Social Impact Investing and its role
in the future social public/private investments, continuing dialogue

Conference in EESC, Brussels, 16 February 2015

Background

Impact investing is pushed forward as an emerging conceptual framework, a new way of tackling social questions in a new financial environment: new financial market players will meet the financing needs of social players at this time of constrained budgets. The largest Investment banks see « impact investing » as a new way of investing and social organisations as a new class of assets (Alix&Baudet, 2013[1]). Philanthropists and savers who want to « make their poney meaningful » could give or invest money where it will be most socially profitable. A new wave of investors claims[2] that, for scaling up, social enterprises can progress by defining social impact objectives in accordance with « impact investors ».

In this content, on the initiative of the British government, the G73 decided in 2013 to put 'Social Impact Investment' on the agenda4. The aim is to create an international support community, better understand market potential and move forward « transparency and standardisation in impact measurement ». The G7 Taskforce and working groups, both international and national5, have published their reports with key findings and recommandations on 15 September 20146. Impact investment "the invisible heart of the markets" can "harness the power of entrepreneurship, innovation and capital for public good"[7].

As the Social Business Initiative (SBI)[8] in October 2011 has identified access to suitable finance as one of the main challenges for social enterprises, the European Union also wants to draw on social impact investing to govern financing for social enterprises, in a background of savings in the national budgets, including in public health and social departments. The question is if it is possible to channel more private money in investing for social objectives. As a result there is a emerging interest in the area of creating a social investment market. The GECES has adopted a report in June 2014 to promote a common European framework for the measurement of those impacts[9].

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[1] Alix N. & Baudet A., 2013, « Impact investing: a factor of transformation of the social sector in Europe », CIRIEC Working papers n°2014/1

[2] "Revolutionising Philanthropy: Impact Investment", Sir Ronald Cohen, Chair of the Social Impact Investment Taskforce established by the G8, The Mansion House, Thursday 23 January 2014

[3] An informal Forum of the leaders of the states and the governments of Germany, France, the UK, Italy, Japan, the USA and Canada

[4] "G8 Social Impact Investment Forum, Outputs and Agreed Actions", Cabinet Office, G8 UK, July 2013

[5] Australia, Canada, France, Germany, Italy, Japan, UK, USA.

[6] "Impact investment: The invisible heart of markets, report of the social impact investment taskforce", 15 September 2014. See all the nanational reports on http://www.socialimpactinvestment.org/

[7] "Impact investment: the invisible heart of markets", op.cit.

[8] https://dm.eesc.europa.eu/EESCDocumentSearch

[9] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European Social Entrepreneurship Funds. "*As the principal objective of social undertakings is to have a positive social impact rather than to maximise profits this Regulation should only promote support for qualifying portfolio undertakings that have the achievement of a measurable and positive social impact as their focus*."

It is also argued that mesuring the « social impact » of organisations is important for planning public action. The *Social Investment Package*[10] (SIP) aims at reorienting Member States' policies towards social investment where needed. "*Support must offer individuals an exit strategy, be granted for as long as needed, and so in principle be temporary in nature", "with a view to ensuring the adequacy and sustainability of social system".* The Commission calls on Member States to pursue the actions in strengthening social investment and making the best use of EU funds to support it, notably the ESF.

It is important to see if the new EU Commission will take over these initiatives. During the transitional period the European Economic and Social Committee accepted the responsability on this important item. (1)

The conference

Nicole ALIX, Confrontations Europe (a French Think Tank) Board member, thanks the partners which have prepared the conference: ***Social Platform*** (an European network of non-governemental social organisations) and ***Bundesarbeitgemeinschaft der Freien Wohlfahrtsplege*** (BAGFW, a German welfare organisation) with the support of the **EESC,** specially ***Ariane Rodert,*** Group III's vice-president. The partnership lasts since the previous conference on the same issue in the EESC, in May 2013 and is fruitful to go further into the understanding of the difficulties created by different perceptions of terms used and the situations covered in the different national legal, cultural and financial systems.

Ariane Rodert underlines the necessity to continue the dialogue, taking into account the different national realities and the broader context of the evolution of the social welfare systems in the EU, social innovations (2014 Milan Conference), social entreprises… The EESC has expressed many opinions to connect these different issues at stake. Connecting « impact investing » and « social impact measurement » being the main topic of to-day conference, she mentions the main recommandations in the EESC opinion on social impact investment[11], which proposes to adopt a cross-sectorial resources approach under both SIP and SBI, and public responsibility perspectives. Rome Strategy[12] also underlines that social impact measurement remains a "non-consensual issue" which needs further dialogue. Promoting social indicators apart from economic ones, evaluating social outcomes and introducing a "pay-for-success' approach for social services suppose different approaches. Impact investment and social impact bonds are certainly useful innovations which have to be considered within a broader ecosystem promoting hybrid capital solutions for the whole range of social enterprises and social services, in a 'life cycle approach' from project money to sustainable enterprises.

120 people participated in the conference. In a first round moderated by ***Sybille Mertens***, Associate professor, HEC-Management School, University of Liege, they were informed about the outcome of the G7-approaches in Germany, France and Italy. In a second round moderated by **Antonella Noya**, Senior analyst, OECD/LEED Forum for SSE, there was a discussion about 'Social Impact Investment'.

1 – The different 'social investment' approaches in G7 countries: what objectives, what propositions?

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[10] "Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020", Communication from the Commission to the European Parliament, the Council, the EESC and the Committee of the regions, Brussels, 20.2.2013 COM(2013) 83 final

[11] EESC 11September 2014, INT/747 Social Impact Investment

[12] Unlocking the potential of the Social Economy for EU Growth: the Rome Strategy, under the Proceedings ot the Rome Conference, November 17 and 18, 2014.

The G7 working groups published recommendations in their 8 reports: set measurable impact objectives and track their achievement; investors to consider three dimensions: risk, return and impact; consider setting up an impact investment wholesaler funded with unclaimed assets to drive development of the impact investment sector ; boost social sector organisational capacity: governments and foundations to consider establishing capacity-building ; pay-for-success commissioning: governments should consider streamlining pay-for-success arrangements such as social impact bonds and adapting national ecosystems to support impact investment; support impact investment's role in international development: governments to consider providing their development finance institutions with flexibility to increase impact investment efforts; explore creation of an Impact Finance Facility to help attract early-stage capital, and a DIB SocialOutcomes Fund to pay for successful development impact bonds. The organisations of the social sector need training in order to implement these financing instruments. Social Impact Investment might be also promoted worldwide and in the countries of the South.

Kieron Boyle, Head of Social Investment, UK Government, International G8 Social Impact Taskforce under the UK's presidency of the G8, drew the attention to the definition and the limits of the concept 'Social Impact Investment'. Financing is not funding : impact investing relates to a trade model, to repayable capital. Social investment is repayable capital for social organisations to increase their impact. Social Impact Bonds are outcome based contracts. Consequently, not all social problems can be solved that way; it is only one instrument in a variety of tools. That is the reason why governments might create a framework in order to give the possibility to social organisations to evoluate from public financed organisations to financial independant organizations[13]. The real incentive will come from the foundations, the grants of which can really provoke the change. Kieron Boyle considers that each country has to go its way, depending on its political and social contexts. Governments really have to allocate their own capital (i.e. pension funds) according to social impact created, with a slight caution : governments, which are good funders, may be not so good as investors, because they are in political process. In conclusion, the good news is that consumers and employees also feel concerned: this is why the scope of impact investing could be broader than the asset lock or profit constraint sectors.

According to ***Michael Sommer of the German Caritas association*** and member of the German advisory group the social services are mainly adequatly financed in Germany[14]. It should be noted that non profit organisations which deliver the social services were invited to participate, to get a global view. Up to German point of view, the 'social impact investment' cannot replace public financing of these services. But for specific items, having to do with innovation and on local level, a cooperation between companies, local authorities and welfare organisations is an attractive idea. It is challenging for the traditional welfare organisations to organise themselves in such a way that they can use private investments. But till now there are hardly examples of the use of social impact bonds in Germany[15]. It represents less than 10 millions €, but potential is being explored with banks and investors.

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[13] http://www.socialimpactinvestment.org/reports

[14] https://bertelsmann-stiftung.de/de/publikationen

[15] In Social Impact Bonds, public authorities are determining the objective of an social political activity done and financed by a private social service provider and later on refinanced by a public authority if he initial objective is achieved.

***Hugues Sibille, president of the French advisory group*,** agrees that 'social impact Investment' is no alternative for the welfare state and public financing, but only an additional possibility of financing for social innovations. Interesting to notice is that, opposite to the German group, in the French advisory group, no representative came from the 22.800 organisations offering social services. A SWOT analysis has been made. The fact that public money is used for social services and objectives has been considered as an opportunity and as a danger. There might be sole risk that useful organisations will disappear. One of the 'opportunities' is that in France foundations are growing and that a legal framework for 'crowdfunding' has been created. Hugues Sibille mentions a voluntary saving model for employees created in 2001 where the contributions in solidarity-based investment fund are channeled towards social enterprises. The French model of « solidarity-based finance » is worthwhile. Most of the social enterprises which are financed through solidarity-based finance are active in the field of nursing at home, integration through employment and environment. Besides, large companies like Danone or Renault started up social Investment funds, while also foundations and philanthropist families have socially invested. The French national advisory group recommends first of all to facilitate the access to venture capital to social enterprises rather than to test the system of Social impact bonds. It also recommends to strenghten French foundations and to promote philantropic projects and the development of French models of measuring the social outcome. Local experiences, connecting local authorities and local stakeholders should be encouraged, and be the base for further gradual progress. An open approach of what are the targeted social enterprises should be adopted, and the non for profit sector should be on the forefront, not on the defensive. Hugues Sibille also called up the Commission for the continuation of the SBI[16].

Italy has to convince the social enterpreneurs that social impact investment is not a risk but a challenge. ***Mario Latorre, the representative of the Italian advisory group***, explains that in Italy, as in other countries, 'social firms' sector is compounded of 'social' enterprises and 'non social' –meaning commercial firms working in the social field. If the challenge is to allow governments to sustain welfare system and, at the same time, promoting fiscal arrangements to channel the potential investment funds, the danger would be to overlap social impact investment and social firms. Social firms are promoters, managers, innovators, but not funders, this makes quite a difference: their role could be changed by financial arrangements. The on-going decisions in Italy on legal and financial framework for social firms must take these issues into consideration. Italy has many interesting means to develop social investments: the special laws on micro-credit, on equity crowdfunding which specific targets could be enlarged to social firms; the experience of social lending platforms authorized by the Central Bank of Italy to operate in territories. More broadly, different levers could help social impact investing: compensative taxation (fiscal benefit to the investor only when the social income has been achieved); new funders by working on capital markets and adapting insurance companies regulatory rules; paying attention of monetary authorities within the Banking Union at growing markets; promoting Euro Social Bonds, which could be a good mean for Germany to help solving the debt problem in the EU while promoting social investment; paying greater attention within Juncker plan not only to infrastructure but to SMEs, including social firms[17].

[16] http://www.socialimpactinvestment.org/reports/investissements-a-impact-social.pdf

[17] http://www.socialimpactinvestment.org/reports/Rapporto%20Italiano%20Ultima%20versione.pdf

2 – Analysis: impact investment: why, where and how?

For ***Eve Chiapello, Policy Professor EHESS in Paris***, the Social Impact Investment is one element of a broader framework and a radical transformation of the financial landscape of the last few decades called “financialisation”. This phenomenon, which has been deeply analysed, now reachs the financing of social activities. In the past banks and investors invested their own money directly and on the long term; they were closed to the companies that they invested in. Nowadays investments are done by using intermediaries of the financial markets and the fund managers, who manage other people money, to whom they have to make reports. And the valuation of the social elements and actions of social enterprises is done by financial experts who have not the expertise to do that. They use a few indicators, the social impact being the third parameter alongside risk and return on investment. Social impact investing and social impact measurement have to be seen in this context. Social impact measurement may be used in three ways :

- payment for success: the social organization gets incomes if it comes to its objectives. In these conditions, the financer also benefits. This is the case in “social impact bonds” which allow social investment to become profitable;
- rating for social organizations, for their reputation, to attract investments;
- classification in a fiscal perspective and/or for labels.

Lieve Fransen, Director for Social Policy and Europe 2020 in the Directory General Employment, social affairs, vocational training and flexibility, underlines the necessity for an increasingly consistent approach between the Social Business Initiative and the Social Investment Package (SIP), avoiding confusion in words and concepts with Social Impact Investment (SII).
The objectives of the SIP is to modernize the system of social welfare systems, through investing in people at all ages of their life; Mrs Thyssen has a clear mandate on that points. Modernising means partnerships with a range of stakeholders, and certainly completing public fundings by private capitals. This has not to be achieved in a harmonized European way; the richness of the approaches should be maintained and the responsibility of the whole system remaining at the political level. Another issue at stake is Social Impact Investment, which is the provision of finance to organisations adressing social needs with the explicite expectation of measurable social as well as financial return. Although using similar words, the first is focusing on policy (when the governments invest in people, the return is not always visible but these countries are also economically prosperous) and the second on financing. In the middle of the discussion are political questions and questions about measurement. Measuring the outcomes of a public policy at a macro level -where the EU and the Member States intervene, mainly at the fiscal perspective- and measuring the result of a specific project at the micro level are two different things.
Of course, good welfare systems also have to focus to outcomes and the Commission will support a larger range of methodologies to raise the overall macro-level in social fields where the other are, while knowing full well that measuring does not necessarily shows where the problems are. As an example: in order to fight against child poverty, it’s more important to give access to the labour market for mothers by offering a good system of children gardens instead of a transfer of money to poor families. In any case, this is the role of the public sector. This is different from evaluating if the social services are well delivered at a micro-level (the aim of social impact measurement in Social Impact Investing), even if the measurement at the micro-level could be easier if the governments objectives were clearer.

More partnerships between structural funds, social economy, social enterprises, business communities have to be encouraged, for more creativity and cooperation. Small and medium enterprises, with a lot of social enterprises, are creating a lot of employment. The Commission followed up the work of the G7 taskforce because she is convinced that the economy and the actors of the social economy have an important role in the modernization of the social protection system. However, Lieve Fransen emphasized the responsibility of the public authorities for the welfare system. She is convinced that a systematic measurement of the activities as a consequence of the interventions of the private sector request a lot of work on the macro level.

Heather Roy, Secretary general of Social Platform wonders when we began to consider social services as financial risk and not as services for public interest. What means a social “triple A” as we heard this morning? Social investments are unfortunately not part of the investment plan of the president of the Commission, Mr Juncker. Social Platform asked for a social expert representing them in the process. The most important question is if the position and the situation of the people has been improved thanks to the social services. This is what social impact measurement should point out, more than the investors’ point of view in itself. Social impact measurement is useful for innovations, at the beginning to find the capital and to convince public authorities to adopt new social policies and to scale up. Social impact investing can only be a part of a broader system and never replace the public funding. She wishes the whole Commission, not only a part of it, to continue the SBI.

Giovanni Garcea, from DG FISMA (Financial Stability, Financial Services and Capital Markets Union), explains that the European Commission has prepared a framework for investment funds for social entrepreneurship, named EuSEF (European Social Entrepreneurship Funds). The scope is to channel private resources to measurable objectives of social Enterprises. The social Enterprises targeted are those which have a positive measurable social impact, this latter being assessed by the funds managers. The Commission has been delegated by the European Parliament to adopt the necessary regulation and specially the method for measurement. This “level 1” regulation will apply in all Member States. The Commission has asked ESMA (European Security and Markets Authority) to provide recommandations for the measurement of the impact (see ESMA website). ESMA is in line with GECES, meaning that no single method has to be adopted, the only standard to be respected being the “five steps process”. So the Commission will be able to provide more detailed regulation by the end of 2015. The Commission wants to remain flexible and make a balance between the necessity of transparency for investors and the burden of providing complex information for social enterprises. Questions about venture capital funds for social enterprises will also been included in the consultation on Capital Market Union.

Marie-Christine Vergiat, a French Member of the European Parliament and co-president of the Social Economy Intergroup of the European Parliament, pointed out the importance and specificity of the social and solidarity economy (l’économie sociale et solidaire): these entrepreneurs are concerned about social needs which are not enough addressed nor by the market nor by the public sector. They do it in a model where the participation of the different partners (users, employees, financers ….) is possible. The measurement of the objectives is not neutral. The danger is that results on the short term become dominant and that quantitative and economic indicators have priority at the expense of the quality which is so important for the social services but difficult to measure. The

experts nominated by the Commission in order to develop methods for the social impact measurement, are rather experts in economy and finance than social experts. The consequences of the savings in the social system of several Member States are specially focused on the local level which is near to the people and their needs. The most important question for "Social impact Investment" is how the social political activities can be integrated in the logic of financial return without loosing the goal of the recovery of the social cohesion. One has to avoid that under the pressure of the investors the quality of the social service is in danger and that the focus on the return is opposite to the material and human social needs. The danger is to have three categories of social services:
- those who can be paid directly by the user because he has sufficient financial possibilities
- those who are attractive for a private investor because they are remunerative
- those who will or be financed in the future by public money or disappear with important consequences for the poorest and an increase of the social and territorial inequalities.

Questions have been raised on the difficulties to know what is an "effective" social impact investment (for whom is it so? Who will choose the indicators?), to determine whether a social investment can be viable without any fiscal incentives, and to move from a "democratic choice" of priorities by public representatives to private bodies, were they foundations.

Conclusions:
Matthieu de Nanteuil, professor at the Catholic University of Leuven, proposes 5 axes for work and research :

- country based specifities have to be considered and analysed on a European level;
- there is no agreement on the definitions, of what is social policy, social investment; on what kind of social services can benefit from Social impact investment; on what kind of investment we aim at;
- the impact of financing on the activities: can we finance a "social market" without transforming it into a "commodity market"? can investment also be long term?
- Actors have to be better identified, and so the role of social dialogue;
- Evaluation and measurement become political questions, with fiscal dimensions; can we, must we measure everything?

As ***Nicole Alix*** pointed out, there are at least 6 further meeting points on the agenda: the Juncker plan; the next GECES meetings, open to new participants; further Social economy Intergroup meetings ; and those of the Intergroup on "Public services and commons"; the Luxemburg presidency from July to December 2015; meetings of the Social Protection Committee; preparation of the Cop 21 and the UN discussion on social and solidarity economy. She tanks all the speakers, participants and interpreters and, once again, the EESC and Ariane Rodert for welcoming this meeting.

Social Impact Investing (SII) – Key Points and Conclusions

*Impact investing is being pushed forward as a new way of tackling social questions in the current financial environment: new financial market players will meet the financing needs of social players and help indebted states and weakened banks to finance social enterprises. Impact investing has been put on the G7 agenda. It is also argued that measuring the social impact of organisations is important for planning public policies. To look into the effect of an impact investing approach on social enterprises and social services of general interest, Confrontations Europe, Social Platform and the BAGFW organised the conference "**Social impact investing and its role in the future social public/private investments: continuing dialogue" on** 16 February 2015.*

From the discussions and presentations, **the following conclusions can be drawn**:

1) Definitions of *inter alia* Social Investment, Impact Investing and Social Impact Investing must be clarified.

2) Social Impact Investing has to be seen in its specific national context.

3) Experts from the social sector and service providers have to be included in policy making and the implementation of Social Impact Investment.

4) Social Impact Investing includes several elements:

- investing in the social sector
- measuring impact
- developing new financial instruments, which vary from already existing specialized investment funds to the financial industry's intention to create a new class of assets; Social Impact Bonds are no real bonds but new forms of public private partnerships which rely on social impact measurement.

5) Social Impact Investing must not replace public funding, but should be additional and for example might be useful for funding social innovations, while keeping in mind that incorporating impact assessment into cost/benefit analyses can hinder social innovation.

6) Once an innovation has proven its successful implementation, permanent public funding should become available and affordable access to the new service should be guaranteed to all users who might need it.

7) Social Investment is currently not on top of the European Commission's agenda. However, the need of investing in the social sector is obvious and the implementation and stock-taking of the Social Investment Package should be further carried on. The link between the Social Business Initiative and the Social Investment Package must be clarified.

8) Not every impact can be measured, especially not in the social sector. Measuring ex post social impact goals previously defined entails a lot of difficulties, especially when trying to capture human capital, innovation and very long-term investment. Not every social investment requires a social impact measurement in the sense of the impact investment funds such as Eusef.

9) We do not need a "one-fits-all" and "comply or explain" approaches, but rather a flexible method based on user needs and positive subsidiarity. Often impact can only be described and not translated into exact figures.

10) When measuring social impact, long-term outcome of projects and not the short-term results should be measured, to fully demonstrate the value and the complexity of social organizations' activities. The impact of the type of governance and the nonprofit aim of the organizations should be considered too.

11) Social Impact Bonds might be one way to offer additional funding to the social sector. Meanwhile, member states should bear their responsibility for providing a functioning legal and

financial framework for the provision of social services of general interest. SIBs are tools which do not replace public policies.

12) Interests of private investors do not necessarily coincide with the public interest or interests of governments. While discussing private investment in social services, the private agenda of investors must be further explored. Public regulation is required to guarantee that the social added value will be reinvested in social goals.