REPORT
IMPACT FINANCE FOR SOCIAL INNOVATION ROUNDTABLE
MILAN, 24 JANUARY 2018

This report provides a summary of the Roundtable meeting held in Milan as part of BoostInno consortium meeting.

Executive summary

Impact investing refers to investment whose positive impact is *intentional* and *measurable*. These features can be summarized in the concept of *intentionability*.

In the impact finance industry, there is a problem of lack of demand, rather than of supply, of capital. Supply of capital is increasing much faster than demand, much faster than demand side is ready to receive investment; there is a problem of investment readiness on the demand side. The demand side, the deal flow is the real constraint.

A new, hybrid model of entrepreneurship is emerging. There is now a new candidate, referred to as social venture, a sort of hybrid entity that does not come strictly speaking from the third sector, but comes also from the hybridation of mainstream finance models.

There is a problem of additionality. A key concept is the importance of understanding the difference between counting just what has happened from a non financial perspective, and understanding its causes, that is, the difference between just the positive externality, that may be accidental, and the intentionality behind it.

Another point is how to scale social innovation. How to get a social idea, a startup, to grow in scale? There seems to be a difference between the commercial sector and the social innovation: while in the commercial sector the focus in on the financial exit, i.e. whom to sell the business to, and the big corporates look at the idea of conglomeration, becoming bigger and larger and dominating markets, social innovation focuses on federation.

The following main challenges were identified:
- The lack of standards in impact measurement
- The possible unattended consequences of measurements.

Impact measurement is crucial in the impact finance industry. Impact investment can be referred to as investing in people’s prosperity, putting people at the centre of the scheme. As people are the real outcome of impact investment, measuring the outcome is challenging, as everything about people is so complex as there are many variables to analyze.

In the asset class of impact investment, which is different from the sustainable finance one, measuring impact is necessary. The challenge for impact finance is to finance intangible assets. There are people and solutions to problems inside tangible assets, urban regeneration, and those are the target.

The Public Administration can play a fundamental role on both demand and supply side of impact finance. Local administrations may act on the development of social enterprises and on the integration of public finance with impact finance, for instance, through pay for result schemes.

Importantly, these instruments are affecting the way the public administrations are looking at their performance measurement and the way they do their procurement with social services. So, this can be a very useful instrument to change the managerial culture in PA, change the way they measure their impact and manage their services.

The public administrations play a role also through public procurement: as an example, a structure linking a set level of the value of the project to environmental and social impact, would be a way for both the public and private sector to mainstream impact finance.

The European Investment Bank has a mission to achieve the EU's strategic objectives; therefore, it has already a social impact component. Impact investment market is important to the bank in raising its funds, through the issue of Green Bonds. EIB is already a big investor in social innovation. The EIB group, through the EIF, has established for example the Social Impact Accelerator Fund[1], an EU wide fund of funds that combines EIF funds with those of a number of private institutions to invest equity in social enterprises.

The JESSICA initiative, developed by EIB and the EU Commission in the previous programming period, 2007-2013, offers a snapshot of what financial instruments can provide in terms social impact. In Italy, JESSICA supported the construction of a centre for disabled people, built and managed by ANFFAS, which is an Italian disabled people's association, through a medium sized project. Another project in Naples, allowed the regeneration of a former brewery with a social aggregation component. This initiative was a way to support municipalities to think, to change the paradigm and to make some investments with real social impact on the ground.

The extension of the EFSI programme, that is increasing the investment target from €315 billion to at €500 billion and the timeline from 2018 to 2020, and, for the first time, and includes social impact as one of its objective, is a signal that the EU Commission is recognizing its importance.

Action points

- Social value procurement is a huge opportunity for cities to contribute for; if they embedded that in their procurement policies, they would be creating the ecosystem.
- Embedding social impact into urban development funds and policies recognizing the human scale, is another thing that would drive the developers to look out for good ideas and generate the ecosystem.
- Social impact contracting. Social impact bond, but that is only one kind of contracting. We have a huge amount of public expenditure that every year support social services. If even 5% of that could be freed to fund innovative social impact projects, that would have a huge impact on creating the ecosystem. URBACT and other initiatives can support cities with that. Cities must not underestimate their soft powers.
- Technical support is available to cities through URBACT and other initiatives (FI Compass, URBIS, European Investment and Advisory Hub).
- More investigation is needed on the connection between impact investment and sustainability as the narrative on SDGs and impact investing come along on different routes.
- Data on the characteristics and features of social innovators would be very useful for municipalities, who look for a target when starting a new policy.

[1] http://www.eif.europa.eu/what_we_do/equity/sia/index.htm

List of participants

Keynote speakers:
Desmond Gardner, Financial instruments Advisor at the European Investment Bank https://www.linkedin.com/in/desgardner/
Mario Calderini, Full Professor of Strategy and Social Innovation at Politecnico di Milano https://www.linkedin.com/in/mario-calderini-134b064/

Filippo Addarii, CEO PlusValue - Moderator https://www.linkedin.com/in/filippo-addarii-7604891/
Adriana Versino - Oltre Ventures https://www.linkedin.com/in/adriana-versino-38b178/
Simone Fumagalli - Banca Prossima https://www.linkedin.com/in/simonefumagalli/
Giovanni Franchina - Bepart Società Cooperativa Impresa Sociale https://www.linkedin.com/in/giovanni-franchina-b2504989/
Marco Zappalorto - NESTA Italy https://www.linkedin.com/in/marco-zappalorto-a9a59517/
Francesco Mandruzzato - Lendlease https://www.linkedin.com/in/francesco-mandruzzato-530329/
Fiorenza Lipparini - PlusValue https://www.linkedin.com/in/fiorenza-lipparini-30418344/
Arianna Lovera - Forum per la Finanza Sostenibile https://www.linkedin.com/in/arianna-lovera-27936825/
Denise Di Dio - Tiresia, Politecnico di Milano https://www.linkedin.com/in/denisedidio/
Daniele Alfonsi - EIB https://www.linkedin.com/in/daniele-alfonsi-b300023/
Alberto Boem - Banca Etica https://www.linkedin.com/in/alberto-boem-03016441/
Karl H Richter – UNDP https://www.linkedin.com/in/karlhrichter/

The Municipality of Milan, represented by **Lucia Scopelliti**[2], Head of the Economic Planning Unit, Department of Urban Economy and Labour, highlighted how the Department, which is in charge with fostering new urban economies, growth and employment, this year has embarked in addressing the new, inspiring segment of the impact finance, with the aim to:

- Raise awareness among local financial stakeholders with regard to the social impact dimension of their investment strategies
- Gain expertise on impact measurement of our public policies
- And explore the possibility of including impact evaluations into the public procurement frameworks

Keynote speakers

Desmond Gardner, Financial instruments Advisor at the European Investment Bank
The Advisory Services within the EIB has a team that works with Managing Authorities, cities, and other stakeholders, primarily in the area of finance trying to implement FI using EU structural funds. The team supports managing authorities in two ways:

1. Working directly with them on a bilateral basis, helping with implementing a particular stage of a project.
2. Through a horizontal platform, "FI Compass", provided in partnership with the European Commission, delivering a range of activities including events, guidance and case studies.

[2] https://www.linkedin.com/in/lucia-scopelliti-77318113/

FI Compass[3] is only one of the examples of the range of the advisory services of EIB available to cities. Advisory support can be accessed through the European Investment and Advisory Hub[4] and the recently launched URBIS initiative that aims to directly support cities and so should be of interest to the URBACT partners.

In terms of what the EIB does on impact finance, the bank's core business is lending. In 2017, 901 projects were approved and more than 78 billion euros invested in projects in four priority areas: innovation, environment, infrastructure, and small and medium-sized enterprises. The bank is the world's largest multilateral lender and critically, the EIB, as the EU's bank, and as such owned by member states, has a mission to achieve the EU's strategic objectives; so, it is already an impact investor.

Three examples to demonstrate what impact investment means to EIB:

1. Impact investment market is important to the bank in raising its funds, through the issue of Green Bonds. To fund its lending, the EIB raises funds like the other banks, by issuing bonds to investors, not from taxpayers. A key tool EIB uses to raise funding is the Green Bond, which is attractive to investors and investment managers who are keen to invest in this sector.
2. EIB is already a big investor in social innovation. The EIB group, through the EIF, has established for example the Social Impact Accelerator Fund, an EU wide fund of funds that combines EIF funds with those of a number of private institutions to invest equity in social enterprises. Also through EFSI, the EIF has used these funds to set up three further funds that support social innovation.
3. The advisory team at the EIB is supporting managing authorities seeking to use ESIF resources to support social outcomes contracting (such as social impact bonds) where public authorities specify the outcomes to be achieved, and allow the providers to develop the way to achieve the outcomes.

Two examples of "social impact" projects supported by the EIB Group are given. The first one is a loan to a PPP hospital project in Treviso. The saving generated from EIB financing of the infrastructure project allowed an impact fund to be created to finance local social businesses who will provide innovative solutions that complement the healthcare services provided by the hospital. The second is a Social Impact Bond in Finland where a payment by results contract has been awarded to a provider to support the integration of refugees. The EIF, using EFSI resources, provided 50% of finance.

So, social impact investing is an exciting new opportunity for public authorities to find new ways of delivering public services and EIB has a role to play in terms of supporting its implementation in the future.

Mario Calderini, Full Professor of Strategy and Social Innovation at Politecnico di Milano

Demand side is more important than supply at this point. Targeting demand and investing in its development is crucial as it is not ripe yet, it takes time, and without investment opportunity, the impact investing market cannot take off. Focus on supply side only is not effective as failure with venture capital in Italy proved in the past.

The definition of impact investing used here is very narrow, as impact is considered different from positive externalities and refers to investment with the following two characteristics, which are the two key concepts:

1. Intentionality of the impact
2. Measurability of the impact

[3] https://www.fi-compass.eu/

[4] http://eiah.eib.org/

Those can be summarized in the concept of *intentionability*, that puts together the need for an intentional impact, so predefined ex ante, specifically oriented to solve a problem, and measurable. With this very strict definition of impact, the industry is rather small but it is really growing.
The problem is that supply of capital is increasing much faster than demand; the problem is of investment readiness on the demand side. Nevertheless, the observation is that there is now an evolution of the model of entrepreneurship. There is now a new candidate, referred to as social venture, a sort of hybrid entity that does not come strictly speaking from the third sector, but comes also from the hybridation of mainstream finance models, and has the following three characteristics:

1. Has blend value (social + financial return). Namely the purse social impact and financial returns jointly, that are often difficult to tell apart
2. Is managerially structured
3. Is technology or competency intensive

So, in terms of matching demand and supply of the impact capital, there is a problem of quantity. What to work on is capacity building on the demand side and making sure that this exponential increase in supply or possible potential supply or availability of impact capital is matched by a consistent demand side in the entrepreneurial arena.
In analogy to what happened to the venture capital industry, where venture capitalists invested and selected in industrial sectors rather than in single companies, in the impact finance industry, investors will select ecosystems rather than single enterprise. The fact of being in an attractive ecosystem is going to be crucial for enterprises or projects that are good candidates to receive money. So, there is a huge role for cities to create appropriate ecosystems, which have three ingredients:

1. The problem of the market:
2. Favourable conditions for the development of this new generation of social enterprises
3. Density

The two other stories are stories of integration. It is clear in the impact finance industry, the model is not private equity as usual, or mainstream finance as usual. It is not that you sit at your desk and very promising entrepreneurs knock at the investor's door and say, I have a beautiful business plan and what he has to do is having good due diligence and then give or refuse money. Here, the building of the investment pipeline is entirely on the financial industry. So, the financial industry has to work a lot on capacity building on the demand side.
It is not accidental that impact investors in Italy are having either partnerships with intermediators, like accelerators, incubators, or even, the funds are generated by the incubator, the accelerator, etc. So,
developing a good level of intermediation at the municipal level is crucial. It is not a game of demand and supply; the problem is not just matching demand and supply, rather, taking care of nurturing the demand side.
The third integration story for cities has to do with profits, because even though historically impact finance has become very popular when directed to enterprises, or social ventures, now, in terms of size of the industry and of size of investment, large projects, so impact project financing, are a more active area.
This has a lot to do with urban regeneration plans in cities[5]. How does impact finance come here? In certain areas of this country, and in many cities of Europe, real estate investors, the traditional real estate industry, have understood that the physical value of their assets is zero when talking about urban regeneration and that the real value of their physical assets is dependent on the level of social innovation or level of social entrepreneurship which is developed within the real estate asset. This is a paradigmatic shift, as in traditional urban regeneration the primary value is due to an intrinsic financial

[5] http://www.plusvalue.org/testimonials/socialoutcomebasedregeneration/

value attributed to real estate and infrastructure (the hardware) and it is taken for granted that people and activities (software) will populate the place once it has been developed. In the new model in which the impact dimension is integrated, this order is inverted: the choice of people to move into that area and start activities there gives values to real estate. Therefore investors must prioritise investments in wellbeing of people/community and their activities. So, investment has to be made in social entrepreneurship, because it is the underlying value that then you can leverage on when you invest in projects and real estate.

Q&A

The public highlighted the risk of adverse consequence of social impact investments, like making gentrification processes worse, and the risk of this being discussions limited to elites; in addition, the need to reach out to the wider territory beyond big cities and the need to demonstrate the social impact , were recognized.
Also, the public enquired what is needed to reinforce the project pipelines project and co-design processes.

OltreVenture gave an example to show that they are reaching out to small villages: the fund invested in a startup in the tourism sector in a small town in Sicily with the aimed to attract tourists from all over the world to places which are not main touristic destinations.

This event is part of BoostInno consortium meeting. Boosting Social Innovation - BoostInno is an URBACT network of 10 EU cities and 1 non EU observer (Lviv from the Ukraine) which works on improving or creating the ecosystems, that stimulate, foster and develop social innovation. The network is enabling public administrations to play a new role as public booster and brokers/ facilitators of social innovation activities/projects/policies, by driving social innovation in, through and out the public sector. Partnership is composed of 10 cities: Gdansk (PL)-Lead partner, Paris (FR), Milan (IT), Turin (IT), Braga (PT), Barcelona (ES), Wroclaw (PL), Skane County (S), Baia mare (RO), Strasbourg (FR). In this framework, the network members met in Milan on January 24th-25th-26th 2018.

This roundtable meeting was organized in order to better comprehend the ever growing connection between impact investing and social innovation. During the roundtable, speakers brought their view (and their organization's one) on impact investing. The event was aimed to allow the public a better understanding of the topic and the occasion to have a direct confrontation with potential investors.