Interreg

Alpine Space

AlpSib

EUROPEAN REGIONAL DEVELOPMENT FUND

Funding social innovation
A public administration handbook on impact investing

UNIVERSITÀ DELLA VALLE D'AOSTA
UNIVERSITÉ DE LA VALLÉE D'AOSTE

This report has been produced within the framework of the subcontracting agreement between the University of Valle d’Aosta and the Valle d’Aosta Autonomous Region for the coordination of scientific activities, study and research concerning Social impact investments and Social Impact Bonds in the Alpine area - project n. ASP 397.

Scientific coordinator: Prof. Patrik Vesan (Università della Valle d’Aosta)
Authors: Filippo Addarii, Fiorenza Lipparini, Marco Sebastianelli (PlusValue)

1. Introduction

This report provides a general overview of the field of social finance[1], with a particular focus on its practical applications in the Italian social innovation sector, although some references will also be made to European and extra-European experiences. Its purpose is to revise all major developments in the field of impact investing in order to identify the key opportunities and risks involved in it from the perspective of public administrations. In particular, the target of this report are local administrators in the Valle d'Aosta and other alpine regions involved in the AlpSIB project. The latter is a European Interreg project aimed at connecting alpine communities and developing a common understanding of innovative solutions offered by Social Impact Bonds (SIBs) and social finance in general to meet NEETs' and seniors' needs. The selection of cases and best practices, as well as the type of analysis on which the report is built, reflects the particular aim of the project: its focus will be on supporting local level public policy oriented towards the aforementioned target groups. Beside this, the resources offered in this report were selected on the basis of a criterion of relevance – both thematic and economic-financial (size).

As will be discussed in the following sections, the size of social finance initiatives remains an important determinant of their success, due to the fact that the costs involved with them tend to make smaller efforts unprofitable and in need of heavy subsidising. This problem affects in particular SIBs, which due to their strict impact assessment requirements and the legal arrangements needed to make them work, are among the costliest instruments in the social finance quiver. It is thus not surprising that SIBs are still a chimera in the Italian landscape, which has instead favoured the use of other tools such as social bonds and projects mobilising resources coming from European financial institutions.

The report is structured in two central sections, one devoted to a brief presentation of the main impact investing tools that may be employed in the contexts mentioned above, and another devoted to an analysis of their main features. The latter will be divided in five subsections touching upon the following themes: a) purposes and opportunities; b) requirements and conditions for success; c) limitations and risks; d) the role of different actors; and e) social impact evaluation. Finally, some concluding remarks will summarise the key recommendations emerging from the report.

[1] As a first disclaimer, the terms social finance and impact investing will be used interchangeably, as it is customary in the Anglo-Saxon literature.

2. Social finance instruments

Several definitions of impact investing (or social finance) can be retrieved in a rapidly growing corpus of research, both academic, practitioner and policy-based. Among the most authoritative ones we shall cite the Global Impact Investing Network, which affirms that "*impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return*" (GIIN, 2017). Similarly, according to the OECD (2015), *"social impact investment is the use of public, philanthropic and private capital to support businesses that are designed to achieve positive, measurable social and/or environmental outcomes together with financial returns". Perhaps, most straightforwardly,* the G8 Social Impact Investment Task Force defines social impact investments as:

> "[…] those that *intentionally* target specific social objectives along with a financial return and *measure* the achievement of both" (emphasis added).

The definition provided by the G8 Task Force on Social Impact Investment, which was launched in 2013 by then British Prime Minister David Cameron and included a representation from Italy, is particularly fitting and identifies the two crucial elements, namely intentionality and measurability. Intentionality distinguishes impact investment from other economic activities which may generate positive social outcomes, but not as a direct consequence of a deliberate action. For example, traditional financial activities whose sole objective is that of increasing shareholders' revenues may well have a positive impact on social and environmental objectives, but shall not be deemed as impact investing in the aforementioned sense unless they do so purposely[2]. Measurability, on the other hand, concerns the possibility to gauge the value of the generated social impact in objective and consistent manners, and represents a crucial determinant of accountability and transparency. Although it shall be noted that the debate on the type and nature of social impact measurement is still far from having reached a definite consensus over principles and techniques – as will be discussed in the third section of this report –, measurability remains a pivotal element of the impact investing architecture.

Beside the intentional and measurable dimensions, social finance is characterised by other common traits. Among the most distinctive ones we shall mention the reasonable

[2] For a fully-fledged theory of shared value see Porter and Kramer, 2011.

expectation of a financial return. Impact investing, indeed, should not be considered at odds with the most basic principle of traditional finance, i.e. profit maximisation, but rather in harmony with the evolution of such principle in the direction of producing more than just economic value. The realisation of financial gains is therefore a prerequisite of impact investing whose importance may nevertheless give way to other non-financial objectives. For this reason, a partial trade-off between size of the financial gains and significance of the social impact generated is generally accepted and constitutes part of the essence of social finance[3].

One crucial facet of the impact investing realm consists in its breadth, which essentially depends on its relationship with a wide range of social needs that have manifested themselves with increasing force after the crisis (both economic and of legitimacy) that hit most developed countries during the last decade. Beside its effects on the corporate sector, one of the most tangible consequences the 2008 global financial crisis has been the progressive retrenchment of the modern welfare state and its ability to offer solutions to a wide range of growing challenges. Phenomena such as an ageing population, increasing migratory flows, changes in family structures, and the pressure on employment exerted by unprecedented technological shocks, are examples of circumstances that are threatening the capacity of public finance to cover the costs of basic services like never before. In the face of this emergency, from the solution of which will partially depend the survival (by means of evolution) of a social contract of sorts, social innovation presents itself as the application of innovative practices to societal problems, which require first and foremost a particular type of funding.

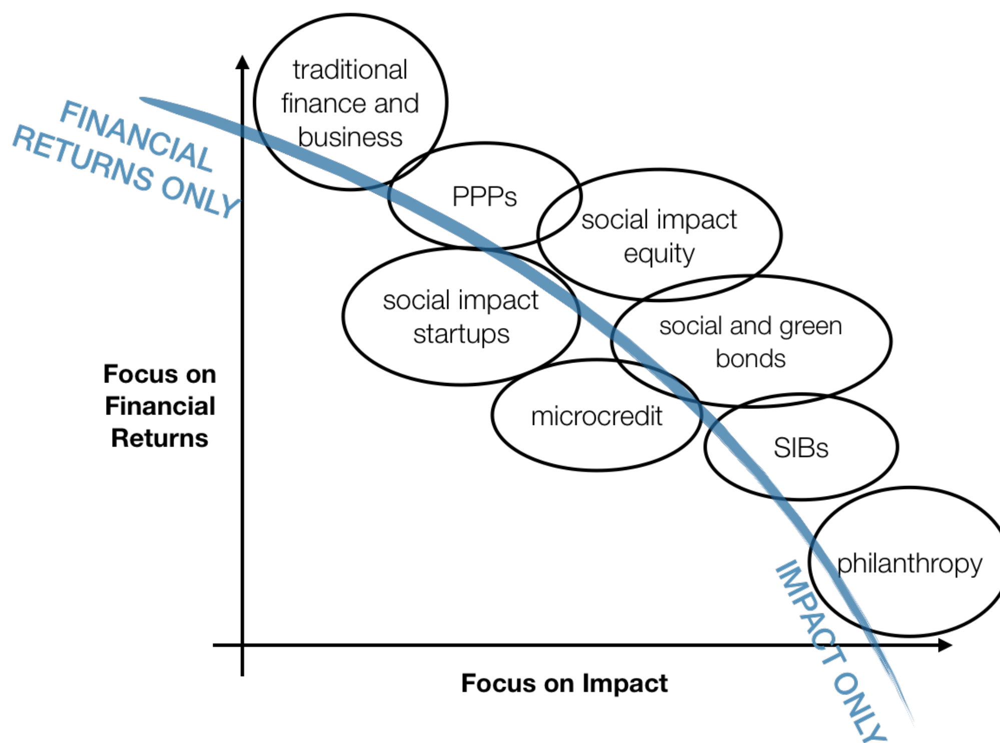
As will be analysed in greater detail in the third section of this report, social innovation imposes a number of conditions on the financing side, which have consistently discouraged traditional finance from intervening in similar less-profitable markets. The global financial crisis has instead generated a necessity which has driven stakeholders in both the social and financial sectors to overcome their respective biases towards each other.

Given the diversity of the social and environmental challenges that impact investing is attempting to tackle, it is therefore not surprising that the latter has grown in multiple

[3] Although some argue that there is no trade off, and that impact investing can guarantee market returns, the authors believe this is not realistic, at least in Italy given the maturity of the market.

directions, taking on different shapes depending on the specific objectives and challenges faced. In particular, most of the variations that social finance tools may assume can be efficiently represented along the axes of the degree of focus on impact and on financial returns (figure 1). The result is the impact investment spectrum specified on a linear continuum that goes from a focus on financial returns only to a focus on impact only: the first category includes traditional finance whose sole purpose is the maximisation of profits, with no explicit interest in the social impact generated, whereas the second refers to philanthropy, whose sole purpose is the generation of social impact with no interest in generating financial returns. In between the two extremes there lies a range of instrument categories that include investments targeting the mitigation of Environmental Social and Governance (ESG) risks, publicly listed funds dedicated to tackling social and environmental challenges, and Social Impact Bonds, which are particular outcome-buying instruments dedicated to sectors whose risk structure prevents the application of more traditional approaches (Bridges Fund Management, 2015).

Figure 1 – The impact investment spectrum



Source: Authors' own elaboration

In the remainder of this section the most significant impact finance instruments will be presented, with a specific focus on those that by design or similarity of background appear more relevant to inform considerations concerning the application of similar approaches to the Valle d'Aosta context. In particular the typologies of instruments that will be analysed are equity, debt, social bonds, social impact bonds and non-financial instruments such as infrastructures and innovative social impact start-ups.

2.1 Financial instruments: equity

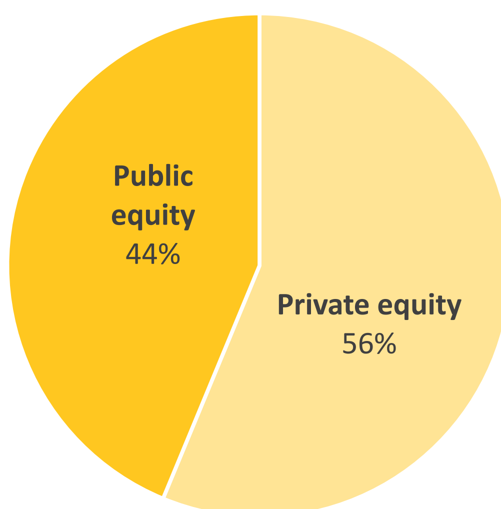
Social-oriented equity is essentially akin to traditional equity investments, and the main difference between the two – beside the impact-oriented nature of the objectives pursued by the companies in which investments are made – lies in the type of arrangements that define the governance structure within the investee companies. In order to avoid the risk of mission drift, i.e. the possibility that the company's social mission is overrun by a subsequent take-over by a board with a conflicting agenda (a possibility that will be considered in greater detail within the third section of this report), equity investments in social finance often rely on clauses that restrict the company's freedom to operate. Through equity, in fact, investors acquire control and voting rights in the investee company, and this generates the possibility for new capital to cause a shift in the priorities of the investee itself. Within impact finance this possibility is prevented through legal solutions.

Typical clauses that are employed in social impact equity are the obligation to re-invest a part of the investee company's surpluses in other socially-oriented instruments, or other strategies such as asset locks and 'golden shares' (Nicholls et al., 2017). The importance of similar clauses derives from the fact that social equity investments combine the business and 'impact' dimensions, meaning that companies with a social purpose will be driven to achieve social objectives, but they will also be looking for capital growth. The risk for the company is on the one hand for to relinquish its original mission in favour of more business-prone objectives, and on the other hand to discourage investments by means of an aggressive mission lock policy. Similarly, on the other side of the equation impact investors are interested in striking the ideal balance between generating tangible positive impact and ensuring that their investments gain economic value.

The market size of equity investments is the second biggest in social finance, with a value of assets under management of USD 45 billions in 2017 worldwide, equivalent to

32% of the whole sector, and big traditional finance players such as Barclays and Black Rock starting to step in. These values include both private and public equity – the latter consisting in those investments based on an initial public offering, by means of which a company starts to sell stocks on a publicly accessible exchange market. On the contrary, through private equity investments companies access capital owned by accredited investors and do not require neither an exchange market, nor to be publicly listed. Although private equity corresponds to a marginally bigger size of the market, the two are essentially comparable (Figure 2).

Figure 2 – Comparison of public and private equity markets



Source: Authors' own elaboration based on GIIN (2018)

At the Italian level, the main actor operating in the equity market has so far been Oltre Venture, an intermediary with over EUR 30 million of assets under management who received a EUR 10 million commitment from the European Investment Fund. Together with Oltre Venture, starting from 2018 another major social impact fund, Impact Alliance Fund[4], will start to operate in the equity market. Both Oltre Venture and Impact Alliance Fund will be introduced more into details in the following section.

[4] Two of the authors of this report, Filippo Addarii and Fiorenza Lipparini, are directly involved with setting up Impact Alliance Fund.

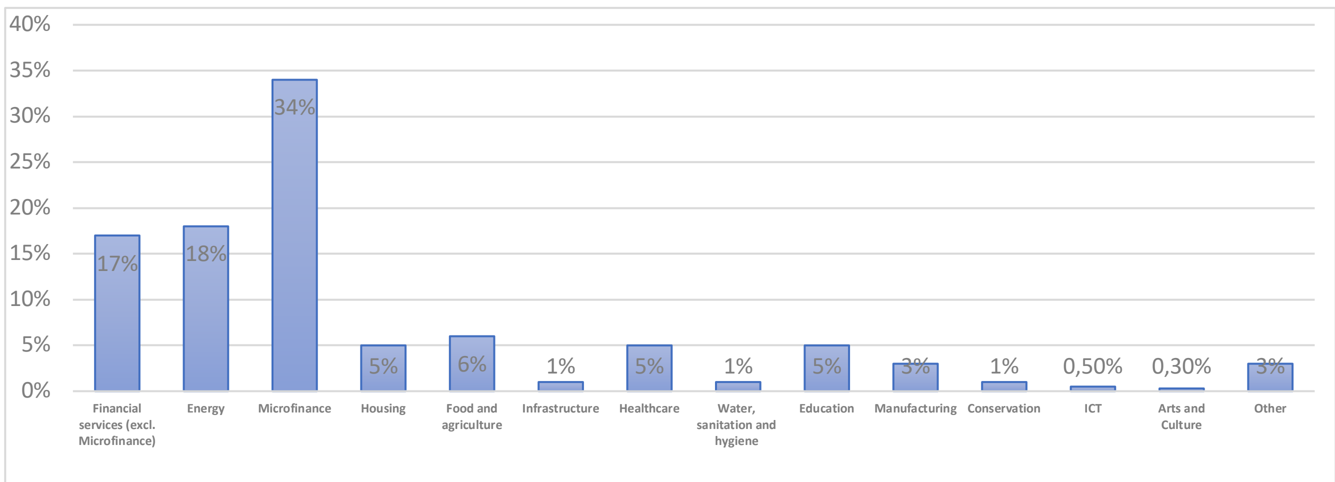
2.2 Financial instruments: private debt

Private debt consists in bonds or loans that are placed to a closed group of investors. Much like traditional finance, social impact-oriented debt entails a company founding its activity by means of borrowed capital, meaning that the investee will be owing money to another entity; this money will have to be repaid in accordance with a set of rules that typically include the length of the investment period and an interest rate. The latter, which essentially represents the cost of the borrowed capital, tends to be lower than equity investments, due to the lower amount of risk involved in them. The role of private debt in social finance appears to be particularly adequate to build sustained growth and scaling initiatives, especially because it allows a greater degree of autonomy to the investee. Private debt represents today the biggest category in impact finance globally, with over 41% of all assets under management falling in this category, and the latest recorded annual growth rate of 17% (GIIN, 2018)[5].

Within the social-oriented private debt market an important distinction needs to be made. The latter in fact includes two instruments, whose difference lie in the methods of utilisation of raised capital for each of them. The most common type of social bond has the greatest affinity to traditional private debt instruments and consists in capital invested in companies that have a tangible social mission. Like in traditional finance, this type of social bonds presupposes entities and people willing to invest in companies with social purpose – the only difference being that the interest rates, which may vary depending on the type of investments, generally tend to be somewhat below the market rate. The second type of social bond, instead, is based on the use of a small fraction (typically around 0.5%) of the raised capital to finance social-oriented companies and initiatives in the form of grants, i.e. donations that do not require any form of repayment. In this case the investee companies need not be social impact-oriented: the impact nature of this type of instruments derive from the fact that a marginal fixed portion of the capital collected by issuing traditional private debt is given for free to a predetermined beneficiary.

[5] Data on growth rates relates to the subsection of the impact investing market corresponding to the actors surveyed by the annual GIIN report. Moreover, it should be noted that, although its absolute value is in constant growth, the private debt share within the impact investing market is essentially stable: the 2015 GIIN Survey showed that private debt consisted in 40% of all assets under management.

Figure 3 – Sectorial distribution of the private debt market



Source: authors' own elaboration based on GIIN (2018)

Taking in consideration sectorial division, microcredit today accounts for over a third (34%, figure 3) of all private debt investments in social finance, with the second largest area of investment being the energy sector (18%) (GIIN, 2018). Microcredit – i.e., the allocation of small size loans to support entrepreneurial activities of unbanked individuals[6] – represents an attempt to solve the problem of uncollaterised entities. Thanks to microcredit, in fact, small size not-for-profits, which struggled to access to funding, now represent a substantial portion of impact investing and are believed to account for 33-45% of the GDP of developing countries. Despite their success in similar contexts, though, micro-credit has currently no major applications within developed economies, with the exception of Chile, where in 2017 state owned Banco del Estado del Chile placed a social bond aimed at financing a programme in support of female entrepreneurship[7].

In Italy Social Bond UBI Comunità by UBI Banca is by far the most significant initiative within the social impact debt sector with a market value of investments close to EUR 1 billion in bonds with social purpose. UBI Banca and its private debt initiative will be discussed more in depth in the following sections.

[6] Microcredit came to prominence through the work of Muhammad Yunus with the Grameen Bank. For more detailed guidelines see Alam and Getubig (2010).
[7] Interestingly, Banco del Estado del Chile issued the bond, whose size was roughly EUR 200 million, in the Japanese market, thus becoming the first South American issuer to place a bond outside the national market.

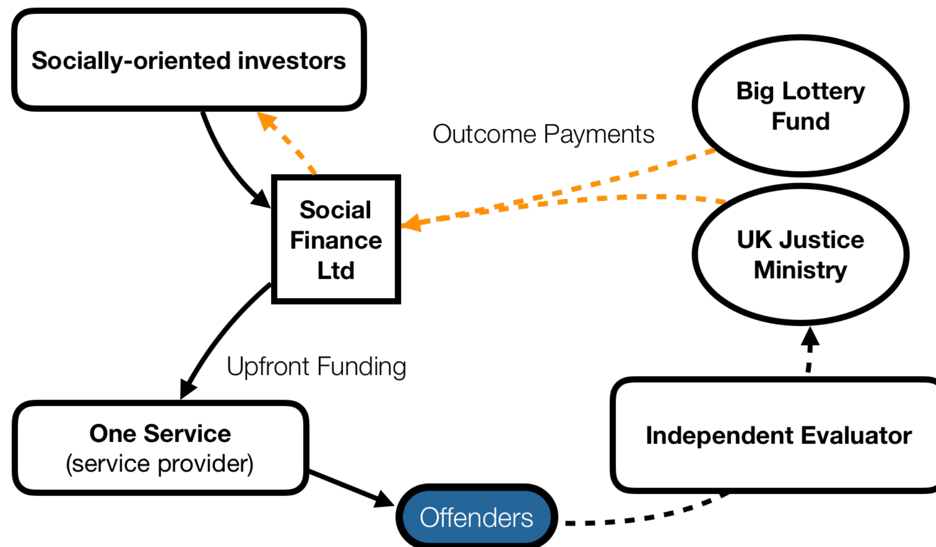
2.3 Financial instruments: social impact bonds

A Social Impact Bond (SIB) is a complex financial instrument based on the principle of payment by result (pay-by-result). The latter is a principle establishing the payment of the services commissioned upon the achievement of precise results, and has gained prominence in the years following the global financial crisis and the resulting shrinking of the public sector's capabilities to sustain its welfare system. Despite the terminology – coined by Geoff Mulgan (CEO of Nesta, previously CEO of the Young Foundation) – Social Impact Bonds are not typical public debt instruments. SIBs in fact are contracts defining a legal relationship between a public administration and another entity – typically a third sector entity or a private company – to which a specific programme is commissioned with the purpose of answering social needs, solving pressing issues, or preventing their occurrence. Differently from traditional public procurement contracts, though, SIBs do not presuppose the payment for a service, but rather for the successful achievement of a predetermined threshold with respect to some outcome.

For example, in the case of the Peterborough Social Impact Bond – the first and perhaps most renowned example in this category –, the British Justice Ministry effectively "bought" a reduction in the government expenditure with virtually no risk involved. It did so by commissioning a reduction in the re-incarceration rate within 12 months from the release – a phenomenon which has been found to involve 60% of the inmates population, and to contribute heavily to the GBP 3.9 billion government expenditure in prison costs. Like other SIBs, the financial architecture of the Peterborough SIB was rather simple: a specialised intermediary (Social Finance Ltd) set up a financial vehicle whose functioning was based on the collection of capital from 17 socially-oriented investors. The collected money was then used to finance One Service, a group of service providers which were responsible for the implementation of support schemes in favour of former inmates. Finally, the socially-oriented investors were repaid by the Justice Ministry itself together with the Big Lottery Fund, or to put it less literally, they were repaid by the social value that they were able to generate through the allocation of their funds (figure 4). It is important to note that the repayment from the Justice Ministry was triggered only after it was demonstrated that the agreed threshold of 7.5% of re-incarceration rate reduction was achieved (the achieved reduction was actually 9.5%). Beside Peterborough and other famous examples (such as

the Epiqus KOTO SIB, analysed in greater detail in the following section), there currently exist over 89 SIBs globally, with a total value of roughly EUR 350 million.

Figure 4 – Peterborough SIB structure



Source: authors' own elaboration

Although Social Impact Bonds represent an interesting opportunity for public administrations to experiment with alternative solutions whose risk would be unsustainable in a traditional procurement scenario, there are clear limitations that have prevented their development in Italy. Together with administrative issues (discussed in details in the following section), the main shortfall of SIBs is their high management costs, which have so far heavily relied on subsidies, and which tend to cut profitability for smaller scale initiatives (Floyd, 2017).

2.4 Non-financial instruments

Beside strictly financial instruments, two innovative trends in social impact investing are that of innovative impact startups, and Public-Private Partnerships. According to the Italian law, innovative impact startups (Startup Innovative a Vocazione Sociale – SIAVS) are first of all innovative startups. The latter are defined by the Ministry of Economic Development as unlisted companies characterised by:

- Recent incorporation (less than 5 years)
- Being registered or having their main operating site in Italy
- Value of their annual production not exceeding EUR 5 million
- No profit distribution
- Focussed on highly technological products and services
- Not being originated from fusion or transfer of other holdings
- One of the following criteria:
    - At least 15% of revenues invested in R&D
    - 1/3 of the workforce composed by PhDs or 2/3 by Master's degree holders
    - Holding property rights (brevetto registrato) for a product

Companies that comply with these requirements are facilitated by a range of favourable conditions that include services to access credit more easily, both through a guarantee fund and via equity crowdfunding, fiscal incentives and dispensation from law concerning retribution standards and mode of incorporation. Moreover, thanks to the 2016 reform of the law on the third sector, innovative impact startups[8] (SIAVS) have found in Italy a more fertile ground to spread and prosper. The classification of innovative impact startups represents an attempt to codify – and spur the growth of – the class of organisations that are both social and market-oriented, and therefore constitutes an opportunity to channel the Italian entrepreneurial vocation towards socially-valuable outcomes (and vice-versa). In particular, in order to be considered an innovative impact startup, a company must operate in one of the sectors identified in the legal text (social assistance, healthcare, education, environmental preservation, cultural heritage preservation, social tourism, graduate and post-graduate education, cultural services provision, extra-school education, services for social enterprises). According to the latest data presented by Unioncamere in October 2017, innovative impact startups in Italy are currently 160, the vast majority of which (91%) are Ltds (S.r.l. in Italian), and are still characterised by a relatively small size (the annual production of 45% of them is below EUR 100,000, and 35% of them has less than 4 employees). Despite these features, their relevance – deriving from the need for Italy to

[8] The legal framework governing innovative startups was established in Italy by the Decreto Legge 18 Ottobre 2012 n. 179, whereas for SIAVS it was established by the Legge Quadro 106/16.

foster the development of private companies pursuing socially-relevant causes – is testified by the interest in SIAVS shown by local administrations[9].

The second important non-strictly-financial class of instruments which has seen a rapid development after the early 2000s is Public-Private Partnerships. These represent long term contracts between the public administration and some private entity that regulate the delivery of services and products by the latter to the former in exchange for a payment which depends on the performance of the latter. The contract typically establishes the transfer of project functions (which may include design, construction, maintenance and financing) from the public administration to the private partner, who therefore assumes a major part of the risk involved with the project and becomes responsible for the achievement of predetermined results. As noted by the World Bank's PPP Knowledge Lab,

> "At a minimum, a PPP will include a long-term commitment to provide infrastructure services—this implies the design and construction of infrastructure, or the renewal of existing assets, and the provision of long-term asset-maintenance. Most PPPs include additional services, including the full operation of the infrastructure when the private operator is able to commit to service quality and performance, and the procuring authority is able to define that same quality and performance. These additional services should also take place over the long term.

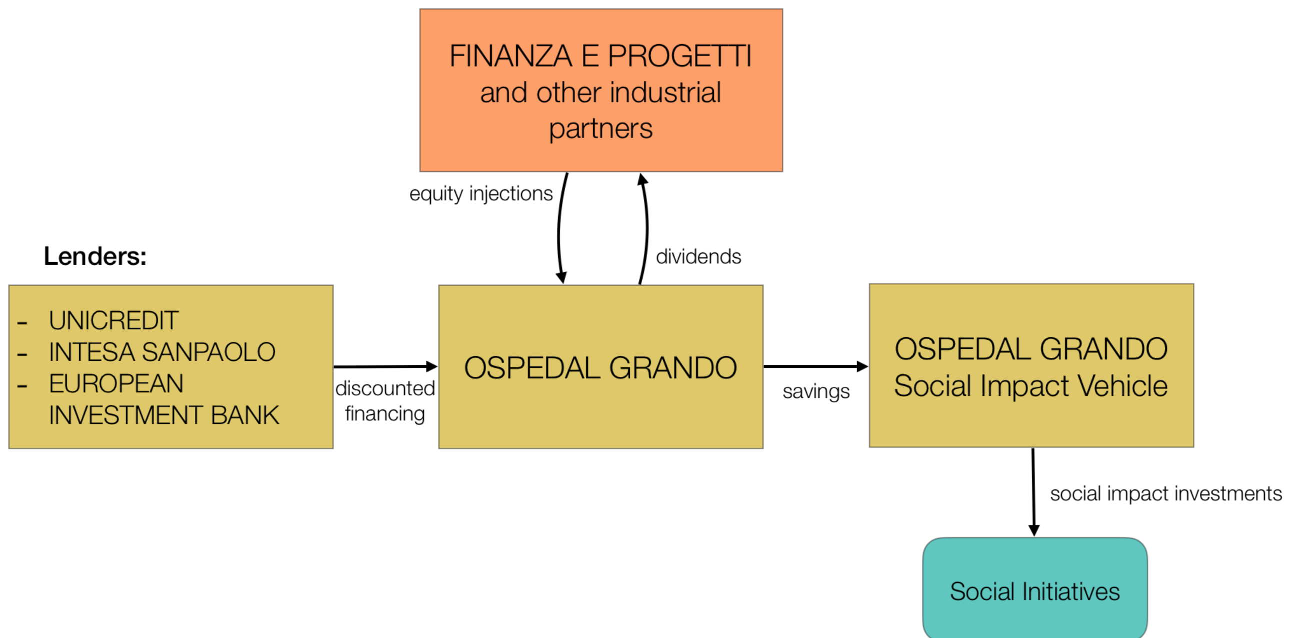
For the commissioning authority, therefore, PPPs represent the chance to overcome budget constraints that may hinder its capability to deliver social services while at the same time transferring most of the risk onto a private entity. Moreover, according to European accounting rules, in order to be deemed a PPP, the private partner must bear at least 50% of the capital investment. If this condition holds, the public authority may account its investment in the PPP off the balance sheet and thereby avoid the limits imposed by the European Growth and Stability Pact on public indebtment[10] (Vecchi and Leone, 2006).

---

[9] For example, Regione Lombardia recently launched a project to support the growth of existing innovative impact startups through grants whose cumulative value is EUR 1 million.

[10] The legal framework concerning Public-Private Partnerships was established by Eurostat Decision n. 4 of February 11 2004, and can be accessed at: http://ec.europa.eu/eurostat/documents/1015035/2041337/Treatment+of+PPPs.pdf/af9e90e2-bf50-4c77-a1a0-e042a617c04e

Figure 5 – Treviso Hospital impact investing strategy



Source: author's own elaboration

One interesting case in which PPPs were recently employed in Italy together with the principles of project financing is the plan to build the new hospital in Treviso. The EUR 250 million project consisting in the refurbishment of existing buildings as well as the construction of new ones, will generate positive social outcomes as a by-product of an impact investing strategy designed by PlusValue (a research and consultancy firm based in London). Through the strategy, which relies on the interaction of public and private entities (figure 5), the private stakeholder (Lendlease, a multinational construction corporation, and its subsidiaries Finanza e Progetti and Opedal Grando) will be able to invest in social impact initiatives the savings generated by the below-market interest rates applied by the loans offered by the European Investment Bank and two commercial banks (Intesa Sanpaolo and Unicredit). The role played by the EIB was crucial in order to generate a total amount of EUR 1.8 million in savings, and to overcome the initial refusal by commercial banks to support a community bond to finance the project.

3. Practical toolbox

Despite the growing size of the body of literature published on the topic of social finance in recent years, the theme is still largely analysed from a theoretical point of view and little to no practical insight is provided to potential stakeholders. In order to tackle this problem, this section of the report focuses precisely on the insights collected from experts and practitioners within the social finance market in order to build a practical toolbox with particular relevance to the Valle d'Aosta context. Its objective is in fact to identify key issues and opportunities, and to collect practical insights from the analysis of European best practices. The content of this section is the outcome of a research stemming from the authors' direct involvement in the British and Italian social finance market, informal interactions with some of the leading European expert networks in the field, and a review of the specialised literature.

3.1 Practical toolbox: purposes and opportunities

From the perspective of public administrations and policy makers, who are currently experiencing a serious threat to their legitimacy coming from the lack of means to provide citizens with appropriate services, impact investing appears as an opportunity especially thanks to its flexibility. As correctly pointed out by Pasi (2017), in fact, social finance allows policy makers to pursue independent political choices by serving a wide range of policy strategies. This means that, differently from other macro-economic trends – such as hyper-privatisation – impact finance offers on the one hand the opportunity to retain control over the political direction of the administration's choices, while still expanding the scope of its action beyond regular budgetary constraints.

The importance of this element must be stressed especially when considering the fact that the realms in which public administrations most commonly consider the adoption of alternative financing methods, the so-called social innovation, typically belong to the sphere of essential services. This sphere represents a very sensitive environment, which has the potential to make all the difference between social unrest and a new form of social contract based on inclusive wellbeing. In fact, not only the preservation of essential social services will be fundamental to guarantee a peaceful transition towards new models of economic and political governance in the coming years, but a truly transparent political debate, and the accountability that derives from it, will also be of utmost importance. Citizens have indeed the right and are interested in knowing the political origin of the

policies and budgetary choices that shape their lives, and policy makers will have to answer by adopting a clear vision for the future of the communities they administer without hiding behind the idea that such choices are merely technical (Addarii and Lipparini, 2017). This is true both for the national and supranational, and for the local dimension, especially taking into consideration the degree of autonomy that regions such Valle d'Aosta retain in public finance matters.

Social finance is therefore a particularly effective tool for public administrations to tackle welfare provision starting from alternative sources and build complex and bespoke strategies to answer the needs of each community without incurring in the risks involved with relinquishing the political governance of the process. This features also makes social finance particularly suitable to contribute to the evolution of the new welfare paradigm, which has found in Italy a fertile habitat in which to prosper. In particular, within the Italian context we can identify six crucial contribution (figure 6) of social finance: improvement, alignment, coordination, economisation, and innovation. Among them, two of the most promising avenues for the application of social finance in the public administration domain at a local level are economisation and innovation.

Figure 6 – Social finance contribution to new welfare provision

Source: authors' own elaboration based on Pasi (2017)

Economisation refers to the idea that impact investing in the many forms we have introduced above can produce significant results for what concerns the increase in public savings with respect to different public procuring scenario. Social finance, and in particular instrument of the 'pay-by-result' kind – allow to generate savings first of all by shifting the risk of any activity towards the private sector, which therefore is financially responsible for possible failures. In the case of the Riker Island SIB, for example, Goldman Sachs invested USD 7.2 million in a behavioural program aimed at reducing recidivism among young offenders detained at one of the largest New York City prisons. The program, commissioned by the City of New York, who, according to the contract would have repaid the investor the total sum plus a premium comprised between USD 500,000 and 2.1 million, was instead deemed unsuccessful by the Vera Institute of Justice, who declared "*the change in recidivism for the eligible 16- to 18-year-olds, adjusted for external factors […] not statistically significant when compared to the matched historical comparison group*". As a result, the local administration did not spend any money, whereas the private investor (Goldman Sachs) incurred in a USD 1.2 million lost. In the case of the Riker Island SIB, in fact, another entity – Bloomberg Philanthropies, the philanthropic foundation run by the former New York City mayor – was responsible for covering potential losses with a guarantee grant of USD 6 million.

Another way in which social finance is able to generate public savings is by favouring a forward-looking mind-set in budget allocation within public policy domains. Impact investing, in fact, is by its own nature able to unlock at any time capitals that from the public administration point of view would only become available in the future and as a result of previous investments. For example, investments aimed at avoiding the spreading of chronic diseases can lead to significant savings of public money, but the problem faced by many administrations – at both national and local level – is the difficulty in identifying the required capital. Despite the evidence concerning the idea that preventive actions tend to be economically advantageous with respect to corrective actions aimed at limiting the effects of more structured problems, policy makers often struggle to justify recalibrations of the public expenditure. The struggle lies in the fact that moving funds away from previous destinations towards new ones (which, being preventive, are by definition less urgent), is often greeted by a lack of understanding and discontent. Similar situations shall evidently be avoided in order for the policy maker to manage the degree of support in favour of his/her political decisions. In this sense, impact finance is able to 'create' future savings

while reducing significantly current investment, both in terms of expenditure, and – as previously highlighted – in terms of risk.

An interesting example in the utilisation of social finance to the solution of community problems through preventive approaches comes from Israel, where a social impact bond investing in the prevention of type 2 diabetes recently raised ILS 19.4 million (equivalent to roughly EUR 4.6 million). This SIB, coordinated by Social Finance Israel, will treat 2,500 individuals at risk of developing type 2 diabetes with a set of motivational, nutritional, technological and physical activity elements aimed at a lifestyle improvement. In this case the commissioning body is the National Insurance Institute, who – together with two health funds (Clalit and Leumit Health Services) – will guarantee financial returns to investors on the basis of the savings generated through a decrease in the number of patients to be treated. In order to trigger the repayment, the success of the initiative will be measured as the difference in the rate of individuals developing type 2 diabetes in the target population with respect to a reference population.

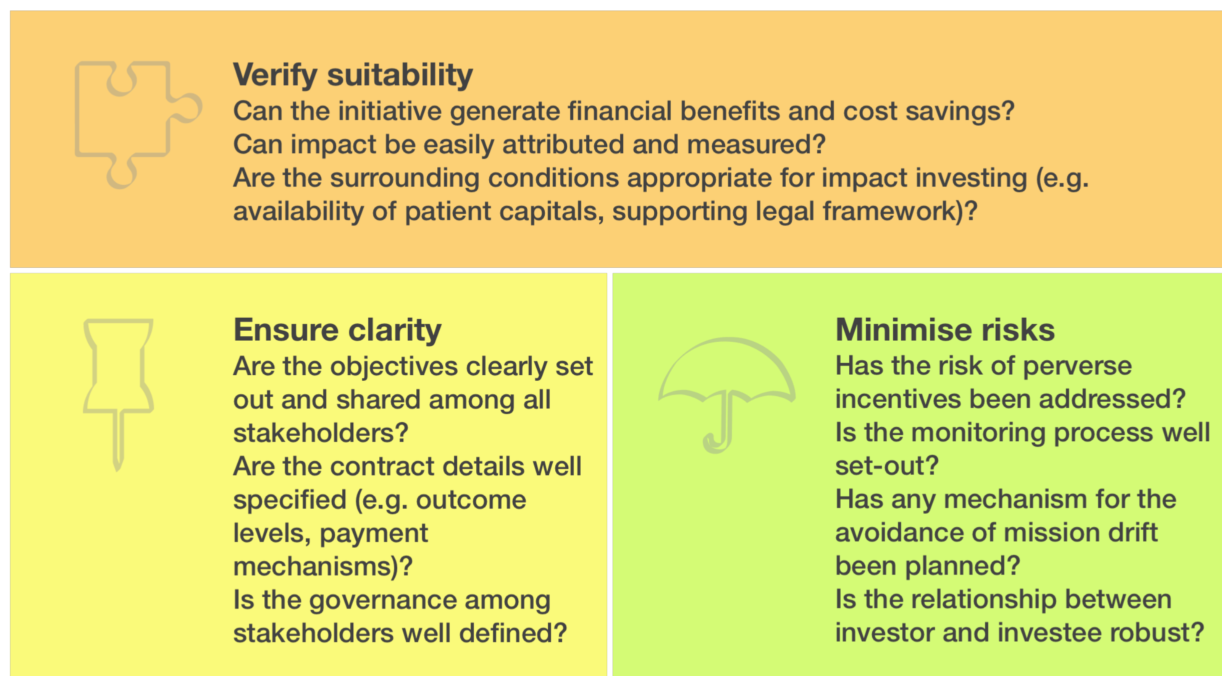
3.2 Practical toolbox: requirements and conditions for success

Social finance represents both a tool in the hands of public administrations to overcome tight budgetary constraints and constantly evolving challenges, a different approach to the provision of public goods and services, and a growing market, but despite the justified consensus it has gained in the last decades, it is important to understand that it does not constitute a panacea. In fact, just like any other tool, it requires some conditions in order to perform at its best, and to avoid collateral damages. Among the requirements for a successful implementation of impact investing solutions three have been identified as paramount and will be spelled out in this section. They are i) the suitability of the financial instruments, ii) the clarity of the contract regulating the financial instruments, and iii) the mitigation of risks.

The aforementioned requirements shall be interpreted as sets containing a range of technical and pragmatic steps to be followed in order for policy makers to adopt impact investing as productively as possible for all the actors involved. In order to support the potential implementation of impact investing solutions to the case of Valle d'Aosta, the requirements have been designed in the form of a three steps checkpoint (figure 7). The latter will serve the purpose of guiding policy makers and other local stakeholders in the definition of the minimum prerequisites for considering the adoption of social finance

solutions. Obviously, it shall not be considered an all-encompassing conceptual map of the application of impact-driven financial instruments, but rather a collection of milestones that may be taken into consideration when pondering further steps in a similar direction.

Figure 7 – Planning the implementation of impact investing tools



Source: authors' own elaboration

For the purpose of this feasibility study, the focus will be directed towards the first step of the checkpoint, i.e. the verification of the suitability of impact finance to the objective at hand. A first rule of thumb is to consider the type of problem one is seeking to solve; whenever the latter does not offer the opportunity to clearly attribute responsibility of the results achieved, or the measurability is somehow hindered, impact investing may not be the ideal solution. The latter, as anticipated, relies on the idea that impact generation is intentional and can be measured, and may fall short whenever it is not possible to do so. Even more importantly, though, any initiative which aims at being funded through social finance must be capable of generating outcomes that can be translated into financial benefits or cost savings for the commissioning body (Ragan and Chase, 2015).

Other elements should be taken into consideration to verify the suitability of impact investing instruments. First of all, impact investing is characterised by the alignment of social and financial results: if for some reason the two cannot be reconciled in relation to a specific objective, it is possible that impact investing is not the appropriate solution.

Looking at the typical double bottom line (risk and return), some investee projects/companies may not be profitable from a financial perspective, which remains central within impact investing (if we leave aside purely philanthropic contributions, which do not imply any form of return). Inserting the triple bottom line (the original double bottom line, plus social impact), clearly the outlook changes significantly. As noted by Varga and Hayday (2016), in case of investees with strong non-financial returns, "social investment can also open up access to finance for enterprises that lack the asset cover to access support from classical financial providers. It can [..] help to leverage in further funding by demonstrating, through its due diligence process, belief in the viability of an organisation and/or the achievability of the social returns" (p. 12). Another crucial element of social finance (especially when looking at it from the public administration perspective) is its scale. In fact, while the current nature of the impact investing market simply does not allow to take into consideration major infrastructural projects, on the hand, some social impact projects may well be too small to matter in the context of publicly-backed social finance[11]. Beside pure scale issues, social finance projects may face more general financial sustainability problems – this is the case of financial vehicles (such as Social Impact Bonds) whose management costs may be disproportionately high with respect to the benefits they are able to generate.

Secondly, in order to be successful, impact investing instruments require an enabling ecosystem characterised by a set of determinants that can be summed up by the triad 'regulation, market and culture'. From the cultural and market perspective, it should be noted that there is a strong relationship between a philanthropic propensity and the opportunities for social finance projects to thrive within a community. On the contrary, the lack of a culture of giving may be problematic from the point of view of the availability of capitals, especially when aimed towards start-up phase projects and companies. Taking into consideration the Valle d'Aosta case, it is important to note that both its economic outlook (generally more positive than the rest of the country, and showing mild signs of recovery already since 2015), the state of private finance, and its philanthropic tradition (see for example Fondazione Comunitaria della Valle d'Aosta) may make it a potentially strong candidate for the application of social finance solutions. Moreover, a more global demographic trend will be affecting the impact investing market, and concerns the fact that millennials represent the most socially and environmentally savvy generation to date, and

[11] In this the case, for example, microcredit or crowdfunding may be more appropriate solutions.

it is estimated that they will inherit globally USD 24 trillion of wealth in their possession by 2020 (Dhar and Fetherson, 2014). The widespread perception is that the availability of socially-oriented patient capitals deriving from this cultural shift will boost the impact investing market in the years to come.

Beside the role of culture and the market, it is important to understand the role of an appropriate legal framework in supporting social finance, and in order to do so, we shall briefly focus on the Italian case. In the last years Italy has adopted a series of regulations (the so-called 'Riforma del terzo settore') which, among other things, has pushed for a transition towards a more entrepreneurial approach to social enterprises, especially in support of welfare provision. In particular, through the '*Decreto Interministeriale 14 Febbraio 2017*' the Italian government has provided extra assistance to social enterprises with respect to the possibility of banking institutes operating in the financial sector to support their activities. This is a clear sign of interest by the public sector, which in Italy has traditionally been hesitant towards the impact investing market, with the result of the private sector being responsible for much of its development, unlike countries like the United Kingdom, where social finance initiatives have had a strong governmental backing since its early stages (Nicholls et al., 2017). Despite similar steps forward there still remain significant obstacles, as testified by TRIS, an attempt to create a EUR 14,6 million SIB to solve the waste management crisis in Naples. In fact, efforts by Banca Prossima (Intesa Sanpaolo's non-profit bank) to launch the first Italian SIB were eventually stopped by the difficulties in setting budgetary outflows for the public entity more than 12 months down the line.

Among the banks who welcomed the reform and have played a particularly active role in supporting third sector initiatives we shall mention UBI Banca. The latter represents one of the most prominent financial institutions operating in the Italian social sector, and its flagship operation so far has been Social Bond UBI Comunità, constituted by 88 social bonds issued during the last 5 years for a total value of EUR 973 million, which have generated a total amount of EUR 4.6 million distributed in the form of grants to support social impact companies and projects. At the end of 2017 UBI publicly announced its intention to become one of the financial institutions composing the Rotating Fund ('fondo rotativo') established by the Italian Ministry for Economic Development through the aforementioned Decreto Interministeriale 14 Febbraio 2017, which will contribute to finance socially-oriented projects for a total amount of EUR 325 million. Within this sum (which so far only represents a forecast) roughly 70% will be managed by Cassa Depositi e Prestiti,

and lent at a discounted rate of 0.5%, whereas the remaining 30% will be lent directly by the financial institutions at market rates.

Another important project developed by UBI Banca is its Social Impact Project Financing scheme, introduced in 2015 with a EUR 8 million investment in favour of Torino Sociale Cooperativa Sociale Onlus (TSC Onlus). The latter is social cooperative running an assisted living facility (Istituto Buon Riposo) and a project (Progetto Alice) aimed at offering assistance to elderly people, which were in need of renovation and enlargement of its physical structure as well as support to widen the range of services offered by the municipality of Torino (new healthcare services, home assistance etc.). The project financing model essentially entails the issuing of a loan (whose purpose is typically, but not exclusively, the construction/renovation/management of a physical infrastructure) in favour of an entity who will repay it through the income generated by services associated with the operation. In the UBI case, for example, the novelty derives from the not-for-profit nature of the recipient entity, Progetto Alice, who thanks to the income generated by the services offered will be repaying the loan in 16 years. The 'impact' nature of this operation is also recognised in the fact that TSC Onlus will be granted a 0.25% reduction on the rate applied to the financing if it will achieve a set of impact objectives. The latter are i) maintaining at least at 144 the number of beds in the assisted living facility, and ii) guarantee at least 400 hours of home assistance to elderly people[12].

Within the domain of legislative matters, one important opportunity to improve the applicability of social finance instruments and to reduce the beurocratic efforts required by them comes from the support offered by European financial authorities such as the European Investment Bank and the European Investment Fund. Thanks to ad-hoc partnerships with these high-level European financial institution, in fact, initiatives such as the Epiqus Koto Social Impact Bond were able to access financial resources without resorting to the traditional system of public tendering, thus making the procedure of mobilisation of funds much quicker and more effective. The Epiqus Koto SIB, in particular is a EUR 14.2 million project aimed at favouring the integration of migrants aged 17 to 63 years old through processes that make it easier for them to find a job and learn the Finnish language. Through Epiqus, a private fund manager, the public administration (the Ministry

[12] It shall be noted that the dimensions on which the success of the operation will be judged are in fact outputs and not outcomes measures. The reason for a similar choice may come from the fact that the UBI project finance scheme shall not be seen as a pay-by-result instrument, as confirmed by the fact that the municipality had no formal role in the financing scheme.

of Economic Development and the Ministry of Labour) was able to secure a EUR 10 million contribution by the European Investment Fund through Juncker Plan's European Fund for Strategic Investments, to which an additional EUR 4.2 million were provided by Sitra (a private foundation) and SOK Yhtymä, a network of cooperatives. The resources made available by European institutions will continue to be particularly relevant, especially when the new InvestEU plan 2021-27, the successor of the Juncker Plan, will allow the EU budget to provide a EUR 38 billion guarantee facility to catalyse up to EUR 650 billion investment (and especially EUR 4 billion for impact investing to catalyse EUR 50 billion).

3.3 Practical toolbox: limitations and risks

As already highlighted, it would both wrong and damaging to the impact investing market itself to consider it a silver bullet that can be applied to solve all budgetary problems facing modern public administrations. On the contrary, impact investing shall be considered a tool with its strengths and opportunities as well as limitations and risks: in this section we will discuss the latter (figure 8).

Among the difficulties that public administrations will face when considering the possible implementation of social finance instruments, the most evident and possibly detrimental is the possibility that appropriate funding proves harder than expected to gather. Despite its wealthy background and a mildly positive economic performance in the last 3-4 years, which puts it behind Lombardia and ahead of other north-western Italian regions (Banca d'Italia, 2017), Valle d'Aosta is not immune from the risk of shortage of appropriate capitals. Impact-oriented enterprises, in fact, often require what is generally termed 'patient capitals', i.e. long-term capital provided by investors that are willing to relinquish the opportunity of short terms returns in exchange for tangible social outcomes. In the absence of a well-structured impact-oriented market, local communities (especially when smaller or partially isolated from the major financial networks) may struggle to pool this type of resources. The notion of a well-structured impact-oriented market is a complex one and refers to the type of environment in which financial initiatives are operating. The degree of structured-ness of social finance markets can thus vary significantly from one country to the other, depending on the degree of support from the central government and the availability of capital. There is in fact a sizeable difference between the level of structured-ness of markets like the United Kingdom, where social finance has been a priority for the central government for a number of years, and that of Italy, which only recently is coming

to terms with this opportunity. In similar cases the role of public administrations is that of designing plans to ensure that the right mix of public and private resources can effectively overcome possible shortages and filling the gaps that may derive from potential beneficiaries being too small to be profitable for the impact investing market.

Figure 8 – Risks and mitigation strategies in social finance

Risk	Mitigation
Appropriate funding may be difficult to gather	• Blending: mix of private and public capitals generates savings that can be reinvested • Ensure funding flexibility in order to meet investees' needs
Investees may lack expertise in a range of fields	• Activate a network that can provide managerial, planning and monitoring support • Build a strong investor-investee trust relationship built on stakeholder engagement
Operations maximising contract terms rather than impact	• Clearly define objectives, attributable outcomes, target cohorts and evaluation standards • Avoid conflict between objectives and desired outcomes
Mission drift	• Design an exit strategy that maximise the chances of the investee to pursue its mission • Design a well-structured governance that prevents adverse takeovers
Creation of smart ghettoes	• Adopt a systemic approach that tackles issues at the community level • Engage both stakeholders and the community in the planning stage

Source: authors' own elaboration

A good example of local level project that pooled together funds from different sources in order to drive the resilience of its community is the Liverpool City Region Impact Fund (LCRIF), a GBP 2 million fund launched in January 2014 and financed in equal parts (GBP 1 million) by the Social Investment Business Foundation, a registered charity funded by Government endowments, and by the European Regional Development Fund (ERDF). The purpose of the fund is to offer loans of GBP 50,000-250,000 to support the growth of social enterprises based in the Liverpool region with a focus on scaling up the social impact that they have on the community. The LCRIF is a ten-year fund (2014-2023) composed by two tranches: the first tranche started in 2015 and after a positive start (the fund received 105 expressions of interest and 24 full applications), it was forced by a number of reasons to invest only part of its endowment. More precisely, during the first tranche LCRIF invested

GBP 1.25 million in eight charities, as a consequence of a) the closure of a local partner, b) restrictions on how ERDF money could be spent, and c) the timeframe in which investments had to be made. Despite this partial setback, the fund demonstrated the successfulness of the pilot, which was largely determined by the support of local stakeholders.

The second tranche will start in 2018-2020 and will be funded through the returns of the first tranche. It is so far unclear how the new tranche will be affected by the fact that only part of the endowment was employed in the first. The LCRIF is an interesting example of an impact investing instrument where the granularity of finance was increased (loans were as small as GBP 50,000) in order to increase the chances for small organisations to benefit from it. The loans applied competitive interest rates (6%), and had a flexible repayment term of up to 5 years, with no penalty for early repayment.

Another risk that is inherent to the application of social finance instruments is the possibility that investees may lack the expertise required for the projects to succeed. Potential beneficiaries of impact finance such as social enterprises are often not ready to face all the issues related to the need to demonstrate both a viable business model and the verifiable impact objectives required to support an investment's triple bottom line. Social enterprises can generally be very skilled and competent in their particular field of operation, but especially when they are still in their start-up phase they will most likely require assistance on i) business strategy support; ii) access to networks and contacts; and iii) specific resources and services.

The process of setting up the proper advisory mechanism shall be accurately planned and considered as part of the operation budget: despite a common tendency to underestimate this part of social finance, the provision of non-financial support can be very resource intensive and include a wide range of solutions. Typically non-financial support mechanisms include mentoring, participation in training session and networking events. The latter can be often appreciated by the investee organisations, which through them can find the opportunity to broaden their competencies and move towards self-sustainability in the post-investment phase. Nevertheless, there is a general consensus on the idea that in order for the non-financial support strategy to work (as well as for the whole investment to be successful) one important requirement is to build a mutual trust relationship between investors and investees. If from the demand side of social finance trust will require firstly to increase investees' knowledge of the "available financial instruments, their pros and cons, the different capital providers and the value of structuring deals blending different types of

investors" (Nicholls et al., 2017), from the point of view of the supply side this trust will come from 'looking under the bonnet'. This essentially implies the fact that, just like any type of finance and including the traditional one, a trust relationship between different stakeholders and the alignment of their interests must rely on a well-structured due diligence process. Although this may seem trivial, it is important to note that differently from other economic dimensions, social impact objectives can be hard to isolate and quantify. Despite the desperate need for the social finance market (as well as the intellectual and academic movement supporting it) to define clear indicators and more generally a globally recognised evaluative standard, the issue of impact measurement remains elusive, as will be shown in the following section.

The question of measurement is also strictly related to the risk of creating the wrong incentives, which may cause adverse reactions and unaligned interests. This problem has been identified in the academic literature especially with respect to Social Impact Bonds, which, due to their contractual nature tend to push investee organisations to look for the scenarios that are most likely to determine a successful outcome. In essence, due to the hard cut-off imposed by instruments like SIBs, an investee may choose to divert its energies towards 'easy wins' rather than doing what would be most desirable – i.e., tackling the real problems at their core and most challenging side. The risk in this sense is the worsening of the exclusion of 'outsiders' – i.e. those categories that are hardest to bring back into a productive dimension –, which may consolidate rather than contrast the negative trends in our contemporary society. Once again, the clear specification of recipients' cohorts, an accurate price settings and attributable outcomes, and the alignment between payable outcomes and policy objectives may help mitigate the risk of adverse behaviour from the investee perspective (Airoldi and Ball, 2018).

The risk of mission drift, as highlighted in the first section, corresponds to the possibility that an investee organisation drifts away from the agreed objectives after the investment period, i.e. when the incentive to comply with the original design ceases to exist. From the public administration perspective, mission drift lies is problematic because the conditions which led to the decision to implement impact investing instruments are likely to persist after the end of any specific program. For this reason, it is in the best interest of the community that the investee organisations achieve self-sustainability and persist in their operation after the investment period. A particular risk of mission drift comes from the possibility that unaligned investors (i.e., investors who do not share the impact-oriented

mission of the original investors) take control of the operations management – especially in the case of equity instruments – by means of an acquisition, and with the intent to push the impact-profit balance towards profitability and away from social impact. Again, although no one-fits-all recipe is available for the mitigation this type of risks, well set out contractual clauses[13], a strong investor-investee relationship based on mutual trust, and an effective due diligence procedure will contribute to reduce the chances of mission drift.

Finally, whenever the conditions allow to do so, it is advisable to pursue a systemic approach rather than tackling the different issues facing a community as if they belonged to different compartments. As Mulgan (in Nicholls et al., 2017) correctly points out, projects involving the construction and renovation of housing and physical infrastructures are typical targets of social finance – especially when the public sector has been directly involved as commissioning body –, but they tend to generate 'smart ghettoes'. The term refers to the idea that without a robust systemic approach aimed at understanding the complexity and interconnectedness of social innovation (Addarii and Lipparini, 2017), similar projects easily end up pushing single elements, leaving behind other issues that therefore risk preventing the desired improvement in social conditions.

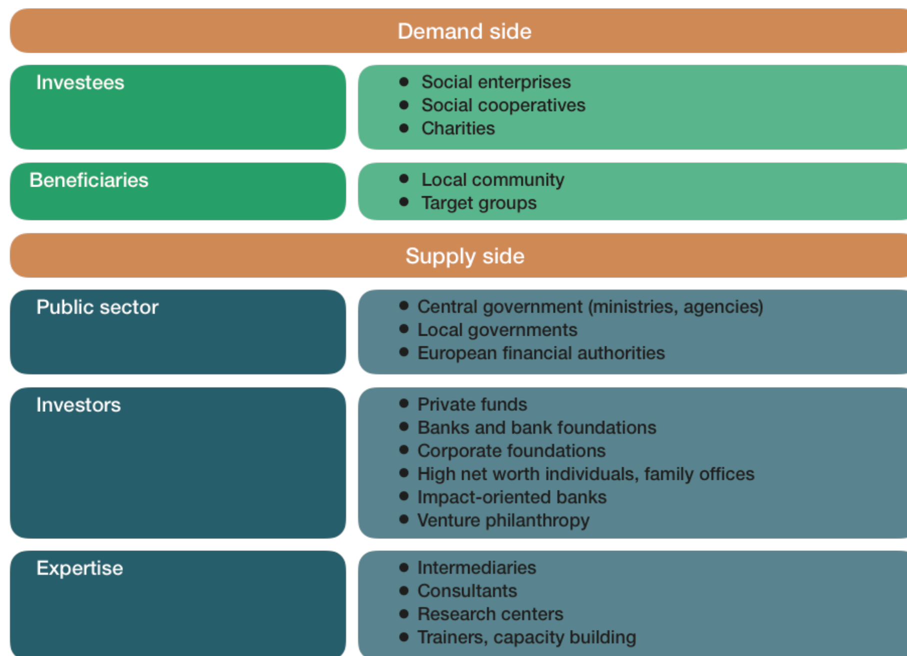
3.4 Practical toolbox: the role of different actors

This section is devoted to a presentation of the entire spectrum of stakeholders that are involved in social finance (figure 9). Clearly the types of stakeholders involved and their roles will vary significantly according to the type of financial instrument that is taken into consideration, and for this reason, in order to make the comprehension of the nuances that are behind each role easier, some examples referring to real case studies will be presented[14].

[13] In particular, in this case some contractual clauses may include so-called golden shares, i.e. fixing the proportion of shares that can go to an external investor, in order to ensure that the latter will not be able to take control of the investee's management board. Although similar measures have been criticized, some form of protection from external interference such as due diligence on new investors and clauses preserving the instrument's social mission may be beneficial.

[14] For a more extensive list of case studies and actors, see Annex I and II.

Figure 9 – Social finance demand side and supply side actors



Source: authors' own elaboration

Oltre Venture – Concordia Spa - Oltre Venture is one of the first Italian social impact actors with a similar size. Its role is that of an intermediary, bridging demand for impact-oriented capital with the supply side – mainly constituted by high net worth individuals and bank foundations. Oltre Venture's first social impact fund 'Oltre 1' was created in 2006 as a company limited by shares and collected EUR 8 million that were invested in 17 projects. Among the most interesting financed projects there is Concordia Spa, a start-up who obtained a concession from the Municipality of Cerro Maggiore (MI) for turning a building formerly used as a school into a retirement home for the elderly. The aim of the facility, which opened in 2014, is to offer flexible residential solutions modelled on the elderly population's needs as an alternative to the full-time recovery, which are integrated with a range of healthcare, relational and care services. It currently offers:

- An integrated daily centre for 30 people
- A housing facility aimed to welcome temporarily 20 guests
- 20 small and protected accommodations for still independent elderly people
- A nursery for 40 babies and toddlers
- Other relational, medical and recreational services (such as a bar, poly-functional spaces, surgeries and a canteen).

The project was funded by a EUR 312,000 equity investment through which Oltre Venture became shareholder of 30% of Concordia's assets, and represents a promising

pilot project, especially given the current shortage in affordable retirement homes, and the difficulty in obtaining licences to open new RSAs (Residenze Sanitarie Assistenziali) in the Italian system.

Impact Alliance Fund - Impact Alliance Fund (IAF) is an impact equity fund to be launched in 2018 with a target size of EUR 80-120 million, and a first closing at EUR 30 million expected in fall 2018. The aim of the fund, whose role is that of intermediary, is to invest largely in Italy (at least 80% of its total value) in companies selected on the basis of three key criteria:

- Prosperity: The Fund will invest to create wealth following an entrepreneurial logic;
- Justice: The Fund will invest in businesses and projects which see value creation as a multi-stakeholder process, according to the principle that whosoever participates in value creation – whether economic, social and/or environmental – has the right to an appropriate share in the rewards;
- System: The Fund will invest in businesses and projects which have potential for positive transformation in their industry, sector and/or community.

Looking at the demand side, IAF will invest in companies with a strong social impact potential, offering market solutions to businesses/projects which are managed in a responsible and transparent way, with social or environmental effects capable of generating a positive impact which is measurable in terms of quality and/or quantity, together with a financial return for investors. In particular, three areas of primary importance identified as targets of IAF investments are i) human capital, ii) resilient places and communities, and iii) new technologies. The size of single investments will vary between EUR 750,000 and 7 million, with the aim of qualified minority interests in enterprises to enhance their sustainable and inclusive growth and promote their management expertise. In terms of stakeholder relationship, IAF works in partnership with Banca Prossima, the subsidiary of the Intesa Sanpaolo Banking Group whose mission is the creation of social value and increased access to credit for ‘third sector’ organisations. The partnership between IAF and Banca Prossima will allow an increase in the Bank’s capacity to extend credit to the third sector and to social businesses, as IAF will contribute to capitalise the target organisations, thus improving their creditworthiness. From the supply side, the Fund will target national and supranational Institutional Investors, including Foundations, national promotional and development banks, pension funds, provident funds, insurance groups,

large businesses, but will also be accessible to Family Offices, high net worth individuals and, more generally, professional investors whose investment criteria are based on social and environmental responsibility.

Sardinia Regional Social Impact Investing Fund - The region of Sardinia was one of the first in Italy to create its own social impact investing fund in 2016. The fund is managed by SFIRS Spa, the region's financial holding, and is endowed with EUR 8 million originating from European Structural and Investment Funds (ESIF), to which other private capitals may be added in the future. While the target investees were not specified in great detail, and are mainly social enterprises and cooperatives implementing projects of social importance for the community, the Sardinian Regional Social Impact Investing Fund (SRSIF) was more precise in the definition of the beneficiaries. In particular, the latter are identified in those individuals who lost their jobs as a consequence of the crisis that hit the textile, chemical and steel industry in the region, other long-term unemployed individuals, socially excluded minorities, asylum seekers, inmates and former inmates, and young people living in degraded urban settings. In this sense, by defining with greater precision the range of beneficiaries, which are normally defined by the investee organisations themselves, the Sardinia region might have opted for a less entrepreneurial approach to impact investing, choosing to retain a greater power over the direction to be taken by social finance. The type of instruments will vary from one project to another, and may consist in loans, equity and bonds. The role of SFIRS Spa is not to invest first hand in impact projects, but rather that of guaranteeing the capital invested by the private investors, and to monitor the whole process, including the evaluation of impact objectives, which will be conducted by external evaluators[15].

Fondazione Social Venture Giordano dell'Amore – Fondazione Social Venture Giordano dell'Amore (FSVGDA) was founded by Fondazione CARIPLO and pursues the mission of innovating and improving the efficiency of third sector organisations working in the field of welfare, culture and the environment. FSVGDA relies on a EUR 8.5 million endowment, which is employed to:

---

[15] At the moment it is still unclear who will the subjects responsible for carrying out the impact evaluation, as the procedure the selection of the latter will end in the coming months.

- Provide patient capitals to third sector organisations through direct and indirect investments that apply social finance principles to the venture capital realm
- Participate to the national debate on social finance, supporting the diffusion of an impact investing culture
- Support third sector actors through its advisory role

FSVGDA classifies as an intermediary and private fund, and its main financial operations come in the form of investments towards social enterprises and social impact funds.
Among FSVGDA's contribution to social impact funds there is a EUR 1 million investment in the aforementioned Oltre Venture, whereas another EUR 1.2 million was invested in innovative startups (including Milan-based project BASE in support of cross contamination of art, welfare, business and technology, and microcredit project Permicro).

3.5 Practical toolbox: social impact evaluation

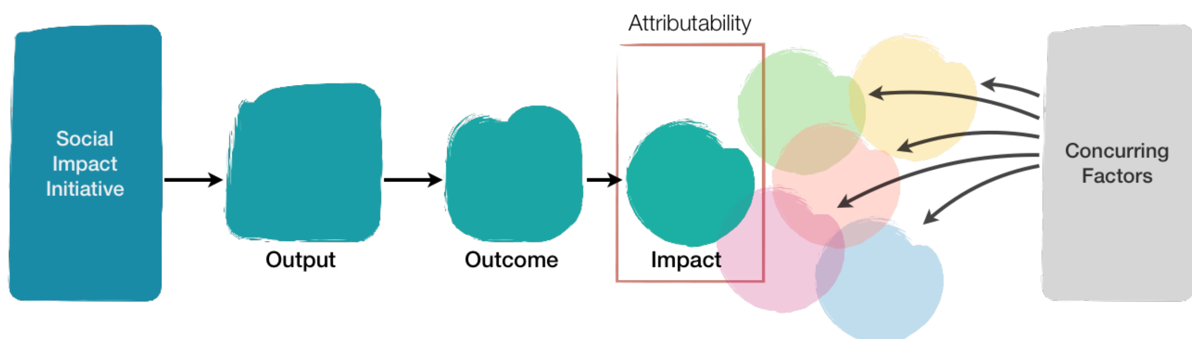
Together with the intentional nature of the objectives pursued by social-oriented initiatives, the second pillar of impact investing is the possibility to measure the impact generated in a precise and straightforward manner that allows to monitor the accountability of the different players involved. As anticipated, in fact, one potential weakness of social finance, which is hindering its capacity to grow beyond its current size, is the often difficult process of quantification of the results achieved. In order to outline the state of the art in impact assessment, a few central concepts will now be spelled out.

Social impact evaluation is first of all the quantification of the social value generated by an initiative. As straightforward as this may sound, though, some clarification is in order. The first important distinction is that between the ideas of output, outcome, and impact: the first is the direct physical result of an activity, the second represents the indirect and socially-relevant consequence of an activity, whereas the latter represents the real change generated. Think for example about a programme aimed at stimulating the entrepreneurship of young women in rural areas of developing countries through an ad-hoc training and mentoring programme. In this case an output (direct physical result) may be the rate of participation throughout the programme: the number of women who followed the courses and mentoring gives us a first sense of the reaction to the initiative, but is not very informative of its result. In order to understand more about the results, one shall look at the amount of knowledge that the programme has generated: such information tells us

something about the programme's outcome. Finally, impact is the change in quality of life that the programme was able to achieve by stimulating young women entrepreneurship.

The distinction presented above leaves room for two important caveats. First of all, it shall be noted that the distinction between output, outcome and impact is not always straightforward. While impact and output are often distinguishable (one is the direct consequence, whereas the other represents the long-term effect, and they rarely coincide), inserting outcomes in the mix may significantly increase the overall level of complexity. This does not imply a suggestion to reduce the complexity by avoiding similar distinctions, but rather to take into account that impact evaluation shall be interpreted as a process composed by different steps and different initiatives may require different degrees of specification. The second caveat concerns the issue of attributability, i.e. the possibility to unequivocally single out the source(s) of the results achieved. When looking at complex phenomena, in fact, it may be difficult to measure how much of a result can be attributed to an initiative, and how much would have happened anyway. Environmentally-oriented initiatives, for example, often struggle precisely in identifying in a clearcut way the level of impact to which they alone have contributed with respect to what would have happened anyway. In addition to this, the two issues are also strictly related one to the other (figure 10): while the attributability of outputs may be trivial, in fact, much trickier is to evaluate the responsibility of initiatives in producing long-term social impact.

Figure 10 – Impact identification

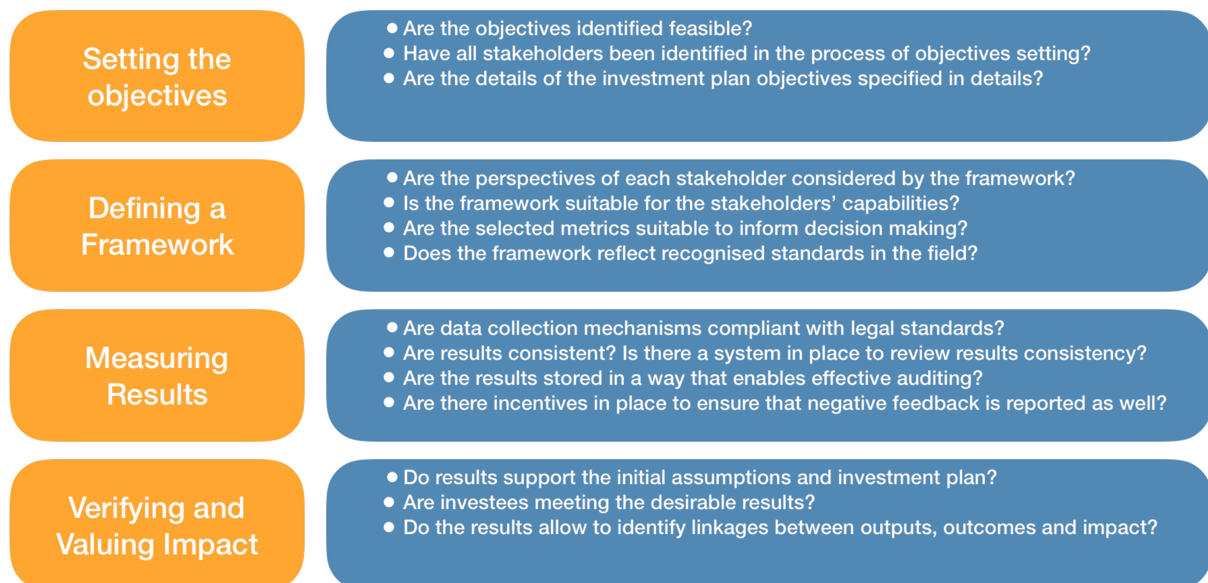


Source: authors' own elaboration

In order to tackle impact measurement from a practical point of view it is important to identify the key steps that may help a public administration and other actors to exploit such process as a reliable managerial tool. A number of checklists for the evaluation of social impact exist (see for example, Varga and Hayday, 2016 and Impact Measurement Working Group, 2014), and their main common traits will be introduced here. The 4 essential steps

to build a management-oriented impact assessment strategy are a) setting the objectives; b) defining a framework; c) measuring results; and d) verifying and valuing impact. Figure 11 briefly sketches these steps identifying key questions that the actors involved in a social finance project should take into consideration during the planning phase. Setting the objectives entails the clarification of the project's goals in a straightforward and reasonable way in order to maximise the alignment of all the different stakeholders. The definition of a framework, which will be analysed more in details below, is the process through which the technical specification of the monitoring system will be selected. The measurement of results and the verification of impact are the two final steps concerning the actual validation of the initial assumptions, and although it may sound premature to consider this type of matters during a study on the applicability of social finance, it must be stressed once again that the evaluation of impact represents a management tool that can help to better define investments plans.

Figure 11 – Impact measurement steps



Source: Authors' own elaboration

Beside the identification of possible pitfalls, and the delineation of a practical plan, an important step to define a sound social impact measurement strategy aimed at assessing the value generated by social finance vehicles requires the definition of a consistent framework. The purpose of the latter is to bridge together the soft-theoretical elements of impact assessment with the its hard-methodological and therefore practical elements. Like other elements of the planning of an impact investing initiative, the selection of an

appropriate framework depends on the purpose and objectives of the initiative itself. For simple and straightforward objectives with easily attributable impact it will suffice to devise swift ad-hoc impact frameworks that map the results achieved into a set of scenarios. Whenever the complexity of scenarios faced by social finance imposes the consideration of a greater number of variables, though, a more structured framework is required. A state-of-the-art tool for the evaluation of social impact within complex multidimensional contexts is Social Return On Investment (SROI). SROI is a framework that allows to aggregate heterogeneous dimensions in order to evaluate the overall profitability of an investment. Much like the traditional (financial) return on investment, it compares the value of inputs and that of outputs and produces a ratio that describes the social profitability of an investment. In order to aggregate different variables (e.g. results achieved in terms of quality of life, life expectancy, employment, safety and other social dimensions) SROI presupposes the identification of a monetary equivalent of each result that can be deduced by means of techniques such as Wellbeing Evaluation Method[16], which deduces monetary equivalent of social attainments from the comparison of self-reported wellbeing of lottery winners. The efficiency of SROI derives from the fact that, despite its slim structure, it allows to take in consideration the key elements of impact attribution which are fundamental in order to ensure reliable accountability relationships within an impact finance instrument[17].

[16] See for example Fujiwara et al., 2014.
[17] These are deadweight (how much of the impact generated would have occurred anyway), attribution (how much of the impact was generated by other organisations or external factors), displacement (how much of the generated impact is counterbalanced by adverse results), drop-off (the progressive decrease in impact though time). For a comprehensive description of SROI, see Nicholls et al., 2012.

4. Concluding remarks

This section will draw from the analysis offered in the report and attempt to clarify a set of four key messages that may be of primary importance for public administrations who are looking to explore impact investing solutions to social issues.

a) **SIBs are not for everyone – evidence shows their success is faltering**

Although social impact bonds have the merit of having proved the validity of social finance principles to a wider audience, recently a consensus has been developing among practitioners that their management may be simply too expensive and cumbersome to actually work. To be more precise, SIBs have so far displayed a number of successes (among all think about the Peterborough pilot), but most of them have relied on heavy financial and political support, and would have struggled to stay afloat on their own. In environments that lacked the same degree of support – Italy is an example – SIBs have struggled to get off the ground. In a nutshell, long term self-sustainability of complex financial contracts such as SIBs is all but guaranteed and depending on the policy context other financial (or non-financial) tools may be better equipped to serve the purpose at hand. This should not be read as a disproof of the validity of the principles of social impact bonds: research and experimentation in social finance is currently going in the direction of more practical (i.e. less burdensome) pay-for-success – or pay-for-result – approaches to public procurement.

b) **Social finance is not for everyone: suitability must be carefully scrutinised**

Social finance relies on a fragile equilibrium based on the accountability of different stakeholders. An important component of such accountability rests on the possibility to accurately measure the impact generated by an initiative, which in some cases may require efforts that are beyond the capabilities of the stakeholders themselves. In these situations, including cases in which the attribution of responsibilities is more complex, impact investing may be inefficient and generate adverse results.

c) **Impact investing is not only finance**

Funding social innovation entails first and foremost impact investing, but non-strictly-financial instruments may sometime offer solutions that are more suited for

the objective at hand. It is the case, for example, of senior care – a sector that will become increasingly relevant as the mean population age keeps rising, and in which infrastructural projects linked to the construction of assisted living facilities is becoming more popular.

d) **Involvement of EU level institutional partners may go a long way towards ensuring a project's sustainability**

Although it is a purpose of this report to highlight the fact that all-encompassing solutions to social finance problems do not exist, one interesting avenue of experimentation for local public administrations is to establish partnerships with high level European financial institutions. The Juncker Plan first and InvestEU starting from 2021 have committed large financial resources to support sustainable growth and innovation within the union, and despite the relatively sluggish demand for institutional impact capitals, the supply side so far has appeared to be responsive. Moreover, there are signs that the involvement of EU financial institutions tends to overcome administrative compliance requirements by switching to a higher level of governance, thus making it easier for smaller local administrations to tap into greater financial resources.

References

Addarii, F. and Lipparini, F., 2017. *Vision and Trends of Social Innovation for Europe*. European Commission, Directorate-General for Research and Innovation

Airoldi, M. and Ball, N., 2018. *Social Impact Bonds: insights from the UK experience*. University of Oxford GOLAB

Alam, N and Getubig, M, 2010. *Guidelines for establishing and operating Grameen-style microcredit programs*. Grameen Foundation USA.

Banca d'Italia, 2017. *Economie Regionali*. Numero 22, Luglio 2017

Big Society Capital, 2015. *Going for gold. How golden shares cha help lock in mission for social enterprises*

Bridges Fund Management, 2015. *The Bridges spectrum of capital. How we define the sustainable and impact investment market*. Accessed 24/6/2018. http://www.bridgesfundmanagement.com/publications/bridges-spectrum-capital-define-sustainable-impact-investment-market/

Dhar, V. and Fetherson, J., 2014. *Impact Investing Needs Millennials*. Harvard Business Review

Floyd, D., 2017. *Social Impact Bonds. An overview of the global market for commissioners*. Social Spider for Centre for Public Impact at Boston Consulting Group

Fondazione Cariplo, 2013. I Social impact bonds. La finanza al servizio dell'innovazione sociale. Quaderni dell'osservatorio

Fujiwara, D., Kudrna, L. and Dolan, P., 2014. *Quantifying and Valuing the Wellbeing impacts of culture and sports*. UK Government, Department of Culture, Media and Sport

GIIN, 2018. *Annual Impact Investor Survey*

GIIN, 2017. History. Accessed 24/6/2018. https://thegiin.org/giin/history

Impact Measurement Working Group, 2014. *Guidelines for good impact practice*. G8 Social Impact Investing Taskforce

Maino, F. and Ferrera, M., 2015. *Secondo Rapporto sul secondo welfare in Italia 2015*, Torino, Centro di Ricerca e Documentazione Luigi Einaudi

Nicholls, A., Paton, R and Emerson, J., 2017. *Social Finance*. Oxford: Oxford University Press

Nicholls, A., Lawlor, E., Neizert, E. and Goodspeed, T., 2012. *A guide to Social Return On Investment*. The SROI Network

OECD, 2015. *Developing a long-term vision for responsible conduct*. Discussion Note for the 2015 Global Forum on Responsible Business Conduct, 18 June 2015, OECD, Paris
Pasi, G., 2017. *Modelli di risposta ai nuovi bisogni sociali e possibili scenari di riforma*. Social Impact Agenda per l'Italia
Porter, M. E. and Kramer, M. R., 2011. The big idea: Creating shared value – how to reinvent capitalism and unleash a wave of innovation and growth. *Harvard Business Review*, 89(1-2).
Rangan, V. K. and Chase, L. A., 2015. The payoff of pay-for-success. *Stanford Social Innovation Review*
Varga, E and Hayday, M., 2016. *A recipe book for social finance*. European Commisison, DG Employment, Social Affairs and Inclusion
Vecchi, V., Leone, V., 2016. *Partnership Pubblico Privato. Una guida manageriale, finanziaria e giuridica*. Egea, Milano

Annex I – List of case studies

Name	**Geographical coverage**	**Size (€)**	**Description**
Diabetes - Bwell	Israel – national	4.6 million	SIB aimed at reducing the incidence of type 2 diabetes on people at risk
Commissioning	**Intermediaries**	**Investors**	
National Insurance Institute	Social Finance Israel	Multiple investors (coordinated by UBS banking corporation)	
Name	**Geographical coverage**	**Size (€)**	**Description**
Epiqus Koto	Finland - national	14.2 million	SIB aimed at the integration of migrants through work and language courses
Commissioning	**Intermediaries**	**Investors**	
Ministry of Economic Affairs and Unemployment	Sitra	European Investment Fund	
Name	**Geographical coverage**	**Size (€)**	**Description**
Liverpool City Region Impact Fund	United Kingdom - regional	2.6 million	Regional fund aimed at boosting the impact of community initiatives
Commissioning	**Intermediaries**	**Investors**	
Liverpool City Region	Local impact fund management	European Regional Development Fund, Social Investment Businesses	
Name	**Geographical coverage**	**Size (€)**	**Description**
Peterborough SIB	United Kingdom - local	9.3 million	Social Impact Bond aimed at reducing the reoffending rate of former inmates in the Peterborough prison
Commissioning	**Intermediaries**	**Investors**	
Ministry of Justice	Social Finance	Trusts and foundations	
Name	**Geographical coverage**	**Size (€)**	**Description**
Riker Island SIB	United States - local	6.2 million	Social Impact Bond aimed at at reducing recidivism among young offenders detained at Riker Island prison
Commissioning	**Intermediaries**	**Investors**	
New York City Department of Corrections	MDRC	Goldman Sachs and Bloomberg Philanthropies	
Name	**Geographical coverage**	**Size (€)**	**Description**

Sardinia Regional Social Impact Investing Fund	Italy - regional	8 million	Regional fund pooling together EFS resources to improve social inclusion

Commissioning	**Intermediaries**	**Investors**
Sardinia Region	SFIRS Spa	European Structural Investment Fund

Name	**Geographical coverage**	**Size (€)**	**Description**
Social Bond UBI Comunità	Italy - national	973 million	88 social bonds generating 4.6 million of grants distributed to support social impact companies and projects

Commissioning	**Intermediaries**	**Investors**
UBI Banca	UBI Banca	Private investors

Name	**Geographical coverage**	**Size (€)**	**Description**
Treviso Hospital	Italy - local	250 million	Public-Private Partnership project financing to support the construction of a new hospital in the city of Treviso

Commissioning	**Intermediaries**	**Investors**
Lendlease	PlusValue	European Investment Bank, Intesa Sanpaolo, Unicredit

Name	**Geographical coverage**	**Size (€)**	**Description**
TRIS	Italy – local	14.6 million	Social Impact Bond aimed at the construction of an infrastructure to improve the waste management system in the city of Naples. Aborted before the launch.

Commissioning	**Intermediaries**	**Investors**
Naples municipality	Banca Prossima	Private investors

Name	**Geographical coverage**	**Size (€)**	**Description**
UBI Banca Project Finance	Italy - local	8 million	Social impact financing structure applied to an assisted living facility and project

Commissioning	**Intermediaries**	**Investors**
TSC Onlus	/	UBI Banca

Annex II – List of actors

Name	Geographical coverage	Role	Projects
Oltre Venture	Italy	Private fund	Oltre I, Oltre II
Banca Prossima	Italy	Bank	TRIS
Impact Alliance Fund	Italy	Private fund	Impact Alliance Fund
UBI Banca	Italy	Bank	Social Bond UBI Comunità, UBI Banca Project Finance
Cassa Depositi e Prestiti (CDP)	Italy	Financial institution	
Unicredit Social Impact Bank	Italy	Bank	
Banca Sella	Italy	Bank	Banca Sella Investimenti Sostenibili
Fondazione CARIPLO	Italy	Research, intermediary	Fondazione Social Venture Giordano dell'Amore
Tiresia	Italy	Research	
PlusValue	United Kingdom, Italy	Research, consultancy	Treviso Hospital PPP
Bridges Ventures	United Kingdom	Private Fund	
Social Finance	United Kingdom	Intermediary	Peterborough SIB
Impact Cooperatif	France	Private Fund	
Epiqus	Finland	Private Fund	Epiqus Koto SIB
European Investment Fund	Europe	Financial institution	Treviso Hospital PPP