Document de travail

Impact Investing: a Way to Finance the Social and Solidarity Economy?

An International Comparison

Camille Guézennec
Guillaume Malochet

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Contents

Impact Investing: a Way to Finance the Social and Solidarity Economy?

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Abstract

Two specific trends are currently at play in the social and solidarity economy: the development of an entrepreneurial spirit with a growing number of social enterprises appearing alongside the traditional non-profit making organisations, and a greater diversity in the sources of finance available for this sector, with the growing use of private capital.

This working paper, designed to fuel the debate and to promote discussion on how to finance the social and solidarity economy both in France and abroad, presents the results of an international comparison carried out on a new financing tool: impact investing. Impact investing differentiates itself from traditional financing, from philanthropy and even from "socially responsible" investment, by seeking investments that combine good financial return and social impact.

This paper highlights the situation of impact investing in thirteen countries and gives insights on the levers available to ease the constraints facing social enterprises seeking to gain access to private capital. It concludes with the various levers available to governments, particularly in France, to help develop this sector.

Keywords: Social and solidarity economy; social financing; social enterprises; social impact.

Impact Investing: a Way to Finance the Social and Solidarity Economy?

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Camille Guézennec
Guillaume Malochet [1]

Introduction

The social and solidarity economy (SSE) has recently raised a growing interest, both in France and elsewhere in the world, from the authorities, the key players in the economy, and by the public at large. In France, two recent events reflect this: the creation of a delegate Ministry of Social and Solidarity Economy, reporting to the Finance and Economy Minister, and the establishment of the Banque publique d'investissement (Public Investment Bank) with a dedicated €500 million allocated to the social and solidarity economy.

Discussions about the future of the SSE focuses on the notions, the boundaries of which are not totally clear and often subject of debate, of solidarity economy, tertiary sector, social financing, responsible investment, the social enterprise, etc. The SSE sector is not new and is characterised by two clear trends - the development of an entrepreneurial spirit with an expanding number of social enterprises appearing alongside the traditional non-profit organisations (Chauffaut, Lensing-Hebben and Noya, 2013), and therefore a greater diversity in the sources of finance available for this sector.

Given this mix of players with very different status, and extremely diverse sources for financing, this working paper has tried to focus on the financing the SSE looking at a rather new tool: impact investing (see box 1).

Box 1

The notion of impact investing

The term impact investing was used for the first time in 2007, during a meeting organised in the United States by the Rockefeller Foundation (Bugg-Levine and Emerson, 2011). The aim here was to explore with the leaders in traditional finance, in the development sector and in

[1] Camille GUÉZENNEC, Policy Analyst at the Labour and Employment Department (camille.guezennec@strategie.gouv.fr) and Guillaume MALOCHET, Policy Analyst at the Social Issues Department (guillaume.malochet@strategie.gouv.fr), Commissariat général à la stratégie et à la prospective, The Policy Planning Commission (CGSP).
This survey was launched in collaboration with Caroline LENSING HEBBEN, at that time Policy Analyst at the Social Issues Department at the Centre d'analyse stratégique.

the world of philanthropy, the possibility of creating a global financing sector which could have both an environmental and a social impact. This first meeting, which was followed by a second in 2008, saw the Rockefeller Foundation launching a $38 million investment programme, entitled "Impact investing Initiative". Since then, the term has gained increasing acceptance on both sides of the Atlantic, particularly since the publication by JP Morgan of a document (2010) which made impact investing a separate class of financial assets.

The term defines those investments which seek to have a good financial return and at the same time a social impact (the so-called "double bottom-line"), as much in the OECD countries as in development aid projects. Thus, impact investing differentiates itself both from those investments that seek simply a social impact (philanthropy) and from those that are solely looking for financial returns. Impact investing also seeks to differentiate itself, in principle, from the so-called "socially responsible" investments (SRI), used for financing quoted companies using criteria that reflect the environment, the social dimension and corporate governance (the 'ESG' criteria).

Although "social" or "responsible" finance remains a niche sector compared with traditional finance (KPMG and ALFI, 2012), investors are increasingly seeking to position themselves in this market. Thus, in the context of the current economic and financial crisis, SRIs grow on average more rapidly than other types of investments: at BNP Paribas, for example, they grew by 26% in 2012.[2] In the same way, in 2011, 25% of philanthropic investors were seeking also a financial return, compared with only 10% the previous year.[3] Finally, solidarity financing[4] grew by 16.5% in France between 2011 and 2012 (Finansol-*La Croix*, 2013).[5]

According to some estimations, the impact investing sector could represent a capitalisation of more than $500 billion in the next few years (Monitor Institute, 2009). And KPMG Luxembourg believes that the 1775 responsible investment funds in Europe (including impact investments) would represent a total investment of €238 billion, whereas the view of Eurosif is that the total impact funds invested in Europe would be €8.75 billion. Such divergent estimations clearly demonstrate that no definitive definition yet exists of what constitutes impact investing. Thus a lot can be gained by more clearly defining the concept.

At the request of the Centre d'analyse stratégique, which wished to have a better understanding of Impact investing, the French Treasury sent out a standard questionnaire (see Appendix 1) at the end of 2012 to some thirteen of its sections abroad. The latter were selected either for their cultural and institutional similarity with France (question of transferability), or because there was an *a priori* belief that they were fairly well advanced in impact investing (innovative initiatives):

- within the European Union: Germany, Luxembourg, the Netherlands, the United Kingdom and Sweden;

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[2] Presentation by F. Villeroy de Galhau, Deputy Director General, BNP Paribas, at the "Impact2" conference on 3rd April, 2013.
[3] Results of a sector survey by the EVPA (European Venture Philanthropy Association), available at:http://evpa.eu.com/wp-content/uploads/2010/09/Another-year-of-growth-and-increased-sophistication-for-the-European-Venture-Philanthropy-and-Social-Investment-sector-.pdf
[4] According to Finansol's website, "Solidarity financing brings together savers who wish to give some sense to their money and the companies that have a strong social and environmental element in their activities which are thus financed through solidarity savings products."

- outside the European Union: China (Shanghai), Korea, the United States, Hong Kong, India, Japan, Singapore and Switzerland.

Each economic mission could decide on what means it would use to respond to the questionnaire; therefore, the resources used were extremely variable: review of existing literature, extraction from publicly available databases and/or interviewing the stakeholders from some key players in the sector.

In order to cast the net as widely as possible and gather a maximum of information from each country, the terms 'social enterprise, 'social investment' and 'impact investing' were not given an upfront definition. However, it was suggested that it would be helpful to provide certain elements of historical interest concerning the sector (the pioneering companies, growth figures, etc.).

The questionnaire aimed to collect information concerning the following:

- the main mechanisms used for financing social enterprises in the development phase (by taking a capital stake);
- the fundamental characteristics of social investment funds;
- the schematic of how social enterprises get access to risk capital;
- the volume of impact investing;
- their targets;
- what is specifically at stake for social enterprises and what financing needs have been left unsatisfied.

This working paper presents a summary of the main trends which appear from the international comparison carried out by the Treasury[6] and relies heavily on the results of two seminars organised in April 2013 by the Commissariat général à la stratégie et à la prospective (the new Policy Planning Commission)[7] with the key players involved in the financing of the French social and solidarity economy (see Appendix 2 for the list of participants). It draws lessons, in particular concerning the prospects for developing impact investing in France.

[6] See also Direction générale du Trésor (2012).
[7] CGSP, which replaced the Centre d'analyse stratégique by a decree dated 22nd April, 2013.

I Impact investing, a response to the lack of financing for social enterprises

In almost all the countries surveyed, two factors are advanced to explain why both economic and political players are interested in impact investing. First, the difficulties that the SSE sector has in gaining access to traditional private funding when trying to launch their activities, and secondly, the rapid growth in the number of such organisations, which clearly offers a potentially attractive opportunity for the financial sector.

1.1. A lack of financing for organisations in the social and solidarity economy

Government subsidies, philanthropy and the support of rich individuals acting as business angels are the principal sources of financing for the SSE sector cited by all countries surveyed.

Due to the SSE growth and the need for the OECD countries to reduce their deficits, access to private capital is also necessary for these organisations to continue their development and, for those that wish, to be able to "scale up" in a sustainable manner.

On the other hand, given the very diverse structures that comprise the SSE, all of them are not necessarily willing or able to receiving the classic private funding. The weight of the impact investing market is also very different from one country to another depending on the structure of the SSE. In particular, the levels of importance of associations compared with the business framework, different from one country to another, can have a significant effect on the growth prospects for impact investing.

Box 2

The social and solidarity economy in France

Traditionally, the social and solidarity economy comprises "a collection of enterprises organised as cooperatives, friendly societies, associations or foundations, whose internal organisation and activities are based on the principles of solidarity and of being useful to society. Such enterprises use a democratic and participative form of management. The use of any profits is strictly controlled - personal gain is outlawed and any surplus is reinvested. In general their financial resources include a share of public money. In 2010, the SSE sector employed some 2.34 million people in France, about 10% of the working population. The largest numbers are involved in social activities, in finance and insurance, in training and in health[8]."

In parallel, during the past twenty years, a number of profit-making companies have flourished under the banner of 'social entrepreneurship' (Barthélémy, Keller, Lensing-Hebben and Slitine, 2013) with their principal activities being in the social and environmental sectors.

[8] See www.economie.gouv.fr/cedef/economie-sociale-et-solidaire.

SSE organisations obtain access to private capital either by debt funding (bank loans) or by an increase in their equity capital (notably by opening their capital to the investment market).

In general, SSE organisations have difficulty in obtaining private financing. Access to institutional funding, such as pension funds, is marginal and even more limited for private banks and risk capital. **Such a situation is largely explained by the fact that these financial instruments have never been designed for organisations with the aims, size, form of governance and legal status that are peculiar to this sector.**

In addition, the **perception of high risk associated with social projects** is enough to deter potential investors whose aversion to risk has been significantly reinforced by the 2008/2009 financial crisis. Such a perception can be explained by both the very nature of the activities in the SSE sector, aimed at the most vulnerable and least solvent section of society, and by the ignorance of potential investors concerning the sector. Thus, in the eyes of the classical investor, there is a lack of credibility, a lack of conviction in the projects' viability, and very often a lack of guarantees.

In addition, these organisations are paradoxically asked to present high return prospects. Investors are looking for returns of about 15-20%, whereas the return on investment for a typical social enterprise is around 0 to 5%[9] (see below).

Moreover, **size is a third element explaining the difficulty in accessing private funding,** as structures in the sector tend to be on the small to medium side. The initial funding requirements for such organisations are often considered too small and therefore too costly to be interesting for the classic private investment funds.

Finally, **the legal status of SSE organisations can also be a curb on accessing private funding**, when such status excludes the possibility of remunerating the investors. This is notably the case in France for cooperative societies whose social shares are not re-valued. When an external investor sells its shares, they are sold to the company at their nominal value, which can certainly be a deterrent for any potential investor.

But the difficulties are not all to be found in the nature of the SSE organisations. They are often to be found at start-up time when financing is seen to be confronted with high risk and projects of limited size. A recent survey among social enterprises in India highlights the fact that the difficulty in accessing funding varies according to the state of development of the company and tends to decline once that initial start-up phase has been achieved[10].

[9] See Direction générale du Trésor, *op. cit.*, contribution from the economic section in Stockholm, Sweden.
[10] See Direction générale du Trésor, *op. cit.*, contribution from the regional section in New Delhi, India. Companies in the first phase of their activity (less than 2 years) have the most difficulty (50% claim to be unable to obtain external funding). At the other end of the scale, enterprises with more than a five year-experience also have great difficulty in bringing in outside finance (82% of those interviewed). Constraints seem to be less acute for those companies in the second phase of their development (two to five years), thanks to a better match of the supply and the demand (favoured targets for solidarity risk capital). Nevertheless, more than a third of these encounter recurrent difficulties in obtaining finance.

1.2. An attractive development opportunity for the financial sector

Despite the obstacles mentioned above, the rapid growth in the number of these enterprises represents a potentially attractive market for investors. In the United Kingdom, the total turn-over of the top 100 social enterprises contained in the SE 100 index (which covers some 365 social enterprises) was £319.4 million in 2012, following £172.7 million in 2011[11], an 85% growth.

From this point of view, it is significant that all the financial centres questioned during the survey (Luxembourg, the United Kingdom, Hong Kong and Switzerland) underlined that, over and above the response to a growing need, support for impact investing is also seen as a positive attribute. In Luxembourg where "there is little need domestically for social actions", impact investing is seen as a new financial instrument which "generates profits thus adding to the attractiveness of the financial marketplace in Luxembourg". The Luxembourg market for Impact investing (coupled with that for the SRI sector) is already some €30 billion of managed assets, with a potential estimated by the firm PwC at €58 billion[12].

At this stage though, it is difficult to present a clear and exhaustive picture of this relatively recent sector as long as its definition remains insufficiently clear.

Box 3

The boundaries of impact investing, a challenge for *soft power*

The success of the term might lead one to believe that it could become the encompassing term for all the various segments and instruments for social and environmental investment. From this perspective, the fact that the term was born in the Unites States is not without significance, the institutional and social context in each country having its own particular influence on the meaning of the term.[13] Therefore, one needs to be careful to ensure that the notion recognises the richness of the social and solidarity sector in Europe, the implantation of which is not something recent, a fact that is frequently forgotten. Thus, the latest report from the Rockefeller Foundation on impact investing throughout the world (Rockefeller Foundation, 2012) only recognised $49 million funds invested in Europe, which is clearly a significant underestimate. For example, in France, solidarity financing, which showed an amount outstanding of more €1 billion euros in 2012, would appear to be a front-runner in impact investing.[14] Elsewhere in Europe there are equally several dozen social banks, among which can be cited the BIB (Bank in Bistum Essen), GLS and Umweltbank in Germany and ASN bank and Triodos Bank in the Netherlands. And in Italy, one should note the richness of the social cooperatives and banks specialising in the third sector, with leaders such as Banca Etica and Banca Prossima.

[11] http://se100.net/2012-results-and-analysis/
[12] See Direction générale du Trésor, *op. cit.*, contribution from the economic section in Luxembourg.
[13] One should highlight the fact that it was the Rockefeller Foundation, the originator of the term, which financed the JP Morgan report (*op. cit.*) as well as the Global Impact Investment Network.
[14] Finansol-*La Croix*, *op. cit.*

On an international scale, work still needs to be done to obtain an inventory of the players, of the financial volumes at stake and the relevant regulations in place. This could be achieved by institutionalising an exchange forum and data sharing, rather like the Consultative Group to Assist the Poor and the Mix Market in microfinance[15], which has enabled players around the world to have a common vocabulary and to share a common database. At a global level, this forum would publish, for example, a digest of the players in impact investing and a "Doing social business" guide. The OECD, which has already undertaken some work on the subject[16], could take over the responsibility for implementation.

[15] On microcredit in Europe, see particularly Balkenhol and Guézennec (2013).
[16] See the work of the LEED (Local Employment and Economic Development) programme and of the Department of Science and Technology.

II impact investing, the characteristics of the sector

2.1. The role of impact investing in financing the social and solidarity economy

Despite this **great variety in the meaning of impact investing**, one is nevertheless able to discern four common characteristics:

- it is an investment in the real economy designed to support an activity with an explicit social dimension;
- it is generally in addition to other sources of finance, public or private (the so-called "hybrid" funding);
- as well as a financial return, it seeks a social "return" - a social and environmental impact;
- it is generally medium to long term, the return being expected over several years (the so-called "patient" capital).

The combined search for a social impact and a financial return being the distinctive feature of impact investing, it would seem that two models co-exist. In continental Europe, the accent is first and foremost on the social impact, the financial requirements being allowed to follow. In the Anglo-Saxon world, impact investing is above all an investment subjected to a social impact constraint.

2.2. The sectors involved

Four major "sector" types are involved in funding linked to impact investing. This is not a question of defining coherent economic sectors, but rather of describing groups that work according to a common logic.

The first group works towards the **classic objective of social integration**, funding organisations and companies working in areas such as access to housing, integration into the job market, training and health-related services as well as personal care services.

Box 4

Impact investing and employability

Of the thirteen countries surveyed, more than half mention professional and social integration among the favoured sectors for developing impact investing.[17] Interest in innovative financing schemes for employment is clearly something recent, driven by the economic context of the OECD countries where the fight against unemployment is a priority. Whereas only a few years ago the use of impact investing was almost exclusively directed towards developing countries, in Sweden today, for example, professional integration is increasingly using such funding. The funds invested are generally used for financing social enterprises, which provide the most vulnerable groups with employment, most often in the services and building sectors.

[17] Germany, Korea, Hong Kong, India, the Netherlands, Sweden, Switzerland.

In Korea, social companies are even authorised by the Employment Ministry and are required to focus on helping the long-term unemployed.

Social and professional integration is also a major sector for impact investing in the United Kingdom. Several impact investing government programmes and funds are involved. Big Issue Invest has, for example, invested in Jamie Oliver's Fifteen Foundation, which offers professional training in the catering trade to young people from deprived backgrounds. The Social Entrepreneurs Fund from Bridge Ventures has provided £3.25 million of support to Teens & Toddlers*,* a programme which focuses on the social integration of the young. This area is also cited among the priority sectors for the new social investment bank.

Although the option of funding professional integration is frequently raised in the United States, impact investing in the USA is not primarily aimed at that sector. One should nevertheless point out that, since the JOBS Act (Jumpstart Our Business Start-ups) was passed on 5th April, 2012, it is now possible for private citizens to fund the creation of an enterprise by taking a share in the capital through crowdfunding (see box 6).

In France, the solidarity-based finance has funded 100,000 enterprises in eleven years[18].

The second group concerns companies involved in the energy sector, for funding **sustainable development projects.** In **Germany,** the Canopus foundation is investing in social enterprises which operate in developing countries with the aim of providing low-income families with access to renewable sources of energy. In **China** also, most of investments linked to impact investing are in enterprises and associations operating in the green economy: production and distribution of renewable energies, creation of instruments for a more efficient use of energy, waste management projects, etc.

The third sector is that of housing which, according to JP Morgan[19] will become the primary global sector for impact investing by 2020, with investments to be made ranging between $214 and $786 billion. In India, for example, affordable housing should represent a potential of around 25 million dwellings, for some $280 billion of investment (Asia Development Bank, 2012).

The last group is differentiated by the fact that the funding is directed towards **development aid projects** that are in countries other than the one in which the impact investing funds are situated. Funding through micro financing has a large part to play here. This is the situation notably in **the Netherlands,** where more than two-thirds of social and solidarity funding goes to developing countries, in **Singapore**, which acts as a financial hub for the emerging countries in the region, and in **Switzerland. India** offers a mirror-image: investors in India finance also projects in other emerging countries (Latin America; West and East Africa; Southern Asia, other than India, i.e. countries such as Pakistan or Bangladesh).

[18] Finansol (2013), *op. cit.*
[19] JP Morgan (2010), *op. cit.*

2.3. Risk, return and impact

Whereas financial investors traditionally live in a two-dimensional world — risk and return — impact investing adds a third dimension, that of social impact[20]. For traditional investors considering the prospects for impact investing, two key questions come to their mind:
- is it necessary to make trade-offs between impact and return?
- are impact investments more risky?

There is no unequivocal answer to these questions, which need to be addressed on a case by case basis. And given the recent nature of such structures, there is a serious lack of information to give an overall response to such legitimate questions. According to the information gathered by the economic sections of the French Treasury abroad, **the expected rates of return range from 0 to 10-15%, with the notable exception of the United States, where certain investment funds expect returns of up to 25%**. And, as it is the case with any investment, the higher the perceived risk, the higher the rate of return demanded by the investors.

In **Hong Kong**, for example, the projects with the highest expected returns - around 10%, involve the housing, environment and personal care service sectors. In **Luxembourg**, investments are often long-term arrangements by institutional investors or pension funds looking for diversification of the risks in their portfolios. The average return for funds linked to micro finance fluctuates around 5 to 6% because the default rate is extremely low.

In **China**, according to the *Report on Impact Investing in China* published in November 2012 by the China Impact Fund and New Ventures China, the returns expected by capital investment funds is a minimum of 15%[21]. In the same vein, in the **United States**, such funds demand a rather high remuneration when they enter into the company's capital. They take greater risks as shareholders than they would when acting as lenders (in case of bankruptcy, losses are generally taken by the shareholders in the first instance).

Despite such great diversity, a few major principles should guide the investors' thinking when faced with problematic issues involving investing for impact.

✓ **Post a minimum rate of return on the investment as an objective**

The prospect of a social impact is necessary but not sufficient for non-philanthropic investors who are seeking a tangible monetary return.

One needs therefore to be able to set a minimum rate of return on the investment. The realistic return for the sector ranges from a simple preservation of one's capital outlay up to a return of about 2 to 3% (which corresponds for example to the ROR[22] from the investment company France Active). Thus, within the American investment fund, Acumen Fund, created ten years ago, only eight out of seventy investment projects showed an annual rate of return of around 6%.

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[20] Presentation by E. de Lutzel, Vice-President Social Business, BNP Paribas, annual symposium « Épargne sans frontière » ("Savings without Borders"), 16th April, 2013, Paris.
[21] Private equity describes the activity of financial institutions or investment funds when investing either in capital or in equity in non-quoted companies.
[22] Rate of return on investment.

Whether the return is attractive or not depends also on the general financial situation and the average ROR achieved by the more traditional financing operations (around 4% today).

Finally, remunerating the investors is neither *a priori* a growth inhibitor for such structures nor an impediment to aligning practices with their social missions. An example in this respect is that of the cooperative investment company Oikocredit, which has generated an annual rate of return of 2% since its creation in 1999.

- ✓ **Adapt the target for an expected rate of return to the geographic zone in which one is operating**

Expected returns are very different depending on whether one is investing in developing or emerging markets, or in OECD countries. This is simply explained by the nature of the risks in emerging and developing countries: country risks, exchange rate risks and the risks inherent in the project itself. The French company Proparco, which invests in developing countries, aims for a final ROR of between 8 and 10%, net of management costs, to compensate for the much higher risks involved. The Comptoir de l'innovation however, which invests in France, shoots for a target ROR of 3%.

- ✓ **Adapt the target rate of return to the characteristics of the social sector**

If a target rate of return needs to be specified, it should be aligned with the sector of the social and solidarity economy and its particular characteristics, particularly the fact that investment returns are slower and that not all the players in the social and solidarity economy are seeking to grow. Impact investing must also obey the rule of "impact first", the search for a social impact being what differentiates it from a standard investment. Taking this into account, the ROR for an impact investment needs to be considered over a relatively long period, over five years according to French players. Placing a ceiling on the profitability can also be considered for impact investing, based on the ideas of "limited profitability" or equitable sharing of the results, which can be applied through the diverse nature of the legal status of the various structures operating in the social and solidarity economy. The definitions of "limited profitability" or "equitable sharing" could be handled through regulation or remain in the contractual sphere.

2.4. Characteristics of the countries evaluated

Some countries involved in the survey are in the starting blocks when it comes to financing social entrepreneurship or the social and solidarity economy. Others, less numerous, have developed effective projects or tools in the realm of impact investing. One can distinguish:

- ✓ **Countries lagging behind.**

In **Hong Kong**, impact investing is still at the embryonic stage, even though the growth potential would seem significant, given the abundant availability of liquidities, the local financial expertise and the limited concern shown by the public authorities concerning social needs. However, the recent announcements from the new government installed since July 2012 would lead one to believe that there is likely to be more support for the social and solidarity economy in the years ahead, particularly through some innovative financing schemes.

Korea has shown dynamism in developing the social and solidarity economy with a law establishing the existence of social enterprises being enacted in 2007. Nevertheless, socially responsible investment is little developed, apart from a few scattered initiatives. Indeed, the concept of impact investing is poorly defined, with no legal structure having been put in place.

- ✓ Countries where the sector is developing.

In India, one can count some thirty-three funds operating in impact investing, of which a large proportion are from abroad (22), in particular from the United States (19). These investors are almost exclusively private (there is just one exception). For the most part they benefit from their status as limited liability companies (20), with the others having the status of 'not for profit' associations.

Switzerland uses its financial industry muscle to invest in impact projects. Impact investing is also favoured by the historically strong philanthropic tradition in the country. Very different types of structure are involved in financing projects with a social impact:

- institutions specialising in the social and solidarity economy (Symbiotics, ResponsAbility, etc.) having also experience of other types of social investments (notably microcredit or fair trade activities);
- institutions explicitly dedicated to impact investing (AlphaMundi, Impact Finance Management, etc.);
- institutions specialising in microcredit: BlueOrchard, Microcrédit Solidaire Suisse;
- a few players in the classic finance sector who are also present with their SRI products;
- the alternative finance institution[23], Banque Alternative Suisse (BAS).

In 2012, four Swiss companies, Bamboo Finance, Blue Orchard Finance SA, ResponsAbility Social Investments AG and Symbiotics SA featured in the list 'Impact Assets 50', which furnishes an annual inventory of the main impact investing funds around the world (frame 5).

In the Netherlands, impact investing was introduced some four years ago, and the Dutch are very active in the sector. However, a certain terminological confusion exists and some non-financial impact investments are still carried out, using the traditional criteria enshrined in the ESG criteria. Nevertheless, the principle of social investment has existed for a long time in the business world. For more than fifty years, companies, both private and public, the churches and charity organisations, have been investing in activities that generate profits whilst still having social and environmental return objectives. The Dutch impact investing market is of the order of one billion dollars in the microfinance arena, one billion dollars in renewable energies, and another billion dollars in investments for SMEs.

[23] The terms 'alternative financing' and 'ethical and solidarity financing' are used indifferently to describe the financing activities which pay particular attention to non-financial criteria (environment, social, governance).

Box 5

"Impact Assets 50" in 2012[24]

"Impact Assets 50" is a list published annually by Impact Assets, an American financial services company, which provides an inventory of the major funds throughout the world having an impact investing activity. These fifty funds represent $10.2 billion dollars invested in the various areas concerned (clean technologies, microfinance, etc.)[25].

Accion	Incofin Investment Management
Alterfin cvba	Iroquois Valley Farms, LLC
Bamboo Finance	Leap Frog Investments
Bank of America/Merrill Lynch Capital Access Funds Management	Living Cities
Beartooth Capital	Lok Capital
Blue Orchard Finance S.A.	Media Development Loan Fund
Bridges Ventures	MicroCredit Enterprises
Calvert Foundation	MicroVest Capital Management, LLC
City Light Capital	Nonprofit Finance Fund
Community Reinvestment Fund	OikoCredit USA
Cooperative Fund of New England	Pacific Community Ventures
Core Innovation Capital LP	PhiTrust Partenaires
Craft 3	Public Radio Fund LLC
DBL Investors, LLC	responsAbility Social Investments AG
Developing World Markets	Root Capital
EcoEnterprises Fund	RSF Social Finance
Ecotrust Forest Management	Sarona Asset Management
EKO Asset Management	Shared Interest
Elevar Equity	SJF Ventures
Global Partnerships	Small Enterprise Assistance Funds
Grameen Foundation USA	Symbiotics SA
Grassroots Business Fund (GBF)	The Lyme Timber Company
Grassroots Capital Management Corp.	Travois Holdings, Inc.
Habitat for Humanity International - Flexible Capital Access Program	Treetops Capital
IGNIA	Vox Capital

In the **United States,** many private investors take part in financing the social and solidarity economy, including:

- foundations (be they from philanthropists like Rockefeller or Bill Gates, or companies, like Kellogg's);

[24] http://www.impactassets.org/impactassets-50.
[25] http://rsfsocialfinance.org/2012/10/rsf-social-finance-selected-for-the-impactassets-50-2012/

- family offices[26] and rich individuals;
- management companies and pension funds.

These investors act either directly or indirectly using the funds set up either by dedicated entities, such as Acumen Fund, or using funds set aside by more 'generalist' organisations like JP Morgan. Institutional investors are not really involved, with the notable exception of the teachers' insurance company (TIAA-CREF).

The American Federal government is involved through two mechanisms:
- laws promoting this type of investment: one can cite in particular the "Community Reinvestment Act[27]" enacted in 1977 and modified in 1997 or the "New Markets Tax Credit[28]" enacted in 2000;
- public funding (see box 8).

Finally, one should cite the case of **Germany** where social investment funds relying on venture-capital– not well developed – constitute a significant complementary source of funding for social enterprises (Mercator Forscherverbund, 2012). In this context, the public authorities have shown increasing commitment to boost the private financing being made available to social enterprises (see box 8).

- ✓ **The United Kingdom, the country where impact investing is most developed.**

Almost non-existent as recently as 2000, the British market of the solidarity-based finance took on a new dimension with the arrival of intermediaries in the marketplace offering new financial instruments as well as specialised consulting and advice. **The United Kingdom** is today a leading country in social investments with initiatives such as the social impact bonds, a stock exchange for social enterprises (Social Stock Exchange) and above all the creation of a bank for social investments, the Big Society Capital (see box 8). However, the social investment marketplace remains dominated by the social banks and government funding which concentrate on low-risk investments, with guaranteed loans being the most favoured form of social investment. Taking an equity stake in social enterprises is a kind of investing that remains in the minority. As a result, impact investing represents a segment of limited size which complements the traditional forms of funding for social enterprises (subsidies and donations).

[26] Family offices are *ad hoc* structures set up by one or more families to enable handling by themselves the management and transmission of their personal fortunes and property assets. By extension, the term describes the services proposed by certain private banks to their richest clients.
[27] The Community Reinvestment Act, or the "CRA law", obliges these organisations to make publicly available a detailed follow-up of the financial operations carried out with the various components of the community (in particular the low or medium income districts). Moreover, it mandates federal agencies Fed, OCC, FDICC and OTS, as their supervisory authorities with specific powers, to encourage these financial deposit organisations to respond to the needs of the communities where they have been authorised to act. Complying with the CRA law means that the banks do not encourage dubious credits nor do they use any indelicate practices when granting loans.
[28] This mechanism grants certain tax exemptions to the investors if they invest their capital in certain types of impact investing projects.

2.5. France: players involved and instruments used in impact investing[29]

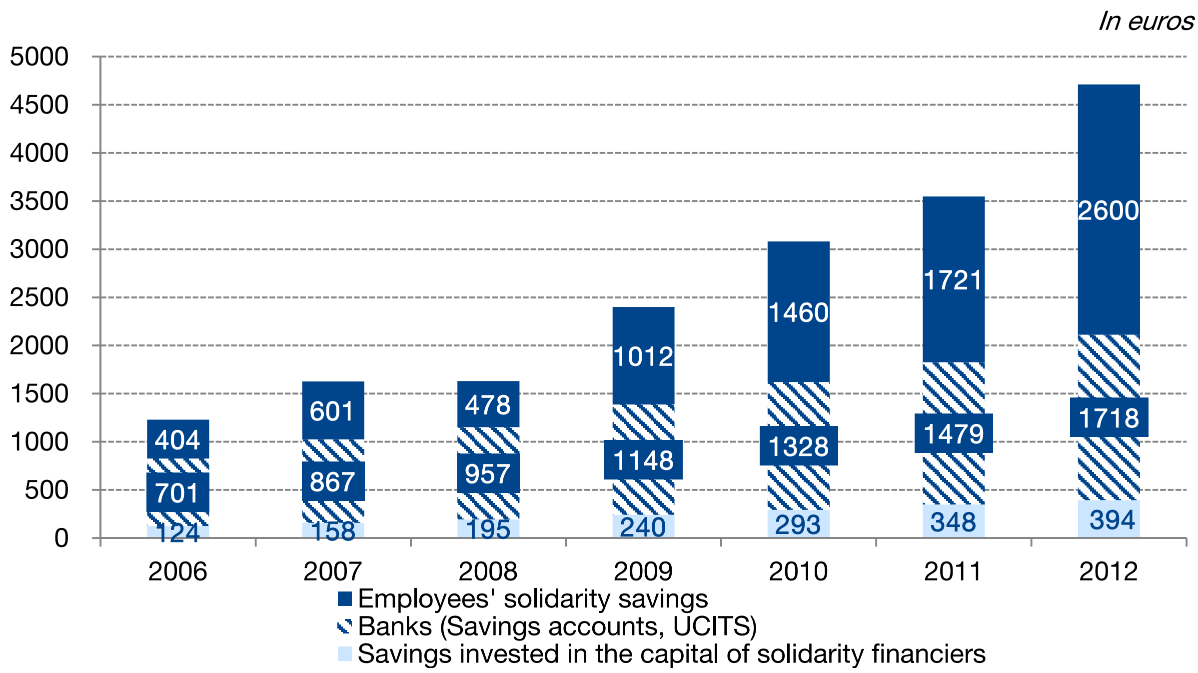
The French tradition in the social and solidarity economy is a source of inspiration for innovative funding arrangements usually called social and/or responsible. For example, the Crédit Coopératif, a cooperative bank committed to social funding, has a long lineage going back to the Banque Coopérative des Associations Ouvrières (created in 1893) on the one hand, and on the other, the Caisse Centrale de Crédit Coopératif (created by decree in 1938). Impact investing is thus not a recent phenomenon.

2.5.1. Impact investing *in France: an estimation of the financial amount and its main features*

According to the figures published in the latest barometer from Finance Solidaire (chart 1), the outstanding balance of solidarity savings products as at 31/12/2012 stood at €4.71 billion, split as follows: bank savings (€1.72 billion), employee savings (€2.6 billion) and direct subscription of capital in solidarity companies (€400 million).

Chart 1

Solidarity savings products in France (2006-2012)



Source: Finansol-*La Croix*, *op. cit.*

In addition, the amount of solidarity financing (i.e. that part of the savings actually invested in activities with a social and/or environmental impact) was some €1.024 billion (a 16.5% increase in a year).

[29] See Introduction, in Direction générale du Trésor, *op. cit.*

Finally, according to a survey conducted in April 2012 by OpinionWay in collaboration with Le Comptoir de l'Innovation, impact investing in France is characterised by the following features:

- average investment: 250 k€ per enterprise;
- average duration of the investment: five years;
- targeted return: between 2 and 7% depending on the products, the maturity of the companies and the length of the financing operation.

Looking in more detail, the range of sums invested and the expected returns differ according to the financier involved. Investment clubs like Cigales or Club Clefes (the Racines network) see themselves as start-up engines providing an average financing amount of around 2000 euros. At the top end of the financing scale, there are organisations like La Nef which offer investment possibilities that can attain one million euros, with an average outlay around €70,000.

2.5.2. The impact investing players in France

Four categories of investor in the impact investing market can be distinguished:

➢ **Individual investors**, using the employees' solidarity savings scheme.

Since the enactment of the French law to modernise the economy dated 4th August, 2008 and, in practical terms, since the 1st January, 2010, employees having access to a Plan d'Épargne Entreprise (Company Savings Scheme) are offered the opportunity to invest a part of their savings in so-called solidarity enterprises. This is the principal source of solidarity funding in France, with an outstanding balance of €2.6 billion in 2012 (Finansol-*La Croix*, *op. cit.*).

These savings are largely devoted to so-called "90/10" funds, which are handled in two buckets:
- one dedicated to quoted stocks (at least 90% of the assets). In practice, such stocks are usually selected on the basis of SRI criteria to maintain consistency with solidarity financing;
- the other used for capital or debt funding of solidarity companies (between 5 and 10%).

More recently, private citizens have had the possibility of investing in the SSE through the virtual platforms offered by 'crowdfunding' – (see box 6).

➢ **Large corporations** using dedicated funds (Danone, Schneider, Veolia, EDF, Renault, etc.).

➢ **The private investors and the large fortunes.**

Among the above, Le Labo de l'Économie Sociale et Solidaire, a think tank, has compiled the following inventory (Le Labo de l'ESS, 2013):
- risked-based capital businesses: Autonomie et Solidarité, Bretagne Capital Solidaire, Énergie Partagée, Femu Quì, FinanCités, Garrigue, Herrikoa, IDES, IéS, PhiTrust Partenaires, SIFA, etc.;
- non-profit organizations that lend money with or without interest, or on one's honour, and which give guarantees to the banks: Adie, France Active, Initiative France, Ecidec, Mezzocredit, etc.
- investment clubs, private individuals: Cigales, Clefes, etc.;
- financing companies: Caisse Solidaire du Nord Pas-de-Calais, France Active Garantie, La Nef, etc.;

- estate companies, often under the aegis of an association: EHD, ESIS, Foncière Habitat & Humanisme, Habitats Solidaires, Foncière Terre de Liens, etc.;
- non-profit organizations which finance projects in developing countries such as Cofides Nord-Sud, Oikocredit, SIDI. Other financial institutions linked to the cooperative movement contribute to the development of social and ethical banks in Europe (Febea, etc.);
- banks (BNP Paribas, BPCE, etc.).

➢ **The customers of credit unions** (Crédit Coopératif) **or of committed mutual societies** (MAIF, Apicil, AG2R)

Such investors operate through the support of two major players.

➢ **Finansol, a non-profit organization**, created in 1995, is a group of solidarity-based investors and financial institutions that collect solidarity savings. It is responsible for awarding the "solidarity" label to financial products where between 5 and 10% of the assets are invested in solidarity enterprises, or where at least 25% of their profits or revenue generated are donated to NGOs.

Awarding such a label is largely dependent on the "solidarity" accreditation given by the "prefectures" to businesses that meet one of two distinct criteria laid out in the French Labour Code:
- enterprises where at least 30% of the employees have signed a contract dedicated to workers in integration, i.e. contract that benefits from a public-financing support, or officially recognised disabled people;
- enterprises (non-profit organizations, cooperatives, mutuals or commercial companies) where the directors are elected by the employees, members or shareholders, and for whom a salary ceiling is established. The average salary for the five highest paid members must not exceed five times the level of the official minimum wage.

The regulators have extended this labelling to solidarity-minded investors, which can also be designated as "solidarity enterprises", in order to be able to use the employee solidarity saving scheme funds (Garrigue, Sifa, La Nef, etc.).

These labels constitute a useful starting point for a definition of impact investing in France, and beyond. However, some players regard the criteria for obtaining the "solidarity" labels as too restrictive. These criteria are being discussed in order to diversify the financing of the SSE, in particular by opening the solidarity label to organisations working outside France, and by using the Finansol label for products other than solidarity savings (for example banking-type products such as life insurance or solidarity savings accounts). In addition, the recognised solidarity funds cannot all apply for the European Social Entrepreneurship Fund label (EuSEF – see below), either because the funds come from savings from individuals, or because they are "90/10" financial products which place a ceiling of 10% of the funds that can be invested in solidarity companies.[30]

➢ **Novéthic**, a subsidiary of the Caisse des Dépôts, is both a media on sustainable development and a research centre on Socially Responsible Investments (SRI) and Corporate Social Responsibility (CSR). Novéthic is responsible for awarding the SRI

30 www.novethic.fr/novethic/isr_investissement_socialement_responsable,legislation,l_europe_intronise_impact_investing,139584.jsp

Novethic label, the objective of which is to encourage transparency in information concerning SRI funds. The label is aimed at individual savers and is awarded to those funds that can justify a management process that systematically takes into account the ESG criteria.

2.5.3. The impact investing instruments in France

French investors use three main channels:
- employee solidarity savings, *via* company employee saving schemes;
- the banks (shared savings products and solidarity investment savings);
- direct, by entering directly into the capital of solidarity-based companies: 60% of such investors are organisations and 40% ordinary citizens.

This latter channel is the least used of the three. There is nevertheless a plethora of financial products of which only a few specialise in the SSE.

Association bonds were specifically created in 1985 to help with financing of the non-profit making organisations and there has been an upsurge of interest since the beginning of the current decade. These bonds have no maturity date, are considered as lowest ranking debts and are only redeemable at the initiative of the bond-issuer. The reform of this instrument as a means of financing the SSE is under discussion[31] although such bonds have remained almost unused to date "*no doubt because the subscriber sees no interest in them (risk, uncertain reimbursement, poor remuneration, absence of capital gains) and the huge implementation complexity for the bond-issuer*[32] *"*.

[31] Despite the improvements made to increase its attractiveness by the 2008 law on modernising the economy.

[32] La Fonda, Renforcer le développement des associations par la consolidation de leurs fonds propres et la réalisation d'excédents (Strengthen the development of associations by consolidating their capital and creating surpluses), July 2009.
http://www.fonda.asso.fr/IMG/pdf/Note_finale_Fonds_propres.pdf

III Impact investing, the impediments to its growth

The replies received from the French Treasury's economic sections abroad consulted for this survey highlight three impediments that need removing in order to increase social enterprises' access to private capital.

3.1. An inadequate intermediation mechanism between supply (investors) and demand (those with project ideas)

Even though the availability of private capital is *a priori* fairly abundant, several factors affect the quality of the intermediation and therefore prevent social enterprises gaining access to it.

➢ **A mutual lack of understanding by both sets of players: those seeking capital do not really know how to present their projects to investors in the best light, and the capital owners do not know how to evaluate the risk associated with these new market entrants.** The result is that the investors see few credible projects, which simply increases their nervousness. For example, in China, an investor like New China Ventures believes that only 5% of SMEs which have developed a business model based on the green economy propose viable investment opportunities.

➢ **A large number of enterprises in the social sector are not able to manage this type of investment, as they lack the size, the knowledge and the resources required to solicit the backing of the investors.** In this context, the challenge is to be able to structure the demand better so as to make it clearer and "investable" for everyone.[33]

➢ **Almost by definition, impact funding is relatively non-liquid and the social return can only be measured in the medium or long term.**

It would seem clear, however, that it is necessary to take into account the supply and the demand together as, to date, the available studies focus mainly on the supply. In France, there is no clear consensus among the SSE players as to whether the problem of financing is a result of the lack of enough financially viable projects, or whether it is because the investors have difficulty in identifying the credible projects in the sector.

The international comparison enables us to identify five types of initiatives designed to improve this intermediation between the supply and the demand for capital.

➢ **Improve the transparency and availability of information concerning social enterprises and potential investors.** For example, in China, a directory of social enterprises has been created by ECSEL from the Schoenfeld Foundation.

➢ **Encourage meetings between project owners and investors during conferences, trade fairs and the like** (in Germany and Japan).

[33] Rockefeller Foundation (2012), *Ibid.* As mentioned above, such a conclusion would lead one to question the reality and pertinence of impact investing requests by the players in the social and solidarity economy.

➢ **Develop specialised intermediary structures**, *private* (the Ashoka network and the Swiss Schwab Foundation in Germany, Social Ventures Hong Kong, PYMWYMIC and the DOEN Foundation in the Netherlands, consultancy firms like Unltd Conscient in the United Kingdom and in Switzerland), *public* (the Korea Social Enterprise Promotion Agency in Korea), or in a form of *public/private partnership* (Social Finance in the United Kingdom).

➢ **Create organisations dedicated to providing technical assistance for project owners.** In India, a network of twenty-five incubators offer varied technical assistance and guidance ranging from help in improving the skills of the social enterprise's employees (training opportunities, budget management) to providing a network of useful contacts. Although the advice and guidance services are free, the support from these incubators is more frequently charged. Other technical assistance organisations are cited by the countries surveyed, such as the "Investment and Contracts Readiness Fund" and "Social Incubator Fund" in the United Kingdom (see box 8), or the grouping of social enterprises by the SSE local chambers of commerce in French-speaking Switzerland.

➢ **Initiate projects for virtual financing platforms, a sort of social stock exchange**: the "Social Stock Exchange" in the United Kingdom, the "Impact Investment Exchange" in Singapore[34] or using crowdfunding ("participative financing").

Box 6

Social stock exchanges and participative financing platforms (crowdfunding)

Social stock exchanges are designed to enable social enterprises to raise risk capital by issuing shares and bonds *via* dedicated virtual platforms with strict requirements to be met concerning transparency and follow up in terms of the social impact. They also are answers to the need for more liquid investment.

Three **social stock exchanges** are in the development phase in countries covered by the survey[35]:

➢ In the United Kingdom, the Social Stock Exchange should be operational by the end of 2013. The project has received considerable financial support since the announcement (around £2.250 million), such that the funds necessary for the launch had already been guaranteed by March 2012. The enterprises introduced into this exchange will be required to demonstrate their impact twice a year.

➢ In Singapore, the Impact Investment Exchange (IIX) is a project under development by the non-profit making research and consultancy firm Shujog. Shujog is seeking to strengthen the social enterprise sector, mainly through impact investing financing. The main aim of having the ability to trade quoted stocks in this new financial centre is to increase the level of liquidity, which should encourage more of the conventional financial players to invest in such stocks. By imposing the requirement to report on the social and/or environmental impact, the platform aims also to offer greater visibility to social enterprises

[34] www.asiaiix.com.
[35] A fourth exchange is in the process of being set up in South Africa – NeXii – www.nexii.com. In addition, a joint venture has been signed between this site and Alternativa France in order to launch iC (Investment Capital) in Europe.

and facilitate access to investors. IIX is currently awaiting a licence from the Monetary Authority of Singapore, and does not seem yet to have either a significant number of companies ready to be listed or interested investors.

- The social stock exchange NExt SSE in Germany[36] is equally in the early stage of negotiating the legal terms and conditions and implementation details with the German financial supervision authorities (BaFin). NExt SSE is evaluating the means to overcome one of the main difficulties in launching a social stock exchange - the administrative costs of a listing, frequently prohibitive for small social enterprises.

Crowdfunding platforms, which enable individuals to invest directly in these companies' projects, are increasingly being introduced in the countries surveyed. Investing in this way can be through donations but also through impact investing, by entering directly into the company's capital. This is the case, for example, with Buzzbnk in the United Kingdom, launched in January 2011, and dedicated to financing young start-up social enterprises. Since the launch, it has raised some £350,000 covering thirty-four projects with a social or environmental accent.

Given their recent nature and the diversity of finance models and services provided, the financial regulation of these virtual exchanges and the protection offered to investors are not easy issues to fix. In France, in order for all players to understand better the regulations that apply, the Autorité de contrôle of the Bank of France and the French Financial Markets Authority have published a guide that brings together the legal texts relevant to each area of activity[37].

3.2. A lack of recognised evaluation tools for improving data transparency

The second impediment to the growth of impact investing commonly put forward is the lack of recognised tools for evaluating "social performance" and therefore the difficulty of measuring "tangible" results. Project selection, following their progress and the ability to apply rigorous business methods are frequently mentioned as key elements in developing impact investing.

Paradoxically, however, whereas almost all the countries complained of this lack of recognised and shared evaluation techniques, there are a few tools in widespread use. It is worth noting in particular the IRIS method (Germany, China, the United States, the Netherlands, the United Kingdom, Singapore), followed by GIIRS (China, the United States, the Netherlands) and, to a lesser extent, the SROI method and the ESG criteria.

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[36] http://www.nextsse.com/home/welcome/

[37] In France, the French Financial Markets Authority and the Autorité de contrôle prudentiel of the Bank of France jointly published the *Guide du financement participatif* (Participative Financing Guide) on the 14th May, 2013.

Box 7

The main methods used for evaluating the social impact of an investment

IRIS (Impact Reporting and Investment Strategy) is a set of common reporting standards and norms for social performance, developed from an ongoing project of the Global Impact Investing Network.

GIIRS (Global Impact Investing Rating System) comes from the American association, B-Lab, and is focused on evaluating the social impact of companies and investments. Its method incorporates the norms and standards from IRIS.

The SROI (Social Return on Investment) method derives a monetary social impact (value added and costs avoided).

The ESG (Environmental, Social and Governance) criteria are non-financial reporting criteria which are established individually for each enterprise.

Countries, such as the Netherlands, believe that the expected impact from the investment and the target can be spelled out up front. To some extent, this gets round the problem of no universally recognised evaluation tool (X thousand jobs created, X% less CO_2 emissions, etc.), since the results expected and the means for evaluating them arise from a negotiation between the contracting parties at the very beginning. This is also the method employed by the Social Impact Bonds, a British mechanism in which the objectives and how measuring them are set out in a contract before the project gets under way (see box 8).

In all cases, the legitimacy of the evaluator and the impartiality of the evaluation standards will be two fundamental criteria required to reach an agreement between the interested parties concerning the social impact.

The definition of a standard reference and a method for evaluating social impact could be entrusted to the impact investing exchange platform that the OECD could drive (see box 3). At a minimum, this could give rise to the publication of a methodology manual, or even a guide to independent evaluations.

3.3. Removing regulatory constraints to promote social investment

Regulation, frequently still in the early stages of development regarding social enterprises, is almost universally described as a major inhibitor to the impact investing.

In the countries surveyed, the existing regulations limit access to private capital for enterprises which are non-profit making – or just not exclusively commercial. Thus in the United Kingdom, there is a large number of social enterprises for which the legal status does not allow them to seek capital or quasi-capital funding (unincorporated charitable trust, company limited by guarantee, charitable status). In Luxembourg, non-profit making social associations will be required to adopt a new status if they wish to break certain financing thresholds and solicit financial investors rather than tapping philanthropists (ability to issue dividends, for example).

Conversely, certain countries -including France- point out that the "classic" enterprise is excluded from the regulations that govern financing the social/non-profit making sector.

Social enterprises are faced with a fundamental challenge here since they sit astride the boundary between commercial and non-commercial companies and could find themselves *de facto* excluded from the regulations governing both. In this context, several countries have committed to defining a legal status specific to social enterprises and thus to their access to funding. Whilst waiting for such a structuring of the market, it is frequently the public authorities that take over.

IV What role for public authorities?

4.1. The levers to explore

The desire of the authorities to support the development of social enterprises is shared both by those countries with a liberal tradition, such as the United States, Hong Kong and the United Kingdom, and by those with a more interventionist background such as Germany.

In the countries surveyed, the authorities mainly get involved in promoting impact investing by supporting private initiatives and, more rarely, by taking the initiative themselves.

Several levers could be used. **The first consists in establishing a legal framework for the sector, by defining the boundaries and the types of financing for which such enterprises could be eligible.** In **Korea,** for example, the notion of a social enterprise was established by a law enacted in 2007. There, a social enterprise is defined as "a company which operates commercially in the area of services, sales, production or financial services coupled with social objectives such as improving the lives of citizens by contributing to community activities or by offering social services to the deprived sections of society or by actions aimed at promoting employment". In **Luxembourg**, an initiative has been launched to create a legal structure called "impact company" aimed at encouraging impact investing. This new status will enable social enterprises to seek funds from both philanthropic organisations and institutional investors, which the status of local social enterprises does not allow today ("Asbl sociales").

A second lever consists in **offering tax incentives**, as in the **United Kingdom** with its Enterprise Investment Scheme (EIS). This scheme was put in place in 1994 and allows a reduction of income tax on a sum equal to 30% of the capital invested in companies with less than 250 employees and with assets of less than £15 million. Although the EIS has attracted investments into social enterprises, especially in the energy sector, its effect has been limited by the fact that a large number of social enterprises have a legal structure that renders them ineligible for the scheme. To counter this, a new mechanism, the Social Impact Venture Capital Trust*,* aims to enable social enterprises to benefit from the existing tax incentive scheme for funding companies in the start-up phase (Venture Capital Trust).

More often, though, public support for the social and solidarity economy uses a third lever, which is the **creation of an investment or guarantee structure designed to accompany social initiatives and their development.** This is the case in at least three countries: the United Kingdom, the United States and Germany.

Box 8

Initiatives by public authorities to support the financing of the social and solidarity economy

With the "Dormant Bank and Building Societies Accounts" Act, which enabled collecting some £400 million from accounts lying unused for at least fifteen years, the **United Kingdom** has created a **new bank for social investments,** the Big Society Capital (BSC). Armed with £600 million of capital, the BSC does not invest directly in social enterprises but distributes funding to intermediate social financiers who then invest in the social enterprises. Independent of the government, and operating like a commercial bank, it became operational on 4th April 2012.

The British government has also put in place the **Social Impact Bonds** (SIB). This is a form of results-based contract whereby the government agrees to reimburse investors in social enterprises that work in providing social services when there is a significant improvement in social results (leading to a reduction of public spending in the area). The investors take on the risk and are only reimbursed through a government dividend if the project is a success. The first SIB was launched in September 2010 by Social Finance, financed to the level of £5 million, to reduce the number of second or subsequent offenders from Peterborough gaol. The government has since supported eight other SIBs and would like to increase this number having recourse to such an instrument. Clearly, the evaluation of the results from this first SIB at the end of the contract period will be key to the confidence of investors in this type of tool.

Finally, in May 2012, the British government set up the "Investment and Contract Readiness" **Fund,** with an initial £10 million, aimed at helping social enterprises both raise funds and bid for public contracts. This fund awards subsidies of between £50,000 and £150,000 to social enterprises which have the potential to make a significant social impact so that they can develop their **capabilities to raise funds and be in a position to bid for public contracts.** The "Big Venture Challenge" run by UnLtd and funded by the Lottery Fund also aims to accelerate the "investment readiness" process by offering subsidies of £25,000 to social entrepreneurs plus access to business angels capable of providing additional funding along with their expertise.

In the **United States**, the federal government has recently launched an initiative which consists of feeding investment funds into the capital of companies situated in deprived areas (the government can go as far as adding two dollars for every dollar invested in the fund by a private individual).

In **Germany**, the federal minister for the family, the aged, women and youth (*BMFSFJ*) launched a programme in January 2012 for financing social enterprises (*KfW-Programm zur Finanzierung von Sozialunternehmen*) in development phase. This programme has been set up by the government development bank, the *KfW* (*Kreditanstalt für Wiederaufbau*) and is designed for private social SMEs of all types. The activity of the company must be based on a novel idea and must propose a service or a product that is designed to address social problems (for example in the areas of training, the family, the environment, poverty or integration). In the medium to long term, the activity must be financially self-supporting. The KfW acts as a partner investor and its participation may not exceed 50% of the total commitment. Participation can take the form of classic stake in the firm's capital, a soft loan, or a combination of these two mechanisms. The social enterprise does not need to provide guarantees. The maximum level of KfW's investment is fixed at 200,000 euros (with a minimum of 50,000 euros). At the launch of the programme, KfW estimated the number of potential candidate companies to be about two hundred. But one year after the launch, only five companies had obtained the help of KfW, with just one candidate being refused. The total sum available is around 30 million euros and the pilot phase of the programme has been fixed to last two years (2013).

4.2. Prospects in France

In France also, the authorities are in the forefront in the financing of the SSE sector, not only with the employee-solidarity savings scheme made mandatory for firms since 2008, and the programme 'Investments for the Future' in 2010, but indeed more recently.

The funding of social enterprises is among the priorities for the Minister in charge of the social and solidarity economy. The Banque publique d'investissement (BPI) has some €500 million aimed at financing the creation and development of SSE companies. A framework law is expected to be enacted in fall 2013 designed to clarify the regulatory environment for the SSE sector and to enable the creation of further financing instruments. One should also mention that France too has tax incentives for financing the SME segment, which should benefit social enterprises since these are predominantly SMEs:

- the so-called "Madelin" advantage: income tax reduction (18%) for investments in non-quoted stocks;
- and the law in favour of employment - the TEPA law: wealth tax (ISF) reductions (50%) for capital investment in a non-quoted SME.

France thus has solid mechanisms favourable to impact investing, but which need to progress to be better able to meet the needs of both traditional and emerging players.

As for the **financing offerings**, there is a need to support the desire of investors and ordinary citizens to invest in projects with a social impact. This will no doubt require a diversification of the existing financial products (solidarity loans for the smaller enterprises, creation of a solidarity banking product for individuals, etc.). It would also seem desirable to create a **specific guarantee for social innovation**. This could be offered by Oséo, which already has an "innovation" guarantee to help innovative SMEs to have access to bank financing.[38] These proposals are consistent with those that bpifrance presented in its interim report on how to finance the SSE sector, and submitted to the Minister, Benoît Hamon, on 31st May, 2013.[39]

On the **demand** side, it will be necessary to take account of the legal structures and economic models of companies operating in the SSE sector in order for the greatest number to have access to funding. .

Three guiding principles need to be taken into account for drafting the French regulatory laws and reforming the financing of the SSE sector:

- **inclusiveness** in the definition of the structures and the types of eligible funding;
- **transparency** in the information flow to avoid the risk of projects going off course, and to protect investors, especially the private individual. The increased financialisation of the SSE should not be achieved to the detriment of the social and environmental objectives that underpin the sector;
- **consistency** with international initiatives, particularly European, in launching domestic French developments.

[38] Chauffaut, Lensing-Hebben and Noya, *op. cit.*
[39] See http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/15091.pdf

Box 9

European initiatives as a support to the financing of the social and solidarity economy[40]

In the Single Market Act adopted by the European Commission on 13th April, 2011, the Commission recommended that the **European asset management industry** participate, *via* specific investment funds, in the sources of financing available to the social economy. This recommendation was taken up by the groups working on developing social entrepreneurship in Europe, within the framework of the Social Business Initiative (Communication from the European Commission, 25th October, 2011).

This initiative specified the main priorities and key actions for the development of social entrepreneurship in Europe, among which is the proposal to **improve the regulatory framework for social enterprises and facilitate access to finance for such enterprises.** To this end, the Commission proposed a label specific to European social investment funds. This proposal was adopted by the European Parliament on the 12th March, 2013, giving birth to the first legal enactment in the Union concerning solidarity financing and social entrepreneurship.[41] This legislation, which should come into force in July 2013, creates the **"European Social Entrepreneurship Fund"** label, which will enable investors to identify clearly those investment funds where the main objective is investing in social enterprises. This new legal framework should be simple: those fund managers who comply with the harmonised rules in the regulations will be able to use the label to promote their funds in all Member States of the Union. Four criteria will be used in deciding whether to award this label – EuSEF: i) be an institutional investor with a minimum €100,000 invested; ii) reserve 70% of the amount invested for social enterprises; iii) have fund managers domiciled in one of the countries of the Union; iv) and measure the social impact of the companies financed. Once the "label" has been awarded in the country of domicile, this recognition effectively grants a passport authorising the marketing of the funds throughout the European Union.

The regulations will however require that the total assets in EuSEF funds managed by the fund manager do not exceed €500 million.

The definition of a social enterprise and of social impact is at the heart of the eligibility criteria for such a label.

To define a social enterprise, three principal criteria have been agreed:

- it must **supply goods or services to people who are marginalised, deprived, excluded or otherwise vulnerable** [and] use a production process that either embodies the visible part of their social objective and/or produces positive and measurable social benefits;
- it must use any **surpluses or profits above all to help meet its main social objective.** Any form of profit distribution to partners or associates should in no way hinder the achievement of the social impact;
- it must be rigorous in displaying **transparent management** with all stakeholders (employees, customers, beneficiaries).

[40] http://ec.europa.eu/internal_market/investment/social_investment_funds/index_fr.htm
[41] See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:115:0018:0038:FR:PDF

Conclusion

The results released in this working paper, and generated from the international comparative survey conducted with the French Treasury's economic sections abroad, have highlighted both a growing interest by public authorities in new ways of financing the social and solidarity economy, but also the lack of any consensus in a definition of impact investing. It has given insight into a variety of public strategies, which are for the most part just getting off the ground, which range between interventionism (legal frameworks, direct state financing) and support (tax incentives, intermediation).

In view of the above, France has developed a set of financing tools for the SSE sector. Although these tools will doubtless need to evolve to keep up with the most recent developments in the sector (enterprise culture, and increased financialisation), they can be considered as examples of good practices at the international level. The French experience and example also suggest that it is important to maintain a plentiful variety in the types of financing and in the players involved. These would seem to be necessary conditions for the SSE sector to avoid a financing bubble around impact investing, such as the one experienced by microfinance which was the victim of its own success around 2010.

Appendix 1

Questionnaire to the French Treasury's sections abroad

Q1/- What are the main financial instruments in place for financing social enterprises in the development phase of impact investing (risk capital)? What types of organisation provide such financing? What is the amount invested to date for impact investing by the players in your country (annual rate and inventory if possible)?

Q2/- What are the characteristics of this financing (average amount, average duration, financial products used, average return, etc.)?

Q3/- Can you quote, and describe, two or three good practices in the area of access to risk capital by social enterprises?

Q4/- What types of structure or organisation are targeted by the impact investing market in your country? Does the nature of the beneficiary have any bearing on the financing?

Q5/- Which sectors have received the most investment (employment, sustainable development, health, education, etc.)? Which geographies are most represented (domestic investment, investment in emerging countries, in developing countries, etc.)?

Q6/- Are there any specific challenges for social enterprises in terms of financing? If so, which?

Q7/- What are the characteristics of the investors that finance social enterprises in your country (type of investor, size, etc.)?

Q8/- What is the principal expectation that investors have from their investments (rate of return, image, etc.)?

Q9/- Evaluation being a prerequisite for any investment, what is the principal method for financial and non-financial evaluation used in your country?

Q10/- What are the mechanisms for intermediation between the finance sector (investors) and the social entrepreneurship (entrepreneurs and social enterprises)? In other words, how are supply and demand brought together (how do investors get to know about the project owners and how do the social enterprises gain access to the information concerning available finance)?

Q11/- Does social investment in your country aim first for profit or to respond to a social need?

Q12/- Does social and professional integration constitute part of the targets for Impact investing and, if so, can you give some concrete examples?

Appendix 2

Participants in the discussion forums on impact investing

Policy Planning Commission (CGSP), Paris, 24th April, 2013

BANCEL	Jean-Louis	Chairman	Crédit Coopératif
BAZILLON	Bernard	Director, Social and Solidarity Economy	KPMG SA
BLAZY	Clémentine	Senior Investment Officer	France Active
BURGAUD	Sarah	Participation Project Manager	Le Comptoir de l'Innovation
DARRIGUAND	Sébastien	General Delegate	USGERES
DAYRE	Jean-Gabriel	Investment Officer	PROPARCO
DELAHOUSSE	Laure	Director, Asset Management	Association française de gestion
DURQUETY	Eve	Project Manager, Social and Solidarity Economy	KPMG SA
GUERRE (DE)	Olivier	Chairman	PhiTrust
GUERIN	Laurent	Deputy Head of Business Financing and Development	Directorate General at the Treasury Department
JOHNER	Pauline	Founding Partner	Social Business Factory
LANGENDORFF	Cyrille	Project Manager, International Affairs	Crédit coopératif
LUTZEL (DE)	Emmanuel	VP Social Business	BNP Paribas
LASTIC (DE)	Adélaïde	Project Manager, Public Relations and Diversity	USGERES
MARCHANT	Emmanuel	Managing Director	Danone Communities
MERIEUX	Antoine	Head of the Mission for Control of Financial Activities	Directorate General at the Treasury Department
PARENT	Elodie	Senior Investment Officer, Banking and capital Markets	PROPARCO
PERRON	Jean-Luc	Managing Director	Fondation Grameen Crédit Agricole
PERROT	François	Affordable Housing Project Manager	Lafarge
POLINE	Christophe	Sustainable Investment Manager	Schneider Electric
SIBIEUDE	Thierry	Director	Institute for Innovation and Social Entrepreneurship – ESSEC
VALENTIN	Pierre	Deputy General Manager	Crédit Coopératif
VALLET-MOISON	Marion	Founding Partner	Social Business Factory
VILLERMAIN-LECOLIER	Nada	Deputy Director of economic development - Investments for Tomorrow Programme	Caisse des dépôts et consignations
WITT (DE)	François	Chairman of the Board	FINANSOL
ZAOUATI	Philippe	Deputy CEO	Natixis

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