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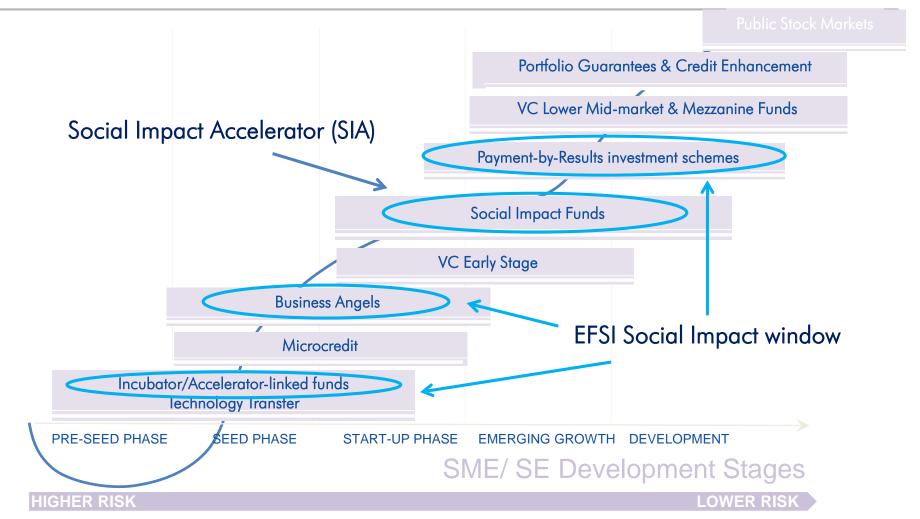
Introduction



- In 2010, EIF started exploring concrete steps for introducing **impact investing** into its business activities.
- The integration of societal value into the way we run businesses has to undergo fundamental changes and has become a necessity before becoming now a priority.
- Challenges of our welfare state concept, declines in public budgets and in parallel increase social needs, but also issues linked to education, employment and social inclusion.
- These challenges require **innovative solutions** that need us to break out of historic and often outdated thinking patterns to deal both with the novelty of challenges we face.
- EIF's role is to pioneer concepts for funding this emerging market segment and we have started doing so with the launch of the first pan-European Fund-of-Funds in social impact investing in 2013, our Social Impact Accelerator (SIA), but also through EFSI to develop incubators and accelerators of social start-ups, test co-investment framework with Social Business Angels and develop the Payment by Results / Social Impact Bonds market in the EU.

Risk capital investments to support SMEs along their development



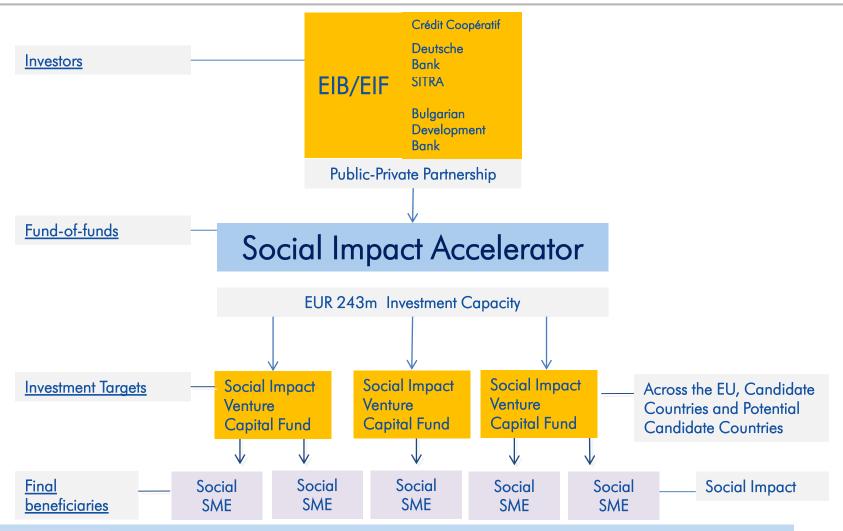




Social Impact Accelerator / SIA

Social Impact Accelerator (SIA) – Structure





Geographical Spread: Europe's leading social impact fund investor





MUSTARD: SEED:MAZE

* Funds: Impact Partenaires III & Impact Creation 1

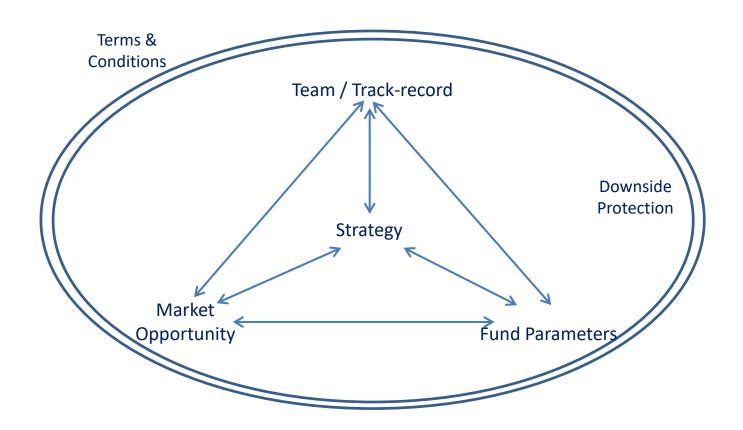
** Funds: Social venture Fund II & Ananda Impact Fund III

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Main investment aspects under consideration



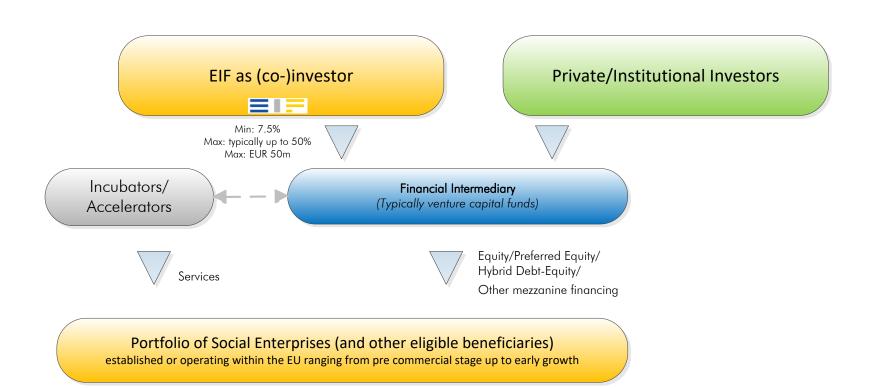




Social Incubators / Accelerators

Social Incubators / Accelerators





Social Incubators / Accelerators



Key Features

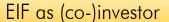
- EIF / EFSI invests in or alongside intermediaries linked to incubators, accelerators and/or that provide incubation services to Social Enterprises
 - Primary objective: to support and accelerate the growth and success of social start-up through an array of business support resources and services.
 - <u>Beneficiaries</u>: social start-ups, established or operating within the EU from pre-seed to early growth stage
 - <u>Capital deployment:</u> Long term risk capital investments in the form of equity, hybrid debt-equity Instruments, other type of mezzanine financing
- EIF / EFSI investment ticket ranging from 7.5% to 50% of total commitments
- Usually, fund of EUR 2-8m can be linked to incubators or accelerator of social start-ups.
- Financially sustainable thanks to revenues generated by the incubator



Co-investment with Social Business Angels

Co-investment with Social Business Angels







Min: 7.5%

Max: typically up to 50%

Max: EUR 50m

Business Angels/
Business Angels Funds



Co-investment vehicle/agreement with Business Angels



Equity/Preferred Equity/ Hybrid Debt-Equity/ Other mezzanine financing

Portfolio of Social Enterprises (and other eligible beneficiaries) established or operating within the EU ranging from early stage to growth stage

Co-investment with Social Business Angels



With ESFI, EIF invests in a co-investment vehicle linked a Social Business Angel in order to enable additional capital to be channel to social start-ups.

<u>Main objectives</u>: Leverage the financing capability of non-institutional impact investors (e.g. Social Business Angels) to provide social start-ups capital in order to support growth and speed-up growth and success. Social Business angel have access to a local and proprietary quality deal flow that needs financial support.

Beneficiairies:

- Social start-ups established or operating in the EU from pre-seed to early growth.
- 50:50 matching of future BA investments (incl. follow-ons) pari passu –
- Full delegation of all investment / shareholders decisions, no direct EIF shareholdings
- Carte blanche.
- Investments under the form of equity, hybrid debt equity or debt.



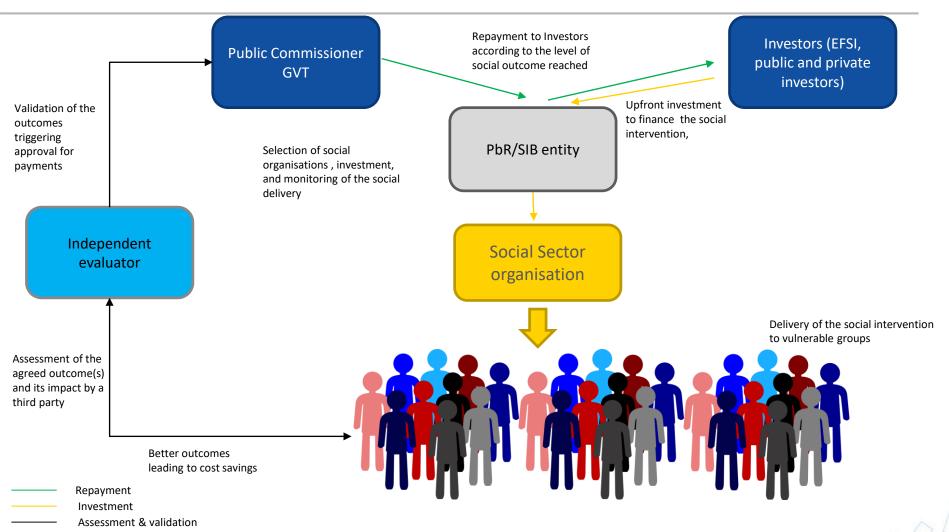


Payment by Results / Social Outcome Contracts



Payment by Result (PbR) / SOC / SIB mechanism





A Partnership between the public and private sector



- The integration of the private sector in the social intervention enables flexibility, efficiency and ultimately, the delivery of better services and outcomes.
- Private sector stakeholders bring additional added value to social program thanks to their creativity, new methodologies and result-oriented approaches.
- PbR or Social Outcome Contracts promote social interventions delivered by social economy entities or private actors. Public authorities must be committed to facilitate the implementation in line with their policy objectives.
- Investors, financing upfront the intervention, support its full risk when not reaching the pre-agreed and measurable outcomes. Therefore, local authorities, regional or national government, will only buy impact units when delivered.



EU's SIB market development in numbers **EUROPEAN INVESTMENT FUND** 65 SIBs in the EU 30 SIBs projects (excl. UK) 12 countries engaged

Market expansion motivated by...



Creativity

Flexibility

Social Innovation

Partnerships

Results oriented approach

Visibility

Efficiency

SOCIAL IMPACT

Accountability

Risks transferred Better use of data

Commissioner savings

New ways of working

Performance management

Areas of intervention so far



Homelessness

Children
/ family care

Unemployment

Reoffending

NEETS
(16-25 not in education, employment or training)

Health / Wellbeing

Example: KOTO SIB



Commissioner: TEM (Ministry of Eco. Aff. And Employment)

Service Providers: Various

Intervention: Inclusion of immigrants & refugees

Size: EUR 14.3m (EUR 10m from EIF/EFSI) – 2,500 refugees

Potential savings: EUR 32m over three years.

Investors: EIF/EFSI, Sitra, Corporates, foundations



- Information sessions held at reception services centres throughout Finland. The sessions are randomly divided into those where the SIB is presented, and those where it is not. Control group / target group.
- Modules including language training, various industry courses and career coaching - sector-specific trainings linked to the participants' skills and know-how.
- Impact data is received directly from the Finnish Tax Administration and the Social Insurance Institution of Finland.
- If managed on target, the cohort of immigrants in the service programme would lower the economic support ratio, estimated to imply a 2.2x increase in employment rate and 71% reduction in the Commissioner's costs

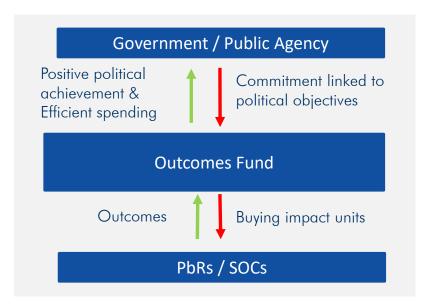
Budget contraints: possible source of funding



 Political barriers lead to budget constraints and ultimately limit the number and size of SOCs /PbRs.

Setting-up a social outcome contract can be challenging (product design and

the **learning curve**).

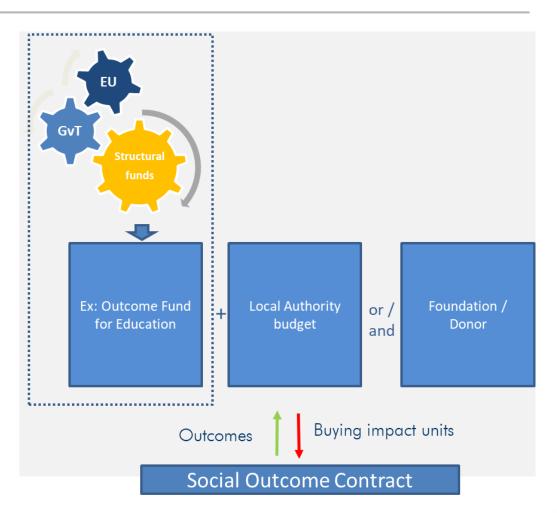


- Set-up of Outcome Funds by national / regional / local government support the development of SIBs:
- Outcome Funds provide funding to buy outcomes / impact units.
- They enable a faster provision of SIBs operating in the same vertical.
- They provide an optimal use of public and tax payers resources.
- They contribute to simplify the SIB process

Outcomes Funds and EU Structural funds



- Possible use of the European Structural Funds to fund outcome payments
- Absorption issues of structural funds at national and regional level: outcome funds represent a new way of deploying ESF/ESIF funds
- Mixing different types of funding is challenging with the current regulatory framework
- New MFF 2020 is expected to facilitate the set-up and the management of Outcome Funds within the EU



Outcome Funds: a complementary tool for social outcome contracts



- Outcome funds have demonstrated their ability to speed-up the development of Social Outcome Contracts
- Many governments are currently brainstorming on the set-up of outcome funds to test Social Outcome Contracts motivated by social innovation
- Launching pilots only requires outcome funds of small size
- Outcome funds enable knowledge pools
- Outcome funds have been a key element in the development of Social Outcome Contracts in the UK



In a nutshell, Social Outcome Contracts...



- Develop new ways of working for the public sector
- Enable more flexibility and better resource allocation
- Improve social work practice
- Enable (re-)commissioning contract(s)
- Share knowledge and approaches with the public sector, enabling a better delivery of social interventions at micro and macro levels
- Help other regional / national governments to replicate successful models

EIF, as an investor through EFSI, is committed to facilitate and support the emergence of social outcomes contracts in the EU.





Thank you!

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