising political engagement at all times.

4

SEEK TO ACHIEVE EARLY SUCCESS, WHILST BEING READY FOR A LONG GAME:

change in the impact policy space can take time. It may lead to great frustration if goals are perceived as excessively ambitious and disruptive upfront. Meaningful efforts should not lose vision and ambition whilst at the same time defining intermediate milestones that can create and sustain momentum in the path to policy consolidation. As per the previous lesson, relating with the government might not work well the first time, so it is essential to identify different entry points to policymaking to arrive at the same finish line.

@NAB Mexico

From its establishment in 2014, the GSG NAB in MEXICO has prioritised policy advocacy, with highs and lows along the way. An exhaustive, state of the art mapping of priorities from 2020 remains relevant despite initial frustrations and now form the basis for renewed lobbying efforts.

@NAB Argentina

In ARGENTINA, the NAB never stopped looking for entry points both at the national level, amidst recurrent volatility, whilst securing wins at the local level through engagement with the government of the City of Buenos Aires (including the launch of the country's first SIB, operated municipally).

5

BE RESILIENT AND OPEN TO THE

UNKNOWN: policy initiatives should assume a realistic, yet ambitious path to change.

Governments and other key stakeholders are highly susceptible to political cycles that often result in reshuffles in the cabinet and lower rank offices. In this sense, NABs will likely face unexpected circumstances that should be addressed *pragmatically*, rather than *dogmatically* - even if this means going back and starting from scratch (building on lesson 3). Nonetheless, there are ways to mitigate the risks deriving from changes in government leadership i.e. by increasing the costs of ceasing cooperation and collaboration. These initiatives may include legal means to anchor a given impact policy strategy in a government body or agency and national or local regulation or working closely with a team in government (rather than with an individual) which combines operational and political roles to secure continuity.

@NAB Brazil

In BRAZIL the NAB played a pivotal role in the design and establishment of the country's first National Strategy for Impact Investment, ENIMPACT, original passed by a presidential decree, which continues to be the leading framework despite changes in the administration and times of political uncertainty.

6

USE SIMPLE AND ACCESSIBLE

LANGUAGE impact investment as a whole, and most of its impact tools, will likely be perceived as new and niche to government officials across jurisdictions. Communicating with new-to-impact players using a highly technical language may drive them away. NABs should therefore pay special attention to the “translation” of technicalities, using accessible, simple terminology to articulate clear, action-oriented messages.



The UK Impact Investing Institute (UK GSG NAB) has an extensive track record engaging in impact policy, including the development of specific, innovative proposals to the UK government. The NAB considers that testing solutions beforehand is key to demonstrating feasibility and effectiveness, and thus ensuring government attention and engagement. Leading initiatives include the NAB’s proposal for the Green+ Gilt and the recent launch of a Just Transition Challenge.

7

PUT FORWARD CONCRETE ASKS

Setting a roadmap with concrete asks and timeframes will help champions in government prioritise and perform actions and objectives, and make the most out of meetings with officials who typically despise intricate, tangled messages that focus on process rather than results. Marking out the concrete steps within the framing of the initiative’s rationale is essential for the policymaker to understand the theory of change behind the proposal and the logical cycle in decision making. It should also be clear what the request to the government will be, building the NAB’s positioning as a credible partner.



The JAPAN NAB has been a pioneer both in translating international resources into their own language and in producing accessible, easy to follow communication pieces and educational materials for different local audiences, including the public sector.

8

BUILD LEGITIMACY NABs should be aware of their value proposition, i.e. what does the NAB have to offer that is distinctive and attractive to policymakers? Can it deliver on that “promise” at the highest level? To aid its legitimacy-building efforts NABs can / should leverage the GSG narrative and assets locally or regionally, including the value and diversity of voices in the community of NABs and its ties with and roles in international fora such as the G7, the G20 and the B20.

@NAB Spain 

Within a few years of its establishment, SPAIN NAB became a legitimate, credible voice through the implementation of a bottom-up strategy which brought together small, pioneering organisations in the local impact ecosystem, creating a sense of collective ownership from the onset. The circle was later expanded to include new stakeholders, from large corporates to leading financial institutions.

Conclusion and call to action



NABs have a unique role to play in shaping and driving impact policymaking, acting as dynamic, trusted and independent bodies capable of working with governments of all levels (national, sub-national) whilst engaging a wide array of key stakeholders and retaining their independence.

More NABs in our global community are coming forward as policy champions, with rich learnings to be leveraged within the organisation.

We hope that the proposed principles, learnings and best practices discussed in this action guide provide NABs with concrete tools to shape and drive robust policy strategies - conscious that content in this toolkit should be adapted to each local context and NAB reality, whilst observing its main features of being action-oriented, issue-centred (with the SDGs as a organising framework) and NAB-led.

Recognising the vital role that the public sector has to play in driving impact economies globally, the GSG remains committed to working collaboratively with NABs and partners, leveraging and helping to strengthen the unique value of our global community, innovating and, most important, translating our thinking to real change on the ground.

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