

Social Progress Credits(SPC): Innovative Finance for Social Impact

Innovative Finance: Why Outcome-based Funding(OBF)?

While the social impact field has grown steadily with 'input-based' investments, there is a growing interest in 'outcomes' as a criterion for impact financing around the world. This is because good intentions do not necessarily lead to good results. OBF, on the other hand, can innovatively complement existing social impact financing structures in three ways.

First, it makes decisions based on 'proven outcomes' for social innovation. Second, it aims for a structure that brings in more and various types of stakeholders. In particular, it is advantageous in engaging the private sector compared to input-based investment models. Third, OBF is based on a mechanism to research quantifying and measuring impact. This is a prerequisite for the next step, where social outcomes are defined in terms of economic value and furthermore tradable. In the end, the OBF serves as a springboard for social innovation to be more appropriately recognized by the market.

SPC: The Innovative Finance to Motivate Market Participants

SPC is an incentive mechanism that measures the degree of social performance of social enterprises in monetary value and provides cash incentives in proportion. It was first proposed by Tae-won Chey, Chairman of SK Group in South Korea, at the WEF Davos Forum in 2013. SPC was designed from the question, "How can corporates continue to be motivated to create social value?" The basic idea behind SPC is that corporates will strive for social innovation further if they are rewarded for their social performance in the way they are most familiar with: monetarily. If a market system is created in which corporates' social performance is rewarded with credits that can be traded in the market, corporates will come up with innovative business models that increase economic and social value at the same time. This will motivate corporates more to engage in social innovation as their activities lead to enriched market, improved quality of life, and enhanced corporate value.

How SPC Works?

The SPC has been running by SK Group and CSES since 2015 for Korean social enterprises. A social enterprise is a business that has specific social objectives that serve its primary purpose. The SPC operation consists of three stages: recruitment, measurement, and reward, which can be praised as a representative model of OBF. First, every June, CSES recruits social enterprises to participate in the project, which is notable for its RCT approach¹. In September, 30 experimental groups and 30 control groups are selected each year based on the social enterprise's mission and capacity. Second, from October to December, the social performance measurement indicators and formulas are decided through a consensus process between the participating enterprises. In February to April of the following year, social performance of the previous year is measured based on the standardized measurement system (4 areas, 22 formulas) which is customized to each participant's situation. Third, in May and June, cash incentives are paid according to a certain incentive scheme for social performance. The incentive scheme varies depending on the number of years of participation, but on average, participating social enterprises are provided with cash incentives for 25% of their measured social performance. The effectiveness of the incentives can be verified as only the experimental group receives incentives while the control group only experiences measurement.

1. A RCT (Randomized Controlled Trial) is a form of scientific experiment used to control factors not under direct experimental control.

What SPC Has Achieved

SPC has a decade of experience and credible evidence of effectiveness. It is expected to serve as an exemplary case for the widespread adoption of OBF globally, which effectively complements existing input-based social impact financing structures.

Since the launch of the SPC project in 2015, the cumulative number of participating social enterprises through 2023 is 368, and they have created \$294 million social performance in monetary value. SK group provided \$45 million in cash incentives in proportion to their performance. As a result, each participating enterprises receives an average annual cash incentive of about \$40K, which is comparable to the net labor cost of 1.5 social enterprise employees. The database generated by the project is open to the public which promotes the empirical research on social enterprises. In 2020, SPC was featured as a business case in Harvard Business School², and in 2022, the effectiveness of SPC was statistically proven in Management Science, the world's top journal in the field of business studies³. In 2023, a report published by WEF Schwab Foundation GASE (Global Alliance for Social Entrepreneurship) together with Deloitte recognized SPC as one of the best practices for social innovation in the private sector⁴.

Ongoing & Future Work

As the demand for OBF grows, the number of organizations collaborating on SPC is increasing. In Korea, six local governments are collaborating with CSES to apply SPC as a way to support social enterprises. More recently, international partnerships are underway to test the effectiveness of the SPC model in other countries beyond Korea. Since 2023, CSES has been partnering with Japan Fundraising Association to introduce the OBF model in Japan for the first time applying the SPC model. In 2024, CSES plans to lead an action agenda titled 'Innovative Finance' with the WEF Schwab Foundation GASE to continue the discussion at the international level.

SPC, with its basic mechanisms of monetary measurement and proportional incentives, is a notable case for OBF, but it has not yet realized the real transaction of social value that was envisioned a decade ago. This cannot be realized by the ideas of some corporates or public organizations alone. In addition to existing system including Social Stock Exchange and Social Impact Bonds in the global society, we need more stakeholders to participate to realize impact currency and social credits to be traded in the market in various forms. We are open to collaborating with partners to pioneer Innovative Finance with us.

About CSES (Center for Social value Enhancement Studies)

Center for Social value Enhancement Studies (CSES) is a non-profit corporate foundation established by SK group. The mission of CSES is to measure social value, research innovative solutions to social problems, and cultivate social innovators. With this mission, CSES envisions to become a social value hub which connects value, knowledge, and human to innovate the social ecosystem.

About SK Group

SK Group is a South Korean multinational manufacturing and services conglomerate headquartered in Seoul. SK Group is composed of 125 operating companies including the semiconductor, energy, chemicals, telecommunications and biopharmaceuticals, etc. and is the second largest conglomerates by revenue in South Korea. The Group is guided by their Double Bottom Line (DBL) management framework to create simultaneous growth in their companies' economic and social value. Likewise, the pursuit of social value is a major driving force for SK Group.



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4. "The Corporate Social Innovation Compass: Accelerating Impact through Social Enterprise Partnerships", World Economic Forum, 12 Jan 2024