

Social Impact Fund

Innovative Financial Instruments in support to the Social Economy (IFISE)

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Market Assessment

	Andalusia/ Valencia	Piedmont / Italy
Maturity of the market of Impact Investing	<ul style="list-style-type: none">• Initial phase (lacking behind Europe)• Very small in relation to European benchmarks• Setting the course to boost social impact investing	<ul style="list-style-type: none">• Early growing phase / emerging• Below European benchmarks (but bigger than Spain)• Fast growing awareness
Demand side	<ul style="list-style-type: none">• Weak capacity to generate new social impact ventures• Demand by cooperatives and “alternative” economy, but without impact measurement	<ul style="list-style-type: none">• Low level of investment readiness of social enterprises• Differentiation between legally recognized social enterprises and de-facto enterprises
Supply side	<ul style="list-style-type: none">• Lack of private VC operators• Standard bank financing instruments, not appropriate for early stage and without impact measurement	<ul style="list-style-type: none">• Key driver is public sector• Private Investors starting to identify SII as investment opportunity• Predominating standard bank solutions, but incorporating innovative elements



Policy Rationale

Andalusia/ Valencia

Piedmont / Italy

Market failures

- Most market failures have been identified in early stages:
- Risk aversion (adaptive preferences)
 - Information Asymmetries (distortion between offer and demand)

Policy gap

- Social startups cannot bridge from the very initial phase to the market readiness.
- Established social firms do not have capacities to receive impact investing as they do not use appropriate standards of impact measurement.
- Support-Ecosystem needs to be strengthened

Conclusions

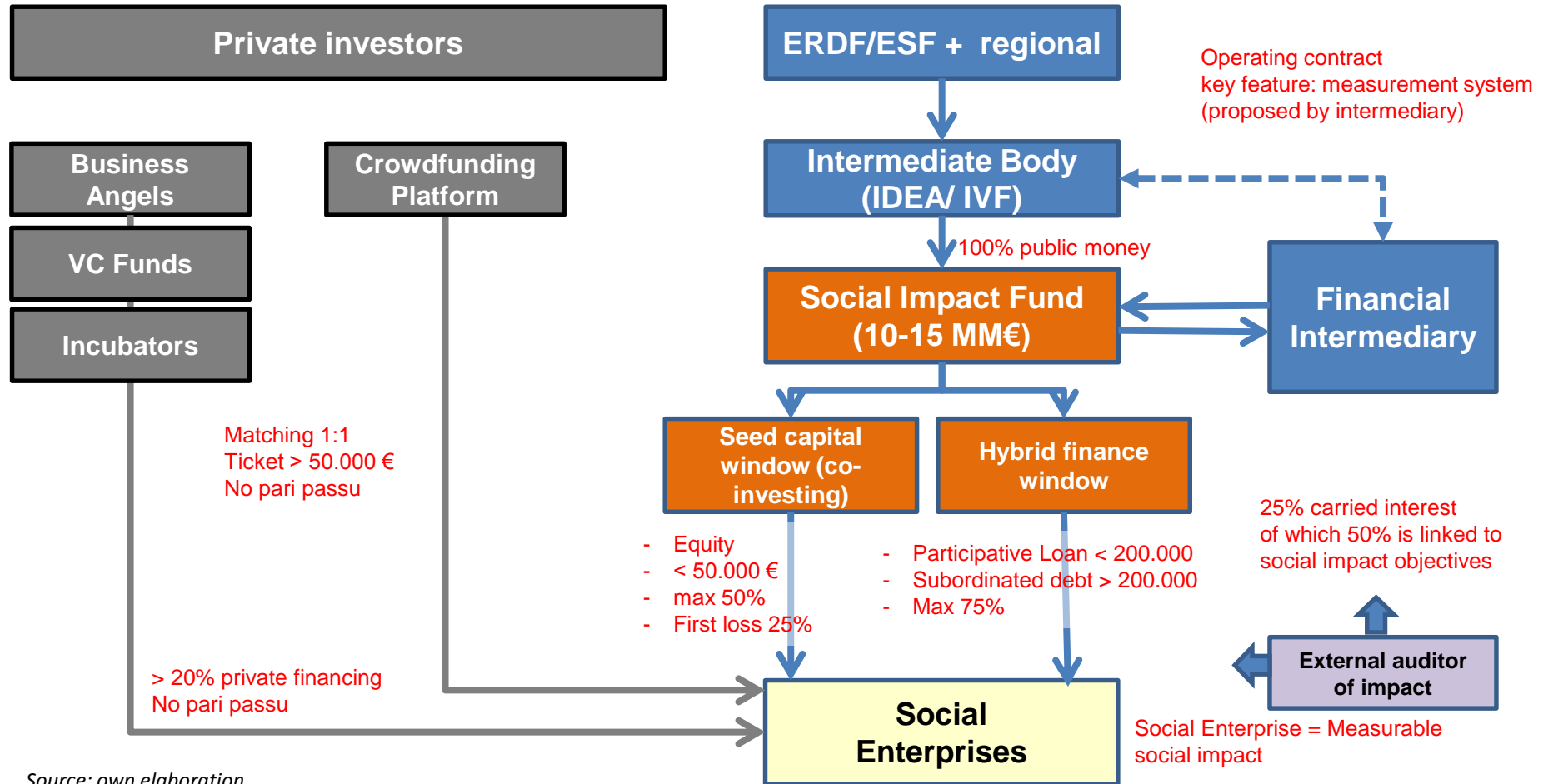
- Support must be concentrated in seed capital, very early stages, with longer maturities terms.
- Additional support to Social business to be provided for growth stages.
- Crowding in of private money.

Policy proposal

- Co-investments instrument (catalytic) for early stage and seed capital in close cooperation with local accelerators and VC Funds
- Hybrid finance for established social firms

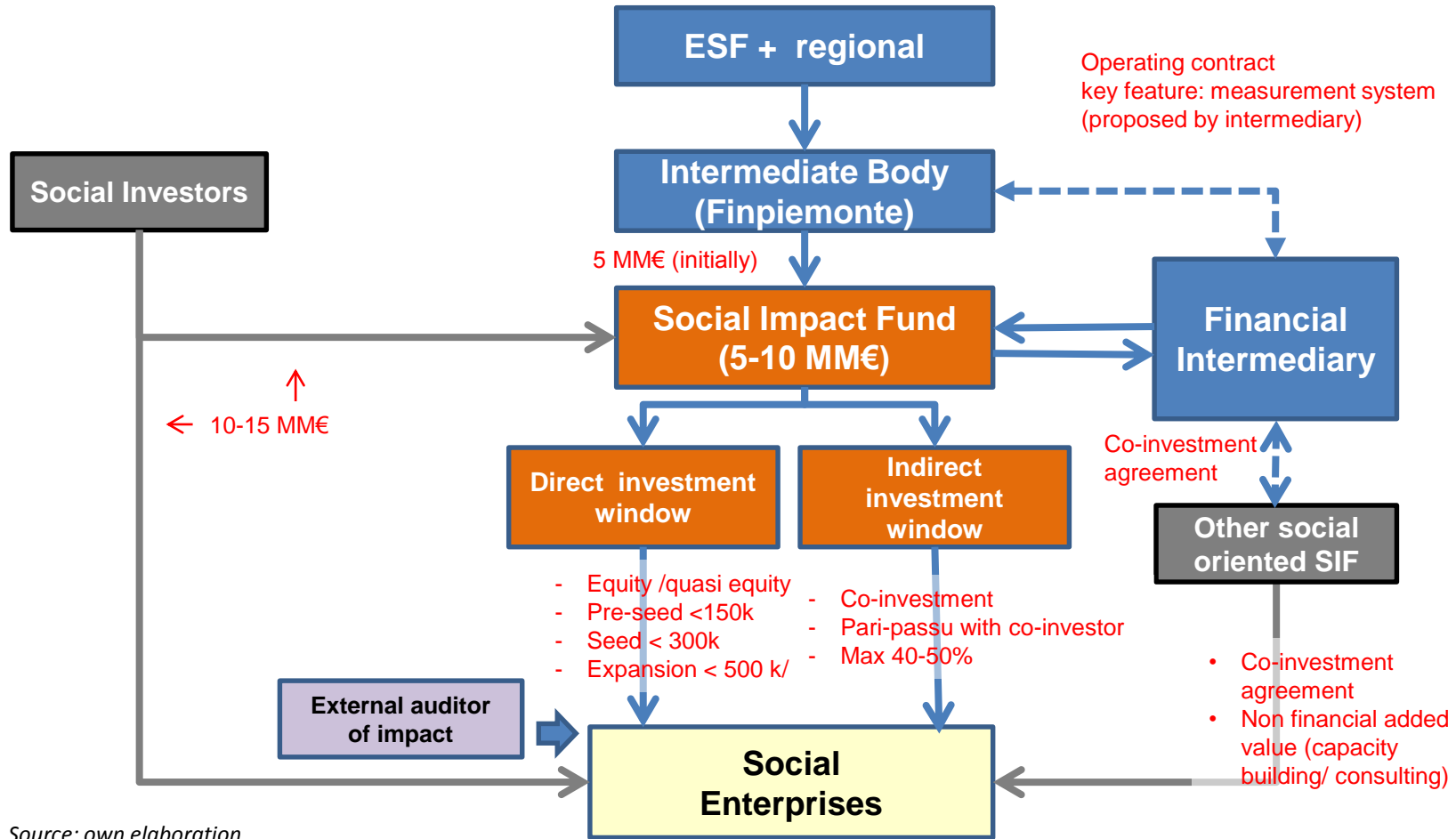
- Co-investment instrument in synergy with the regional ecosystem (investment, business acceleration, business generation)
- Focus on early stages (without excluding later stage)

Configuration and key features of proposed SIF for Andalusia and Valencia



Source: own elaboration

Configuration and key features of proposed SIF for Piedmont



Source: own elaboration

70% social enterprise ex ledge
30% de facto social enterprise

Key features of proposed Social Impact Funds (SIF) and comparison with market standards

Key feature	Market standard	SIF Andalusia + Valencia	SIF Piedmont
Fund Size	15-30 MM€	Andalusia: 10-15 MM€ Valencia: 10 MM€	20-30 MM€
Fund Manager	VC Fund manager (authorized by supervisory body)	VC Fund manager (authorized by supervisory body)	Social oriented VC Fund manager (authorized by supervisory body)
Holding period of participation	3-5 years	Max 8 years	Max 5 years
Private co-investment	<ul style="list-style-type: none"> • Profit oriented • Fund level • >50% • Pari-passu conditions 	<ul style="list-style-type: none"> • Social oriented investors • Deal by deal level • 25%-50% • Downside protection for private investors (first loss 25%) 	<ul style="list-style-type: none"> • Social oriented investors with added value (capacity building) • Deal by deal + fund level • 50-60% • Pari-passu conditions • Co-investment agreements
Impact measurement	Not relevant	<ul style="list-style-type: none"> • By external auditor (impact linked to success fees and interest rate subsidy) • Selection criteria for fund manager 	<ul style="list-style-type: none"> • Qualitative + quantitative • Before, during and after investment • Not linked to compensation scheme
Success fee / Carried interest	20% on capital gains	25% on capital gains, of which 50% linked to the achievement of social impact objectives	Market standard
Hurdle rate	6-8 %	3-4 %	2%
Eligibility of enterprise	<ul style="list-style-type: none"> • Profitability criteria • International/ national or regional approach (ring fencing) 	<ul style="list-style-type: none"> • Measurable social impact • Based in the region 	<ul style="list-style-type: none"> • 70% social enterprise ex ledge • 30% de facto social enterprise • Based in the region

Thank you very much!

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