



Financial instruments for social impact: Social Impact Bond for Lombardy

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The feasibility analysis for a SIB



Objective

Set the basis for a systemic approach on social impact investing by using SIB as a catalyser

Content

A **step by step approach** to the key decisions and process for a SIB deployment including:

- the analysis of the key technical aspects, *success factors and constraints*
- the identification of the *preliminary condition* at regional level
- the compliance with *ESIF rules*
- the definition of an *overall regional strategy* and set of options on impact investing



Key questions for the configuration of a SIB



A decision tree approach

- ✓ What is a SIB?
- ✓ Why use a SIB?
- ✓ When to use a SIB ?
- ✓ Is the ecosystems ready?
- ✓ What are the market failures?
- ✓ Who are the stakeholders? Are they ready?
- ✓ What are the financial gaps?
- ✓ What governance options?

The Feasibility analysis for Lombardy region

- ❖ *Why would it make sense for our region to implement a SIB – based approach?*
 - ❖ *Are we ready for a SIB?*
 - ❖ *What market failures to address?*
 - ❖ *What intervention model?*
- ❖ *What do we want to achieve at the end?*

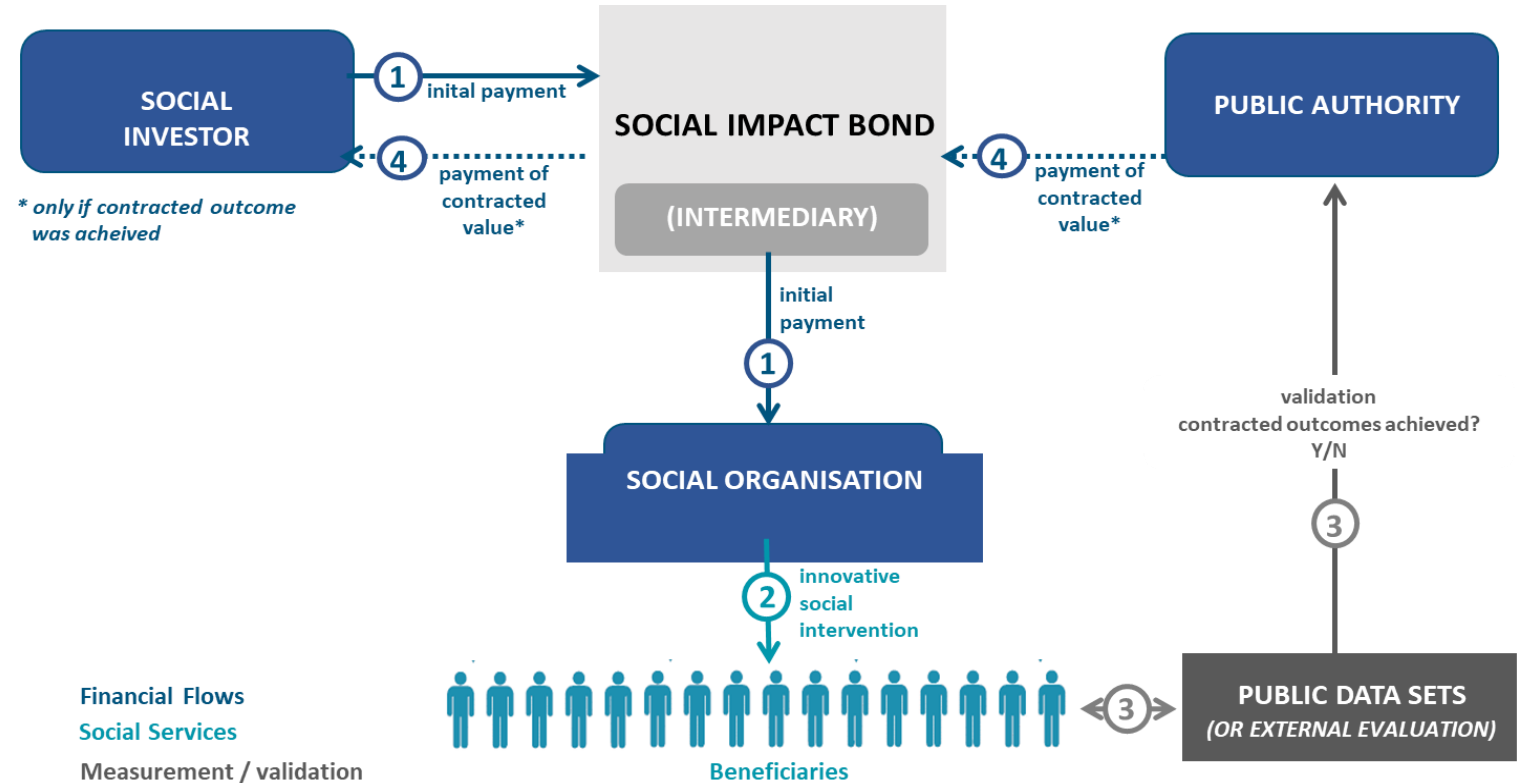


What is a SIB?



A Social Impact Bond (SIB) is an innovative, payment-by-results instrument, to **achieve social impact** involving: **public authorities, private investors, social organisations.**

The public payment is subject to the delivery of pre-defined and **measurable social outcomes.**



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What is a SIB? The stakeholders role



A SOCIAL INVESTORS

Make the **initial investment** to provide social organisations the working capital necessary for the innovative social intervention. Investors **assume the financial risk** and get a **risk premium**

Examples of social investors: Foundations, Individual Philanthropists, Companies (CSR), Banks/ Funds

B SOCIAL ORGANISATIONS (implementing entities)

With that initial investment, **develop an innovative social intervention**, directly addressing the results (**social outcomes**) contracted between the SIB's parties.

Examples of implementing entities: Social Enterprises, Associations, Cooperatives, NGOs, ...

C PUBLIC AUTHORITIES (commissioners)

Pay the social investors a specific amount for that contracted result (social outcome), **once (and only if) the result has been achieved.**

Commissioners are the central, regional or local public entities directly responsible for the public policy domain being addressed by each SIB

(INTERMEDIARIES)

Setting a SIB may also require intermediaries (consultants, service providers) to aggregate investors, perform due diligences, negotiate and develop required contracts or to manage the SIB throughout its implementation



Why to use a SIB ?



CRITICAL ISSUES

- A growing trend but still limited cases (few within ESIF)
- **Complex** structure and set-up (transaction costs)
- **Regulatory constraints** both at national and European level
- Lack of competence and experience in **impact measurement**
- **Knowledge/cultural barriers at both P:A. and Investors side**

ADDED VALUE

- **For the P.A:** a controlled platform for testing new services and innovative approaches. No upfront payment
- **For Social organisations:** access to stable financing, assessment on results not on prescribed input/output models
- **For Social Investors:** blending financial returns with social impact. Possible revolving effect

KEY ISSUES

- SIBS are effective **instrument to promote innovation in public policies and build broad partnership**
- Stimulate a **better analysis of the social issues** and a **co-creation** approach between all stakeholders,
- SIBs are **not “ grant as usual”**
- There is no one size fits all but **different implementing options (flexibility)**
- Perspective for **scaling** : from stand-alone to SIB programme (on market terms)
- Need for a **common language**



When to use a SIB?



Not all social interventions can be financed through SIBs



SIBs pre- conditions

- a *specific social problem* with a preventive approach
- public commissioner with *budget allocation*
- *complementary* to mainstream public policies
- *clearly* identify population *target groups*
- expected *outcome* must be *measurable* and clear (i.e. % reduction of NEETS)
- *availability of data* on the targeted social intervention
- *methodologies and metrics* for measuring outcomes must be *agreed* in advance by *all parties* and included in the initial SIB contract

Potential demand for SIB in Lombardy

- Is Lombardy Public Authority responsible for public policy and/or budget?
- What is the top social challenge?
- Could it be addresses by a SIB?
- What would be an effective outcome?
- What indicator/ metric could be used?
- Are data-set available? (*target population, dimension of the social issue , costs, expected outcomes etc.*)



Market Assessment - Key questions



Market maturity

- Is the impact investing market mature or at an early stage?
- What innovative social interventions are there in the chosen SIB domain?
- How are these interventions being funded? By who?

Demand side

- What type of entities are implementing social intervention? (social organisations, social enterprises, social start-ups? National, regional or local)
- Which of them are implementing innovative interventions?
- How experienced? (track record / past results / credibility)
- Are there impact measurement methodologies in place?

Supply side

- What about social investors? Philanthropic vs. non-philanthropic. Risk profile/Focus/Type of investment/criteria?
- Are they willing to invest in SIBs? Under what conditions?
- SIB by SIB or through a Pre-financing Fund? Other alternatives – crowdfunding, social stock exchange?)



Market Assessment - Lombardy



The Lombardy ecosystem

Maturity of the market of Impact Investing

- Emerging and fast growing phase
- Increased awareness from private investors, economics/management research centre (Politecnico, Bocconi), cooperative and third sector representative

Demand side

- High number of social organisation and social projects
- Low level of Impact investment readiness of social enterprises
- Differentiation between legally recognized social enterprises and de-facto enterprises
- Mainly grant approach

Supply side

- High number of foundations (30% of the whole country)
- An emerging group of impact investors and intermediaries: banks, impact funds, social accelerators, social crowdfunding platform, philanthropic investors, family office



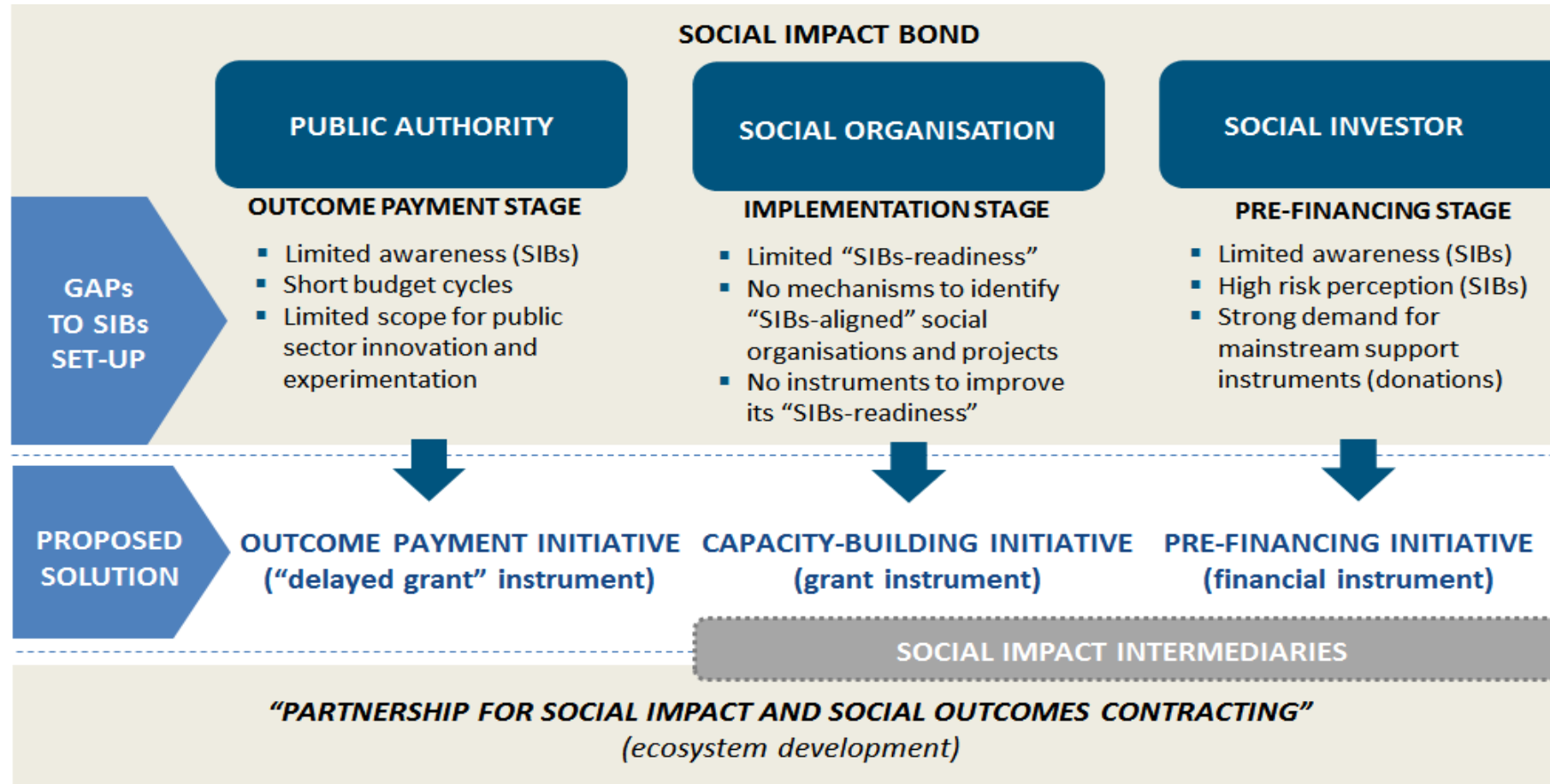
The Italian market for impact investing in 2018 was EUR 210,5M with an estimation of a growth of up to EUR 400M in three years time



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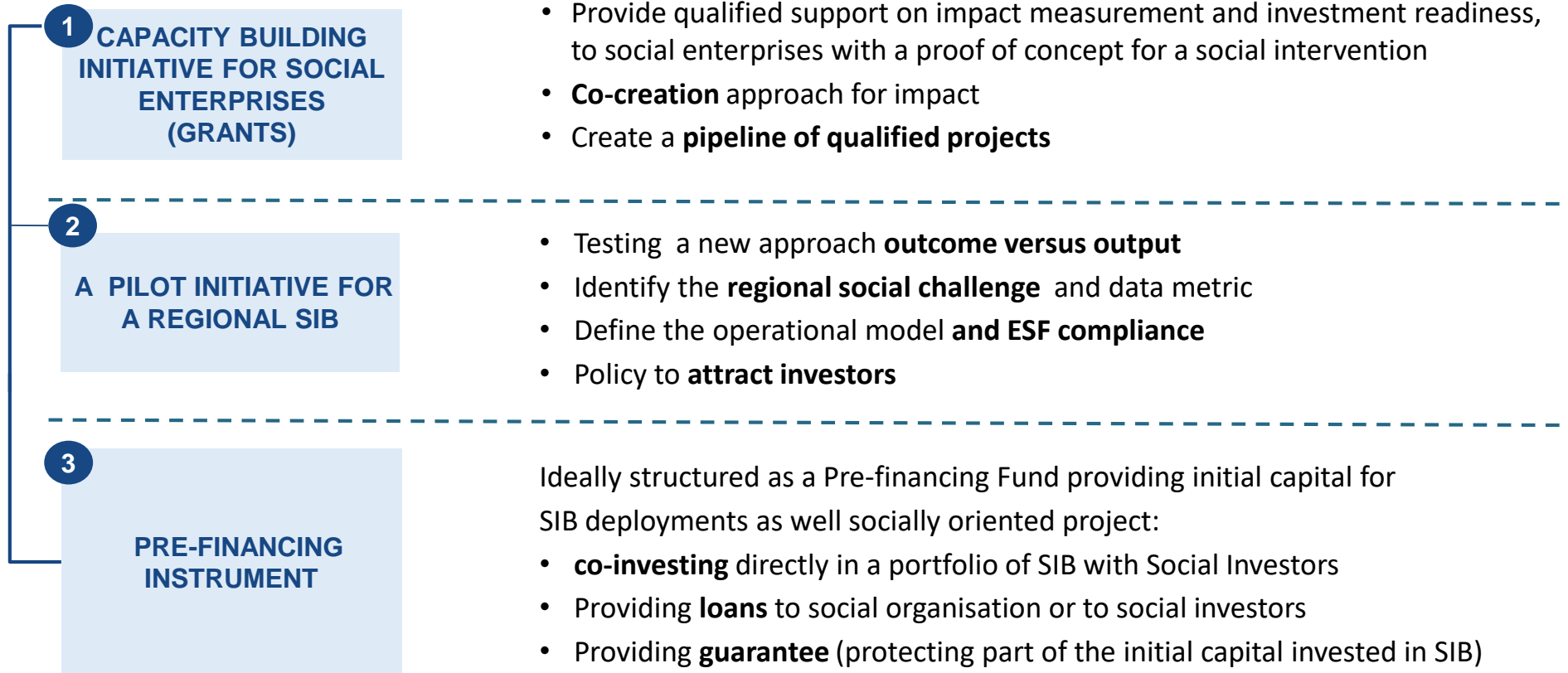
The gap analysis- Lombardy



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A systemic approach for impact investing in Lombardy (1)



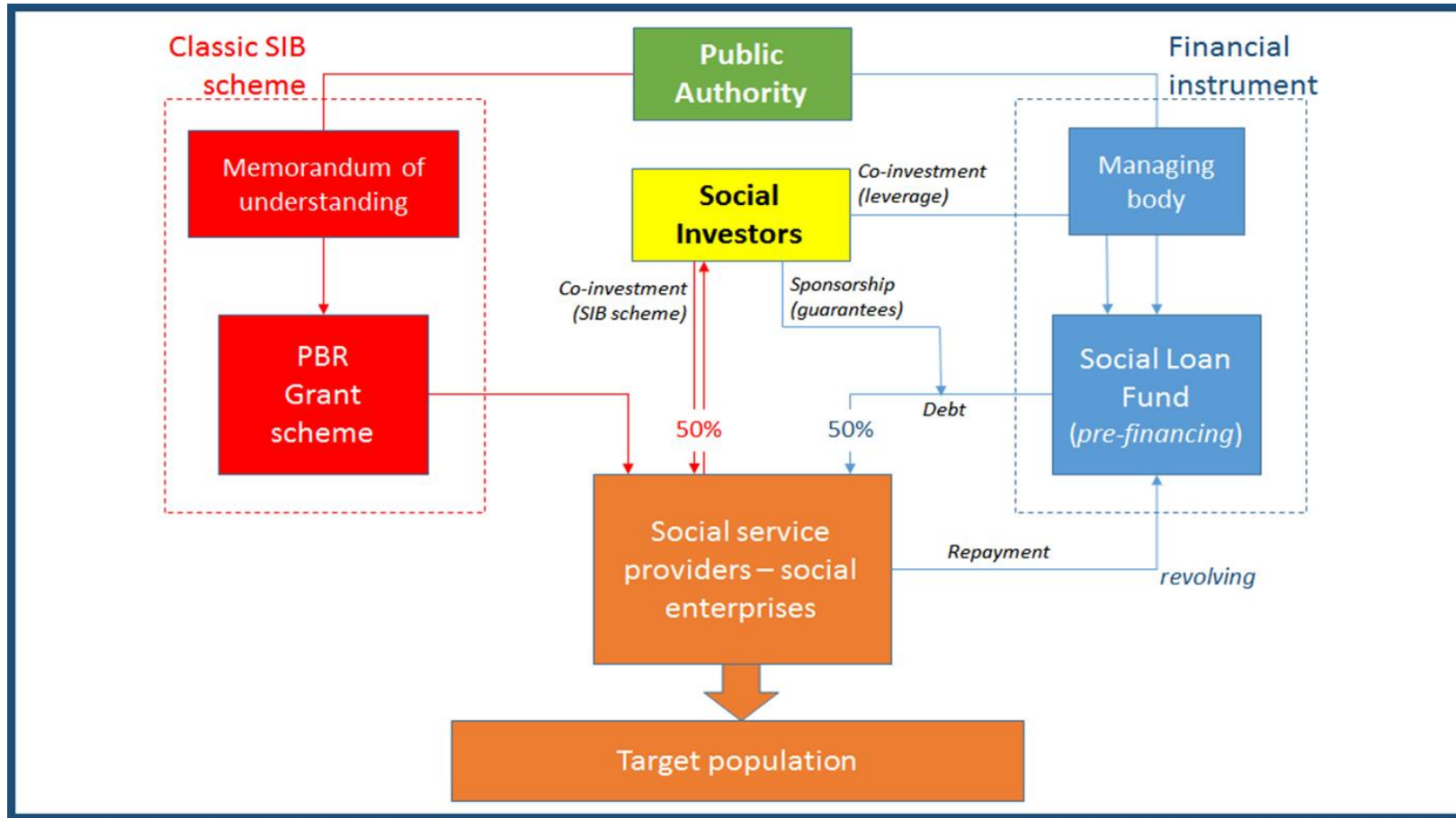
Partnership for Social Impact and Social Outcomes Contracting (ecosystem development)



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A systemic approach for impact investing in Lombardy (2)



The path towards SIB deployment



SIB main features

Ideally develop a short SIB, pilot project providing evidence and lesson learned for the next programming period

- The objective should be fully line with the relevant ESF Regional OPs (youth unemployment, reduction of school drop-out, etc).
- Beneficiaries should belong to the social economy.
- Ideally, as first trial, investor should be a philanthropic foundation
- Budget expected: appx EUR 1,5m (equal to 3 SIBs) – a balance between the minimum dimension to dilute the transaction costs while not requiring a large initial capital to investors

Possible use of ESIF

Finance the **outcome contracting-payment initiative**, in the form of “**delayed grants**” paying for SIBs validated outcomes. Following outcome validation, each payment would be made under a **pre-contracted lump sum value**, set per validated outcome. This can be done on a SIB-by-SIB basis or structured as an **Outcome Fund, combining ESIF budget with several sources of Public Sector budget.**



SIB and ESIF: key issues



- **Type of instrument:** A financial instrument? A grant? Or both? How can they be combined?
- **Cost options:** current cost options (including all simplified cost options) are still not well adjusted to paying for results / impact measurement mechanisms, *adding an extra layer of complexity when implementing SIBs under ESIF financing.*
- **Eligible costs:** SIBs costs are not fully compatible with eligible costs *i.e. how to cover the investors risk premium?*
- **Content:** societal challenges are complex and crosscutting, *beyond the traditional ESF/ERFD domains and silos.*
- **Duration:** average SIBs duration longer than the duration of regular ESIF projects. *Current decommitment rules are not fully compatible with SIBs financial flows.*



Trends and next steps



The context

- Improvement in the **next ESIF** *i.e financing not linked to costs but on achievement of results*
- **Invest EU + ESF Plus**
- A general broader consensus and attention on social impact (*i.e Business roundtable document*)
- Growing **market** for impact investing

Desired actions

- Wider opportunities for public sector to experiment, test and adjust the intervention
- From feasibility analysis support to call for implementation pilot measure
- A community of practice for peer to peer learning



Thanks for the attention

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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 loans **CF** equity
private investors banks life cycle combination of support
EAFRD conferences factsheets
fund of funds **EMFF** investment strategy
managing authorities manuals