



Financial instruments for social impact: Social Impact Fund for Andalusia

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Market Assessment



Maturity of the market of Impact Investing

Demand side

Supply side

Andalusia/ Valencia (Spain)

- Initial phase (lacking behind Europe), low awareness
- Very small in relation to European benchmarks
- Setting the course to boost social impact investing in near future

- Weak capacity to generate new social impact ventures
- Demand by cooperatives and “alternative” economy, but without impact measurement

- Lack of private VC operators
- Standard bank financing instruments, not appropriate for early stage and without impact measurement

Piedmont (Italy)

- Early growing phase / emerging
- Below European benchmarks (but bigger than Spain)
- Fast growing awareness

- Low level of investment readiness of social enterprises
- Differentiation between legally recognized social enterprises and de-facto enterprises

- Key driver is public sector
- Private Investors starting to identify SII as investment opportunity
- Predominating standard bank solutions, but incorporating innovative elements



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Policy Rationale



Andalusia/ Valencia

Piedmont / Italy

Market failures

- Most market failures have been identified in early stages:
- Risk aversion (adaptive preferences)
 - Information Asymmetries (distortion between offer and demand)

Policy gap

- Social startups: cannot bridge from the very initial phase to the market readiness.
- Established social firms: low capacities to receive impact investing due to lack of appropriate standards of impact measurement.
- Support-Ecosystem needs to be strengthened

Conclusions

- Support must be concentrated in seed capital, very early stages, with longer maturities terms.
- Additional support to Social business to be provided for growth stages.
- Crowding in of private money.

Policy proposal

- Seed capital window: Co-investments instrument (catalytic) in close cooperation with local accelerators and VC Funds
- Hybrid finance window: for established social firms

- Co-investment instrument in synergy with the regional ecosystem (investment, business acceleration, business generation) with direct and indirect investment windows
- Focus on early stages (without excluding later stage)



Key issues for the configuration of a SIF



Size, scope and legal form of the SIF

- Definition Social Enterprise
- Geographic scope
- Critical size for financial sustainability (management fee)
- Regulated fund (FCR) or pledge fund

Sources of funding

- Public: regional/ national/ ESIF /EFSI => eligibility, verifications, reporting
- Private: type of investor, level (deal by deal or fund)
- Ratio (%) public/ private
- Conditions (pari passu or asymmetric risk/profit sharing)

State aid

- Final beneficiary (market conditions)
- Fund manager (management fee thresholds)
- Private investors (pari-passu or preferential conditions, %)

Measurement of Social Impact

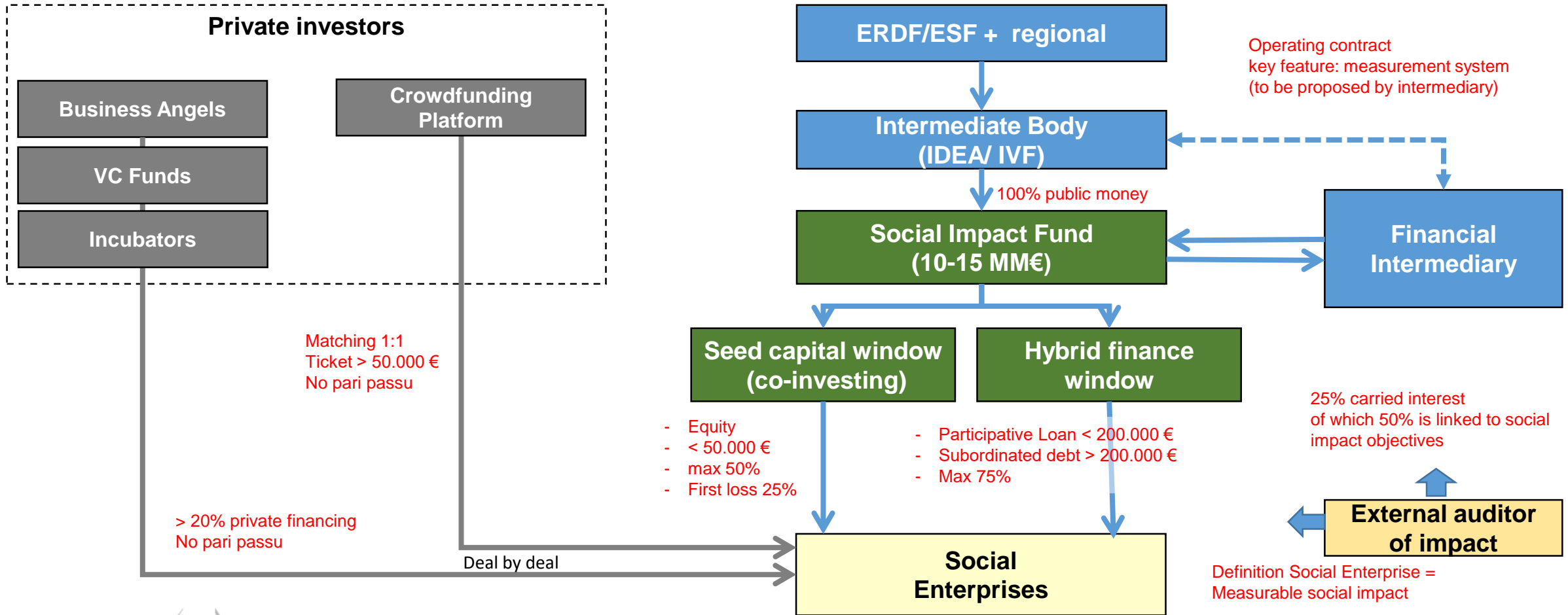
- Who defines metrics / parameters/ objectives: financial intermediary or intermediate body
- Who measures
- Implications for investors, fund manager, beneficiaries?

Fund manager

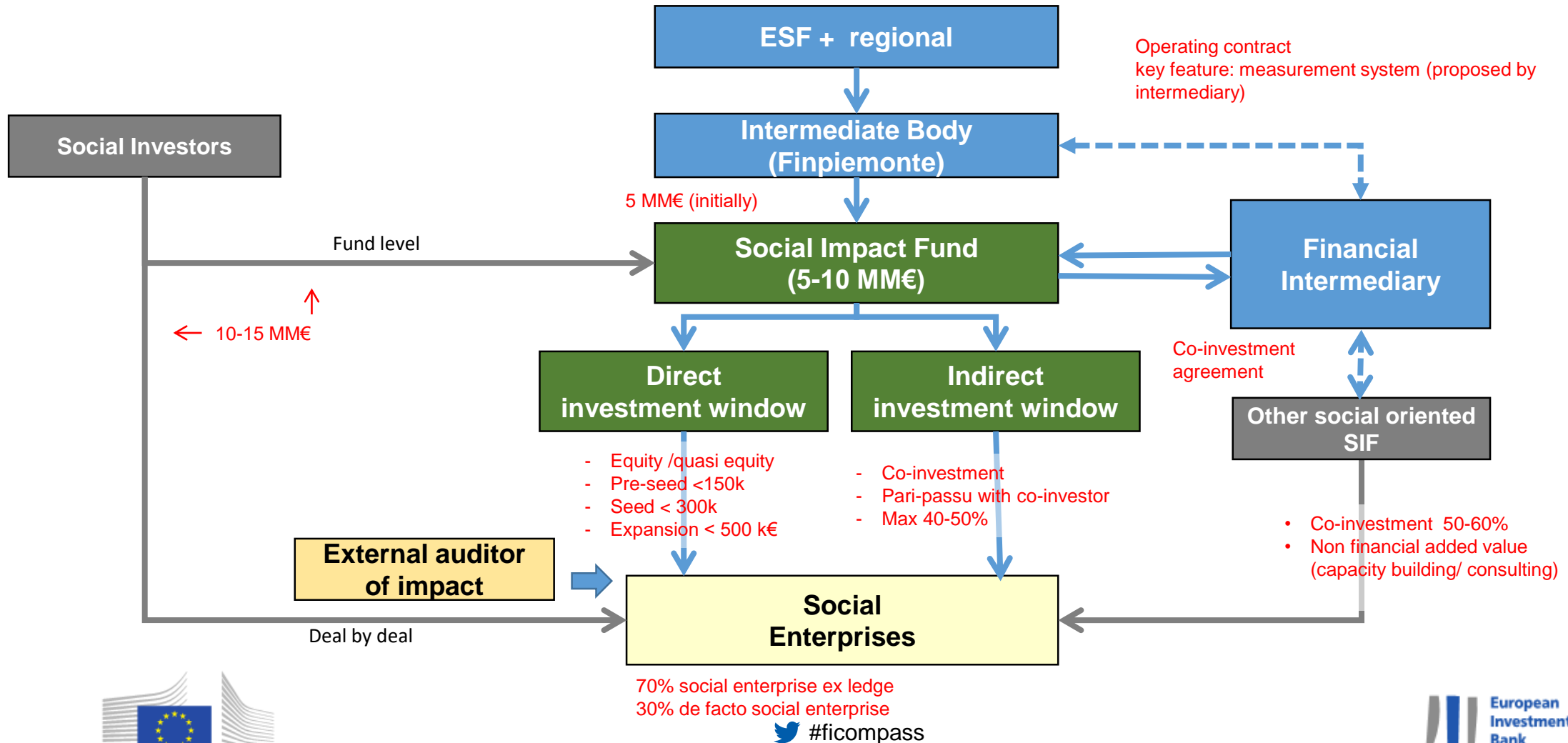
- Trade off: social specialization vs. venture capital specialization
- Contribution/synergies with local/regional social startup ecosystem
- Measurement of Social Impact



Configuration and key features for SIF in Spain



Configuration and key features for SIF in Piedmont



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Comparison of key features



Key feature	Market standard	SIF Andalusia + Valencia	SIF Piedmont
Fund Size	15-30 MM€	Andalusia: 10-15 MM€ Valencia: 10 MM€	5-10 MM€
Fund Manager	VC Fund manager (authorized by supervisory body)	VC Fund manager (authorized by supervisory body).	Social oriented VC Fund manager (authorized by supervisory body)
Holding period of investments	3-5 years	Max 8 years	Max 5 years
Private co-investment	<ul style="list-style-type: none"> • Profit oriented • Fund level • >50% • Pari-passu conditions 	<ul style="list-style-type: none"> • Social oriented investors • Deal by deal level • 25%-50% • Downside protection for private investors (first loss 25%) 	<ul style="list-style-type: none"> • Social oriented investors with added value (capacity building) • Deal by deal + fund level • 50-60% • Pari-passu conditions • Co-investment agreements
Impact measurement	Not relevant	<ul style="list-style-type: none"> • By external auditor (impact linked to success fees and interest rate subsidy) • Selection criteria for fund manager 	<ul style="list-style-type: none"> • Qualitative + quantitative • Before, during and after investment • Not linked to compensation scheme
Success fee / Carried interest	20% on capital gains	25% on capital gains, of which 50% linked to the achievement of social impact objectives	Market standard
Hurdle rate	6-8 %	3-4 %	2%
Eligibility of enterprise	<ul style="list-style-type: none"> • Profitability criteria • International/ national or regional approach (ring fencing) 	<ul style="list-style-type: none"> • Measurable social impact • Based in the region 	<ul style="list-style-type: none"> • 70% social enterprise ex ledge • 30% de facto social enterprise • Based in the region



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financial instruments
added value **ERDF** funding agreement revolving capacity building
governance **ESF** EU guidance
technical support seminars leverage financial intermediaries microfinance
co-financing case studies
investments **ESIF** fi-compass final recipients
business plan **Thank you** thematic objectives
advisory services guarantees banks loans **CF** equity
EAFRD private investors life cycle combination of support
conferences **EMFF** factsheets investment strategy
fund of funds managing authorities manuals