



IFISE

Innovative Financial Instruments in support to the Social Economy

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Brussels, 5 December 2018



 #ficompass





AGENDA

- Description and objectives of the IFISE project
- Focus and core activities
- Implementation phases and timeline
- Status quo and first outcomes



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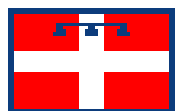
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Outcomes
of
IFISE
Phase 1

- Introduction to social impact investing
- State of the Art of Financial Instruments targeting Social Enterprises
- Priorities of IFISE
- Challenges

WHO WE ARE



Finpiemonte

Regione Lombardia
Finlombarda

IDEA
(Innovation and development
agency of Andalucía)

Generalitat Valenciana
Institute of Finance



IFISE REPOSITORY: <https://www.finpiemonte.it/Ifise-project>

STARTING POINT



“The Regional authorities and agencies involved in this consortium share the vision that there is a need to **strengthen alternative financing channels to fill the bank financing gap for the smaller segment of social enterprises.**

Therefore, the action will work on capacity building of managing authorities and intermediate bodies, with the final aim to **extend the offer of funding instruments to the actors in the wide field of social economy.**”

OBJECTIVES



- To develop innovative financial instruments addressed to the social economy that are **compatible with ESI Funds**.
- **Raise skills and build capacity** in PA: achieve a higher degree of **standardization** in order favor **transferability** to other regions.
- **Raise awareness in public administration** and set the bases for incorporating the logics of **impact measurement** in public investment domains.

EXPECTED RESULTS



- **Benchmarking analysis** on FIs for the social economy and good practices.
- **Replicable training scheme** for capacity building in MAs and IBs.
- **Regional pilot cases** for the set-up of FIs: **handbook with guidelines** for dissemination.

“SOCIAL ECONOMY”



- **Social enterprises**: innovate to tackle social problems and generate a positive social and environmental return (non-profit and for profit).
- **societal challenges** can be tackled through a wide range of activities.
- **social impact**: in a broader perspective, also enterprises not having a strictly social core business can contribute to tackle social challenges.
- **impact measurement methodologies** and public budget savings.

BEYOND THE INTERMEDIATION OF BANKS



Different types of FIs

**Promotion of direct
links between (local)
investors and
enterprises**

community investing

Microfinance

social bonds

crowd-funding and peer-to-peer lending

local saving and local funding platforms

Business Angels

payment by results

PPP models

etc...

IFISE CORE ACTIVITIES

We have the ambition to work in a complementary and consistent way with relevant national/international financial institutions.



PHASE 1 Market Knowledge

- Mapping the state of the art of FIs for the social sector (regional/national, public/private).
- Best/worst practices.
- Identification of regional needs and opportunities for common FIs to be set-up.



PHASE 2 Capacity Building

- Identification of the training needs and organization of in-class transnational training (replicable training scheme).
- Regional cases: coaching and consultancy for the set-up of FIs (feasibility analysis).



PHASE 3 Policy awareness

- Operational proposal to Policy Makers for the implementation of the FI (FI design)
- Handbook with guidelines for the setting up of FIs focused on social impact



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EUROPEAN
INVESTMENT
FUND



European
Investment
Bank



cassa depositi e prestiti



Instituto de Crédito Oficial

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OUTCOMES: training



Aim: to provide technical insights to IFISE partners, in order to enable the analysis and design activities for common innovative financial instruments to be implemented within the ERDF and ESF Regional OPs

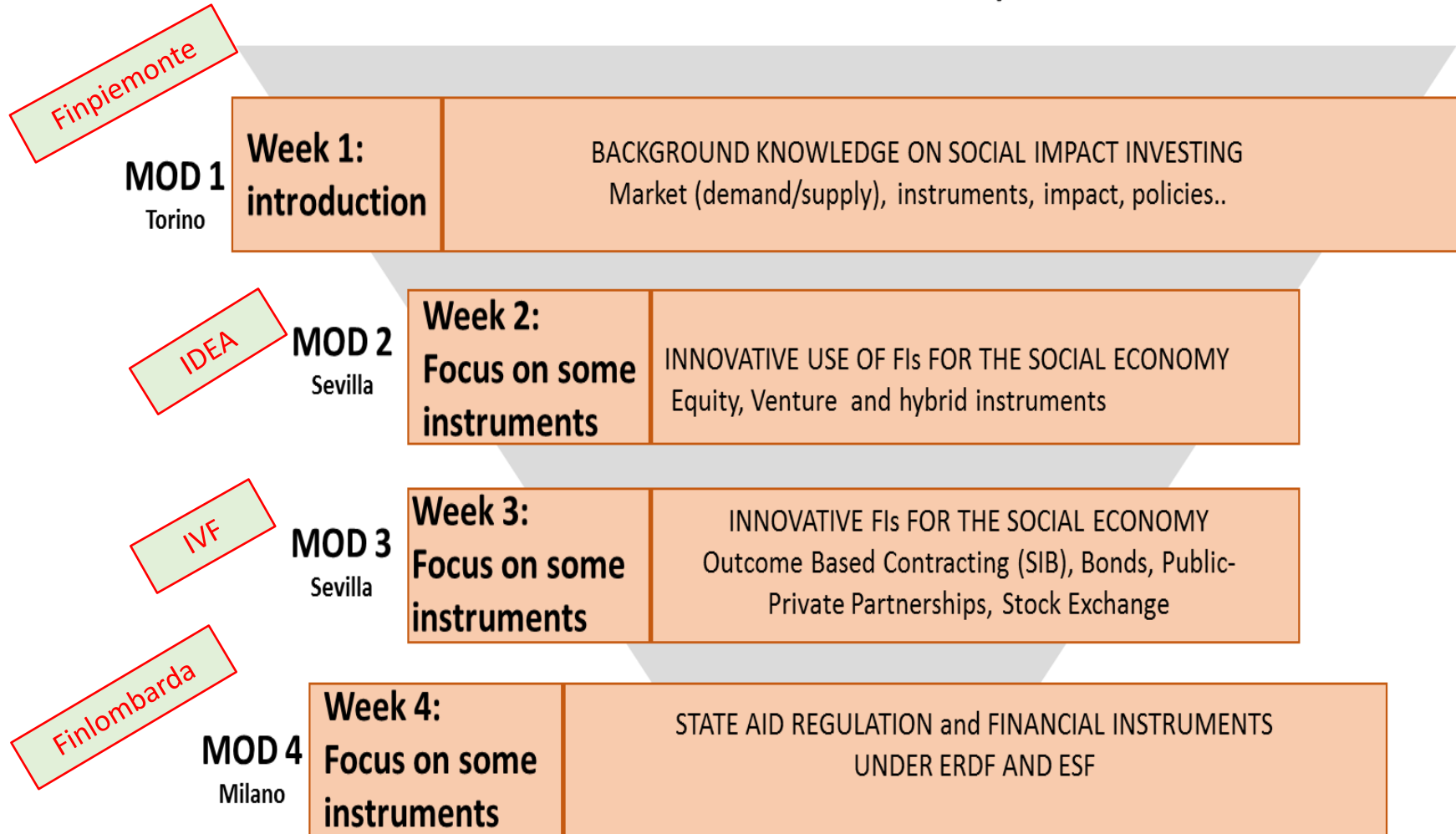
Challenges and Training needs

- **Heterogeneous participants** (policy experts, financial experts)
- Lack of a **common terminology** on a wide frame of Social Economy and Impact Investing
- Set the criteria for the identification of **transnational training experts**
- **REPLICABLE training scheme combining strategic vision with technical training** on FIs
- **Address regional/national ecosystem** framework (Italy and Spain)

OUTCOMES: training



TRAINING AGENDA: TOPICS AND WEEKS/MODULES



OUTCOMES: a replicable training scheme



Aim: based on focused research and ad –hoc planning, to allow the in-class training to be replicated by other European Managing Authorities or/and Financial Intermediaries

Main challenges

- A number of **stand-alone modules** with an **ad-hoc planning approach**
- To build a **common basis of understanding and knowledge** among different type of participants
- To **combine many interlinked and complex themes** (social, economic, financial, legal...) with as many different training expectations
- To identify **appropriate and innovative practical cases** (e.g. limited experiences on ERDF, ESF)
- To get over the “fashionable trend”, reaching a **realistic perspective**

Lessons Learnt

- Assess **participants’ knowledge background** and use a **modular approach** for content and budget
- Very relevant **contractual and logistical aspects**, due to transnational nature of the training
- Undertake the design phase with a **bespoke approach (on-demand training)**
- Focus more on **demand side of Impact Investing market** and related financial needs
- **Involve private financial institutions, increase the network of Public Administrations** & consider a wider spectrum of innovative FIs



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Many “de facto” Social Enterprises are not legally recognised as such



Definition of “de facto” Social Enterprise

Entrepreneurial Dimension

continuous economic activity (≠ non profit organisation)

Social Dimension

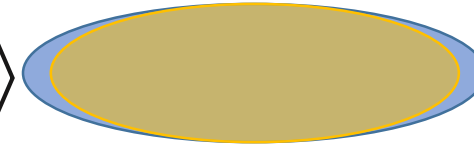
Explicit social mission statement

Governance Dimension

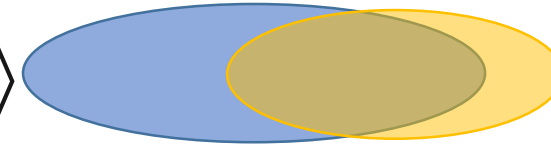
“lock in” of social goals

Discrepancy between “de facto” and “legally recognised” social enterprises

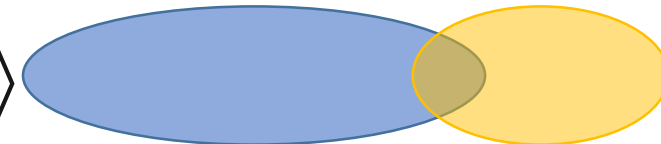
UK





Italy



Spain



 = de facto interpretation of social enterprise (EU)

 = legally recognized social enterprises

- They operate “below the radar” => no statistics
- The IFISE consortium opted for a “de facto” definition of social enterprise => FIs need a classification of social enterprise

Access to finance is the key constraint for the development of Social Enterprises



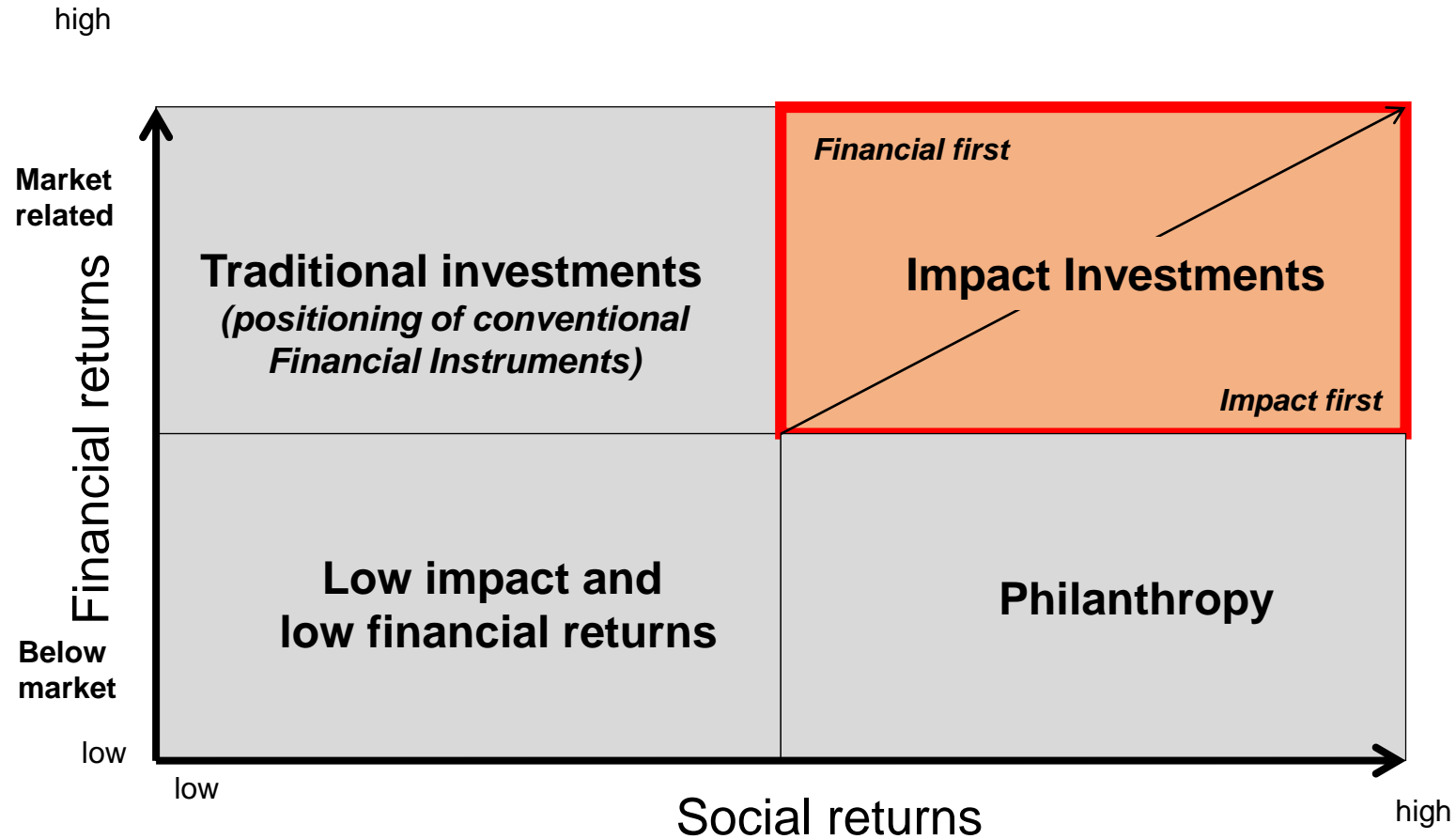
Weaknesses of Social Enterprises

- Lack of sustainable and/or scalable business models.
- High reliance on the public sector (=> no long term planning, exposure to budget cuts and policy changes).
- Inherent low solvency (equity) ratios.
- Small/ Subcritical size of the organisations.
- Lack of collaterals (don't exist or prohibited to use).
- Limitations on distribution of profits to investors.
- Lack of entrepreneurial spirit & commercial orientation.
- Lack of managerial & professional skills; difficulty to attract highly qualified workers.
- Limited access to (public procurement) markets: Inadequate use of social clauses, public procurement practices (large contract sizes, disproportionate pre-qualification requirements, etc.), payment delays

Implications

- No appropriate response from mainstream financing:
 - risk: perception of high risk but no collateral
 - Return: high transaction costs for expected below-market returns
 - Impact: positive externalities not recognized / taken into account
- Difficulties in access to finance throughout the complete lifecycle (in particular early stage)
- Intermediaries and TA costs are too high to be affordable

Impact Investing is a “double bottom line” approach: financial returns + social returns



Sources: adapted from *The Impact Engine*, Arabella Advisors

The *State of the Art Report* is covering a wide spectrum of FIs



54 case studies of Social Financial Instruments

- In total 57 social FIs from different (European) countries
 - 43 FIs not involving ESI Funds
 - 14 FIs under ESI Funds (ERDF or ESF)
- Benchmarking based on interviews and desktop research

138 Social Impact Bonds

- Analysis of 138 different social impact bonds (local, regional, national, transnational) implemented in 35 countries (worldwide), of which 40 from UK and 20 from USA
- Exploitation of qualitative and quantitative information based on a database (by Instigio)

Research

- Interviews with stakeholders and policy makers
- Relevant study reports
- Desktop research

Emergence of Social Impact Bonds in recent years (and other payment by results instruments)

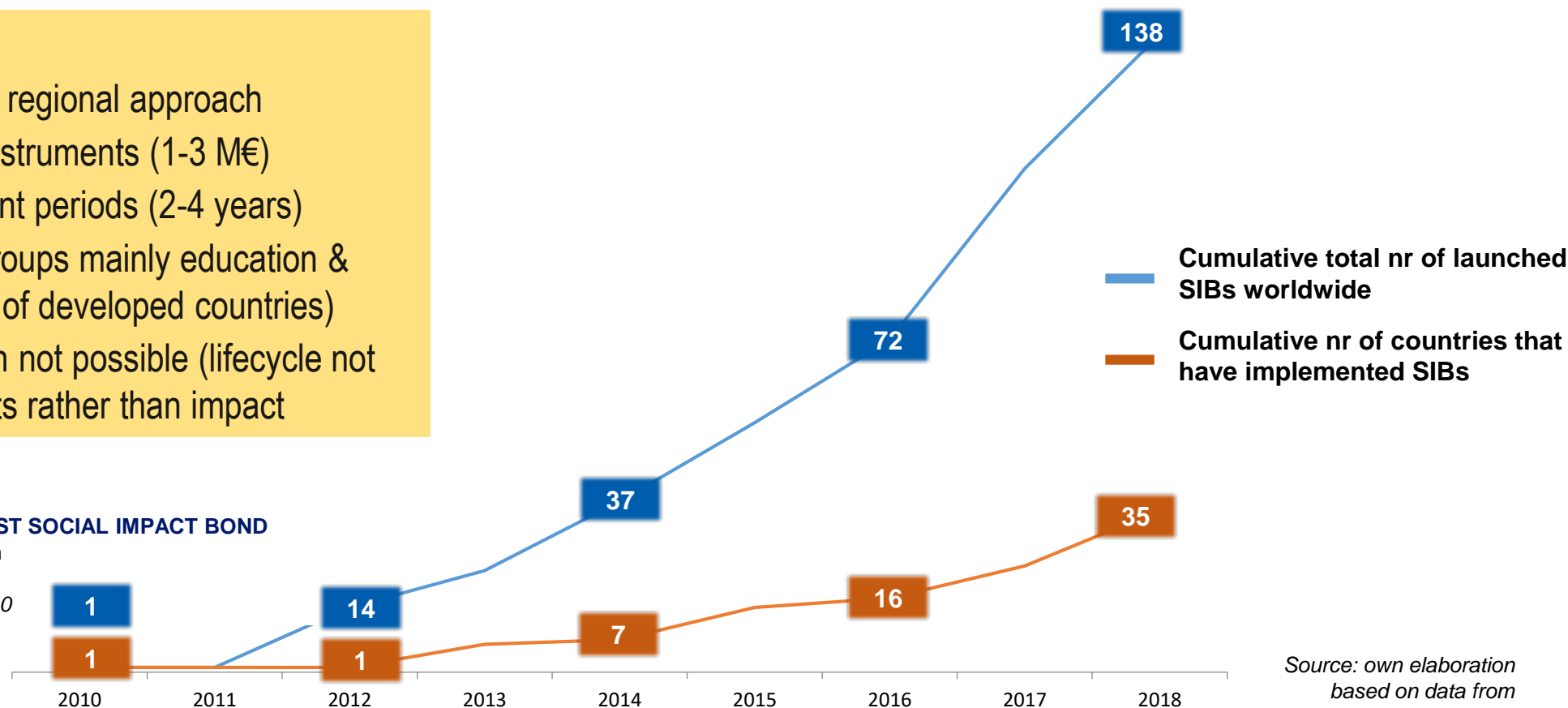


Main findings:

- Mainly local or regional approach
- Small size of instruments (1-3 M€)
- Short investment periods (2-4 years)
- Social target groups mainly education & health (in case of developed countries)
- Final evaluation not possible (lifecycle not finished), results rather than impact

WORLD'S FIRST SOCIAL IMPACT BOND

United Kingdom
(Peterborough)
September 2010



Source: own elaboration
based on data from
Instigia 2018

State of the Art of Financial Instruments for the Social Sector



Countries (selection)	Financial Instruments (selected) targeting social enterprises						
	SIB / SOC	other payment by results /for outcomes	Equity / quasi equity / VC	Loan schemes	Guarantee Schemes	Microfinance	CrowdXXX / Club/ other P2P mecanisms
Spain							
Italy							
France							
Germany							
UK							
USA							

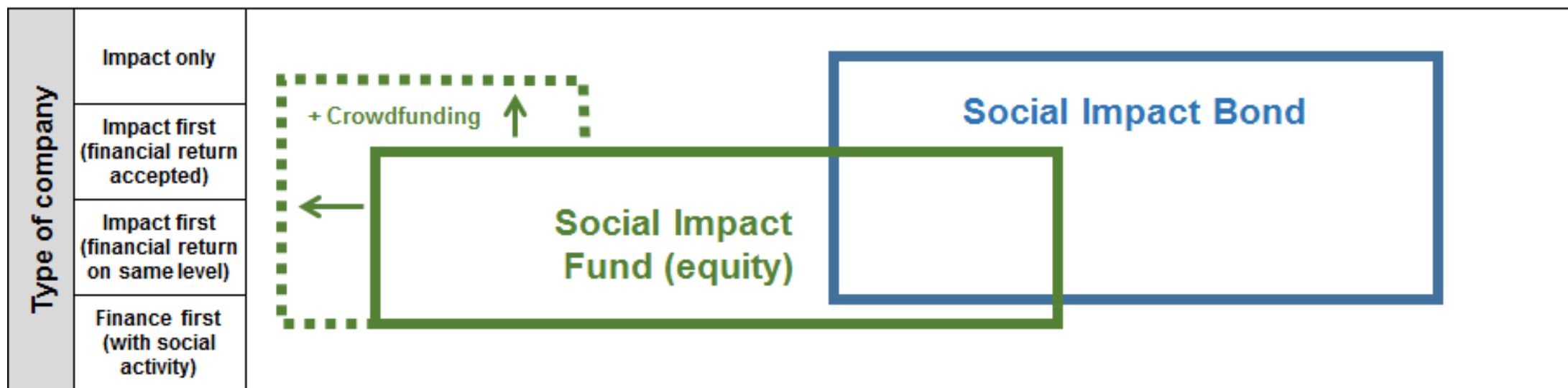
- **UK is pioneer in implementing financial instruments for the social sector. However, experiences are not directly transferable to the rest of Europe.**
- **In general, few innovative practices with specific incidence in social enterprises.**
- **Predominantly standard financial instruments but socially labelled.**
- **Spain and Italy lagging behind.**
- **Absence of innovative instruments implemented in combination with ESI Funds**

“Social Impact Bond” and “Social Impact Fund”

selected to be developed by the IFISE consortium



	Early Stage			Later Stage		
	Idea	Seed	Start-up	Growth	Maturity	Consolidation
Characteristics	Proof of concept, business plan development	Company founded, product development, pilot production/delivery	Execution of market launch, first commercial revenues	Early scaling of business, significant growth (reaching break even)	Breakout scaling, increased standardization (positive cash-flow)	Breakout scaling, increased standardization (positive cash-flow)
Typical Capital need (€)	0-100k	100k – 500k	100k – 1,5m	> 100k	> 500k	>500k



Implementation aspects and principal challenges



Criteria for Social Enterprise

- Legal definition of Social Enterprise not applicable
- Definition of eligibility criteria for Social Enterprise necessary

Impact Measurement

- Theory of change: Causality between undertaking and impact?
- Payment for results (or outcomes) rather than for impact (=> delay)
- “You get what you measure”

Compatibility with ESIF

- Make current certification procedures of ESIF (cost based) consistent with the logics/ mechanisms of social impact investing (result/impact based)

Standardization & Transferability

- Definition of a standardized instrument for social impact investing in combination with ESIF from an “ex ante” perspective (inverse to the conventional approach)



**Thank you
For your attention!**

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