

Feasibility Analysis

Social Impact Bond

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Presentation:

- 1 The feasibility analysis: aim and structure- Why a SIB based strategy ?
- 2 The preliminary condition at regional level
- 3 Beyond a SIB: a systemic approach to impact investing

01

THE FEASIBILITY

ANALYSIS:

OBJECTIVE AND

STRUCTURE

Objective

Set the basis for a systemic approach on social impact investing by using SIB as a catalyser

Content of the feasibility analysis

A step by step approach to the key decisions and process for a SIB deployment including:

- the analysis of the key technical aspects, success factors and constraints
- the identification of the preliminary condition at regional level
- the compliance with ESIF rules
- the definition of an overall regional strategy and set of options on impact investing

The starting point....

What exactly is a SIB?

Why would it make sense for our region?

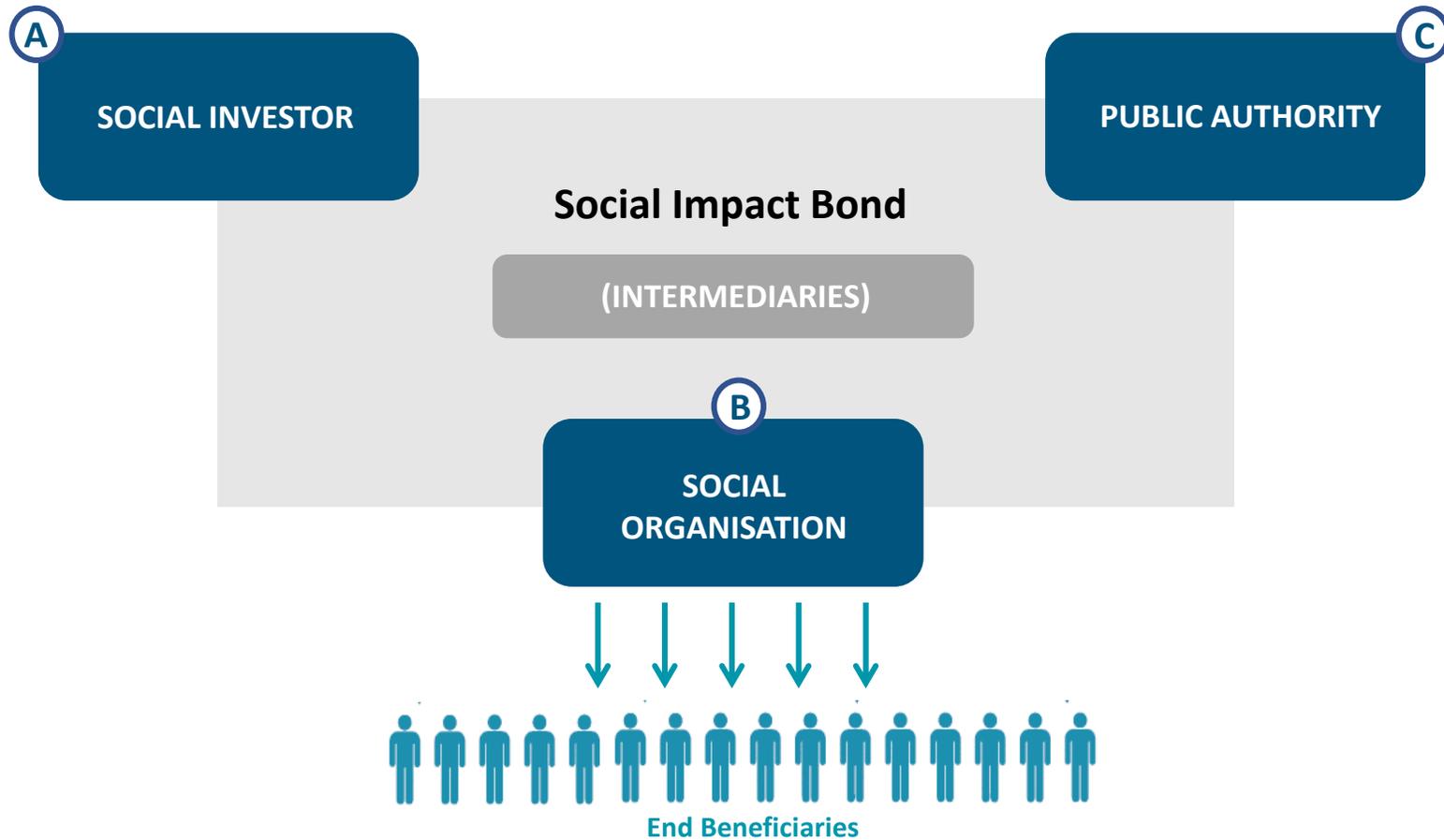
What do we want to achieve?

A Social Impact Bond (SIB) is an innovative, pay by results instrument, to **achieve social impact** involving:
public authorities, private investors, social organisations .

Applied to very focused **public social challenge/issue** with a preventive approach

The public payment is subject (grant) to the delivery of pre-defined and **measurable social outcomes (beyond input/outputs approach)**

01. The feasibility structure - what is a SIB ?



01. The feasibility structure - the SIB's main stakeholders

A SOCIAL INVESTORS

Make the **initial investment** to provide social organisations the working capital necessary for the innovative social intervention. Investors **assume the financial risk** and get a **risk premium**

Examples of social investors: Foundations, Individual Philanthropists, Companies (CSR), Banks/ Funds

B SOCIAL ORGANISATIONS (implementing entities)

With that initial investment, **develop an innovative social intervention**, directly addressing the results (**social outcomes**) contracted between the SIB's parties.

Examples of implementing entities: Social Enterprises, Associations, Cooperatives, NGOs, ...

C PUBLIC AUTHORITIES (commissioners)

Pay the social investors a specific amount for that contracted result (social outcome), **once (and only if) the result has been achieved.**

Commissioners are the central, regional or local public entities directly responsible for the public policy domain being addressed by each SIB

(INTERMEDIARIES)

Setting a SIB may also require intermediaries (consultants, service providers) to aggregate investors, perform due diligences, negotiate and develop required contracts or to manage the SIB throughout its implementation

SIBs align incentives for all stakeholders:

- For the **Public Sector**, SIBs represent a controlled **platform to test new services**, to validate **innovative approaches** and **de-risk** public investment, while complementing traditional end-of-line public policies, by addressing the early stages of a social problem (prevention).
- For **Social Investors**, SIBs are a virtuous alternative to traditional financial investment, **blending social impact with financial returns and providing a “revolving” effect**.
- For **Social Organisations**, SIBs provide a source of **stable long-term financing**. By focusing on outcomes rather than on pre-set inputs or outputs, SIBs allow a **more flexible and targeted implementation** of social interventions.

Complex but flexible operational model

- ✓ There are many different variations to the SIB model, aligning it to each specific country/region/city reality.
- ✓ Some countries/regions have also evolved from individual SIBs to broader SIBs Programmes and/or Funds as a way to attain critical mass.

02

Feasibility of a Social Impact Bonds in Lombardia

- Benchmark with the UN SDG Framework?
- Relevant social problem in Lombardia?
- Lombardia Public Authority responsible for public policy and/or budget?
- Preventive approach feasible?
- Data available? (*Target population, dimension of the social issue, costs, expected outcomes etc.*)
- ESIF available?
- Projects and Social Investors ready?



Not all social interventions can be financed through SIBs. .

They must aim to achieve uncertain but quantifiable results (social outcomes), that can be easily measured / validated.

- A high number of Social Economy players
- A high concentration of very diverse Philanthropic Organisations (e.g. Foundations)
- A growing impact investment ecosystem: social venture, social accelerator, CSR, impact investors, foundation

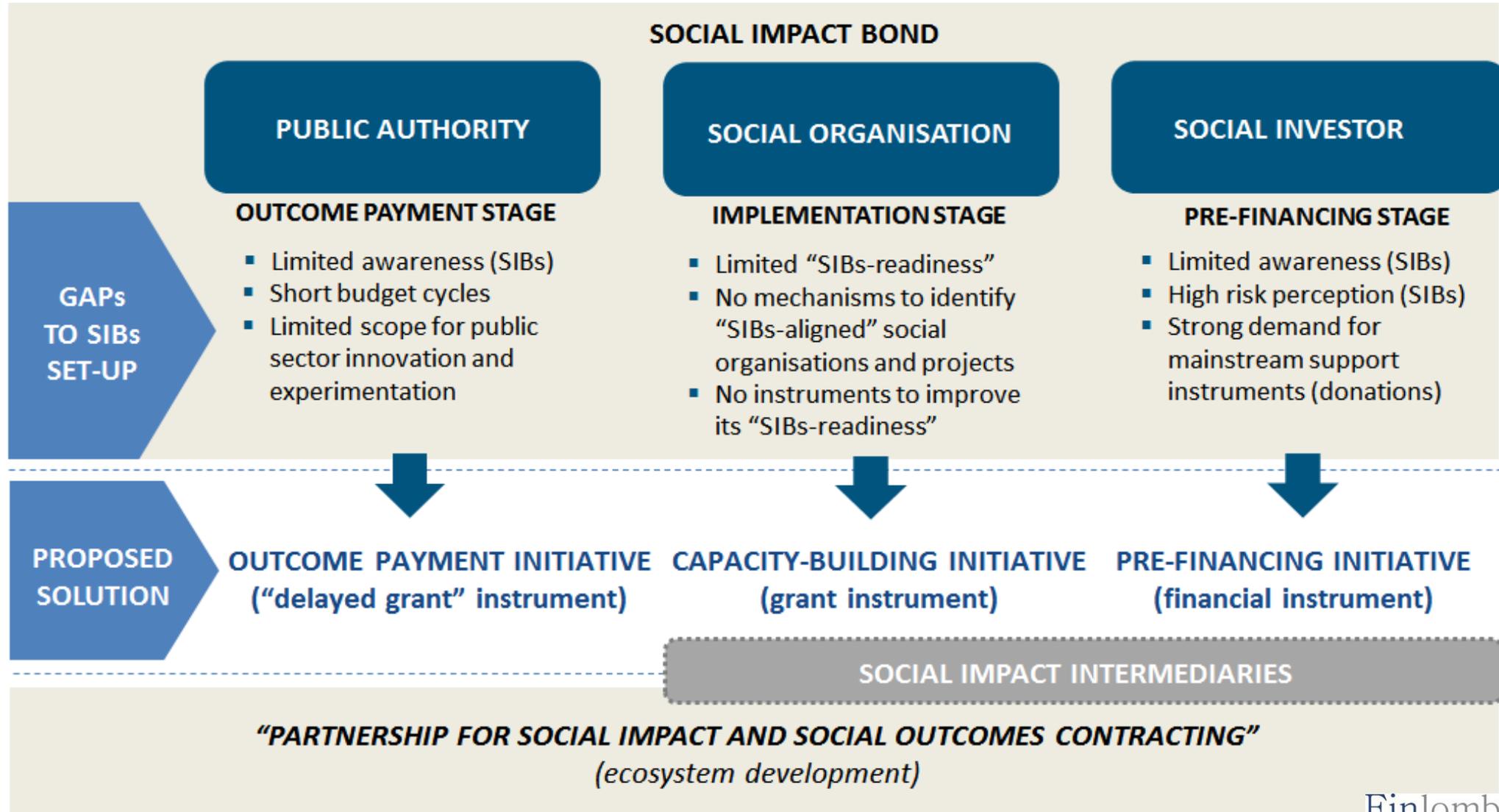


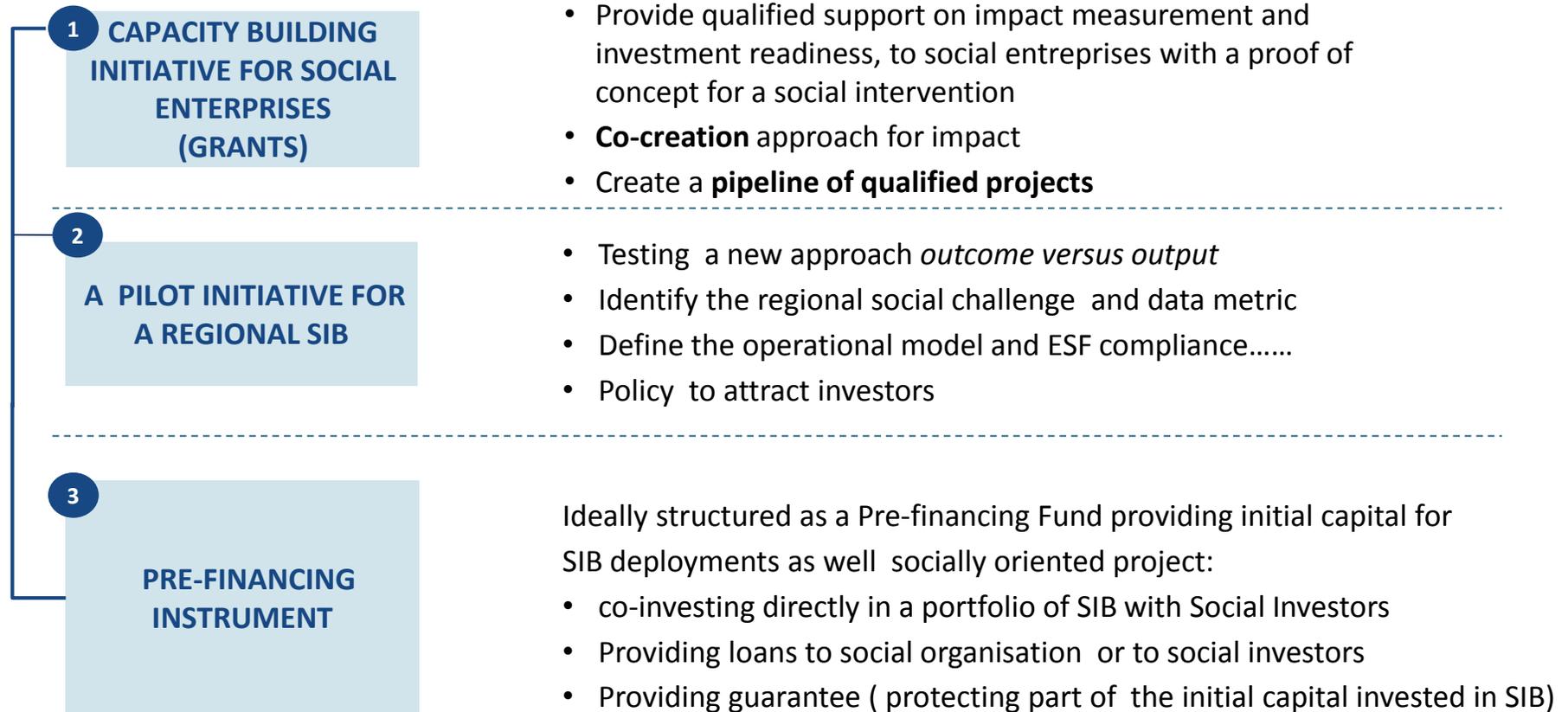
The Italian market for impact investing in 2018 was € 210,5 Mil with an estimation of a growth of up to € 400 Mil in three years time

High potential but still gaps to be addressed

03

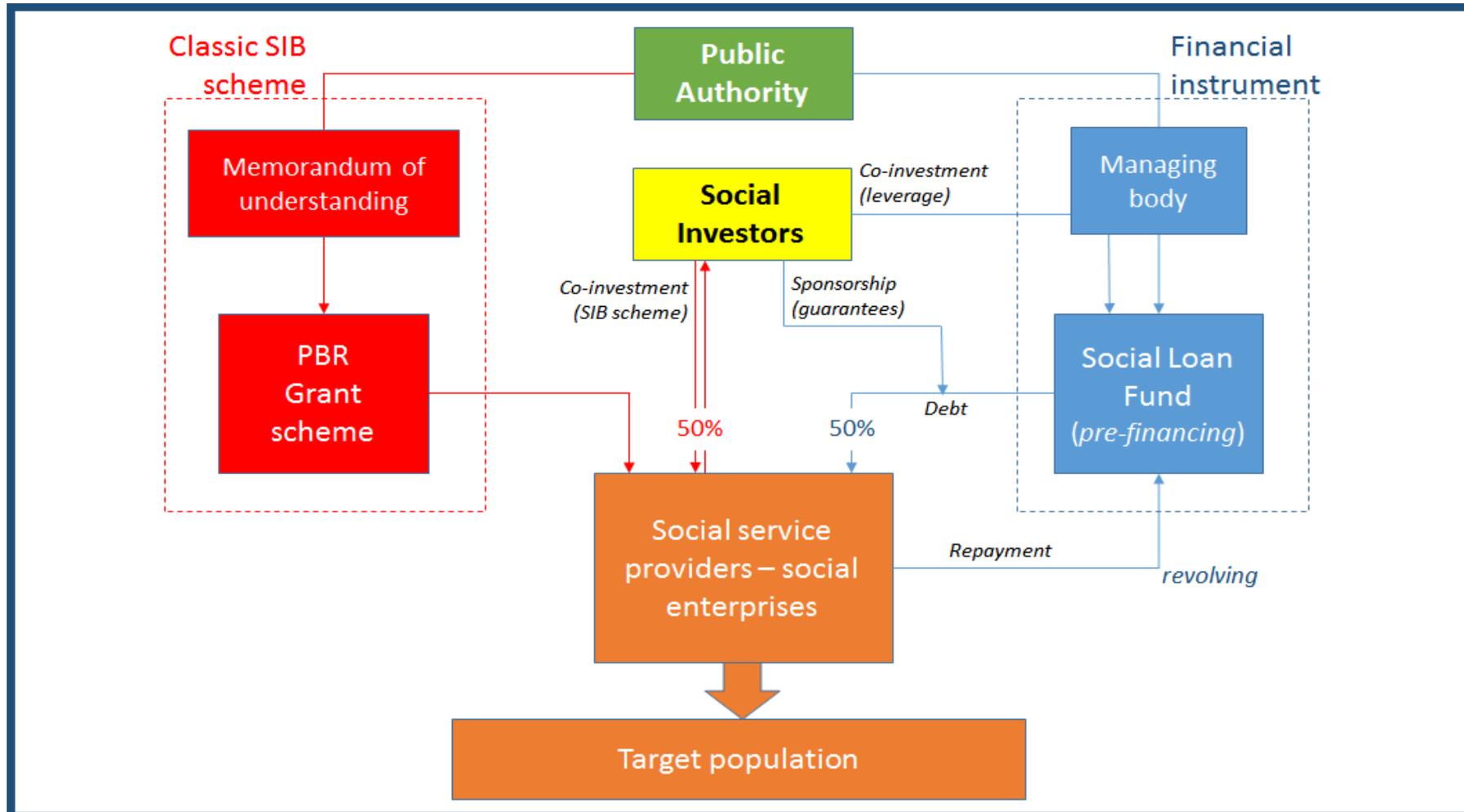
A systemic
approach for
impact
investing in
Lombardia





Partnership for Social Impact and Social Outcomes Contracting
(ecosystem development)

A snapshot of the overall approach



Based on the identified gaps for SIBs' deployment, ESIF can be used to:

- finance the **outcome contracting-payment initiative**, in the form of “**delayed grants**” paying for SIBs validated outcomes. Following outcome validation, each payment would be made under **a pre-contracted lump sum value**, set per validated outcome. This can be done on a SIB-by-SIB basis or structured as an **Outcome Fund, combining ESIF budget with several sources of Public Sector budget**.
- finance the **capacity-building initiative**, in the form of **non-reimbursable support** (grants) to finance initial capacity-building of social organisations and projects, not only reinforcing its SIBs-alignment, but also its readiness to take up social investment and to effectively deliver social impact. These grants might be provided either by reimbursing incurred and paid costs (real costs) or by paying a pre-agreed amount against the delivery and validation of a specific output directly resulting from the capacity-building process.
- finance the **pre-financing initiative**, in the form of a pre-financing **Financial Instrument (FI)**, ideally structured as a **Pre-Financing Fund**, complementing social investors' funds providing the initial capital necessary for SIBs deployment.

SIBs and ESIF: Key issues

- **Type of instrument:** A Financial Instrument? A grant? Or both? How can they be combined?
- **Cost options:** current cost options (including all simplified cost options) are still not well adjusted to paying for results / impact measurement mechanisms, *adding an extra layer of complexity when implementing SIBs under ESIF financing*
- **Eligible costs:** SIBs costs are not fully compatible with eligible costs *i.e how to cover the investors risk premium?*
- **Content:** societal challenges are complex and crosscutting, *beyond the traditional ESF/ERFD domains and silos*
- **Duration:** average SIBs duration longer than the duration of regular ESIF projects. *Current decommitment rules are not fully compatible with SIBs financial flows*

Suggestions for the future:

- ✓ A **dedicated initiative** at EU level to encourage and support the **implementation of pilot outcome based instruments**
- ✓ A more friendly regulation framework (**a “SIBs-specific” Delegated Act**)

Thanks for the attention

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