

SOCIAL IMPACT INVESTMENT IN THE EU

Financing strategies and outcome oriented approaches for social policy innovation: narratives, experiences, and recommendations

2018



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Title Social impact investment in the EU. Financing strategies and outcome oriented approaches for social policy innovation: narratives, experiences, and recommendations

Abstract

This report presents the results of an exploratory research jointly conducted by the European Commission's Joint Research Centre - Directorate for Growth and Innovation, Human Capital & Employment Unit, and a team of external experts from the European University Institute, School of Transnational Governance. The aim of the study is to review social impact investing strategies being proposed in EU Member States and assess what their impact is or can be in view of possible reforms to be introduced in the European Structural and Investment Funds (ESIF), including how to combine them with the European Fund for Strategic Investments (EFSI). In particular, through insights from a comprehensive review of the landscape on social impact investment across Europe, and the analysis of a case study and a prospective scenario of use, the study represents a first attempt to assess what are the opportunities offered by this growing phenomenon, drawing recommendations in light of the proposal for the new Multi Annual Financial Framework (MFF) for the next programming period. In view of the changes in the structure, governance and modes of implementation of EU investment programmes, and with the purpose of supporting the further development of a social impact investment market, conclusions of the analysis also set the ground for future research directions on how to finance strategies and outcomes oriented approaches for a new generation of innovative social policies, including the need to define a research agenda for developing a monitoring tool and an observatory of the use and impact of social innovation and social impact investment in the EU.

Table of Contents

Foreword.....	vi
Acknowledgements	viii
Authors.....	ix
Executive Summary	x
1. Introduction.....	14
1.1. In search for a strategy to unlock social innovation policy	14
1.2. A new narrative of change for welfare state reforms	17
1.3. Social impact investment: helicopter view of a rising industry	22
2. The social impact investment market landscape	26
2.1. Exploring the emerging social impact investment ecosystems	26
2.2. The usage of innovative financial instruments.....	27
2.3. Project financing and partnerships: the Social Impact Bonds	32
3. Assessing social impact investment market’s maturity	39
3.1. Social impact investment market’s composition.....	39
3.2. An institutional-based analytical framework	41
3.3. The framework in action: the role of market infrastructures	46
4. Portugal: A policy framework initiative.....	49
4.1. Social innovation and the social economy as a policy priority	49
4.2. The Portugal Social Innovation Programme	51
4.3. Insights and lessons learned so far	60
5. Italy: A prospective scenario	63
5.1. Genealogy of the Italian Social impact investment ecosystem	63
5.2. An increasing interest and the first movers in Italy.....	69
5.3. Insights from the Italian social impact investment ecosystem	77
6. Conclusions	80
6.1. Aligning interests and building new institutional frameworks.....	80
6.2. Policy recommendations.....	83
6.3. Towards the next EU Multi-Annual Financial Framework	89
References.....	93

List of figures

Figure 1 - The spectrum of social impact investment.....	21
Figure 2 - Financial products deal flow and intermediaries role.....	30
Figure 3 - Financial and other intermediaries in the ecosystem	31
Figure 4 - The structure of a social impact bond.....	34
Figure 5 - The development of SIBs market since 2010	36
Figure 6 - Social issues addressed through a Social Impact Bond (2018).....	37
Figure 7 - Elements of supply and demand of a social impact investment market	39
Figure 8 - Outputs of EU MS' social impact investment market segmentation.....	44
Figure 9 - Estimation for the funding gap amongst social providers in Portugal	50
Figure 10 - Development stages and funding programmes adequacy.....	55
Figure 11 - EMPIS Structure	56

List of tables

Table 1 - Traditional and innovative instruments.....	27
Table 2 - Innovative financial tools	28
Table 3- Characteristics of financial intermediaries	32
Table 4 - Project finance principles applying also to Social Impact Bonds.....	38
Table 5 - Description and maturity levels for each market component	42
Table 6 - Market's segmentation according to final scores	43
Table 7 - Social impact investment market maturity scores.....	43
Table 8 - Characterisation of Segment 1: Incipient markets	44
Table 9 - Characterisation of Segment 2: Infant markets	45
Table 10 - Characterisation of Segment 3: Performing markets.....	45
Table 11 - Examples of social impact investment market building initiatives	47
Table 12 - EMPIS SWOT analysis.....	61
Table 13 - A "Philanthropication thru Privatisation" comparison across countries	65
Table 14 - A comparative view of Portugal and Italy.....	81
Table 15 - Issues and policy recommendations on ESIF.....	86

List of boxes

Box 1 - Social impact: a new variable in the investment equation.....	20
Box 2 - Calouste Gulbenkian Foundation: a market catalyser	24
Box 3 - European Social Economy in figures	26
Box 4 - Revenue Participation Agreements: CAF Venturesome (UK)	29
Box 5 - Patient Capital: Ananda Fund (Germany)	29
Box 6- Updated figures on Social Impact Bonds (December 2018).....	37
Box 7 - Social Finance (UK, Global)	40
Box 8 - The Social Investment Lab (Portugal)	41
Box 9 - Le Comptoir d'Innovation (France)	41
Box 10 - The investment and contract readiness fund (UK).....	47
Box 11 - The DWP Innovation fund (UK).....	47
Box 12 - One Cost (Portugal).....	47
Box 13 - ESUS (France)	48
Box 14 - 90-100 Employees savings schemes (France)	48
Box 15 - MRI Education Pilot Fund (Germany)	48

Foreword

This report is the result of research originated as part of the project 'ICT - Enabled Social Innovation to support the Social Investment Package ([IESI](#)) conducted by the European Commission's Joint Research Centre (JRC), Directorate for Growth & Innovation in collaboration with the Directorate General Employment, Social Affairs and Inclusion.

When we started the IESI research in 2014, combining the terms social innovation and impact investing was considered by many at least *bizarre*. This study was thus initiated exactly to explore the two rapidly emerging phenomena of social innovation and social impact investment, and identify possible links between them, by better understanding the underpinning principles and suggest ways for combining and integrating their operational mechanisms into mainstream and new policy instruments.

The impulse to the Commission's social agenda observed in the period 2013-2017, first with the adoption of the Social Investment Package in February 2013, culminated then with the joint proclamation of the European Pillar of Social Rights, by the Commission, the Council and the Parliament in November 2017, confirms our intuition was timely.

Indeed the proposal for the Multi Annual Financial Framework for the period 2021-2027 advanced by the European Commission in June 2018 clearly sets the ground for a set of initiatives aimed at building a 'Social Europe', as a high policy priority for the future.

In particular, within the InvestEU Programme it is foreseen a "Social window" of 4 billion euros, aiming at mobilising up to 50 billion of investments. This "Social Investment and Skills Window" is expected to help achieving the following goals: (i) deliver on the European Pillar of Social Rights; (ii) modernise education and healthcare infrastructure in Europe; (iii) support European culture and creativity, through financing projects in: skills, education and training; social housing, schools, universities, hospitals; social innovation; healthcare, long-term care and accessibility; microfinance; social enterprises; integration of migrants, refugees and vulnerable people.

The new impetus in shaping the European social agenda clearly recognises the need to combine different dimensions and domains, and that social innovation is thus to be considered a transversal policy priority. The Social Dimension of the EMU sees an increasing engagement and commitment by different DGs, each with its own perspective and adopting its own initiatives. This explain also the strong interest showed in the field by many stakeholders, even beyond their instrumental role, to adapt the EU social models to current and future challenges and galvanise Europe's social market economy.

In this regard, the debate on how to leverage innovative financial instruments and support mechanisms able to foster social innovation and to promote scaling processes of bottom-up initiatives in the field of employment and social inclusion, has grown exponentially since the publication of the "Reflection paper on the social dimension of Europe" within the discussion initiated by President Juncker on the Future of Europe.

Within this context the European Commission has called national governments to lead on the renewal of Social Europe, while providing guidance and acting as a catalyst for stimulating cross-fertilisation and exchange of practices, while stressing the need of making central the social aspect of innovation in research and investment programmes.

This has been a central theme of the High Level Conference on Opening up to an era of Social Innovation organised by the European Commission in Lisbon in November 2017, further reinforced during the recent Conference titled Beyond Imagination: a socially innovative Europe, held in Seville in November 2018.

Alongside this event in fact the Social Innovation Declaration promoted by the European Social Innovation Community at large has been endorsed at the Web Summit 2018 in Lisbon by Commissioner Carlos Moedas, who stressed the fact that *"Innovation today is about purpose, about doing something that can fulfil you as a human being". "In the EU, we are going to put more money into social innovation, not because it's trendy, but because we believe that the future of innovation is about social innovation"*.

At the same time, relevant interest in the connubial between social innovation and social impact investment, especially with regard to the adoption of outcome-oriented funding mechanisms for addressing complex societal challenges, has been raised as crucial to develop a set of possible policy initiatives and a coordinated framework to grow the social economy and the social impact investment market in particular.

This piece of research attempted to address some of the foundational and conceptual issues that should be taken into consideration for enabling the potential of social policy innovation and further promote the modernisation of EU social protection systems.

To this end, following conversations with Miguel Maduro, jointly with colleagues from the European University Institute, we designed and carried out an exploratory research with the overall aim of reviewing social impact investing (SII) strategies proposed in EU Member States, while defining an approach for the assessment of their potential impact.

The specific objectives of this work was in fact to 1) Develop a thematic analysis of SII approaches and narratives adopted in fostering social policy innovation, overcoming the typical fragmentation and the scattered picture that existing studies offers; 2) Understand the determinants in adopting SII approaches in relation to existing cases or possible future scenarios of use combining European Structural and Investment Funds (ESIF) instruments with the European Fund for Strategic Investments (EFSI); and 3) Identify policy and research recommendations with regard to possible implications in terms of governance mechanisms and impact assessment of social policy reforms, as well as with regard to adequate changes in the regulatory frameworks of ESIF and EFSI.

Since we started implementing the study in 2017, the topic under investigation received a growing attention and both policy and research interest developed rapidly. While on the one side this allowed us to be exposed to a very rich set of new inputs and analyses, on the other, the growth of scientific publication in the field, as well as the development of the debate in the practitioner and policy arena, which also originated the emergence of many new initiatives, made of the object of this research an extremely rapid "moving target", thus limitations of the analysis are clear.

Nevertheless, it should be recognised the contribution of the research to the policy debate as we had the opportunity to exchange insights with various experts in the field, contributing - for instance - to the work of the OECD Expert Group of Social impact investment, the Global Steering Group on Impact Investment, the RISE Expert group or the Social Economy Task Force, as well as the work of colleagues involved, in various capacities, in shaping the proposal for the next MMF and the Future of Europe.

I am thus extremely pleased to invite you to read this report, acknowledging that the results achieved so far are only preliminary, although show the potential of further research in this field, characterised by the need to adopt a multi-disciplinary and cross-sectoral approach, being at the crossroads of several policy relevant topics and research disciplines, from the sustainability of finance and in general of the market economy, to mission-oriented policy investments and the reform of the welfare systems via social innovation and in light of the digital transformation, looking at new funding mechanisms to support growth while strengthening the governance and resilience of our society.

Gianluca Misuraca
IESI Project Leader

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However, the report is the result of a collective exercise, as it is based on an initial draft elaborated by Francesco Pozzobon and Joana Cruz Ferreira, external researchers for the School of Transnational Governance of the European University Institute. Their analysis has been instrumental to the further development of the research framework and the analysis of case studies, and we are therefore very grateful for their effort.

Furthermore, since the study originated within the frame of the IESI research project, a special thank you goes to Lieve Fransen, at the time Director for Social Policies at DG EMPL, and Aurelio Fernandez-Lopez, former Chair of the Social Protection Committee and Seconded National Expert at DG EMPL during the implementation of the IESI project. Their guidance has been inspirational in paving the road to exploring the link between social innovation and social impact investment.

During this exploration, an important encouragement and support to work in this area has come from several experts in the field. In particular, discussions we had since 2014 with Filippo Addarii, Fiorenza Lipparini, Karl Richter and Indy Johar, have been stimulating and helped us to set the foundations for the study.

Another key element for grounding the research to reality and link to practice, has been the continuous exchange with colleagues working in relevant policy DGs, and in particular Loris Di Pietrantonio and Jader Canè from DG EMPL, as well as various colleagues from the EIB and the FI-COMPASS programme, with whom we had various exchanges in order to better understanding implementation rules of innovative financial instruments and their possible use to achieve social innovation objectives.

At the same time, feedback and input from colleagues involved in the policy design of new investment programmes was illuminating to further advance our research proposals. In particular we are thankful to Maria Da Graça Carvalho and Philippe Martin of RTD, and Georgia Efremova and Filippo Munisteri of ECFIN, among others.

Finally, preliminary draft versions of the report have been reviewed by various external experts and leading practitioners in the field, as well as owners of most of the cases included in the report. Although it is not possible to mention each of them, we are appreciative to all for their expertise and insights which helped us in better interpreting and contextualising the findings from the analysis and validating the recommendations.

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Executive Summary

This report presents the results of an exploratory research jointly conducted by the European Commission's Joint Research Centre - Directorate for Growth and Innovation, Human Capital & Employment Unit, and a team of external experts from the European University Institute, School of Transnational Governance. The aim of the study is to review social impact investing strategies being proposed in EU Member States and assess what their impact is or can be in view of possible reforms to be introduced in the European Structural and Investment Funds (ESIF), including possible ways to combine them with the European Fund for Strategic Investments (EFSI) in view of the proposal for a new Multi Annual Financial Framework (MFF) prepared by the Commission.

The research is globally structured into four parts. The first chapter aims at providing an overview on the state of the art of social innovation and social impact investing literature and practice in order to offer a first original contextualisation of a growing phenomenon. Moving from a review of the most relevant drivers of change and pressing current challenges that European countries are facing, some of the most important policy initiatives in the field and narratives of change are investigated, setting the scene for a discussion of the social innovation and impact investing debate and related experiences.

As it emerges from a comprehensive literature review and a look at the most promising initiatives implemented across the EU, social innovation and impact investment are probably two of the most popular terms used in the debate on the political and institutional changes required to address the challenges faced by European societies. They have come to embody a broad set of transformations in the public and private sectors approaches to societal challenges. In this respect, the very diverse set of policies, actors and initiatives engaged in developing innovative approaches to address such societal transformations requires a conceptual clarification of these key terms.

Social innovation is a term developed in an almost organic form, reflecting a diverse set of innovative ways to address new and old societal challenges. It calls the attention to innovations on social and environmental services and products or on the processes linked to such social services and products. As a consequence it aims at challenging our understanding of how social goals can be pursued and attained and social policies designed, funded and assessed.

Social impact investment, instead, is a term that appears to have been originally coined by philanthropic bodies, especially those adopting the so-called "strategic giving" approach, arguably to call the attention of funders and investors, beyond financial return, to other forms of return on their investment (sometimes endowments) associated to common and social goods. To this extent social impact investing principles and initiatives led to the spread of a variety of instruments that are still being tested and implemented. The different financial products and instruments used under the social impact investing scope have been listed in this study. We have also included some case studies to illustrate real life applications of the different instruments.

What these experiences show us is that the more important transformations, at the crossroads between social policy innovation and impact investment, do not happen in a segregated form. On the contrary, they are the product of an interaction between private and public actors. For a market in social impact investment to emerge, public policies are crucial to incentivise and support the development of market supply for investing in social and impact oriented initiatives and help capacitating market demand. On the other side, for these new public policies to be successful the market capacity to develop and mobilise new financing instruments and social innovation ideas is crucial.

Although there are some conceptual and analytical differences, it can be reasonably argued that social innovation and social impact investment "meet", in the sense that both aims at answering to increasing societal challenges by democratising how they are addressed at their input and output levels.

In other words, by involving a broader set of actors and funding sources in the design and delivery of innovative solutions to those societal challenges the ultimate goal of both concepts – and their combination – is that of promoting social justice and welfare in the context of new societal and financial challenges. These new challenges, but also the new opportunities generated by innovative public and private ideas, are leading the social agenda in new directions. The focus is on how to render social actions more sustainable, internalise social goods into market activity, promote outcome oriented public policies and private funding of social goods. These are the core goals of the social policy innovation and impact investment agenda and the opportunities it generates.

In order to develop this exploratory study as an original contribution towards a deeper understanding of social impact investing's rise and its most relevant policy implications we have identified a stylised ecosystem approach as the most suitable perspective in order to effectively improve the knowledge of impact investing principles and practices. The second chapter aims, therefore, at presenting an overall picture of the social impact investment landscape across the EU, digging into national and sub-national ecosystems in search for preliminary evidence.

To this purpose, an institutional-based analytical framework has been designed considering the three elements of a robust social innovation and impact investment market – demand, supply and market infrastructure, laying a major focus on the last one. The proposed framework, presented in chapter three, has been validated against the analysis of experiences of the more mature European impact investing markets and discussion with leading experts and representatives of relevant stakeholders.

The framework works indeed as a draft methodology to categorise the EU Member States according to market's maturity stages of each of the three above-mentioned elements. Short case studies of public-driven market infrastructure building impact investing initiatives are provided to further illustrate relevant practices that are building the impact investing market. The categorisation exercise in the second chapter suggests that most EU Member States' markets are still in an incipient phase, showing no signs of leadership and participation from the public sector, no organised pool of private investment and no dynamism in the demand side. However, there are also some Member States that show more mature ecosystems and growing institutional interest.

Among the more mature impact investing ecosystems, Portugal and Italy represent two interesting cases to look at more in-depth. In both cases, as shown respectively in the fourth and fifth chapter of this report, there is an attempt to understand the determinants (enablers and barriers) for the development of a social innovation ecosystem and an impact investing market. In the Portuguese case, the existence of a comprehensive public framework initiative has led to focus the case study on such initiative. In the Italian case, the study focused instead on the current dynamic – though still largely fragmented – public and private initiatives rapidly emerging in the field and on a prospective scenario based on assessing some of the most relevant experiences.

The concluding chapter takes stock of the review of the EU landscape and the lessons learned from the case-studies analysed, offering a policymaker-tailored narrative of the phenomenon under investigation, thus filling a gap in the literature and providing recommendations on how to possibly unleash such an emerging ecosystem and market in the evolving policy context and in view of the forthcoming programming period.

From the analysis it emerges clearly that the current social policy innovation agenda, taking advantage from new impact investing principles, strategies and practices, expresses itself in new forms of providing common and social goods. It expands and transforms the social economy while changing the traditional paradigms of both the market and the public sector. At the same time, in the market context, the impact investing approach aligns market returns with social and environmental goals. In other words, it aims at promoting investment that incorporates social values side by side with financial returns.

This is done either by making traditional social economy initiatives more financially sustainable or by supporting and facilitating investment in for profit market ventures that internalise a strong social or common goods positive impact. On the other hand, with regard to the public sector context, impact investing introduces a results or outcomes oriented approach to public policies. In other words, instead of focusing on a top-down approach in the design of service delivery models, or on the direct provision of such services, the State shifts its focus to the actual outcomes those services deliver.

This has two main consequences: first, it shifts the measurement of public policies from how much of a certain service is provided to the actual results achieved by that service in the provision of the common and social goods; second, by paying for results the State creates a market for such outcomes, attracting private funding for public policies and promoting a larger pool of ideas on how to provide and attain those goods.

A series of elements is at the core of the transformations taking place in the design, funding, delivery and evaluation of social goods: innovation (representing new forms of planning, delivering and funding social services, products or processes); impact or results orientation (a focus on outcomes – the result actually achieved – and not outputs – how much is provided); proximity (solutions tend to be initially tested and implemented at the level of decision making closer to the problem); integrated governance (they require the cooperation between different actors in setting the right outcome metric and designing and delivering the solution); high scalability (testing and learning usually takes place on a small scale but can be easily replicated).

In light of these elements, the study identified policy and research recommendations with regard to possible implications in terms of governance mechanisms and market and ecosystem building for social innovation, as well as possible future scenarios for both the reform of the European Structural and Investment Funds (ESIF), including their combination with elements of the European Fund for Strategic Investments (EFSI).

In particular the findings of the research suggest adopting an inclusive strategy engaging both public and private actors and traditional and non-traditional social economy agents. This strategy should start by convening all those actors and decision makers from the public, private and social sector to design a national action plan. This should provide the basis for public action in terms of development of a comprehensive policy framework.

At the same time, it is crucial to put in place a capacity-building strategy to help the transfer of both private and public stakeholders to the social innovation ethos: the new forms of action, impact assessment and sustainability enshrined in the social innovation agenda. Moreover, attention should be paid in clarifying and expanding the different types of social economy entities, as well as in making the necessary amendments to the definitions and regulations of profit and not-for-profit actors so as to facilitate an expanded access to the social innovation and impact investment market.

These policy recommendations obviously assume and require consistent political support and transversal government engagement. Ideally, the public agenda on social innovation should be coordinated from the centre of government and be upheld on an integrated governance model. Continuity of support across political cycles is also crucial.

With regard to the possible contribution that might come from the current available European funding resources and schemes, it needs to be highlighted how European Structural and Investments Funds (ESIF) are the right instrument to finance social innovation and steer such necessary changes in the social ecosystem and public policies. Social innovation is a transversal priority at the core of ESIF. It fits the results orientation included in the EU structural funds, which is even more relevant considering the increasing pressure on Member States public budgets and social expenditure, hindering the investments to promote social change and address emerging societal challenges.

However, some adjustments to the current regulations are necessary to facilitate this role and really match the rhetoric of results orientation with the set of instruments and incentives resulting from the implementation of ESIF rules.

In this regard, in the concluding chapter of the report we provide a number of recommendations drawn from the analysis, in view of both promote social innovation and strengthening synergies with the European Fund for Strategic Investment (EFSI).

In fact, while EFSI aims to overcome the investment gap in the EU, it also plays an important role in supporting unleashing social investment when combined with ESIF. EFSI and ESIF can be coordinated in at least three forms: EFSI supports a project that benefits from ESIF grant; EFSI supports a project that benefits from a ESIF financial instrument; or EFSI and ESIF can jointly establish a Financial Instrument (FI) at wholesale or retail level. The latter can have a substantial leveraging effect with respect to national programmes funded by Structural Funds, by attracting private investment.

At the same time EFSI can also help in reinforcing capacity-building and governance systems, two dimensions that may lack at national level; as well as in overcoming the geographic and thematic limitations to which ESIF are subject to. To this end, the European Investment Bank (EIB) group, managing the EFSI in coordination with the Commission, has been assuming an increasing role in promoting the use of innovative Financial Instruments (FIs) at the request and on behalf of several Member States.

Direct management of Member States ESIF FIs by EIB has sometimes been perceived as a more favourable alternative for Member States with no previous experience or installed implementation capability. It also represented a faster (though usually more expensive and standardised) set-up option for Member States. In fact, as EIB is subject to previous global Commission clearance procedures, the later does not have to abide by the same lengthy and often limiting public procurement procedures or State aid rules of other similar players managing FIs at Member States level, even in cases where EIB is managing ESIF and Member States public resources on their behalf. At the same time, any EIB involvement must not come at the expense of the development of national expertise nor ignore the different realities and degrees of maturity of the impact investment markets and social innovation ecosystems in the different Member States.

The recommendations elaborated in the report are clearly made against the legal framework of the current programming period. However, they address general principles that so far have affected ESIF functioning and are thus valid in a prospective manner. As we are in fact in a transition phase, moving towards the programming period 2021-2027, insights from the analysis also contribute to the on-going debate on the design of the next EU Multi-Annual Financial Framework (MMF).

The concluding section of chapter six thus discusses the research findings in light of the relevant proposals included in the next MFF, looking in particular at the European Social Fund Plus (ESF+), presented as the EU's main instrument to implement the EU Pillar of Social Rights, and which calls for a strengthened effort in unleashing the social innovation agenda; as well as the InvestEU Fund, proposed to replace the current EFSI.

In particular, among the innovative aspects embedded in the InvestEU proposal, it is of specific interest the thematic policy window on "Skills and Social Investment", which is explicitly linked to the goal of delivering on the European Pillar of Social Rights. This gives the guarantee and its social window a clear policy mandate and a purpose which builds strongly on social impact investment as a tool for renewing the political commitment on reinforcing the Social Dimension of the EU.

In view of the changes in the structure, governance and modes of implementation of EU investment programmes, and with the purpose of supporting the further development of a social impact investment market, insights and recommendations drawn by this exploratory study also set the ground for future research directions on how to finance strategies and outcomes oriented approaches for a new generation of innovative social policies in the EU, including, in particular the need to define a research agenda for developing a monitoring tool and observatory of the use and impact of social innovation and social impact investment in the European Union.

1. Introduction

1.1. In search for a strategy to unlock social innovation policy

1.1.1. Looking beyond the welfare state debate

Before one starts delving into the world of social impact investment, a general and threefold premise is required. The challenges faced by contemporary welfare states, conceived as the bundle of national institutions designed to prevent and fight citizens' vulnerabilities (Esping-Andersen 1990; Ferrera 2006), go far beyond the demanding task of a mere modernisation process of the welfare system itself. With the exception of research focusing on the need to reform social protection systems (Pierson 2001; Bonoli & Natali 2013), the available literature in the field barely offers a comprehensive picture. For this reason it is worth framing the analysis in the light of a broader interpretative framework of the on-going transformative process of society and the welfare State.

First it is worth mentioning how globalisation processes and the development of systemic interconnections, along with the increasing interdependence that promotes – and at the same time is necessary to – answer to current societal challenges, has encouraged a series of institutional transformations that puts under pressure the legitimacy conditions of the national state (Cassese 2006). The current crisis of legitimacy faced by Nation States is thus strongly related to the impact of interdependence on the conditions traditionally offered by the Nation State to support the social contract by balancing inclusion with closure in a political community (Maduro 2016).

In fact, as argued by several legal scholars, any social contract needs to be associated with a well-defined jurisdiction in which to balance between its benefits and costs, and for this reason *«the level of interdependence that we have achieved beyond the state, leads to question the ability of states to effectively guarantee the conditions for democracy and social justice»* (Maduro 2016). Therefore, the need to reform and modernise the welfare state goes well beyond a mere public resources discourse or the emergence of new social needs and risks. Rather it is rooted in the social contract dimension of democratic institutions.

Second, the way that entrepreneurship, investment and, generally, the market have been conceptualised, modelled and taught depart from the idea of a firm as a production function to be optimised, the idea that personal preferences are given and cannot change over time, and the idea that each agent is only determined by its utility function. These assumptions have been consolidated over time, including in the public sphere (Petrini 2009 and Latouche 2010). The 2008 financial downturn basically showed how some of these assumptions can fail in face of reality, with the well-known consequences it brought.

According to Stiglitz, there is now more than ever a case for a general rethinking of how markets work, being aware that *«we have focused too long on one particular model, the profit-maximizing firm, and in particular a variant of that model, the unfettered market»* (2009). To this extent the 2008 financial crisis can be seen as the empirical counterpart of the idea of the performativity of economic theories and a suggestion to return looking at markets as social constructs (Mac Kenzie 2006; Mac Kenzie et al. 2007).

Third, affected by the two previous macro-processes on institutional legitimacy crisis and the performativity of economic theories, another relevant process is the one more directly related to the role and functions of the welfare state: in the public imagination the welfare state became more and more as a bulwark and corrective to market failures (Saraceno 2013). As a consequence the ideal tension between welfare state and market, following the political patterns of the traditional distinction between public and private, became a tough contrast, broking the conceptual and political equilibrium that in times of economic growth and high employment rates appeared however possible.

The highly institutionalised character of welfare systems made them particularly adverse to changes and reforms, or at least made welfare systems not enough flexible to change (Capano and Giuliani 2002).

Thus, bastion against market's distortions and negative effects, welfare systems entered since few decades ago in a travail phase in which modernisation strategies were designed and elaborated, without however warding off the idea of a profound crisis (Saraceno 2013). Being not able to question the mainstream economic vision even brought someone to infer a causal relationship between the welfare state crisis and the financial events of 2008 (Saraceno 2013). These are ideas that experts have easily rejected and proved as inconsistent, however, they are representative of the fact that behind the challenges faced by the welfare state lies not only a mere reform of the protection systems and its possible strategies.

In this perspective, "looking beyond" does not mean "looking elsewhere"; an informed reflection on the challenges that the welfare state is called to face appears therefore a needed starting point for that general rethinking warmly advocated for by several scholars (e.g. Stiglitz 2009, Mazzucato 2014, Mazzucato & Jacobs 2016). In particular it is crucial to consider that the need for a welfare state reform often crashes against a structural limitation of current political systems (Ferrera 2016) as well as some other contextual factors that prevent the reform attempt to be implemented.

In other words, whereas the welfare state reform remains a central issue to deal with the great societal challenges, it is worth to consider the hypothesis that a genuine reform process is not fully possible within the public welfare domain, but it needs to include external forces that might contribute to such an endeavour.

1.1.2. Building on emerging visions for future welfare systems in the EU

On top of the great transformation processes mentioned above, further specific challenges are pressing the welfare systems in the EU Member States, as well as the overall European Social Model. In particular, the demographic transition, low productivity growth, ample territorial diversity and the unsatisfying performance of the labour market are some of the structural challenges threatening the future of the European Union, and are all related to a certain extent to the domain of welfare policies.

Although signs of recovery from the 2008 financial crisis are now visible, economic growth is still weak and characterised in many EU countries by what has been defined the "jobless recovery". At the same time the workforce is projected to shrink because of population ageing. Within this context, while gains in life expectancy are undoubtedly a remarkable achievement, longer lives also mean more years spent in retirement and more health costs. Funding those extra years, when the number of active workers is decreasing, may prove particularly strenuous.

Most Member States have responded to these challenges by reforming their pension systems. However, even when long-term sustainability has been achieved, issues of fairness and social justice, especially across generations, arise, including as a consequence of the redistributive impact of the new digital and global economy. To survive and thrive, European governments seem to need to re-engineer their welfare systems and combine long-term financial sustainability with adequate support to those in need, while promoting equal opportunities and social mobility for a fairer society.

To address these issues, the European Commission launched the *Social Investment Package* (SIP) in 2013. The SIP was promoted by the Commission to help «reorienting Member States' policies towards social investment where needed, with a view to ensuring the adequacy and sustainability of social systems» (European Commission 2013). While acknowledging the key role played in Europe by welfare systems in ensuring inclusive growth, as well as their stabilisation function in time of financial and economic hardship, the Commission also recognised that an extra effort was required to meet citizens' needs while ensuring fiscal sustainability and increased competitiveness.

1.1.3. Implementing recalibration strategies: lost in translation

As highlighted by Misuraca et al. (2016), the social investment approach, which has been championed at EU level since the Dutch presidency of 1997, and has informed both the Lisbon Strategy and the Europe 2020 Strategy, relies on two distinct justifications. First, that social investment is linked to economic growth, and secondly that it is more cost effective due to its preventive nature. Social investment would be therefore efficient both in terms of economic growth (increased tax revenues derived by a more competitive economy sustained by a healthy and skilled workforce), and in terms of savings deriving from reduced need for future corrective interventions.

However, despite the agreement around the approach proposed by the social investment paradigm, the consistency between the programmatic ambitions of the SIP and the reform practice is not easy to gauge. Scholars who have undertaken empirical research on the implementation of social investment policies in European countries have held different positions, ranging between moderate pessimism (Morel, Palier & Palme 2011) and moderate optimism (Hemerijck 2012).

The main reason of a “lost in translation” implementation of the social investment approach might belong to the sphere of political cycles and political costs, as shown by Maurizio Ferrera, Martin Rhodes and Anton Hemerijck when they advanced the concept of welfare state recalibration, to which a social investment approach belongs (Ferrera, Hemerijck and Rhodes 2000; Ferrera & Hemerijck 2003).

The multidimensional concept of welfare recalibration has been elaborated to study the complex way in which the basic architectures of European welfare states are being recast. Welfare recalibration is conceived as «*a reflexive, knowledge-intensive, multidimensional, interconnected, and institutional bounded change process*» and the notion of welfare recalibration «*is based on an explicit recognition that welfare states are made of multidimensional and institutionally interdependent social and economic policy repertoires*» (Hemerijck 2008).

Through the recalibration lens, four dimensions have been elaborated.

- The first one is the functional recalibration: it has to do with the social risks against which the welfare state aspires to protect, and the need for functional recalibration is often described in terms of the shift from “old” to “new” social risks.
- The second dimension of recalibration is the distributive one and concerns the re-balancing of social protection provisions across organised interests. The European mature welfare states are confronted with a syndrome of labour market segmentation and the insider/outsider cleavage, urging them to take into account these new scenarios.
- The third dimension is the normative recalibration, which concerns the norms and values implicated in the dilemmas emerging from the search for functionally effective and distributive fair policy directions.
- The fourth and final dimension considered by the recalibration concept is that concerning reforms in the design of institutions, levels of decision making and social and economic policy governance, and the responsibilities of individuals, states, markets and families.

Supporters of welfare recalibration want to go beyond the traditional dichotomies of expansion and retrenchment, more or less protection, punctuated change or institutional inertia. They requested for empirical studies and projects on the emergence of a new welfare edifice. This is basically the reason why the social investment approach might be related to such a reform strategy.

However, those who proposed and theorised recalibration as an effort for incremental reforms of the welfare state also highlighted some of the main obstacles such a change would have met, thus offering a well-grounded hypothesis also related to the difficulties in implementing a social investment approach. In particular, scholars in the field of

welfare state changes and reforms, argue that among the main reasons why recalibration reforms have been less developed than expected are the financial constraints and the political costs they imply (Ferrera & Hemerijck 2003).

This is especially relevant when reforms try to pursue what Ferrera et al. identified as functional recalibration, i.e. the attempt to adapt to new social risks and needs that changed socioeconomic circumstances might have brought with them. The main constraint such a recalibration efforts face is financial by nature, thus any shifts from a budget line to another implies a political cost, benefiting some citizens and penalising others. With regard to the distributive dimension, again there is a quite high political cost, since distribution always involves a choice between different organised groups, or at least the removal of barriers between insiders and outsiders. As per the normative dimension of recalibration, the costs related to such a path of reform are also high, implying a change with regard to values and norms related to the role of the state. Finally, the institutional dimension of recalibration reforms, which deals with levels of decision and the role of those actors that might or should be involved in the governance of welfare production and provision, has also high costs, as it is clear that administrative bodies might not want to transfer decision power to other actors, as well as to lose control over specific policy initiatives.

These political and institutional reasons explain why it has been so difficult to fully implement a social investment approach in the past years and, as mentioned above, this is supporting the case for exploring alternative strategies able to effectively support the delivery of a social investment shift of welfare systems.

1.2. A new narrative of change for welfare state reforms

1.2.1. Social innovation to unleash social investment

In light of the difficulties highlighted in pursuing a recalibration attempt through a social investment approach, a further strategy has emerged to support the broader reform and modernisation effort of the welfare state, advancing on the concept of social innovation.

According to many scholars in fact, social investment should rely on social innovation to diversify its funding sources and provide solutions that produce better results than existing solutions or the *status quo*. At the same time, the productivity of social protection systems can be increased by social innovation through organisational reform and procedural simplification; finally, social innovation can help stabilise the economy by increasing social capital, social cohesion, and facilitating interaction between different stakeholders (Misuraca et al. 2015).

Social investment and social innovation are thus related, but non overlapping, concepts. Whereas social investment captures the «*congeries of ideas about the objectives, areas of intervention and instruments*» (Bonoli & Natali 2012); social innovation represents the enablers and drivers for social change, more equal economic development and possible shared prosperity. In fact, social innovations can help steer the market towards social goals, improve the efficiency of social policies and their effectiveness in addressing societal challenges and also facilitate life-long investment in human capital (Misuraca et al. 2017).

Aware of such potential, the European Union has been devising policies which promote - directly or indirectly — social innovation. Many research projects which address social innovation and social services reform have been funded under the FP7 or H2020 programmes. Other initiatives that centred on social innovation can be found in the legislative package on cohesion policy, which includes the support to scaling up and capacity building for social innovation under the European Social Fund (ESF); the innovative actions in the area of sustainable urban development funded by the European Regional Development Fund (ERDF); and the Employment and Social Innovation

programme (EaSI), established to fund best practices, capacity-building and testing of innovative policies through social policy experimentation, with the objective of scaling up the most successful measures addressing social needs.

The growing interest at policy level on social innovation and the rich articulation of supporting measures that emerged in the last decade built on the initial vision that the Bureau of European Policy Advisors (BEPA) set in a publication which focused on learning from over ten years of social innovation practices (BEPA 2014). What is particularly striking of that document, though, is that it refers almost exclusively and *de facto* to the social economy and social entrepreneurship, avoiding any direct link with debates regarding specific social policies or welfare state design. Rather, it presents a series of good practices which show what the potential of social innovation may be for job creation and citizens' participation.

This is in line with the fact that, as Pisano *et al.* recall (2015), the European Commission's activities on social innovation are primarily derived from the *Europe 2020 Flagship Initiative Innovation Union*, launched in 2010 with the aim to foster Europe's capacity to innovate by facilitating the market uptake of innovative solutions and job creation. In this respect, the *activation* dimension of the social innovation perspective emerges quite clearly since the main objectives of EU's action is to promote sharing information and stimulating social innovation through already established funds.

At the same time, the academic community renewed the interest in the concept of social innovation, with a "voluntary" link to policy development. Caulier-Grice *et al.* provided a definition according to which «*social innovations are new solutions (products, services, models, markets, processes etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources. In other words, social innovations are both good for society and enhance society's capacity to act*» (2012).

This definition, which then informed the official one used by the European Commission, contains direct reference to the "activation" component of social innovation, which makes it particularly palatable for the social investment strategy, and it is also significantly in line with the Europe 2020 agenda.

More specifically, in the academic reading five key elements must be at the core of social innovation (Pisano *et al.* 2015):

- a) *novelty* – social innovation should be new in some way, either new to the field, sector, region, market or user, or to be applied in a new way;
- b) *implementation* – social innovation is concerned with the practical application or implementation of a new idea that needs to be (or have the potential to be) financially sustainable in the mid- to long-term;
- c) *social need focus* – social innovation needs to be explicitly designed to meet a social need, understood as something that can cause serious harm or socially recognisable suffering when not met;
- d) *effectiveness* – social innovation should be more effective than existing solutions by creating a measurable improvement in terms of outcomes (such as quality, level of user satisfaction, etc.);
- e) *activation*: social innovation should enhance society's capacity to act and often entails changes in social and power relations, empowering beneficiaries by creating new roles and relationships, developing assets and capabilities and/or better use of assets and resources.

This confirms the fact, of special interest for this research, that the social innovation agenda is strongly linked to the social investment strategy, as it is conceived as instrumental to support social enterprises and their capacity to create jobs and growth. However, current and future challenges faced by the welfare systems require developing a new narrative, tackling directly the design of social policy programmes, and the need to redefine the social investment strategy itself. This would enable to support the social market economy as a particular feature of EU Member States.

1.2.2. The need for a comprehensive policy-oriented perspective

The key dimensions that characterise the concept and practice of social innovation in respect to the social investment paradigm we have identified above, and often referred to as the elements structuring a social innovation “pragmatic approach”, seem to leave some of the policy questions to be addressed by social innovation in relation to welfare systems’ reforms unmet.

On the one hand, in fact, social innovation embodies new ways to address and deal with old as well as new social risks and needs, and it wants to be a comprehensive concept, able to depict all those projects and initiatives designed and implemented in order to respond to those pressing societal challenges. On the other hand it needs to be acknowledged that social innovation initiatives are still limited and normally implemented by private sector organisations (either for-profit or not-for-profit) at local level, involving a single community and a small number of beneficiaries.

Moreover, social innovation initiatives are subject to the complexity that characterises social issues and the risks of failure that characterises every innovation. At the same time public resources constraints, as well as the need for cost-effective public interventions, lead to a risk-averse approach that hinders the mainstreaming of social innovation and the underlying governance structures and cultural norms underpinning it. Paradoxically, but not surprisingly, the same factors that render changes more necessary also feed a culture resistant to those changes.

Making reference to the framework depicted above in terms of political and institutional costs of recalibration efforts, social innovation is expensive especially with regard to political costs. To shift public policies design from outputs to outcomes is bound to face many resistances, both from the dominant administrative and policy culture and from the social actors benefiting from traditional policies. In addition, what would people think about public money spent to fund an intervention that, in the end, reveals itself not so impactful, either because the small number of lives touched or due to the missed expected results?

Furthermore, the new forms of relation between the market and the State and the public and private sector related to social innovation increase the political risks associated with a narrative of privatisation of the welfare state. This is so even if, in fact, social innovation would, instead, be better presented as “socialising the market” (because several of its actions further the internalisation of social goals in market activities).

Moreover, other big questions emerge with regard to social innovation initiatives even when they reach positive outcomes: how can the policymaker learn from those social innovation initiatives that worked? How to scale up successful but small initiatives? How to make social innovation initiatives sustainable over time? And again: which criteria might be used to state whether an initiative is successful or not (in other words, how to measure outcomes)?

And being even more operational, is there any strategy able to spur social innovation initiatives? Does the public sector have adequate tools to foster social innovation? Is the public sector responsible for the services delivered through social innovation initiatives? And – one more time – what is the role the public sector is called in to play in order to make social innovation become systemic?

A crucial dimension that relates several of these questions regards the financial mechanisms and resources that can be activated in order to build a social innovation ecosystem and the related policy framework enabling its development. In this respect, the social impact investment concept emerged in the last decade exactly to describe a set of principles, tools, and practices that aim to support social innovation.

1.2.3. Defining social impact investment

Social impact investment is the use of money to generate both social and financial returns, offering a way to help social organisations access suitable financing and improve their ability to deliver impact. In other terms, Social impact investment refers to «*investments made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return*» (GIIN 2017).

Box 1 - Social impact: a new variable in the investment equation

Until now, investments have been made taking two variables into consideration: risk and return (in terms of financial return). These variables tend to move in the same direction (i.e. when the risk increases, so does the return required by investors).

Social impact investment is about adding a new variable in the investment decisions: impact, defined as the creation of value for society. From this perspective, the correlation between variables does not have to be negative - the impact and the financial returns are not mutually exclusive.

Moreover, the investor may accept a lower return given the expected impact and risk, which may only cover inflation, or may even take a financial loss in exchange for high impact. In some contexts, time plays an important role, since in the long run some social impact investments are even more profitable than traditional commercial ones.

Social impact investment can be used to finance the day-to-day delivery of a specific programme, such as upfront funding to deliver an outcomes-based contract, or it can be used to help enterprises realise their mission over the long term by helping them develop their strategy and service model and expand their operations.

Outcome-based contracts tie at least a portion of a contractor's payment, contract extensions or contract renewals to the achievement of specific outcomes that are measurable and can be predicted. Under these contracts, social service providers need liquidity to operate while they wait for the revenues to flow in. Outcome-based contracts require a focus on the consequences of a given set of activities and outputs. The focus is therefore placed on the outcome to be achieved and not on the service or good provided. They trigger innovation along the process, as they change the set of behavioural incentives and drive efficiency and effectiveness.

On the contrary, output-based contracts are about achieving several key performance indicators, independently of their outcomes. The focus is on how much is provided of a certain service or good, regardless the final outcome. In addressing social challenges, in specific situations, the link between payment and outputs might even be perverse (e.g. if contracts are based on the number of child in care hosted in a centre, the same institution has no financial incentive to prevent children to get that unfortunate path).

The term social impact investment has been originally coined by philanthropic bodies, especially those adopting the so-called "strategic giving" approach, arguably to call the attention of funders and investors, beyond financial return, to other forms of return on their investment (sometimes endowments) associated to common and social goods. According to Salamon (2014), social impact investment practices represent «*what students of the field have begun referring to as "yin-yang" deals, deals that bring together, as in Chinese thought, seemingly contrary forces that turn out to be uniquely capable of producing new life forms when taking advantage of their interdependencies*».

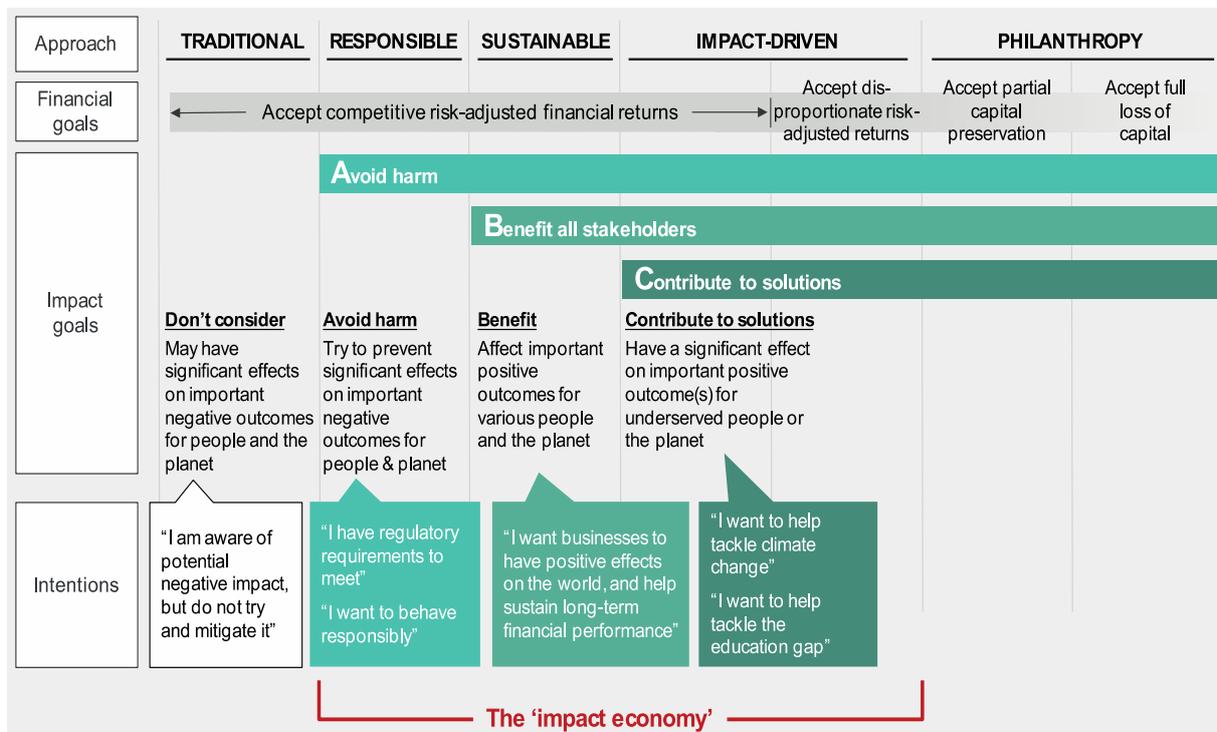
With this regard it is also clear that the emergence of social impact investment at the new frontiers of philanthropy is framed within the "four beyond" process (beyond grants, beyond foundations, beyond bequests, beyond cash), behind which there is a common imperative, usefully summarised in a single word: leverage, that is «*the mechanism that allows limited energy to be translated into greater power*» (Salamon 2014).

To this extent social impact investment principles and initiatives generated a variety of instruments that are still being tested and implemented in the context of current social and institutional transformations.

The different financial products and instruments used under the social impact investment scope have become more and more interesting to understand possible developments and contributions of such a phenomenon.

In practice, social impact investment has been mainly used to refer to a broad spectrum of financial instruments that runs from socially-conscious investments or responsible and sustainable investment to philanthropy. It includes all forms of capital that include social change as an important decision variable. **Figure 1** illustrates this spectrum.

Figure 1 - The spectrum of social impact investment



Source: UK NAB 2017.

On one side of the spectrum, there are profit-first investors. Their driving force is not the impact created although their due diligence process includes an assessment of societal consequences. Impact is not a criterion but a limit. Examples include not investing in tobacco nor war equipment.

On the opposite side of the spectrum, one can find the philanthropists who are impact-first. Their due diligence starts on the impact potential assessment and not on the financial viability. They usually combine financial support in hybrid formats, such as mixing grant money with patient capital lending, and/or financial support with non-financial support to the social service providers. They accept a financial return, although their priority is to guarantee social impact.

Social impact investments can be made by mixing motivations (spectrum above) and across different asset classes. They often result from adapting and combining existing financial instruments. Investors, governments, intermediaries and social organisations have showed signs of cutting edge financial innovation, by the articulation of motivations and resources towards a common goal. Moreover, these investments can yield a wide range of financial returns, attracting multiple types of investors that provide different forms of capital (patient, subordinated, etc.). As we will see in Chapter 2, Social Impact Bonds (SIBs) are the more well-known example amongst many others.

1.3. Social impact investment: helicopter view of a rising industry

1.3.1. In between social market economy and policy experimentation

A first inquiry into the available narratives on social impact investment reveals many possible ways to look at the phenomenon. What seems to be especially relevant with regard to the need of a further effort in investigating and exploring social impact investment practices is that, based on the review of the literature, several open issues and some shortcomings can be identified.

First, among the entire literature production on social impact investment there is not much scientific literature and the limited academic work in this areas comes, mostly, from the management and economic domains (Wong et al. 2013; Nicholls & Tomkinson 2013), not from the public policy studies field. So-called grey-literature is predominant, coming especially from those organisations that are trying to position themselves in this new rising market.

Second, taking into consideration also those reflections that informed the public debate on the rise of social impact investment, it must be acknowledged a growing polarisation between hype and scepticism: some, present impact investing as the panacea of every society's illness, others argue that it is a neoliberal attempt to destroy all the institutional and political legacy received from the past century's welfare state (McHugh et al. 2013; Joy & Shields 2013).

Third, even those scholars and practitioners who got involved with the topic without any ideological shortcomings, often look at Social impact investment from a too narrow perspective, and without any significant insight from empirical studies, generating in such a way many partial narratives, strictly bonded to limited fields of already developed streams of study, such as those on third sector (Joy & Shields 2013), social enterprises (Venturi 2015), philanthropy (Salamon 2014), and sustainable/ethical investment.

These ways to look at the phenomenon are those mainly advanced also in the available grey-literature that spread since 2010. Although not always fully developed, these narratives often overlap, bringing into the debate cross-cutting issues such as hybrid organisations, regulatory frameworks for social enterprises, tax and fiscal incentives, and corporate social responsibility strategies (Dagher 2013).

In other words, there is a wide, but often fragmented, area of studies that tends to depict the rise of Social impact investment stressing one or another of its features, but avoiding or ignoring to address and articulate any comprehensive analysis and narrative.

Still, it is possible to identify two different global viewpoints on the topic. On the one hand, there is a "maximalist" interpretation of social impact investment, which looks at it as a way "to fix capitalism" and unleash the change of economy's fundamentals. Moving from the well-known *shared value approach* advanced by Porter and other scholars since at least a decade, the "maximalist" perspective sees the Social impact investment as the set of those principles on which a healthy capitalistic economy should rely on, thus not only avoiding the negative externalities usually produced by private companies, but also making the case of «*letting the business try to solve massive problems like climate change and access to water*», since «*when business solves a problem, it makes a profit – which lets that solution grow*» (Porter 2016).

This shift in a firm's purpose would be – according to those assuming a "maximalist" approach to Social impact investment – the concrete path towards the establishment of something close to what has been historically known as a social market economy.

On the other hand, there is another possible perspective that might be defined as "minimalist": this approach basically considers Social impact investment as a way to better manage resources for policy experimentation and policy innovation.

In such a perspective, social impact investment does not only work as the financial tool to cover expenses required by experimenting new policies, rather it assumes a broader meaning, playing as a key tool to unleash what has been defined as “experimentalist governance” by Sabel and Zeitlin (2013).

In other terms, the “minimalist” approach tends to look at Social Impact Investing as a way to allocate risks and responsibilities (financial, political, operative, etc.) among all those actors playing within the social arena and sharing capabilities, power and resources in order to foster social innovation.

These two main perspectives, that bring to shape the related narratives on the Social impact investment phenomenon, are particularly underdeveloped in the current literature. Moreover, both the “maximalist” and the “minimalist” narratives share an important feature that is definitively missing within the debates around Social impact investment: the policy maker angle. This crucial viewpoint seems to have been largely forgotten by both the scientific and the practitioners’ literature.

The policymaker’s perspective is probably one of the most important in terms of its required conceptual comprehensiveness, its concrete contribution to the development of the impact investment phenomenon, as well as its potential impact on shaping and governing new institutions to be developed in between the ideas of a social market economy and that of policy experimentation.

1.3.2. Opportunities and challenges for social impact investment

Investments to tackle social change represent a new set of attractive investment opportunities that behave differently from traditional investments. In fact, the performance of impact investment assets may have lower correlation with other mainstream investment assets and may not be exposed to the same business cycles. Hence, impact investment is more and more seen as an alternative and convenient asset class to diversify the investment portfolio.

According to the G8 Social impact investment Taskforce (2014), Social impact investment can also add value to the classic and mainstream portfolio by including impact investments exits across all asset classes and not representing one asset class by its own. Examples include: impact equities, impact fixed income and impact alternative investments.

Nevertheless, being treated as a specific and different asset class can be advantageous, as more teams will be dedicated to these and a new skill sets will be developed. It is expected that this leads to a larger allocation.

As a matter of fact, the interest in social impact investment is growing in multiple ways. Different players are entering the market, such as investment banks, fund managers, high-net-worth individuals and family offices. Moreover, original sources of investment have been sought in many countries. The use of 150 million euros European Structural funds in Portugal or the uses of 400 million pounds of unclaimed assets of dormant bank accounts in the UK are some of the most creative examples.

Foundations, which are shifting from being grant makers towards seeking to receive back (part) of the money, have played a ground-breaking role in developing the social impact investment market across Europe.

In the philanthropic context, such shift means for foundations to find a way to go beyond the limited flow of charitable resources generated by the earnings on foundation assets to catalyse for social and environmental purposes some portion of the far bigger investment assets resident in banks, pension funds, insurance companies, mutual funds, and the accounts of high net-worth individuals.

An example in this sense is the case of the Calouste Gulbenkian Foundation in Portugal, as described in **Box 2** below.

Box 2 - Calouste Gulbenkian Foundation: a market catalyser

The Calouste Gulbenkian Foundation (CGF), in Portugal, is internalising impact investment practices within its philanthropic duties and has played an important role in cooperating with the State in developing an ambitious public framework for impact investment and social innovation. CGF was at the origin of the first social impact bond (SIB) in South European countries, being the first and only investor.

This SIB has come to an end, the investor has been reimbursed according to outcomes achieved and the new edition aims at multiplying the impact by 10 times. In the new edition, CGF was investing alongside new investors – international bank and foundation. In 2017, CGF will be cornerstone investor in 3 other SIBs, allocating more than €500,000.

While the investors' interest seems to be a precondition to build a stable social impact investment market, some other structural challenges need to be considered. According to Salamon (2014), the social impact investment practice, in order to flourish, has to deal with at least one main issue, which might be summarised as "no good deed goes unpunished", meaning Social impact investment practices have quite relevant normative implications

In fact, it is important to recognise that the shift in the *locus* of decision-making responsibility for allocating social-purpose resources from charitable foundations and government program officers to private sector investment managers, and the new investment focus and metrics-oriented emphasis that this will bring with it, does not come without distributional consequences. Simply put, in the social-purpose arena there will be winners and losers resulting from this shift in terms of responsibility, and in the criteria for allocating resources.

Among many others, this is a good reason to explore the current state of the art of Social impact investment practice across Europe and assess its weight as well as its potential. This is required by the already mentioned important knowledge gap that comes from the limited literature so far produced on the topic. While Social impact investment has been studied from the third sector and government relations perspective, or from the social economy and sustainable investment viewpoint, not to mention the strategic philanthropy approach, what is yet to be developed is an empirical grounded narrative tailored for policymakers.

This is necessary to make the case for their informed intervention, either as a regulator or as an enabler, or both. This is probably the main challenge Social impact investment is facing at the upstream of its development.

1.3.3. The gap to be filled and the need for an ecosystem approach

As we have seen before, the broader framework of the *EU2020 Strategy*, the *Social Investment Package*, the *European Pillar of Social Rights* and the *Reflection paper on the Social Dimension of Europe* are the main EU policies setting the context within which a European Commission's vision on Social Europe develops, while strengthening Europe's competitiveness and stimulating investment for the purpose of job creation and growth.

For this to become reality, it is required to look at economic and social policy as two sides of the same coin. In this perspective, while more focussed on work inclusion, the framework proposed through the EU Pillar of Social Rights seems very much aligned with the social investment approach proposed by the European Commission in 2013.

Indeed, modernising EU welfare systems to make them more sustainable, and investing in people's current and future capacities throughout their lives while maintaining adequate levels of social protection seem to be fundamental not only to build a fairer Europe, but also to foster competitiveness and reignite long-term growth.

To meet this ambitious goal, also considering the fiscal constraints and demographic challenges still facing most EU member states, it is necessary to use available resources more efficiently and effectively. This means simplifying and better targeting social policies, working to integrate services across levels of governments and areas of intervention, avoiding duplication and the proliferation of benefits and promoting instead a person-centred approach.

Collaboration with the private and third sector to leverage public budget and to improve the reach and the quality of services provided is therefore key. At the same time, engaging users in the design, delivery and evaluation of services is also crucial to increase efficacy and uptake of services.

This calls for further investment in the human capital needed to accompany citizens throughout their lives. Preventive and activating measures need to be complemented by adequate social protection at critical moments, such as the transition from education to work or when starting a family, losing a job, being sick or retiring. To give an example, both Nelson (2012) and Lorenz & Lundvall (2010) found a very strong positive correlation between activating policies combined with generous unemployment benefits and levels of high-quality employment.

For this investment to be effective it is required to take an ecosystem approach, with the aim to prepare people to successfully confront risks as unemployment, sickness or old age rather than simply "repairing" the consequences afterwards through the disbursement of subsidies. For example, investing in early years' education and care, particularly for children of disadvantaged families, is assumed to raise dramatically their future educational attainments, and so employment opportunities and future income. This in turn translates into increased returns for the State, both in the form of tax revenues and saving on social costs. Similarly, investing in health prevention, and reducing food and energy poverty, would lead to saving in healthcare and long-term care.

As we will see in this report, social impact investment can thus provide an important support to the effective implementation of the *European Pillar of Social Rights*, which is intended to drive forward a social Europe for all European citizens. It can in fact help the Pillar to contribute to social progress by supporting fair and well-functioning labour markets and welfare systems, embedding in the institutional environment those adaptive mechanisms already available but not yet perceived as an effective policy tool to unleash ecosystems potential in improving people's lives, and thus ensuring the European social model is fit for the challenges of the 21st century.

2. The social impact investment market landscape

2.1. Exploring the emerging social impact investment ecosystems

Embarking in the exploration of the social impact investment landscape requires, first of all, fixing from the outset a possible misunderstanding: although the European long-standing tradition in this area shall not be overshadowed, the social impact investment phenomenon goes well beyond the traditional boundaries of the so-called social economy. At the same time, although taking seriously the social economy role within European institutional history, it is needed to have a certain degree of flexibility in its conceptualisation, in order to value current transformative processes within such domain.

For instance, literature shows the raise of hybrid organisations (i.e. those organisations that mix elements, value systems and action logics of various sectors of society). This pushes for relaxing some of the more traditional definitions that usually depict the social economy as the field of action for those organisations that are completely detached from any form of profit; it is not by accident that some scholars advanced the concept of the “Fourth Sector”, showing the need to adjust and update what the literature has always referred to as the “Third Sector” (Sabeti 2011).

Box 3 - European Social Economy in figures

- In EU there are 2 million social economy entities in Europe (10% of all businesses).
- 6% of the EU’s employees - 11 million people - work for social economy entities.
- European social economy entities have different legal forms.
- Primary objective of these entities is to serve members rather than make profits.
- Up to 160 million people in Europe are members of social economy entities.

(European Commission)

https://ec.europa.eu/growth/sectors/social-economy_en

Due to the lack of agreement on the definitions and key performance and size indicators, data on the social impact investment market in Europe is limited. Nonetheless, there is public consensus on the fact that this practice is expanding rapidly and there is a growing number of players entering the market. In 2013, Eurosif conducted a survey on *Impact Investing in Europe*; the main results are the following:

- In 2013, the European social impact investment market was sized in 20 billion euros. This number refers to the reported assets under management of survey respondents. Only actual transactions were considered. No information on the forms of capital, return and impact expectations is provided.
- The European social impact investment market has grown at a rate of 50%, since 2011. Although there is such a steep growth, this market still represents a small share of the capital market in Europe.

Alongside the amount of assets under management, other proxies to assess market’s development and growth shall be considered, such as the number of Social Impact Bonds (SIBs) and the amount of capital raised through these mechanism, the number of stakeholders emerging in the ecosystem (namely intermediaries and advisors to social service providers and investors), or the number of social service providers.

Moreover, the social impact investment local markets have different shapes, which are the result of their social economy landscape and social needs, financial markets sophistication and scale, public sector commissioning culture and policy-making processes, just to mention a few.

However, before digging into national and sub-national social impact investment ecosystems, it is worth to recall some of the financial instruments currently most used or emerging in this field.

2.2. The usage of innovative financial instruments

2.2.1. Financial products and social impact investment instruments

The definition of financial instruments used by the EC is «*union measures of financial support provided on a complementary basis from the budget to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants*» (Fi-Compass 2016).

Financial instruments are usually composed by different financial products, such as loans, guarantees, equity and quasi-equity.

A loan can be defined as «*an agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time and under which the borrower is obliged to repay that amount within the agreed time*» (Fi-Compass 2016).

A guarantee is instead «*a written commitment to assume responsibility for all or part of a third party's debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default*» (Fi-Compass 2016).

Equity means «*provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits*» (Fi-Compass 2016).

Finally, quasi-equity can be defined as «*a type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity*» (Fi-Compass 2016).

Widening the picture and considering social impact investment instruments, we can refer to a general classification that identifies, on the one hand, traditional instruments, and on the other, innovative financial instruments (see **Table 1**).

Table 1 - Traditional and innovative instruments

Traditional Instruments	Innovative Instruments
Public contributions	Microfinance / Microcredit
Tax breaks	Crowdfunding
Generated income	Social bonds
Donations / Grants	Social impact bonds
Loans	Charitable bonds / Retail charity bonds
Equity	Funds
Convertible bonds	Revenue participation agreements
Mezzanine / Subordinate debt	Guarantee funds

Source: Adapted from EIB 2016.

A list of some social impact investment innovative instruments that combine different tools is reported in **Table 2** below, along with a brief description of the main characteristics that each innovative instruments present.

Table 2 - Innovative financial tools

	Characteristics
Microfinance/ microcredit	<p>Small-sized loans, characterized by absence of collateral and supply of tutoring / coaching services to the borrower. These loans can be granted to small enterprises (in order to sustain micro entrepreneurship), non-profit organisations (both associations and cooperatives) and individuals in vulnerable economic conditions.</p> <p>The world microcredit market is quite developed: the latest data report more than 200 million clients in the world, served by over 3.000 microcredit institutions.</p>
Crowdfunding	<p>Crowdfunding is a form of investment where people invest certain amounts of money (also very small-sized) through online platforms to finance entrepreneurial projects; it can either be equity-based or loan-based depending on the type of capital supplied.</p> <p>The USA based platform Kickstarter has raised over €2 B since 2009 from more than 10 million supporters, which granted support for more than 100.000 projects. The British platform JustGiving has raised over €3,5 B since 2001 to support social impact initiatives.</p>
Social bonds	<p>Social bonds consist in bonds issued by financial institutions in order to raise capital to invest in social impact initiatives: in fact, the issuing institution is compelled to support social innovation initiatives either through grants or debt financing (at favourable conditions). People who buy Social Bonds are remunerated with market rate returns.</p>
Social Impact Bonds (SIB)	<p>A SIB is a contract with the public sector or governing authority whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to the investors who have funded the initiative.</p> <p>The cost of funding is variable, due to the fact that public institutions pay the issuing company for the measurable saving of public resources achieved by the initiative and on condition of achieving the agreed social outcome; the amount is thus utilized to pay back the investors.</p> <p>At the end of 2016 a total of 60 SIBs had been issued all over the world in accordance with Social Finance (UK); increased to 89 SIBs launched in more than 20 countries in January 2018.</p>
Charitable / Retail Charity Bonds	<p>Philanthropic institutions and social service providers can issue bonds as a form of long term debt financing, if they are able to generate enough revenues to pay back the capital.</p> <p>Retail Charity Bonds is London Stock Exchange listed platform that supports the issuance of charitable bonds. So far, RCB has allowed two social impact organisations to issue bonds for over €45 M to be destined to social housing initiatives.</p>
Investment Funds	<p>Terminology and definitions varies with country but investment funds are often referred to as investment pools, collective investment vehicles, collective investment schemes, managed funds, or simply funds.</p> <p>The regulatory term is undertaking for collective investment in transferable securities, or short collective investment undertaking (cf. Law).</p> <p>An investment fund may be held by the public, such as a mutual fund, exchange-traded fund, special-purpose acquisition company or closed-end fund, or it may be sold only in a private placement, such as a hedge fund or private equity fund.</p> <p>Investment funds are promoted with a wide range of aims, targeting specific geographic regions (e.g., emerging markets or Europe) or specified industry sectors (e.g., technology).</p>
Revenue participation agreements (RPA)	<p>RPAs are quasi-equity instruments that entitle the buyer to a predetermined percentage of the financed subject's revenues up to a multiple of the invested capital, thus determining a positive return for the investor.</p> <p>RPAs are particularly suited for non-profits: in fact, they do not imply to open up an organisation's equity to external investors. Moreover, they allow to share risks and benefits, while providing patient capital at more flexible conditions than traditional debt.</p> <p>RPAs are being developing mostly in the UK where the primary platforms are impact investors such as Bridges Ventures, Big Issue Invest, CAF Venturesome, or Social Investment Business.</p>
Guarantee funds	<p>Guarantee funds consist in financial resources that public institutions grant as collateral for loans (including microcredit) to small and medium enterprises, start-ups and individuals, in order to support and facilitate their borrowing process.</p> <p>The Italian Central Guarantee Fund is endowed with public resources from the Government; in 2015 it has issued €10 B in collateral, allowing more than 100.000 companies to borrow over €15 B in total.</p>

Source: Adapted from EIB, 2016

Different financial instruments have been created in Member States across the EU. These financial instruments rely on a repayment basis, where capital invested is expected to be paid back. Also, they are characterised by being oriented towards medium and long term social impact and having incentive structures to promote both operation efficiency and impact effectiveness.

These instruments play an important role in shaping the emerging social impact investment ecosystem. They are created to tap an existing financial gap, as for instance shown by two different case studies of financial instruments developed in the UK and in Germany (see **Box 4** and **Box 5**).

Box 4 - Revenue Participation Agreements: CAF Venturesome (UK)

What is it? Venturesome is a *social investment fund*, an initiative of the Charities Aid Foundation (CAF). It provides capital to civil society organisations, operating in the space between providers of charitable grants and providers of bank loans at market rates. It was launched in 2002 and has invested over £12.5m in more than 200 organisations.

What is its value added? Based on a deep experience on charity investment and investee financial needs, Venturesome developed a new financial instrument that fills the gap between debts on the one hand, and grants/equity on the other. This has led to a type of financial instrument known as 'quasi-equity', a specific instrument meets situations in which debt financing is inappropriate or too onerous for charities or social enterprises (especially in early stage, high-risk start-ups), while the use of share capital is simply not possible because of the way many such enterprises are legally structured (e.g. companies limited by guarantee or unincorporated trusts).

Box 5 - Patient Capital: Ananda Fund (Germany)

What is it? Ananda Ventures is one of the leading venture capital investors for social enterprises in Europe. Social entrepreneurs solve social challenges in sustainable, market-driven ways – tackling issues such as education, social integration, the ageing population and long-term unemployment. Like most social investment funds they invest in high growth companies for social change based in Europe.

What are the criteria used to select investees? 1) Strong social impact: the key to success lies in the impact of the target company (the investee on demand side); 2) Financial position: the financial position of the social enterprise is the capability to manage and deal with the invested capital. 3) Effective team: management skills are at the core of any success, without extraordinary individuals (social entrepreneurs or management team) success would be difficult. 4) Best-Practice: the business model has to be amongst the most efficient and effective solutions in its peer group.

What's the investment process? Ananda's investment managers continuously evaluate new ideas in the field of social entrepreneurship. In order to obtain a brief overview, they ask for an Executive Summary of the potential beneficiary. If the described venture is of interest to them, they will contact the potential beneficiary for a more comprehensive business plan. If the venture continues to be of interest to them and meet their preliminary criteria, they will arrange an interview with the potential beneficiary either personally or via the telephone. The Due Diligence process can take between 4 and 16 weeks to go from the initial application to receiving support from the Social Venture Fund.

According to Fi-Compass (2016), financial instruments have two major characteristics:

- **Leverage:** they can attract additional resources, both public and private in a matching fund approach. Therefore, leverage could be the sum of the amount for

example of some European fund (or EIF/EIB) and of the contribution raised from public and private resources divided by the nominal amount of, as an example, the ESI Funds contribution;

- *Revolving*: it is the ability of the financial instrument to create positive and further flows of money – either paying back the money or through the effectiveness of investments – with the objective of further use of money and fund. The revolving nature of financial instruments allows public authorities to manage scale effect from the increased resources generated.

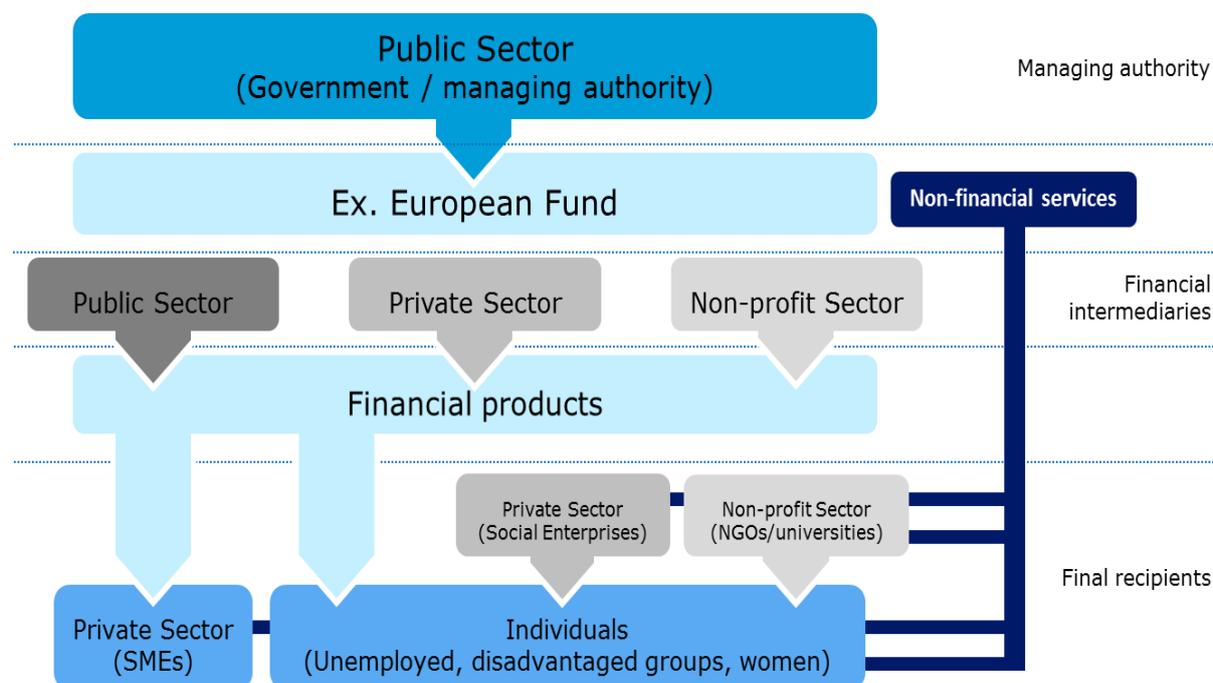
Three key issues emerge when public authorities, through managing authorities, intend to face and address social and societal needs by adopting innovation policies and through financial instruments use:

- Local social investment ecosystem, including its specific contest and complexity, which can be optimised by a real knowledge of the system and by the correct choice and use of financial products targeted to the specific needs of final recipients (i.e. chosen in light of that ecosystem);
- The analysis and comprehension of the financial instrument’s life cycle, its efficient strategy addressing the objectives of use (i.e. market gaps) and encouraging any kind of co-investors to contribute funding (national, regional and/or private), services and expertise;
- Local experience and competence have to be developed and made use of in order to ensure continued development of the local social economy (through final recipients, projects and institutions).

2.2.2. Role played by intermediaries in the impact investment market

Worthy of analysis is the parallel evaluation of impact investing supply chain and financial instruments deal flow from both public and private point of view, as well as their source of funding. Within this ecosystem a key role is played – on both sides – by financial intermediaries (see **Figure 2**).

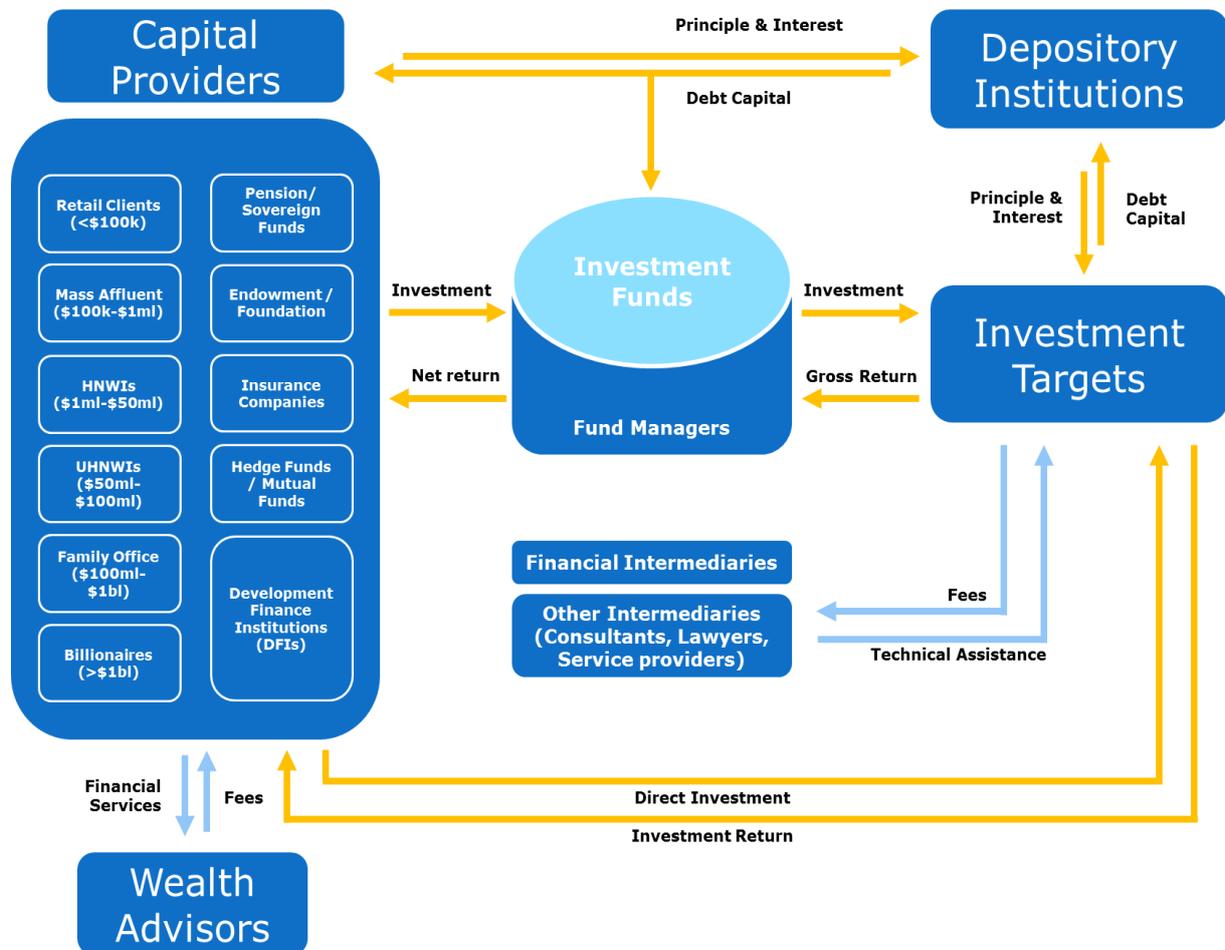
Figure 2 - Financial products deal flow and intermediaries role



Source: Adapted from EIB, 2016.

As showed in **Figure 3** below, a chart developed by the World Economic Forum (WEF), financial intermediaries not only are crucial in the deal flow process, rather they have an essential role in the social impact investment ecosystem, by providing links, connection and relationship between investors and final recipients, as well as by proposing innovative solutions and offering advice, services and non-financial support which can help to lower costs and reduce risk.

Figure 3 - Financial and other intermediaries in the ecosystem



Source: Adapted from World Economic Forum, 2014.

Financial intermediaries that operate in the social impact investment ecosystem differ in legal status, size, governance structure and mission. Three main distinctions should be considered:

- The ability to collect deposits distinguishes banks from non-banks;
- Proximity to the local socio-economic context distinguishes multi market from local intermediaries;
- Their mission, which is investing sustainably or not.

Banks normally do not provide finance to non-bankable or socially excluded targets as part of their usual commercial activities. These financial intermediaries include commercial banks, credit unions, cooperative banks and savings banks.

Non-banks operate more in markets with low financial service penetration and limited public or third party support. Non-banks may not only aim at developing commercial activities but also at providing finance to socially excluded targets. These intermediaries include NGOs or foundations, specialized microfinance intermediaries (non-bank financial institutions) government bodies or agencies, and community development financial institutions (see **Table 3**).

Table 3- Characteristics of financial intermediaries

	Financial Intermediaries	Ownership	Client Type	Products	Sustainability & Independence
Bank financial intermediaries	Commercial banks	Private shareholders	Commercial micro, SME, and large enterprise clients, urban, fewer poor clients	Credit, savings, payments, sometimes insurance	High; initial support required, then independent
	Credit unions / cooperative banks	Owned by members	A range of clients, depending on members	Basic savings and credit, although savings led	Medium to high depending on capacity of management and governing body
	Savings banks	Shareholders government and/or private	Broad target group: poor and non-poor; generally rural	Primarily savings; wide distribution network leveraged for payment services	Medium to high
Non-bank financial intermediaries	Specialised microfinance intermediaries	Mix of public and private shareholders; sometimes other financial institutions or other companies	Clients vary depending on type of product (for example, credit or insurance)	Credit only, leasing, insurance; normally not able to take deposits	Medium to high; initial support may be required depending on target market
	Government bodies or agencies	Shareholders, generally government, some private	General population; government sometimes mandates poor or rural focus	Varied; some offer a full variety of financial services, others focus on agricultural lending	Varied; medium (benefits from public subsidies in certain cases due to rural distribution network)
	Community development financial institutions	Private shareholders	Local disadvantaged people and community business	Basic credit and savings	Varied sustainability and independence
	NGOs or Foundations	No owners, strong ownership characteristics among founders and board	Poor, "unbanked" clients; for multipurpose NGOs, various target clients and beneficiaries	Traditionally credit led; multipurpose NGOs generally add financial services to other activities	Low to medium (high costs and lack of separation of activities can delay or prevent sustainability of financial activities)
	Social equity fund providers	Funded by a group of social venture capitalists or impact investors	Social enterprises; start-ups	Equity, mezzanine capital	Medium

Source: Adapted from World Bank, 2013.

If we consider **Table 3**, the financial intermediaries operating under European Funds framework should promote investments that generate social impact in their ecosystems. The financial instruments should also produce positive *social outcomes* and contribute to the creation of new social economy infrastructure. Even if tailored to entrepreneurial needs, financial instruments should be set up to promote social outcomes. This does not imply, however, that investing in social goals does not generate economic and financial returns.

Supporting finance for social business and start-ups implies that financial intermediaries accept a higher degree of risk and lower returns on the investments (at least initially), so financial products may be effective only in the long run. In this case, financial products should be shaped to maximise the leverage effect. Social investment relies on the capacity of financial intermediaries to sustain long-term projects by minimising the cost of running them.

2.3. Project financing and partnerships: the Social Impact Bonds

2.3.1. Social Impact Bond: principles and underpinning logics

Approaching Social Impact Bond (SIB) as an emerging way to configure and manage public sector and not-for-profit relations, a preliminary point needs to be made. In fact, the use of the term "bond" is misleading: SIBs are not bonds in the conventional sense (Warner 2013). The term "social impact bond" is in fact a misnomer especially for early SIBs, which do not share typical bond features such as scheduled principal payments, designated interest rates (or coupons), and ease of transfer in secondary market (Bolton & Savell 2010; Liebman 2011).

A SIB is a public-private partnership tool that combines performance-based contracting and private financing. By joining the two, governments are better able to align the procurement of, and payment for, services with the achievement of targeted social outcomes.

In the first component of a SIB, pay-for-performance contracting, the government contracts with a lead contractor to implement a (usually) preventive intervention to address a social problem, often to reduce consumption of costly remedial services, with agreed-upon targeted outcomes that result in government payments only if success is achieved. The second key element of SIB contracts is that a third party funds the upfront operating capital required for the program. Tapping into private capital is believed to bring basically three benefits:

- it provides the necessary resources to ensure sufficient operational capital to launch and support the initiatives;
- it transfers the risk of non-performance from the State and service providers to the investors;
- it creates a level of transparency that provides a feedback loop that allows stakeholders to continuously assess the impact of the program.

Should a provider achieve the agreed-upon social outcomes, the public sector pays the project, and by extension repays the investors, the principal plus a risk premium. Under the SIB contract, third-party investors take on social service providers' risk and can lose money if the program is ineffective. The public sector thereby reduces its financial risk, providing greater willingness by the public sector to either pilot high-potential opportunities or scale proven programs to achieve a wider social impact.

In other terms, SIBs represent a financing mechanism aimed to fund mostly preventive interventions relying on a pay-for-performance contract (it can also be named outcome-based contract). In this model, investors, through a financial intermediary, pay for a certain social service aimed to reach an outcome that is of interest to a government commissioner. If the provided services do produce the agreed results, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If not, the investors lose their investment.

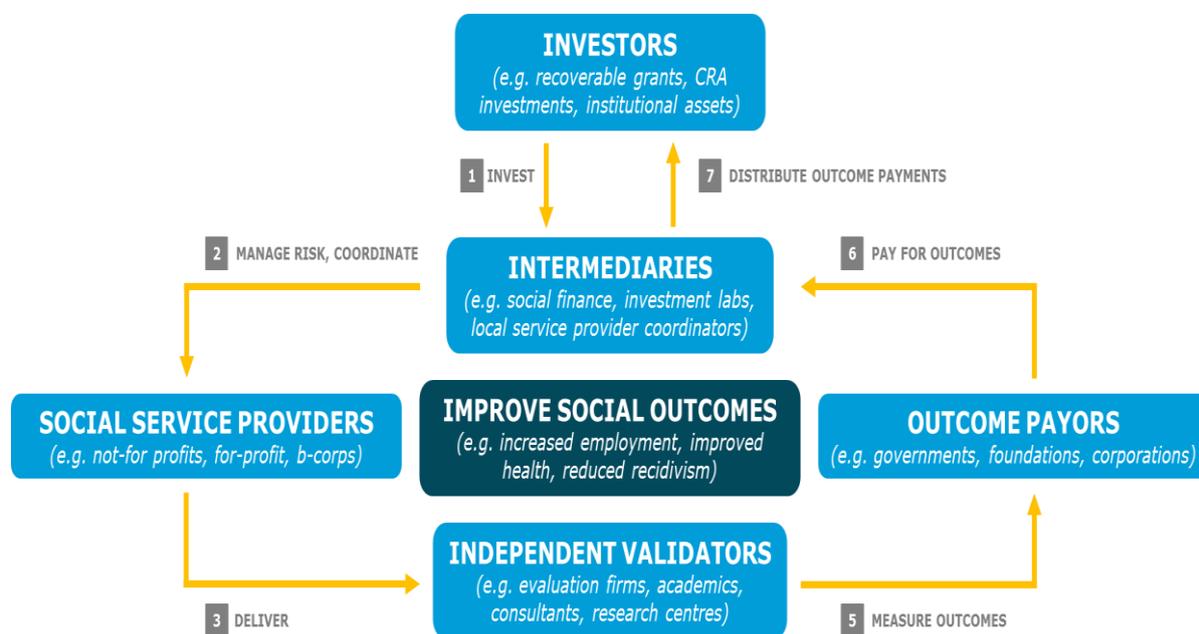
The articulation of a SIB structure is at the basis of some significant advantages it is supposed to bring compared to traditional methods to procure social services. First, the SIB model does not rely on government or contractors for covering up-front costs of service provision, because this is up to the financial intermediaries that raise funds from different types of investors. In this way, SIBs overcome, at least partially, the problem of constraints to the public funding and free service providers, in particular Third Sector organisations, from the need of performing fundraising activities (Fox & Albertson 2011). Second, the SIB model redesigns the relationships between partners involved in the commissioning of social services (Nicholls & Tomkinson, 2013) and contributes to align the interests of multiple stakeholders with distinct backgrounds and mandates (Buckingham & Goodall 2015).

Thanks to this new network of relationships, SIBs can foster innovation by leaving service providers free to design new initiatives to achieve the expected social outcome, by exploiting synergies between different actors, by reconfiguring the structure of service delivery, by creating opportunities of cross-fertilisation between different stakeholders (Jackson 2013).

As illustrated in **Figure 4**, actors involved in a SIB deal are, first of all the investors, who provide capital for a service provider to deliver social services to a population in need and that are willing to put at risk not only potential financial returns but also all or part of the investment against the possibility that the social objectives set out in the pay-for-success contract are not met. Second, there is an outcome funder or payer (a public entity or government) that wishes to engage in a pay-for-success contract on the basis of which it will pay certain sums for certain outcomes that correspond to measurable improvements generated through the activities of prevention or correction of a particular social problem.

Third, the intermediary, that can play multiple roles: (i) raising capital from private investors, (ii) distributing it to social workers for their services during the life of the social impact bond (iii), monitoring and providing general oversight with respect to overall performance of the social impact bond and also directing the financial flows between the actors of the partnership. Fourth, one or a group of social service providers who may act either as a direct or indirect service provider or may offer credibility in light of past effectiveness with regard to the social problem intended to be addressed through the SIB scheme. In addition, an evaluator may be involved to determine if and to what extent the social outcomes established by the pay-for-success contract have been achieved.

Figure 4 - The structure of a social impact bond



Source: Own elaboration.

The use of performance-based contracts that work through pay-by-results or pay-for-success mechanisms is not, in itself, new. It is a logic that has been employed in public contracts since the nineties in both the United States and the UK (Del Giudice 2015), even if it is only recently it has become more popular. What primarily differentiates a SIB from conventional pay-by-results regards the origin of financial resources, which, in the case of SIB, is represented by private investors, often (but not necessarily) socially oriented and, in any case, with the availability of patient capital (Kennedy & Novogratz 2010).

The importance of the involvement of private capital in these partnerships is that the actors traditionally active in the pursuit of social goals require financial resources that are difficult to find through ordinary credit channels. In fact, the financial burden that social enterprises should face, in terms of guarantees or cost of capital, often appears prohibitive because of the standard criteria used for the assessment of creditworthiness. On the other hand the frequent constraints on redistribution of profits are often considered an obstacle for access to ordinary credit lines.

The logic of a SIB is therefore to involve one or more socially oriented investors at an early stage of the design of the intervention, in which you agree ex ante the amount of capital required, the duration of the investment and the rules of return on invested capital. Investors therefore provide the necessary capital to start the activities carried out by the social enterprise, then waiting for the capital to be returned, downstream and with interest, from the public administration, by quantifying social achievements. The role of the public sector is thus twofold: measuring the savings resulting from the social outcome and guaranteeing their payment to the private investor, who therefore secures a return on investment in case of success of the intermediary or social service provider.

Furthermore, according to Del Giudice (2015), there would also be some positive side effects that exceed both the saving of public spending and the returns for private investors: with this structure a SIB introduces a mechanism of incentives that would encourage the efficient allocation of resources, stimulate the development of activities aimed at creating positive social impact and increasing investment in social activities of a preventative nature. This brings benefits in all cases higher than the mere savings achieved.

2.3.2. Defining features, spread and coverage of Social Impact Bonds

As an innovative tool, Social Impact Bonds (SIBs) are highly flexible financing schemes open to multiple constructs. Variations of SIB financing are being developed across the globe with projects launched in many countries. However, the main features that the literature has identified as common tracts of SIB or SIB-like arrangements can be described as follows. First of all, as already said, a SIB is a public-private impact collaborative partnership that involves the joint action of government, private investors, and not-for-profit or for-profit service providers. Each of these actors brings specific resources to the initiative.

Differently to other public-private partnerships, in this case risk falls mainly on the private investors. As a partnership, the priorities of the public and private actors need to be aligned around a common objective – and in the case of SIBs they coalesce around providing financial returns based on improved social outcomes.

SIB contracting is predicated on the measurement of social outcomes rather than the quantity or type of services provided. In that respect, it differs from most traditional social services contracting, which tends to focus on measuring outputs (e.g., how many individuals are served, how many “beds” are made available to the homeless, how many attended a job training workshop, etc.) rather than outcomes (e.g., the number of young persons who have obtained and maintained employment after training, or the number of homeless individuals who successfully moved their lives forward in supportive housing arrangements).

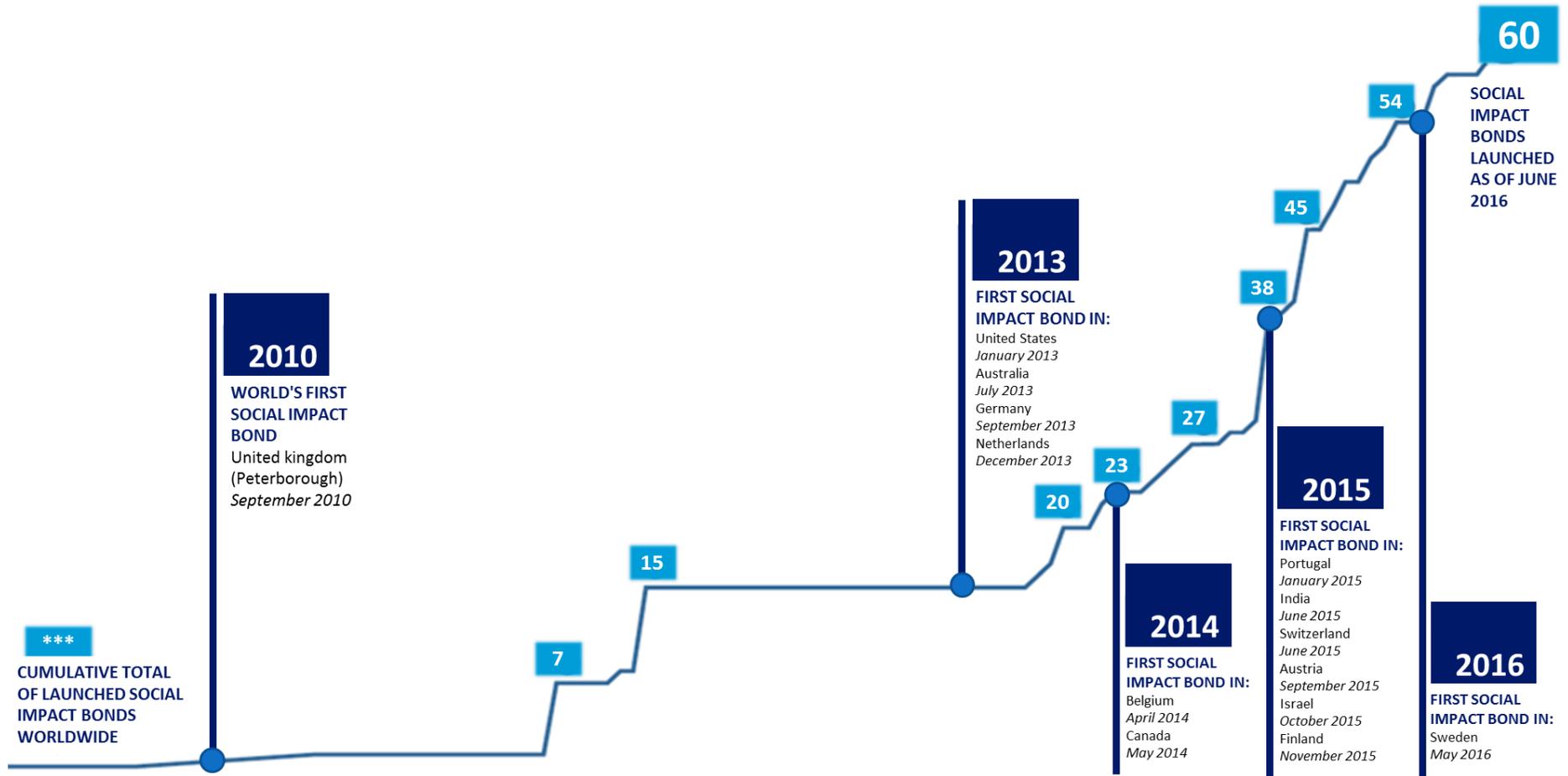
SIB financing is often framed around preventive intervention that targets specific social outcomes, often reductions in the use of remedial services such as prisons, hospitals, shelters, or nursing homes. SIB financing provides a low-risk opportunity for government to test whether an intervention is effective, before allocating increased resources to the program. An additional attraction is that often these programs drive fiscal savings for governments along with improved outcomes.

Moreover, since implementing such initiatives can be complex, to achieve the desired outcomes, SIBs normally require the service provision of multiple organisations, each delivering a specialised service that provides complementary and highly integrated solutions. To ensure coordination of services, a single organisation may oversee the program delivery. This organisation, often referred as the 'intermediary', acts as the lead contractor. It provides oversight of the SIB contract and manages the coordination of services towards a common targeted solution.

According to Bridges Ventures (2014), three main types of SIBs can be identified (*Direct SIB*, in which a social enterprise raises capital directly to finance a payment by results contract; *Intermediated SIB*, in which a Special Purpose Vehicle (SPV) is set up – either as a joint venture or owned by a social enterprise and this SPV raises the working capital and manages the process including relations with the commissioners; and *Managed SIB*, in which an organisation, such as Social Finance, manages the whole process).

This flexibility in the design of different SIB’s architectures is one of the reasons of the rapid spread of such an innovative tool (reported in **Figure 5** below up to June 2016, and updated in **Box 6**).

Figure 5 - The development of SIBs market since 2010



Source: Own elaboration based on Social Finance 2016.

Box 6- Updated figures on Social Impact Bonds (December 2018)

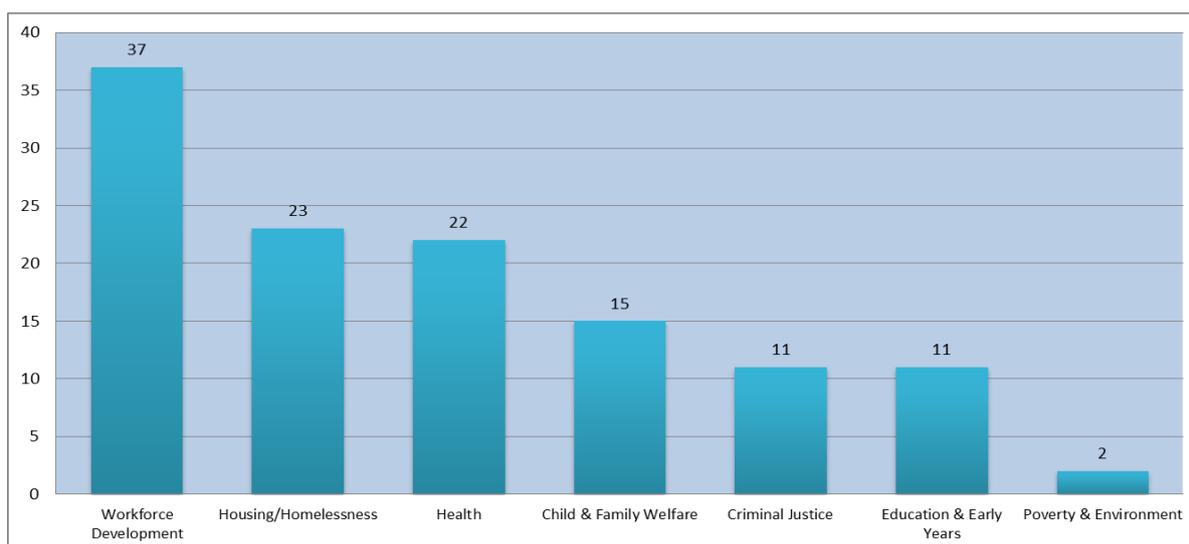
- In December 2018, 121 SIBs had been launched (doubled in the last 2 years)
- Launched SIBs are spread across more than 20 countries;
- Almost 413 million have been raised so far;
- More than 1,059,154 lives touched through a SIB programme.
- More than 70 SIBs are currently in development stage
- In all the five continents there are SIBs, either launched or in development

(Data available in the Impact Database, Social Finance, UK)
<https://sibdatabase.socialfinance.org.uk/>

SIBs have been used to deal with different social needs in different areas of social policy. According to the data offered by the online database of Social Finance, first week of December 2018, Workforce Development is the main field of implementation: under this expression were considered 37 different initiatives addressing a variety of needs (e.g. school dropouts, youth unemployment, or in general young NEETs – Not in Education, Employment or Training, refugees unemployment, long-term unemployment, etc.).

Health problems related SIBs are 22. Another social area well represented (with 23 SIBs) refers to Housing and Homelessness. Child and Family Welfare is an area of social needs addressed 15 times out of the total amount of launched SIBs: this area includes issues like work-life balance, children adoption and foster families, children placed in out-of-home foster care, social care and assistance. Criminal Justice, meaning mainly recidivism rates and ex-prisoners integration after being released, is addressed 11 times. SIBs in the field of Education and Early years are 11, and the remaining part of launched SIBs deal with Environment and Sustainability, and Adults with Complex Needs (**Figure 6**).

Figure 6 - Social issues addressed through a Social Impact Bond (2018)



Source: Own elaboration

2.3.3. Social Impact Bonds as a new form of project financing

From a theoretical perspective, although based on findings from empirical analysis, it can be said that, so far, implemented SIBs give substance to a thesis already advanced elsewhere: a SIB basic model, although including innovative features, also draws inspiration from existing mechanisms and contractual arrangements, traditionally used in other areas (Pasi 2014). In this sense, it is important to look at the world of project finance while dealing with SIB or SIB-like structures.

As some scholars pointed out, «governments have long used public-private partnerships to crowd private sector resources (both financial resources and know-how) into building large-scale infrastructure projects» and public-private partnerships «have also be used to tackle development issues» (Burand 2013). It has been said above that what is crucial on SIBs is the link with outcomes and the allocation of risk, however this is also the case with at least some forms of project finance. Even though further studies are needed to deepen the nature of SIB structures, it is possible to establish certain common elements with project finance, that can be defined as the «structured financing of a specific economic unit that the sponsors create by means of share capital, and for which the financier considers cash flows as the source of reimbursement, whereas project assets only represent collateral» (Gatti 2005). Further shared principles are shown in **Table 4**.

Table 4 - Project finance principles applying also to Social Impact Bonds

Project Finance	SIB
Investments are single purpose, long-term and limited by the lifetime of the project. The final structure is debt-holders tied by a general agreement	✓
The liquidity of the financial instruments is generally low, as the financial agreement is private, made to measure and impregnated with contractual relationships	✓
PF is the process of financing a particular economic unit in which lender is satisfied to look initially to the cash flows & earnings of that economic unit as sources of loan's repayment	✓
Distinguishing features of PF are: (i) creditors share much of the venture's business risk; (ii) funding is obtained strictly for the project itself	✓
PF is a system for distributing risk among parties in a venture according to their risk-appetite and ability to bore the risks	✓
A PF agreement derives from a contractual bundle presented to creditors to seek debt financing, serving as the basis for negotiating quantity and cost of external funding	✓
PF projects are funded with small amounts of private equity and much more larger amounts of nonrecourse syndicated loans, which are the principal external, capital-market financing	✓

Source: Own elaboration based on Pasi, 2014.

Therefore, building on the know-how accumulated in the field of more traditional project finance, as well as on launched SIBs, the most favourable pre-conditions to launch a SIB might be referred to four main dimensions, relevant on both side of design and implementation.

First, to success a SIB needs the presence of solid players and the availability of data. This means that, for instance, the public sector pay-outs need to be effective, stable and reliable, while donors and investors are required to be strategic, professional and socially minded. The social service provider, instead, needs to be able to show data of proven impact at scale and an overall financial stability.

Second, a key success factor in designing and implementing a SIB is the awareness and interest of potential players, which needs to share a good understanding of the model, its financial logics and the envisaged process of actions.

Third, since a SIB scheme always involves some public sector's commitments, this demand for the adoption of a SIB model needs to be capable and proactive, meaning the public sector needs to be able to define the most suitable procurement process and identify the pressing issue of socioeconomic value, the pricing and the adequate metrics.

Fourth, and finally, a pre-requisite for a successful SIB relies on those actors representing the supply side: service providers are required to deliver the intervention with reasonable expectation of success; investors need to be actually available to invest and provide oversight to the project; while intermediaries need to be able to support and steer other players' involvement (e.g. evaluators).

3. Assessing social impact investment market’s maturity

3.1. Social impact investment market’s composition

Within the EU, there are significant differences between Member States in relevant legislation, practice and culture, and in the functions and participation of the state, affecting nature and form of the social impact investment ecosystems. Nevertheless, like any other market, social impact investment is a combination of parts: Demand for capital to finance social interventions; Supply of impact driven capital; and Infrastructure to help connect supply and demand.

- ✓ On the demand side, there are the impact-driven enterprises and social organisations – all types of organisations, which have a long-term social mission, set outcome objectives and measure their achievement, whether they are social sector organisations or impact-driven businesses.
- ✓ On the supply side, there are multiple sources of impact capital that provide the investment flow needed, including: Government/ EU investment, Social investment wholesaler, Charitable trusts and foundations, Local funds, Institutional investors and banks, Corporates, High net worth individuals, Mass retail.

Figure 7 illustrates the main elements of demand and supply sides of a social impact investment market. Between the two main forces, there are other market elements bridging capital seekers and capital owners, which compose the market infrastructure. Market infrastructure is the foundation needed to efficiently match demand and supply of social impact investment. Within this system, capital owners use different channels to flow in their capital to social service providers. Also, as we have already seen before, capital might take different forms, such as secured and unsecured loans, equity and quasi-equity capital or SIBs.

Figure 7 - Elements of supply and demand of a social impact investment market

IMPACT-SEEKING PURCHASERS	IMPACT-DRIVEN ORGANISATIONS	FORMS OF FINANCE	CHANNELS OF IMPACT CAPITAL	SOURCES OF IMPACT CAPITAL
Government procurement of services	Grant-reliant organisations (e.g. charities)	Secured loans	Social banks	Government / EU investment
Government as commissioners of outcomes	Grant-funded organisations with trading activities	Unsecured loans	Community development finance institutions	Social investment wholesaler
Foundations as commissioners of outcomes	Social enterprises/profit-constrained organisations	Charity bonds		Impact investment fund managers
Socially minded consumers of goods and services	Profit with purposes businesses	Social impact bonds	Impact investment intermediaries	Local funds
Socially minded corporate purchasers of goods and services	Businesses setting significant outcomes objectives	Quasi equity		Crowd-funding platforms
		Equity	Corporates	
		Grants	High net worth individuals	
				Mass retail

Source: Adapted from the G8 Social impact investment Taskforce 2014.

Three important aspects for building a solid market infrastructure are highlighted below:

A) *Institutional culture*: To have an efficient running ecosystem it is essential to speak a “common language”; concepts and principles are harmonised to avoid any misperception; information is created and disseminated; and all agents are encouraged to co-create value to society. The market has a shared culture if customs and values are naturally agreed and shared by different players and there is a clear manifestation of what is noteworthy and meaningful.

B) *Market information*: Collecting, producing and sharing good quality information amongst all players in the ecosystem ensure successful decision-making and growing reputation. Useful information can have a broad range of sources and uses: information on the financial situation of social service providers, on their track record and performance (financial and impact), information on market returns and characteristics of transactions pipeline, information on the incidence and costs of social issues. Symmetrical information within an ecosystem is one of the keys to its success: this is possible only if relevant data are available for both demand and supply sides.

C) *Intermediaries*: As in commercial markets, their role is crucial also in the social impact investment market, where distinctive, sector-focused skills and advice are sought. Social investment intermediaries speak the language of the different stakeholders and can navigate the diverse range of skills, experience and expectations. Independent of their for or not-for-profit legal form, intermediaries sit between demand and supply and are dedicated to social impact investment deal making. In nascent markets, their activities might be polarised, as demand and supply sides are rigid and far apart. At this stage, their efforts might focus on creating an enabling culture and the relevant market information. At later stages the range of activities tends to focus on deal making, and it also involves activities and services such as advising social sector organisations on financial capacity and business issues, structuring financial product or managing performance and outcome evaluation.

If we look at some notable examples such as Social Finance UK (**Box 7**), Impact Investing Australia, or Sitawi in Brazil – it can be noticed that - despite having different legal forms or acting in different contexts – these institutions usually share the same cultural elements:

- a) *Multi-stakeholder approach*: Although having different working approaches they share a focus on tackling social issues. They partner with different stakeholders from different sectors: governments, social investors and social service providers.
- b) *Cross sectors collaboration and integrative approach*: Because of their focus on the social issue itself, intermediaries tend to promote the articulation across sectors. They tend to contribute to the elimination of administration and organisational silos and promote the collaboration of different thematic bodies. They further integrated governance models.
- c) *Range of activities and services*: These organisations normally split their work streams into market building and deal-making. They are concerned with the creation of efficient and healthy ecosystems and usually seek to act where no one is or returns are difficult to get.
- d) *Focus on additionality*: These organisations are frequently flexible to accommodate their services according to markets' needs, which the market does not pay for. Business models are difficult to build and establish. They tend not to be specialised or exclusive to a thematic area.
- e) *Changing business model*: In the early days of a market, due to market building activities, these entities rely on grant money. They often start off partnering with a big market champion. Financial sustainability lies ahead, when engaging in deal making activities.

Examples of intermediaries structuring the social impact investment market ecosystems in their countries can be found in Portugal and France (See **Box 8**, and **Box 9** below).

Box 7 - Social Finance (UK, Global)

Social Finance (SF) is a UK not-for-profit working in partnership with government, the social sector and the financial community. SF has mobilized over £52 million and designed a series of programs to tackle social challenges.

Box 8 - The Social Investment Lab (Portugal)

The Social Investment Lab (SIL) is a not-for-profit Portuguese organisation, created in October 2013. It was founded by the Calouste Gulbenkian Foundation, with the support of Social Finance UK. The SIL worked to improve social enterprises' access to capital and skills that enable them to fulfil their impact potential.

SIL's focus has evolved over the years, adapting to the Portuguese market's needs. In 2017, SIL's work spanned from public sector commissioning advising, capacity-building and investment readiness support, and capital raising support.

Box 9 - Le Comptoir d'Innovation (France)

Le Comptoir de l'Innovation is a certified "social enterprise" created in June 2010 with €850,000 initial capital. Its investment subsidiary, Comptoir de l'Innovation Investissement is a French limited company (SAS à capital variable), founded in 2011. Both organisations rely on the expertise of GROUPE SOS, the European leader of social entrepreneurship. Le Comptoir de l'Innovation's mission is to finance, support and promote social entrepreneurship in France and in the world, and offers a wide range of solutions for financial institutions, corporations, public authorities, etc. willing to foster innovative business combined with social impact.

However, along with intermediaries, governments also play a crucial role in shaping the required market infrastructure. Governments indeed perform an enabling force in building the market. As *market builders*, they are called to upgrade and strengthen the ecosystems, notably by creating financial instruments that support impact investment. This is related also to governments' role of *large purchaser of social outcomes* that can drive pay-for-success and outcomes oriented commissioning practices.

In addition, by promoting the rise of high skilled intermediaries, capacity building programs to strengthen social service providers or by establishing referential wholesale institutions that create the incentives for new capital to flow in, governments can act as *market catalysts*. And removing legal and other barriers to investment and ensuring that the constructive intentions of impact investment are sustained over time, governments are at the same time also *market steward*.

3.2. An institutional-based analytical framework

In order to conduct a comparative assessment of the social impact investment markets in the 28 EU Member States, building on reference data published by the European Commission and other institutions, we have created an original framework of analysis that aims at understanding the institutional conditions required for building or strengthening the different components of the social impact investment ecosystems in each country.

Clearly this is a preliminary exercise, which would need further insights and a more accurate analysis, especially in consideration of the very rapid growth of the phenomenon in many countries, which makes extremely difficult to monitor progresses 'real time'.

Moreover, it is worth to notice that in designing a tool to appreciate the maturity level of each social impact investment market, we opted for a fully qualitative approach. In fact, literature in the field, especially coming from practitioners, has shown several attempts in sizing and segmenting the different social impact investment markets based on quantitative criteria such as the asset under management, the public social expenditure and other commonly used economic indicators. However, focusing on volumes rather than on the pre-conditions for market development might be misleading, as it means not considering the political and institutional settings of each national welfare system, affecting the elaboration of accurate policy recommendations.

Importantly, due to the acknowledged flawed nature of the majority of current available indicators (Stiglitz, Sen, Fitoussi 2009), a quantitative approach tends to emphasise the crowding out potential of social impact investment and this is bound to threaten the political legitimacy of many policy efforts. Furthermore, since the main purpose of the current study is that of shaping a comprehensive narrative for the policy-makers rather than for investors, thus the need to identify policy relevant case studies for in-depth analyses, the aim of the framework is to be a working-heuristic tool rather than to drive an actual assessment exercise¹.

In light of the above, and given all the methodological disclaimers of the case, the analytical framework considers therefore three broad and general criteria, each of them corresponding to a different element of a social impact investment market:

- 1) *Market Infrastructure*, triggering an enabling policy environment for social enterprise and social innovation to grow;
- 2) *Demand Side*, having a healthy ecosystem to support social service providers and a vibrant and organized set of social service providers; and
- 3) *Supply Side*, the availability of impact-driven capital that provides the investment flow needed to fuel the local ecosystem.

This exercise has relied on an individual analysis of market's maturity levels according to the criteria above. For each criterion, three levels were established: Low, Medium and High. **Table 5** presents the requisites for the three levels identified².

Table 5 - Description and maturity levels for each market component

Criteria	Low level	Medium level	High level
1. Market Infrastructure	Any sign of public policy or initiative to promote the ecosystem	Some efforts/signs of public policy or initiative to promote the ecosystem	A coherent set of efforts/initiatives of public policies to promote the ecosystem – existing agenda
2. Demand Side	Insignificant number of social service providers and no signs of capacity building specialists	Significant number of social service providers or existence of capacity building specialists	Significant number of social service providers and existence of capacity building specialists
3. Supply Side	Insignificant number of social investors and no signs of existence of social impact investment specialists / advisors	Significant number of social investors or existence of social impact investment specialists / advisors	Significant number of social investors and existence of social impact investment specialists / advisors

Source: Own elaboration.

Criterion 1, which is significantly more important for the course of this analysis, is focused on the pushes made by the public sector (local, regional or central) in each jurisdiction to set up the grounds for a robust market, thus contributing in building the *Market Infrastructure*.

Criterion 2 assesses the development stage of the *Demand Side* of the market. It considers the number of dynamic and organised social service providers that are committed to solve specific and entrenched social issues, as well as the existence and role of entities that are dedicated to build social service providers' capacity.

Criterion 3 analyses the *Supply Side* of the market. It considers the number of active social investors, independently of their form or motivation, willing to support social service providers. This criterion also includes an assessment of the intermediaries' network in place.

¹ The use of quantitative indicators is however important. It is in fact currently under evaluation the opportunity to develop a more sophisticated framework. This idea will be further developed in the final Chapter.

² The country reports of the study *Map of social service providers and their eco-systems in Europe*, published by the European Commission (2016), were the main reference used to perform this assessment.

Scores (from 1 to 3) were attributed to each Member State, according to their market's development stage in each of the three criteria. The three criteria had the same weight in the final scores. Member States were divided into three segments, according to their final scores. These three categories would represent different social impact investment market's development stages: Incipient, Infant and Performing markets.

Table 6 - Market's segmentation according to final scores

Segment	Name	Range (min)	Range (max)	Color
Segment 3	Performing market	8 points	9 points	
Segment 2	Infant market	5 points	7 points	
Segment 1	Incipient market	3 points	4 points	

Source: Own elaboration.

As shown in **Table 6**, according to the framework developed, the classification of an incipient market is given to a local market whose final score is up to 4 points; an infant market is a market whose final score ranges from 5 to 7 points, while a performing market ranges from 8 to 9 points. **Table 7** presents the maturity level of the social impact investment market for each of the EU Member States, providing both the individual criteria scores for each element and the final score³.

Table 7 - Social impact investment market maturity scores

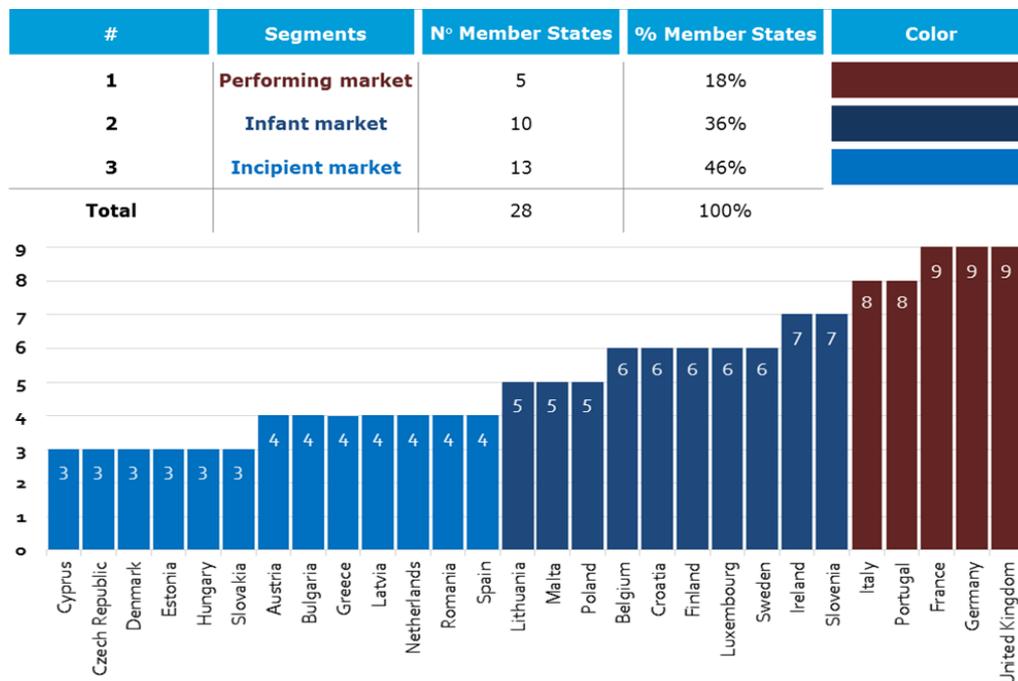
	Name	Market Infrastructure	Demand Side	Supply Side	Final Score
1	Austria	1	1	2	4
2	Belgium	1	2	3	6
3	Bulgaria	2	1	1	4
4	Croatia	3	2	1	6
5	Cyprus	1	1	1	3
6	Czech Republic	1	1	1	3
7	Denmark	1	1	1	3
8	Estonia	1	1	1	3
9	Finland	1	3	2	6
10	France	3	3	3	9
11	Germany	3	3	3	9
12	Greece	1	2	1	4
13	Hungary	1	1	1	3
14	Ireland	2	3	2	7
15	Italy	3	2	3	8
16	Latvia	2	1	1	4
17	Lithuania	2	2	1	5
18	Luxembourg	3	1	2	6
19	Malta	2	2	1	5
20	Netherlands	1	2	1	4
21	Poland	2	2	1	5
22	Portugal	3	3	2	8
23	Romania	2	1	1	4
24	Slovakia	1	1	1	3
25	Slovenia	3	2	2	7
26	Spain	1	1	2	4
27	Sweden	3	2	1	6
28	United Kingdom	3	3	3	9

Source: Own elaboration.

³ This analysis was conducted in 2017. Changes may have, in the meanwhile occurred. One example is Finland where important steps have been taken to develop the market infrastructure.

As a result of this analysis (**Figure 8**) it seems that only 5 Member States present a high level of maturity in their social impact investment ecosystem, thus having a performing market. These are UK, Germany and France, which reach the maximum score (9) followed by Italy and Portugal with a score of 8 points. The remainder of EU countries falls then either in the Infant Market category (10) or the Incipient Market group (13).

Figure 8 - Outputs of EU MS' social impact investment market segmentation



Source: own elaboration.

Some considerations that emerge from the analysis and the resulting segmentation of the social impact investment markets in the EU can be carefully proposed. Firstly, there is no obvious geographical, cultural or ideological trend in the development stage of social impact investment markets, as infant markets include EU Member States from Western, Eastern and Central Europe. As 13 Member States are classified as being at an early stage, this means that most of the EU Member States are still grasping the field, while 36% of them are taking off the ground, being at their infancy stage. France, Germany, Italy, Portugal and United Kingdom are at the fore front of the Social Impact investment market development, being considered performing markets, with some important differences however among them. Important differences between each category are present also among incipient markets as well as infant markets.

Segment 1 - Incipient markets

Table 8 - Characterisation of Segment 1: Incipient markets

Level	Market Infrastructure	Demand Side	Supply Side
Low	10	11	11
Medium	3	2	2
High	0	0	0
TOTAL	13	13	13

Source: Own elaboration.

EU Member States that according to the framework belong to the category of incipient social impact investment markets are 13: Austria, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Greece, Hungary, Latvia, Netherlands, Romania, Slovakia and Spain.

Incipient local markets represent the majority (almost 50%) of the EU Member States' landscape and can be found in Western, Central and Eastern Europe, thus confirming that it is not possible, so far and under the present circumstances, to observe any geographical trend. In none of these local markets, we can see demand, supply for market infrastructure being highly developed.

Segment 2 - Infant markets

Table 9 - Characterisation of Segment 2: Infant markets

Level	Market Infrastructure	Demand Side	Supply Side
Low	2	1	5
Medium	4	7	4
High	4	2	1
TOTAL	10	10	10

Source: Own elaboration.

The 10 EU Member States' infant social impact investment markets are Belgium, Croatia, Finland, Ireland, Lithuania, Luxembourg, Malta, Poland, Slovenia and Sweden. Infant markets can be found in a Central/Eastern band of European Union and seem all to be driven by demand and market infrastructure rather than supply.

In fact, almost all of these Member States have a significant number of social service providers or a few initiatives to support them.

Notably, 8 of these infant markets have implemented a set of public initiatives to promote the ecosystem and 4 of them have an existing agenda to promote a local social impact investment market. Overall the supply side is still incipient in half of the infant markets – only in Belgium there is an organised group of active investors or capital supply ready to support social service providers.

Segment 3 - Performing markets

Table 10 - Characterisation of Segment 3: Performing markets

Level	Market Infrastructure	Demand Side	Supply Side
Low	0	0	0
Medium	0	1	1
High	5	4	4
TOTAL	5	5	5

Source: Own elaboration.

Amongst the 28 EU Member States, there are five social impact investment markets in a comparatively more developed stage, classified as performing local markets under this exercise scope. These markets are located in a Western-central European band, and are United Kingdom, Germany, France, Portugal and Italy.

All these markets have made significant efforts to build a robust market infrastructure. They have national wide known agendas developed by their respective National Advisory Boards (NABs) and other entities engaged in advocating for a social impact investment agenda. All NABs have a place in the Global Social Impact Investment Steering Group⁴.

Although no causality is assured by this exercise, the link between growth stage of a social impact investment market and the efforts to build elements that sustain these markets is evident. In other words, it will be difficult to see a market emerging without any concerted initiative towards building a robust market infrastructure.

Moreover, results suggest that demand goes hand in hand with supply side. Comparing with the scores in the infant markets, it can be said that having an active and interesting number of social service providers is a good way to trigger the supply side. Social investors eventually catch the wave, if market infrastructure is in place.

However, significant differences exist amongst these five local markets. The United Kingdom takes the leading position in this group and the remaining 4 countries lag behind, with further distinction between Germany and France, with a consolidated supply-demand relationship, and Italy and Portugal where efforts are still undergoing to ensure a well-functioning relationship between the two sides of the market (see **Chapter 4** and **Chapter 5**).

3.3. The framework in action: the role of market infrastructures

Looking at the different segments, it is quite evident that efforts to build the infrastructure of a robust market are driving forces for the development of a social impact investment market. These initiatives address different incentives and motivations and have different promoters.

Some of them are organised by a group of stakeholders worried with market development as a whole; others are promoted by Foundations who have a parachute view of the market and are willing to take the first lead so that the market becomes more attractive for others to join; others are promoted by financial intermediaries who are willing to do whatever is needed to drive social change; and finally, as the examples presented below suggest, there are many public-led market building initiatives.

At this stage, it becomes important to draw attention to some of these initiatives. The **Table 11** below presents examples for each of the 7 areas considered in the market's infrastructure criteria. This wide list of areas was set by the European Commission in *A map of social service providers and their eco-systems in Europe* (2016).

They represent what is perceived as being the main instrumental initiatives to drive a social impact investment market. Each area may be materialised in different ways as the examples columns suggest.

Even though not all performing markets have implemented initiatives in the 7 areas, most of them have tapped these gaps. For instance, it is worth noticing that, for some of these areas, similar initiatives were developed across countries. Examples include the Unit Cost Database firstly developed in the UK and later on in Portugal (One.Cost) to serve the same purpose. The Portuguese actors have adapted the layout of the tool developed in the UK to potentiate its usage in their national context, but both are databases of unit costs for different social issues.

⁴ The Global Steering Group for Impact Investment (GSG) is an independent body catalysing impact investment and entrepreneurship "to benefit people and planet". The GSG was established in August 2015 as the successor to and incorporating the work of the Social Impact Investment Taskforce established under the UK's presidency of the G8. Chaired by Sir Ronald Cohen, the GSG brings together leaders from the worlds of finance, business, and philanthropy. The GSG is currently formed by 21 National Advisory Boards (NABs), plus the EU as a member, reflecting the G8 Taskforce's initial structure, now enriched by other non-G8 countries joining the GSG.

Table 11 - Examples of social impact investment market building initiatives

#	Areas	Examples
1	Legal framework and legal status for social service providers	Social Enterprise Mark (UK), ESUS (FR)
2	Fiscal incentives for social service providers / social impact investment	Social Impact Investment Tax Relief (UK)
3	Funding for specialist support	Capacity Building Programme (PT), Investment and Contract Readiness Fund (UK)
4	Measures to facilitate access to markets through adaptations in public procurement	Department for Work and Pensions Outcomes Fund (UK)
5	Measures to support access to finance through new financial instruments	90-100 Employees Saving Schemes (FR), Big Society Capital (UK), Portugal Social Innovation Fund (PT)
6	Standardised social impact measurement and reporting systems	One.Cost (PT), Unit Cost Database (UK)
7	Constituency of a national Advisory Board	National Advisory Board (many MSs)

Source: Own elaboration.

To further illustrate the kind of initiatives developed to establish a social impact investment market, we present other 6 examples of initiatives carried out in the most mature markets to help understand what some of these areas refer to (**Box 10, Box 11, Box 12, Box 13, Box 14, Box 15, and Box 16**).

Box 10 - The investment and contract readiness fund (UK)

The Cabinet Office launched a £10 million Investment and Contract Readiness Fund (ICRF) in 2012, to build social organisations' capacity through business support and help them become investable, scalable and able to bid for government contracts.

To access ICRF funding, organisations must be seeking support to raise more than £0.5 million of investment or bid for contracts of over £1 million. This requirement helps ensure that capacity building support is purpose-driven and focused on achieving a significant financial growth.

Also, it aims at assuring revenue streams to specialist support providers and helps them create financial sustainability.

Box 11 - The DWP Innovation fund (UK)

The UK Department for Work and Pensions launched, in 2012, a £30 million outcomes fund focused on preventing disadvantaged young people from becoming Not in Education, Training or Employment (NEET).

The DWP identified 9 outcomes that would encourage social organisations to address most common issues. They priced the outcomes based on the potential cost savings to government of having fewer young people disengage from school, training and employment.

The DWP Innovation Fund helped develop the UK social investment market by demonstrating the benefits of outcome-based contracting, such as how it can: (1) encourage organisations to measure outcomes; (2) test whether investing in prevention can create cost savings, and (3) build an evidence-base of 'what works'.

Box 12 - One Cost (Portugal)

One.Cost is an on-line portal aiming to centralize, standardize and provide data regarding the cost of Portugal's entrenched social problems in 5 areas (education, employment, justice, social care and health). One.Cost is Promoted by the Calouste Gulbenkian Foundation and the Social Investment Lab.

It includes costs. Data has the potential to improve public service commissioning and

public service reform, informing public policy and a more efficient use of public funds. This portal is also relevant for social organisations whose services are commissioned by public sector (social enterprises, social investors, philanthropists and intermediaries) who value relevant data to enter into payment-by-results contracts schemes such as SIBs.

Box 13 – ESUS (France)

The French legal framework for the social economy was strengthened in 2014 with the adoption of the Law on Social and Solidarity Economy. This law enhances the position of the sector in the French economy and reinforces its legal bases.

The law has extended the perimeter traditionally admitted in the SSE to include the model of social enterprises due to the introduction of a legal status for businesses with a social utility (“ESUS”).

Box 14 – 90-100 Employees savings schemes (France)

In 2008, France has introduced the 90-10 saving schemes, aimed at facilitating the access and investment in solidarity funds. Under these schemes, companies are forced to offer employees the option to allocate part of their savings into Solidarity funding schemes.

These schemes have to invest at least 5-10% of their capital in non-listed organisations that are labelled as social purpose organisations. It’s the French governance who regulates the application of this labelling process that also serves as a quality standard.

Box 15 – MRI Education Pilot Fund (Germany)

The Mission-Related Investment (MRI) Education Pilot Fund was set up by the expert group on impact investing within the Association of German Foundations to enable charitable foundations under German law to invest a part or the entirety of their endowments in accordance with their mission. With an initial funding of a relatively modest amount the pilot fund is intended to serve as a model for future funds with other objectives and goals.

As shown by applying the analytical framework, a key success factor of most promising experiences is the design and implementation of market building initiatives. This explains why United Kingdom, France and Germany have the most performing markets with highest score in terms of demand, supply and infrastructure. Portugal and Italy belong to the same maturity level; however the potential high performance of the market is not fully realized, either because of difficulties still present in the demand side or supply side. This suggests looking in-depth at these two countries, with the aim to grasp some of their features and to identify lessons learned or paths to future developments.

In fact, the existence of a robust infrastructure and the rapid emergence of demand and supply side mechanisms in these two countries makes of them ideal cases to be analysed in depth. This is the rationale for having chosen them as, respectively, a case study and a prospective scenario in this research. This effort for a more elaborated analysis is reported in the following **Chapter 4** and **Chapter 5**.

4. Portugal: A policy framework initiative

4.1. Social innovation and the social economy as a policy priority

In the recent past, social innovation has progressively emerged in the Portuguese public agenda through the actions of public opinion leaders (such as the late Diogo Vasconcelos), academic experts (such as Filipe Santos and António Miguel) and institutions such as the Gulbenkian Foundation. Moreover, in the period 2011-2014 Portugal was defining the priorities with the European Commission on its 2014-2020 ESIF programming cycle. This represented the opportunity to address the previous lack of a clear public support and agenda on social innovation and social entrepreneurship. Portugal in fact identified these two areas as a key priority of its 2014-2020 Partnership Agreement.⁵

With the aim of designing and develop a bold policy framework initiative, as well as to support the negotiation process with the European Commission, «a small working group was created, including ESIF experts/negotiators and experts in social innovation, reporting directly to the Minister coordinating the 2014-2020 Partnership Agreement and Operational Programmes (OPs) negotiation» (Fi-Compass 2018). After several rounds of relevant discussions, in December 2014, Portugal and the European Commission reached an agreement.

Following this agreement, on December 16th 2014 the Portuguese government created *Portugal Inovação Social* (EMPIS) a €150 million public-driven initiative, using EU Structural Funds (European Social Fund).

EMPIS had three main objectives:

- 1) Funding the full life-cycle of social innovation and social entrepreneurship projects, through innovative financing programmes;
- 2) Mobilising the Portuguese social innovation ecosystem, helping to promote collaborative networks between public, private and social economy players;
- 3) Stimulating the creation and growth of a Portuguese social impact investment market.

In line with the mentioned objectives set out by the Portuguese government, and acknowledging the relevance of the social economy sector to the broader Portuguese economy, in 2014, the Portuguese Parliament has passed a law for the foundations of the *Social and Solidarity Economy*. This law sets some definitions and establishes the limits of its activities. Under these boundaries, social economy represents a pool of social utility-oriented organisations that promote employment, social cohesion, local and regional development and social innovation. It is therefore a widely fragmented and heterogeneous sector, including organisations that differ in legal form, purpose, funding, size and thematic area.

The raising attention to the social economy in Portugal, and the related recognition of social innovation and social entrepreneurship as policy priorities, have been based on an overall assessment of the sector, its strengths and its needs as well.

In 2013, the Portuguese social sector was composed by 61,268 organisations, from which only 14% (7,500 organisations) were organisations dedicated to address social issues – social services providers. Sport associations and agriculture cooperatives are examples of social economy sector organisations that represent the remaining slice of the sector.

⁵ In this regard it should be recalled that increasing social needs following the austerity measures adopted as a consequence of the three-year Economic Adjustment Programme agreed by Portugal with the EU, the European Central Bank and the International Monetary Fund (2011), have called the traditional Portuguese social economy entities as well as emerging social entrepreneurs to a renewed engagement and stronger effort in designing and implementing new initiatives.

In the same year, this sector represented 5.2% of national paid employment and had a 2.8% contribution to the national GDP. In 2010 – the latest year of available data – the social service provision organisations represented almost half of paid employment and 41.3% of the GDP within the social economy sector.

Most of these social services are undertaken by circa 5,000 social economy entities with IPSS status (Social Solidarity Private Institutions). The IPSS status allows these organisations to benefit from fiscal incentives and to be responsible for the provision of social services on behalf of and contracted by the State, under Cooperation Agreements. Contracts are multiannual and output prices have been quite steady over the years.

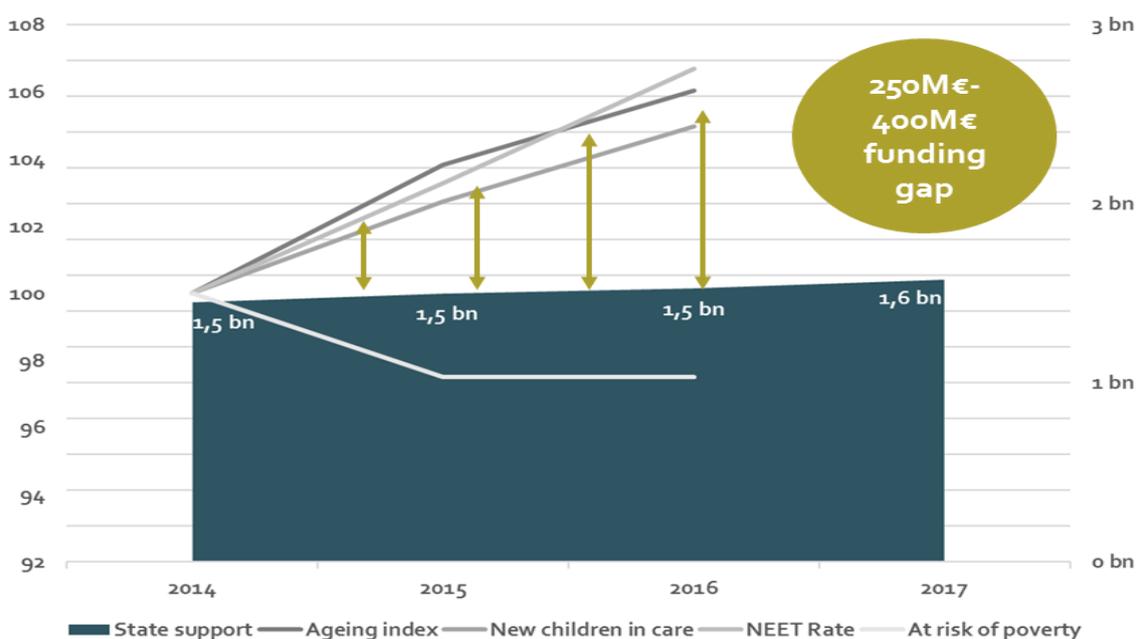
However, despite the IPSS status of the provider, the overall regulatory framework provided by the Cooperation Agreements scheme has revealed to be based on incentives not adequately supporting service innovation efforts, *de facto* preventing too much innovative service providers to be awarded with public contracts. There are in fact high entry barriers, since most contracts are oriented towards outputs and not outcomes and there is no competition on the basis of efficiency and effectiveness (outputs combined with outcomes).

The Portuguese State pays a total amount of €1.4 billion per year under the existing Cooperation Agreements framework. As a result, approximately 40% of IPSS’ revenues come from these agreements with the State (through the Social Security Institute).

The remaining organisations don’t have this funding stream available, even if in some cases they are the ones trying more innovative solutions and tapping into emerging social needs. They either finance themselves through an organic and patient growth or through the good will of traditional philanthropists – e.g. foundations, corporations and high net-worth individuals. External financing of social innovation, through mainstream debt and equity finance is unaffordable due to their governance model or legal structure.

An analysis undertaken by the Social Investment Lab (2014) based on publicly available data estimates that the funding gap ranges between €250-400 million. This amount has then been confirmed also by the ex-ante assessment of the Social Innovation Fund done by Quatenaire (2016). As the **Figure 9** presented below suggests, these analyses are based on the cost and rate at which some social issues are growing, compared to the State support provided (Cooperation Agreements) over the years.

Figure 9 - Estimation for the funding gap amongst social providers in Portugal



Source: Social Investment Lab 2015.

4.2. The Portugal Social Innovation Programme

4.2.1. Conception and overall governance

As mentioned before, in December 2014 the government announced the creation of *Portugal Inovação Social* (EMPIS). The initiative was led by the Presidency of the Council of Ministers through the Ministry for Regional Development (overseeing EU structural funds), with the support of the Ministry of Solidarity, Employment and Social Security, the Ministry of Education and the Ministry of Health.

EMPIS was also supported by the existing social economy and social innovation critical mass. Of particular importance was the Calouste Gulbenkian Foundation initiative to convene the Portuguese Social Investment Taskforce, with the support of the Social Investment Lab and Social Finance UK. This taskforce gathered more than twenty senior representatives of influential public, social and private national institutions – including the financial regulator, banks, foundations, business schools and consultancy firms, and its main output was a report which encompasses five recommendations that paved the way for a national action plan on social investment. That report was extremely useful for the working group set up by the government and that led to the creation of EMPIS.

EMPIS was in fact conceived as a catalyst entity to promote social innovation and social entrepreneurship in the country, by tackling the mismatch between supply and demand of capital and testing the use of innovative financing instruments, while helping to promote collaborative networks between public, private and social economy players, relevant for the development of new innovative solutions to societal problems.

Whilst there was a general agreement on the need for a catalyst entity to promote social investment in the country, the use of unclaimed assets (as it was done in the UK to capitalise their wholesaler entity – Big Society Capital) or the national public budget represented alternatives with little prospects in Portugal in 2014. The government opted for using European Structural and Investment Funds (ESIF) instead, whose Partnership Agreement – as already mentioned – was being negotiated with the European Commission at the time.

The Partnership Agreement, positioned social innovation as a strategic cross sector approach to address national wicked societal issues in areas such as health, justice, education, social protection, and employment. To this extent is worth to notice that since the beginning EMPIS has been managed as a transversal flagship initiative to promote the development of social innovation in Portugal.

EMPIS, in line with the Partnership Agreement, reflected in a clear and transversal way the focus of the new programming period 2014-2020. In particular key features of the overall conception were: (i) the optimisation of the use, effects and impact of public financial resources; (ii) the adoption of financing schemes with a reimbursement expectation of private capital allocated; and (iii) the combination of national and European financing sources.

Moreover, EMPIS was built upon two foundational principles that mutually complement and reinforce each other:

- To promote preventive public policies or preventive interventions to address the emergence and development of societal risks;
- To promote innovative public policies or interventions to eradicate specific social problems and advance social goals through the provision of outcome linked financial resources.

Conceived upon these foundations and under this partnership framework, EMPIS was created with the goal of financing the full life cycle of social innovation and social entrepreneurship initiatives through a set of four financing programmes dedicated to the promotion of the social impact investment market in the country.

In order to make EMPIS able to achieve the mentioned goals, its governance has been considered, since the design phase, instrumental. In fact, different governance models were explored, including: (i) to create a new public organisation and build up its team from scratch; (ii) to embed the initiative into an existing public entity and adapt the governance model; (iii) to outsource its management activity to an external third party.

A transversal working group was created to prepare a report on the different possible governance models. The working group also did some initial work on the design of the four EMPIS financing instruments, supporting the then on-going negotiation process with the European Commission.

The government, following the suggestions of the working group, decided for setting up a new organisation within the governmental sphere that would be dedicated to a given mission (a Mission Unit) and would be given a specific set of competencies and responsibilities. Main reasons for this choice were the set-up speed and simplicity, the independence from stakeholders, as well as the need for specific dedicated expertise. Main concerns were instead the barriers encountered to recruit talent from outside the public administration and the government bodies in light of the on-going Portugal financial and sovereign debt crisis and the hiring constraints arising therefrom.

EMPIS was therefore set up as a QUANGO – a quasi-autonomous organisation, managed by an Executive Committee – one executive president and two executive board members. The Committee is responsible for realising EMPIS mandate and reports directly to the Council of Ministers.

In order to provide the organisation with the necessary political empowerment and to pursue a model of integrated governance (across the different governmental departments), it has been decided EMPIS ought to be placed under the Presidency of the Council of Ministers (originally under the Minister Adjunct to the Prime Minister and for Regional Development – in charge of EU structural funds – and, in the current government, under the Minister of the Presidency and of Administrative Modernisation).

EMPIS' Executive Committee is supported by a legal advisory team and manages two technical operational teams: a "financing team" and an "ecosystem team".

The "financing team" is responsible for the implementation of the funding programmes on the ground, opening and managing application processes, assessing applications and assuring regulation compliance. This team is based in Coimbra (in the Centro region) and includes four people, each responsible for one financing programme.

The "ecosystem team" is responsible to link EMPIS to regional market stakeholders, such as promoters of social innovation and social entrepreneurship projects, social investors, regional or local public entities, intermediaries and other service providers. It includes three people, located in each of the geographies currently targeted by EMPIS financing programmes – Centro, Norte and Alentejo. These people are named *ecosystem activators* and answer to any questions or requests on the ground, in addition to regular activity of pipeline/market creation.

In the current Portugal 2020 framework, i.e. the Portuguese 2014-2020 Partnership Agreement, EMPIS is formally an intermediate body (IB) with delegated ESIF functions from both the *Programa Operacional Inclusão Social e Emprego* and *Programa Operacional Capital Humano*.

4.2.2. Objectives and investment principles

EMPIS' mission relies on the assumption that social innovation and social entrepreneurship initiatives who seek for new or better solutions for societal problems lack access to sources of financing and financial instruments adapted to their needs to develop and expand their services, improving the quality of life of their beneficiaries and of the whole society. This is so because the currently available instruments of public and private financing do often not match the innovative character of such initiative.

In addition, the promotion of such innovative solutions requires capacity-building actions and the development of an ecosystem that will further align both the demand and supply sides of social innovation initiatives.

Hence, EMPIS' main objective is to build such ecosystem and, in the process, overcome the existing financing constraints and unlock the access to adequate financing sources and instruments.

This general objective unfolds into more concrete ones that also contribute to other public objectives: (1) Improving social economy entities competitiveness and sustainability; (2) Promoting the growth of projects with proven intervention and business models; (3) Informing public policy and promoting the creation of evidence-based policy decisions; (4) Attracting new players to the market; (5) Promoting an outcome-based culture amongst the public sector; (6) Promoting the development of priority areas.

With regard to the objective of improving social economy entities competitiveness and sustainability, one of the main identified bottlenecks is related to their often-suboptimal organisational structures, skills and resources. In a context of limited funds, social entities choose to allocate the existing resources only to the operational side. This situation hinders innovation, leads to low levels of efficiency and undermines the ability to attract talent.

On this point EMPIS intends to overcome this difficulty through its capacity building programme. This is a grant scheme, that focusing primarily on the teams engaged in the implementation of social innovation or social entrepreneurship projects, funds the development of social economy entities workforce and organisational structure. This way it builds impact and investment readiness within each beneficiary entity while promoting sustainable and lasting relations with investors.

As above mentioned, in Portugal, there is a financing gap to support social enterprises whose intervention models have been tested but cannot gain scale. Business models are needed to further strengthening those who are ready to scale. Grants are often inadequate to finance these activities and financial support is usually hard to find and pay.

To address this problem, i.e. to promote the growth of projects with proven intervention and business models, EMPIS targets mainly social innovation and social entrepreneurship projects in these development stages, providing financial and non-financial support. The four EMPIS' financing programmes address the full life cycle of projects, adjusting the type of support and of end beneficiary, as well as ticket sizes to the specific needs of these projects.

Despite the considerably large number of social entities and social interventions, in Portugal there is no culture of evidence-based actions, data is often lacking and there is often no adequate measurement of the outcomes (and not simply outputs) of social interventions. It is difficult to find an organisation that collects relevant information in the most adequate form and that uses it to fine-tune its service and improve its performance.

To promote such culture, create evidence of the effectiveness of social services and inform public policy decisions, EMPIS promotes the implementation of robust outcome evaluation processes, as well as the adoption of performance management practices. Outputs, outcomes and any relevant data generated shall be shared with EMPIS and other public bodies in order to inform the design of public policies and the update of social services commissioning.

Closely and maybe instrumental to this objective of a strengthened evidence-based culture, there is also the issue of promoting an outcome-based culture amongst the public sector. Cooperation Agreements represent a big share of the funding streams of social service provision organisations in Portugal.

EMPIS can play a role in gradually help steer such services into a more outcomes oriented culture. When contracting takes place through competitive and open procurement bids based on outcomes, this raises incentives for social service providers to demonstrate:

- (1) their managerial capacity;
- (2) evidence of achieving outcomes and impact;
- (3) overall efficiency in delivering such services.

This would be matched in the public sector by an incremental shift towards the development of outcome metrics and outcome-oriented incentives.

EMPIS, acting as an outcomes-payer under its Social Impact Bonds programme, and developing the Programme in partnership with relevant public sector agencies, is meant to set the ground towards the adoption of an outcome-based culture in the coming years.

Moreover, the Social Impact Bonds Programme is expected to create evidence and to demystify the concerns on outcome-based contracts, thus contributing to the emergence and spread of a new culture amongst the public sector.

As a way of closing the existing financing gap, EMPIS intends to attract new market players to the sector, namely venture capitalists and private equity funds. Such strategy was mostly to be undertaken through the Social Innovation Fund, acting as a cornerstone investor, using ESIF as patient low-cost capital to leverage private investors and funds, as well as to serve as first loss.

Finally, worth to say that Portugal's regional development faces strong inequalities. Given its central role as the capital and its high concentration of population, services and social economy entities, Lisbon absorbs much of the available national financing sources. Reflecting the priorities of EU structural funds and to contradict such tendency as well as to encourage entities to scale interventions to the country's less developed areas, EMPIS's programmes prioritised interventions operating in the North and Centre regions, as well as in Alentejo.

To sum up, according to the mentioned goals and objectives, EMPIS represents an ambition to stimulate social innovation and outcome-oriented public policies and to create a well-functioning social impact investment market, where any social entrepreneur with a proven idea or a track-record project can find the means to operate and scale their impact.

EMPIS plays a role in activating the different elements of this market – demand and supply – but also in creating or fostering the emergence of the main market infrastructure elements, reaching out to public sector bodies, private investors, implementing entities, namely social economy entities, as well as intermediaries and other service providers.

EMPIS's success is therefore not linear to define and not easy to assess as well.

However, according to its design and in line with its identified goals and objectives, some features of the system might work as a proxy for an overall evaluation:

- (1) EMPIS' multiplier effect, i.e. by the amount of capital attracted as leverage for its investment
- (2) Rate of emergence of new entities and social innovation interventions to solve current societal problems;
- (3) Creation of new market infrastructure and ecosystem elements (such as financial and non-financial intermediaries, their reinforcement, research and data centres, etc.);
- (4) Emergence of more outcomes oriented public policies and incentives.

Concerning the eligibility criteria, it is therefore clear that EMPIS assumes a quite broad approach, accepting applications from any initiative with a proven innovative intervention model to address a societal issue. In particular, the following entities are eligible:

- Not-for-profit organisations that operate within legal structures such as cooperatives, mutuals, foundations and other entities that follow the social economy principles.
- For-profit organisations (with any legal form) as long as they have a social mission. The social mission can be directly reflected in the services provided or be embedded through the inclusion of marginalised groups in the entities' value chain.

The four financing programmes share the same investment principles, therefore the different financing programmes also share eligibility criteria, and eligible entities can apply for any of them.

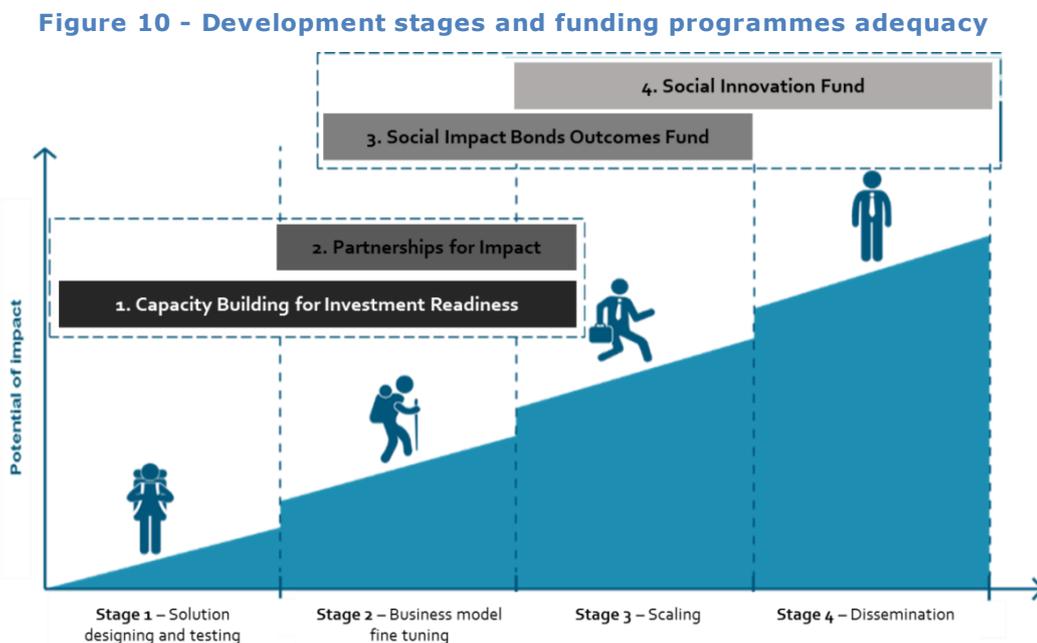
These financing principle are:

- (1) Diversification: in terms of assets, players, geographical distribution and thematic areas of intervention.
- (2) Pro-activity: looking for untapped potential areas, with market failures of any kind, such as lack of evidence, lack of support or unbalanced equilibrium of risk-return propositions.
- (3) Adaptation: being flexible to accommodate the different risk profiles associated to each investment, assuming a subordinated role.

Illustrative areas of interventions that are considered as addressing a societal issue are the fight of poverty and social exclusion, the support of children and youth, the improvement of educational outcomes, the promotion of health and wellness, the raise of employability and employment, and the promotion of active ageing.

4.2.3. The EMPIS' design and its four pillars

Specific aim of EMPIS is to support social innovation and social entrepreneurship projects across the development stages life cycle. Therefore each financing programme has been designed against the different life stages of development. These phases are within a spectrum that includes four main stages: 1) Solution designing and testing, 2) business model fine-tuning, 3) scaling and 4) dissemination. Each phase is correlated to one of the four EMPIS's actions, as shown in **Figure 10** below.



Source: Portugal Social Innovation 2014.

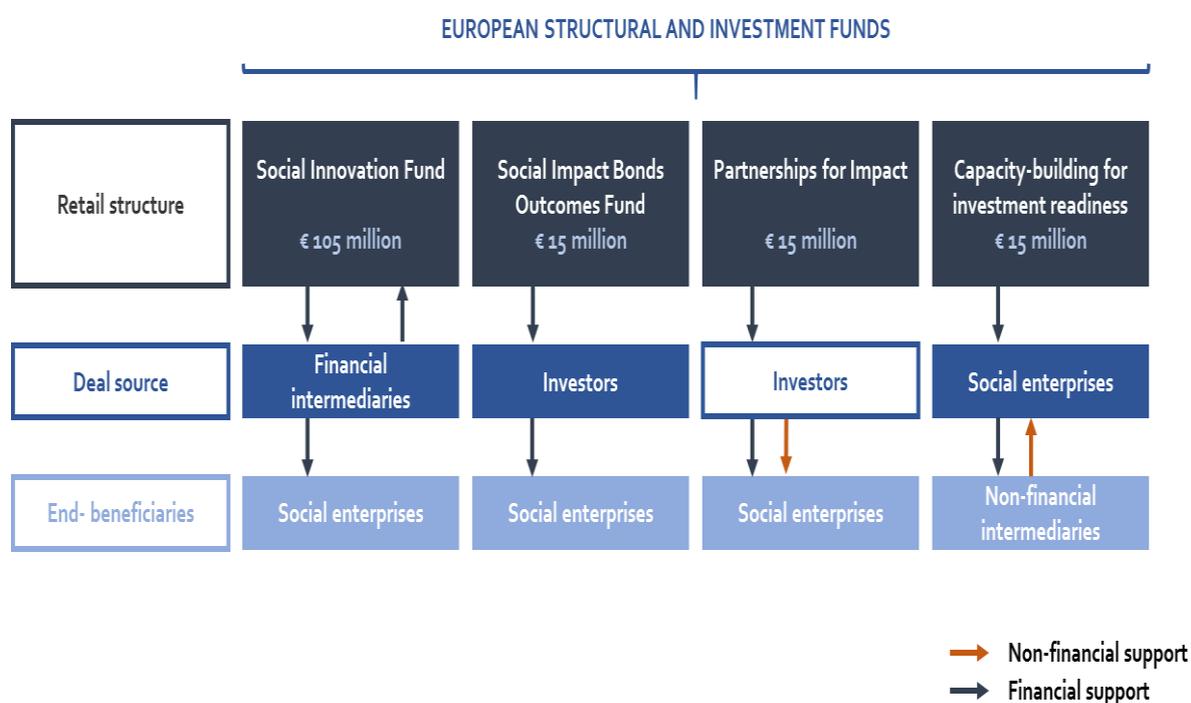
Funding programmes are not mutually-exclusive, especially as there are synergies between them: for instance, a social enterprise that benefitted from the Capacity-Building Programme or the Partnerships for Impact Programme, is likely to be a robust candidate for the Social Impact Bonds Outcomes Fund or the Social Innovation Fund.

By acting across the different stages of development of a social enterprise and of the social innovation ecosystem, EMPIS shifts its role from a direct participant in the market towards an indirect contributor to its development and consolidation. In the process, it also builds pipeline/demand for other financing programmes. This constant adaptation is essential to meet its mission of addressing the specific needs of social enterprises and other stakeholders and filling market gaps.

As mentioned, EMPIS is structured into four financing programmes, each providing incentives or offering support to different market stakeholders; although end beneficiaries are always entities implementing social innovation or social entrepreneurship projects.

As **Figure 11** illustrates, the programmes vary in their purpose, recipients, form, reimbursement expectation and size.

Figure 11 - EMPIS Structure



Source: Portugal Social Innovation 2014.

a) The Capacity Building Programme

Through its Capacity-Building Programme, EMPIS aims to ensure that social economy entities have access to the support services necessary to become investment ready and to grow and expand their valuable work in the most effective way. As a catalyst entity, EMPIS is using this programme to level the playing field between social and commercial enterprises by removing the barriers that the former have in accessing specialist services and in capacitating its organisational structure.

Based on an initial diagnosis of capacity-building needs, a grant of up to €50,000 is made available to each social economy entity to enable it to implement its approved capacity-building plan, specifically tailored to its social innovation project, accessing and paying for support from specialist providers in areas such as financial management, business modelling, impact measurement, leadership or governance. The total available ESF funding for this program amounts to €15 million.

One of the main challenges relates to the timid representation of social organisation specialists service providers in the Portuguese market, as a result of social economy entities' traditional inability to pay for these services. At an initial stage, EMPIS expects that these service providers will tend to be few, reflecting the current lack of critical mass in this area. However the present funding programme incentives are already starting to attract new service providers to the market (e.g. universities, SMEs, consultants, etc.), who may perceive capacity building support to social enterprises as a new business stream to explore. It is expected that in the medium term these entities specialise themselves in given areas, competing on the basis of outputs' quality and prices.

An additional challenge lies on ensuring a lasting impact of capacity-building programmes. EMPIS has struggled to meet the mandatory ESF simplified cost lump sums rules applicable in this case (it was the first Member-State to do so for social innovation projects) while providing the right incentives that ensure knowledge and skill transfer between specialist providers and social organisations. As it is structured today, the beneficiary entity and the service provider have to co-create a tangible output relevant to the project as the final result of each capacity-building intervention. The financial support (a fixed lump sum approved for each intervention) is provided based on EMPIS assessment of the tangible outputs created.

Although this demand-driven output-based contract mechanism represented a major shift from the previous broad-spectrum supply-centric financing model, it is still in its early stages. As a result, the tangible outputs being proposed and contractualised, even if tailored to the specific on-going social innovation project and its needs, are often very limited in its ambition (e.g. a communication strategy word document, a financial model excel document or a business model definition power point presentation).

This will not be enough to guarantee that capacity and skills are built and embedded in the projects and in the social economy entities implementing those. But in the next rounds, as the market matures and social economy entities and service providers become more sophisticated, it might be possible to achieve this goal, also through a combination of service providers' evaluation and increasingly demanding requirements set for tangible output contracting and validation.

Calls for proposals run from March 2017 to June 2017. EMPIS received 168 applications, summing up to €7.85 million, surpassing the initial €3 million made available for this round. According to available information, approved applications were 99, for an overall amount of €3.5 million (Fi-Compass 2018).

b) The Partnerships for Impact

Through this line of the programme, EMPIS matches the funds made available by philanthropic donors to promote venture philanthropy in Portugal. The objective of this programme is to create the incentives for philanthropic capital to be invested with medium-long term visions, alongside with a focus on building the capacity within the organisations to deliver to that.

Under this programme, EMPIS provides a match funding of 70% of the amount committed by philanthropic organisations (private or public entities) to a specific social innovation or social entrepreneurship project. EMPIS' financial support is limited to a minimum of €50,000 to avoid the need to use ESF mandatory simplified costs rules in this programme.

Eligibility for this programme consists of adopting a venture philanthropy approach: philanthropists must commit to the provision of both financial and non-financial support for the development of a proven social innovation or entrepreneurship project during a period of at least three years, thereby ensuring that grantees become more sustainable and effective. The available funding for this program is €20 million. Since there is no maximum threshold for this funding, no expectations on the number of projects supported have been made.

While this programme is expected to widen funding availability and to attract private investors, one of the main challenges has to do with the initial cultural shift required for changing the traditional relationship between philanthropic organisations and social economy entities.

In addition, philanthropic sources in Portugal traditionally have annual budgets whereas this programme demands a multi-year support. This will likely determine that a lower number of projects will be supported by philanthropic organisations in a single year in exchange for a stronger involvement and longer-term commitment in selected projects. Moreover, while the program may attract new capital and will contribute to a shift towards a more long term and sustainable engagement by philanthropists it may also be used to replace previously committed capital by those philanthropists to support social economy entities.

It will be important to have an adequate monitoring to assess the extent to which the program is indeed increasing available funding and shifting the culture of the relationship between philanthropists and social economy entities.

The first programme call took place in the summer of 2016. In this first round, 42 applications have been approved, involving €7 million from EMPIS. A new selection round has closed in January 2018, with 26 applications (€3 million from private investors matching approximately €7 million from ESF), and a third one in May 2018, with 91 applications (where €8 million matched €18.8 million from ESF).

c) The Social Impact Bonds Outcome Fund

The aim of this programme is to develop innovative solutions that tackle societal issues in areas of public policy, oriented and assessed by outcomes instead of outputs. This will promote the importance of outcome-oriented policies amongst public entities while also attracting private funding to the provision of social goods. By acting as the direct outcome payer, rather than as an investor, EMPIS thus removes an existing bottleneck in the SIB development process: convincing public-sector commissioners who are traditionally output-focused to shift their commissioning towards outcomes.

Under this programme, in fact, EMPIS takes the role usually played by local and central government in SIBs, paying for the outcomes delivered. This does not imply that public entities don't participate – actually, they must be part of the initial SIBs partnership, approving the intervention, identifying the relevant outcomes and stressing its relevance and innovation features against the services currently in place.

Upfront investment can be shared amongst more than one private investor – a foundation, a bank or a corporation. The social service provider, investors, and the public entity create a partnership, which is responsible to structure the deal and to present it to EMPIS applying to the programme. Partners decide on the project size and budget to be proposed, as well as target outcomes metrics.

The available ESF funding for this program is 20 million euros, which is expected to result in around 20-25 SIBs until 2020.

The main challenge lies on the role of local and central governments under the current arrangement. By serving as the outcome payer, EMPIS removes the main barrier for the development of SIB. However, not having local or central governments paying for outcomes might result in less buy-in and accountability (in other words, they have a lower incentive to set the right outcomes metrics). To mitigate this, EMPIS makes it mandatory for local and central governments to be part of the SIB partnership and engage in contract and project management.

Outcomes payments are paid based on incurred project expenses; this is to say, EMPIS does not pay for any financial return on top of the reimbursement on the investment made, which might make it less attractive to investors and also lowers the incentives for better performance. This is, however, a constraint resulting from the current regulations on ESF funds.

Interestingly, there are plans being considered to blend outcome payments made by the SIB Outcome Fund with top-up from local and central governments thereby correcting this problem.

Moreover, also as a consequence of the expense based payments requirement, the same outcomes are worth different prices depending on the time spent since the previous outcome took place and the time to the second one. It would be more interesting to attach the payment to the actual cost of the outcome and not link it to the project expenses during the time to the outcome. This would be a good platform for evidence-based creation on the cost of solving social issues. This could be done through the use of a ESF simplified cost lump sum approach, that under the current EU rules is, however, only available to projects below €50,000, a threshold not adjusted to SIBs investment that tend to be much higher.

Thematic calls for proposals were open from August to November 2016. Thematic areas included: employment, social protection, health and justice. EMPIS has approved 3 projects (Code Academy and Go Forward, on youth unemployment, and Project Family, on children and youth at risk), and will commit €1.5 million ESF funds to repay initial investment from private investors, should the agreed outcomes be achieved. A new round, exclusively dedicated to educational projects, and with a total indicative budget of 5 millions opened in November 2017 and closed in March 2018. It received 15 applications. A third call dedicated to Social inclusion was scheduled for later in 2018 (Fi-Compass, 2018).

d) The Social Innovation Fund

EMPIS's fourth financing programme is a wholesale fund that shall co-invest, through financial intermediaries, in Portuguese social innovation and social entrepreneurship projects, with a track record and potential to generate social and financial returns. The aim of this fund of funds is to overcome existing market failures in the access of this type of projects to finance, while offering the market new financial facilities, mobilising new sources of capital and encouraging investment into the social sector.

Acting as a cornerstone wholesale investor, EMPIS provides favourable terms and conditions to capital holders who wish to create retail structures to fund social innovation and entrepreneurship projects. The fund of funds adopts two complementary mechanisms: unsecured debt, on the one hand, and quasi-equity and equity finance, on the other. The debt mechanism shall be used to fund innovation in more mature social enterprises through the provision of asymmetric risk sharing and/or guarantees to co-investors, therefore improving the risk profile of these products and allowing banks to lend to these entities and projects in more favourable terms than before. This type of facility is not yet available in Portugal for not-for-profit organisations.

The equity/quasi-equity mechanism is to be used to fund growth and consolidation of social start-ups through the provision of asymmetric return sharing, to co-investors, improving the terms in which social venture capital investors and business angels take equity stakes and/or sign revenue participation agreements to fund growth and consolidation of social start-ups. This will open the way for not-for-profit organisations to receive quasi-equity capital, which is also not possible nowadays.

This is the biggest programme and the only one that is expected to last beyond the current funding period, since it is expected to be reimbursed and recycled over and over. Available ESF funding for this program is around €95 million to be leveraged by public and private investors. Capital should flow to social economy entities through retail structures, managed by financial intermediaries.

One of the main challenges expected with the implementation of the Social Innovation Fund is related to the amount of administrative work and conditions demanded by the correct management of EU Structural Funds, which may test the smooth functioning of the instrument and its capacity to fully pursue the social aims underlying these social investment instruments.

Information gathered indicates that discussions on the details on this financial instrument have taken place with the European Commission and the European Investment Bank. The latter, in particular, has been extremely interested in this instrument that is seen as fitting the new priorities for the EIB and EU funds (on the use of competitive financial instruments).

A Fund Manager has been appointed – PME Investimento and, at the time of writing, it appeared, that a political decision has been taken to amend this instrument into a more retail oriented fund. As recently reported by Fi-Compass, the Social Innovation Fund has been created as an autonomous public investment fund by Decree-Law in the beginning of 2018, and then approved by the Council of Ministers on 15th March. The President of the Portuguese Republic has promulgated it on April 5th 2018.

While this could be seen as a potential risk of weakening the comprehensive approach that the overall EMPIS programme had in its design phase, it should be also considered that the implementation delays were a serious motive of concern, since this instrument holds 70% of EMPIS's endowment that shall be deployed until 2023 (following the N+3 rule). To this extent, the new retail approach may facilitate the absorption of the funds, and set the basis for redefining the approach for promoting a broader operational toolkit for strengthening the social impact investment market in the next programming period.

4.3. Insights and lessons learned so far

After looking at the results so far, with three years and a half ahead, it is possible to draw some lessons learned and provide some general comments on the Portuguese policy framework initiative. Comments are related to the overall original designed initiative and do not represent a comprehensive assessment of the initiative of course.

In fact, although, at the time of writing, four years have passed since its approval, EMPIS is in its early days of implementation. Moreover, EMPIS has been following a conservative testing and learning process, along with a general approach that aimed at long-term results rather than immediate changes.

The ambition behind the initiative and its broad scope make of EMPIS more than a national public initiative to foster social innovation and social investment in the Portuguese context. EMPIS has been perceived as a pioneer and testing experience to create a suitable market infrastructure with European Structural and Investment Funds (ESIF), clearing the way for other countries to replicate the model.

Testing, learning, adapting and being very transparent about its experience is how EMPIS would yield relevant insights to other countries that are interested in building a social impact investment market. Of course, it would be crucial, in this context, for the model to be consistently and fully implemented to draw effective lessons for future steps in Portugal and other Member States.

Although being high level, the analysis presented above highlights areas of focus for the near future. The biggest threats faced are related with the unbalanced biased that EMPIS creates in the market, offering a promising though unsustainable reality, or if the stability and long term commitment to the key principles of the project are put into question (leading to its captures by the traditional culture).

EMPIS represents an opportunity to attract new players and to generate new ones; to promote competition based outcomes and social change. If instead of creating a wealthy outcomes oriented market, money is used to feed existing actors it will be much more difficult to claim the potential of social investment in the future.

In a way, EMPIS is a test to the hypothesis that the most entrenched social issues can be effectively addressed if social entities are supported with the right outcome oriented incentives.

As reported below in **Table 12**, and regardless the exact quantification of the results achieved so far, thus more focusing on the processes underlying the life of the Portuguese initiative, it is possible to elaborate further on EMPIS' strengths and weaknesses as well as the opportunities and challenges it presents.

Table 12 – EMPIS SWOT analysis

WHAT IS WORKING WELL	WHAT NEEDS IMPROVEMENT	OPPORTUNITIES TO LOOK AT	POTENTIAL CHALLENGES
Diversity of funding programmes, to meet the needs of social entities and enterprises at all stages of development	Speed in incorporating learnings from early implementation	Strengthening the existing pipeline of social entities and enterprises in Portugal and reinforcing the capacitation and sustainability of existing ones	Bureaucracy and constraints resulting from EU structural funds regulations in spite of the European Commission strong political backing for the project
Depending on the programme, the funding conditions involved are aligned and incentivise a sustainable development of the market	Engaging local authorities in the SIB process more actively	Attracting new impact and social investors	Development of dependency on the market champion by all stakeholders
Demand and participation in the different calls has been stronger than one might expect in light of the novelty of the program and the challenges in the current social ecosystem and market	Link match funding to outcome evaluation to promote such an outcomes culture	Imbedding an outcomes and evidence based culture in the commissioning of social services by public sector	Manage transition period and sustainability post-2023
European and international interest in EMPIS helps gather political and social support for the medium and long term consolidation it requires	Ensure strong consistency between the design phase and the implementing one	Full implementation, in particular putting into action its fourth and most ambitious programme (the Social Innovation Fund)	Capture by the traditional culture in the social sector, particular if political support is weakened and the competitive and outcomes oriented nature of the project are put into question

Source: Own elaboration.

However, still looking at processes, two aspects seem to have played a crucial role for the success of such initiative:

- 1) There was pre-existing critical mass in the form of the Portuguese Social Investment Taskforce (or National Advisory Board). This board, composed of 21 members, representing the most influential social institutions in the country, had organised themselves to prepare a national strategy. Their action plan was structured into supply, demand and market infrastructure needs and included: the creation of a unit cost data base (One.Cost), the development of social enterprises investment readiness acceleration programs (Impact Generator, Amplifica, Montepio Social Tech), the launch of a SIB pilot project and the set-up of social investment funds.
- 2) The government, in the context of the planning of the EU funds programming cycle PT2020, set up a working group that included members of the PT2020 team and of the Portuguese Social Investment Taskforce. This allowed for a very productive collaboration and an optimal use of the existing critical mass on both social innovation and EU structural and investment funds. It was then possible to get the political support for a catalyst initiative, needed to promote a well-functioning market – the UK for example had created a wholesaler fund (Big Society Capital).

Therefore, the main lessons it is possible to draw from the Portuguese experience to date are related to the design of a national action plan, the political support and the government engagement, and the need for market champions.

In fact, and with regard the first lesson learned, i.e. the design of a national action plan, the Portuguese Social Investment Taskforce convened decision makers from the public, private and social sector and has laid out the foundations for the social impact investment ecosystem through five recommendations that tap into the key elements of the market. Through this national action plan, EMPIS was able to design funding programmes adequate to the market needs.

Then, the strong political and governmental support since 2013 has played a critical role in ensuring the development of the Portuguese social impact investment ecosystem, specifically EMPIS. Continuity of support across government is also crucial. Changes in government have, so far, not considerably affected the overall Social Impact Agenda agenda but it is important to guarantee that it will continue to be the case and that recent changes do not correspond to a weakening of that political support and the programmes pillars.

Finally, even though EMPIS is the catalyst entity in this nascent market, other players are needed to champion the market. For the Portuguese ecosystem, Calouste Gulbenkian Foundation has been playing a critical role of acting as a cornerstone market player by investing both in market-building activities and in developing human resources and critical mass on this issue. In addition, the leading role played in Europe on this topic by people like the late Diogo Vasconcelos have also raised awareness on the topic at earlier stages in Portugal and some of its decision-makers.

5. Italy: A prospective scenario

5.1. Genealogy of the Italian Social impact investment ecosystem

5.1.1. Context matters: potential of a consolidated social economy

As illustrated in **Chapter 3**, the Italian social impact investment market scores high against the framework adopted in this study. However, as seen in the previous chapter on Portugal, this does not mean that the rise of a social impact investment market went smooth and that it has already achieved its full maturity.

The Italian social impact investment market, in particular, represents an interesting case: its strong and long lasting tradition in the field of Third Sector organisations and social finance is, at the same time, its strength and its weakness. On the one hand in fact there is a potential wide – although fragmented – demand side; on the other hand, also the supply side seems well developed. However, the Italian social impact investment market is still far from having achieved a full development and it keeps struggling with some burdens to its deployment. In other words, despite the Italian ecosystem has almost all the required ingredients, socio-political as well as institutional peculiarities make it difficult to see where this richness is heading, or which face the fully mature social impact investment market will have.

Therefore, the aim of the prospective scenario presented in this chapter is to grasp the key features of the Italian social impact investment landscape, with a specific attention given to the on-going transformations of social entrepreneurship models and the rise of an evidence-based culture in the field of social innovation. In other words, this is not a case study as the one presented on Portugal, rather a tacking stock exercise on a set of different efforts that are shaping – although not yet in a fully clear direction – the future of social impact investment in Italy.

Such a methodological choice and its related approach rely on the lack of any consistent and comprehensive public initiative on social innovation, as instead the Portuguese case shows. In fact – anticipating here one of the Italian features that will be more extensively reported later – it is worth to notice that, while in Portugal private initiatives have been nurtured by an ambitious public initiative that assumed the form of a broad policy framework programme, the Italian social impact investment ecosystem, following a bottom-up approach, is being established almost exclusively by private initiatives put in place through the commitment of those actors coming from the field of the social economy (such as cooperatives and not-for-profit organisations, or more recently social enterprises and hybrid organisation-like entities).

In other words, the prospective scenario discussed here has a twofold objective: on the one hand, to provide a morphological description, in order to have a clear idea of the Italian social impact investment landscape; and, on the other hand, to advance a critical analysis with regard to the logics and dynamics that are driving the market building process in Italy. In particular, the morphological description, despite its limitation due to the lack of data, will allow better appreciating some institutional and contextual factors that are affecting the debate and the first implementation attempts of social impact investment initiatives in the country.

At the same time, due to possible weakness of a simple descriptive approach, especially with regard to the understanding of complex processes such as those behind the birth of a market, the morphological description is accompanied by a critical analysis. This is conducted mainly through a comparative approach, in which most of the Italian features are defined by identifying the differences between the social impact investment market developments in Italy and in the most advanced European market, the UK.

The comparison and the subsequent analysis of the Italian social impact investment environment will be therefore useful to explain why the Italian social impact investment market, although it belongs to the most performative group of EU Member States, due to

its well-grounded tradition and its liveliness, it is not yet fully emerged, and to identify possible paths for a future development that takes into consideration the Italian context's peculiarities.

In the UK, social impact investment emerged as a strategy to face the long lasting crisis of the welfare state. The awareness of the gap between the increasing demand for social services/protection and the decreasing availability of public resources triggered the research for new ways to attract additional private resources to balance the public expenditure retrenchment. To this extent the advent of social impact investment in the UK, while it represented an answer to the welfare state crisis, it also envisaged a further step into the "financialisation process" initiated two decades before the advent of the 2008 financial downturn. The economic crisis of 2008 acted as an enabler of such a process, reducing the families' out of pocket spending capacity, and also affecting their fiscal capacity.

In Italy, instead, the social impact investment approach built on a pre-existing form of social finance, and it developed through a quite different path. The Italian social impact investment ecosystem did not follow a clear design, being able to be translated into a defined strategy and thus to shape a policy agenda (that is what defines the UK experience).

The rise of the Italian social impact investment movement followed rather a bottom-up approach. It is not by chance in fact that in Italy, at least in the first phase of development, rather than social impact investment, the public discourse focused on another term, i.e. "social finance" (finance for those actors working in the field of "social"). Indeed this term defined the conceptual perspective through which the social impact investment phenomenon has been understood: a set of financial tools and products to support and foster the social economy, as an answer to the crisis of the Italian long lasting tradition of social finance. This feature characterises the Italian social impact investment market development cannot be underestimated when trying to grasp its development paths.

In light of the important role played by the specific institutional settings, in order to better understand how the social impact investment practice emerged in Italy, it is worth to start with a general overview of the context. It seems reasonable to say that Italy has one of the strongest Third Sectors in Europe, ranging from philanthropic foundations to cooperatives to social enterprises, generating almost €70 billion (4.3% of GDP) (ISTAT 2017). Moreover, not-for-profit organisations cover a wide range of activities, spanning, from culture, sport and entertainment, to social assistance and care, education and research, health or philanthropy.

The Italian Third Sector is funded by many actors, all belonging to the long lasting tradition of social finance which, compared to other countries, showed a quite important volume, being one of the biggest in Europe in term of both employed workers and number of entities (EESC 2016). To better understand this pre-existing experience, it might be useful to mention the emergence of some initiatives by commercial banks and philanthropic foundations originated in the Nineties after the adoption of the Amato Law act.

For instance, in 2007 the largest bank in Italy, Banca Intesa San Paolo, founded Banca Prossima (and since 2016 this is a Certified Benefit Corporation). Within the Group, Banca Prossima was meant to be the bank with the mission of serving lay and religious not-for-profit organisations, with a specific service model, products and consulting services dedicated to this type of customer.

Following such an approach, and the willingness to engage with Third Sector organisations, also Banca Sella and Banca Esperia established philanthropic funds, with the aim of collecting capital, invest it in products able to give a market-average return, and devolve a percentage of their fees to charitable organisations.

Another relevant initiative is represented by the launch of social bonds: designed and implemented by UBI Banca (the third retail bank in the country), social bonds are debt that the bank sells on the market to finance its own operations; the bonds are “social” because the bank commits to devolve to charitable activities a small percentage of the return to investors.

At the same time, the appearance of bank foundations in the Italian economic landscape has been the result of a deep legislative process of reform involving the Italian banking system during the Nineties. Following these legal initiatives, Italy had a strong, new, private foundation community created out of a process of privatization.

The financial weight of such an experience makes Italy the world leader in the field of what Salamon has labelled as “Philanthropication thru Privatization” (2014b), meaning with this expression the process through which the creation of significant endowed charitable foundations out of the proceeds of the privatization of state-owned, or state-controlled assets, is achieved. A figure that might give an idea of the overall comparative picture is the one reporting the number and the assets amount for the main countries that – since the Nineties – have been affected by this process of change (**Table 13**).

This shows that the seeds for the social impact investment landscape in Italy can be found somehow *ante litteram* since the creation of cooperative banks, further reinforced by the creation of numerous institutions operating in the credit sector, which extended their services to the Third Sector. These institutions have always operated with relatively simple financial instruments, being mainly focused on the provision of credit through mortgages and loans. More recently, however, the availability of credit to Third Sector has been mainly provided as a contribution to the liquidity of not-for-profit organisations, which had a large part of their revenues from the outsourcing of public services and the grant-making activities of the strong philanthropic sector.

Table 13 - A “Philanthropication thru Privatisation” comparison across countries

Country	Foundations		Assets	
	Number	%	Amount (US\$ Millions)	%
Austria	33	6.1%	\$4,882.9	3.6%
Belgium	1	0.2%	\$408.2	0.3%
Brazil	3	0.6%	\$2,542.8	1.9%
Canada	1	0.2%	\$53.0	0.0%
Czech Republic	73	13.5%	\$206.7	0.2%
Germany	29	5.4%	\$15,672.1	11.6%
Hungary	1	0.2%	N/A	N/A
Italy	103	19.1%	\$72,021.9	53.4%
Netherlands	1	0.2%	\$497.8	0.4%
New Zealand	36	6.7%	\$7,073.7	5.2%
Norway	4	0.7%	\$6,227.7	4.6%
Poland	4	0.7%	\$511.3	0.4%
Slovakia	2	0.4%	\$24.7	0.0%
Sweden	35	6.5%	\$1,478.8	1.1%
United Kingdom	9	1.7%	\$3,170.7	2.4%
United States	199	36.9%	\$19,988.5	14.8%
Other	5	0.9%	N/A	N/A
Total	539	100%	\$134,760.8	100%

Source: Adapted from Salamon 2014.

As it seems clear from the information reported above, the history of Italian social finance is rooted in a long lasting tradition of financial credit services, philanthropy and public procurement of social services. Although many more cultural factors have a real explanatory power, numbers behind the Italian social finance’s story partly explain the reason why the Italian Third Sector, or social economy, can be considered as one of the most developed in Europe.

5.1.2. Third Sector and finance: the starving cycle of not-for-profits

Against such a rich landscape of experiences, it is however difficult to avoid an uncomfortable question: why has the pre-existence of such a developed social finance sector not translated into a prompt and full emergence of a strong social impact investment market? The answer to such a question is in part related to how the relationship between capitals in support of the Third Sector and all the various actors related to it has been structured.

Above all, it is a matter of understanding what effects the already existing social finance has had in terms of behaviour and morphology of Third Sector organisations. To this end, it is needed to shift the focus from the quantity of available resources to their quality: this means looking at the relationships the not-for-profit sector established with the world of financial services, the use the Third Sector made of the received resources, and the consequences this relationship had with regard to the behaviour and morphology of the social economy actors.

To this extent, and in order to complete the picture of the pre-existing Italian social finance, it should be mentioned the role of the public sector: in fact, at least since the Nineties, under the influence of New Public Management approaches and the trend toward privatisation in service delivery, and therefore the development of what has been named "welfare mix", a pervasive process of contracting out has been put in place, meaning an increased role of not-for-profit organisations in the delivery system of social and health related services (Ascoli and Ranci 2002). This phenomenon, which consequences might be appreciated still today, brought the Third Sector to be heavily dependent on public resources, i.e. payments made by the public sector versus production and delivery of services (traditionally priced for the outputs).

However, to the purpose of the reflection here proposed, the financial dependency of the Third Sector it is not the only relevant aspect to be taken into account. In fact, according to Ranci et al. (2005), the state and the Third Sector were heavily dependent on each other in functional terms, but this did not translated into any close co-operation in setting goals and planning, thus giving rise to a contradiction which seems to be particular to the Italian case: the close functional interdependence seems emerging along with weak government regulation of the sector and a failure to base the partnership regime on explicit criteria of what is public interest.

In other terms, while the recognition of the role of not-for-profit organisations as either primary or supplementary providers of social services was not clearly defined in law and government programs, being such a recognition very often implicit, the relationships established between the public sector and the Third Sector may therefore be defined in terms of a "mutual accommodation" model (Ranci et al. 2005). This mutual accommodation consisted of a relationship in which there was no co-operation between State and Third Sector with regard to objectives and planning, rather a strong functional interdependence between the two.

Since the scope of the not-for-profit world and the public sector relationships was basically the delivery of services, and considering the increasing influence of New Public Management approaches, focused on efficiency and cost-effectiveness of purchased services, the idea of a Third Sector able to deliver high quality services with very low operational costs quickly spread and became part of the public mind-set.

This idea has been strengthened by the approach assumed more recently by the Italian public administration. According to many scholars (Ranci et al. 2005) in fact, the Italian public sector, in contrast with what advocated by the Law 328 of 2000, which was meant to open the season of a new subsidiarity, seems to consider itself as the only subject authorised to read and interpret raising social needs, identify and design the social services that a Third Sector organisation will be contracted to (only) deliver.

This implies also what has been defined as the "copyist paradox": once the mechanisms of engagement and dialogue with civil society organizations and stakeholders has been

undermined, the public administration basically proceeded to replicate, almost mechanically, the already in place social programs, without questioning the relevance of the provision of services with respect to social needs (Mento 2018). These two aspects, along with the focus on efficiency, brought to an isomorphic process of the Third Sector organisations, which – according to Carazzone – lost their identity, and the awareness of their mission, becoming mere suppliers of services (2018).

Such a picture, probably a bit too severe, however explains why a strong preconception, the one that would like to see Third Sector organisations always reducing their management costs to the extreme, has remained strong in the public opinion, as well as among the operators in the sector. The myth of the need for Third Sector organisations to squeeze their operational and management costs was indeed quite spread in many countries. However, while this idea has been declining in several countries over the last decade, and an increasing number of experts and stakeholders started to confute it, in Italy it remained monolithic and unchallenged in the public opinion, and stereotyped in the practices of most public and private donors⁶.

The mantra that the Third sector itself should be cheap and that all funding should be allocated to projects with the related formula of the percentage of structural costs / general costs as the only indicator of efficiency, reduced Third Sector entities to “project-builders or project-executors”, with inadequate organisations, structures and staff. Indeed, both in the case of organisations that work with the public administration, and in the case of organisations supported by philanthropic foundations, individual projects have become more and more the driving force – when not the inspiring one – for Third Sector actions, thus reducing these organisations' long-term vision and their ability to design development strategies.

A “working by projects” approach, used as a main tool of action for Third sector organizations, has in fact supported the idea that expected results can be reached through a list of predefined activities in a limited time, with a predetermined budget all or almost to be allocated to activities that do not cover the organisation's general operating costs, but must be additional. This approach does not allow such organisations to create a real a transformative social impact of the system, since based on instruments that are not able to capture the complexity of the processes of social change, trying to harness articulated actions in linear meshes, way too narrow, limited and binding. The institutionalisation of the separation between the promotion of processes of social change and activities has thus produced an inherent weakness of not-for-profit organisations and their almost total dependence from projects (Carazzone 2018)⁷.

Therefore, the idea of an almost zero operating cost of Third Sector organisations, together with the bidding mechanism, strongly exposed the Italian Third Sector organisations to the risk of a “starvation cycle”: this happened with the increasing level of vital competition between not-for-profit entities and produced an effect of adaptation, of isomorphism of the organisations of the Third Sector as efficient project designers and mere service providers.

Over the time indeed, Italian Third Sector organisations had to start dealing with this starvation cycle risks, evocated by cash flow and operational capital issues, due to payment schedules policy adopted by the public administrations and related delays in transferring resources.

⁶ The percentage of operational costs for Third Sector organisations usually span between 7% and 15%, and only in few cases it reaches higher point. However it is always lower than the average for for-profit actors that are usually around 35% (see *The real cost of doing business*, Standard & Poor's Global Industry Classification).

⁷ These morphological dynamics have been considered by the literature since at least a decade, when Goggins Gregory and Howard published *The Nonprofit Starvation Cycle* on the *Stanford Social Innovation Review* (2009). In their article there was a clear depiction of this starvation cycle, that according to the authors, envisages three main elements, mutually linked in a vicious cycle starting with (i) funders' unrealistic expectations on the operating costs of running a not-for-profit organisation, which brings to (ii) an adjustment / misrepresentation of overhead costs by Third Sector entities, that in turn, (iii) spend little and / or report back less than what they really spend, reinforcing false and unrealistic funders' expectations, perpetuating the myth that Third Sector organizations are expected to do more and more with less and less (Carazzone 2018).

Also those actors populating the so-called Third Sector that were and still are used to work with the support of philanthropic foundations faced this starvation cycle risk. To this extent is important to notice that Italian philanthropic foundations have always mainly worked through a grant-making approach, sometimes with some sort of reporting back, and in any case on the basis of clear projects (Carazzone 2018). To this purpose, the two main adopted mechanisms to select projects to be funded were either a direct proposal from a Third Sector entity, which would have become a beneficiary or a competition among different proposals, all elaborated to comply with the specific requirements of the open call.

However, the risk of a starvation cycle of Third Sector organisations has been in part mitigated, by the fact that an important number of resources has been made available by social finance actors offering not-too-complex financial products, mainly debt products like loans, in order to allow Third Sector entities to overcome their issues of liquidity and to make small and short-term investments⁸. This allowed not-for-profit organisations, either in the case they were working mainly with the public sector, or in the case of not-for-profit entities used to work on individual projects funded by philanthropic foundations (or in the case of a mix of both), to develop a relationship with the financial system mainly oriented to cover possible operating costs, while waiting a payment from the public administration or the award of funding for a project by a philanthropic foundation.

5.1.3. When the financial crisis hits: the rise of Social impact investment

In light of the above-illustrated trends, it is easy to understand that the 2008 financial crisis had important effects on the emergence of social impact investment in Italy. One of the main consequences of the decrease in the volume of available resources has been the higher level of competition among Third sector's organisations, which in turn exacerbated those structural limitations at the basis of the starvation cycle risk. On this point it is worth also remember the reduction in household spending capacity for health and care services, another important item of the Third Sector organisations' lines of revenue. These trends need moreover to be considered along with the general credit-crunch the credit system was suffering as a whole.

In such a situation, the starvation cycle, initially perceived as a potential risk, became real, with some relevant effects, including a polarisation between size and wealth of organisations: bigger and better structured organisations continued to grow, while smaller ones started facing financial instability. Nevertheless, the Italian Third Sector has been able to face the crisis, above all due to its high resilience and to a diversification of revenue strategy, such as greater openness to the market and new forms of engagement with private donors.

This allowed developing within the Third Sector a deep reflection, precisely in the direction of overcoming some cultural prejudices that for a long time has characterised it. This represented also the beginning of a general rethinking of the Third Sector as a producer of social innovation. In fact, the discovery of the Italian Third Sector productive capacity meant to question that model of mutual accommodation for which the Third Sector would be seen – for reasons of overall volumes and economic resources – as subordinate to others.

This reflection, still underway and not without internal resistance, has however reached the idea that, in order to face the great social challenges in a courageous, innovative and effective way, rather than funding for specific projects, the Italian Third Sector needs general operational support (overhead/core support), that is funding for the strategic objectives of the organisation – “mission-oriented” as Mariana Mazzucato would say (2016). In line with such reflection, a broader and general rethinking spread in Italy in the last years.

⁸ As an indicator, still in 2016, according to UBI-AICCON, the demand of finance in the sector mainly concerned loans and debt products in order to cover costs related to project's activities (2017).

This general rethinking constituted a window of opportunity for social impact investment to enter into the Italian debate, especially due to some actors that made such a topic the object of their mission. Therefore, while the social impact investment debate in the UK began with a top-down initiative by the then UK Prime Minister David Cameron, thus adopting forms and style, but also times and scale, of a public policy strategy, in Italy it started from a self-awareness exercise of a limited group of actors, as a grass-roots movement advocating for a change from a bottom-up perspective, and – probably the most important feature – building on the pre-existing social finance tradition.

In Italy, social impact investment has been thus proposed as strategy for a modernisation of the old social finance sector, the finance for those bodies playing within a defined perimeter, which is the Third Sector. To this extent, the social impact investment in Italy can be considered a conceptual spin-off of the Third Sector, and at least in a first phase, it has been conceived as an add-on, not a real strategy of general rethinking of the system. While this may be an element of weakness, since there is not a comprehensive vision able to act as a coordinating element at the policy level, on the other hand the raise of social impact investment represents a slow but not subject to the policy agenda process, therefore with a potential capacity for enabling a solid institutionalisation development, thus with a greater possibility of lastingly entering into the ethos of the actors already involved and of those that will be touched by this new possible paradigm change.

5.2. An increasing interest and the first movers in Italy

5.2.1. Experimentation and advocacy for the Third Sector reform

To better understand strengths and weaknesses, as well as prospective developments of the social impact investment in Italy is important to look at the dynamics and paths through which it entered the Italian institutional and entrepreneurial systems. In other words, to build a prospective scenario for the Italian social impact investment market, and to assess its potential, it is crucial to pay attention to the historical emergence of social impact investment in Italy, starting with the consideration on how it affected the Third Sector reform. In fact, although not dissipating the silent misunderstanding of social impact investment as a new generation of the more traditional social finance, the debate that brought to the Third Sector reform in Italy owes the social impact investment debate many of its innovations, which in turns represent a first achieved result of the efforts put in place by several actors.

Social impact investment entered into the Italian debate in 2013, through the participation in the G8 Taskforce on the topic, created by the then UK Prime Minister David Cameron, and led by Sir Ronald Cohen. At the same time, the adoption of the Italian Social Innovation Agenda proposed by the Italian Ministry for Research, allowed to identify a set of actions to address the most pressing social challenges faced by the country, and included reference to innovative financial tools that were considered enablers to unleash social innovation in the country⁹.

With the endorsement of the Presidency of the Council of Ministers, the work of the G8 Social Impact Investment Taskforce brought to the creation of the Italian National Advisory Board (NAB) coordinated by Giovanna Melandri, president of Human Foundation, and which has engaged representatives of the not-for-profit, private and public sector, resulted in the publication of a report aimed to catalyse social impact investments in Italy (Italian NAB 2014)¹⁰.

⁹ In the same year, Italy has been the first EU country to adopt a regulatory framework on equity crowdfunding, which scholars have considered as one particular form of social impact investment (Bugg-Levine & Emerson 2011).

¹⁰ Within the international debate led by the Taskforce, Italy has been since the beginning the flagbearer of a specific standpoint: *«the characteristics, and the existence, of the social impact investment market depend on*

Such an approach played a crucial role also with regard to the social impact investment advocacy strategy, i.e. shaping the efforts put in place by several Italian organisations. The starting point was in fact what has been shown by a Thomson Reuters Foundation's survey, which after an analysis of different countries in terms of the presence of a supportive environment for social enterprises, stated that social enterprises in Italy find highly difficult to get grant funding and even more to get debt and equity funding (TIRESIA 2016).

In the wake of this awareness, and building on first results achieved from a set of policy initiatives adopted between 2012 and 2013 with regard to technological and socially-driven innovative start-ups (*start-up innovative a vocazione sociale*), one of the recommendations proposed by the Italian National Advisory Board was to include a set of benefits and incentives into the Legislative Decree that would have regulated the raising phenomenon of social enterprises. In fact, the previous overall legal framework for social enterprises was seen as too restrictive and not aligned with the emerging needs of these entities (Calderini & Chiodo 2014).

The effort of the Italian NAB of the G8 Taskforce, formally ended in September 2014 with the publication of the report *La finanza che include: gli investimenti ad impatto sociale per una nuova economia*, has contributed to trigger the debate about the opportunities to leverage additional private capitals, beyond the philanthropic ones, and to use an outcome based approach in financing organisations with social goals.

In January 2016, the Italian NAB has been transformed into the Social Impact Agenda (SIA), an association that intends to be the advocacy network of Italian social impact investors¹¹. Beyond the monitoring of the implementation of National Advisory Board's recommendations, SIA aims to perform advocacy activities, supporting pilots' development, studying emerging best practices and produce a contribution to the international debate chaired by the Global Social Impact Investment Steering Group.

Comparing the new Italian NAB, i.e. SIA, with other national advisory boards and their successors, a main aspect that characterises the Italian experience is the establishment of a scientific committee, with which SIA launched a series of working papers, with the aim of further developing the understanding of a growing and quick-spreading phenomenon, and through which contributed to shape and keep updated the Italian narrative on social impact investment. The relevance of this approach, according to what was also advocated by experts in the field since 2015, is the building process toward an epistemic community that might support an interesting practice to become a possible paradigm shift (Pasi 2015)¹².

The advocacy efforts made by SIA, leveraging also on the commitment of the forming epistemic community, heavily affected the debate and the policy responses given by the Italian Government: in June 2016, the Italian legislator issued a Law delegating to the Government the reform of Third Sector and social enterprise and the discipline of universal civil service. By the beginning of August 2017, most of the subsequent implementing decrees were published in the Italian Official Journal and, including some of the Italian NAB recommendations and evidence coming from the experts' debate, what resulted is an attempt at harmonising, simplifying and incentivising the Italian Third sector¹³.

the features of social purpose organization and it is important to avoid the mistake to develop financial instruments that do not respond to the real needs of social enterprises» (TIRESIA 2016).

¹¹ Its members are several banks, aggregators of social enterprises, impact funds, foundation, insurance companies and consultancy firms.

¹² Looking at this growing scientific community, it is worth to mention TIRESIA, the first research centre fully dedicated to the topic of social impact investment, created in 2014. Led by a former member of the G8 Task Force and president of SIA's scientific committee, Professor Mario Calderini, TIRESIA quickly contributed to establish Politecnico di Milano among the top 10 universities performing teaching and research activities on social impact investment and its research activity is acknowledged by important academic journals (Daggers and Nicholls 2016).

¹³ Some changes in the legislator perceptions of the undergoing transformation within the Third Sector, and its willingness to support them, could also be appreciated when considering that already before the formal

However, the awareness of the need to change within the Italian Third Sector, and the belief that social impact investment could have been an opportunity to unleash such required transformation, precedes the adoption of the legal framework for the Third Sector. Along with the debate on the reform, banking foundations have shown interest for the development of new financial instruments and the creation of an ecosystem ready to receive new investments. While this can be considered a signal of available resources to feed the social impact investment market, it also shows the bottom-up approach that social impact investment in Italy is following, as set out since the beginning by the Italian NAB and then SIA.

In fact, within a quite extensive set of activities and initiatives already in places, at least since 2007, foundations started some piloting tests with debt and bond instruments within the raising social impact investment market.

Cariplo Foundation, for instance, is playing a leading role in building the social innovation ecosystem and opened a new line of social impact investment along with more traditional grant-making. It provides a good example of the dynamics taking place in the Italian system. Already in 2015, Sergio Urbani, Secretary General of Fondazione Cariplo explained that «*Mission Connected Investments (MCIs) are targeted socially responsible investments that yield social and environmental returns, while seeking moderate financial returns (2% above inflation)*».

This is the investment philosophy that was behind the extensive Social Housing programme designed and implemented by Fondazione Cariplo at least since 2004, when it created the Fondazione Housing Sociale, with the aim of beginning to experiment an innovative model based on sustainability and ethical investment, with the objective of expanding the range of planning instruments and seeking to involve in its initiatives other public and private institutions interested in supporting the Lombardy region in addressing the issue of disadvantaged conditions in housing through real estate projects of a social nature.

More recently Fondazione Cariplo created the Giordano Dell'Amore Fondazione Social Venture, with the aim of supporting the emerging social impact investment market, via direct investments and capacity building. This initiative should couple with the Cariplo Social Innovation program, and together, they constitute the Cariplo Foundation's intersectorial programme, to contribute building the Italian social impact investment ecosystem.¹⁴

Another example is Fondazione CRT, which already in 2007 founded a dedicated vehicle, named Fondazione Sviluppo e Crescita CRT. This is a not-for-profit organisation that focuses on the development and growth of the local Piedmont and Val d'Aosta territory, and according to its statute, it «*operates in accordance with the traditional and institutional activity of the Fondazione CRT including numerous innovative activities in the field of impact investing*».

Through its interventions the Fondazione aims to transfer skills, develop new networks, increase the sustainability of projects and promote innovation. To achieve these goals, the Fondazione's activities are planned mainly along three relevant paths.

approval of the Third Sector reform, and while the debate was still in its more open stage, Italy has been the first country in the world, after the United States, to recognise the Benefit Corporation (B-Corp) model into its legal system, thus acknowledging and accepting the possibility of hybrid organisations playing at the cross-roads of traditional and social economy. In Italy there are now almost 170 certified benefit corporations. ¹⁴ Cariplo Social Innovation, in particular, is focused on the demand side of a potential market: the idea is to support and enhance Third Sector organisations' capacity willing to enter a new social entrepreneurship dimension oriented to produce social innovation via economically sustainable initiatives. Fondazione Social Venture, instead, will act mainly as an investor, either through direct investment or co-investments. However, within the scope of the foundation's mission, there is also the aim of disseminating knowledge on social impact investment, thus confirming on the one hand the importance of this dimension in shaping an emerging market, and on the other hand, the need for a further effort in building the related epistemic community, keeping the debate alive and updated.

First, social housing: in this field seems to be worth to mention the Ivrea 24-SHARING initiative, which is a temporary social housing initiative in Turin, established in 2011 to meet the needs for temporary rental properties at controlled costs and is characterised by high energy efficiency with a low environmental impact. Still in the field of social housing, in 2008, Fondazione Sviluppo e Crescita CRT created the Fondo Social & Human Purpose, an initiative belonging to the Socially Responsible Investing, where ethical and financial principles are both taken into account. Managed by Real Estate Asset Management (REAM) SGR S.p.A, is exclusively supported by Piedmontese foundations of banking origins.

A second path of activities is the one in which there are shareholding and special investing vehicles: here it needs to be anticipated that since 2007 Fondazione Sviluppo e Crescita CRT has invested in PerMicro, a company specialised in microcredit and birth in Turin thanks to some of the Italian social impact investment pioneers.

Finally, Fondazione Sviluppo e Crescita CRT is active in the field of entrepreneurship and innovation carrying out several initiatives, among which some are related to crowdfunding, and others, such as the initiative Call4Ideas, oriented to select enterprises or entrepreneurial ideas with high potential social impact with the aim of supporting them in the definition phase of their business model, and in their growth¹⁵.

Therefore, to sum up, it can be argued that the raise of attention for the social impact investment phenomenon in Italy, and the attempts to build a related marketplace, came from some actors originally involved with the G8 Task Force that tried to translate the social impact investment global debate into the Italian one, i.e. the reform of the Third Sector and its need for overcoming the risk of a starvation cycle.

Thus the Italian social impact investment development assumed a specific demand side and bottom-up perspective, characterised by advocacy activities in which the scientific debate played a crucial role in shaping the emergence of a more comprehensive community, that in turn is becoming instrumental in supporting some experimentations put forward by philanthropic foundations.

5.2.2. Supply and demand: between innovation and path dependencies

In a context characterised by a growing interest for social impact investment schemes and principles, along with the advocacy activities mentioned above, many initiatives have been designed, implemented and promoted, either as pilot projects or new programmes. Although these initiatives claim to be linked to the social impact investment phenomenon, most of them seem to fit more with the pre-existing Italian social finance approach rather than with innovative financial schemes that embed the social returns into the financial revenues.

However, to be consistent with the purpose of this prospective scenario exercise, it is useful to mention few initiatives that seem to embody the most characterising Italian elements and dynamics of the social impact investment market development. To this extent it is not required that the initiatives below presented have already shown proved and achieved impacts, or even that the initiative has been fully implemented: what seems to be relevant is in fact the design and the adopted principles, since the rationale is to grasp logics and possible patterns guiding the emerging social impact investment market in Italy.

¹⁵ On a different scale, but of particular interest, in 2012, Fondazione Sviluppo e Crescita CRT created Cantieri OGR-Torino – Società OGR-CRT, a dedicated vehicle that purchased the 20,000 square meters, h-shaped building, the offices and the yards, previously known as Officine Grandi Riparazioni (OGR). This was an abandoned late XIX century industrial complex led to its planned demolition since the early Nineties. Through Cantieri OGR-Torino – Società OGR-CRT and an overall investment of 100 million euros, the property has been returned to the city, converted into a «*new heart beating on creativity, culture and shows, projected towards the world*». Behind the radical refurbishment and conversion of the OGR there was a plan characterised by hi-tech solutions, environmental sustainability, historical preservation, versatility of spaces and accessibility for all.

This is the case of an initiative that is worth to be mentioned, despite the project remained at a design phase and has not been implemented up to date. In 2014, with the involvement of the Group Intesa Sanpaolo (through Banca Prossima), an interesting financial scheme has been designed and proposed in the area of waste cycle management by the city of Naples, which to dispose of one tonne of waste at facilities located in Northern Italy, including the cost of transportation, was spending about €140. To cope with such an expense, which, did not end in itself precisely because of damages to the city's reputation, the administration presented a project for the construction of a composting plant for an overall cost of €14.6 million in Scampia, one of the poorest districts in the city. The project envisaged building a modular type plant that, thanks to innovative technologies, does not involve combustion rather cold extraction without emission of substances and odours produces biogas, in addition to significant amounts of high quality compost¹⁶.

The Intesa Sanpaolo Group, through Banca Prossima, expressed its willingness to finance the plant by issuing a bond, called TRIS (*Titolo di Riduzione della Spesa pubblica*, i.e. *Bond for the Reduction of Public Spending*). TRIS was designed as a risk-free bond (since Intesa Sanpaolo was guaranteeing the entire project cost) that would have yield to investors interests in line with those of public debt bonds, over five years. Interestingly, the pricing of invested capital, i.e. the interest rates for repayment of funding, was a linked to the reduction of public spending in the waste cycle management. In fact, important savings were expected: ASIA, the publicly owned company that manage the entire waste management process in Naples, on the basis of the new agreement, would spend €100 per tonne to give the new plant the collected waste (compared to the previous cost of €40 per tonne). This would imply a saving of about €800,000 per year with respect to the past. To sum up, the scheme envisaged first, quantified savings for the City (€40 per tonne of wet waste treated); second, zero risk for private or institutional investors (the whole investment was backed up by the Bank's guarantee); and third, no public entity issuing the bond, rather a private player¹⁷.

Another relevant case is the UBI Social Project Finance. Since November 2015, UBI has undertaken what can be considered the first Social Impact Project Finance initiative in Italy, in order to renovate a local residential care home in Turin and improve assistance for the elderly by creating a network of services for the local community. The goal was to increase the number of care homes from 117 to 144 and maintain them over time, besides delivering a minimum of 400 hours of home care per year (equalling care services to around 100 elderlies) by the Alice Project. The project involved total financing of €8 million granted by UBI Banca to a special purpose vehicle (SPV) owned by Torino Sociale Cooperativa Sociale Onlus (TSC Onlus), a local not-for-profit, and with additional support to the Alice Project, in partnership with the City of Turin and the local health authorities (ASLTo1 and ASLTo2) for elderly assistance. The project included a Senior Line (16 years) of approximately €6 million to TSC Onlus, and repayment through cash flows generated from the delivery of care services. Additionally, the initiative has been designed to achieve a possible reduction of the spread applied by UBI Banca to TSC Onlus by 0.25%, based on the attainment of predetermined objectives, through a pay-for-success approach. UBI Banca committed in paying €18,000 as a donation to cover the initial costs plus annual donations for a total up to €160,000 to the Alice Project, subject to the achievement of objectives which, as a start-up, would have encountered considerable difficulties in gaining access to sources of finance. Therefore, the Social Impact Project Finance played a pivotal role in guaranteeing on-going financial support.

¹⁶ The plant was projected to have a maximum capacity of about 20,000 tons a year of separated waste, producing more than 7,000 tons per year of high quality compost and 1.3 million cubic meters a year of methane (Pasi 2015).

¹⁷ Social impact was not simply linked to the size of ecologically sustainable waste management, because in the projected case it was planned that different social enterprises would have been involved in the various phases of the cycle of waste exploitation, thus helping to address an additional social problem, namely unemployment and integration of disadvantaged people particularly affected by the downturn in the labour market.

A different case, which however shares many features with those illustrated above, is the Social Impact Bond for social and labour market inclusion of ex-offenders. Although not started yet, it is entering in an implementing stage, with the signature of underlying contracts. Interestingly, the pilot project stems from the feasibility study *The application of pay-by-result tools for the innovation of social and labour reintegration programs for detained persons*, and represents a new model of public-private collaboration. Fondazione Sviluppo and Crescita CRT and Human Foundation carried out the study, with the contribution of the Polytechnic of Milan, the University of Perugia and KPMG, along with the support of the Department of Penitentiary Administration and the effective collaboration of the management of the Lorusso and Cutugno Institute of Turin. In this sense what seems important here is that the feasibility study has been the instrument through which many actors gathered around a common concrete objective: in such an attempt, stakeholders with a long tradition and belonging to a social finance world pre-existing to the advent of the social impact investment have interacted with new actors, born with the emergence of innovative financing models for social impact. The dialogue between these actors and others, such as two universities and a consulting firm, as well as public actors, is an important feature of this new effort.

A more recent case that needs to be noticed is the case of Ospedal Grando in Treviso. In September 2017, Ospedal Grando Impact Investing (OGII) was established as a company limited by shares with the mission to carry out social impact investments aligned with the project for the new hospital in Treviso. According to Addarii et al. (2018), this might be the first social impact investment initiative in Italy devised with an explicit purpose to combine profitability and impact to unlock the potential of a large infrastructure project accelerating innovation, economic growth and greater value generation for the local community. The main goal of the project in fact is to create a regional hub for health, with a total value of €250 million. The project was initiated in 2011 when the public sector was experiencing unprecedented restrictions on access to capital. So the Veneto regional authority which is in charge of health policy, opted for project finance. Lendlease, an Australian multinational corporation specialised in urban regeneration and infrastructure projects, won the contract to finance, design, build and operate the non-medical services for 21 years. Together with other financial and industrial partners Lendlease established the Special Purpose Vehicle Ospedal Grando S.p.A. (OG) to operate the project.

Although the initial plan was to issue a project bond to finance the project instead of borrowing from banks (as often happens in the United States to finance local infrastructures), the adopted solution found another form, since the European Investment Bank (EIB) offered to finance the project in a club deal with UniCredit Group, and Intesa Sanpaolo Bank Group. The lowest rate in the market performed by the EIB reduced significantly the cost of lending, and the use of the European Fund for Strategic Investment (EFSI) guarantee allowed managing the risks attached to financing the construction phase. EIB financed €29 million and OG saved 0.9% on the cost of debt, realising €1.8 million in savings that were earmarked for the capitalisation of OGII, the social impact investment vehicle, and investments in entrepreneurial initiatives related to public health in Treviso and the rest of the Veneto Region as, for instance, new e-health services. The choice to use the savings in their entirety for this purpose – instead of extra dividends for the shareholders, reducing the costs of the public sector or a grant to the community – was an initiative of Lendlease then formalised in the financing contract between OG and the banks¹⁸.

This case is especially relevant because transforming the financial model for the infrastructure project, has generated new resources to be invested as a corporate venture capital operation with impact and has increased the overall value of the

¹⁸ Benefiting from the length of the contractual relationship and leveraging on evident impact on the well-being of the local community, Lendlease wanted to test the potential of social impact investment principles to improve the current model for infrastructure projects and tasked PlusValue, a London-based research and consultancy company specialised in social innovation solutions to support and advice on such an endeavour.

infrastructure project with benefits for all shareholders. If on the one hand the case represents a pilot to prove how social impact investment can be embedded in projects financed by the EIB, justifying the special lending conditions the EIB offers, on the other hand it also shows that social impact investment can operate at scale, being relevant to major industrial players and institutional investors¹⁹.

5.2.3. Public-side initiatives: a scattered plan of actions

While bottom-up social impact investment initiatives have started to be designed and implemented, often with the involvement of the public sector, public-driven initiatives designed according to social impact investment principles, or aiming at supporting such practice, despite having been advocated by many actors, seems not having been fully implemented so far.

In particular, some initiatives have been set up to support the Italian social economy. Among these, it is worth to mention for instance the fund for social enterprises from the Ministry of Economic Development. On April 2017, the Ministry in concert with the Ministry of Labour and Social Policies launched a new policy initiative envisaging a set of aid and incentives to support the development of the social economy. The initiative assumed the form of a revolving fund with the goal of enabling the access to credit services for the Italian social enterprises. The measure is among those legislative initiatives that accompanied the Third Sector reform. The initiative envisages an active role and a direct responsibility of the bank, called to carry out an assessment of the socio-economic impact of the proposed investment programs. This assessment will consider three specific areas of impact: increasing employment of disadvantaged categories, social inclusion of vulnerable people and safeguarding and enhancing the environment, territory and cultural heritage²⁰.

Despite the innovative aspects and the positive impact this initiative, and similar as well, might have, however, it should be noticed that most of them seem to be more aligned with traditional sectorial incentivising policies rather than a policy oriented in supporting the raise of a social impact investment market in Italy²¹.

Among the public-driven initiatives closer to the field of social impact investment, one of the most advanced so far, at least in terms of conceptualisation and design, is probably the new Social Impact Investing Fund built by Regione Sardegna. During 2016, in fact, the Regional Council of the Region of Sardinia established an innovative financial engineering tool aimed at supporting pilot activities of social entrepreneurship that have a positive, measurable social and employment impact. Crucial to the overall design of the initiative is in fact the possibility to verify the social impact achieved, thus ensuring transparency and accountability in the management of the financial instrument.

¹⁹ In the wake of this experience, Lendlease is committed to replicate the success with the regeneration project for Arexpo Milan. This is a €2bn urban regeneration project to redevelop 100 hectares in the periphery of Milan that hosted the EXPO 2015, and build the most important scientific and technological park for life sciences in Europe with an estimated population of 60,000 people. This is deemed to be the largest urban development project that has a social impact investment strategy designed in the masterplan from the beginning with the aim of aligning the prosperity of the community with the financial and economic success of the project.

²⁰ The resources made available for the revolving Fund for Enterprise Support and Investing in Research amount to € 200 million, and it represents a premiere in the Italian context: it is in fact the first time a similar financial scheme is oriented to support actors pursuing social purposes. The financial rules underlying the use of the fund foresee investments between €200,000 and €10 million. Entitled to these financial aids are social enterprises and social cooperatives, and the financing, with an interest rate subsidy of 0.50% with a 15-year refund, is available up to the 70% of costs for manufactured goods, machinery, computer programs, as well as specialist consultancy, patents and overheads. The remaining 30% is expected to be covered by traditional credit services by the Italian banking system

²¹ To this extent, is also important to consider that – as defined when describing the purpose of this study in Chapter 1 – social impact investment is not a mere set of financial tools for enhancing social economy: therefore, while some initiatives in the field of social economy might be considered as belonging to the domain of social impact investment, not all the social economy incentivising schemes are to be considered by definition social impact investments.

The instrument, envisaged inside the measures of the "Priority Work" resolution approved by the regional executive in June 2016, will have an initial budget of €8 million (six from the "Social Inclusion Plan" of PO FSE-ESF-2014-20 and two by Axis III "Competitiveness of the production system" of PO FESR-ERDF-2014-20). The Fund invests, in the form of risk capital, in companies or organisations with the aim of generating measurable social, employment and environmental impact along with a financial return.

The Social Impact Investment Fund will intervene by providing loans, venture capital or bond issuance in favour of projects aimed at creating positive social impacts, and to this extent, it seems to go beyond the logic of traditional grants: privates receiving resources through the fund are committed to return the amount of received funding as in the private equity logic.

The logic is therefore that of revolving funds, which are self-generated through the repayment of funding. This feature combines private investors with the possibility of contemplating a remuneration system based on the results achieved, thanks to the savings coming from the use of the Fund's resources, thus innovating with regard the traditional alternative funding instruments, believed more expensive and unable to regenerate funds through the return of the resources disbursed.

Another interesting initiative, especially due to its institutional scope, is the National Outcome-Based Fund. On December 27th 2017, the Italian Parliament has issued its budgetary law (n. 205/2017), containing significant measures aiming to favour and strengthen social innovation in Italy in line with European standards. Among many provision, one envisaged the creation of a new Fund for Social Innovation. This fund was conceived as a support measure for the delivery of feasibility studies and the development of local and national public administrations' capacities to implement contracting schemes informed by outcome-based principles and mechanisms.

The new fund will have an initial budget of €5 million for 2018 and €10 million for 2019 and 2020 each. Concrete functioning and access criteria of the fund should have been further specified in an Implementing Decree by the end of March 2018. This new fund represented a substantial change and a key opportunity for the Italian public welfare system.

Despite the overall amount of money, quite limited in absolute terms, what seems to be innovative is the adopted approach. After years of debate, the Italian fund might have finally contributed to effectively start experimenting "payment by result" mechanisms, that are expected to increase the private sector involvement in the production of welfare services, their integration (inter-sectoral as well as intra-sectoral), and their measurability, at least spreading the culture of social impact assessment and evaluation. Moreover, this initiative reflects one of the most debated recommendations of the GSG, which advocated for "outcome funds" with the aim of attracting private capitals towards public administrations without replacing public resources, but integrating them and making them more efficient and effective.

Finally, it is worth mentioning that local authorities are also playing an active role, with an increasing interest for social impact investment especially conceived as a new approach to enable social innovation within local ecosystems. For instance, Torino Social Innovation is the first Italian municipal public programme that finances social start-ups through soft loans and grants. The Municipality of Milano, within the broader Smart City program, has supported the diffusion of social innovations to solve several urban issues, playing between social innovative incubator and urban regeneration projects. Other cities, such as Florence, are planning social innovation public programs (TIRESIA 2016).

Considering the picture here proposed, with regard to the public side of initiatives on social impact investment, it can be argued that while some actions are being taken, or at least debated by public authorities, the overall landscape is characterised by a scattered plan of actions, in which each programme is a stand-alone initiative.

Moreover it seems that there is no clear vision on what social impact investment should support: social economy and social entrepreneurship, start-ups with some social impact, Third Sector organisations, or for-profit firms that however generate positive social impact. This confirms the analysis of the genealogy of the emergence of social impact investment phenomenon in Italy, which came as a sort of evolution of social finance, playing an enhanced role when combined with social innovation. However, the debate remains open, and the full development of an Italian social impact investment market will depend on three main directions that the prospective exercise so far conducted seems to highlight, as the following paragraph explains.

5.3. Insights from the Italian social impact investment ecosystem

5.3.1. Beyond the need for investment readiness and capacity building

The current social economy structure demonstrates the potential existence of a new platform of investible social business models for an Italian social impact investment market. At the same time, it needs to be acknowledged that more research efforts are required to further profile and quantify the actual potential demand for social impact investment on a national scale. This effort, which requires extensive surveying of existing social entrepreneurship and profit-with-purpose initiatives, is crucial indeed.

At the same time, given consideration to the peculiarities of the Italian socio-economic and institutional context, some trends that have been identified on a global level, might be recognised also in the Italian ecosystem: first, public and private collaborations represent a robust way to test new emerging application of the Social Impact Investing principles and logics; second, financial institutions, i.e. the supply-side of the social impact investment market, seem ready and available to mainstream impact-driven capital allocation strategies; third, venture capital is eager to follow initiatives in which technology's role in social impact investment is clearer; fourth, grass roots strategies are emerging in addressing specific community needs.

As shown in the previous paragraphs, the concrete positive evidence for a potentially performative Italian social impact investment market is a florid and dynamic social ecosystem, which animates and is transforming the social economy landscape. This is however true mainly on the private side, with a determinant role being played by foundations of bank origins, such as Fondazione Cariplo and Fondazione CRT. These actors have pioneered innovative processes migrating from a purely grant-making model to the creation of social impact investment funding lines. Some financial actors have also developed new financing vehicles and instruments for social enterprises that while making access to credit easier for social initiatives also shift them towards a more robust economic sustainability.

However, there are at least a couple of challenges that this (potentially) performative social impact investment market still has to face. On the one hand, there is the investment readiness of potential investees of social impact investment. This means the need for further efforts in capacity building on the demand side of the rising market. On the other hand, and on a more general level, it seems useful to bring the debate ahead, overcoming a too narrow perspective on social impact investment: this is not a mere "moderniser" for the pre-existing Italian social finance, rather a set of principles and approaches that develop their effects on a broader scope than the one related to Third Sector organisations.

While the first challenge on investment readiness clearly brings to some specific and possible actions, oriented to support a capacity building process among the investment's targets, the second challenge above mentioned is quite more demanding. In order to accept that the social impact investment conceptual perimeter is broader than the Third Sector's one, a general rethinking of the relationships between finance, markets, and society needs to be developed among the involved stakeholders.

Then this might not be sufficient, if it will not reach decision-makers and those who have the power to shape the policy agenda. This depends on the fact that, despite the bottom-up approach followed by the Italian social impact investment phenomenon, at a certain point this new emerging market will need to be envisaged within a broader political view, entering in such a way into an institutionalisation phase.

5.3.2. Intangible infrastructures matter: the role of the public sector

Although there is not a broad national strategy with regard to the role the public sector might play within transformative process of the Italian social economy sector, the few and very early-stage policy initiatives that come from national, regional, local governments or related quasi-public institutions, seem to show the public sector role will be crucial not only in terms of possible investments, rather in building and providing the extremely needed intangible infrastructure, i.e. the social impact measurement and a regulatory framework able to aggregate and organise the demand-side.

These tasks might be carried out through various approaches and strategies, however, promoting benchmark practices in the social impact measurement domain, as well as a clearer legal discipline (also fiscal) are instrumental in enabling the Italian social impact investment ecosystems to flourish.

In particular, a further aspect that directly involves the public sector in shaping the future of the Italian social impact investment market is mainly cultural: a general rethinking of public accounting principles, as well as exploring new forms of institutional arrangements and *ad hoc* created bodies, are both worth to be on the agenda. Regardless specific provision that might be adopted in the future, this will however contribute to the advancement of an evidence-based culture, benefiting the demand-side and the supply-side of the future Italian social impact investment market, as well as the public administration and management practices, not to say its overall accountability.

Moreover, it seems worth to notice that, as it comes out from the experimentations put in place by philanthropic foundations and all the mentioned cases of more genuine social impact investment pilots in the country, the project finance nature of such initiatives is clear, and needs to be taken into high consideration when looking at the evolution of social impact investment in Italy and its prospective scenario: in such a situation the role of the public sector is – once again – crucial.

Insisting on the project finance nature of most of the promising social impact investment initiatives might also be a better way to keep the public sector in the game, while allowing it to enlarge the scope and boundaries of action of the Italian social impact investment ecosystem: the public sector's role in fact is not just that of injecting capitals or enhancing financial leverages for Third Sector organisations, rather to shape strategic objectives and mission to be pursued by social impact investment approaches. To this extent the public sector, or better, the policymaker seems to be the only actor able to draw the line between social impact investment policies and other broader policies on social economy, entrepreneurship, and innovation.

Finally, as a vehicle to build these intangible infrastructures, it is worth to notice how the procurement activities carried out by the public sector act as a demand-side stimulus that may push relevant actors to develop specific behaviours. To this extent, it is important to pay adequate attention also to the public procurement activities and related legal frameworks, as they will help to improve investment readiness and capacity building purposes, as well as to shape the required cultural shift mentioned above.

5.3.3. Synergies between traditional and innovative economies

The strong tradition of the Italian civil solidarity express itself mainly in the capillarity of the social economy initiatives, and it represents a positive peculiarity of the Italian ecosystems. However, such feature is also the reason explaining the fragmentation that characterises this world.

This negatively affects those actors that might work within the ecosystem, intermediating demand and supply: limitations deriving from this fragmented demand-side increase transaction costs, raising barriers related to the geography, the scale and the scope of those initiatives worth to be linked to the supply of finance.

At the same time, despite the traditional Italian economy shares many features with the social economy, and it can be considered fragmented too, it shows a slightly more mature attitude towards financial products and services. Moreover, a further aspect to take into account is its local dimension and strong link with territorial dynamics and communities' interests. These features might well work as communication channels through which investigating possible alliances between more traditional economic activities and those of the social economy. To this extent some experiences are emerging as benchmark initiatives, embedding social impact investment principles in more traditional economic fields, thus interiorising positive social externalities to their robust business model (see for instance the mentioned case of the Ospedal Grando in Treviso).

In this sense, an alliance between initiatives and actors playing in the world of social economy, on the one hand, and the production chain of some relevant industries in the country, could be a promising field in which new financial instruments that incorporate social impact investment principles can be applied. Here lies the reason for this prospective effort, with which we attempted to identify – by way of example only – some industrial sectors of the Italian economy that could be coordination nexus of a mature Italian social impact investment market, therefore entry point for new financial instruments for which the social economy has expressed a growing interest and need.

In the first place, we are thinking at the domain of water infrastructure, waste management and other public utilities: these sectors are characterised by quite high levels of intrinsic sociality, meaning with such an expression that in these domains, provided an adequate supply of patient capital, there is room to keep aligned social impact, represented by the public interest, and financial returns. This idea is furthermore supported by the fact that in Italy a large share of these markets is owned by publicly owned companies, playing de facto as profit-with-purpose entities, often in a quasi-monopolistic context.

Another industry that shows some relevant possible synergies with the Italian social economy is the one related to public interest infrastructure, urban regeneration and construction: as shown by some of the above mentioned cases, the field of real estate is an interesting area in which experimentation in linking social outcomes and profits has already taken place.

In conclusion, this prospective scenario on the Italian social impact investment market, although it would require further data and more in-depth analysis, allows however to identify a possible path for developing a successful strategy for achieving a fully performative Social Impact Investing market: in Italy there are some traditional sectors that seem to be strongly suitable for the internalisation of social goals; by increasing, via capital supply, possible relationships between these sectors and the dynamic social economy, a social impact investment market might grow up pursuing its own goals while valuing also more traditional economic models.

Despite the Italian social impact investment have so far developed within an important though limited conceptual perimeter, i.e. the one of the social economy and its traditional social finance, there are however interesting signs of a potential and significant expansion in the coming years. In particular this is related to the possibility of assuming social impact investment principles as an approach in designing new business models and interventions in several industries. This also means that, on the one hand, the initial semantic scope of the concept is undergoing a quite substantial change, in terms of width and potential "application areas" – merging "physical and social infrastructures". On the other hand, the Italian social impact investment market will probably embrace a development path quite different than the Portuguese one, requiring different volumes and types of capital supply, as the high recourse to EFSI financing instruments suggests.

6. Conclusions

6.1. Aligning interests and building new institutional frameworks

As the first chapter indicates the theme of this report raises as much hope as uncertainties. Reflection of the dynamism and potential of this area but also of its infant stages and uncertainty is a conceptual pluralism that risks confusing more than clarifying. As we discussed in **Chapter 1**, social innovation and social impact investment have become two popular terms. They have come to embody a broad set of transformations in the public and private sectors approaches to societal challenges. In this respect, the very diverse set of policies and actors engaged in developing innovative approaches to address such transformations further contributes to the conceptual noise. It is therefore important to briefly recall and outline our understanding of those terms.

Social innovation is a term developed in an almost organic form reflecting a diverse set of innovative ways to address new and old societal challenges. It calls the attention to innovations on social and environmental services and products or on the processes linked to such social services and products. As a consequence it challenges our understanding of how social goals can be pursued and attained and social policies funded and assessed.

Social impact investment, instead, is a term that appears to have been originally coined by the Rockefeller Foundation in the United States, arguably to call the attention of investors, beyond financial return, to other forms of return on their investment associated to common and social goods. It aims to promote investment directed to produce social and environmental returns.

We can say that the two terms "meet", in the sense that both aims at answering to increasing societal challenges by democratising how they are addressed at their input and output levels. In other words, by involving a broader set of actors and funding sources in the design and delivery of innovative solutions to those societal challenges.

The ultimate goal is that of promoting social justice and welfare in the context of new social and financial challenges. These new challenges but also the new opportunities generated by innovative public and private ideas are leading the social agenda in new directions. The focus is on how to render social actions more sustainable, internalise social goods into market activity, promote outcome oriented public policies and private funding of social goods. These are the core goals of the social innovation and social impact investment agenda and the opportunities it generates.

This innovation agenda expresses itself in new forms of providing common and social goods. It expands and transforms the social economy while changing the traditional paradigms of both the market and the public sector:

- *In the market context, it aligns market returns with social and environmental goals.* In other words, it aims at promoting investment that incorporates social values side by side with financial returns. This is done either by making traditional social economy projects more financially sustainable or by supporting and facilitating investment in for-profit market projects that internalise a strong social or common goods impact.
- *In the public sector context, it introduces a results or outcomes oriented approach to public policies.* In other words, instead of focusing on the provision of services, the State shifts its focus to the actual outcomes those services deliver. This has two immediate consequences: first, it shifts the metrics of public policies from how much of a certain service is provided to the actual results achieved by that service in the provision of the common and social goods; second, by paying for results the State creates a market for such outcomes, attracting private funding for public policies but also promoting a larger pool of ideas on how to provide and attain those social and common goods.

In **Chapter 2** we highlighted a set of instruments that are being tested and implemented in the context of this renewed social innovation agenda and the transformations that it can generate. These transformations however do not happen in a segregated form. On the contrary, they are the product of an interaction between private and public actors. For a market in social impact investment to emerge public policies are key to incentivise and support the development of market supply for investing in social and impact oriented initiatives. On the other side, for these new public policies to be successful the capacity to mobilise new ideas and financing from the market is crucial.

As we have seen in **Chapter 3**, the landscape of social impact investment is quite heterogeneous across Europe. The overall figure suggests social impact investment and the social innovation agenda are following different development paths in each Member State. This in turn brings to the attention a simple principle: in shaping any attempt to unleash the rise of a social impact investment market there is no one-size-fits-all strategy, as the market building process heavily relies on the context in which it takes place.

The context is made by several socio-economic as well as institutional features, that shape times and forms of the social impact investment ecosystem. This dimension is crucial as it may provide different rationales and objectives for developing the social innovation and social impact investment agenda. This comes clear when looking at some interesting cases, such as Portugal and Italy, as described in details in **Chapter 4** and **Chapter 5**, and summarised in **Table 14** below.

Table 14 - A comparative view of Portugal and Italy

	PORTUGAL	ITALY
Trigger event	Social innovation has progressively emerged in the Portuguese public debate through the actions of public opinion leaders, academic experts, and institutions (private and public)	Crisis of the traditional social finance sector and decrease in the amount of resources for public commissioned social services to non-profit organisations
What	In the planning of the programming cycle of PT2020 the government decided to use the opportunity of the new cycle of EU structural funds to develop a bold public framework for supporting social innovation and SII	The Italian SII did not follow – and still does not follow – a clear policy design, being able to be translate in a policy strategy and thus to shape a policy agenda
What	Portugal Social Innovation aims at (1) funding the full life-cycle of social innovation, through innovative financing programmes; (2) mobilising the social innovation ecosystem, to promote collaborative networks between public, private & social economy; (3) stimulating the creation and growth of a Portuguese SII market	The Italian SII have so far developed within an important though limited conceptual perimeter, i.e. the one of the social economy. However there are interesting signs of a potential expansion in the coming years, in particular due to the adoption of SII principles and schemes in designing new business models and interventions in some industries
Why	Portugal Social Innovation aims at (1) funding the full life-cycle of social innovation, through innovative financing programmes; (2) mobilising the social innovation ecosystem, to promote collaborative networks between public, private & social economy; (3) stimulating the creation and growth of a Portuguese SII market	The pre-existence of a social finance experience in Italy did not translate into a quick emersion of a SII market, due to the relationships the non-profit sector established with the world of financial services, and the behavioural and morphological consequences this relationships brought
Why	Portugal Social Innovation rationale is to build an ecosystem that will align both the demand and supply sides of social innovation initiatives and, in the process, overcome the existing financing constraints and unlock the access to adequate financing sources and instruments	The myth of a Third Sector that would have to squeeze its operational costs and the idea of funding only projects with the lowest percentage of structural costs/general costs, shaped not-too-complex financial products to be used for issues of liquidity and short-term investments
How	EMPIS was set up as a QUANGO – quasi-autonomous governmental organisation, equipped with 150ml euro from EU Structural Funds, allocated across four funding programmes (capacity building; Partnerships for impact; Social impact bonds; Social innovation fund)	When the 2008 downturn came, it also affected the Italian social finance traditional sector, and this allowed developing within the Third Sector a deep reflection that constituted a window of opportunity for SII to enter into the Italian debate
How	Portugal Social Innovation, through its operational body EMPIS, is coordinated at the center of government, by the minister who also coordinates innovation initiatives in the public sector	SII is a conceptual spinoff of the Third Sector traditional social finance, and it has been conceived as an add-on, not a strategy of general rethinking of the whole socio-economic system
Lessons / Results	The Portuguese experience suggests that there is not one way to build the SII market, rather each country adapts strategies and approaches, according also to the degree of political commitment	The Italian experience suggests there is not one way to build the SII market, rather each country follows its cultural and social paths, according to the institutional and political context

Success factor	The political consensus on the importance of social innovation has been instrumental, along with a highly motivated ecosystem in development, and increasing recognition of importance of financing experimentation	Scaling deep (impacting cultural roots, i.e. changing relationships, cultural values and beliefs) is instrumental to scaling up and scaling out, and it builds the cultural ground on which policy initiatives can be shaped accordingly
Success factor	Allocating the political/policy ownership to the central government has been extremely relevant in reinforcing the multisector vision of the initiative	Overcoming sectoral approaches in policy making might bring benefits to the SII ecosystems' growth and to the institutionalisation of bottom-up initiatives
EU Funds	It has been crucial the establishment of an agency like EMPIS, which concentrates the management of ESF funding for social innovation, allowing a consistent and comprehensive communication strategy	EU funds might help domestic players to promote their preferred policy options, introducing new policy frameworks challenging existing policy approaches or to experiment with new policy instruments within established policy approaches
EU Funds	ESF funding provided grounds for scaling-up entrepreneurial initiatives (leveraging anchor projects with visibility and impact), and, via a match fund model (ESF + private or public social investors), promoted a culture	In some cases, EFSI funds helped in building and implementing business models that embed SII principles and schemes into economic initiatives related to more traditional and strategic Italian industries

Source: Own elaboration.

Despite the differences that the contexts on which the cases are embedded clearly have, a series of common elements emerge from the analysis of the two experiences and the review of the social impact investment market in the EU and are at the core of the transformations taking place in the design, funding, delivery and evaluation of social goods. These are: innovation (new forms of planning, delivering and funding social services, products or processes); impact or results orientation (a focus on outcomes – the result actually achieved); proximity (these solutions tend to be initially tested and implemented at the level of decision making closer to the problem); integrated governance (they require the cooperation between different actors in setting the right outcome metric and designing and delivering the solution); high scalability (testing and learning usually takes place on a small scale but can be easily replicated).

It also involves a multiple set of diverse stakeholders: from public actors to private actors; from social economy entities to social enterprises; from organisations engaging in more incremental and process-centric innovation to organisations (social-start-ups) engaging in more disruptive product/service-centric innovation; from not-for-profit to for-profit but impact oriented actors; from social services providers to investors. All these are part of the ecosystem necessary for successful social innovation.

In this respect, the analysis undertaken in this research is applicable to multiple societal challenges and domains of what would fall under the definition of common or social goods. The conclusions stemming from the study in fact highlighted a number of key suggestions for introducing additional conceptual clarity to the field of social innovation.

- Social innovation should refer to the transformations in the design, funding, delivery and evaluation of social services and products that share the following characteristics: innovation; outcomes oriented; integrated governance; proximity and usually bottom-up; highly scalable. Social impact investment refers to one dimension of social innovation: directing and mobilising public and private investment towards policies and services that are measured by their social impact.
- Social innovation should not be limited to social policy *stricto sensu*. It is applicable to a large and diverse number of public policies and societal changes, involving areas such as social protection but also education, health, justice, migration, climate change, etc. In sum, any area with social impact in terms of producing common or social goods.
- Social innovation must be developed in an inclusive manner, engaging both traditional and non-traditional social stakeholders and public and private actors. A successful strategy needs to be successful in aligning, as much as possible, the interests of these different stakeholders. In this context, positive incentives, whenever possible, are clearly to be preferred to negative ones. Equally, creating an impact investment market and matching demand and supply therein requires the participation of all those actors in a long term sustained process.

6.2. Policy recommendations

The analysis of the current state of maturity of the different ecosystems across Europe, as well as the specific focus on the two experiences in Portugal and Italy, allows three types of conclusions on the building of a social impact investment market, and some proposals for the revision of the regulations on the use of EU funds.

6.2.1. Building a Social impact investment market

Demand

Social innovation depends on an ethos and a qualified demand that do not yet exist or at least lack the necessary critical mass. Social innovation, at the same time, creates and depends on the existence of a structured new market based on impact investment. This explains why, including in the more mature markets, even if many initiatives can be found, their relative weight in terms of social impact is largely insignificant when compared with traditional instruments.

Social economy entities are traditionally path dependent on grants. Their operational model is not prepared for reimbursable funds and in most cases presents limited financial sustainability. As a consequence, often they are not well prepared to put forward social innovation projects. They are also naturally suspicious of the emergence of new actors into their domain of activity and of changes in how their work is assessed (from the easy and more immediate measurement of how much they provide of a certain service to what actual outcomes result from that service in the medium and long term). The existing deficit on organisational/management skills and competences of most of these organisations does not only prevent them from fully entering and benefiting from this new space of impact investment and social innovation. It often fuels their opposition.

When they do overcome path dependence and the risks involved in innovating they often find out that, either traditional funding is not easily available for innovative projects, or that their nature often restricts their access to new financing instruments. They either finance themselves through an organic and patient growth or through the goodwill of traditional philanthropists – for instance foundations, corporations and high net-worth individuals. External financing of social innovation, through mainstream debt and equity finance is unaffordable due to their governance model or legal structure.

Supply

Critical mass is also absent with regard to impact oriented private investors. There are several reasons for this. Information costs on social innovation projects are high. The risks are even higher than with traditional venture investments in light of the character of social returns and their corresponding longer financial and more uncertain returns.

Investors tend themselves to distinguish between for-profit and not-for-profit activities. The idea of expanding their investment in what they traditionally would treat as a not-for-profit area is foreign to many of them. Thus, it is not strange for most investors to actually enter the impact investment as an extension of their traditional philanthropic work. This should also be welcomed while developing a specific offer on social impact.

In addition, traditional risk assessment instruments do not fit well the social sector where more moral oriented behaviour and stronger social capital will often provide better forms of risk assessment that are not, however, internalised in the existing financial instruments and investors practices.

Institutional and Public Infrastructure

With few exceptions, a comprehensive institutional and public framework is only slowly being introduced at the level of Member States and the European Union. Where this has been more successful it has often depended on strong political leadership, placed at the centre of government (crucial for the transversal nature of social innovation) and benefited from political continuity in these policies.

Even in the most success examples, however, are far from having achieved a full internalisation of the requirements of integrated governance and outcomes policies in the full scope of the administration. Neither do we have fully reliable and developed outcomes metrics systems. The public administration needs, itself, to change from a culture of welfare and public policies centred on outputs (on how much is provided or given of something) to a culture centred on outcomes (what are the results actually achieved). For this it is not enough to talk the talk of outcomes. Neither is it sufficient to develop results or outcomes indicators. Such indicators need to be reliable and genuinely outcome oriented and the link between the policy incentives and the outcomes must be established and guaranteed.

Social Impact Bonds (SIBs) are a good example of both the enthusiasm and prudence with which we should address social innovation. On the one hand, they are promoting innovative successful new forms of addressing societal challenges and they do it with the initial engagement and risk of private capital. On the other hand, their number is still very small (so small as to even prevent any reliable sample from which to draw significant conclusions) and most do not seem to provide any important return on investment. In addition, metrics seem to be hard to design for some of these projects rendering difficult or at least contestable the assessment of outcomes. There is also more to be done in terms of transparency since we found less data on the metrics and outcomes than initially expected.

SIBs also highlight the political risks involved in this area. In fact, the involvement of private actors in the funding or delivery of social services using these instruments, has led some to associate social impact investment and social innovation with privatisation. That should not be considered the case. First, social innovation private funded projects (such as SIBs) do not replace existing public services. They are complementary. One should not exclude, however, that, if successful they might come to be replicated and expanded by public authorities. One of the purposes (and advantages) of these type of social innovation projects is to test new solutions to social problems that, if successful, public authorities may later embrace or extend support for. Second, it should be noted that, contrary to other forms of public/private partnership, in these instances public money is only spent if the projects are successful and the outcomes reached. The risk is (must be) on the private investor. Third, there will be many cases where paying for results is applied to areas where the State was simply giving grants to private and social actors. What is done, in these cases, is to shift the way the State continues to fund these private actors' activities by focusing on outcomes instead of outputs.

Another potential political risk is associated with the deferring of costs. As mentioned, in some cases (particularly SIBs), an initial advantage for the State is that of not having to frontload the payment of the provision of a certain service. It will only do so if and when the result will be achieved. Naturally, if that is the case (and hopefully so because it would mean the contracted social outcome was achieved), this amounts to a deferral of costs. There is however a limited risk, if the metrics of the result will not be well established, that the State might pay more in the long term than the savings resulting from the social result attained. This is an inherent risk on any political decision where the benefit may be immediate and the cost deferred. It is crucial therefore for the measurement and impact assessment methodology to be solid so as to prevent that kind of distortive political incentive from emerging. Transparency as to the metric and indicators is crucial. The small scale of the initial projects is an additional control mechanism limiting such risks.

From the analysis, the following recommendations have thus been drawn:

- Adopt an inclusive strategy engaging both public and private actors and traditional and non-traditional social economy entities. This strategy should start by convening all those actors and decision makers from the public, private and social sector to design a national action plan. This will provide the basis for public action in terms of development of a comprehensive public policies framework.

- Put in place a capacity-building strategy to help the transfer of both private and public social actors to the social innovation and social impact investment *ethos*: the new forms of action, impact assessment and sustainability enshrined in the social innovation agenda.
- Clarify and expand the different types of social economy entities, including both not-for-profit and for-profit. Make the necessary legal amendments to the definitions and regulations of for-profit and not-for-profit actors so as to facilitate an expanded access to the social impact investment market.
- Support the gaining of scale of potential actors or the emergence of new actors by venture philanthropy financing models such as the Portuguese EMPIS partnerships for impact.
- Set up new outcome-based policy instruments such as SIBs or Pay-by-Results and supporting measurement instruments such as outcome labs and databases.
- Have a fully transparent policy on the outcomes indicators used, the metrics developed and the process through which they are developed.
- Promote a clearer articulation and complementarity between grants and financial instruments in light of the need for both that will continue to exist. This should include the testing of SIBs projects with both grants and innovative financial tools.
- Develop the financial instruments necessary to correct the mismatch between the mainstream financial products currently being offered by finance institutions and the specific needs of the social innovation and social entrepreneurship projects (e.g. in terms of maturity, risk, interest rates, etc.).
- Include wholesale financial instruments, so as to progressively put in place the private investment impact market necessary for a long term support of social innovation, not too dependent from the State.
- Engage political support and transversal government involvement at the highest level. Ideally, the public agenda on social innovation should be coordinated from the centre of government and be upheld on an integrated governance model. As already mentioned, continuity of support across political cycles is also crucial.

6.2.2. Reviewing ESIF regulations to unleash social innovation

From the analysis emerged that more mature ecosystems tend to depart from a reality where there is either a strong tradition of social economy organisations that can be progressively mobilised towards social impact investment and the principles of social innovation, or the existence of a set of transformative new agents or investors leaders that have often transitioned from the pure for-profit market into a more socially oriented market. Market champions indeed play a crucial role in the more successful cases. Equally important is the support of a well-developed and comprehensive public policies framework. Within this context, European funds should create incentives for the correct development of this public framework as well as help leveraging national funds. European Structural and Investments Funds (ESIF) in particular, are crucial instrument to finance social innovation and steer the necessary changes in the ecosystem and the public policies necessary for developing a social impact investment market.

Social innovation is a transversal priority of ESIF and this fits the results orientation currently enshrined in the EU budget and structural funds. The role of ESIF becomes more relevant and essential once we take into account the increasing pressure on Member States public budgets and social expenditure, hindering the necessary initial funding to promote such a change. To this extent, available research in the field has shown that EU resources allow introducing new policy frameworks challenging existing policy approaches, to experiment with new policy instruments and to promote – according to the leverage effect of multi-level governance mechanisms – local players preferred policy options (Sabato & Verschraegen 2016).

But some adjustments to the current ESIF regulations are considered necessary to facilitate this role and really match the rhetoric of results orientation with the set of instruments and incentives resulting from the implementation of ESIF rules.

As both the Portuguese case study and the Italian prospective scenario exercise highlight there are some implementation barriers to the use of ESIF in promoting social impact investment, as summarised in **Table 15** below.

Table 15 – Issues and policy recommendations on ESIF

	ISSUE	RECOMMENDATIONS
Financial Instruments	Very diverse starting points between MS, creating significant and differentiated implementation challenges across the EU	Defining a mandatory set of minimum requirements (derived from narrowing the existing ones) to be applied by all FIs, as a way to standardise application across the EU
	The complexity associated with implementing FIs and its decade long life-cycle (incl. a very lengthy initial set-up stage) that covers several ESIF programming periods	Providing binding blueprints and templates to be used by all FIs for common processes, including the detailed mapping of required financial and information flows
	Guidance notes were often released too late to be recognised as effective regulatory support or contributed to further delays in FI set-up and implementation	Creating a common knowledge repository (eventually as part of the FI Compass Platform) where MS could access practical examples / benchmarks of relevant FIs documentation
	Ex-Ante Assessment (EAA) to FI per se do not preclude the need for State aid notifications to the EC when implementing FI (duplications of procedures, increased regulatory uncertainty)	Expanding FI Compass (the EC/EIB capacity-building platform on FI) technical assistance model, creating specific EIB contact points to be assigned to each FI
	Support in capacity building in the operational national authorities is crucial and it has taken time to find the right fit	FI Compass needs to increase a more focused and case-specific technical assistance to MS, which adequacy should be assessed on an on-going basis
	In some cases delays occurred in disbursing the funds to final recipients and management costs were not always linked to performance, while in others there has been an over-allocation of resources to FIs which then remained in the funds, accumulating interest, management costs and fees	Maintaining the link between execution and further funding release, as well as improving the flexibility of provisions directly related to the payment of national public contributions to FIs, especially relevant for enabling faster implementation of FIs in Member States with tighter budget constraints
	There are significant potential impacts of important change in rules applying to already on-going processes, currently at very diverse stages of implementation across MS	Expanding off-the-shelf FIs also to other areas besides SMEs and urban regeneration and to other financial products beyond loans (e.g. equity, microfinance, etc.), transforming them in full toolkits to help direct application by MS
Matching venture philanthropy investments	Difficulty to finance immaterial projects or projects across eligible regions using ESIF	Authorising the use of funds across geographic boundaries in order to build the market and the social ecosystem
	Difficulty in using venture philanthropy money to finance expenditure that is not ESIF-eligible	Including social innovation among few selected domains supported across regions, and among few selected structural themes that cut across cohesion and non-cohesion regions
Social impact bonds	The reimbursement of eligible costs actually incurred and paid is not a suitable mechanism for the implementation of SIBs when ESIF replaces the State as the outcome payer	Allowing a broader use of a ESF simplified cost lump sum approach, that under the current EU rules is only available to projects below EUR 50.000, a threshold not adjusted to SIBs investment that tend to be much higher

Source: Own elaboration.

In addition, specific modalities for the review of the compliance with State Aid rules should be developed in order to reduce the need for additional State aid notifications at later stages of the implementation process. This could also include, perhaps, defining new domains of block exemptions for key emerging areas such as Financial Instruments targeting social innovation and social entrepreneurship. Current regulatory uncertainty may obstruct the development of these new areas of public policy.

6.2.3. Strengthening synergies between ESIF and EFSI

The European Fund for Strategic Investment (EFSI)²² is a fund that intends to help overcome the current investment gap in the EU, by providing a €16 billion worth guarantee from the EU budget, complemented by a €5 billion allocation of the European Investment Bank (EIB)'s own capital, to support projects that though economically viable have a higher risk profile than usually taken on by EIB. So, following usual EIB procedures, EFSI finances projects in domains of key importance for the EU, which also include the main areas of intervention of ESIF Financial Instruments, such as support to SMEs and mid-caps, urban regeneration, and more recently microfinance and social innovation.

EFSI and ESIF funds can be coordinated at least in three forms: EFSI supports a project that benefits from ESIF grant; EFSI supports a project that benefits from a ESIF financial instrument; or EFSI and ESIF can jointly establish a financial instrument at the wholesale or retail level. The latter can have a substantial leveraging effect with respect to national programmes funded by European Structural Funds (both by the use of ESIF funds and by attracting private investment). But it can also help in the capacity-building and governance dimensions that may lack at national level and in overcoming the geographic and thematic limitations to which ESI funds are subject to.

In managing the EFSI, the EIB has been assuming an increasing role in supporting development of Financial Instruments (FIs) at the request and on behalf of several Member States (JESSICA and JEREMIE funds managed at Member State level, the already EU centrally managed SME Initiative, etc.). Direct management of Member State ESIF FIs by EIB has been perceived as a more favourable alternative for Member States with no previous FIs experience or installed implementation capability.

It also represented a faster (though usually more expensive and standardised) set-up option for Member States ESIF FIs. In fact, as EIB is subject to previous global Commission clearance procedures it does not have to abide by the same lengthy and often limiting public procurement procedures or State aid rules of other similar players managing FIs at Member States level, even in cases where EIB is managing ESIF and Member State public resources on Member State behalf.

This is not, however, deprived of problems: while the Commission is pushing Member States for setting-up FIs in key areas to overcome market failures and closing investment gaps, it is also promoting a major EU-wide centrally managed FIs active in those same areas, for the exact same purpose. In particular, by relying on an easier route with asymmetric (and more favourable) rules, it not only increases the potential for overlap, but also exponentially rises the risk of cannibalising and crowding out the national FIs that in most cases the EIB, jointly with the Commission, was helping to set-up, implement and, in some cases, even directly managing.

In light of these risks the Commission has made efforts to develop a framework strengthening ESIF FIs/EFSI complementarity, although apparently favouring alternatives where Member States ESIF FIs leverage and are subordinated to EFSI FIs investments. These new rules have materialised in the 2016 COM proposal for an Omnibus regulation on the financial rules applicable to the general budget of the Union (including amendments to ESIF rules, namely to rules applying to ESIF FIs)²³.

It was in fact crucial to develop a clear strategy for the coordination and complementarity of Member States and EU FIs. An EFSI instrument managed at EU level offers more expertise, lower capture risks, fast results, standardisation, effectiveness, scale and

²² <http://www.eib.org/efsi/what-is-efsi/index.htm>

²³ COM (2016) 605: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the financial rules applicable to the general budget of the Union and amending Regulation (EC) No 2012/2002, Regulations (EU) No 1296/2013, (EU) 1301/2013, (EU) No 1303/2013, EU No 1304/2013, (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013, (EU) No 1308/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, (EU) No 652/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council, available online at http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-605_en.pdf

concentration of scarce resources while ESIF Member States FIs offer a proximity necessary for better ecosystem knowledge and development, flexibility, resilience, long term sustainability and stronger public policy alignment. These two realities are expected to coexist and complement each other in most Member States. But they can also develop joint financial instruments. ESIF is in fact starting to contribute directly to EU-level FIs. This is positive but also risks inverting the traditional “center-periphery” financial flow and reshaping Cohesion Policy, at least in what concern FIs.

A better allocation of tasks is thus necessary in light of the different added values such fund has. This might be for example reflected in a governance model where the EIB would focus on capacity-building/technical assistance and an evaluation of the incentives structures in terms of outcomes and its assessment while management would rest with national authorities.

In this regard, a recommendation emerged from the analysis:

- Following the adoption of the Omnibus Regulation, use the corresponding revision of ESIF FIs guidance notes, as well as the development of new EFSI FIs guidelines as an opportunity for establishing a level playing field between ESIF Member State-level FIs and EFSI EU-level FIs, establishing a uniform set of procedures, transparent checks and balances mechanisms that assure effective ESIF/EFSI complementarity as well as, where joint FIs would be developed, a governance mechanism differentiating between capacity-building and outcomes “policing” (to be placed at EU level) on the one hand and management (to be placed at national level) on the other.

At the same time, there are already examples of EFSI and ESIF joint financial instruments. They are projects where EFSI supports, together with ESIF, a national financial instrument addressed at that national market. In other words, while this might help increase the available funds for setting up a financial instrument at national level it does not, in itself, does much to increase the attraction of private investment into that financial instrument and the social impact investment market.

In light of the infant nature of the social impact investment market, the current limited number of potential investors and the high information and transactions costs in this market at this stage, it would be interesting to study a slightly different alternative in this area according to the following recommendation:

- EFSI could create a European financial instrument for social impact investment attracting private investment for social innovation and impact oriented projects. This European financial instrument would then work jointly with national financial instruments in selecting national investment funds or specific projects (depending on the wholesale or retail nature) to be jointly financed. The advantage of this model would be to have a European wide approach to the attraction of private investment for social impact investment in different Member States. The involvement of the EIB expertise would also raise trust in private investors at that level of the market. Finally, the creation of such financial instrument (that could be called the European Fund for Social Innovation and Impact Investment²⁴) would also provide a much needed visibility at the European level to the social innovation and social impact investment agenda. To this extent it would be helpful a study of the current Social Impact Accelerator, that has some, but not all or the same characteristics of what is suggested here²⁵.

²⁴ This proposal clearly reflects another idea circulated among experts and related to the establishment of 1 billion Outcome Payment Fund to address current EU challenges (see e.g. Addarii and Lipparini 2017), presented and discussed by the authors of this report with Sir Ronald Cohen and Karl Richter among others, during the event “Opening Up to an Era of Social Innovation : High-Level Conference”, jointly organised by the Directorate General Research and Innovation and the Directorate General Employment, Social Affairs and Inclusion in November 2017 Lisbon, Portugal.

²⁵ The Social Impact Accelerator seems in fact aimed at private investors at national level.

6.3. Towards the next EU Multi-Annual Financial Framework

Insights from the analysis and policy recommendations offered above aim at contributing to the on-going debate on the design of the next EU Multi-Annual Financial Framework (MMF), especially with regard to the use of EU funds in the next programming period.

As a matter of fact this exploratory research aimed since its inception at contributing to such debate and, along the research journey, some pieces of the analysis fed – and in turn have been influenced by the discussion on how to shape the EU budget proposal.

Recommendations have been in fact elaborated against the legal framework adopted for the programming period 2014-2020. However, they are still valid, also due to the fact that are formulated in general terms, addressing general principles that so far have affected ESIF functioning. At the same time, since we are currently in a transition phase, moving towards the programming period 2021-2027, it is reasonable to briefly conclude looking at the upcoming picture for the next MFF in light of this research's findings.

To the best of our knowledge, the next MFF will be shaped, to the extent of what here is of concern, by two relevant proposals now under discussion. On the one hand, there is the new proposal for ESIF; on the other hand, the European Commission has presented a proposal for the next MMF with regard to the new EFSI.

Looking at the proposal for the new European Social Fund, named European Social Fund Plus (ESF+), it is worth to notice that – in line with the policy context depicted in **Chapter 1** – it has been presented as the EU's main instrument to implement the *European Pillar of Social Rights*. The new ESF+ will therefore focus its investment in three main areas: education, employment and social inclusion.

Moreover, the ESF+ makes the case with its article 13 for a strengthened effort in unleashing the social innovation agenda, as set out in this report. According to the proposal, in fact, «*each Member State needs to dedicate at least one priority to support actions of social innovation and social experimentation or bottom-up approaches based on partnerships involving public authorities, private sector and civil society*» (European Commission 2018a).

With regard to the need of improving access to the fund, the new ESF+ proposal merges different existing funds and programmes (the ESF, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme, and the Programme for the Union's action in the field of health).

The merger of these funds and programmes seems in line with the need of streamlining and simplifying existing legal provisions across the different funds – as suggested in **Chapter 6**, increasing possible synergies between the different elements of the ESF+. Along with a strengthened link with the European Semester process as well as with the principles of the already mentioned *European Pillar of Social Rights*, this simplification seems to aim at a stronger internal consistency of the overall ESF+, enhancing its role as a policy tool to foster and steer the Social Dimension of the EMU.

In line with the recommendations advanced with regard to the reimbursement of eligible costs, the ESF+ proposal brings a major novelty that seems able to make it easier for national ESF authorities and project implementers to report and indicate costs: «*the ESF+ Regulation will notably broaden the use of simplified cost options for reimbursing Member States on the basis of lump sums or standard costs previously agreed with the Member States*» (European Commission 2018a).

Sometimes the pricing of social interventions, especially when particularly innovative, is not easy, indeed. In these cases, the ESF+ Regulation proposal advance the idea that the Commission «*will itself propose an average price for some standard measures [...], based on data from all Member States while taking into account national contexts*», and then it «*would reimburse each Member State a specified amount once a [...] measure has been successfully completed*» (European Commission 2018a).

While this gives space for more innovative approaches to be adopted, it also confirms the nature of the ESF+ as a tool to support the upward social convergence of EU Member States. Furthermore, this new approach in pricing innovative interventions may also act as a way to ease the spread of social innovation across different EU Member States.

In addition, as also reported by article 46 of the Common Provisions Regulation, and then specified with provisions of article 89, the ESF+ Regulation makes use of the new option to reimburse Member States on the basis of the achievement of results. This is a major change as it contributes to move from the output-logic to the outcomes' one.

Such changes seem promising for a more effective support of social innovation and social impact investment, especially when considered along with other aspects of the ESF+ proposal, in particular the fact that also monitoring and reporting requirements will be significantly reduced, and data collection requirements will be simplified.

The new ESF+ and the new Common Provisions Regulation are not however the only promising pillars of the next MFF. In fact, in June 2018 the European Commission released a proposal for an InvestEU Fund, to replace the current EFSI.

According to the Commission, the InvestEU Programme «*will bring together under one roof the multitude of EU financial instruments currently available and expand the successful model of the Investment Plan for Europe, the Juncker Plan*» (European Commission 2018b). The overall objective of the InvestEU proposal is to «*further boost investment, innovation and job creation, triggering an estimated €650 billion in additional investment*» (European Commission 2018b).

Several innovative aspects have been embedded in the InvestEU proposal, and to this extent the new plan, although building on previous experiences and still keeping the form of a guarantee scheme, it differs significantly with regard to the previous EFSI. In addition to a clear simplification of the Financial Instruments (FIs), with a move from a system composed by a multitude of FIs to a single EU investment support scheme, one of the most relevant novelties the InvestEU proposal brings is its internal organisation in four thematic policy windows (the previous EFSI had two): (1) sustainable infrastructures; (2) research and innovation; (3) small-medium enterprises; and (4) skills and social investment.

The thematic policy window on "Skills and Social Investment", also known as "the social window" envisages a €4 billion guarantee that is expected to leverage up to €50 billion to finance projects in areas such as (i) skills, education and training; (ii) social housing, schools, universities, hospitals; (iii) social innovation; (iv) healthcare, long-term care and accessibility; (v) microfinance; (vi) social enterprises; and (vii) integration of migrants, refugees and vulnerable people.

Importantly, and beyond the mere list of topics here reported, this thematic policy window of the InvestEU Fund is explicitly linked to the goal of delivering on the *European Pillar of Social Rights* (European Commission 2018b), thus giving the guarantee and its social window a clear policy mandate/purpose. This is in fact one of the key features of the new proposal, as it results at least from two aspects.

First, as argued by Rubio and Virel, «*the choice for a lower investment target and a more conservative provisioning rate [...] reflects the Commission's willingness to shift the focus from quantity (mobilising a major volume of private investment in a short period of time) to quality (crowding in private investment in specific sectors or projects of high policy added value which suffer from persistent market failures)*» (2018).

This less emphasis on volumes²⁶ depends on the improved economic context, where investment levels in Europe are practically in line with pre-crisis levels. Thus the role of public intervention – also in line with the momentum gained by the mission-oriented

²⁶ EFSI aimed to mobilise €500 billion of additional investments from 2015 to 2020 (multiplying by 15 the amount of the EU guarantee), while the InvestEU Fund's target is to mobilise €650 billion additional investments over seven-year period (a 13.7 multiplier).

policy approach advocated among others by Mazzucato (2016) – and with specific regard to Social Policy Innovation by Misuraca et al. 2017 – is seen as a tool to enhance investments in strategically relevant policy areas, according to a strengthened and thoroughgoing concept of additionality.

Second, as illustrated in the InvestEU’s impact assessment, the decision of allocating the InvestEU resources to four thematic policy windows relies on «*policy prioritisation, absorption capacity, and the size of the investment gaps*» (European Commission 2018b). And this “policy re-prioritisation” principle seems to explain in particular the significant increase of funding for projects under the InvestEU social window, also taking on board recommendations from the recent report of the High-Level Task Force on Investing in Social Infrastructure, where – not by chance – experts made the point for boosting investment for inclusive growth also dedicating a relevant part of the study to the social impact investment phenomenon, in particular to Social Impact Bonds (Fransen et al. 2018).

These assonances and frequent recalls to social impact investment and the revival of the Social Dimension of the EU as a key policy objective are signs of a renewed political commitment. As illustrated in the previous paragraph and emerged from the analysis of the Portuguese and Italian experiences, this commitment is crucial to build a social impact investment market.

However, in the InvestEU proposal there are more than assonances with the topics of social innovation and social impact investment. In fact, and in line with some of the policy recommendations advanced above, it is worth noticing that several issues related to EFSI governance mechanisms have been addressed.

According to the new InvestEU proposal, a major change is related to the implementation of the guarantee: this will not be exclusively entrusted to the EIB, as it was with EFSI. Rather the proposal envisages a plurality of eligible implementing partners. In fact, the InvestEU proposal foresees a direct access to the guarantee «to new partners, particularly International Financial Institutions (IFIs) active in Europe (such as the European Bank for Reconstruction and Developments, EBRD, the World Bank or the Council of Europe Development Bank) and National Promotional Banks and Institutions (NPBIs)» (Rubio and Virel 2018).

This would mean for the Commission to have the possibility to work with other implementing partners, as above suggested in mentioning some of the EFSI possible improvements. In fact, «*giving access to the EU guarantee to other public players with different expertise and geographic scope can help extend the reach of the new Fund to sectors or regions under-served by EFSI*» (Rubio and Virel 2018).

The proposal of opening the implementation of the EU guarantee to new actors, closer to the local level intervention, such in the case of social innovation and social impact investment is in line with what discussed above in shaping the policy recommendations on possible synergies between EFSI and ESIF, as well as on the opportunity to facilitate combination of EU-level instruments and national and regional promotional schemes,

Finally, and yet on the possible synergies between the InvestEU social window and ESIF, it is worth to notice that the InvestEU proposal envisages more incentives to transfer part of Member States’ cohesion funds to the EU level. In particular, according to the new scheme, Member State-level authorities can appoint their own Promotional Bank to set-up and implement financial instruments covered by the EU guarantee, thus lowering the risk of inverting the traditional “center-periphery” financial flow, and improving the allocation of tasks among different governance levels.

In view of these important changes in the structure, governance and modes of implementation, and with the purpose of supporting the further development of a social impact investment market, insights and recommendations drawn by this exploratory study on financing strategies and outcomes oriented approaches for a new generation of innovative social policies in the EU also set the ground for future research directions.

On a more theoretical level, what the social impact investment discourse seems to be missing, due to its pragmatic origins, is a direct reference to a theory of justice and a broader institutional theory, i.e. its link with current transforming institutions such as the State and the market. A possible direction to look at this is the one that has become particularly popular in recent times and that goes under the name of mission-oriented policy (Mazzucato 2016). This approach, in line with some of the novelties brought by the new InvestEU proposal, postulates that *«rather than focusing on particular sectors – as in traditional industrial policy – mission-oriented policy focuses on problem-specific societal challenges, which many different sectors interact to solve»*.

This conceptual approach seems to better envision, justify, measure and assess public investments, working within an ecosystem of public, private and Third Sector actors across the innovation chain. For this reason a mission-oriented policy approach focuses on the role of the State as shaping and creating markets, not only fixing them. It also enables the development of economic policy to be informed by a broader theoretical underpinning that needs to be explored. Such a research endeavour might contribute to a general rethinking of the current dynamics between the market and the State as advocated by many well-known scholars (Mazzucato & Jacobs 2016; Stiglitz, Sen, Fitoussi 2009) but also advanced as part of the IESI research under the concept of Social Policy Innovation by Misuraca et al. 2017.

To this extent, a renewed effort in investigating the potential theoretical underpinnings of social impact investment also suggests that worth to be explored is of course the issue of assessing, evaluating, and – probably of utmost importance – managing social impact. On this point, however, it should be kept in mind that one of the main challenges here is the pricing of invested capital against the generation of social impact.

This contribution, which could build on the concept of "Implied impact" (Evenett and Richter 2012), brings to a more empirical level, suggesting at least two directions worth to be mentioned. First, it is needed to further develop a social impact investment market ecosystem maturity index, with clear and well defined variables to formulate testable hypotheses on patterns and stages through which the market develops. Second, and with the purpose of gathering robust empirical evidence, a direction of research worth to be explored is the one that map policy actions undertaken by governments at different levels, in order to allow comparative studies, taking into considerations diverse institutional settings and policy design approaches of each analysed case and system.

To this extent, we see different research efforts that might be useful to carry out, in order to broadly define a research agenda for developing a monitoring tool/observatory of EU funds for social innovation and social impact investment. This monitoring system should feature some key functions, being able to (1) keep track of the performance of the InvestEU social window; (2) assess the actual additionality of funding moved by the InvestEU guarantee; (3) identifying best practices and most performing funded projects; (4) studying and analysing most promising cases to grasp success factor and thus provide expert support to the InvestEU Fund Steering Board, the Policy Boards and the relevant independent Investment Committee, and give guidance to the use of available resources for technical assistance.

Building on this approach, as well as leveraging on the methodological contribution offered by this research (see **Chapter 3**) it would be also possible to consider developing a more sophisticated framework, integrating a detailed taxonomy for the type of policy tools under use in each country as well as some more quantitative indicators. This assessment framework, acting as the backbone of the broader monitoring tool/observatory, incorporating social impact investment measurement and management principles and concepts such as the Implied Impact (Richter 2012) should represent the basis for setting up a macro-prudential stability index, intended to reduce homogeneity of global financial system through adding a variable in standard calculations, thus making of the EU funds a policy tool for helping to reduce the systemic risk when crises occur.

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