



# IFISE

## Innovative Financial Instruments in support to the Social Economy

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 #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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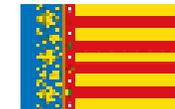
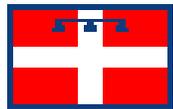
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Outcomes  
of  
IFISE  
Phase 1

- 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

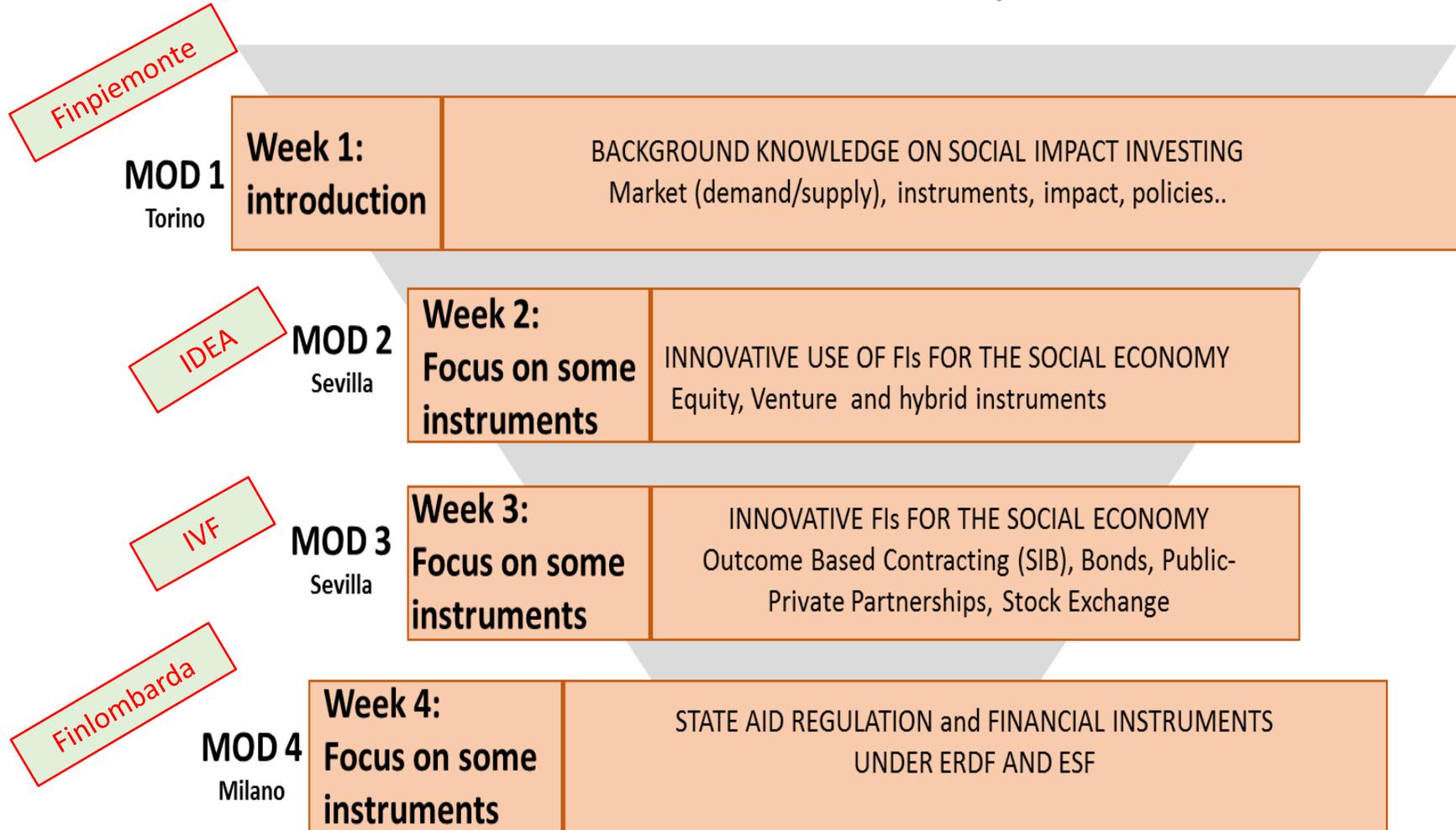
## Challenges and Training needs

- **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

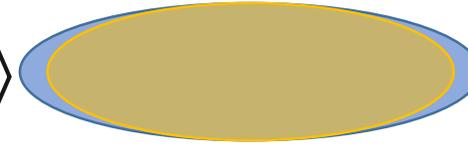
Explicit social mission statement

Governance Dimension

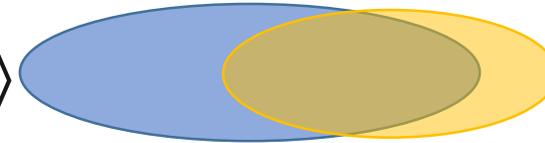
“lock in” of social goals

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

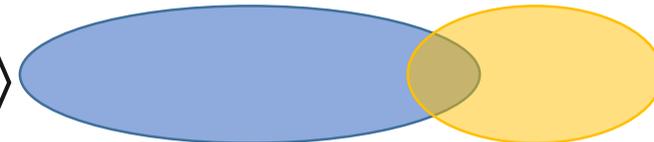
UK



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



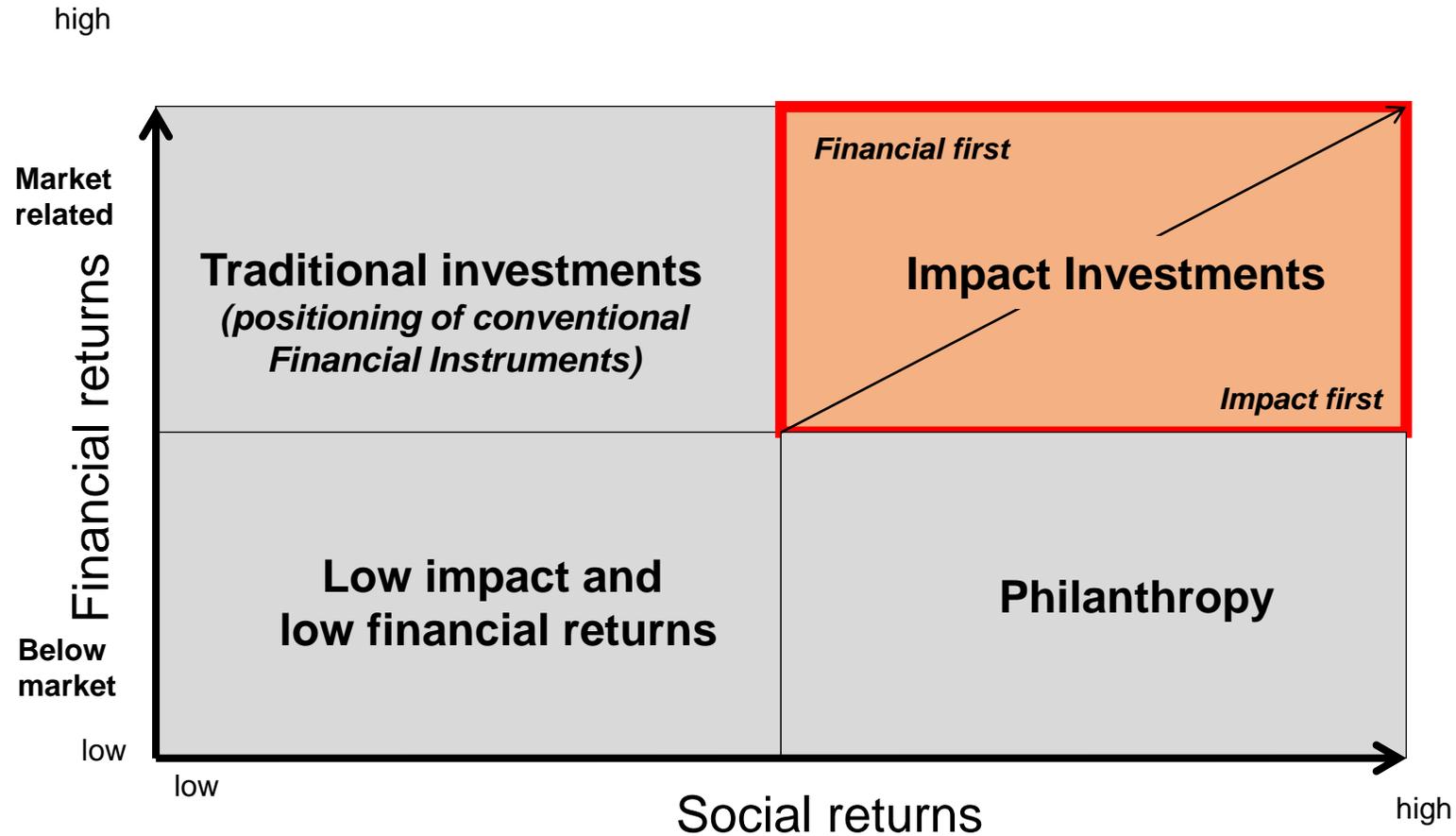
## Weaknesses of Social Enterprises

- 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

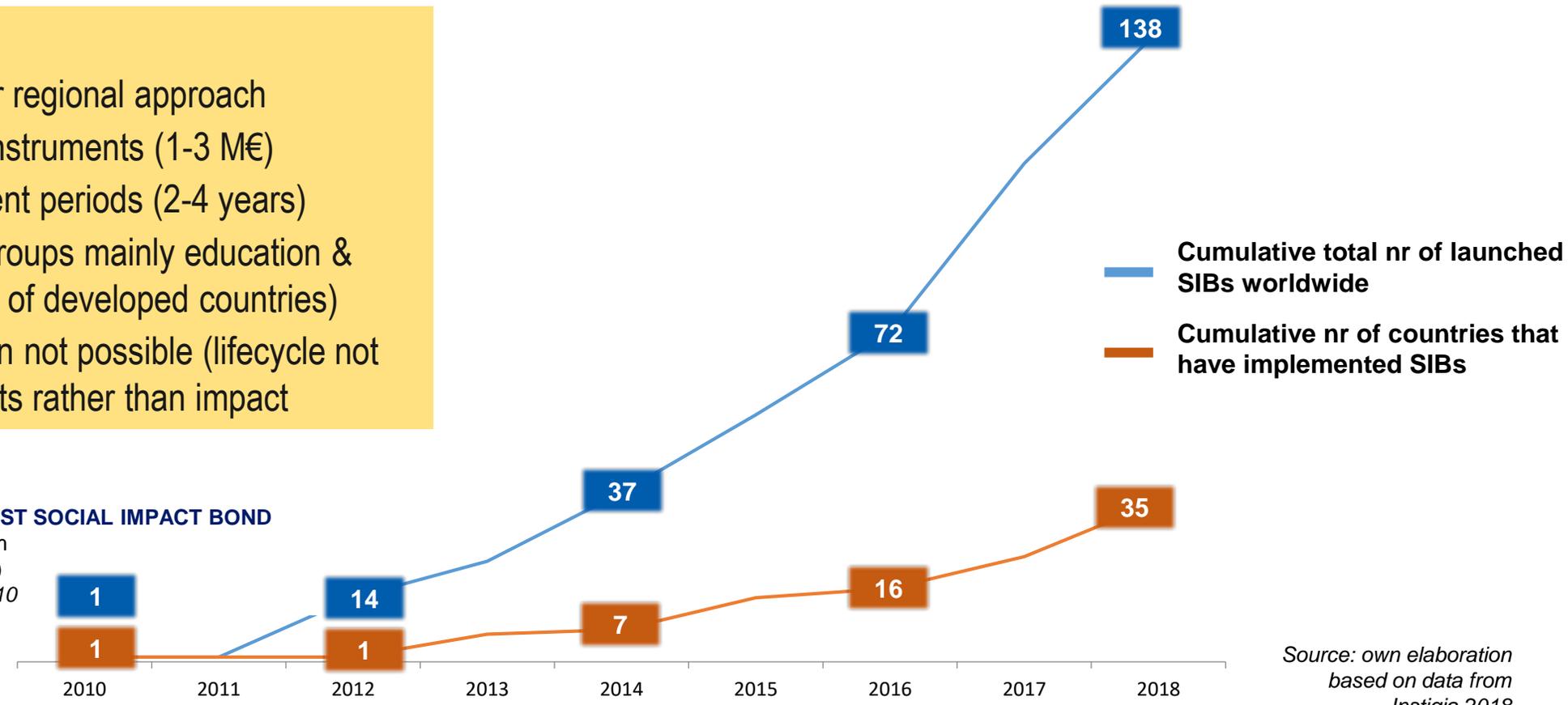
- Interviews with stakeholders and policy makers
- Relevant study reports
- Desktop research

# 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							

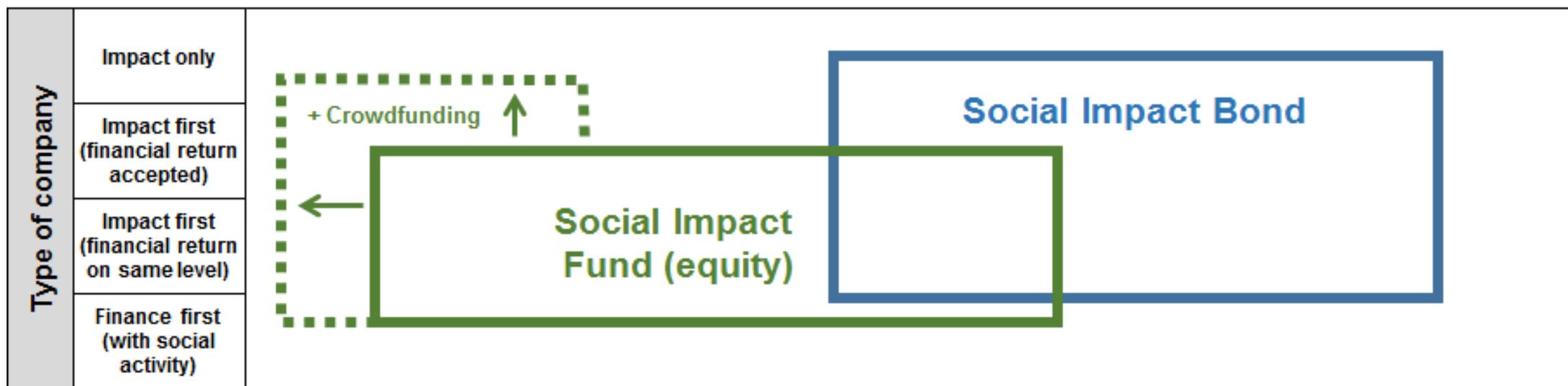
- **UK is pioneer in implementing financial instruments for the social sector. However, experiences are not directly transferable to the rest of Europe.**
- **In general, few innovative practices with specific incidence in social enterprises.**
- **Predominantly standard financial instruments but socially 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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