EVPA REPORT

15 YEARS OF IMPACT

TAKING STOCK AND LOOKING AHEAD

EXECUTIVE SUMMARY

THE EVOLVING IMPACT ECOSYSTEM

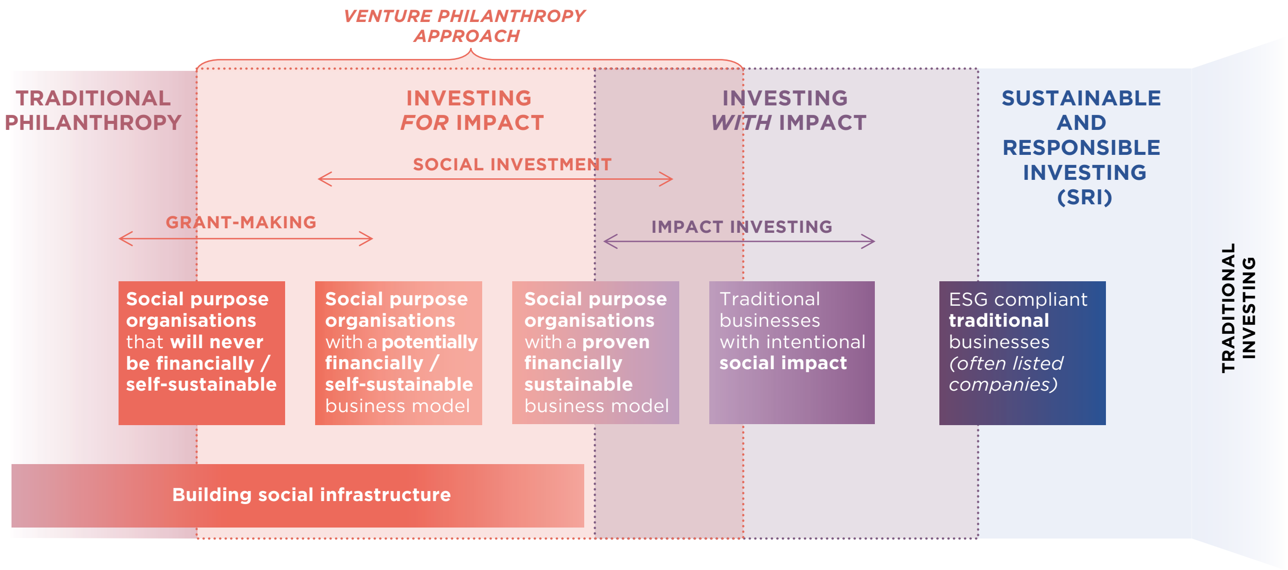
The world we live in is one of profound social issues. As we try to fight climate change and global warming, we have realised the deep divide between the rich and the poor of the world, and the limits of neo-liberal capitalism in tackling and solving the problems we face. The good news is that the impact economy is gaining traction and social inclusion is on top of the agendas of world leaders.

As we observe the developments at global level, we also have to recognise that the impact ecosystem evolved very differently in Europe if we compare it to other areas of the world. The different evolution is due to the specificity of the European context. Compared to other geographies, in Europe we have a stronger presence of the public sector, often referred to as "welfare", which has the duty to provide services for its citizens. The increasing scarcity of public resources of the European welfare services opened up a space for innovation and public-private collaborations, but without the private replacing the public. In Europe, private sector organisations interested in social impact and sustainability support innovative societal solutions to pressing societal issues, *alongside* public funders and policy-makers.

For EVPA, 2019 is an important year as it is our 15th anniversary. We see this occasion as the perfect opportunity to look back at what happened in the impact ecosystem and, more importantly, to look forward. With this report, we aim to do both by painting the picture of the impact space in Europe today, focusing on current trends, and by providing the outlook for the future of the sector. At the end of this report, we present concrete actions that practitioners will need to take, if we want to fulfil the expectations we set out for investing *for* impact.

PLACING INVESTOR *FOR* IMPACT IN THE SPECTRUM OF IMPACT STRATEGIES

The first issue we want to tackle with this report is transparency. Looking back at the last 15 years, and forward to the next era, as more capital becomes available for solving social issues, and more and diverse players enter the impact ecosystem, questions arise regarding impact washing and impact integrity, the latter being fundamental for the credibility of the entire social impact investment movement. For this reason, it is crucial to improve clarity around the role of the different capital providers, and on how they can best contribute to making lasting, positive change. We believe that the spectrum below, developed taking into account the inputs of a group of 50+ experts and practitioners of the impact ecosystem, helps clarify where different impact strategies fit in the social impact ecosystem.



As shown in the figure above, in between the two extremes of the spectrum – traditional philanthropy and sustainable and responsible investing –, we have defined two main impact strategies: investing *for* impact and investing *with* impact. On the one hand, investors *for* impact are capital providers that take risks that no one else can – or is prepared to– take, putting the social purpose organisation (SPO) or the social innovation and the end beneficiaries at the centre. Investors *for* impact are, hence, those that apply more extensively the venture philanthropy approach, i.e. those doing impact measurement and management, non-financial support and tailored financing. On the other hand, investors *with* impact have access to larger pools of resources, but need to guarantee a certain financial return on their investments alongside the positive impact they have the intention to generate. The level of risk that investors *with* impact can take is often limited because of their mandates.

As some capital providers such as foundations, banks and corporate social investors can adopt different impact strategies, we used the spectrum to "map" the diverse streams of activities aimed at generating a positive social impact on societies. This mapping exercise is aimed at further clarifying the role of complex institutions and at identifying collaboration opportunities.

PAST AND FUTURE OF THE VP PRACTICES

As the adoption of the venture philanthropy core practices is a key success factor for investors *for* impact, in this report we dived into their past evolution and their outlook to better identify the path forward. The report provides an in-depth look into each of the three core practices, and summarises the key challenges for the future of each practice. Below are the main insights related to impact measurement and management, non-financial support and tailored financing.

Main insights - Impact Measurement and Management (IMM)
Investors *for* impact mainly focus on managing impact, collecting useful impact insights to take better-informed decisions. Investors with impact are more dedicated to impact measurement and comparability.
Investors *for* impact take a bottom-up approach to IMM. They start from the activities of the investee and co-develop impact objectives (and indicators) with the SPO.
IMM has several limitations and challenges, starting by the varying definition of impact itself, as well as the difficulty of not only measuring outputs but also identifying outcome measures.
The increasing degree of standardisation in IMM is improving measurability and comparability, but it does not necessarily increase the understanding of what changes for the final beneficiaries. Whether a unique commonly agreed framework of IMM is desirable or not is still an ongoing debate.
EVPA has created a 5-step process to IMM. The EVPA process has informed the European Standard for IMM developed by the GECES (i.e. the European Commission Expert Group on Social Entrepreneurship).

Main insights - Non-Financial Support (NFS)
Investors *for* impact mostly invest in early stage and innovative SPOs. Hence, non-financial support plays a central role for them, as it helps de-risk the investment, strengthen the SPO and maximise its chances of success.
Early-stage SPOs tend to require more standardised, basic capacity building. Mature organisations tend to need NFS that is more tailored to their specific activities.
NFS is typically delivered by providing access to networks (including new distribution channels and client segments), by giving advice and mentoring, and by taking a seat on the board of the investee – in case of equity investments. It is crucial to understand in which cases it is more beneficial to provide NFS on an individual basis and when it should be delivered in a group setting.
Is it particularly challenging to measure and manage the added value that investors *for* impact provide through their NFS, in terms of social impact, financial sustainability and organisational resilience. Commonly agreed methodologies and tools to measure and manage NFS are still missing.
EVPA has created a 5-step process to deliver non-financial support. The process is coupled with practical tools to help investors *for* impact map their own assets, assess the needs of the SPO, develop the NFS plan, deliver NFS and assess its value and impact.

Main insights - Tailored Financing (TF)
A number of characteristics of the SPO have an influence on what financial instrument should be deployed. These characteristics include the type (e.g. NGO, social enterprise), the stage of development (e.g. early stage, growth, scaling) and – most importantly – the business model.
To best serve the needs of the investees, investors *for* impact may innovate their financial offer, by expanding the range of financial instruments deployed and using hybrid financial instruments such as mezzanine finance, recoverable grants or convertible loans.
Investors *for* impact might face several challenges while expanding their financial offer, for example legal constraints and lack of the appropriate financial expertise.
Investors deploying one type of financial instrument can also apply tailored financing, first by assessing the financial needs of the potential investee, and then investing only in case the financial instrument available suits the needs of the SPO.
EVPA has created a 3-step process to guide investors in tailoring the financial offer to the needs of each investee.

THE PROVIDERS OF SOCIAL IMPACT CAPITAL

After looking at the practices adopted by investors *for* impact, we provide an analysis of the providers of social impact capital. In particular, we look at those investors that constitute the core of EVPA's membership: social impact funds and foundations, social investment crowd-funding platforms, corporate social investors (CSIs), banks and the public sector. We complement our analysis by looking at institutional investors, asset management companies, and family offices, international NGOs and development finance institutions (DFIs). After explaining the role each capital provider has in the impact ecosystem, we look at how they contribute to shaping the market, and at the challenges and opportunities they will face in the future, as summarised below.

SOCIAL IMPACT FUNDS

Social impact funds are the early adopters of the venture philanthropy approach in Europe. Social impact funds deploy different forms of debt and equity to mostly support innovative business models that tackle societal issues that have the potential to scale.

Strengths

- Real 'innovators scouts' of the social impact ecosystem
- Unique position - know what it means to innovate in the social impact space (from the private side)
- Create the pipeline for the rest of the sector
- Can take the risk to scale disruptive solutions

Challenges

- Match needs and requests of investors with the ones of the underlying SPOs
- Improve communications of both failures and successes to help market to scale
- Build a data sharing infrastructure to share key information about successful business models

Risks/Threats

- Scale in size while investing *for* impact and preserving impact integrity
- Institutional and traditional investors diluting the innovation/impact focus of social Impact funds

Opportunities

- Collaborate with foundations to exploit complementarities
- Collaborate with the public sector to scale
- Scale business models that are already working in other countries
- Leverage knowledge of network organisations to better understand EU funding practices

Strengths

- Low cost and widely accessible technology
- Access the financial and non-financial resources of the crowd

Challenges

- Structure the relationship between the crowd and the SPO
- Provide follow-on investment through second round
- Generation of track records to build trust and expand

Risks/Threats

- Lack of exit opportunities that guarantee the sustainability of the impact

Opportunities

- Tool to democratise social impact
- Growing demand for easily-accessible social investment opportunities

SOCIAL INVESTMENT CROWDFUNDING PLATFORMS

Social investment crowdfunding platforms work as social impact funds, and deploy equity to support early-stage and risky social enterprises. The main difference with social impact funds lies in the source of funding, i.e. these platforms rely mainly on contributions coming from individual investors.

FOUNDATIONS

Foundations, together with social impact funds, were the pioneers of the venture philanthropy approach.

Today, foundations have started to go beyond engaged grant-making and deploy a wide range of financial instruments to support a variety of SPOs. At the same time, foundations are looking at how to align the investment of their assets with the purpose they pursue through their grant-making activities via the so-called “mission-related investments” (MRIs).

Strengths

- Large budgets
- Possibility to take risks with grant-making
- When endowed can have a long-term vision and system change approach
- Possibility to support a range of diverse SPOs

Challenges

- Complex legal environments
- Sometimes not agile
- Transparent governance while setting up new social investment structure/body
- Finding good professional staff with an investment background

Risks/Threats

- Difficult to balance grant-making and social investment
- Endowments not working for the cause

Opportunities

- Mission-related investments (MRIs)
- Social investment
- Payment by Result (PbR)
- Collaborate with social impact funds to exploit complementarities
- Finance evidence building in sectors that have the potential to deliver massive social impact

Strengths

- Access to financial and non-financial resources from the corporateion
- Corporate employees can engage with the SPOs supported by the CSI

Challenges

- Generate indirect social impact through transitioning corporate's business model
- Need to communicate positioning and alignment with corporate's business

Risks/Threats

- White, green and impact washing if relation with the corporation is not clarified

Opportunities

- CSIs can adopt strategies for impact without the pressure of generating short term returns
- CSIs can help the corporation understand the social and environmental issues they face, and help spot social innovation opportunities

CORPORATE SOCIAL INVESTORS

Corporate social investors (CSI) are vehicles formally related to a company that aim to create social impact – i.e. impact-first or impact-only organisations linked to companies. Examples are corporate foundations, shareholder foundations, corporate social businesses, corporate social impact funds, and corporate social accelerators. Due to their connection to a company, CSIs play a specific role in the impact ecosystem as they can generate a positive social impact on society (*direct* social impact) tapping into the resources of the company, while pushing it to change its business practices, to become more sustainable (*indirect* social impact).

BANKS

Banks are becoming increasingly relevant in the impact ecosystem, mainly as a response to the growing demand for a new, responsible and sustainable way of banking coming from civil society. Due to their large financial and non-financial resources, banks can perform a wide variety of activities aimed at generating a positive impact on the society.

Strengths

- Advantageous position to implement strategies *for* impact and *with* impact
- Access to large pools of financial and non-financial resources (e.g. wide network of stakeholders)
- Expertise in financial management and in working with entrepreneurs

Challenges

- Act as catalyst to encourage their own company and other banks to embed impact in investment strategies
- High transaction and due-diligence costs of small-sized deals
- IMM systems have to consider wide range of assets, financial instruments and stakeholders

Risks/Threats

- Need for transparency and adequate IMM to avoid impact washing
- Need to divest quickly from harmful industries as society claims for more sustainable banking behaviour

Opportunities

- Role in developing new products and offers to grow demand of social banking
- Common agenda for responsible banking, led by UNEP FI
- Focus on social impact can improve the relation between banks and society

A discussion on the role of different actors in the impact ecosystem in Europe would be incomplete without analysing the role of the public sector. In Europe, the public sector has a key role in providing services for citizens and is the largest actor that can (help to) scale. Many of the innovations brought forward by investors *for* impact are either co-created with the public sector or scaled by the public sector.

In the report we look first at the most important public policies that have shaped the impact ecosystem in Europe (see "The European Policy Context" section).

We then look at the role of the public sector as funder of social innovation, providing guidance on how to maximise the impact of public-private collaborations.

We conclude the section on capital providers by looking at other institutions, such as institutional investors, asset management companies and family offices, international NGOs and development finance institutions (DFIs) that have shown a growing interest in the impact ecosystem, and we provide an outlook of the role they will play in the future.

THE CHARTER AND ROADMAP OF INVESTORS *FOR* IMPACT

As the impact ecosystem is booming and both investing *with* impact and sustainable and responsible investing are becoming mainstream, investors *for* impact should be bolder in describing their contribution to the space, despite the smaller amount of resources available to gain recognition with all stakeholders.

That is why at the end of the report we present the "Charter of investors *for* impact", a document that presents the ten principles that drive and distinguish the behaviour and way of working of investors *for* impact *vis-á-vis* other investors. The Charter was co-developed with EVPA members, practitioners and experts, to reflect their uniqueness. Alongside the Charter, the "Roadmap for investors *for* impact", identifies three key areas of actions upon which investors *for* impact should work on and devote their energies and resources in the years to come: data, knowledge and expertise and thought leadership.

THE "CHARTER OF INVESTORS *FOR* IMPACT"

The following ten principles identify the distinctive characteristics that differentiate investors *for* impact from other organisations engaging in investments also aimed at generating a positive social impact on society.

In Part 3.1. of this report each principle is elaborated more in detail.


INVESTORS FOR IMPACT
1. ARE PROBLEM-FOCUSED AND SOLUTIONS-ORIENTED, INNOVATING THE WAY TO TACKLE SOCIETAL CHALLENGES
2. PUT THE FINAL BENEFICIARIES AT THE CENTRE OF THE SOLUTIONS
3. ARE HIGHLY ENGAGED FOR THE LONG-TERM, STRIVING FOR LASTING IMPACT
4. TAKE RISKS THAT MOST OTHERS ARE NOT PREPARED TO TAKE
5. MEASURE AND MANAGE SOCIAL IMPACT
6. PROVIDE EXTENSIVE NON-FINANCIAL SUPPORT
7. TAILOR THEIR FINANCIAL SUPPORT TO THE NEEDS AND CHARACTERISTICS OF SOCIAL PURPOSE ORGANISATIONS
8. PROACTIVELY ENHANCE COLLABORATION WITH OTHERS
9. WORK TO FOSTER THE MOBILISATION OF RESOURCES IN THE SOCIAL IMPACT ECOSYSTEM
10. UPHOLD HIGH ETHICAL STANDARDS

THE “ROADMAP FOR INVESTORS *FOR* IMPACT”

As the Charter provides a clear identity to investors *for* impact, the Roadmap shows their way forward. The actions identified are aimed at pursuing key successes as follows, investors for impact:

- in the **next 3 years**
  - collectively adopt the ten principles, and
  - are recognised as the market builders in the impact ecosystem;
- by **2025**
  - leverage their recognition to inspire and educate others;
- by **2030**
  - become the drivers of systemic change.

Concretely, we identified three elements across the ten principles of the Charter, which represent three strategic axes of development for investors for impact: (i) data, (ii) knowledge and expertise, and (iii) thought leadership. Along each axis, we identified one over-arching objective, and a set of critical actions that investors for impact must undertake in the coming years in order to fulfil their ambitions for the future of the impact ecosystem, and to leverage their status to drive the shift towards a better future.

In Part 3.2. of this report an overview of all the concrete actions that investors *for* impact should undertake, is included.