

Social Impact Investment

Best Practices and Recommendations
for the Next Generation



Social Impact Investment

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Abstract

Social Impact Investment (SII) is emerging as a potential strategy for solving key societal challenges. This study sets out the rationale behind and the definition of SII and analyses the different components of the SII ecosystem. The paper looks at trends and challenges related to the SII market across the EU, highlighting a number of successful SII market initiatives, and finally reviews and makes recommendations on EU-level measures to facilitate SII market development.

This document was provided by the Policy Department for Economic, Scientific and Quality of Life Policies at the request of the Committee on Employment and Social Affairs (EMPL).

This document was requested by the European Parliament's Committee on Employment and Social Affairs.

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Original: EN

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Manuscript completed: September 2020

Date of publication: November 2020

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This document is available on the internet at:

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For citation purposes, the publication should be referenced as: Mackevičiūtė, R. et al., *Social Impact Investment - Best practices and recommendations for the next generation*, Publication for the Committee on Employment and Social Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020.

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LIST OF ABBREVIATIONS

AGRI	Agriculture and Rural Development Committee
BDB	Bulgarian Development Bank
CalPERS	California Public Employees' Retirement System
CEE	Central and Eastern European countries
CF	Cohesion Fund
EaSI	EU Programme for Employment and Social Innovation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Environmental, Social and Governance criteria
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EMPIS	Portuguese Social Innovation Mission Structure
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ESUS	Solidarity Enterprise with a Social Purpose
EU	European Union
Eurosif	European Sustainable Investment Forum
EVPA	European Venture Philanthropy Association
FCP	Fonds Commun de Placement (Mutual investment fund)
FCPE	Fonds Commun de Placement d'Entreprise (Company collective investment fund)

FDI	Foreign Direct Investment
FIP	Fonds d'investissement de proximité (Local investment fund)
F-SEM	The Finnish Social Enterprise Mark
GIIN	Global Impact Investing Network
GSG	Global Social Impact Investment Steering Group
HNWI	High-net-worth individual
IRR	Internal Rate of Return
JRC	Joint Research Centre
MFF	Multiannual Financial Framework
NABs	National Advisory Boards
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PUST	Partnership for the Development of Social Enterprises
RSP	Reform Support Programme
SBI	Social Business Initiative
SDGs	Sustainable Development Goals
SIA	Social Impact Accelerator
SIBs	Social Impact Bonds
SICAV	Société d'investissement à capital variable (Unit trust company)
SII	Social impact investment
SIIT	G8 Social Impact Investing Taskforce
SITRA	Finnish Innovation Fund
SIP	Social Investment Package
SMEs	Small and medium-sized enterprises

SRI	Sustainable and Responsible Investment
TIRESIA	International Research Centre promoted by the School of Management of Politecnico di Milano
USA	United States of America
USAID	United States International Development Agency
WEF	World Economic Forum

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EXECUTIVE SUMMARY

The scope and complexity of societal challenges faced by our society has been rapidly increasing over the last few years. Moreover, the recent Covid-19 pandemic and the ensuing economic crisis have created new societal challenges or significantly deepened those already present. It became obvious that traditional strategies would not be sufficient to solve all of the emerging challenges effectively given the constraints on public budgets and the shortcomings of traditional welfare systems. As a result, governments have been seeking new strategies for tackling the major social challenges of our time. Social Impact Investment (SII) **has emerged as one of the most effective potential strategies for solving the key societal challenges of our time.**

SII is the use of funds to generate both social and financial returns, offering a way to help social organisations access suitable financing and improve their ability to deliver impact. The SII ecosystem is complex and consists of various elements: the supply side (i.e. investors), the demand side (i.e. investees – organisations addressing social needs), financial and capacity-building intermediaries that link and provide support to the supply and demand side actors of the SII ecosystem, and an enabling environment (i.e. all of the legal, regulatory and economic conditions that are necessary for SII).

The SII market in the EU has demonstrated rapid growth over the last decade but despite significant progress, the EU SII market has not yet achieved its full potential. The maturity level of the SII market in most EU Member States remains low – in four fifths of the EU it is considered to be at its 'incipient' or 'infant' stages. Furthermore, SII market development levels vary significantly across EU Member States. Germany, France, Portugal, Italy and, although no longer a member of the EU, the United Kingdom, have already reached relatively high SII market maturity levels. However, the majority of other western, southern, and northern European countries have less developed markets, even if they are increasingly becoming engaged in SII. The SII market is least developed in the Central and Eastern European (CEE) countries.

The Covid-19 pandemic has affected the SII market. The effects are twofold. First, policy makers, potential and current SII actors, and society have recently paid more attention to SII, viewing this approach as one of the most effective solutions to challenges generated by the pandemic and the economic crisis. Second, SII market actors have been negatively affected by the pandemic, which in turn creates risks that might slow down the development of the SII market if timely measures are not taken. SII demand side actors have been facing the negative consequences of the pandemic similar to that of other economic actors, including falling revenues. Moreover, there is some evidence pointing to the probability that the overall amount of SII will decrease during 2020.

A number of **key challenges are preventing rapid SII market development across the EU.** Three challenges have been distinguished as having the largest negative impact. First, few national governments are taking the initiative and playing an active role as SII market 'steerers'. The majority of EU countries do not have comprehensive national strategies presenting the guidelines and objectives of SII in the country. There are also very few (government) entities whose missions are focused on the development of SII. Second, EU and national supply side policy initiatives that provide SII funds directly or support other supply side actors through financial schemes, funds or fiscal incentives dominate over the initiatives strengthening the demand side or intermediaries. This has created a situation where few demand side actors are investment-ready. Third, grants remain the key mechanism for the distribution of European funds (ESIF, Recovery funds) while financial instruments, tailored to the logic of SII, remain scarce.

The above-mentioned challenges can (and in some Member States have already been) addressed by implementing various **national-level initiatives targeted at SII market development**. An analysis of successful initiatives identified key success factors and the main lessons for further improvement of national initiatives. Some 'external' success factors increase the probability that successful and innovative SII market facilitation initiatives will be created and effectively implemented. First, education raises awareness and creates a base of qualified specialists who could foster the market. Second, political leadership and specific commitment to the SII market, expressed through the creation of a national SII strategy, or the establishment of a central unit for SII have been very effective in facilitating other initiatives. Third, international initiatives foster actions on a national level as discussed below.

EU-level policies, funding programmes, and other initiatives developed between 2010 and 2020 also facilitate the SII market across the EU. First, different EU funds and programmes such as EFSI (InvestEU starting from 2021), ESIF, COVID-19 Recovery Funds, or the European Investment Bank (EIB) Social Impact Bond Co-investment Fund all contribute to the development of the SII market by providing funding and working as SII supply side mechanisms. Nevertheless, there are some risks and challenges associated with the EU funds: not enough attention to impact, a high reliance on grants or traditional financial products, and the risks related to the lack of coordination between various EU funds and programmes. Second, relevant European strategies and programmes (e.g. the Social Investment Package (SIP), the Social Business Initiative (SBI) and the EU Programme for Employment and Social Innovation (EaSI)) all fostered development of the SII market by emphasising the importance of social goals or the social economy in general. Nevertheless, the need for a comprehensive EU strategy, focusing on the SII in particular, remains. Third, EU-level legislation has great potential to solve challenges related to the definitions of SII and its entities. Finally, EU efforts can be targeted at three specific aims that concern impact measurement: 1) promotion of the standardisation of impact measurement through the further development of the taxonomy regulations to include social objectives or the creation of standardised guidelines; 2) capacity building in the area of impact measurement; and 3) increasing the availability of the data needed.

1. INTRODUCTION

Social Impact Investment (SII) refers to the provision of finance to organisations addressing social needs. It is intended to achieve both a social impact as well as garner financial returns. Thus, SII may be understood as a *business case* for what was previously considered mostly philanthropic activities (Maduro et al. 2018). While various organisations were expected to address social challenges by providing help of some form, it was generally understood that such activities would not bring any financial benefits. However, the emergence of SII has made it possible to take a novel approach towards social issues by showcasing how investors may stand to gain from addressing social needs.

In line with global trends, the interest in and the size of the SII market in Europe has been rapidly increasing over recent years (OECD 2015). Growing interest in SII is linked to an increasing demand for governments to create a positive social impact and their limited resources for doing so. During the last decade, societal problems have become more numerous as well as complex, manifesting at the local, national and global levels (OECD 2015). Moreover, the recent Covid-19 pandemic and the associated economic crisis have had huge negative effects on the social wellbeing of many citizens. While rapidly growing societal challenges need to be addressed, given the limitations of public budget and the shortcomings of the traditional welfare systems, governments are finding it increasingly difficult to do so (Maduro et al. 2018). As a result, governments are seeking new ways of tackling the major challenges of our time and SII has the potential to become an attractive solution.

The growing importance of the SII approach is also determined by the growing ambitions of policy agendas with respect to social goals. In 2020, the European Commission issued a communication entitled 'A Strong Social Europe for Just Transitions' (European Commission 2020d) that set out a roadmap towards an Action Plan for implementing the European Pillar of Social Rights. The communication proposes a list of aims that include empowering people through quality education, training and skills, creating more jobs, fostering equality, providing fair working conditions, and fighting poverty and exclusion. Within this context, the Commission has also called for an InvestEU Programme that is expected to mobilise approximately €50 billion for social infrastructure projects and social investment in education and skills, social entrepreneurship and microfinance (European Commission 2019b). This means that efforts to ensure Europe's social cohesion are to be directed towards developing business models that generate tangible and measurable benefits as well as remain grounded in sound economics (European Investment Fund 2020). As such, the SII approach may be one of the most viable paths towards delivering on the European Pillar of Social Rights. This approach is also highly relevant for achieving the Sustainable Development Goals (SDGs) outlined in the UN 2030 Agenda, to which EU Member States are strongly committed.

Despite its growing relevance, a lot of potential SII stakeholders and policy makers have relatively little knowledge about the idea and rationale behind the SII approach (Interviews with SII experts 2020). There is also a lack of systematised information on successful SII market development policy initiatives implemented at the EU or Member State level. Finally, it remains to be seen how the growing popularity of the SII approach will be affected by the turbulence on the financial markets resulting from the Covid-19 pandemic.

This study addresses the above-mentioned knowledge gaps. The aim of this study is to give the readers (incl. members of the Employment and Social Affairs Committee) a good understanding of what SII is; the potential of SII in terms of achieving the SDGs, implementing the European Pillar of Social Rights and realising other EU ambitions; trends and challenges related to the SII market across the EU, as well as EU and national level measures facilitating SII market development across the EU. The analysis is based on a critical assessment of key research studies and publicly available data on the subject and a

review of findings and recommendations from relevant evaluation reports. In addition, the analysis has benefited from interviews with several high-level SII experts. The geographical focus of this analysis is generally limited to the EU countries. However, we also analyse some good SII examples from the UK, the USA, and Canada to cover more innovative solutions with respect to the development of the SII market.

The methodological approach used combines three data collection methods. Literature review (the main method used in this study) is complemented with experts' interviews (see the list of interviewed experts in Annex 1a), and a media review (an analysis of other information sources such as media articles, websites of institutions, etc.).

The study contains five chapters (incl. Introduction and Conclusions). The aim of Chapter 2 is to provide a solid understanding of the idea behind the SII approach. It presents a definition of SII, explains the relations between and differences from other funding provision mechanisms, and outlines a conceptual framework applied throughout the analysis. This chapter also describes the SII market ecosystem and presents a typology of policy initiatives contributing to SII market development. Chapter 3 covers SII market development trends and challenges across the EU, and provides an analysis of lessons relevant to successful SII market development initiatives.

Chapter 4 describes and analyses EU-level initiatives relevant for the SII market. The concluding chapter provides a summary of the main findings, policy recommendations and suggestions for future research regarding the topic.

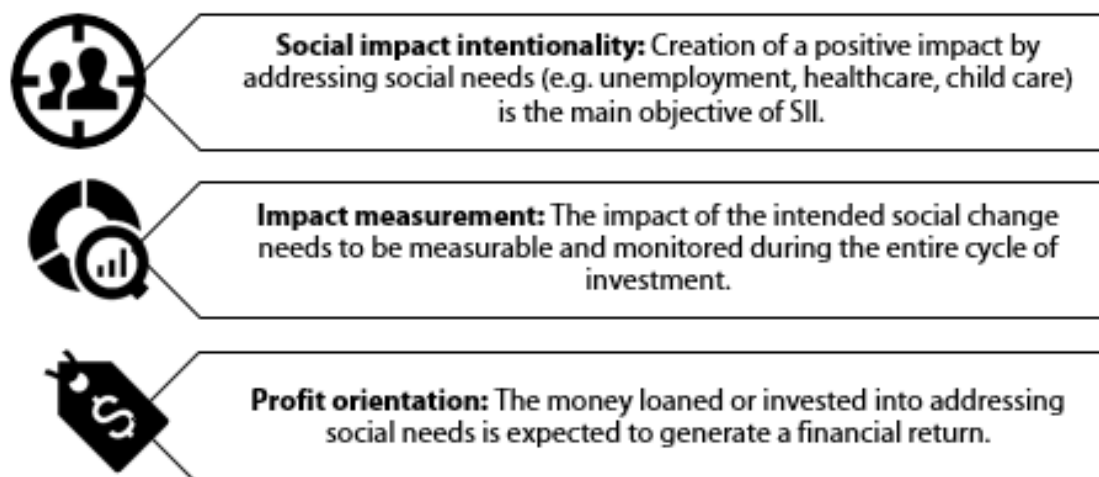
2. UNDERSTANDING SOCIAL IMPACT INVESTMENT

2.1. Defining Social Impact Investment

Social Impact Investment (SII) is 'the use of money to generate both social and financial returns, offering a way to help social organisations access suitable financing and improve their ability to deliver impact' (Maduro et al. 2018). Social impact investment usually differs from more traditional types of investment because it provides greater flexibility in repayment terms, lower interest rates, and the acceptance of a greater risk than commercial lenders would normally consider (European Parliament, 2014). This study relies on this SII definition proposed by the European Commission (EC) (Maduro et al. 2018, p. 20) and the European Parliament (EP) (European Parliament 2014). SII definitions used by other organisations emphasise the same components of SII and, thus, are fully compatible with the definition used by the EU Institutions. For example, according to the Global Impact Investing Network (GIIN), SII refers to 'investments made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return' (GIIN 2017). The Organisation for Economic Co-operation and Development (OECD) follows the same logic and describes SII as 'the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial return' (OECD 2015).

All SII definitions are very clear in pointing to the three key elements of SII, namely impact intentionality, impact measurement, and profit orientation (Höchstädter & Scheck 2015, pp. 449–475; GIIN n.d.) (see Figure 1 below). This means that SII is driven by the intention of addressing social needs. It aims to create a measurable impact based on how those needs are addressed and how that action generates financial returns.

Figure 1: Key elements of SII



Source: Authors' own elaboration based on Fi-compass 2016a, Höchstädter & Scheck 2015, pp. 449–475; GIIN n.d.

The logic behind SII can be also explained through a real-life example. Box 1 below describes Koto-SIB – one of Europe's most famous SII instruments implemented in Finland.

Box 1: Example of SII: Koto-SIB

Goal: Koto-SIB (Social Impact Bond) is a programme implemented in Finland that offers support and training for immigrants, helping them to find employment more quickly and easily.

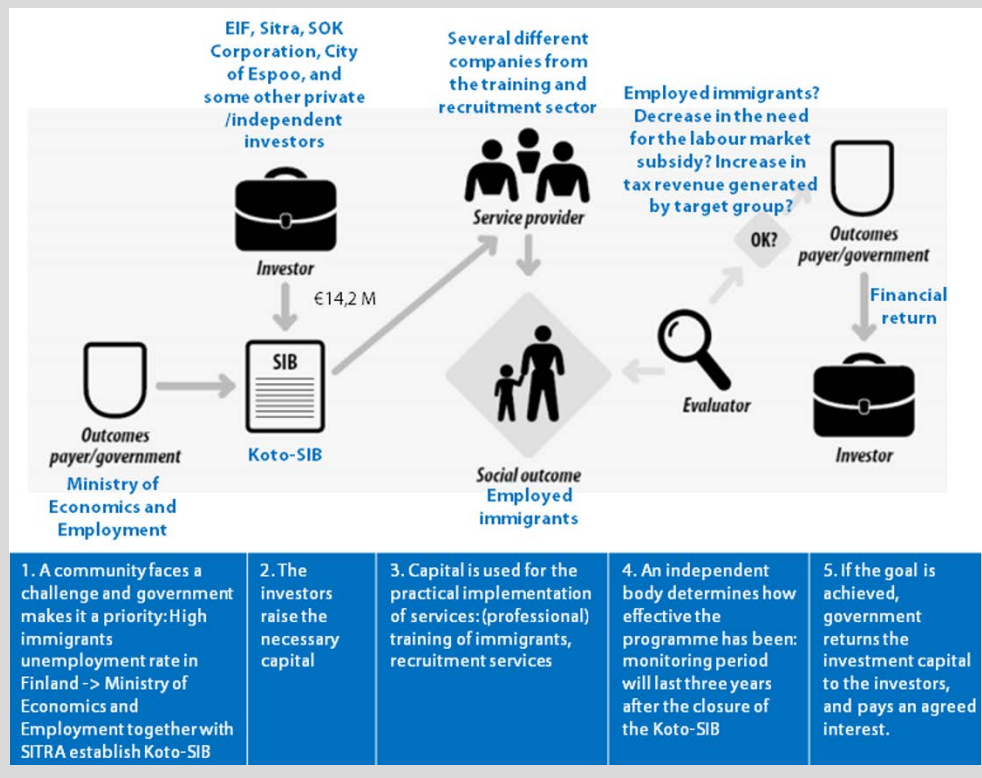
Target group: 2,500 – 3,000 unemployed immigrants.

Implementation: The programme brings together companies and employees and customizes training and education to fit the needs of the participant and the job market. Participants develop skills needed for the job, learn Finnish and receive job coaching. Koto-SIB seeks to fit the needs and wishes of participants, but also offers them work in a field where employees are needed at that time. The programme lasted for three years: from 1 January 2017 till 31 December 2019.

Financial mechanism of the programme: Koto-SIB relies on the financial mechanism of social impact bonds (SIB). The public sector pays for positive social outcomes created by a social initiative, and uses the savings to pay the (private) investors who funded the initiative. However, the return on investment is conditional on the creation of social impact. If the objectives of the initiative are not achieved, investors do not receive any return on their investment. In the case of Koto-SIB, the Ministry of Economics and Employment of Finland acted as the commissioner of the programme, while the European Investment Fund, Sitra (the Finnish Innovation Fund), which also acted as the implementing agency, and some private investors provide the funding. The Koto-SIB model is presented in the diagram below.

Size of the fund: €14,2 million (it is the largest SIB project in Europe measured by the size of the fund).

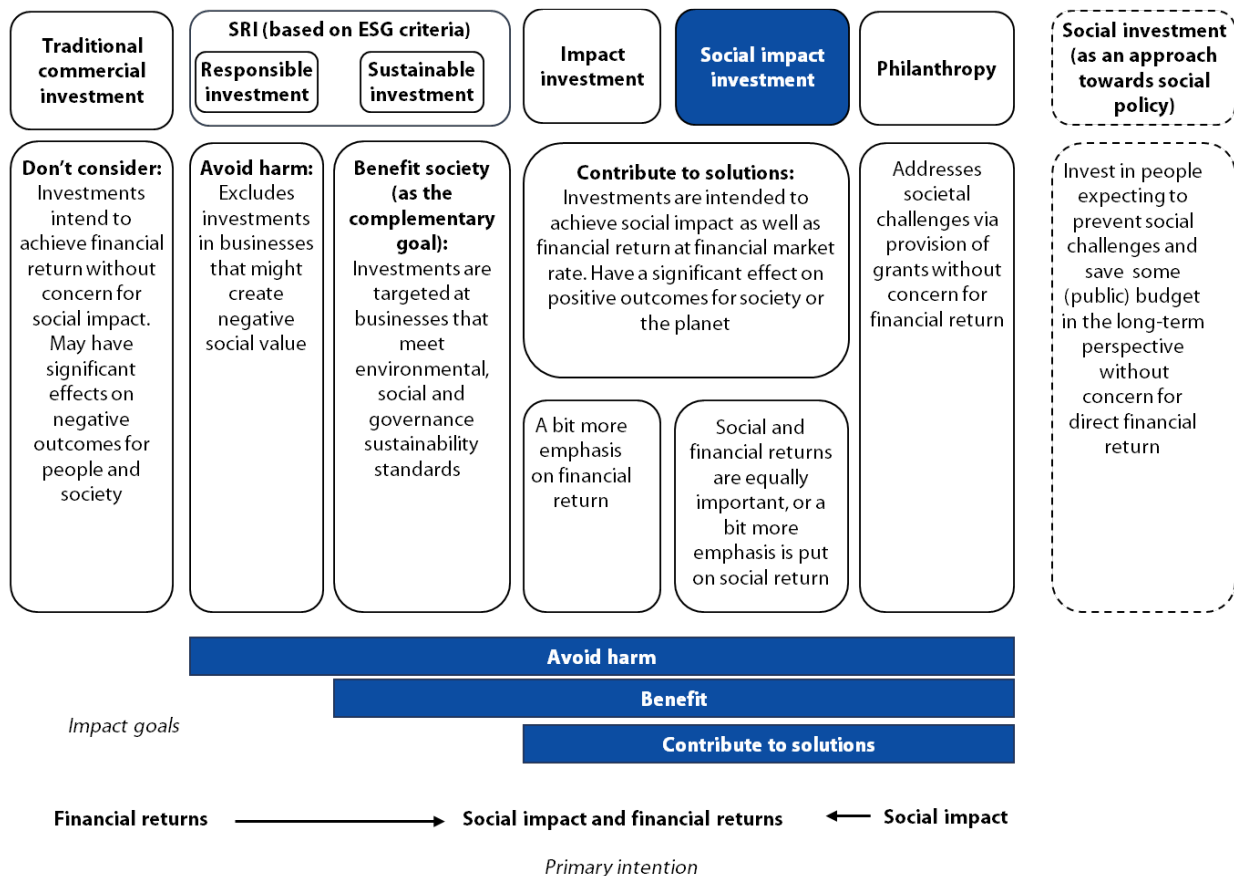
Impact measurement: The Koto-SIB impact measurement process started in 2020. Thus, the final results are still being measured. However, it is already known that over 1000 immigrants have found a job with the help of the programme. The impact of the programme is measured using two key performance indicators: the size of the labour market subsidy (decrease in the need for the subsidy) and the amount of income tax generated (increase in tax revenue).



Source: Koto-SIB n.d., Sitra n.d. Integration SIB, SITRA 2018 Good practice of the co-operation of private and public sectors.

The SII definition and the real-life example point to the fact that SII is a unique mechanism with respect to the provision of financing. However, in practice, there is significant confusion when it comes to the differences amongst and relations between SII and other mechanisms used for the provision of financing (Interviews with SII experts 2020). For instance, sometimes the definitions of SII and sustainable investment are used interchangeably, or different organisations interpret the relationship between the definitions of SII and Social investment differently¹. In order to clear up this confusion, below we describe how this study interprets the differences between SII and other mechanisms with respect to the provision of financing. We also propose a model to place SII and other financial mechanisms on the spectrum of capital (see Figure 2 below). The proposed model takes into account definitions used by different organisations (e.g. OECD, GIIN, etc.). However, it is mainly based on the ways in which SII and other mechanisms are interpreted by EU institutions, i.e. the EC and the EP.

Figure 2: Social impact investment as distinguished from other related concepts



Source: Authors' own elaboration based on Maduro et al. 2018; OECD 2019; European Commission on social investment (available at: <https://ec.europa.eu/social/main.jsp?catId=1044&langId=en>), European Parliament 2014, and interviews with SII experts.

- SII falls somewhere in between **philanthropy** and **commercial investment**. In the case of philanthropy, social impact is the only focus, while in the case of commercial investment, financial returns are the single most important objective. In contrast to these forms, for SII both objectives – social and financial returns – are important and reinforce one another (OECD 2019).
- The rationale of SII is strongly based on the notions of sustainability and responsibility. However, in this study, SII and sustainable and/or responsible investment are interpreted as

¹ For instance, see definition of social investment in OECD 2019, p. 9.

two different terms. **Sustainable and responsible investment (SRI)** is 'a long-term oriented investment approach' (Eurosif 2018) that takes into account the negative or positive societal effects created by business (Gajdošová 2011, pp. 127-137). In contrast to SII, SRI's positive social or environmental effects are usually a complementary aim or an externality rather than the main business goal (Interviews with SII experts 2020). In the case of SRI, investors decide in which company to invest on the basis of **Environmental, Social and Governance (ESG) criteria**. They take into account a company's performance with respect to its effects on nature, its relationships with employees, clients and society, and the transparency of its governance (Adec Innovations n.d., Interviews with SII experts 2020). **Responsible investment** is mostly about the avoidance of harm. Responsible investment excludes investments in businesses that might create a negative social value (e.g. guns, tobacco, gambling, adult entertainment) (Maduro et al. 2018, p. 21). **Sustainable investment** not only avoids harm but also tries to facilitate the creation of positive effects by prioritising investment in businesses that follow the principles of social justice and environmental sustainability (Maduro et al. 2018, p. 21). For instance, in the case of sustainable investing, investors might prefer investing in a company that employs socially vulnerable groups.

- SII is sometimes confused with **social investment**. However, these are two quite different terms. While SII is a financial instrument, social investment is an overall approach to social policies. In the Social Investment Package (SIP), social investment is defined as 'investing in people', or as 'policies designed to strengthen people's skills and capacities and support them to participate fully in employment and social life' (European Commission. Employment, Social Affairs & Inclusion n.d. -b). In this context, SII is a financial instrument that might or might not be supported by SIP programmes. Similarly, based on the European Parliament's definition (European Parliament 2014), social investment is described as 'a way of thinking about social spending'. It is based on the premise that public social spending today will pay off later in the future 'through greater economic growth and employment'. This shows that within the context of the EU, social investment often refers to the priority of targeting (public) finance to address social needs (e.g. education, childcare, healthcare, training). An example of social investment would be a decision to allocate more public funding to early childhood education in the expectation that it will result, in the future, in a more effective and competitive workforce that pays more in taxes and receives less in welfare payments (European Parliament, 2014). Nevertheless, it should be taken into account that the interpretation on how SII differs from social investment varies significantly across sources (Interviews with SII experts 2020). Thus, the distinction between these two terms needs to be interpreted with caution. In some sources, SII is perceived as an umbrella term for social investing (e.g., OECD 2019). Other definitions emphasise that social investment needs to rely on private finance (Anheier 2010).
- Finally, SII and **impact investment** are often used as synonyms because the distinction between these two terms is especially vague. Both of these forms of capital provision aim for both social and financial returns. Impact investment seems to place a slightly higher emphasis on financial returns, while in the case of SII, social and financial returns are either equally important, or a slightly higher emphasis is placed on social returns (Interviews with SII experts 2020).

2.2. Advantages and risks of Social Impact Investment

The following section aims to explain why SII is perceived as a promising approach for addressing existing societal challenges. The rationale behind SII is linked to an increasing demand for governments to create a positive social impact and their limited resources for doing so. While societal challenges are becoming more numerous as well as complex (OECD 2015), governments are finding it increasingly difficult to address these challenges given public budget constraints. As a result, governments are seeking new ways of tackling the major social challenges of our time. Such new ways may entail market-based solutions, outcome-based approaches or different forms of public-private partnerships (OECD 2019). SII combines all of these relatively new approaches towards solving societal challenges. It goes 'beyond grants, beyond foundations, beyond bequests, beyond cash' (Salamon 2014, Maduro et al. 2018). Thus, SII may be best understood as a *business case* for what was previously considered mostly philanthropic activities (Maduro et al. 2018). By combining the two seemingly contrary aims, i.e. social impact and financial returns, SII is uniquely capable of producing new tools and solutions to address social challenges. In other words, SII serves as leverage – 'the mechanism that allows limited energy to be translated into greater power' (Salamon 2014, Maduro et al. 2018). The rationale and potential of the SII approach relies on the following mechanisms:

- **Developing a 'perpetuum mobile' of social investment.** In cases where investments are public, the allocation of public funds functions as an investment as opposed to a 'gift'. Invested money contributes towards making a positive impact, financial returns can be re-invested into other businesses to solve different social challenges, while at the same time freeing up resources for issues that require a grant-based approach.
- **Crowding in of private capital.** By turning towards the private sector as a source of investment, governments are hoping to mobilise additional financial resources that they themselves lack. And yet, most private sector entities expect some kind of financial return or at least the preservation of their capital. Thus, by introducing the factor of market logic, SII can be expected to attract more private investors to contribute towards solving social challenges.
- **Relying on private actors providing social services and funding social innovation.** Public social services are insufficient to address all social needs. By applying market-based approaches and supporting private or non-profit organisations addressing social needs, SII ensures that the solving of social challenges does not exclusively rely on public services. This approach of letting the private sector solve societal issues has significant potential because, 'when business solves a problem, it makes a profit – which lets that solution grow' (Porter 2013, Maduro et al. 2018). Moreover, social enterprises have proved themselves capable of developing innovative approaches to complex and dynamic social problems that classic welfare providers or public entities are otherwise too slow or too 'sluggish' to respond to (OECD 2019).
- **Introduction of an outcome-oriented approach to public policy.** Given the emphasis on measurable impact, the outcomes of SII activities need to be clearly assessed (Interviews with SII experts 2020). This means that a more rigorous approach i.e. one that focuses more on results rather than the delivery of services, is at the core of such social policies (Maduro et al. 2018).
- **Accountability and transparency.** The focus on measuring social impact brings more accountability and transparency to the implementation of public policy. Decisions regarding public policy are made taking into account data and evidence, which leaves little room for making hasty, uninformed as well as biased decisions that contribute to an erosion of trust in public institutions (OECD 2019).

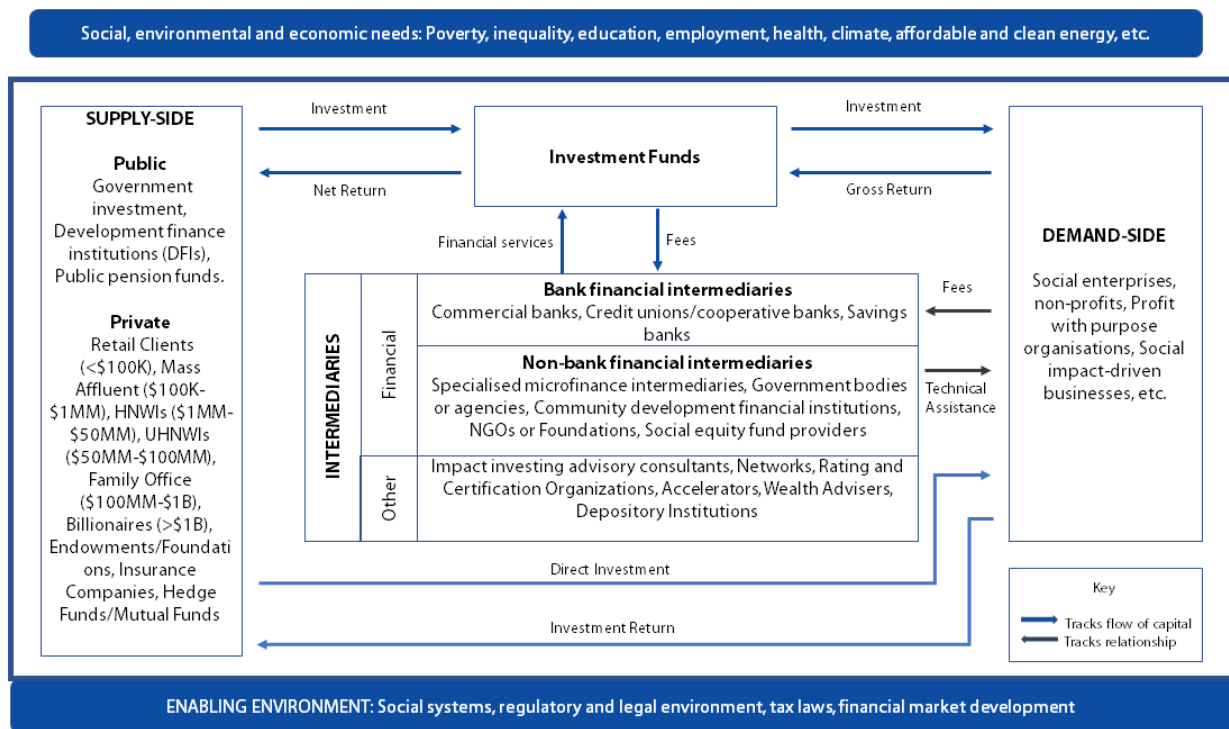
However, while SII seems a promising tool for addressing social issues and bringing financial returns, it also has its own potential risks and weaknesses. The following list presents the major general **problems** associated with SII. This list is used for the identification of key specific SII challenges faced across the EU:

- **Difficulties in measuring impact.** One of the key concerns forming the basis of SII is its measurable impact. However, the measurement of impact is proving to be extremely difficult because it is a relatively new area that lacks a common understanding and standards (Interviews with SII experts 2020). Furthermore, access to comparable and comprehensive relevant data remains limited and the actual methods for measuring social impact are themselves very complex. This particular issue may also lead to more specific yet highly problematic issues discussed in the bullet points below. (Maduro et al. 2018).
- **Cream skimming and cherry picking of results.** SII may lead to triggering the wrong kind of incentives whereby only those areas that promise easy delivery of results are targeted, hence the cream skimming, or leave aside those target groups that are very difficult to reach, hence the cherry picking. Both the cream skimming and the cherry picking of results may lead to misleading reports on the success of SII activities, leading to the so-called gaming of results.
- **Risk of impact washing.** SII may unwittingly encourage enterprises to exploit their activities as a marketing strategy instead of seeking actual commitment and a positive impact (Deloitte 2018).
- **Transaction costs of financial instruments.** For example, Social Impact Bonds (SIBs), which are becoming increasingly popular across the world, in fact entail significant transaction costs making these instruments difficult to implement in instances where significant funding is not readily available.
- **SII is not a 'silver bullet' for solving all social challenges.** Societal needs cannot always solely be satisfied through market mechanisms and ongoing requirements for public and philanthropic support remain extremely important. This means that not all problem-solving approaches are commercially viable and thus suitable for SII investment- (Scheck & Spiess-Knaff 2020).

2.3. Typology of mechanisms facilitating the SII market

The SII ecosystem is complex and consists of various elements. Figure 3 below illustrates the full ecosystem required for SII. It merges and combines conceptual frameworks developed by different organisations (see World Economic Forum Investors Industries 2013, Maduro et al. 2018, OECD 2019). This conceptual framework describing different elements of the SII ecosystem will be used for the further analysis of the situation in the EU. More particularly, this framework will be used to group the challenges faced in the EU and to identify the elements in the SII ecosystem that are being targeted in national and EU-level initiatives to facilitate the development of the SII market.

Figure 3: SII ecosystem



Source: Authors' own elaboration based on WEF 2013; Maduro et al. 2018; OECD 2019.

The driving force behind SII is the desire to address **social needs** (OECD 2019). Capital providers (i.e. investors) are on the **supply side** of the SII ecosystem (OECD 2019). This side includes all of the entities or independent actors that provide financing (World Economic Forum Investors Industries 2013, p. 12). Investors may come either from the public or private sector. Investment targets (investees) are located on the **demand side** of the SII ecosystem. The demand side consists of a variety of organisations that directly address social needs through their activities (OECD 2019). They require sufficient know-how and have a variety of financing needs that depend upon their geographies, stage of development and the social mission undertaken. However, *access to finance* remains a key issue for such entities because they are seen as high-risk clients that investors are reluctant to invest in (IFISE 2019). Investors may provide capital directly to investees and, thus, receive direct financial returns (Maduro et al. 2018). Nevertheless, SII transaction costs are high and there are very few capital providers or social enterprises with the sufficient capacity or willingness to manage the entire investment process on their own. Therefore, the most common way for mainstream investors to invest in organisations that address social needs is through (social impact) investment **funds** (World Economic Forum Investors Industries 2013, p. 13). **Intermediaries** are entities and independent actors that link or provide support to supply- and demand side actors of the SII ecosystem. Depending on their function, intermediaries may be labelled as financial or capacity-building entities. Financial intermediaries are 'the middlemen in transactions' (World Economic Forum Investors Industries 2013, p. 16). They are often further grouped into bank financial intermediaries and non-bank financial intermediaries (Maduro et al. 2018, p. 32). Capacity-building intermediaries (e.g. accelerators, advisory firms, networks) provide resources and services to grow the entire impact investment ecosystem by providing information, timely advice, and assistance in understanding local needs (World Economic Forum Investors Industries 2013). The **enabling environment** refers to all of the legal, regulatory and economic conditions that are necessary for SII (OECD 2019). This may include a legal definition for social enterprises, fiscal and tax incentives for mission-led enterprises, corporate structures that favour social ventures, sufficient transparency of investment outcomes, access to funding, access to data on social needs, and conditions that favour

innovation that are all important determinants for SII market development (OECD 2019).

The composition of the SII ecosystem presented above indicates that a well-functioning SII market depends on the successful functioning of all of its components. It presupposes the existence of a necessary legal framework, an adequate and relatively straightforward business environment, the sufficient existence of intermediaries as well as local investors, an awareness of SII along with an ample entrepreneurial spirit and capacity (OECD 2019). This makes the realisation of SII rather complex and calls for additional policy measures that facilitate the development of the SII market.

There is a variety of different types of public initiatives that may be or have been already used to facilitate the SII ecosystem. In order to group and identify trends concerning national and EU-level initiatives implemented across the EU, there is a need for an analytical model that provides a typology of possible initiatives. A number of different analytical models have already been formed for this purpose (e.g. see Thornley et al. 2011; Schwab Foundation for Social Entrepreneurship 2013; Social Impact Investment Taskforce 2014a; European Commission 2016a; Maduro et. al 2018; OECD, 2019). In this chapter, we further describe the analytical model to be applied in this study (see Table 1 below). The proposed model is mostly based on the OECD policy framework for Social Impact Investment (OECD 2019). It also integrates some elements from previously developed models and proposes additional elements in order to have universal framework adjusted to the EU context. Table 1 below presents a summary of the typology of SII facilitation initiatives that will be used in this study.

Table 1: Types of SII market building policy initiatives

Policy dimension	
Market target	Supply, demand, intermediaries or SII enabling environment
Government role	Market Builder, Market Steward, Market Participant.
Policy type	Policy instrument
STEER Employing government structure and capacities	Development of national strategies for impact investing
	Establishment of policy entities responsible for the facilitation of the SII market (national Advisory boards, taskforces, steering committees, etc.)
	Building of government capacities
RULE Setting and enforcing rules	Legislative measures: legal framework and legal status for social service providers, fiduciary responsibility, unclaimed assets, certification, etc.
	Fiscal and tax incentives: fiscal and tax incentives for social service providers/ SII (e.g. tax incentives or investment relief, fiscal regulation to improve the business environment, etc.)
	Regulatory measures: standardised social impact measurement and reporting systems, measures to facilitate access to markets through adaptations in public procurement, etc.
FINANCE Granting financial resources	Funds that use innovative financial instruments
	Funds that rely on more traditional financial instruments
	Direct funding using innovative 'pay-for-success' instruments: SIBs, social impact incentives, outcome commissioning
	Direct funding using traditional financial instruments: grants, debt, equity, mezzanine, guarantees
STRENGTHEN Providing help and support to SII stakeholders	Technical assistance and capacity building, funding for support from specialists
	Incubators, accelerators
	Impact investing advisory consultants
	Impact investment wholesalers
	Awards, challenges
INFORM Providing and sharing information	Communication campaigns
	Research, studies, data publication
	Education

Source: Authors' own elaboration based on OECD 2019, combined with Maduro et al. 2018, Social Impact Investment Taskforce 2014a, 2014b, European Commission 2016a.

SII facilitating policy initiatives can be grouped in accordance to three dimensions (OECD 2019; Social Impact Investment Taskforce 2014b):

- Market target: the SII ecosystem's element at which the initiative is targeted;
- Government role: government's function in the facilitation of the SII market; and
- Policy type: the target and type of policy instruments deployed.

Below we present each of these three dimensions of the initiatives' typology in detail.

With respect to the **market target**, policy initiatives can target the **supply side, demand side, intermediaries, or the SII enabling environment** (OECD 2019). 'Target' means that the government supports actors operating under a particular unifying component and strengthens this particular component or takes on the role of a SII market participant itself. For instance, targeting the supply side might mean that the government supports capital providers by creating favourable conditions for

them or takes on the role of the investor itself by investing public funds into social organisations (Interviews with SII experts 2020).

By implementing different policy initiatives, a government may take on three **roles** within the development of an SII market: a market builder (i.e. facilitator), a market participant or a market steward (i.e. regulator) (Social Impact Investment Taskforce 2014b; Australian Advisory Board on Impact Investing and Impact Investing Australia 2017):

- **Market Builder.** This role involves taking on a leadership role and initiative with respect to developing the SII market. As a market builder, a government may also emphasise that SII is one of its policy priorities, which in turn gives SII actors more confidence to participate in the market. A government might also contribute to the 'building' of the market by providing incentives for new and different activities (Social Impact Investment Taskforce 2014b).
- **Market Steward.** This role involves a government's position as a regulator or legislator. As market stewards, governments are responsible for removing barriers and ensuring that the positive intentions of SII are safeguarded over time (Social Impact Investment Taskforce 2014b). When taking on the role of a market steward, a government influences the market but cannot be interpreted as a direct participant (Thomley et al. 2011).
- **Market Participant.** Governments are large purchasers of social services. This makes them important actors in their own right. First of all, as market participants, government policymakers need to decide which part and in what form government spending is distributed in following the SII approach. And secondly, governments need to support SII demand side actors. Governments may play the role of market participants through a commissioning process as well as through the provision of investment capital.

Finally, public initiatives can be grouped based on the **type of policy instruments that are used**. Previous studies present a number of different strategies as to how policy initiatives may be grouped based on the policy type or area (see Schwab Foundation for Social Entrepreneurship 2013, p. 8, European Commission 2016a; Maduro et al. 2018; Social Impact Investment Taskforce 2014a). For instance, the EC compiled a list of seven policy areas in which SII policy initiatives could be implemented (see European Commission 2016a; Maduro et al. 2018):

1. Legal framework and legal status for social service providers
2. Fiscal incentives for social service providers/social impact investment
3. Funding for specialist support
4. Measures to facilitate access to markets through adaptations in the public procurement process
5. Measures to support access to financing through new financial instruments
6. Standardised social impact measurement and reporting systems
7. Constituency of a National Advisory Board

This typology is important because of its comparability with the overall EU approach to policy initiatives. However, it does not include a number of important types of SII market-building initiatives (e.g. development of national strategies, information campaigns, research). Therefore, in this study we use a typology that integrates the above-mentioned policy types/areas identified by the EC into the OECD developed policy framework for SII (OECD 2019). The OECD framework distinguishes four general types of policy instruments based on their design and purpose: 'steering', ruling, informing,

and financing.

STEER: Employing government structure and capacities. Policy initiatives attributed to this category work as the key drivers of SII's market development. This category includes activities such as the development of national strategies for impact investing, the establishment of policy entities responsible for the facilitation of the SII market (National Advisory boards, taskforces, steering committees, etc.), and the strengthening of government capacities necessary for market development.

RULE: Setting and enforcing rules. This category refers to various regulatory, legislative and fiscal measures that could be used to foster SII. These regulatory measures might include adopting social impact reporting standards, improving the public procurement process or removing existing barriers for investment. Legislative measures may include legislation targeted at social enterprises (e.g. their definition), fiduciary duties and pensions or other various measures undertaken within the domain of a particular social issue (e.g. energy, healthcare, etc.). Finally, fiscal measures may include tax incentives, investment relief or fiscal regulation to improve the business environment.

INFORM: Providing and sharing information. First of all, it includes measures for the increased visibility and awareness to make SII more widely known and attractive. Secondly, this category includes all measures that help to keep stakeholders informed and educated about various aspects of SII. This may include communication campaigns, consultations, research and publications or similar activities.

FINANCE: Granting financial resources. The rationale behind the provision of public finance is relatively straightforward – the budget is used to provide demand side entities with funding that they often struggle to access (Maduro et al. 2018, p. 27). Thus, in this case, a government's financial support works as a supply side instrument (OECD 2019). Just the same as all investors, governments may provide financial support directly or through funds (see Figure 3 above).

Financial support may be provided by using traditional or innovative financial instruments. Traditional financial instruments rely on well-known financing products such as public contributions, tax breaks, generated income, donations/grants, loans, equity, convertible bonds, and mezzanine/ subordinate debt (Maduro et al. 2018, p. 27). Innovative financial instruments have emerged in response to specific social enterprise needs, namely the difficulty in accessing traditional funding. Many innovative instruments fall under the so-called 'pay-for-success' or 'pay by result' instrument category because payments to service providers are made in accordance to their achievements that are measured by their social outcomes and impact. Outcome commissioning, Social Impact Bonds (SIBs), development impact bonds, social impact incentives or revenue share agreements may all be considered innovative 'pay-for-success' instruments. SIBs, a public-private partnership instrument, has emerged as a particularly interesting and relatively popular tool, whereby public sector authorities pay for better social outcomes delivered by social enterprises and uses the savings to pay those investors who funded the initiative in the first place. Other innovative tools that operate in a slightly different way than traditional financial instruments include charitable/ retail charity bonds, investment funds, microfinance/microcredit, and hybrid financial instruments that rely on several different financial products (Martin 2014; Social Investment Task Force 2011). Based on this categorisation, we distinguish four groups of financial instruments through which governments provide funding to demand side actors: direct funding using innovative 'pay-for-success' instruments, direct funding using traditional financial instruments, funds that use innovative financial instruments, and funds that rely on more traditional financial instruments.

In addition to the four types as distinguished by the OECD, we suggest distinguishing one more separate type of public initiative: **STRENGTHEN**, which would refer to policy initiatives that **provide help and support to SII stakeholders**. The same as in the case of granting financial resources (FINANCE), initiatives providing help and support to SII stakeholders (STRENGTHEN) usually involve the provision of direct public financing (concessional or not) to supply or demand players on the SII market. However, this financial support is not directly targeted at the main activities of SII demand side organisations. Instead, it provides technical assistance or builds the capacities of SII actors. Thus, the financial support provided as help and support to SII stakeholders does not generate any financial return or social impact in the literal sense. This category includes technical assistance and capacity building, funding for specialist support, support for incubators, accelerators, impact investing advisory consultants, impact investment wholesalers, organisation of awards and challenges.

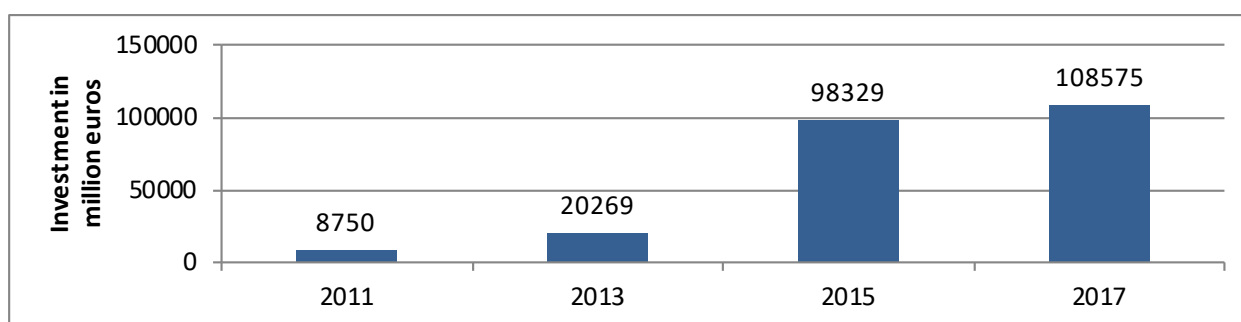
3. CURRENT STATE OF THE SII MARKET ACROSS THE EU

3.1. Trends in SII market development across the EU

3.1.1. Current state and trends in SII market development across the EU

Governments and investors began to take notice of SII only around a decade ago. Ever since then, the SII market has grown rapidly. To illustrate this fact, in 2017, the SII market in nominal terms was over 12 times larger than it had been in 2011 (see Figure 4 below) (Statista 2017). SII showed the most rapid market growth throughout 2014-2015, even though growth has been more modest in the last few years (Eurosif 2018).

Figure 4: Impact investing by high-net-worth individuals (HNWIs) on European ethical investments market (in million euros)



Source: Authors' own elaboration based on Statista 2017.

Several drivers encouraged this rapid development of the SII market across the EU. First of all, the higher profile of the SDGs fuelled interest in this investment approach. Public and philanthropic funds are expected to cover only about one third of the funding needed to achieve the SDGs in developing countries worldwide, which leaves an annual funding gap of €2 trillion (United Nations 2014). Europe will need approximately €180 billion in additional investments in energy efficiency and renewable energy per year in order to meet the targets of the Paris Agreement (European Commission 2018). These gaps emphasise the demand for mobilising private capital to meet social and environmental needs. Second, a strong push for SII came after the 2013 G8 Summit in Dublin when former Prime Minister of the UK, David Cameron, invited relevant financial players to discuss the issue and initiated the Social Impact Investment Taskforce (Interviews with SII expert, 2020). Third, the current low-interest rate environment has prompted investors to search for other investment opportunities including social and/or environmental returns. Lastly, there is growing evidence of the success of impact investing with prominent advocates², an increasing awareness of the field with success stories that resonate (Interviews with SII experts 2020).

Regarding recent specific developments in the SII market across the EU, there are five noteworthy trends:

- **Emerging criteria for defining SII.** There is an ongoing discussion between experts, policy makers, and SII actors about the types of investment that can be interpreted as SII. During the early stages of SII, a majority of countries and international organisations relied on a rather inclusive 'big tent' approach, and welcomed every type of investor joining the field. Thus, the SII market was based on a relatively broad and 'flexible' interpretation of SII (Interviews with SII experts 2020). Nowadays, some experts claim that the definition of SII should be clarified with

² For instance, U2 frontman Bono.

strict criteria in terms of social impact intentionality, impact measurement and profit orientation. They justify this position by paying attention to the very high return expectations of some investors (up to or even above a 20% Internal Rate of Return (IRR) for a fund). Advocates of such a narrow and specific definition claim that some investments are labelled as SIs even though they do not reflect the principles of this approach. One common rationale for opportunistic strategies of this kind is tax avoidance, since SIs are eligible for tax benefits (Interviews with SI experts 2020). Tax avoidance – and 'social washing' in general – is only possible at all because the requirements concerning impact measurements are too 'soft' in most cases. This is the key reason why impact assessment and impact audits are so important.

- **Growing investments.** First, SI funds are becoming progressively larger. This is leading to a larger supply in funds compared to direct investments. This evolution is happening because funds aim to generate higher management fees on their managed assets (Harris et al. 2014). Second, although the 'ticket-sizes'³ of most impact investments remain quite small (averaging between €200,000 and €5 million) they are constantly growing. The majority of demand side actors are small organisations that are only able to receive small 'ticket-size' investments while most investors are more willing to make fewer investments in larger amounts to avoid transaction costs. Over the last few years, a trend towards larger 'ticket sizes', which entails the danger of smaller entities not being funded anymore, has been noticed (Spiess-Knafl & Scheck 2020).
- **Cross-border investments.** Some investors, who until now have primarily relied on national investments (cross-border investments being the exception in this field), are starting to look beyond their borders for suitable social enterprises (for example French funds in CEE).
- **A trend towards integrated business models.** Many investment-readiness programs (a type of intermediary) are currently enlarging their field of activities (Interviews with SI experts 2020). This means that some investment-readiness programs have already started investigating the idea of their own dedicated impact funds and are thus taking on the role of intermediaries and supply side actors at the same time. For instance, a Belgian cooperative loan fund is expanding its services to equity and crowdfunding (Fi-compass 2016b).
- There is also an active discussion on **whether SI is most needed for very early start-ups or for the scale-up** of proven problem-solving approaches (Interviews with SI experts 2020).

Despite significant progress, the EU SI market has not yet achieved its full potential (Interviews with SI experts 2020). The maturity level of the SI market remains low in most EU Member States – in four fifths of the EU it is considered to be at its 'incipient' or 'infant' stages (Maduro et al. 2018, p. 43). Eurosif interprets SI as only one type of socially responsible investment. According to them, only around 0.5% of all socially responsible investments in the EU belong to the SI market⁴. Furthermore, the European SI market lags far behind such markets in the U.S. and Canada. Currently, 58% of all investors are situated in North America (Mudaliar et al. 2019) and only 21% of investors of the overall €458 billion market are based in Europe⁵. Furthermore, there are significant differences within the EU.

³ Ticket-size - the amount of money that goes into a single *investment* transaction.

⁴ Authors' calculations based on Eurosif, European SRI Study, 2018, available at: <http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study-LR.pdf>.

⁵ Includes Western, Northern and Southern Europe.

3.1.2. Differences in SII market development levels across the EU

SII market development levels vary significantly across EU Member States (Maduro et al. 2018, p. 43). According to the assessment strategy developed by Maduro et al (Maduro et al. 2018, p. 43) Germany, France, Portugal, Italy and, although no longer a member of the EU, the United Kingdom, have already reached relatively high SII market maturity levels. These countries play an important role in pioneering innovative policies and instruments and are often described as the best examples in this area (Maduro et al. 2018, p. 43). When compared to SII leaders, the majority of other western, southern, and northern European countries have less developed markets and yet, they are increasingly becoming engaged in SII (OECD 2019, p. 136). Some experts are even 'stricter' in their guidelines for evaluations and claim that the United Kingdom, followed by France, are the only mature SII markets in Europe (Interviews with SII experts 2020).

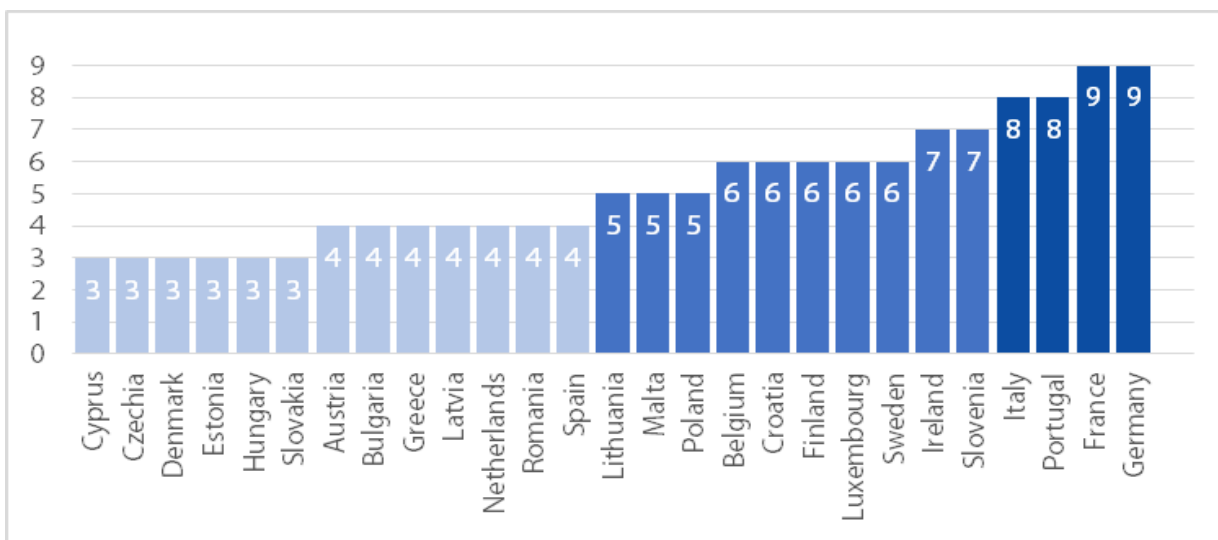
The SII market is **least developed in Central and Eastern European (CEE) countries**. To illustrate this fact, only 35% of European resources for social enterprises are spent in the CEE and venture philanthropy investment is 65 times lower in CEE compared to Western Europe (OECD 2019, p. 137; EVPA 2017). Even though, in principle, there would be enough capital available, there are few CEE investors who perceive SII as an attractive option. Given the lack of domestic supply, the least developed SII markets (esp. CEE countries) are often dominated by foreign direct investment (FDI). Moreover, the least developed SII markets lack SII intermediaries, incubators, investment-readiness support, and rarely make use of innovative SII financial instruments (EVPA 2017). Experts claim that all of these barriers to SII in the CEE region are mostly determined by a lack of attention by government institutions to SII: the majority of CEE countries do not have national SII strategies or government units responsible for the development of this market. In other words, governments in the region are not taking on active roles as market 'steerers' (Interviews with SII experts 2020). In contrast to this situation, in countries described as SII leaders, the development of the SII market is directed by national strategies focused on this approach and there are government institutions in place that are responsible for SII in particular. Public attention to SII increases the attractiveness of this approach in the eyes of potential investors. Thus, in 'leading' countries, a sufficient supply for SII is ensured through a range of domestic impact investors comprised of foundations, high-net-worth individuals (HNWIs), banks, pension funds, insurance companies and retail investors.

Figure 5 below illustrates the market maturity differences as presented by the Joint Research Centre (JRC). Market maturity scores presented in the figure take into account the maturity of the market infrastructure, demand, and supply sides⁶.

⁶ For more details: see Maduro et al., 2018.

Figure 5: Maturity of SII market in the EU Member States

Segments	Nº EU Member States	% EU Member States	Colour
Performing market	4	15%	Dark Blue
Infant market	10	37%	Medium Blue
Incipient market	13	48%	Light Blue
	27	100%	



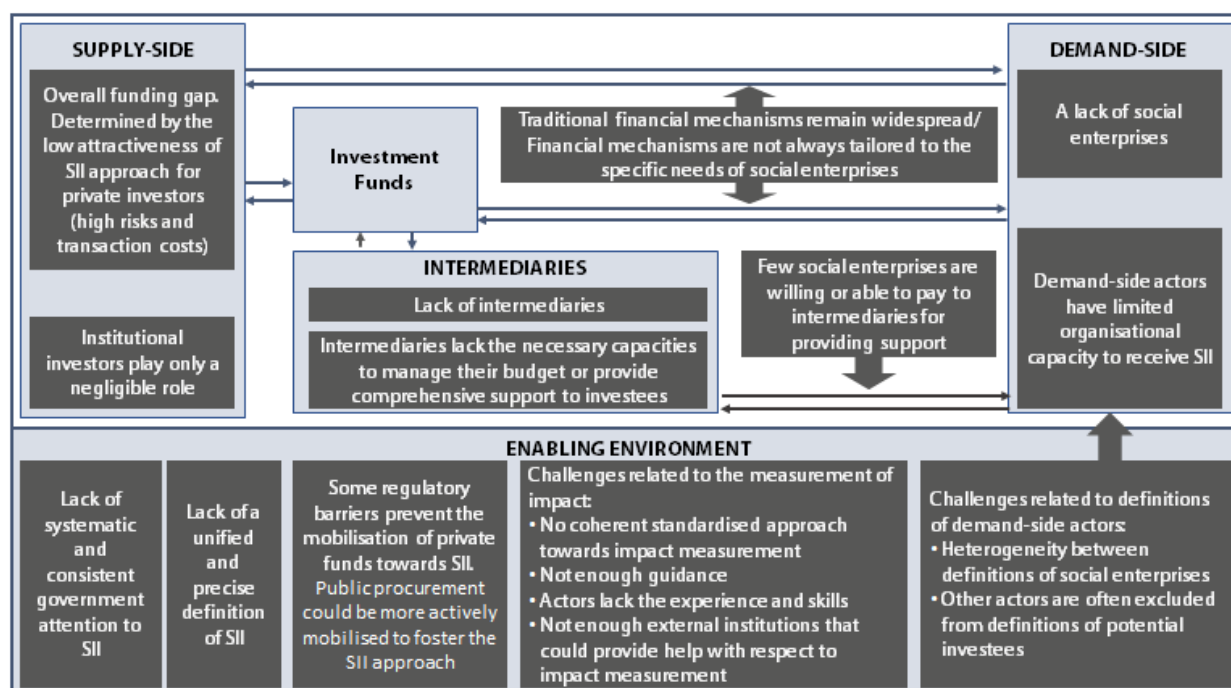
Source: Maduro et al. 2018.

The differences in SII progress across the different EU Member States are due to several reasons. First of all, SII markets are in general more advanced in developed economies with mature financial markets. While most countries in the EU are developed countries, nine countries still receive Official Development Assistance (ODA). They are classified as upper middle-income countries and have comparatively less mature SII markets (GIIN 2018). Another factor affecting SII development in different European countries is their different political and sociological set-ups and associated philosophy regarding the social economy. Countries with extensively developed public provision of social services (e.g., Nordic countries) exhibit a small social enterprise field and, consequently, a limited number of investors. Other nations that display a rather liberal private-market oriented ideology (such as the former member of the EU, the UK) have a widely commercialised social economy that requires appropriate private funding (European Commission 2020b). Finally, the historical background and dominant governance practices seem to determine some differences between SII market development across the EU. Due to its post-communist history and thus centralised government style with a less developed social sector, the SII ecosystem is still less advanced in Central and Eastern Europe (CEE) (EVPA 2017). Below we discuss the key challenges that prevent rapid SII market development in a systematic way.

3.1.3. Key challenges that prevent rapid SII market development across the EU

SII market development has been slowed down by a number of challenges (see Figure 6 below). For the sake of simplicity and clarity, challenges are categorised in accordance to the elements of the SII ecosystem to which they are the most closely related. Nevertheless, this strategy of categorising should be interpreted with caution because all challenges are interrelated. For instance, the low capacities of intermediaries have negative effects on the demand side actors.

Figure 6: Key challenges that prevent rapid SII market development across the EU.



Source: Authors' own elaboration.

a. Enabling environment-related challenges

Some of the challenges make the entire environment of the country unfavourable for SII and this has a negative effect on all actors in the SII market (investors, investees, and intermediaries). First and foremost and probably the challenge that leads to other problems is **the lack of systematic and consistent government attention to SII**. The majority of EU countries do not have comprehensive national strategies presenting the guidelines and objectives of SII in their countries. There are also very few (government) entities whose missions have been focused on the development of SII (Interviews with SII experts 2020). Because of the lack of clear direction and guidelines, initiatives targeted at finding solutions to SII related challenges have been sporadic, and thus have rarely created significant positive results. The insufficiency of governments' attention to SII has resulted in a lack of awareness about SII (OECD 2019, p. 104). Many potential beneficiaries or investors still lack knowledge about the existence and the specifics of this approach and the terminology is still incoherent (e.g., impact investing and social investment are used interchangeably) (Interviews with SII experts 2020). Moreover, individuals and organisations that are in principle aware of the SII concept still have doubts regarding its benefits. Perceptions that a trade-off between social and financial returns is necessary remain widespread across the EU. Two-thirds of SII investors claim that this challenge remains significant (GIIN 2018).

The second general challenge is **the lack of a unified and precise definition of SII**. Although the question as to whether the definition of SII should be narrower or more inclusive remains controversial (see Section 3.1.1 above), most SII actors agree that establishing a single definition instead of relying on a variety of interpretations is absolutely necessary. Varying SII interpretations result in other, even more specific issues. First of all, monitoring the SII market becomes highly complex. For instance, it is impossible to identify whether spending on SII differs across countries due to differences in definitions or for other reasons. Secondly, instances when investments that are definitely not SII (e.g. ESG) are still interpreted as such or when investments that meet SII criteria are interpreted as something else, create the risk of eradicating the transformational power of SII (Interviews with SII experts 2020). Finally, the

lack of a unified definition increases the risk of 'impact washing'. Some providers have started labelling their products as SII products due to tighter regulations on sustainable investment criteria even though their funding sources do not adhere to SII standards (Klaiber et al. 2019).

Thirdly, **regulatory barriers concerning the legal status and definition of demand side actors** are preventing the successful development of the SII market (Maduro et al. 2018, p. 23; US National Advisory Board on Impact Investing 2014), such as:

- **There is a large heterogeneity between definitions of social enterprises** across the EU Member States (US National Advisory Board on Impact Investing 2014). This creates confusion, especially in cases of foreign direct investment because the same type of organisation might be interpreted as a potential suitable investee in SII in one country, but is considered an unsuitable candidate for SII in another country.
- **Some organisations** that solve social challenges and theoretically would be able to receive SII, do not fall under the definition of social enterprises, such as profit-with-purpose businesses, grant-reliant organisations and grant-funded organisations with trading activities and **are excluded** and not interpreted as potential investees in the impact investment related legislation (Interviews with SII experts 2020; Eurosif 2018).
- A majority of EU Member States do not have a specific policy framework for supporting the development of social enterprises (Eurosif 2018). Moreover, 10 out of 27 EU Member States have **not introduced any specific organisational legislation to recognise and regulate social enterprise activity**, while the rest of the EU Member States mostly rely on a weak form of legislation. This means that the legislation is relatively abstract and works more as an advisory document. It lacks specific or strict requirements concerning activities and funding to social enterprises and is not associated with practical benefits to demand side actors (Eurosif 2018).

Other regulatory barriers have negative effect on the supply of funds:

- Some regulatory barriers **prevent the mobilisation of private funds** towards impact investment. For instance, in some EU Member States, a clarification and refinement of rules regarding foundation investments in for-profit enterprises is needed (OECD 2019). To give an example, Banking Foundations in Italy are prevented from either providing grants or repayable investments into for-profit entities.
- **The public procurement** process could be more actively used for fostering the SII approach. First, procurement regulations that clearly emphasise a preference for social enterprises during the public procurement process remain rare. Moreover, few countries have adopted procurement schemes following the 'pay-by-result' principle (Interviews with SII experts 2020).

Finally, challenges related to the **measurement of impact** also pose a significant barrier. Impact measurement practices are underdeveloped in the majority of EU Member States: there is not enough guidance for impact measurement, actors lack the experience and skills necessary for doing it, and there are not enough external institutions that could provide help to SII actors with respect to impact measurement (OECD 2019). Moreover, there is no coherent standardised approach towards impact measurement. The standardisation of impact assessment methods is expected to enable greater transparency in the sector and, as a consequence, allow for higher investor comparability. This should result in increased funding for companies with the greatest impact and, hopefully, lead towards a greater capital inflow for the whole SII market. Finally, impact measurement systems are still too highly focused on outputs (activities) rather than outcomes and/or impacts (effects) (Interviews with SII

experts 2020). This may lead to situations where social organisations simply aim to deliver all promised products or outcomes and do not pay attention as to whether these products or outcomes have resulted in a wider scale impact (e.g. a focus on the number of trained unemployed people while excluding data as to whether these people found jobs after their training). Internationally, there were some attempts to introduce unified impact measurement principles and although no framework has definitely prevailed over others, the classification introduced by the Sustainable Development Goals (SDGs) is gaining significant momentum (Interviews with SII experts 2020). In the context of impact measurement, the 17 dimensions identified by the United Nations in the SDGs to define shared social and environmental objectives have become the most commonly adopted taxonomy to help SII organisations, investors and companies to identify the type of impact they produce.

b. Supply side related challenges

When it comes to the supply side, an overall funding gap for SII still exists in Europe. For instance, the need for debt as well as equity impact capital for social enterprises across Europe is estimated at an average of €6.7 billion for the period from 2021 to 2027 (Spiess-Knafl & Scheck 2020). This overall funding gap exists for several reasons. First, **the attractiveness of the SII approach remains limited looking at it from the perspective of private investors**. Transaction costs are much higher in SII compared to traditional commercial investments. This challenge is highly determined by the fact that average 'ticket-sizes' remain relatively small. The risks associated with financial returns are also higher. Thus, not many private investors are willing to participate in SII if there are no additional guarantees or 'safety cushions' provided. In addition, as of now, the number of exits for impact investing deals is still limited, meaning that evidence of the profitability of impact investing deals is still in the process of being validated (Spiess-Knafl & Scheck 2020). This leads to a situation where theoretically available resources (i.e. supply) cannot be successfully targeted at the demand level because of a lack of suitable tools. Second, **institutional investors dispose of large funds, but play only a negligible role**. One area of growth to be further developed is the role of institutional investors in directing existing funds towards impact investment (UK National Advisory Board on Impact Investing 2017). The potential of pension funds to contribute to the SII market is not being realised (Salvador 2018). In the United States, pension funds such as the California Public Employees' Retirement System, are already active in the SII area (California Public Employees' Retirement System (CalPERS) 2017), whereas, in the EU there are very few examples of this type of approach.

c. Demand side related challenges

Demand side related challenges in Europe are even more daunting (Interviews with SII experts 2020). First and foremost, there are not enough demand side actors that are able to receive SII investments (Interviews with SII experts 2020). This general challenge is determined by several specific issues. First, public sector institutions still remain the main providers of social services in the EU. **There is a lack of social enterprises** - organisations that solve societal challenges through market mechanisms and are thus suitable candidates for SII. Second, the legal definitions of social enterprises or SII demand side actors in general often exclude some organisations that prevent them from receiving SII (for more details see 'Enabling environment-related challenges'). Third, the low investment-readiness of potential investees is amongst the key challenges for a rapid development of the SII market (GIIN 2018). Many social enterprises and other demand side actors have **limited organisational capacity** to receive SII. SII demand side actors often lack the human resources necessary for managing investments on their side. Moreover, employees often lack the knowledge and skills necessary to attract and manage investments in their organisation (Interviews with SII experts 2020). Finally, many of SII demand side actors are small organisations that are usually not investment-ready for the larger ticket sizes preferred by the majority of investors (Spiess-Knafl & Scheck 2020).

d. Intermediaries and fund-related challenges

Effective intermediaries can help to 'create liquidity, reduce risk, lower transaction and information costs, and facilitate payment mechanisms' (World Economic Forum Investors Industries 2013, p. 16). The success of the SII market relies greatly on the capacity of financial intermediaries 'to sustain long-term projects by minimising the cost of running them' (Maduro et al. 2018, p. 32). Capacity-building intermediaries are also crucial when taking into account the lack of strong demand-side actors that are ready to receive investment (see above) (Interviews with SII experts 2020). However, the **lack of both types of intermediaries** remains a major obstacle for SII market development in many countries (Scheck & Spiess-Knafl 2020).

Moreover, intermediaries that operate in the market often **lack the necessary capacities** to manage their budget or provide comprehensive support to the investees themselves. For instance, most capacity-building intermediaries are newly established and still relatively small. Thus, they often lack both the human resources and work experience (Interviews with SII experts 2020). Also, the business model of an intermediary's operation and funding is complicated. Potential investees are expected to pay intermediaries in order to strengthen them and make them investment-ready. However, paradoxically, investees that need the most support do not have enough money to pay for the services of intermediaries. Therefore, **only a few social enterprises are willing or able to pay** intermediaries for providing investment-readiness support (Scheck & Spiess-Knafl 2020).

Some challenges for the rapid development of the SII market are related to funding mechanisms through which capital is meant to reach the investees (directly or involving the funds). **Funding mechanisms are not tailored to the specific needs of social enterprises.** The expansion of innovative financial mechanisms in the SII market remains insufficient and is concentrated in only a few countries (e.g. the Netherlands, France, Portugal) (Maduro et al. 2018). Loans, followed by grants and equity, are the most popular products used by governments in the social investment space (Gianoncelli et al. 2018). Many social enterprises do not meet the formal criteria of these traditional financial mechanisms which are more suitable to exclusively commercial investments. For instance, loans might require a very high financial return, which is usually lower in social enterprises compared to fully commercial ones. In addition, small or new social organisations in transition (esp. the so-called hybrid enterprises whose activities often apply principles from the non-profit as well as the third sector) **need different and more types of blended capital as well as better access to early-stage capital** (OECD 2019, p. 141, UK National Advisory Board on Impact Investing 2014). Thus, the access to funding that meets the needs of the majority of social enterprises remains a prevalent problem across the EU.

3.2. National SII market development initiatives

3.2.1. Trends related to national SII market development initiatives across the EU

In many countries, SII is still a relatively new approach. Thus, intervention by governments is needed in order to foster a rapid development of the SII market. Leading EU Member States have already proved that the challenges to SII market development identified above can be successfully addressed by various public initiatives and/or targeted policy instruments. The OECD has identified at least 325 such initiatives in support of SII⁷ (OECD 2019). A mapping and analysis of such initiatives revealed several specific trends with respect to public market development approaches and strategies in the EU. Below we discuss these trends in accordance to our conceptual framework (see Chapter 2 above).

⁷ Classification of European countries follows OECD-DAC statistical standards. Thus, it covers not only the EU Member States, but also Iceland, Norway and Switzerland.

First, an absolute majority (over 80%) of the initiatives are **domestic**, i.e. they target national SII ecosystems. International or cross-border initiatives (i.e. targeted at several countries at once) remain scarce (OECD 2019). Second, it is not surprising that a majority of successful initiatives are implemented in countries with the most mature SII markets, and that there are very few initiatives implemented in CEE and other countries with the least mature SII markets. This creates a vicious circle – SII progress in these countries is slow and there are not enough successful public initiatives that could foster progress (Interviews with SII experts 2020).

Third, policy **instruments targeted at the supply side of the SII market dominate** over instruments targeted at the demand side or intermediaries. The majority of identified instruments work as supply side mechanisms (direct budget provision) or support other SII investors through financial schemes, funds or fiscal incentives. Policy makers are more used to and are more experienced at implementing such supply side instruments regardless of the area of investment. The support for SII demand side actors (e.g. their capacity building) is often perceived as a 'less intuitive' approach requiring additional efforts as well as innovative approaches (Interviews with SII experts 2020). Thus, there is a lack of instruments facilitating the establishment of or support for already established social enterprises and other SII demand side actors across the EU e.g. accelerators, capacity building initiatives (Interviews with SII experts 2020). Initiatives supporting SII intermediaries are even rarer when compared to instruments targeted at the demand side. According to the OECD, less than 10% of domestic policy instruments in OECD countries were dedicated to intermediaries (OECD 2019, p. 167). A lack of instruments facilitating the demand side and intermediaries of SII may result in an oversupply of the available budget – there might be enough strong investors and financing but not enough investment-ready social organisations or intermediaries that are able to connect investors and investees (Interviews with SII experts 2020).

Fourth, instruments targeted at or working as supply side mechanisms are highly reliant on a government's power to grant financial resources (in the conceptual framework described above this is defined as Governments' Power to Finance). Therefore, **initiatives providing financial support, especially the provision of financing through financial instruments, are more prevalent compared to other types of SII support initiatives** i.e. initiatives targeted at steering, ruling, strengthening or informing (Interviews with SII experts 2020).

Fifth, regarding the role of governments in the process of SII market development, it seems that governments are **most likely to act as SII Market Participants**. They relatively often take on the role of supply side actors and provide investment capital. There are also quite a few initiatives where governments take on the role of a Market Steward. For instance, they introduce legislation regulating the activities of social enterprises (Interviews with SII experts 2020). However, the majority of governments in EU Member States are not systematic or consistent in taking on the role of a Market Steward. This means that initiatives that might remove barriers to SII market development are sporadic and that there are very few examples where governments focus on this aim and consistently implement initiatives removing different barriers one by one. Finally, **initiatives where governments take on the role of an active SII Market Builder are the rarest**. Just a few Member States have emphasised that SII is one of their policy priorities.

3.2.2. Examples of successful SII market development initiatives across the EU

Below, we discuss successful initiatives based on a) how frequently they have been mentioned in the literature and by the SII experts interviewed and b) their positive results and impact. Successful initiatives are grouped and presented according to the challenges they solve. This chapter describes just a few of all the available public SII market development initiatives implemented in the EU during the last couple of decades. Other identified initiatives are presented in the Annex I 'Database of Successful SII Market Development Initiatives' to this study.

The key **condition for the creation of a SII enabling environment in a country is the government taking on the role of a SII market 'steerer'** by establishing responsible policy bodies and introducing SII facilitation strategies. Employing or reforming government structures to ensure the rapid development of the SII market can take many forms and be adapted to different contexts. For example, seven EU Member States and EU itself have established SII National Advisory Boards (NABs). These NABs liaise between the government and other SII market stakeholders and together belong to the Global Steering Group (GSG 2018) (see Box 2 below). In some countries, SII markets are also 'steered' by organisations supported by the national government or institutions focused on the development of SII (e.g. Sitra in Finland). However, in the majority of EU countries, there are no entities that focus specifically on SII. SII is often perceived as one of the many responsibilities of central government institutions (e.g. ministries of social affairs). As a result, the approach does not receive sufficient attention.

There are some examples across the EU proving that employing government structures to ensure the rapid development of the SII market and the development of comprehensive SII strategies are necessary conditions that in turn result in significant positive changes across the entire SII environment in the country (OECD 2019). For instance, the key reason why Portugal and Finland have made significant breakthroughs in developing the SII market over the past number of years has been the establishment of institutions that are focused on the development of this approach in their countries, as well as the creation of national plans for SII development (Maduro et al. 2018; Interviews with SII experts 2020) (see Box 2 below).

Box 2: Successful initiatives focused on steering the SII market – creating an enabling environment

The **Global Steering Group for Impact Investment (GSG)** aims to develop, agitate and catalyse the advance towards impact economies in order to improve real life impact that would benefit people and the planet. Established in August 2015 GSG is a successor to the Social Impact Investment Taskforce. The company is represented in 33 countries (7 EU Member States) with National Advisory Boards working in 32 members to advance impact investment in a country or a region. GSG brings together impact leaders from finance, business, government and philanthropy sectors. Below we present a few examples of the National Advisory Board operating in EU Member States.



Spain National Advisory Board. NAB in Spain promotes impact investment in the country by mobilizing public and private capital to solve global challenges. In 2018-2019, the NAB mobilized more than 70 organisations from the Spanish impact investment sector to create 3 reports on the supply, demand and intermediation of capital. At the beginning of 2018, it managed €90 million in impact investment. By 2021, Spain NAB aims to quadruple the volume of impact investment and manage €360 million in the Spanish impact investment market.

Steering of SII market in Portugal. The rapid development of the SII market in Portugal started around a decade ago when social innovation and social entrepreneurship emerged as priorities in the Portuguese public agenda. Portugal identified these two areas as a key priority of its 2014-2020 Partnership Agreement with European Commission. The entire SII development process in Portugal was led and managed by several dedicated organisations. The Portuguese Social Investment Taskforce (also called the Portuguese NAB) was launched in 2014. The Portuguese Social Investment Taskforce brought together a wide range of organisations and perspectives from the private, public and social sectors to support social innovation and build an Impact Investment market. The actions of the Social Investment Taskforce resulted in the creation of 'A Blueprint for Portugal's Emerging Social Investment Market', which is Portugal's national strategy for investment and social innovation that sets clear goals and provides direction for the creation of new legislation and policies. Moreover, in 2014, the Portuguese government created Portugal Inovação Social (EMPIS), which has also significantly contributed to the steering of the market. EMPIS is a €150 million public-driven initiative making use of the European Social Fund. EMPIS had three main objectives: funding the full life cycle of social innovation and social entrepreneurship projects through innovative financing programmes, mobilising the Portuguese social innovation ecosystem, helping to promote collaborative networks between public, private and social economy players, and stimulating the creation and growth of a Portuguese social impact investment market.



Steering of SII market in Finland. The progress of the SII market in Finland started in 2014 when the Finnish Innovation Fund Sitra took on the role of SII market builder. Sitra was directly responsible to the Parliament of Finland. Sitra closely collaborated with the Finnish National Impact Investing Advisory Board. By supporting the public sector, service providers and inventors, the National Advisory Board has sought to advance the development of the impact-investing ecosystem in Finland. It currently has the largest Fast Employment and Integration SIB fund in Europe with a total of €13.5 million. Fifty organisations from the public sector are estimated to be using SIB funds in Finland. The NAB has organised four Impact Accelerator training programs for Impact Actors. Both Sitra and the Finnish NAB developed the plans for the SII ecosystem. These plans complement each other and together have taken on the function of a *de facto* national strategy for Impact Investing.

Source: Maduro et al. 2018, Portuguese Social Investment Taskforce 2018, Interviews with SII experts 2020, GSG 2018, GSG 2019, GSG n.d.

Challenges related to the definitions of SII and SII actors can be addressed by using the power of public institutions to rule the SII market. As many as 18 EU Member States have established legislation addressing or defining social enterprises. For instance, in France, the Social and Solidarity Economy Law was amended to change the legal form of a Solidarity-based Enterprise to a Solidarity-based Enterprise with a Social Purpose (ESUS). This law identified the particular features of solidarity-based (social) enterprises, and thus ensured that only organisations that focus on the creation of social impact are viewed as solidarity-based enterprises. To obtain the status of ESUS, the enterprise must prioritise social impact and satisfy the requirements for salary limits (GSG n.d.). Several EU countries have also developed Social Enterprise marks and labelling schemes e.g. The Finnish Social Enterprise Mark (FSEM), the 'Social Economy Enterprise' certificate in Poland, the Social Enterprise Mark in the UK, 'It Works' stamp in Germany. However, the majority of these legislative changes or labelling schemes lack power (Interviews with SII experts 2020). This means that these legal forms or labels are not linked to tangible benefits, and thus they remain mere marketing tools without any real traction. A good example of addressing this challenge is the 'It Works' ('Wirkt') stamp introduced in Germany (see Box 3 below).

Furthermore, some governments have introduced **tax incentives** for both demand- and supply side actors. So far, they have been more prevalent in countries that have recognised a specific legal status for social enterprises (GSG 2018, p. 2). For example, the French government offers tax relief for investors in Solidarity Funds and impact businesses and provides fiscal incentives, financial support and coaching for impact businesses that work in the area of job integration (GSG 2018, p. 39). Portugal has acknowledged investments in SIBs as an expenditure with a mark-up of 130% on the amount invested from 2018 (GSG 2018, p. 48) (see Box 3 below). However, despite some positive examples, fiscal initiatives remain the least popular type of government action targeting SII market development.

Box 3: Successful initiatives addressing the definition of SII and tax incentives

'It Works' ('Wirkt') stamp (Germany) is issued to effective social initiatives by PHINEO, a public benefit venture established by Deutsche Börse, the Bertelsmann Foundation, KPMG, PwC and the Mercator Foundation. The 'Wirkt' label aims to identify public benefit organisations that are especially effective in resolving social problems. Organisations that apply receive useful feedback on their strategy and operations during the PHINEO-analysis and can – if the label is awarded and used in promotional activities – expect higher revenues from donations or investments. Organisations that receive the stamp are donor-funding-dependent initiatives as well as social enterprises with business models based on market revenues. This voluntary private certification scheme involves a multi-stage screening process starting with an online self-assessment questionnaire and includes on-site visits. Around 600 organisations have applied and been screened since 2009 and around 150 have received the 'Wirkt' label.

Tax regulations related to investments in SIBs (Portugal). In Portugal, investments in social impact bonds are acknowledged for tax purposes as an expenditure, with a mark-up of 130% on the amount invested. Besides this mark-up, investors can see their investment refunded (and registered as 'revenue' for tax purposes in the same year) if social impact results are achieved. This represents a regulatory milestone, with Portugal being the second country to adopt SIB incentives.

Source: European Commission 2016a; GSG 2018 p.48.

National governments can contribute to solving **challenges related to impact measurement** by introducing regulatory initiatives or by building stakeholders' capacity. Regulatory initiatives may improve impact measurement procedures by adopting social impact reporting standards. Some tentative steps towards measuring the impact of SII have been taken by the UK and Portugal, both of which have introduced unit cost databases to provide unitary cost estimates (cost of a social problem, intervention or service, broken down to the level of a single individual over a certain period of time) in different policy areas (EVPA 2018).

Public initiatives can also contribute to the development of guidelines on impact measurement or provide help to SII stakeholders in this area. For instance, research centres at 10 Italian universities are conducting studies and research on defining impact measurement standards and guidelines. A Ministry level programme in partnership with the Italian NAB (GSG 2018, p. 45) funds this activity. Another positive example is a centre for impact measurement created by Torino Social Impact. This centre helps social businesses to measure their impact and, in doing so, identifies how they can become more attractive to impact investors (GSG 2018, p. 45).

Box 4: Successful SII market building initiatives: impact measurement related challenges

ONE VALUE database (Portugal) ONE VALUE is an online portal aiming to centralise, standardise and provide data on the cost of Portugal's entrenched social problems in five areas (education, employment, justice, social care and health). ONE VALUE is promoted by the Calouste Gulbenkian Foundation and the Social Investment Lab. Data provided by ONE VALUE has the potential to improve public service commissioning and contribute to successful public service reform by informing public policy makers and by demonstrating how public funds can be used more efficiently. This database is also relevant for social organisations whose services are commissioned by the public sector (social enterprises, social investors, philanthropists and intermediaries). They can evaluate the relevant data when deciding whether to enter into payment-by-results contracts schemes such as SIBs.

Competence Centre for Impact Measurement (Italy) is a centre that fosters impact evaluation culture and practices. It provides guidance, technical support, training and continuing education. The centre is promoted by the Social Entrepreneurship Committee of the Turin Chamber of Commerce within the framework of Torino Social Impact. The Centre works and is accessible to all public and private local entities, both for profit and non-profit organisations. The main activities of the Competence Centre are:

- Monitoring of the ecosystem, first stage guidance for interested parties and a needs assessment through a specific procedure.
- Promotion of measurement practice and culture through seminars and meetings and a high-level university course taught at the University of Turin.
- Support aimed at sharing methodologies, strengthening the ecosystem, ensuring guidance for the organisations along with their measurement processes.

The Centre operates in cooperation with national, European and international institutes. It guarantees the consistency of its evaluation process with the most relevant measurement procedures at the global level.

Source: Maduro et al. 2018, Torino Social impact n.d.

To address the knowledge gap about SII and encourage participation in the market, some EU Member States have set up **initiatives aimed at raising awareness about SII** such as communication campaigns, consultations, research, etc. (i.e. initiatives attributed to the type 'inform'). Research on the SII market is crucial in order to determine the state of SII, including the strengths and barriers to its further development. For example, the Irish Government Economic & Evaluation Service released a report entitled 'Social Impact Investments in Ireland: Learnings from the Pilot Initiative' (published in 2016) and the Dutch Ministry for the Economy funded a study on 'Stimulating the Social Enterprise Sector: Experience and Lessons from Europe' (published in 2013) (OECD 2019, p. 212-213). Some countries have research units or centres focusing on the analysis of SII in particular. TIRESIA (IT) is one of the great examples of consistent research efforts in this area. Other examples where individual research initiatives have developed into actual research centres are the Danish National Centre for Social Enterprises or the UK Social Investment Research Council (OECD 2019, p. 193).

Information campaigns are another type of policy initiative that have contributed to closing the knowledge gap about SII. A majority of the most successful information campaigns implemented across the EU have been part of broader measures, such as the Portuguese Social Innovation Mission Structure (EMPIS) (Portugal Inovação Social n.d.) or regional Torino Social Impact initiative (Torino Social Impact n.d.). Despite their relative success, experts emphasise that information efforts could be more widespread and targeted at broader and more various audiences e.g. not only the academic community, but also society in general (Interviews with SII experts 2020).

Box 5: Successful SII market building initiatives: research activities

TIRESIA (Italy) is the International Research Centre promoted by the School of Management of Politecnico di Milano pursuing scientific excellence in the field of Social and Impact Innovation. Through research, education, advisory and experiential learning, TIREZIA's experts enhance the capacity of individuals and organisations to embrace global and innovative solutions to complex societal problems.



Source: Tiresia.n.d.

Governments **address supply side related challenges** mainly by providing funding themselves i.e. through initiatives attributed to the type 'finance' based on the conceptual framework. First of all, when an investment in a social service has a low commercial potential i.e. a low financial return, governments might replace private investors by providing the funding themselves, for example, through public procurement. Therefore, **public procurement regulations** could play a major role by demonstrating a preference for social enterprises in their purchasing decisions. For instance, the Action Plan for Sustainable Procurement⁸ introduced in Belgium or the Public Procurement of Innovation of Products and Services regulation⁹ introduced in Spain are regulatory documents that require the criterion of sustainability in public procurements.

Second, public institutions have the power to increase SII's attractiveness by introducing and supporting **innovative financial instruments**. Governments' contributions to the financial schemes decrease the risk of low or no financial returns and decrease transaction costs for private investors. Social Impact Bonds (SIBs) are probably the most widely used innovative financial mechanism aimed at increasing SII attractiveness for private investors. Private investors are much more likely to fund social organisations by participating in SIBs because they are guaranteed that their initial investment and interests will be returned to them using the public savings generated. Between 2008 and 2018, a total of 109 SIBs were launched across the EU (incl. UK) (Social Finance 2018), raising more than €350 million and affecting almost 750 thousand lives (Eurosif 2018). Some SIBs have already generated positive results. For instance, the SIB introduced in Rotterdam aimed to decrease youth unemployment. The local job-training firm Buzinezzclub mentored 160 unemployed young people, helping them to identify skills, find work or develop business plans. More than 60% of citizens mentored by Buzinezzclub have already found jobs and come off government unemployment benefits. This reveals that successful SIBs can decrease the demand for public allowances (Guay 2017). An analysis reveals that the most successful SIBs are the ones focused on particular social groups and their problems (instead of SIBs with a more general, wider scope). The specificity of a SIB's target ensures that activities implemented by the social enterprises participating are well adapted to the needs of specific groups, and thus can successfully create a positive impact. For instance, Koto-SIB (FI) focuses on the employment and integration of immigrants (Koto-SIB n.d.) (see Box 1 above).

Thirdly, governments can create, manage or provide additional funding for platforms and mechanisms whose main purpose is to attract more private capital to SII. For instance, **crowdfunding and peer-to-peer lending initiatives** are innovative SII financial mechanisms that have been slowly but constantly gaining popularity over the past few years. Online alternative financing (including crowdfunding and peer-to-peer lending) in Europe has increased from €1 127 million in 2013 to €7 671 million in 2016 (Ziegler et al. 2018; OECD 2019, p. 140). Governments can encourage the spread of crowdfunding

⁸ European Commission (2016c) Public procurement – Study on administrative capacity in the EU: Belgium Country Profile, available at: https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/public-procurement/study/country_profile/be.pdf.

⁹ European Commission (2016d) Public procurement – Study on administrative capacity in the EU: Spain Country Profile, available at: https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/public-procurement/study/country_profile/es.pdf.

practices in the context of SII by supporting relevant crowdfunding platforms. One successful example of a public crowdfunding initiative is Crowdfunding Bizkaia (ES) (see Box 6 below).

Finally, targeted public regulations might **encourage institutional investors to fund SIIs**. Among the best practice examples is the French government's pension regulation on 90/10 solidarity investment funds, which must invest at least 5% – and up to 10% – of their funding into solidarity-based enterprises (Global Steering Group (GSG), 2018).

Box 6: Successful public initiatives addressing supply side related challenges

<p>Action Plan for Sustainable Procurement (Belgium). In Belgium, the Ministry of Environment and Sustainable Development has developed an Action Plan for Sustainable Procurement in cooperation with regional authorities. In this context, a specific circular was published in 2014 to integrate sustainable development into public procurement legislation, including social clauses and measures favouring the participation of SMEs by federal contracting authorities. In addition, Belgium established comprehensive channels for dialogue between the government, companies, and purchasing units, which contributed to the constant improvement of the national sustainable public procurement policy. Moreover, the Federal Institute of Sustainable Development provides public procurement practitioners with manuals to foster sustainable purchases including environmental and social criteria for specific products and services as well as the use of life-cycle costing.</p>
<p>Crowdfunding Bizkaia (Spain) Bizkaia County Council has set in motion the initiative Crowdfunding Bizkaia, the first participative finance platform for start-ups of a public nature aimed at continuing to strengthen the entrepreneurship ecosystem in Bizkaia. The initiative links up public benefit-oriented start-ups with investors and in this way strengthens the entrepreneurship ecosystem in Bizkaia's region.</p>
<p>90/10 Employees' saving schemes (France) For-profit companies with over 50 members of staff, together with regular savings schemes, must offer their employees the option of allocating part of their savings to a solidarity-based employee savings fund (FCPE) and receive a tax exemption on the investment. These donations and investments that individuals may decide to make via a bank or a mutual insurance company (FCP, SICAV, solidarity-based FIP) become part of the '90/10 funds' that use 5-10% of their assets to invest into solidarity-based enterprises, solidarity-based financial funders or microfinance funds. The rest of the capital is channelled into conventional investments.</p>

Source: Finansol 2019, Social platform 2015, Bizakaia Talent n.d.

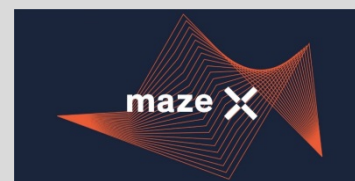
Governments **address demand side challenges** by introducing or supporting facilitating initiatives such as incubators, accelerators, impact investing advisory consultants, training, coaching or the exchange of best practices (Scheck & Spiess-Knafl 2020). These measures focus directly on the demand side actors and building their capacity. Government institutions take over some functions of the intermediaries by facilitating the establishment of new social enterprises or making already existent demand side actors investment-ready. In some cases, public initiatives may support intermediaries by encouraging them to provide high-quality and comprehensive support to potential investees.

The facilitation of SII demand side actors and intermediaries remains scarce in comparison to financial support working as a supply mechanism (see above). Nevertheless, there are some good examples worth mentioning. Initiatives such as PUST in Sweden or Maxe X in Portugal (see Box 7 below) aim at providing comprehensive support, which includes training, network facilitation and other services. In contrast to initiatives including comprehensive 'sets' of support services, there are other initiatives that are more targeted. For instance, France has a programme that helps potential investees with impact-driven investor assessment.

Box 7: Successful initiatives addressing demand side challenges and intermediaries

The Partnership for the Development of Social Enterprises (**PUST**) (**SE**) facilitates the collaboration, networking and social franchising of different social enterprises. It also provides a 40-week education and training programme in social entrepreneurship on behalf of the Swedish Public Employment Service.

MAZE X (PT) is a nine-month acceleration programme (3 months of intensive acceleration, 6 months of continuous guidance) for tech start-ups concerned with solving social and environmental problems. With the goal to turn impact ventures into impact unicorns, Maze X focuses on equipping ventures with the capital, skills and network they need to attract investment, scale their ideas and maximise their impact. It also offers corporate pilot testing opportunities, with 3 out of 10 start-ups in each cohort selected to use large corporations as a testbed for their products.



The 2019 cohort of Maze X has helped impact entrepreneurs like RNTERS, Goodbag, Bios, MyPolis and Chatterbox that have raised €1 million in funding during the 6-month period after the end of acceleration.

Sources: European Commission 2016a, Maze-X n.d., EU-Startups 2019.

3.2.3. SII market development initiatives' success factors and main lessons for other countries

Several external success factors increase the likelihood of establishing and effectively implementing successful and innovative SII market facilitation initiatives:

- **Education** raises awareness and creates a base of qualified specialists who could foster the market (GSG 2018). University courses, training programmes and research centres focused on impact investing are most frequent in countries like Italy, Portugal or the UK, the prominent leaders of the European SII market (GSG 2018). For instance, the 'Cottino Social Impact Campus' initiative is entirely dedicated to the creation, dissemination and promotion of the Impact Culture through education¹⁰.
- Demonstrating that SII development is a priority increases the engagement of potential stakeholders. **Political leadership** and **specific commitment to the SII market**, expressed through the creation of a national SII strategy, the establishment of a central unit for SII or stakeholder consultations, are all very effective in mobilising public and private actors, as well as facilitating the creation of other initiatives (OECD 2019, p. 38). In this instance, Portugal has shown significant progress. It established the Portuguese Social Investment Task force that published 'A Blueprint for Portugal's Emerging Social Investment Market: Portugal's National Strategy for Investment and Social Innovation in Setting Clear Goals and Giving Direction to the Creation of New Legislation and Policies' in 2015 (GSG 2018, p. 47). Following a similar scheme, there are attempts to rejuvenate the SII Market in CEE: a Central and Eastern European Social Investment Taskforce was set up in 2017 (EVPA 2017).
- **International initiatives foster actions on a national level.** The Global Steering Group initiated the establishment of NABs, which not only ensure communication with fellow members, but also take care of localised needs (GSG 2018). In addition, international groups facilitate the sharing of good practices. For example, the establishment of the impact investor wholesaler Big Society Capital in the UK inspired the setting-up of such funds in Portugal

¹⁰ Cottino Social Impact Campus, available at: <https://www.cottinosocialimpactcampus.org/en/home-eng/>.

(Portugal Inovação Social initiative, worth €150 million), a fellow member of the Global Steering Group (OECD 2019, p. 178).

Some features of the SII facilitation initiatives increase the likelihood of an initiative's success and the achievement of its expected results:

- The most successful initiatives encompass a **broad spectrum of activities** to create a long-lasting impact e.g. funding followed by capacity building or additional lobbying and/or information campaigns. For example, 'Sitra' (Finland) is a public fund that also acts as an intermediary - it has an accelerator programme and offers workshops for different stakeholders (GSG 2018, p. 35-36). Even if the initiatives tend to focus on financial instruments, their wide range of applied financial instruments reach more social enterprises in need and promises support more suitable to their specific needs. For instance, 'Ananda Ventures' offers financing structures from mezzanine¹¹ to equity adapted to each particular business model, stage and exit scenario (Ananda Impact Ventures n.d.). Furthermore, it is important that initiatives with a narrower focus not be left on their own to support a very limited group of stakeholders, resulting in a minimal SII system impact. Even if such initiatives have very specific targets, it is possible to co-ordinate between them to ensure maximum outreach at different interconnected points of the SII chain.
- Successful practices often include **innovative solutions**: innovative financial instruments, new forms of planning or similar (Maduro et al., p. 81). For instance, innovative solutions help to attract funding for ventures that would normally be restricted by legal frameworks or alternatively they may offer more tools that are effective. In addition to traditional financial mechanisms, 'CAF Venturesome' created a new financial instrument that fills the gap between debts and grants/equity, hence it is beneficial to ventures that do not allow the sharing of capital or do not qualify for debt financing (CAF Venturesome 2008). Innovative approaches can also contribute to better-informed decision making. The first Unit Cost Database (UK) has been used for outcomes pricing in the majority of SIBs in the UK (EVPA 2018). It has helped to evaluate interventions and base new solutions on quantitative data.
- It is important to **involve relevant stakeholders and experts in the design or decision-making process when developing public initiatives** (Maduro et al. 2018). In the process of drafting the Social Investment Tax Relief (UK), there were multiple consultations and revisions with the market players (Maduro et al. 2018). It produced legislation that was better adapted to the needs of the market participants and encouraged stakeholder engagement. ESIF experts/negotiators also provided consultations to the Portuguese government during the creation of EMPIS, thus ensuring the efficient use of funds and market facilitation techniques (Maduro et al., p. 49).
- Local initiatives with a close '**proximity to the market**' have proved that strategies adapted to the local context and its needs have great potential (Maduro et al. 2018). The Torino Social Impact platform unites local public and private actors, promoting the ecosystem by creating a collective brand and building common infrastructures. It has also created a centre for impact measurement, enabling businesses to obtain proof of their achievements in order to attract more investors (Torino Social Innovation 2017).

¹¹ Mezzanine financing is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default, generally after venture capital companies and other senior lenders are paid (Hayes & Mansa 2020).

3.3. The SII market in the context of the Covid-19 pandemic

This sub-chapter looks at the SII market in the context of the Covid-19 pandemic. It analyses how SII could facilitate the post COVID-19 recovery, how the SII market has been affected by the COVID-19 pandemic, and what measures are being introduced in reaction to the recent changes.

3.3.1. Potential of the SII approach in the facilitation of the post Covid-19 recovery

SII has the potential to contribute to three different phases of investment that are needed for addressing the global crisis brought on by the pandemic (GIIN 2020a, EVPA 2020):

- During the response phase, funding is targeted at the immediate needs of society in emergency cases. SII has already proved its potential to contribute to the response phase during the first wave of the pandemic. For instance, SII mechanisms could be (and in some cases have already been) used to fund the purchase of medical equipment, hospital beds, and personal protective equipment for frontline health staff. SII may help respond to the pandemic mostly through grants or government-aided emergency funding.
- During the recovery phase, the main purpose of SII lies in the attempt to save and support social solutions by restoring SII actors and mechanisms that were negatively affected during the crisis. For instance, a government's economic packages might be used to mitigate the negative medium-term consequences of the pandemic (e.g. prevention of job losses). Simultaneously, investors might provide bridging loan facilities or relax the agreed terms of SII contracts (e.g. investors might postpone the deadlines for reporting on impacts or send an agreed share of financial returns) in order to give investees 'breathing space to weather the storm'.
- The resilience phase of funding focuses on more systemic long-term solutions that are expected to contribute to the creation of a more resilient society. These may include investment in pharmaceuticals and vaccines or new technologies and innovative solutions to cope with future problems.

There are several reasons behind a growing need for SII. First, the Covid-19 crisis has intensified the severity and urgency with respect to certain social and environmental needs. An unprecedented share of people in society are currently facing high risks with respect to viral exposure and vulnerability, unemployment, and poverty (GIIN 2020c). Consequently, all available efforts need to be deployed and strengthened to address these rapidly growing needs. Second, there is a high risk that the budget that governments normally allocate to solving societal challenges will significantly decrease due to the emerging economic crisis. SII might contribute to quickly solving the challenges created by the pandemic by ensuring that limited public budgets are spent as efficiently as possible. Moreover, the SII approach may mobilise additional financial resources needed to address the current crisis by turning to the private sector (OECD 2019). Finally, the high adaptive capacity of social businesses ensures an effective and timely reaction to changes during and after the pandemic (OECD 2020).

3.3.2. Effects of the Covid-19 crisis on the SII market

The Covid-19 pandemic has had a significant effect on the SII market. First, and probably most importantly of all, policy makers, potential and current SII actors, and society as a whole, have recently begun to pay **more attention to SII**, viewing this approach as one of the most effective solutions to challenges created by the pandemic (GIIN 2020a, Stauffenberg 2020, GIIN 2020c). The increased focus on this approach might prove to be an important catalyst for SII market development.

Moreover, responses to the Covid-19 pandemic might also foster the SII market by bringing about **cultural change - changing people's perceptions** of certain social and environmental needs and their personal responsibility in solving societal challenges. In the fight against the Covid-19 pandemic, the people-centric approach has become a priority. Governments and the private sector introduced a variety of different initiatives to support those hit by the pandemic. Individual citizens also invested their money and time by volunteering or donating to charities. If this 'compassion and proactive approach in taking care of those most vulnerable' does not fade entirely after the pandemic, it is likely to foster the further development of the SII market (Case-research, 2020). Remembering the success stories of joined forces and the people-centric approach in fighting the global crisis might encourage organisations to aim at creating positive social impact through their activities. Similarly, more investors may start to consider the social impact created using their investment.

The Covid-19 pandemic seems to have **affected the 'thematic' focus of SII**. There is some evidence that the topics of health and digitalisation are seeing a push and, given the emerging economic crisis, that employment will become one of the most critical topics of SII in the near future (World Economic Forum 2020, Interviews with SII experts 2020). Based on the GIIN Impact Investors' Survey, a meaningful minority (21%) of surveyed investors expected to change their target impact themes. Interest in themes such as good health and well-being, quality education, and decent work and economic growth has emerged (GIIN 2020c).

Despite all of this growing attention, SII **demand side actors are facing negative consequences resulting from the pandemic** that are similar to other economic actors, including falling revenues (OECD 2020). For example, the Association of work integration enterprises from France recently reported that an absolute majority (95%) of their economic activity was affected by the pandemic and that the work integration enterprises are likely to lose more than a quarter (27%) of their projected revenues for 2020 (Ernst and Young 2020, OECD 2020). Furthermore, the legal status of some SII demand side actors (e.g. associations or foundations) might prevent them from accessing government support measures available to other organisations during the crisis (OECD 2020).

At this point, while data on the value of impact investing for 2020 is still unavailable, it is especially difficult to predict the effects of the pandemic on the size of SII spending. However, there is **some evidence suggesting the likelihood that the overall amount of SII will decrease during 2020**. The SII experts interviewed forecast that the value of impact investing will drop significantly because many investors themselves are facing economic difficulties and might be less interested in SII (which usually brings less monetary profit when compared to traditional commercial investments) (Interviews with SII experts 2020). It has already been noticed that investors have undertaken fewer transactions in 2020 compared to previous years (due to lockdowns and travel restrictions less money was invested) (Interviews with experts, 2020). Moreover, it is likely that investors will focus on providing support to their current investees who have been negatively affected by the crisis instead of funding new SII demand side actors (Interviews with SII experts 2020). Based on a recent GIIN survey, more than half of the impact investors plan to invest the same amount of capital they had initially expected to invest at the start of 2020. Almost the same proportions of investors plan to increase (16%) and decrease (20%) the amount of capital they usually invest (GIIN 2020c).

3.3.3. Reaction of the SII actors to the Covid-19 crisis

SII actors have already introduced a number of measures in reaction to the above-mentioned changes and the SII market in particular. First of all, **social enterprises and other demand side SII actors have introduced a number of new solutions or adapted their activities** in accordance to rapidly changing social needs e.g. an increased need for remote social services. (OECD 2020). They have assisted in

responding to the crisis by providing innovative solutions aimed at strengthening public services to complement government actions (OECD 2020). For instance, the social enterprise 'SOS Médecins' in France provided doctor home visits for those who needed assistance and medical checks, reducing the number of unnecessary hospital visits during the quarantine (OECD 2020). In the UK, a third of all National Health Service community-nursing services were provided by social enterprises during the crisis (Social Enterprise UK 2020). In Germany, social economy organisations, in partnership with the federal government, held a hackathon '#WirVsVirus', which resulted in a number of innovative solutions for solving of the crisis (OECD 2020; Kühner 2020).

On the supply side, SII investors have established a number of **new recovery and relief funds targeted specifically at challenges that emerged as a result of the Covid-19 pandemic** (GIIN 2020). For example, 'Acumen', 'CDC', 'responsibility', 'Shell Foundation', and others developed the €100 million Covid-19 Energy Access Relief Fund (Energy Access Action Network 2020). The European Bank for Reconstruction and Development (EBRD) provided support worth €21 billion over the 2020-21 period to help 38 emerging economies to fight the negative consequences of the pandemic and dedicated all of its activities to combating the economic impact of the crisis (Williams 2020). Big Society Capital (UK) social investors have launched a £100 million program of loans, including a new Resilience and Recovery Loan Fund (GIIN 2020a).

Furthermore, many SII investors have been **supporting their investees in order to mitigate the negative consequences of the crisis** (GIIN 2020a). Some investors have increased existing funding or provided additional funding (e.g. Big Society Capital – UK (Rogers 2020)). Other investors launched advisory programs or provided tailored support to assist their investees with liquidity challenges, risk management and other challenges resulting from the pandemic (e.g. DOEN Foundation (Stichting DOEN)– the Netherlands, Finance in Motion – Germany (Finance in Motion 2020)). A proportion of SII investors also changed schedules of request for the earned profit of their investees or introduced other accommodating modifications (e.g. Lemelson Foundation – the USA). Finally, some SII actors even decreased their organisational spending in order to support portfolio companies (e.g. PG Impact Investments) (Mendoza 2020).

SII actors also responded to the crisis by commissioning **research with respect to the changes in the SII market or by engaging in active communication and calling for action** (GIIN 2020a). For instance, GIIN has recently conducted a SII investors survey focused on the effects of the pandemic (GIIN 2020c). Acumen, Open Road Alliance, and USAID (United States International Development Agency) conducted an industry survey to map what funding is available in the impact investing sector for social enterprises to manage disruptions caused by Covid-19. Other SII actors urged shareholder advocacy through their public statements (e.g. the GIIN (GIIN 2020a) and Domini Impact Investments (Domini Impact Investments 2020) - USA).

Finally, many SII market players reacted to the crisis by **joining forces, strengthening global links and introducing new collaborative initiatives**. For instance, a number of impact investing networks have formed the new Response, Recovery, and Resilience Investment Coalition ('R3 Coalition'). The R3 Coalition aims to mobilise and coordinate impact investors to quickly fill financing gaps in efforts to address the COVID-19 crisis. The initiative aims to showcase investment opportunities (esp. ones related to health sector interventions and access to capital) to investors seeking new pandemic-related investments (EVPA 2020, GIIN 2020b).

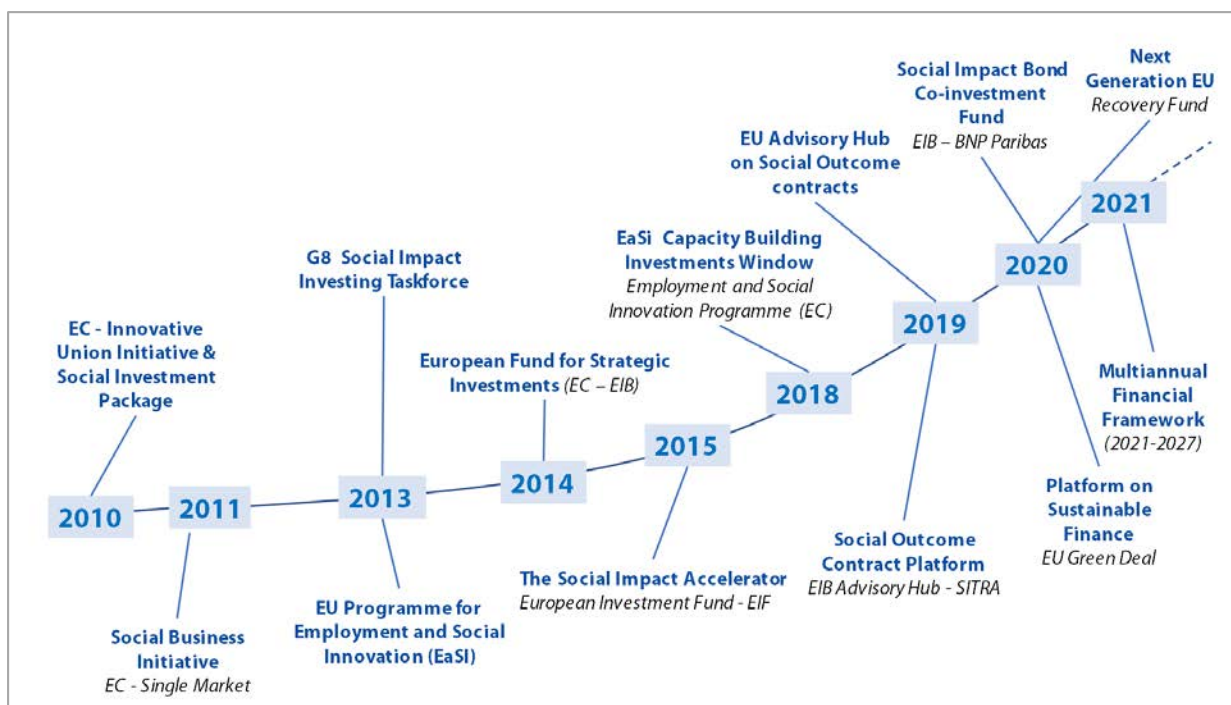
4. EU POLICY FRAMEWORK FACILITATING THE SII MARKET DEVELOPMENT

The European Union has recognised the strategic importance of SII since the Dutch presidency in 1997, which inspired both the Lisbon Treaty and the Europe 2020 Strategy (Maduro et al. 2018). Over the course of time, the commitment to SII as a key driver of both economic growth and social progress – fostering both innovation and cost-efficiency - has led to the creation of a wide range of policies, funding programmes and other measures (e.g. communication campaigns) for the development of the SII market. In this chapter, we focus on EU level policies, funding programmes, and other initiatives developed between 2010 and 2020, a period of time which has seen EU's SII agenda starting to turn into a coherent and ambitious policy. The primary purpose of this chapter is to provide an up-to-date summary and comprehensive overview of the evolution of SII EU policies and funding programmes over the last decade. We then present recommendations based on market experience regarding how the effectiveness of EU action can be improved.

4.1. EU-level initiatives contributing to the SII market development

The following list comprises the most significant efforts delivered at the EU level to grow the social impact investing market in the last decade¹², with a few references to relevant initiatives proposed under the upcoming 2021-2027 financial framework.

Figure 7: EU strategies, mechanisms and initiatives aiding SII market development 2010-2020



Source: Elaboration of authors in collaboration with PlusValue Ltd.: <https://www.plusvalue.cloud/>.

¹² For a more detailed overview, see Filippo Addarii, Fiorenza Lipparini, *Vision and trends of social innovation for Europe*, 2017, available at: <https://op.europa.eu/en/publication-detail/-/publication/a97a2fbd-b7da-11e7-837e-01aa75ed71a1>.

4.1.1. 2010 - Social Investment Package (SIP) and Innovation Union Initiative.

Social innovations are considered new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. Both the Innovation Union Initiative and the Social Investment Package assert that innovation is an essential element of social investment policy since social policies require constant adaptation to new challenges. Through these strategies, the European Commission contributed early on to developing social impact investing by encouraging market uptake of innovative solutions and stimulating employment to promote social innovation as a source of growth and jobs and to support innovative entrepreneurs as well as to mobilise private investors and public organisations.

4.1.2. 2011 - Social Business Initiative (SBI)

Social enterprises and entrepreneurship combine societal goals with an entrepreneurial spirit in order to achieve both a social impact and market returns. For this reason, the European Commission has been a committed actor in the attempt to create a favourable financial, administrative and legal environment for these enterprises so that they can operate on an equal footing with other types of enterprises in the same sector. The Social Business Initiative (SBI), launched in 2011, aimed to introduce a short-term action plan to support the development of social enterprises, key stakeholders in the social economy and social innovation through 11 priority measures, organised around 3 themes: making it easier for social enterprises to obtain funding (e.g. through a dedicated European Social Entrepreneurship and Venture Capital Fund and to allow marketing and growth of these types of funds across the EU while using a single set of rules (European Commission 2015); increasing the visibility of social entrepreneurship (e.g. through a dedicated Social Innovation Europe platform and SME Forum); and creating a legal environment enabling social enterprises (European Commission 2015).

4.1.3. 2013 - EU Programme for Employment and Social Innovation (EaSI)

The Employment and Social Innovation programme is a financing instrument at EU level to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. EaSI is managed directly by the European Commission, with a total budget for 2014-2020 of €919 million along three axes: a) the modernisation of employment and social policies with the PROGRESS axis; b) job mobility with the EURES axis; c) access to micro-finance and social entrepreneurship with the Microfinance and Social Entrepreneurship axis (European Commission. Employment, Social Affairs & Inclusion n.d.-a).

4.1.4. 2013 - G8 Social Impact Investing Taskforce (SIIT)

Although it does not constitute a European Union policy per se, the G8 Social Impact Investing Taskforce has represented one of the key initiatives to promote impact investing globally. Launched by UK Prime Minister David Cameron¹³ and led by Sir Ronald Cohen (venture capitalist and founder of several impact investing initiatives such as Social Finance, Bridges Venture, and Big Society Capital), the Taskforce brought together government officials and senior figures from the worlds of finance, business and philanthropy from across the G8 countries through national Advisory Boards established with the aim of coordinating national and international cooperation in the field. The Taskforce was superseded by the Global Social Impact Investment Steering Group (GSG) in August 2015. The GSG will continue the work of the Taskforce with a wider membership, comprising 13 countries plus the EU,

¹³ Although not a member of the European Union, the UK was a pioneer in the field, is the most mature market in Europe and a reference for both policy and private initiatives.

active observers from government and leading network organisations that are supportive of impact investment (Government of the UK n.d.).

4.1.5. 2014 - European Fund for Strategic Investments - EFSI

The EFSI (also known as the Juncker Plan) is a public and private investment programme launched in 2014 to finance strategic infrastructures and innovative projects in Europe including social infrastructures. EFSI has supported a wide range of sustainable investment projects. These include the construction, expansion or refurbishment of buildings for education, such as schools and universities; for healthcare, such as clinics and hospitals; and for affordable, social housing projects in the community. As well as physical infrastructure and equipment, the EFSI has supported strategic investments in social enterprises (European Commission n.d.-a) through investments directed towards Social Incubators/Accelerators, and Payment-by-Results¹⁴. However, the full potential of EFSI was not used for the impact investing market: EFSI was used for EaSI, but not for the Social Impact Accelerator (SIA) managed by the European Investment Fund (EIF).

4.1.6. 2015 - The Social Impact Accelerator (SIA)

The Social Impact Accelerator (SIA) is the first pan-European public-private partnership addressing the growing need for the availability of equity finance to support social enterprises. It operates as a fund-of-funds managed by the European Investment Fund and invests in social impact funds that strategically target social enterprises across Europe. SIA ended its activity in July 2015 at the amount of €243 million, combining resources from the EIB Group and external investors, including Credit Cooperatif, Deutsche Bank as well as the Finnish group SITRA and the Bulgarian Development Bank (BDB) (EIF n.d.-b).

4.1.7. 2018 - EaSI Capacity Building Investments Window

The objective of this EaSI instrument is to build up the institutional capacity of selected financial intermediaries that have not yet reached sustainability or are in need of risk capital to sustain their growth and development. An indicative amount of 16 million euros has been earmarked within the EaSI Programme for this initiative in order to support organisational development and expansion; strengthen operational and institutional capabilities; and provide seed financing support for newly created intermediaries with a strong social focus (EIF n.d.-a). The countries covered by the EaSI Capacity Building Investments Window comprise EU Member States, Albania, North Macedonia, Iceland, Montenegro, Serbia, Turkey, and may include other associated countries that have entered into relevant agreements with the European Union.

4.1.8. 2019 - EIB Advisory Hub on Social Outcome Contract Platform

Social outcome contracting is an innovative model to provide social services based on outcomes rather than outputs. This model offers new opportunities for combining public and private resources using local expertise and channelling them towards positive social impact, social impact bonds or other SII financial instruments. It also has the potential to expedite the use of public funding. The Platform

¹⁴ On the potential of the Juncker Investment Plan to foster an impact investing market, see: Fiorenza Lipparini, Seva Phillips and Filippo Addarii, *Making impact real. Encouraging investment into social infrastructure and public good to stimulate the European economy*, 2015, available at: <https://youngfoundation.org/wp-content/uploads/2015/10/MakingImpactReal.pdf>.

For a concrete case study where EFSI has been used to both fund a social infrastructure and capitalise a social impact fund see:

Filippo Addarii, Fiorenza Lipparini, Francesca Medda, *Impact Investing Innovation: Bringing Together Public, Private and Third Sectors to Create Greater Value: The Case of the Public Private Partnership Initiative for the New Public Hospital of Treviso*, 2018, in Mario Latoree & Mario Calderini, *Social Impact Investing Beyond the SIB. Evidence from the Market*, Palgrave Macmillan, 2018, available at: <https://www.eib.org/en/press/all/2017-215-juncker-plan-eib-finances-better-healthcare-in-the-veneto-region>.

supports the development and use of social outcome contracts (including social impact bonds and payment-by-results contracting) as a strategic and operational tool for social impact and innovation. This is key to addressing social inclusion challenges in Europe and improving social well-being. The Platform, launched in partnership with the Finnish Ministry of Social Affairs and Health and supported by SITRA, the Finnish Innovation Fund, has been successful in facilitating knowledge and a best practice exchange among public sector stakeholders in various EU countries (European Investment Bank 2020).

4.1.9. 2020 - Platform on Sustainable Finance (within the 'EU Green Deal')

The platform will be an advisory body subject to the Commission's horizontal rules for expert groups and will be composed of experts from the private and public sectors. The 57 members will assist the Commission in the preparation of technical screening criteria for a "taxonomy" regulation to monitor and report on capital flows towards sustainable investments and will advise the Commission on sustainable finance policy more broadly. The Platform will draw upon the work of the Technical Expert Group on sustainable finance (2018 - 2020) in order to deliver:

- an EU classification system – the so-called EU taxonomy – to determine whether an economic activity is environmentally sustainable;
- an EU Green Bond Standard;
- methodologies for EU climate benchmarks and disclosures for benchmarks; and
- guidance to improve corporate disclosure of climate-related information.

The taxonomy regulation has already garnered particular attention amongst market players as it is seen as the first public attempt to regulate the market and filter genuine initiatives from opportunistic behaviour (e.g. 'green-washing'). Moreover, if successful within the EU, it has the potential to set an international standard beyond the EU. The Platform is due to renew its membership and extend its work for the next four years. There has been some discussion about their praiseworthy intention to further develop the taxonomy regulation to include social objectives (the 'S' in 'ESG'). The EC is currently exploring possibilities and the results of its analysis are planned to be published at the end of 2021 (Ashurst 2020).

4.1.10. 2020 - EIB Social Impact Bond Co-investment Fund

BNP Paribas and the European Investment Fund launched the BNP Paribas European Social Impact Bond Co-investment Fund. This dedicated fund – unique in its field – aims to promote social innovation via financial innovation and, in particular, through Social Impact Bonds (SIBs) – an instrument very similar to a social outcome contract. SIBs are innovative financial instruments used by public bodies to raise private funding for public utility projects and support public administrations in delivering both social impact and budgetary savings. The EIB Social Impact Bond Co-investment Fund will have an endowment of 10 million euros and will build upon BNP Paribas' Asset Management subsidiary, which has long-time expertise in impact assessment and the management of solidarity funds (European Commission 2020a).

4.1.11. 2021-2027 Multiannual Financial Framework (MFF)

The Multiannual Financial Framework of the European Union is a seven-year framework regulating its annual budget. The total budget of MFF for 2021-2027 is €1 074.3 billion¹⁵. A wide array of mechanisms are embedded in the 2021-2027 Multiannual Financial Framework, the most significant of which are

¹⁵ At the time of writing this session, InvestEU was under revision with proposed substantial cuts from the initially proposed budget.

presented below:

- **Invest-EU (follow up programme to Juncker Plan – EFSI)**

The programme will complement all existing financial instruments at the EU level and aims to further develop investment, innovation and job creation, reaching more than 650 billion euros of additional investments (European Commission 2019b). The EU provides a 75 billion guarantee. The InvestEU Fund will support four main policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium businesses; and social investment and skills¹⁶.

- **The European Structural and Investment Funds (ESIF)**

ESIF invests in local and regional projects that contribute to solving the social and economic challenges of EU Member States through three financial mechanisms: grants, repayable assistance, and financial instruments. ESIF financial instruments that target 'social projects' are based on the logic of SII, and thus, directly contribute to the development of the SII market. The **European Social Fund (ESF)** is the ESIF fund that is most relevant for the SII market because it is Europe's main tool for promoting employment and social inclusion (European Social Fund, n.d.). During the 2014-2020 Multiannual Financial Framework, the ESIF contributed to the creation and implementation of several SII mechanisms. One example is the Social Impact Investing Fund in Sardinia (Italy) which was partly supported by the ESIF: €2 million were allocated from the European Regional Development Fund (ERDF) budget and €6 million from the ESF budget.

- **The Structural Reform Support Programme (SRSP)**

SRSP is an EU programme that provides tailor-made support to all EU countries for their institutional, administrative and growth-enhancing reforms. SRSP support covers the entire reform process from its preparation and design to the implementation of the reforms. It is demand driven and does not require co-financing from EU countries. SRSP support can be called on by EU countries to implement: reforms undertaken at their own initiative; economic adjustment programmes; growth-sustaining reforms in the context of EU economic governance (e.g. Country-Specific Recommendations under the European Semester and implementation of EU law) (European Commission 2020c).

4.1.12. 'Next Generation EU' Recovery Fund

Aiming to help repair the immediate economic and social damage wrought by the Covid-19 pandemic, EU institutions presented the new recovery framework 'Next Generation EU' Recovery Fund. The temporary reinforcement of 'Next Generation EU' is equal to €750 billion. 'Next Generation EU' complements the MFF and together they create a comprehensive package of €1824.3 billion. It represents an ambitious effort to power a fair socio-economic recovery; repair and revitalise the Single Market; guarantee a level playing field and support urgent investments – in particular in green and digital transitions – which hold the key to Europe's future prosperity and resilience.

Besides the Recovery Fund, in response to the Covid-19 crisis, €25 billion have been mobilised for a Pan-European Guarantee Fund financed by the EU Member States. To be immediately available, the fund will be based on the «Partnership Platform for Funds» established by the EIB. It will support local banks and financial intermediaries with the aim of unlocking €200 billion for small and medium enterprises and mid-cap enterprises (EIF 2020).

¹⁶ European Commission (2020g), *What's next? The InvestEU Programme (2021-2027)*, available at: https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/whats-next-investeu-programme-2021-2027_en.

- **Recovery and Resilience Facility**

The new Recovery and Resilience Facility is the key recovery instrument at the heart of 'Next Generation EU', which will help the EU, emerge stronger and more resilient from the current crisis. The Facility will provide €672.5 billion in loans and grants in frontloaded financial support for reforms and investments undertaken by EU Member States, with the aim of mitigating the economic and social impact of the coronavirus pandemic and of making the EU economies more sustainable, resilient and better prepared for the challenges posed by the green and digital transitions (European Commission 2020e). The reform will help Member States to cope with challenges in areas such 'competitiveness, productivity, environmental sustainability, education and skills, health, employment, and economic, social and territorial cohesion' (European Commission 2020f). The Facility builds on the progress already made on the Commission's 2018 proposal for a Reform Support Programme while adapting to the new situation determined by the global pandemic. The Reform Support Programme has been withdrawn and its content replaced by the Recovery and Resilience Facility and a Technical Support Instrument in two stand-alone regulations.

- **Technical Support Instrument**

The Technical Support Instrument is the continuation of the existing Structural Reform Support Programme (see above). It builds on its success, allowing the Commission to help strengthen the administrative capacity of the EU Member States. The Technical Support Instrument will provide support to the Member States' efforts to implement the reforms necessary to achieve economic and social recovery, resilience and convergence (European Commission 2020f).

4.2. EU-level measures: achievements and opportunities for improvement

There is no doubt that recent SII market development across the EU could not have been achieved without a number of EU-level measures implemented during the last decade (Interviews with SII experts 2020). However, despite the overall positive impact of EU actions, a brief overview of existing studies and evaluations has revealed some existing **issues and opportunities for improvement** with respect to SII market development measures, which require the attention of EU policy makers.

The EU measures listed (see Chapter 4.1 above) may be categorised using the same typology as public initiatives targeting SII market development. While some EU-level measures contribute to the development of the market by providing finance, other initiatives contribute to steering, ruling, or informing SII market actors. Moreover, some measures combine different types of mechanisms at once (e.g. the InvestEU Programme consists of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal). The identified issues and opportunities for improvement with respect to EU-level measures may be also categorised in accordance with the same logic. The issues identified and opportunities for improvement are described in this chapter.

4.2.1. Policy type: FINANCE EU-level initiatives granting financial resources

Different EU funds and programmes such as the EFSI (InvestEU starting from 2021), ESIF, COVID-19 Recovery Funds, or the EIB Social Impact Bond Co-investment Fund, contribute to the facilitation of the SII market mainly by providing funding for social development. In these cases, EU funds often function as SII supply side mechanisms. EU financial support is distributed through various funds and operates as an additional source of finance alongside national public or independent private investment. Nevertheless, the potential of EU financial funds and programmes in fostering the SII market has not yet been fully realised. Below we describe key risks and lessons with respect to the implementation of

EU funds and programmes that contribute to the SII's market development.

First, there are some specific difficulties related to the **application of the SII approach within ESIFs**. Grants remain the key mechanism for the distribution of the ESIF's budget while financial instruments, tailored to the logic of SII, remain scarce. In order to encourage a more active application of the SII approach within the context of ESIFs, it is important to overcome structural and long-lasting problems such as the regulation of structural funds (ESF – ERDF). Despite repeated commitments, regulatory barriers have made it nearly impossible to allocate such funds for impact investing (e.g., see the case of Portugal Social Innovation and the failed attempt to set up an impact investing fund in Liverpool). For instance, the reimbursement of eligible costs paid is not a suitable mechanism for the implementation of SIBs in cases when the ESIF replaces EU Member States as the outcome payer (Maduro et al. 2018).

Second, experts claim that the EU **Recovery funds aimed at repairing the economic and social damage of the Covid-19 pandemic do not make use of the potential of the SII approach** (Interviews with SII experts 2020). Most of the budget is distributed as direct financial support to the most negatively affected economic sectors or society's groups without requiring reporting on the positive impacts achieved. Some countries have even chosen to distribute part of their recovery budget by giving it directly to individuals (e.g. in Lithuania each pensioner received an additional €200; in Italy, part of the Recovery funds' budget was given directly to youth). This strategy does not achieve the positive impact expected from distributing financial support. On the contrary, it poses the risk of inefficient budget spending (e.g. funds used to 'bribe' an electorate instead of creating the most needed social outcomes) (Interviews with SII experts 2020).

Third, **defining impact as a condition for an EU-level intervention**, especially in respect to InvestEU and the EU Green Deal, has to be a priority. EU institutions (EIB and EIF in particular) have not been able to define a clear-cut rationale for awarding concessionary capital (cost of capital below market value) to commercial operators in accordance with deliberate, additional and measurable impact (either social or environmental). The EU institutions intervene not only in cases of market failure. For instance, in the case of EFSI, the EIB has repeatedly operated within viable market conditions. This can be justified and can create added value if social impact is interpreted as the key condition and reason for action. The promotion of societal impact as a key condition for EU action may support the emergence of a European impact investing market and induce market operators to aim to create positive social impact, or increase effectiveness of all EU-level interventions.

Fourth, **ESIFs mainly fund traditional financial products**, i.e. loans, guarantees, and equities (IFISE 2019, p. 13). Only 4% of financial instruments supported by the ERDF and the Cohesion Fund (CF), and only 3% of financial instruments supported by the ESF used other types of financial products (European Commission 2017). ESIF authorities are only starting to look at options for using Payment-by-Results and other innovative financial SII mechanisms applicable to the social economy (IFISE 2019, p. 13). Further guidance for national and regional administrations in designing and implementing innovative financial instruments is needed (Interviews with SII experts 2020). For example, in order to encourage more active usage of SIBs across all EU Member States, it might be beneficial to develop a template for a Social Outcome Purchase Fund aligned with the structural funds (especially ESF). The template might help to overcome the limited capabilities of local administrations (both national and regional) in taking advantage of SIBs, simplifying and speeding up their ability to 'purchase' social outcomes from private providers.

Finally, there is the risk related to the lack of **coordination between various EU funds and programmes**. For instance, the challenge of coordinating the ESIF and the EFSI occurred because while managing the EFSI, the EIB has been taking on a more and more significant role in supporting the

development of the ESIF financial instruments at the request of and on behalf of several EU Member States. This situation, where some of the ESIF financial instruments were managed by national authorities on a Member States' level, while other instruments were managed centrally on a EU-level (by EIB), caused significant problems. Not only did this increase the risk of overlap, but also exponentially increased the risk of cannibalising and crowding out national financial instruments (Maduro et al. 2018). Reacting to these challenges, the Commission made amendments to the EFSI rules, stating that the ESIF financial instruments leverage and are subordinate to the EFSI financial instruments (COM 2016). However, according to experts, the amendments should be complemented by establishing additional possibilities for the mutual coordination of actions by the ESIF and EFSI (InvestEU starting from 2021):

- EFSI might support a project that benefits from an ESIF grant;
- EFSI might support a project that benefits from an ESIF financial instrument. For instance, EFSI might focus on the capacity building or assessment of the impact of initiatives, while national authorities would remain responsible for management; and
- EFSI and ESIF can establish a financial instrument together. The establishment of common financial instruments can contribute to capacity building and governance strengthening because EFSI may be able to overcome the geographic and thematic limitations to which ESIF is subject (Maduro et al. 2018).

4.2.2. Policy type: STRENGTHEN Providing help and support to SII stakeholders

The EU-level programmes and initiatives might also **provide strategic advice and contribute to capacity building** in EU Member States with respect to SII market facilitation. For example, the EaSI Capacity Building Investments Window aims to build up the institutional capacity of selected financial intermediaries. The InvestEU programme provides for an Advisory Hub to provide technical support and assistance for the preparation, development, structuring and implementation of projects, including capacity-building (European Commission 2019b). Moreover, the Structural Reform Support Programme (or its successor, the Technical Support Instrument) might provide comprehensive help to EU Member States that are willing to implement reforms necessary for more active SII market development (European Commission 2020c). EU-level expert teams may also advise EU Member States on improving national legislation or regulations relevant for SII or new financial instruments. For instance, the Portuguese EMPIS initiative was developed with the help of EU experts.

4.2.3. Policy type: STEER Employing government structure and capacities

European institutions can play a significant role by **encouraging EU Member States to prioritise SII**. For example, the Social Investment Package has called on EU Member States to prioritise social investment and to modernise their welfare states (European Commission 2013). In 2017, the Commission, the Council of Ministers, and the European Parliament proclaimed the European Pillar of Social Rights and emphasised that solving social challenges should become a priority for the upcoming years (Maduro et al. 2018). Both of these policy frameworks have contributed towards developing the SII market by placing social challenges and social investment under the spotlight. However, the majority of relevant European strategies and programmes emphasised the importance of social goals or the social economy in general, but not SII in particular. Therefore, the current strategies are not enough to promote SII as a specific type of social investment. This indicates the need for further strategic improvements.

The EU needs a **comprehensive strategy to foster the SII market across the entire European Union** (Interviews with SII experts 2020). This means overcoming two major barriers. First of all, the environment of the social services delivery in the EU is still divided with respect to the potential of markets in delivering services of general interest (private companies delivering welfare services) and the health and education sectors in particular. This lack of a clear-cut position translates into limiting the definition of social entrepreneurship (or purpose-driven enterprise) to non-profit-distribution companies (see EaSI, Social Business Initiative, EIF SIA). In turn, this means that companies operating in the domain of services of general economic interest are either unable to attract adequate investments on the capital market (when a distribution of profits is limited) or they cannot access tailored financial instruments that specifically reward their positive impact (in the case of private companies). Secondly, the fact that the main sectors requiring capital investment and overhaul such as education and healthcare fall outside of the scope of EU legislation/jurisdiction and are left to EU Member States means that it is extremely difficult to develop European groups that would be able to operate across national borders. While this builds on the historical diversity of welfare systems across European countries, it also makes the European landscape for such a vital sector fragmented and unable to attract investments, lead innovation and respond to the challenges of the 21st century and post-Covid society (Interviews with SII experts 2020).

4.2.4. Policy type: RULE Setting and enforcing rules

A number of EU-level policy measures have contributed to the development of the SII market through regulatory or legislative measures. This chapter presents these measures and identifies opportunities for improvement with respect to the EU's role in 'ruling' (OECD 2019) the SII market.

First of all, EU-level legislation has great **potential for solving challenges related to the definitions of SII entities** (Interviews with SII experts 2020). For example, in 2018, the European Parliament released a resolution¹⁷ that acknowledged the diverse and innovative character of the existing legal forms of social enterprises (Eurosif 2018, p. 38). This resolution called on the Commission to improve the regulatory framework of social and solidarity-based enterprises by creating a 'European social economy label'. However, as of today, this label has not been established and the need for improvements remains. The EU might also contribute to the creation of an **SII-enabling legal environment**. For instance, the Services of General Economic Interest package introduced more proportionality and flexibility to public authorities when providing state aid to social enterprises. This package raised the threshold exempt from EU notification for public service compensations to €500,000 per undertaking over a three-year period (European Commission 2015).

The EU can also contribute to progress in the impact measurement area by creating and promoting impact **measurement frameworks, procedures and tools**. Significant progress in impact measurement can be made only by combining different types of EU initiatives: regulatory measures should be followed by stakeholder strengthening and information provision. More particularly, EU efforts can target three specific aims with respect to impact measurement: promoting the **standardisation of impact** measurement, encouraging capacity building in the area of impact measurement and increasing the availability of necessary data.

¹⁷ European Parliament (2018) *Statute for social and solidarity-based enterprises*. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018IP0317&rid=10>

- First and foremost, EU measures might promote the **standardisation of impact measurement procedures and processes**. The Platform on Sustainable Finance (within the 'EU Green Deal') and its taxonomy has contributed to the standardisation of environmental impact measurement. However, the measurement of social impact still lacks standardised guidelines (European Commission n.d.-c). To resolve this challenge, European institutions may assume the leadership of the EU level research process, involving key European experts, as has been done through the Technical Expert Group on Sustainable Finance, which will continue through the work of the soon-to-be-appointed Platform on Sustainable Finance (Somo 2019). The same research efforts should be directed to map and identify which dimensions should be retained to measure social impact (i.e. employment, education, health, non-discrimination). Attention should also be devoted to finding convergence around measurement tools by identifying and solving the major methodological challenges concerning social impact measurement. Finally, there is a need for convergence between social and environmental impact measurement in a single all-encompassing framework. A potential idea could be to bring the categories of social and environmental impact together under societal impact.
- Secondly, an effort should be made at the European level to promote **capacity building of public, private and intermediary organisations in the area of impact measurement**. Poor impact evaluations can provide misleading or just plainly erroneous results, leading to unsatisfactory future decisions (Gugert & Karlan 2018). SII organisations need to be guided towards change from an output-centred to an impact-centred culture (i.e. long-term consequences of actions). This implies the advancement of more sophisticated frameworks of causality. The result of a similar improvement would be a move from simple measures of volume (e.g. number of jobs created) to a more articulated analysis of the state of effects deriving from an action (e.g. quality or outcome of jobs created) (Maduro et al. 2018). Some experts claim that the solitary EU-level efforts targeting impact measurement capacity building might not be enough and that there is a need for an EU-level 'centre' (or a group of experts) for impact measurement. This centre could provide training for impact measurement, consult national stakeholders on specific impact measurement related questions, create and promote guidelines of impact measurement, or even provide impact measurement services (Interviews with SII experts 2020).
- Thirdly, EU-level measures could also **increase the availability of real-world up-to-date data and findings**. In a new post-Covid world, traditional in-person data collection will be more difficult while real-time analysis of data and on-demand reporting will become key for research and evaluation efforts (Rockefeller Foundation 2020). The development of EU-level data architecture and innovative data science techniques (e.g. open data, machine learning) should be further advanced, while maintaining alignment with the policy recommendations of relevant advisory bodies, such as the High-Level Expert Group on Artificial Intelligence (European Commission n.d.-b). This will allow for the integration of multiple kinds of data (e.g. linking together health, economic, socio-cultural and demographic data) and tracking changes over time, making it possible to understand the impact generated on a large scale (Investment Impact Index 2020).

4.2.5. Policytype: INFORM Providing and sharing information

EU-level efforts have also contributed to the 'advertising' of the SII approach by providing and sharing information on SII's potential and current state. European institutions have the potential to ensure **consistent and widespread communication and knowledge exchange about SII** across the entire EU. For example, the Social Business Initiative has increased the visibility of social entrepreneurship through a dedicated Social Innovation Europe platform and SME Forum. The EIB Advisory Hub on Social Outcome Contract Platform facilitates knowledge and best practice exchanges with respect to the potential of SIBs in various EU countries (European Investment Bank, 2020). The more active EU communication tools (e.g. webpages, handbooks and a library of the most successful SII examples, developed and disseminated by EU institutions, are likely to increase potential investors' knowledge and interest in SII even more (Interviews with SII experts 2020). EU institutions can also contribute to the facilitation of current **SII networks** such as the Global Impact Investors Network (GIIN) or European Sustainable Investment Forum (Eurosif). EU institutions can promote organisations' participation in these networks or call on networks to collect knowledge on the European SII market's needs. For example, European SRI studies (Eurosif 2018) present systematised information on SII market development across the EU.

5. CONCLUSIONS

Despite the significant growth of the SII market over the last decade, its maturity level is considered to be at its 'incipient' or 'infant' stages in four fifths of the EU. Germany, France, Portugal, Italy and former member of the EU, the United Kingdom, have already reached relatively high SII market maturity levels. The SII market and (not surprisingly) SII development policies are the least developed in CEE countries. SII progress has been slowed down by a number of particular challenges. However, three of them are the most important and have had the most significant negative impacts.

First, only a **few national governments are taking any initiatives or active roles as SII market 'steerers'**. The majority of EU countries do not have comprehensive national strategies presenting the guidelines and objectives of SII in their countries. There are also very few (government) entities whose missions are focused on the development of SII (e.g. only seven countries have their SII NABs). Comprehensive strategies towards the development of SII in any particular country, along with public entities that act as central units during the development process, are the necessary conditions that would lead to further positive changes in all SII related areas.

Second, EU and national supply side policy initiatives that provide SII funds directly or support other supply side actors through financial schemes, funds or fiscal incentives **dominate over initiatives to strengthen the demand side or intermediaries**. This leads to a situation where few demand side actors are investment-ready.

Third, **grants remain the key mechanism for the distribution of European funds** (ESIF, Recovery Funds), while financial instruments, tailored to the logic of SII, remain scarce. Unprecedented financial resources are circulating through the European funds. Thus, they have a lot of potential to contribute to the development of the SII market. For this reason, an active introduction of the SII approach in the context of EU funds is one of the most important solutions that can fundamentally improve the SII situation in Europe.

Table 2 below presents some additional specific conclusions and related recommendations for actions to be taken at the EU and national/regional levels. Actions are attributed to specific types of public initiatives that would contribute to the development of the SII market: steer, rule, inform, finance, and strengthen.

Table 2: Specific conclusions and recommendations

Conclusions on remaining gaps	Recommendations
Enabling environment related challenges and recommendations	
<p>There is a lack of systematic and consistent attention by governments to SII (insufficient steering, see above).</p> <p>Moreover, the majority of relevant European strategies and programmes have emphasised the importance of social goals or the social economy in general, but not SII in particular.</p>	<p>Actions to be taken at EU and at national/ regional levels:</p> <ul style="list-style-type: none"> • Development of a comprehensive strategy focused on fostering the SII market in the EU i.e. Single Impact Market, and in individual countries (Steer). • Establishment of NABs or SII steering committees (institutions) (esp. in the countries with the lowest SII maturity levels) (Steer).
<p>Many potential beneficiaries or investors still lack knowledge about the existence and the specifics of this approach and the terminology is still incoherent. There is a lack of a unified and specific definition of SII. Experts and stakeholders disagree over whether the definition of SII should be very specific and relatively narrow or broader and more 'inclusive'. There is also a large heterogeneity in the definition of social enterprises across EU Member States and within EU policies and funding regulations.</p>	<p>Actions to be taken at EU and at national/ regional levels:</p> <ul style="list-style-type: none"> • EU-level legislation proposing a unified interpretation of SII and SII entities (Rule). • Organise communication campaigns about the SII approach and its potential (Inform). • Public database of good examples of SII market development initiatives implemented across the EU (Inform). • Funding of research about SII (Inform).
<p>Few countries have adopted procurement schemes following the pay-by-result principle.</p>	<p>Development of a European template for Social Outcome Contracts and harmonisation of legal requirements for the set-up of pay-by-result schemes.</p>
<p>Impact measurement practices are underdeveloped in the majority of the EU Member States. There are no comprehensive and unified guidelines for impact measurement, actors lack the experience and skills to do it, and there are not enough 'external' institutions that could provide help to SII actors on impact measurement.</p> <p>There is a lack of a repository for the monetary equivalents of social attainments and costs in Europe and Member States as an official reference to assess impact and drive an outcome-driven economy.</p>	<p>EU efforts should be targeted at these aims:</p> <ul style="list-style-type: none"> • Standardise impact measurement by further developing the taxonomy regulation to include social objectives (see Platform on Sustainable Finance) (Rule). • Facilitate the capacity building of public, private and intermediary organisations by introducing detailed impact measurement guidelines and introducing a single EU level unit (or centre) responsible for consulting or training stakeholders (Strengthen). • Increase the availability of data. The development of EU level data architecture and innovative data science techniques e.g. open data and machine learning should be further advanced while maintaining alignment with the policy recommendations of relevant advisory bodies, such as the High-Level Expert Group on Artificial Intelligence (Inform and Strengthen). • Create an EU level repository for monetary equivalents of social attainments and costs, along the lines of Unit Cost Databases.

Conclusions on remaining gaps	Recommendations
Supply side related conclusions and recommendations	
<p>An overall funding gap for SII still exists in Europe. This is mostly the result of three factors:</p> <p>First, the SII approach is not sufficiently used in EU funds.</p> <p>Second, institutional investors (e.g. pension funds) dispose of large funds but play only a negligible role.</p> <p>Third, the attractiveness of the SII approach remains limited looking at it from the perspective of private investors (high transaction costs, esp. in the case of small investments, high risk, not enough evidence of profitability).</p>	<p>Actions to be taken at the EU level:</p> <ul style="list-style-type: none"> • Regulation of the cohesion policy and ESF in particular to fund impact investing has the largest potential to improve the SII situation significantly (Rule, Finance). • Define social impact as a condition for EU intervention – especially in light of InvestEU and the EU Green Deal. • Ensure coordination between ESIF and InvestEU: InvestEU might support a project that benefits from an ESIF grant; InvestEU might support a project that benefits from an ESIF financial instrument; InvestEU and ESIF can establish a financial instrument together (for more details see Chapter 4.2.). <p>Actions to be taken at the national/regional levels:</p> <ul style="list-style-type: none"> • Reduce transaction costs for SII by providing support schemes such as guarantees or first-loss tranches or by public endorsements in the form of co-investments in SII funds (Finance). • Introduce pension regulations favourable for SII investment (e.g. 90/10 solidarity investment funds in France) (Rule). • Introduce tax-breaks for private investments in the impact market (see Italian Bill for Benefit Corporation) (Rule).
<p>The funding mechanisms used are not always tailored to the needs of social enterprises. Traditional financing mechanisms that are based on loans, guarantees and equities remain more popular than innovative ones which usually fall under the so-called 'pay-for-success' instrument category e.g. outcome commissioning and SIBs. Some social enterprises are unable to meet the criteria of more traditional financial mechanisms, which are more suitable for exclusively commercial investments.</p>	<p>Actions to be taken at EU and at national/regional levels:</p> <ul style="list-style-type: none"> • Use innovative (esp. pay-for-success) instruments during the public funding process (incl. EU funds) (Finance). • Build capacity of investors and fund managers to use innovative financial instruments: recommendations, guidelines, consultations (Steer, Rule, and Strengthen).
Demand side and intermediary related conclusions and recommendations	
<p>The focus on supply side instruments and lack of a clear and inclusive definition of impact driven enterprises leads to the underdevelopment of demand side actors in the EU.</p> <p>First, there are not enough organisations that solve social challenges by applying market principles and potential actors are excluded from the SII market. Furthermore, many of them have limited organisational capacity to receive SII.</p>	<p>Actions to be taken at EU and at national/regional levels:</p> <ul style="list-style-type: none"> • Ensure that national regulations and legislation do not exclude potential SII demand side actors who would not fall under the strict definition of social enterprise, such as profit for purpose organisations, impact driven businesses (good examples - benefit corporation legislation adopted in Italy, France and Switzerland) (Rule). • Focus on the implementation of policy initiatives targeted at demand side actors and intermediaries, such as capacity building and support for accelerators

Conclusions on remaining gaps	Recommendations
<p>Second, the definition of what is an impact-driven enterprise is inconsistent: its definition within different EU regulations and documents shifts from a traditional social economy (profit distribution-capped, mission-capped, private-ownership capped) to a new generation of purpose-driven businesses e.g. benefit corporations.</p> <p>Third, the lack of intermediaries remains a major obstacle for SII market development in many countries. Moreover, intermediaries that operate in the market often lack the necessary capacities themselves and only a few social enterprises are willing or able to pay intermediaries for their investment-readiness support.</p>	<p>and incubators. For instance, ESF grants may be used to build the capacity of intermediaries and EIF funding to provide capital. Strengthen demand side actors to make them investment-ready for larger ticket sizes (Finance and Strengthen).</p> <ul style="list-style-type: none"> • Facilitate and accelerate the establishment of new social enterprises by increasing access to private early-stage capital (Finance and Rule). • Introduce financial initiatives that cover part of the price paid by investees to intermediaries for investment-readiness support (Finance).
<p>Covid-19 related conclusions and recommendations</p>	
<p>The COVID-19 crisis has created a 'window of opportunity', but at the same time has slowed down the development of the SII market. Policy makers have recently paid more attention to SII, describing this approach as one of the most effective solutions to challenges caused by the crisis. However, SII market actors have been negatively affected by the pandemic, which in turn has created risks and might slow down the development of the SII market if timely measures are not taken. There is some evidence pointing to the probability that the overall amount of SIIs will decrease during 2020.</p>	<p>Actions to be taken at the EU and national/regional levels:</p> <ul style="list-style-type: none"> • Introduce active awareness raising and communication campaigns and encourage the creation of new SII market development initiatives, deploying different types of policy instruments i.e. Steer, Rule, Finance, Strengthen, Inform) as soon as possible in order not to miss the 'window of opportunity'. • Introduce short-term initiatives aimed to help SII actors mitigate the negative consequences of the crisis e.g. public loans to demand side actors that are temporarily not able to provide a promised financial return to their investors.

Source: Authors' own elaboration.

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ANNEX 1A: LIST OF INTERVIEW RESPONDENTS

Ph. D. Mario Calderini	Politecnico di Milano
Ms. Karen Wilson	OECD
Dr. Gianluca Misuraca	JRC
Tomas Marcinkus and Marius Vasiliauskas	Representatives of the private sector, experts of SII in Baltic States

Social Impact Investment (SII) is emerging as a potential strategy for solving key societal challenges. This study sets out the rationale behind and the definition of SII and analyses the different components of the SII ecosystem. The paper looks at trends and challenges related to the SII market across the EU, highlighting a number of successful SII market initiatives, and finally reviews and makes recommendations on EU-level measures to facilitate SII market development.

This document was provided by the Policy Department for Economic, Scientific and Quality of Life Policies at the request of the committee on Employment and Social Affairs (EMPL).
