MAKING IMPACT REAL

Encouraging investment into social infrastructure and public good to stimulate the European economy

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Executive summary

"Just as it took the New Deal and the European social welfare state to make the Industrial Revolution work for the many and not the few during the 20th century, we need new social and political institutions to make 21st century capitalism work for the many and not the few."

Center for American Progress, Report of the Commission on Inclusive Prosperity, 2015

This paper makes the case for using the new €315bn European Fund for Structural Investment to foster investment into: (i) preventative and capacity building programmes ("social investment"); (ii) projects achieving at the same time financial and social returns ("public good") and (iii) multi-stakeholders partnerships systematically addressing entrenched social issues ("systemic social innovation"); as a means of renewing economic growth across the European Union.

We have made this case because it is clear that austerity alone cannot put Europe back on the path to growth.

Through a comprehensive literature review and discussion of case studies we illustrate the power of collaborative approaches between the public, private and third sectors.

We argue that a multi-stakeholder approach is essential in order to properly account for the complexity of social needs. We show that public funds have the potential to leverage private capital, thereby providing the resources we need to create social change.

Chapter 1

Setting the scene: inclusive economic growth

Seven years after the beginning of the global financial crisis, it is clear that it will take more than austerity measures alone to put Europe back on the path to growth. In this paper, we argue that if we want to leave the crisis behind and meet the challenges Europe is currently facing (from ageing population to globalisation, from immigration to climate change), it is necessary to stop thinking of economic and social policies as two separate entities. We need not only to invest more and better in social protection and public goods and services, but also to involve the private sector and civil society (that is businesses, civil society organizations and citizens), in this effort.

In this chapter, we outline how pervasive inequality is a barrier to economic growth, set out existing EU social policy initiatives that have an impact on inequality and reflect on the opportunity presented within the European Commission's Investment Package.

1.1 Growing inequality and its economic impact

Diamond-Liddle (2012), argue that "it is not just one crisis that the EU faces, but five interlocking social crises: rising unemployment and the social consequences of the global financial crash; growing divergence throughout the EU, as countries seek alternative paths to entrenching macroeconomic stability and coping with new structural pressure; the long-term crisis of winners and losers that originates in economic globalization; the structural trends of demography and rising life expectancy that bear down on the welfare state; and the impact of migration, integration and identity on social citizenship and cohesion".

As if this was not enough, while levels of both public and private investment in the EU economy remain low[1], the unintended consequences of the on-going technological revolution are putting further pressure on European labour markets. The rise of the internet and information technology has led to incredible advances, allowing businesses to move goods and ideas faster, more efficiently and more cheaply. But the same technologies are destroying thousands of unskilled and, increasingly, intermediate-skill jobs. While Frey-Osborne (2013) identifies that 47% of current jobs – including accountancy, legal work and technical writing - risk being completely automated in twenty years, it is already apparent that the "sharing economy" and the "on-demand economy" are facilitating non-standard employment and subcontracting, reducing substantially workers' protection and, therefore, prospective retirement incomes.[2]

The heavy social consequences of the financial crisis in terms of rising inequality and unemployment put the spotlight on the limits of 20th century capitalism, highlighting how most of the free-market democracies that achieved the highest GDPs across the world after the Second World War failed to raise the living standards equally across their populations and provide opportunities for social mobility to a large share of their citizens. The gap between rich and poor is today at its highest level in most EU countries in 30 years[3], and, since the 1980s, productivity growth has not translated into a commensurate increase in incomes for the bottom 90% of earners.[4] Clearly redistribution and pre-distribution (via social

[1] According to the European Commission (2014): "As a consequence of the economic and financial crisis, the level of investment in the EU has dropped significantly since its peak in 2007, by about 15%".
[2] See Center for American Progress (2015).
[3] See Picketty (2014).
[4] Ibid. See also Furman (2014): "In the United States to a greater degree, and in other OECD countries to varying degrees, the bigger source of the failure to generate sustained gains in middle-class incomes has been the fact that productivity growth has not

investment) policies have not been able to keep apace with rising market-inequality[5]. To make matters worse, income inequality implies inequality in accessing essential services like healthcare, education and, even more disturbingly, translates into unequal life-expectancy.[6]

Income inequality though, is not only unfair and politically undesirable, it has also sizable negative effects on economic growth.

According to a recent OECD (2014b) report, an increase in inequality by 3 Gini points – the average increase registered in the OECD area over the past 20 years – means a cumulative loss in GDP of 8.5% over the same time period. If we look at the performance of single countries, we find that rising inequality has knocked nearly 9 percentage points off growth in the UK, Finland and Norway and between 6 and 7 points in Italy and Sweden.

Another interesting finding is that "the biggest factor for the impact of inequality on growth is the gap between lower income households and the rest of the population. The negative effect is not just for the poorest income decile but for all of those in the bottom four deciles of the income distribution" (OECD 2014c). The consequences on consumption levels are increasingly apparent. As shown by Cynamon and Fazzari (2013) in the United States, the share of disposable income consumed by the top 5% of households in the 1989-2008 period was substantially below that of the bottom 95%. The limited borrowing possibilities for lower income households due to the financial crisis caused a strong contraction in the consumption of goods and the overall demand, slowing the recovery process.

Based on the longitudinal analysis of cross-country data sets, it is clear that there is a strong negative correlation between the level of net inequality and growth in income per capita, while redistribution has an overall pro-growth effect (IMF 2014). Moreover, inequality has a statistically significant negative relationship with the duration of growth spells: a 1 Gini point increase in inequality translates into a 6 percentage point higher risk that a growth spell will end in the next year.

In conclusion, "it would be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable. And second, there is surprisingly little evidence for the growth-destroying effects of fiscal redistribution at a macroeconomic level." (IMF 2014)[7].

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translated into a commensurate increase in incomes for the middle class. The gap between aggregate productivity growth and the measure of middle class income growth (…) is particularly stark in the United States, United Kingdom and France".

[5] Cfr. OECD (2014): , today the richest 10% of the population in the OECD area earn 9.5 times the income of the poorest 10%; where the ratio was 7:1 in the 1980s. While over the 20 years leading up to the crisis, average real disposable household incomes increased everywhere – on average by 1.6% annually -, in three quarters of OECD countries income at the bottom grew much slower during the prosperous years and fell sharply during the downturns, resulting in widening income inequality. (…) Differences in the pace of income growth across household groups in the pre-crisis period were particularly pronounced in most of the English-speaking countries but also in Israel, Germany and Sweden. The picture changes when looking at the post-crisis period (i.e. the years from 2007 through 2011/12) as average real household income stagnated or fell in most countries, particularly – by more than 3.5% per year – in Spain, Ireland, Iceland and Greece. In almost all countries where incomes fell, those of the bottom 10% fell more rapidly. Similarly, in about half of those countries where incomes continued to grow, the top 10% did better than the bottom 10%.

[6] See Centre for American Progress (2015)

[7] Of course this does not mean that there is no evidence at all. In fact, as pointed out by the IMF itself (2014: 23) "when redistribution is already high (above the 75th percentile), there is evidence that further redistribution is indeed harmful to growth, as the Okun "big trade-off" hypothesis would suggest. When it is below that level, however, there is no evidence that further redistribution has any effect on growth. (…) redistribution seems to start having a negative direct effect when it exceeds about 13 Gini points. The idea that redistribution policies negatively affect growth have oriented political decisions for a long time, and is at the centre of a famous 1975 book by Arthur Okun: *Equality and Efficiency: the Big Trade-Off*, in which it is argued that redistribution policies harm growth by discouraging investment and hard work. On the same line, Lazear and Rosen (1981) have investigated the positive effect of inequality on entrepreneurial spirit and innovation capacity, while more recently, Paul Krugman (2014) declared his scepticism on "the inequality-is-bad-for-performance proposition" pointing out that we need further research to clarify the link between inequality and economic performance. A literature review on the topic can be found in IMF 2014.

1.2 The European context and the new European Commission Investment Plan

1.2.1 The European context

The idea of boosting economic growth by using social policy to tackle inequality – in addition to purely economic approaches – is not new in Europe.

The European Semester process, introduced in 2010, has encouraged European Member States to further deepen the coordination of their economic and budgetary policies with the aim of reaching the agreed Europe2020 targets for employment, innovation, education, poverty reduction and climate/energy.[8] This means that for the first time the EU is considering social policies as part of the economic governance process so that they can be effectively discussed and monitored at EU level. The social impact assessment[9] that will accompany fiscal sustainability assessments for countries in Excessive Deficit Procedures is another step in the process of bringing together social and economic policies, while – also thanks to the European Parliament's input[10] – Member States not complying with the Commission's Country Specific Recommendations will be increasingly under pressure to justify such actions.

The importance of involving civil society, social entrepreneurs and businesses in the process of reconciling economic progress and social impact has been acknowledged in a number of European policies. These are outlined below.

The central role given to social innovation in the Innovation Union Flagship Initiative has resulted in a wide number of regulatory and non-regulatory actions, from the **Social Business Initiative**[11] to the **European Social Entrepreneurship Funds (EuSEFs) Regulation**[12] to the new **Directive on public procurement**[13] which integrates social considerations into contracting procedures.

The **Social Investment Package** launched in 2013 fully recognized the importance of both ensuring adequate and sustainable social protection and promoting social investment across Europe. It called for a more efficient and effective use of member states' social budgets and made the case for the modernization of welfare systems.

In addition, EU funding to help member states achieve smart, sustainable and inclusive growth is being disbursed through a number of programmes directly managed by the Commission (as **Horizon2020** and **EaSI**), but especially through the **EU Cohesion Policy**, which will make available up to €351.8 billion to Europe's regions and cities by 2020.

According to the reformed cohesion policy, member states will have to sign partnership agreements with the Commission, setting out how funding from the **European Structural and Investment Fund** (ESIF) will be used to achieve strategic goals and investment priorities in line with National Reform

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[8] Namely: 75% of 20-64 year-olds in employment by 2020, 3% of the EU's GDP to be invested in RDI, early school leaving rates below 10%, 40% of 30-34–year-olds with third-level education, 20 million fewer people in or at risk of poverty and social exclusion, reduction of greenhouse gas emissions at least 20% lower than in 1990; 20% of energy from renewable sources and energy efficiency. It must be noticed that so far the Semester has mainly focussed on macroeconomic short term stability and fiscal consolidation and not on achieving the EU2020 Strategy goals nor on integrated socio-economic approaches.

[9] It must be noticed that so far the Commission has not given any indication on how the social impact assessments should be carried out.

[10] See in particular Art. 62 to 76 of the EP Report on the European Semester for economic policy coordination: implementation of 2014 priorities, chaired by MEP Philippe de Backer.

[11] See http://ec.europa.eu/internal_market/social_business/index_en.htm.

[12] See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:115:0018:0038:EN:PDF

[13] See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014L0024

Programmes, and therefore addressing the relevant reforms identified through the country-specific recommendations in the European Semester.[14]

All of the four thematic objectives under the **European Social Fund** (ESF)[15] (which has been assigned a minimum of €76bn) are already in line with the Social Investment Package and two investment priorities under the second thematic objective - "promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment" as well as "community-led local development strategies" - are explicitly addressing the need for public-third sector partnerships in providing public services. The concept is further outlined in article 22 of the ESF Regulation, stating that "with a view to fostering an integrated and holistic approach in terms of employment and social inclusion, the ESF should support cross-sectorial and territorial-based partnerships".

In spite of this rich policy context, the practice of taking into account social impact is not yet mainstreamed within the criteria presiding financial decisions for the allocation of EU funding. This is a missed opportunity, because, as we will see in the next chapter, the business world is more up to the challenge than is normally assumed. In this regard, Juncker's Investment Plan offers a formidable opportunity.

1.2.2 The opportunity of the European Fund for Strategic Investments

The plan was launched in November 2014 with the aim of catalysing private investment into the European economy. Indeed, EU firms still have great investment capacity (according to McKinsey 2012, EU listed companies had cash holdings in excess of €750bn in 2011); the idea is to make investment more attractive by providing EC/EIB backed guarantees, a pipeline of credible projects and a favourable and predictable regulatory framework.

The focal point of this plan is the newly established **European Fund for Strategic Investments (EFSI)**, capitalised with €21bn of EU funds. According to the Commission's calculations, the fund will mobilise at least €315bn of public and private investment over the next three years (2015 - 2017). The fund will mainly invest in strategic infrastructure (digital and energy investments in line with EU policies), transport infrastructure in industrial centres, education, research and innovation, SMEs, environmentally sustainable projects and RDI, and it will do so either directly or through intermediaries. More precisely, the Commission plans to invest up to three quarters of the resources to support private fund structures such as the European Long-Term Investment Fund (ELTIF), set up by private investors and/or National Promotion Banks (NPBs).

EFSI in practice

Establishing a pipeline of viable projects and making sure that they are compliant with all relevant regulatory and administrative requirements is essential to attract and unlock private investment. For this reason, a Task Force has been set up by the EC and EIB, together with the Member States to screen potential projects according to four key criteria:

1. **EU added value** (i.e. projects must be consistent with EU objectives)
2. **Economic viability and value** (projects with **high socio-economic returns** will be prioritised)
3. Maturity (projects should start **within the next three years**)
4. Potential **for leveraging other sources of funding**

[14] It must be reminded that the Commission can ask Member States – under the so-called "macro-economic conditionality" clause - to modify programmes to support key structural reforms, and if economic recommendations are repeatedly and seriously breached, can suspend funding.

[15] 1. Promoting sustainable and quality employment and supporting labour mobility; 2. Promoting social inclusion, combating poverty and any discrimination; 3. Investing in education, training and vocational training for skills and life-long learning and 3. Enhancing institutional capacity of public authorities and stakeholders and efficient public administration. The 20% of ESF resources for each member states must be allocated to the thematic objective n. 2.

Projects should also be of **reasonable size and scalability** (differentiating by sector/sub-sector), even if this can take account of the bundling of smaller investments. The pipeline will be transparent and open, meaning that member states, including regional authorities and NPBs, European institutions and private investors will be able to contribute to the pipeline by presenting or sponsoring projects.

Selected projects will then be assessed by a dedicated **independent investment committee** made up of experts that will have to validate every project "**from a commercial and societal perspective"** (Commission 2014) and based on what added value they can bring to the EU as a whole. An **investment advisory 'Hub'** will integrate all investment advisory services which will be made available by the Commission and EIB, and direct all questions regarding technical assistance to a single, user-friendly portal, with three audiences in mind: project promoters, investors and public managing authorities. The Hub will provide guidance on the most appropriate advisory support for a specific investor, and particularly on how to improve access to other sources of public and private finance (including EU direct and indirect funds) and on how to structure public-private partnerships.

The opportunity

The assessment of projects' "societal value" presents an unparalleled opportunity to change the way we invest in Europe: we argue that it has the power to bring about a new phase of economic growth and democratic participation. For this reason, and opposite to what has been done so far, it is important to bring it at the centre of the debate around the implementation of Juncker's plan. To capitalise on this opportunity, we suggest that:

- All projects, including "hard" infrastructure projects (for instance in the transport, digital and energy domain) are assessed for their social investment dimension (for instance in terms of local work-force upskilling, RDI activities or the creation of social services such as childcare and home care facilities) or for the social impact they want to achieve (for instance in terms of jobs created, particularly for disadvantaged categories as migrants, long-term unemployed, women, single parents etc, or in terms of goods/services of public general interest made available);
- Projects specifically targeting social investments or investments in public good should be included in the projects pipeline as ends in themselves and not only as a complementary investment to hard infrastructure; for instance by ensuring that impact investment funds such as the EIF backed Social Impact Accelerator are among EFSI's investment options (and on an equal footing with European Long Term Investing Funds), or by encouraging local authorities, impact investors and third-sector organizations to present and sponsor projects in the pipeline alongside public and private investors.

At the same time, it will be important to carefully evaluate on a project-per-project basis whether a public-private partnership is the best way to achieve both economic and social returns. While attracting private capital to leverage public investment is key, evidence on the added value of PPPs is mixed[16]. As highlighted by Dhéret et al (2012), a number of perceived or concrete barriers can hamper the successful implementation of PPPs, such as high transaction costs, lack of transparency in the bidding process, long-term limited flexibility and risk of disagreement between public and private parties, loss of democratic control and potential negative public reaction to profit, and lack of adequate capacity and skills within the public sector.[17] In addition, there is always a risk of privatisation, and the burden between PPPs and private monopolies overcharging citizens can be subtle, as proved for instance by the fact that in France,

[16] See p.e. Hall 2014, EPEC 2014 and, with a specific focus on the health sector, EXPH 2014.

[17] In addition, for certain typology of projects the process of defining and quantifying outputs and risks might be difficult, see p.e. Dhéret et al (2012:11): "PPPs tend to work well both for primary – i.e. power, water and transportation – and social infrastructure projects such as education, health care and elderly care. But they are unlikely to work in projects where rapid technological change over the life of the contract, for example, makes it difficult for the public sector to specify outputs, or the private sector to quantify risks. This explains why in the IT sector, a number of PPPs are not considered to have been successful

where about three-quarters of the water consumed by the population is delivered by the private sector through PPPs, service costs are 16.6% higher for consumers compared to places where waters are managed by municipalities.[18] In this respect, a thorough assessment of projects' social objectives and impact could offer EFSI a valuable tool to ensure PPPs' real added value.

In the next chapter, we will show through a series of concrete examples how social investments and investments in public good, are not only desirable from a macro-economic perspective - because of their contribution to restraining inequality and enhancing long-term sustainable growth - but can also be economically rewarding in the short-medium term for private investors.

[18] See Chong et al (2006).

Chapter 2

Private capital for social investment and investment in the public good: why (and how) it works

To develop the right conditions for sustainable growth we need to reduce inequality[19]. To pave the way for two possible approaches, this chapter explores the rationale for social investment and public good investment in themselves and for each, provides examples of how collaborative approaches between the public and private sectors can foster these. In chapter 3, we outline a third emerging approach – investment in systemic social innovation -, where integration between sectors and levels of governance is wider and deeper. In the conclusions, we will recommend how these collaborations can be encouraged through the EFSI package.

2.1 Social investment

Definition

In line with the Commission Communication *Towards Social Investment for Growth and Cohesion*[20], we define social investment as those social policies and initiatives that contribute to the prevention of risks or social problems and the enablement of individuals to be more in control of their lives. It involves strengthening people's current and future capacities and capabilities.

2.1.1 The consequences of inadequate social investment

The facts speak for themselves: countries with high levels of public spending on social protection and social services such as the Scandinavian countries have performed better in economic terms in the last decade compared to most other industrialized countries and have been less affected by the crisis. In fact, as highlighted by Hemerijck (2012) "extensive comparative empirical research has since the turn of the century revealed that there is no trade-off between macro-economic performance and the size of the welfare state". On the contrary, there is a positive correlation between a large public sector, high rates of employment (particularly of women's employment), high fertility rates, reduced poverty (and particularly child and in/work poverty) and general economic competitiveness.

Fiscal consolidation efforts required by EU member states in the framework of the stability and growth pact have led to dramatic cuts in public spending,[21] which leads to increased poverty and inequality and could therefore jeopardize the efforts undertaken so far to re-ignite growth. The effects are compounded in countries receiving financial assistance from the Commission, the IMF and the ECB.

According to OECD projections (OECD, 2009c), expenditure cuts will account for more than two-thirds of the planned consolidation efforts between 2011 and 2015, and welfare services and infrastructure are likely to be the most affected. It must also be considered that increases in social spending have been lower in the EU member states more severely hit by the crisis, with some countries already experiencing a decline. Furthermore, the mix of welfare spending in the crisis years has changed, with cuts affecting mainly those services that strengthen people's current and future capacities throughout their lives, preparing them to confront risks rather than simply repairing the consequences. So, while old age and

[19] See par. 1.1.

[20] European Commission, *Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020*. COM(2013) 83 final: "Social investment involves strengthening people's current and future capacities. In other words, as well as having immediate effects, social policies also have lasting impacts by offering economic and social returns over time, notably in terms of employment prospects or labour incomes. In particular, social investment helps to 'prepare' people to confront life's risks, rather than simply 'repairing' the consequences".

[21] For a snapshot of EU countries social expenditure see Appendix 1.

unemployment benefits kept growing in most EU countries even after 2012, active labour market and work-life balance measures, health disease prevention, education (including early childhood education and care) and training, have been subject to massive cuts[22].

The consequences are clear: not only will cuts to preventative social policies translate into reduced economic growth and tax revenues, but they are likely to increase reactive social policy spending too. Indeed, since the Commission's pioneering report on the *Cost of non-social policy*,[23] scholars and practitioners across the world have collected highly compelling evidence showing the enormous costs of late policy interventions compared to preventive and early interventions across citizens' lives. Early identification of social risks and early action targeted at the more vulnerable populations and individuals contributes to providing citizens with the tools necessary to successfully face the most common social risks (such as atypical employment, poor health, long-term unemployment, working poverty, family instability and poor or obsolete skills).

In addition, as pointed out by Alesina and Perotti (1993)[24] and demonstrated by recent events in southern European countries, growing poverty and inequality threatens social cohesion, generating political and economic instability that repels inward investment, while hampering the social consensus necessary to undertake reforms in the face of major shocks.

European citizens grant greater importance to social solidarity than to wealth-creation, and are worried about the impact of on-going cuts in public spending on welfare services.[25] As the recent election in Greece has shown, these concerns should not be underestimated.

2.1.2 Specific social investment policies and their macroeconomic implications

Above we built the case for the general benefits of social investment at the macroeconomic level. The body of empirical and theoretical evidence with regard to specific programmes and interventions has been growing over the decades.[26] We explore this in three areas – childhood education and care, vocational training and apprenticeships.

Childhood education and care

Affordable childhood education and care (CEC) contributes both to providing children with the cognitive abilities which will determine their future participation in the labour market[27] and allows mothers to participate in paid work, which, as demonstrated by Esping-Andersen (2002) with reference to the Scandinavian countries, is the most effective way to reduce child-poverty and in-work poverty. Chetty et al. (2011) demonstrated how the quality of a child's kindergarten teacher and educational environment influence people's probability of college attendance, future income and home ownership.

In fact, CEC and education policies are strictly related to active employment policies: "activating or retraining adults is profitable and realistic if these same adults already come with a sufficient ability to learn" (Esping-Andersen 2002). According to Ciccone - de la Fuenta (2002), every additional year of schooling increases European students' future wages by around 6.5%, while a year of training leads on

[22] For a thorough assessment of EU member states' implementation of social investment policies and the consequences of the crisis on it see European Social Policy Network 2015.
[23] Fouarge Didier 2008.
[24] See also Uslaner 2012, Piketty 2014 and the OECD work on social cohesion, especially for developing countries: http://www.oecd.org/dev/inclusivesocietiesanddevelopment/ .
[25] See for instance the survey 'Qualitative Eurobarometer' carried out in 2009 by TNS Opinion and DG Employment in connection to the EPC led Well-being 2030 project and (Dethlefsen et al. 2014).
[26] For instance, according to Commission 2013a "simple regressions suggest that for every additional 1% of GDP spent on more investment-oriented social policies, the employment rate is around 1.7 point higher, while the link with total social protection expenditures is weaker (0.5 point higher). Conversely, 1 % of GDP spent on more investment-oriented social protection expenditures is associated with an almost 0.6 point lower at-risk-of-poverty rate, while the link to total social expenditures is around 0.2 point".
[27] As convincingly demonstrated by both Morgan 2012 and Esping-Andersen 2002.

average to a 5% salary increase. Furthermore, from a macro-economic perspective, an extra year of intermediate level education increases aggregate productivity by about 5% immediately and by a further 5% in the long term. According to Hanushek-Woessmann (2012) improving educational standards up to the level of the top performer (Finland) in the EU28 would lead to a 16.8% increase in GDP.

Vocational training

The capacity of a country's workforce to continually update its skills is perhaps the most important factor for future competitiveness in the current globalized learning economy.[28] As demonstrated by Lundvall-Lorenz (2012), there is a strong positive correlation between the number of high quality jobs and firms' investment in continuing vocational training, while the correlation between high quality jobs and tertiary education or scientific education is weak at best. Even more strikingly, the comparative analysis of statistical data across EU countries shows how there is a fairly positive correlation between high levels of unemployment protection and frequency of high-quality jobs. Finally, income distribution is more equal in countries with high frequency of organizational learning supported by social investment in education and training (as in the Netherlands and Scandinavian countries). Similarly, Nelson-Stephens (2012), based on the analysis of data across 17 OECD countries from 1972 to 1999, show that there is a positive correlation between the use of active labour market policies, levels of employment, number of high quality jobs and general economic growth.[29]

Life-long learning and in-job training should be considered an important part of active employment market policy: according to the Commission, "the transition rate out of unemployment to employment is 6 points higher for those having had some lifelong learning opportunities (37 % vs. 31 %), as also mirrored in a lower persistence rate in unemployment (44 % vs. 49 %)"[30].

Apprenticeships

In the same way, apprenticeship programmes are very effective for the development of human capital. According to the Report of the Commission for Inclusive Prosperity "researchers have found that U.S. workers who complete an apprenticeship make about $300,000 more than comparable job seekers over their lifetimes. People who complete an English apprenticeship have been found to make a gross weekly wage 10 percent higher than those who have not. A Swiss study found that employers spend around $3.4bn annually training apprentices but earn $3.7bn each year from apprentices' work during training. In Canada, researchers found that employers receive a benefit of $1.47 for every dollar spent on apprenticeship training. In the United Kingdom, the Department for Business, Innovation and Skills and the National Audit Office determined that for every pound spent by the government to support apprenticeship, the country gets a return of between 18 pounds and 28 pounds".

UK Future Jobs Fund[31]

[28] In Lundvall-Lorenz 2012 definition "the concept of 'the learning economy' refers to a specific phase of capitalist development where a combination of factors such as globalization, deregulation of finance and the widespread use of information and communication technologies speeds up the rate of change in different dimensions (on the demand-side user needs change rapidly and on the supply-side there is acceleration in the creation, diffusion and use of new technology) (Lundvall – Johnson 1994). While the concept 'the knowledge-based economy' is associated with the need to invest in research and in the formal education of scientists and engineers, the learning economy concept signals that another important new characteristic is that knowledge becomes obsolete more rapidly than before. Therefore, it is imperative for firms to engage in organizational learning and for workers to constantly engage in attaining new competencies".

[29] See Nelson-Stephens (2012): "short-term unemployment replacement rates, active labour market policy, day care spending, sick pay, educational attainment are very strongly correlated to employment levels, and that all of these policies with the exception of sick pay are very strongly related to employment levels in knowledge intensive services. (…) In short, the results provide substantial evidence that the policies associated with the social investment perspective lead to the expansion of employment, particularly employment in quality jobs."

[30] Commission 2013.

[31] See Department of work and pensions, 2012.

A particularly interesting example in this field is provided by the UK Future Jobs Fund, introduced in 2009 in response to rising youth unemployment rates and terminated in 2011. The Department for Work and Pensions pledged to create 150,000 paid jobs lasting six months for unemployed young people and people living in disadvantaged areas, making available a financial contribution of £6,500 per job. The initiative involved 105,220 people who started jobs between 2009 and 2011. Around 43% of participants obtained a job outcome at the end of the temporary contract, in most cases with the same employer. The fund is directly responsible for the 22% of 18 to 24 year-olds who stopped receiving Jobseeker's Allowance in the 2009-2011 period. Analysis suggests that the programme had a net cost to government of £3,946 per participant, while direct tax revenues and benefit savings amounted to £9,000 per person enrolled.

This brief overview demonstrates that social investment can create substantial future savings and earnings for the state, which would explain its frequent association with public or philanthropic investment.

2.1.3 Private capital in social investment

Is there a case for involving private investors along with public investors in social investment? On the one hand, certain social investment activity is more closely related to the private sector, contributing to its competitiveness. For instance, private investors could be interested in human capital development (upskilling/requalification of workers, better matching between education and work-market needs etc.), and especially considering that, according to a recent PWC (2014) survey of Global CEOs, the number one concern of business executives across the world is the inability to find enough skilled workers. One interesting example in this field is 42[32], a new information-technology school based in Paris, open to young people aged between 18 and 30 irrespectively of their formal qualifications and free of charges, completely funded by entrepreneur Xavier Niel with the contribution of other companies interested in finding skilled developers.

Also, the costs of non-intervention for the safety and health of workers can be very high: according to the ILO, costs of work-related accidents and diseases are estimated to range between the 2.6% and the 3.8% of EU GDP, while for every euro invested in occupational safety and health there is a return of €2.20.[33]

But emerging evidence demonstrates how public-private partnerships for investing in social infrastructure, such as schools or hospitals, can generate significant social and financial returns too, both for public and private partners, in line with the Social Investment Package recommendations.

Romanian National Health Insurance Fund[34]

In 2004 in Romania, the National Health Insurance Fund (NHIF), advised by the International Finance Corporation, contracted four international private dialysis operators to take over the renovation and management of renal services at eight different public hospitals across Romania in order to make the facilities compliant with EU standards. The government paid the private partner a flat fee (€100) per hemodialysis treatment and an annual fee (€11,000) per peritoneal patient. Patients accessed the dialysis services for free. The private partners are responsible for the complete renovation, fitting-out and management of all centres as well as for the recruitment and training of all local staff, and for delivering all services. At the start of the contract, all centres were located at the public hospitals and the facilities were leased to the private partners. The contract covered an initial four years and was extendable up to seven years, but only if the private partner relocated to a new facility within two years of the tender award. Each bidder was restricted to two centres to increase competition and limit concentration.

Between 2005 and 2008, the private partners invested over €28.6m to renovate and equip the facilities; additionally, two new facilities opened, with 17 more clinics to be constructed in the future. Further to upgrading its services to

[32] See http://www.42.fr/notre-pedagogie-principes/.

[33] Bräunig - Kohstall 2013. To give another few examples, according to Commission 2013b, "ill-health in the population of working age leads to substantial productivity losses. Poor health leads to absenteeism (estimated absenteeism rates range between 3% and 6% of working time, representing a yearly cost of about 2.5% of GDP), job loss (10% of the people who were previously employed left their job mainly for health reasons), premature retirement or premature mortality".

[34] See IFC 2008 and 2010.

EU standards and re-training the workforce employed in the facilities, the government saved €2.9m between 2005 and 2008 as a result of this partnership.

2.2 Investment in public good

Definition

We define public good as all those goods or services that create social value and have a positive impact on a given community[35]. It is already possible to identify a growing body of successful private or public-private investments into public good. Social housing, renewable energy, waste and water management, open-source technology – these are all cases where social impact can be associated with positive financial returns.

2.2.1 The case for public good investment

Leading industries are increasingly recognising that achieving positive social and environmental impact is not only compatible with making profits, but, in the medium term, is a pre-condition of making profits. They are recognising that they cannot continue to view value creation narrowly, optimising short-term financial performance while ignoring the broader influences and risks that determine their longer-term survival. As Donaldson and Dunfee (2002) remind us, while in the 1950 enterprises were basically expected to produce goods and services at reasonable prices, now they're considered responsible for a wider range of issues involving fairness and quality of life across their ecosystem of operation. Further than adjusting to a changing social contract, companies are increasingly aware of the fact that they cannot overlook the loss of natural resources vital to their operations, the viability of supply chains, or the economic distress of the neighbourhoods in which they produce and sell, without undermining their future activities. The availability of talent, intellectual property protection, rule of law and neighbourhood levels of unemployment might be external to the company's perimeter of action, but will have a material impact on its performance in the medium to long term. As KPMG Global Chairman Yvo de Boer has said, achieving positive economic and social impact is not a philanthropic act, but "is essential to convince investors that your business has a future beyond the next quarter or the next year" (KPMG 2013). These consideration are leading towards increasingly sophisticated business strategies allowing to associate economic performances to positive social impact.

On the other hand, impact investing is increasingly becoming a privileged choice for all those citizens, philanthropists and third sector organisations seeking to create positive social outcomes as well as financial returns.

Together, these two investment trends are contributing to create a new market where private and public interest are aligned, and financial and social returns go hand in hand.

2.2.2 Public good investment in practice

Impact investment

One specific category of investment in public good is impact investing, which in this paper we define as the field of investment that explicitly takes into consideration the social impact, financial return and any potential trade-off between the two in a given investment opportunity. Over the last decade, it has become a significant driver of investment into public good through the actions of charitable foundations, ethical banks, individuals and of specialist impact investment funds. Not only has impact investment

[35] In economics, public goods are normally defined as those goods that are both non-excludable and non-rivalrous, meaning that people cannot be effectively excluded by their use, and that use by an individual doesn't prevent use by other individuals (see Olson, 1965). However in this study we have adopted a broader definition, as even though most investment categories considered in this section share some characteristics with classic public good (such as air or lighthouses), they are not totally non-excludable neither non-rivalrous.

brought new funds into organisations targeting social and environmental objectives, but it has also led to the creation of innovative public-private models of investment and has attracted the attention of policy makers across Europe and beyond.[36]

Global Health Investment Fund[37]

The $108m Global Health Investment Fund[1] (GHIF) was launched in 2012 by the Bill and Melinda Gates Foundation and Grand Challenges Canada with the aim of accelerating the development of drugs, vaccines and diagnostics for diseases that disproportionately affect developing countries.

The fund is owned by a new US not-for-profit corporation which has been endowed by KfW of Germany, and is managed by Lion's Head Global Partners via LHGP Asset Management LLP, authorised and regulated by the UK Financial Conduct Authority. The fund has received direct investments on a pari-passu basis from foundations, high net worth individuals, government supported bodies and corporates. The Gates Foundation, together with the Swedish International Development Agency (SIDA), has substantially reduced the risk for investors making direct commitments to the fund by providing a first loss guarantee and a risk share (investors are provided with a loss protection of up to 60% of the fund's capital, the first loss guarantee covers up to 20% of invested capital, with investors covering 50% of any subsequent losses on a pari passu basis).

The Gates Foundation has also leveraged its network and expertise to assemble support from a range of global health and finance experts: representatives from GlaxoSmithKline and Novartis, two of the world's leading pharmaceutical companies, and former leaders in the field of finance from Goldman Sachs and MPM Capital are serving as members of the board of directors and scientific advisory committee.

Funding is provided through mezzanine debt and repaid via a combination of milestones and royalties on the new products created. So far, $5m has been committed to support the final stages of product development for a new oral cholera vaccine.

Whilst data on the size of the impact investment market, investments' risk profiles and financial as well as social performance is still hard to find and even harder to compare (OECD 2015), work efforts to increase transparency and data comparability is ongoing, and interest from investors is growing. According to JP Morgan the market was worth $12.7bn in 2014 and is growing fast. An indicator of impact investing's ascension, Black Rock, the world's largest asset manager, has announced that he will soon launch "BlackRock Impact" to help clients invest in products with clear environmental and societal goals.[38]

Social impact as business as usual

But the idea of creating a social impact is becoming increasingly important also in large businesses' principal activities and financial decisions. As highlighted by Michael Porter and Mark Kramer (2011) in their seminal work *Creating shared value*, the "generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems (…) effective research, analysis and evaluation of ESG [environmental, social and corporate governance] issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and (…) should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting."

A few remarkable examples showing both how social considerations are influencing financial decisions in the corporate sector and how investment in public good can be financially rewarding can be found in the urban regeneration field.

[36] For an overview of the EU impact-finance market and for a detailed case study on how the UK government has sustained the creation of a thriving impact investment market see appendix 2 and 3.
[37] See http://ghif.com/.
[38] See http://www.reuters.com/article/2015/02/09/us-blackrock-impact-exclusive-idUSKBN0LD18W20150209

Lend Lease: urban regeneration[39]

Lend Lease is currently investing £1.6 bn in a regeneration project covering more than 28 acres across three sites at the heart of Elephant & Castle, in what is one of the last major regeneration opportunities in central London. By 2025, the regeneration project foresees the creation of almost 3,000 new homes, over 50 new shops, restaurants cafes and bars, as well as significant improvements to transportation links. The approach adopted by Lend Lease is innovative both at environmental and social levels.

From an environmental perspective, Lend Lease's sustainability approach is long term and aims to enable sustainable behaviours, such as enhancing biodiversity, improving public transport and cycle networks, and maximise the energy-efficiency of buildings. The plan was influenced significantly by community consultation so that many of the existing trees on the site could be kept to help form a brand new park in the centre of the development. Many more new trees are then being planted in and around the development, and the diversity of tree species chosen will help create balanced ecosystems that are more resilient to extreme weather as well as encouraging nature to flourish. In addition, Lend Lease seeks to ensure that all the wood used on the project is FSC certified and all homes on the scheme will achieve Code for Sustainable Homes Level 4.

The high-standards adopted in terms of sustainability are further proved by the fact that the Elephant & Castle regeneration is one of 18 founding projects from across the world to be part of the C40 Cities Climate Positive Development Programme (both Lend Lease's Barangaroo South and Victoria Harbour are also included). As part of this programme, Lend Lease has submitted a roadmap demonstrating how the project will be Climate Positive, or net carbon neutral, by 2025. A key part of this commitment to being Climate Positive, is Lend Lease's plans to deliver an on-site combined heat and power energy centre, which will help ensure a low carbon energy solution for the project. By demonstrating climate-positive strategies, the project aims to be a model for large-scale urban regeneration projects of the future.

As for social considerations, the commitment of the firm is demonstrated by the fact that in the time lapse between the award of the contract to Lend Lease and the granting of outline planning approval, £2m was invested into community-engagement activities. A strategic stakeholders group was set-up with key public authorities such as Transport for London and the Greater London Authority, as well as local universities and other developers in the area in order to ensure a coordinated approach through the opportunity area.

A thorough assessment of local social issues (unemployment, low-income, mental health, obesity, children's health) served as a basis for the project's social sustainability strategy. A key part of this strategy is the delivery of construction jobs for the local community and the project is already achieving great success. Since construction began in July 2013, 322 local residents have been employed on the project, of whom 147 were previously unemployed. Among them, 55 have been in sustained employment for more than 6 months. Furthermore, in 2012, a community fund to be managed by a local NGO was set-up to provide grant-funding for local community groups looking to run projects in the area; the fund is now in its fourth year and has awarded over £125,000, benefitting 6,950 people.

Re-Vive: the Ekla project[40]

In Brussels, the Ekla project aims to decontaminate and redevelop a 6,200sqm former industrial zone in Molenbeck, next to the city's West station, to become one of the three most important intermodal hubs for public transportation in Brussels. Belgian company Re-Vive, specialized on urban brownfield sites development, has allocated €32m to build 53 apartments for affordable housing (to be built by the public local supplier Citydev), 40 apartments for social housing, 50 student housing units suited for students in need of financial support, a primary school, day nursery, retail spaces and a social innovation hub and offices. Once completed, the buildings will be sold to end investors (impact investors or social funds). To this end, Re-Vive has been working together with regional investment agencies and funds such as Citydev (Brussels) on the affordable housing front, or Vlaamse Gemeenschapscommissie (Fanders) for the school.

The neighbourhood is characterized by both poverty and unemployment, with a large immigrant community; however, its inhabitants are also young and very entrepreneurial: the social innovation hub will build on this

[39] This case study is based on the contributions of Simone Santi, Duncan Pelham and Iain Smith from Lend Lease.
[40] This case study is based on the contributions of Nicolas Bearelle from Re-Vive.

potential by offering not only office space, but also business support. The use of the building as a hub for cultural events and exhibitions before the opening of the construction-site allowed Re-Vive to establish a trusted relationship with local artists, who acted as intermediaries with the local community, which was instrumental to attract the attention and support of local authorities. The buildings are designed with sustainability in mind: maximising the use of renewables and reducing energy consumption.

The Lend Lease and Re-Vive examples illustrate two key success factors in their implementation: strong relations with local authorities and strong partnerships with local communities and stakeholders. In the Re-Vive case for instance, City councils and local authorities have been instrumental in fostering projects' economic sustainability by facilitating swift zoning of the areas concerned from industrial to commercial or residential use. Furthermore, in response to the projects' strong social and environmental aspects, more building density has been allowed than usual, granting increased revenues. Re-Vive's approach aligned well with most local authorities' policies for open development, and contributed to further growing policy-makers' ambitions in the urban re-generation field. Residents of the neighbourhoods targeted by both development projects were involved at very early stage in order to take into accounts their needs, views and aspirations. Before being refurbished, buildings were used as temporary meeting centres, in order to engage with the local population and explore its cultural and creative strengths through a series of events. Local partners (including public authorities) are always involved when social housing programmes are foreseen.

In both cases, economic reasons fully justify a socially responsible approach: in fact regeneration projects strongly impact the cost of housing: mutated costs of leaving can mean raising inequality, compromised social cohesion and, therefore, increased systemic risks for the value of assets. Creating a community instead of a series of buildings, and making sure that regeneration brings advantages to the local population, means reducing the project risk while ensuring the long-term value of the real estate. In addition, it creates interest, and therefore market for future buyers and users of the new buildings and facilities.

Of course regeneration projects, as any private investment in public good and social corporate responsibility strategy, need to be closely monitored in order to validate the genuineness of their social impact mission. While it is true that positive financial and social impact can be achieved together, it is also true that there is a risk of collusion between developers, local authorities and community organisations.[41] Transparency in tendering procedures and community engagement all along regeneration projects are key to prevent this risk. Helping companies to validate their results and demonstrate genuine attempts to achieve social impact is important for overcoming traditional barriers between the public and private sector and to create the synergies necessary to address entrenched social issues. Also in this respect, the ex-ante assessment of projects' social impact foreseen by Juncker's Investment Plan could prove a useful instrument. Equally important would be to continue monitoring projects' economic and social impact over time: indeed, this would not only ensure that public funds are well managed, but it would also contribute to build a body of knowledge around public-private co-investment in public good which could orientate future action.

[41] On the topic see Minton 2012 and the seminal work of Jacobs 1961.

Chapter 3
Investment in systemic social innovation

Definition

We define systemic social innovation as the collective effort to face entrenched social issues through the coordinated action of the public, private, third sector and of citizens at large.

The case studies in the preceding chapter show us that the most successful experiences – both financially and socially speaking – are those where a strong partnership has been created between the public and the private sector (including third sector organizations) and involving the wider community; not only in terms of the funding model but also in terms of the design, delivery and evaluation of the good/services produced. In this chapter, we argue that – complementing the need to apply a more social lens to initiatives like EFSI – all stakeholders would do well to adopt a collaborative approach to drive innovation in society at a systemic level. We illustrate this approach with case studies and an outline of The Young Foundation's Europe Lab current work.

3.1 The partnership of public, private and third sector

If we look at what is happening across Europe, we will find that increasingly member states are looking with interest at how to create better welfare services (especially on the social investment front) by actively collaborating with the private sector, the third sector and citizens at large.[42]

In contrast to what was observed in the 1970s when, following Hemerijck's (2012) classification, in the wake of oil shocks, Europe entered a period of welfare retrenchment and of slimming down the state, the aim today cannot be about the outsourcing of key services – instead it must be about collaborative shared value creation. As remarked by Addis 2014:

"A new, or renewed, focus on a variety of mechanisms to tackle social issues is evident across a range of settings (Eggers & Macmillan, 2013; Schwab Foundation for Social 3 Entrepreneurship et al, 2013). Whether captured as 'blended value' (Bugg-Levine & Emerson, 2011), 'shared value' (Porter & Kramer, 2011) or the 'solution revolution' (Eggers & McMillan, 2013), the underlying shifts are consistent in their focus on creating societal as well as economic value. This goes deeper than debate about market mechanisms, for profit and not for profit, public or private service provision and focuses on the nature of sustainable growth and combinations of approaches that can genuinely deliver better outcomes and tackle even the most difficult and pressing social issues. Rapid technological change and corresponding availability of information and communication is magnifying the impacts of these changes."

The awareness of the tremendous social and economic challenges facing most European countries, together with the awareness – accelerated by the financial crisis – that the public sector is unlikely to have the resources necessary to meet these challenges, has galvanized efforts which were already on-going within the private and third sectors.

The rise of impact investing, the growth of social enterprises, the professionalization (concerning forms of governance, management and ways of production) of third sector organizations and a growing community of traditional businesses committed to making a positive difference to their social and environmental surroundings has led to the creation of a complex ecosystem of actors committed to using their different skills and networks to overcome entrenched social issues.

Unisalute[43]

[42] For a brief overview of the social investment priorities across different European welfare systems and the role played by third sector organisation see Appendix 4.

In Italy UniSalute – a specialist company owned by Unipol Group, the biggest Italian insurance group for number of clients served and the second in terms of premium disbursement - is working to set-up a local fund in the Emilia Romagna region with a specific focus on Long Term Care (LTC). The idea is to pool resources from the public sector (allocated locally by the National Health Fund), the private sector and from single insured citizens in order to create synergies allowing the successful meeting of social needs by extending to all citizens LTC services already provided by the insurer to its existing clients.

The growing demand for long-term care services in Emilia Romagna has not been met by the national health sector, and in 2011 for the first time public funding for the elderly in the health sector was cut by 2.4% compared to the previous year, with home-care services particularly affected by the cuts (-7.9%). The situation is quickly becoming unsustainable, and especially if we consider that around one third of the total expenses for elderly-care in Italy is already paid for by families. Furthermore, LTC services are currently provided by a plethora of municipal, regional and local authorities, with little coordination and without certainty regarding the availability of services, as public budgets can vary widely over the years. This translates into a situation of uncertainty for people in need of assistance, who therefore will in most case access emergency services, leading to unnecessary hospitalisation and increased costs for the public sector.

A local, or even better regional fund targeting people in need of assistance who could be treated at home and covering in a coordinated way all their socio-sanitary needs, pooling resources from the private and public sector and integrating the different services needed while coordinating the various service providers, would allow this challenge to be addressed in a sustainable way.

The fund would be built pooling public resources (co-funding for low-income households or fiscal deductions) and private resources (work insurance or private insurance), and the insurance company would grant services' continuity over the years. By allocating part of the funds available for people in need of constant assistance to the fund, the public sector would transform current expenses into an insurance investment, granting coverage continuity and allowing the fund to reach the critical mass necessary to extend services to everybody (including the unemployed or people not enjoying insurance coverage negotiated by employers and trade unions).

The model put forward by Unisalute would allow considerable savings for the public sector: against an initial fixed investment the insurer will grant universal assistance to all citizens in need, irrespectively of their number. Citizens would also benefit from the partnership, given that at the moment about one third of the total expenses for LTC are borne directly by families. The model is sustainable for the private partner too, thanks to efficiency gains allowed by its negotiating power on the market: Unisalute can already count on a network of over 4.669 structures specialized in providing assistance to non-autonomous people, meaning that it can ensure highly convenient tariffs by purchasing packets of services instead of single services (which is not the case either for the public sector or families).

Most importantly, the quality of the service provided would be higher. The private insurer would not only manage the fund but would also exercise a pro-active role in coordinating services delivery. Building on its existing network, Unisalute would act as a single entry-point for beneficiaries through a network of in-house case managers, developing individual assistance plans (IAP) for the beneficiaries and their families which would take into account their medical, social and economic needs. The network of case managers, distributed on the territory, will ensure coordination between service providers and constant monitoring of the quality of service through regular contact with the assisted person and her/his family.

The public sector will maintain ultimate control on the service's quality and cost-effectiveness, through audits and a relationship of total transparency with the private partner.

The capacity of national authorities to direct and coordinate these efforts varies hugely. The strategy recently put in place by the UK government to promote impact investing is particularly interesting. By collecting and publishing the costs of social issues (as violence on women, re-offending or hospitalization),[44] the government is encouraging third parties to come up with new and more cost-effective solutions in determinate fields.

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[43] This case study is based on the contributions of Fiammetta Fabris and Maria Luisa Parmigiani from Unipol - Unisalute.

[44] See http://neweconomymanchester.com/stories/832-unit_cost_database

New forms of commissioning too, such as payment-by-results (or pay-for-success), allow the testing of new services – for instance, those that the public sector would be unlikely to fund independently and by itself but which, if proved effective, could become part of mainstream services. In this case third sector and private organizations, funded by private investors, can offer services to address unmet needs.

HMP Peterborough Social Impact Bond[45]

One interesting trend emerging from the first evaluations of payment by results approaches and public-private-third sector partnerships, is the tendency for service providers to address, simultaneously, the different, interrelated, needs of beneficiaries. A notable example is provided by the HMP Peterborough social impact bond (SIB) pilot, aiming at reducing re-offending rates by offering a wide range of rehabilitation services to former prisoners after their release. Indeed, the extent of activities brought forward by the different project partners allows for a targeted approach, taking into account the different needs of every beneficiary. At the same time, impact investors ensure centralized coordination between different service providers. Measures intended to help ex-offenders take-up existing public services (both in kind and in cash), have led to a review process at government level in order to simplify access and better integrate services, which in turn could translate into savings and improved efficiency for the public sector.

Cooperative di tipo B[46]

Another case is highlighted by the Italian "Cooperative di tipo B", which were created in the early 1980s, to give disabled people who had attained primary and/or secondary education the opportunity to work. In today's more complex social context – with vastly altered family compositions, rise in employment rates of women (who would otherwise traditionally provide care) – and, at the same time, increasingly reduced public funding, cooperatives are coping by becoming more commercially adept; they are building new partnerships with both the public and the private sectors. For example, a cooperative and a large business producing pumps in Italy have worked together to modify the assemblage process so that it can be used by disabled people. This has led to a simplification of the mechanical process which was then extended to all the business' plants, translating into significant savings for the enterprise. As a second step of the collaboration the two partners are now setting up a social lab with the aim of involving other local enterprises in setting up new partnerships of this kind.

3.2 A typology of social innovation

These few examples help us to introduce two important distinctions: between social enterprises and social innovation and between contextual and systemic social innovation. Social enterprises (including charities, civil society organisations and impact businesses) are organisations trying to achieve social impact while being economically sustainable, and – as in the case of Italian Cooperative di tipo B –, are sometimes created to answer a precise social need which is not (or is not sufficiently) being met by mainstream welfare programmes.

Social innovation on the other hand, is not about products or services, but about innovative ideas which enable the take-off of certain products or services which have a positive social impact[47]. As put by Tim Curtis (2014), "Social innovation is about ideas, solutions and social movements. The fundamental unit of social innovation is the idea, not the 'enterprise' or the trading organisation that is required to implement it. Social innovation is infinitely scalable, because ideas are not expensive to transfer to new contexts and the means of that transfer are people, regardless of whether they work in the public, private or third sector". Some social innovations are so effective that they get adopted and mainstreamed by mass welfare

[45] This case study is based on the contributions of Emma Disley, Stijn Hoorens and Christian van Stolk (RAND Europe) who are conducting an independent evaluation of Peterborough Pilot, as well as research into other UK based payments-by-results projects. See Disley and Rubin 2014.
[46] This case study is based on the contributions of Paolo Nardi and Enrico Novara from CDO Opere Sociali.
[47] According to the TEPSIE practioner report social innovation is defined as " new approaches to addressing social needs. They are social in their means and in their ends. They engage and mobilise the beneficiaries and help to transform social relations by improving beneficiaries' access to power and resources".

programs – like pensions schemes - or by private businesses - like recycling; other stay small and continue to cover niche needs.

As for the distinction between contextual and systemic social innovation, while in the first case we are confronted with an innovation effectively addressing a specific need or group of people, in the second case we are addressing a complex system of entrenched social issues, involving a wide range of people and stakeholders at a funding, delivery, monitoring and governance level. Scale is not as relevant a variable as it could seem: most mainstream welfare services are contextual social innovations addressing a single need or group of beneficiaries (for instance public education, or age-benefits), while local projects can adopt a systemic perspective, as we will see in the next paragraph.

These distinctions are important because there has been a tendency, including at a European policy level, to identify social impact with social enterprises and social innovation with contextual social innovation or with the integration of services (at funding and delivery level with public/private partnerships or at beneficiary level with the promotion of "one stop shops" for people with multiple social needs, as in the case of SIP). This has had regulatory consequences, for instance in the case of the EUSEF's regulation, where social entrepreneurship funds' investees need not only to be social enterprises, but also have to serve particular "deprived groups" instead of the wider population. Such a narrow approach could be detrimental to reaching the kind of impact we need in order to face Europe's grand challenges and ignite inclusive and durable growth, taking advantage of the already existing ecosystem of actors committed to bring about positive social change all across Europe. It is our view that public capital and expertise should be used to promote a more ambitious systemic social innovation approach. Which indeed is already happening.

Systemic social innovation is at the centre of a new approach to address structural inequality. Just as at the end of the Second World War we invested in the creation of a swathe of global institutions to address the structural issues that gave rise to that conflict – giving birth to 60 years of relative peace and prosperity and 30 years of hidden externalities—we now need to invest in a new generation of institutions and tools to re-innovate our institutional infrastructure.

Leveraging public with private capital to promote social investment and investment in common good is essential, but this won't be enough to successfully overcome the challenges Europe is facing unless we will be able to understand that today most **social issues** (for instance poverty, social exclusion, quality of health care) and **macro challenges** (such as aging, climate change, the sustainability of welfare systems) interlink with one another and drive a cycle of deprivation. Social ills **cannot be faced one at a time**, in isolation, by adopting single points of intervention. For instance, if we want to increase educational attainment in a neighbourhood – or in a country – the question is not simply one of whether more funding should be allocated to public schools or to private schools. It is necessary to map and intervene in multiple factors affecting education in the area, such as investing in prenatal nutrition, establishing breakfast clubs to increase children's' attention spans, setting reading clubs to mentor pupils, mums' associations to support young mothers, youth circles to provide peer support and developing new tech to facilitate communication between parents and teachers.

3.3 Systemic social innovation in practice

There is no single institution or policy that can effectively address social ills, which is why a collaborative and systemic approach is needed. The Young Foundation's Europe Lab is already piloting this approach in several European countries. Our starting point is the recognition that citizens – as well as private organizations and institutions - are both a depository of collective common wealth (or assets) and of common liabilities (current and future), and that both are largely quantifiable in terms of current and future value and related costs, savings and returns. Mapping the different issues affecting a specific community, their various components and often interdependent relations, the stakeholders concerned and the possible solutions which can be put in place, means organizing new inter-sectorial and inter-organisational partnerships, developed around shared outcomes. We call these partnerships "**collective outcomes partnerships**". Assessing the value of available goods and services of public interest for all the stakeholders involved in the partnership, as well as the costs associated to maintaining, scaling-up, adjusting or replacing those same goods/services as required by a changing situation, allows-us to build new funding and action models to drive systemic change. We call these models 'Townhall Models' because the underlying approach puts civic engagement at the centre of local development, building on systems financing and accelerators. Investment decisions need to be based on a systemic approach to identify the right intervention points.

Norway[48]

In Norway, the government is crowdsourcing citizens' ideas on how to re-define the concept of innovation in relation to the challenges faced by the national oil industry confronted with climate change and a post-fossil fuel economy, and is looking at how to make the public sector work as a hub of social innovation and entrepreneurial creativity. Welfare services are not perceived as costs but as fundamental investments for open innovation and growth. The Young Foundation has partnered with Husbanken, the bank for social housing, Oslo Municipality and SoCentral, the local social innovation hub, to draft the social innovation strategy for two neighbourhoods in Oslo: Groruddalen and Tøyen. Almost 60 representatives of some of the main governmental, corporate and civil society institutions in the country were interviewed to understand what were the country's most urgent social challenges, how they affected different stakeholders and how they could be addressed through a participatory model and sustainable funding instruments. The insight collected will inform the Innovation strategy for Norway which will be launched in spring, and the Young Foundation and SoCentral are now in the process of selecting a location were to test the "Townhall Model" to overcome the entrenched social issues which have been identified with the help of all the stakeholders involved.

The public sector can play a key role in promoting the creation of these complex partnerships. This is the case also for the Portugal Social Innovation Initiative.

Portugal Social Innovation

In Portugal, the Council of Ministers launched in early 2015 a Social Innovation Initiative which will make available €150m from European structural funds to promote and disseminate innovative solutions to tackle social problems leveraging creativity, entrepreneurship and civic participation in the country. The initiative was created with an ambitious agenda to modernise the country's social protection, education and regional development systems and promote sustainable and inclusive growth through the growth of social innovation projects.

Incentives are being put in place to reward those investments that provide social and environmental returns as well as being able to generate revenues and financial surpluses, while citizens, businesses and communities are called to experiment innovative solutions and, in so doing, renew public policies. Four strands of financing instruments are being set-up: 1. a fund of funds providing guarantees and low cost-funding, both for lending and quasi-equity investments in high- impact potential projects that can generate revenues; 2. a social impact bonds fund to develop and validate the payment-by-results approach in Portugal and so doing fostering collaboration between public, private and social sectors and serve as an engine of innovation for public services delivery; 3. a "partnership for impact program", providing co-financing grants to philanthropic investors willing to fund the most innovative social impact initiatives using a venture philanthropy approach; and 4. A social investment readiness program to build capacity and grow the pipeline of projects for the other three instruments

Quoting a recent interview to Luis Miguel Poiares Maduro , Minister in the Cabinet of the Prime Minister and for Regional Development and promoter of the initiative, Social Innovation Portugal aims at overcoming austerity and fiscal consolidation policies by sustaining the creation of a "true civic economy", focused on achieving social impact while reaching economic sustainability across sectors and geographical and organisational boundaries. The idea is to turn "public costs" into shared investment for the common good, encouraging the shift from the provision (or the

[48] See http://youngfoundation.org/promote_home/tipping-point-emergence-new-consensus-commonwealth-norway/

purchase) of social services by the public sector or – to a lesser extent - philanthropic entities, to the co-design, co-financing and co-delivery of social outcomes agreed by all the stakeholders involved.

Both in Norway and Portugal, public funding is being used not only to catalyse private funding in order to find effective solutions to entrenched social issues but, most importantly, to build "collective outcomes partnerships" in which co-funding is accompanied by co-design, co-delivery and joint monitoring of the good and services which are instrumental for achieving the agreed outcomes. We believe that this new model of public-private funding will be instrumental to tackle inequality and re-establishing long-term growth in Europe. For this reason we recommend the Commission to make sure that not only impact investing funds are considered eligible under EFSI (on an equal footing with European long-term investment funds), but also that their scope is not limited to funding social enterprises and encompasses more ambitious "systemic social innovation" projects to be undertaken in partnerships with local, regional and national authorities and all interested parties.

Conclusions

Growing social and public good investment: recommendations for EFSI

Evidence shows that unless we are able to reduce inequality and invest adequate resources to enhance and modernise European welfare systems, we will not be able to re-ignite long-lasting growth.

As we have started to see, there is not necessarily a trade-off between social and environmental impact and economic performance. Taking into full consideration projects' "societal" returns would certainly contribute to make EFSI's investments more valuable for society at large, while not undermining their profitability and therefore their attractiveness to private investors. Most importantly, the new Commission investment plan could induce positive change in the way investors take decisions and projects' proposals are structured, leading to more socially and environmentally sustainable financial markets. To achieve this, investments in public good, systemic social innovation and social investment should be promoted under EFSI, and every project funded, including "hard-infrastructure" projects, should be evaluated also for their social impact.

In fact, the EIB has already developed a framework to assess the non-financial benefits of public-private-partnerships, which could be updated and used to decide which projects should receive funding from EFSI. In the EIB's 2011 proposal, non-financial-benefits are defined as "socio-economic benefits to service users or wider society from an infrastructure investment". They can relate to accelerated and/or enhanced delivery of a project (particularly as far as infrastructure maintenance is concerned), but also to its "wider social impact".

Non-financial benefits are often difficult to translate into monetary terms. For instance, the aesthetic improvement of an area, consistency of proposals with government policy, replicability and innovation can be described and – to a certain extent – quantified, but not easily monetised. In other cases, "the value of benefits can be imputed from real or estimated prices associated with them. For example, the relationship between house prices and levels of environmental amenity, such as peace and quiet, may be analysed in order to assign a monetary value to the environmental benefit. Another approach is based on estimating willingness to pay by imputing a price from questionnaires and interviews. For example, interviewees can be asked how much they are willing to pay for improving the quality of services, time savings, etc. or how much they are willing to pay to avoid undesirable outcomes" (EIB 2011).

The growth of impact investment and shift of public tendering procedures to focus on outcomes achieved has driven a more evidence-based approach to assessing social value created. The taking-up of globally recognized reporting standards by large companies[49] is facilitating the analysis and comparison of information on the contribution of the private sector to achieving positive social impact. The Commission has several initiatives in place which could be instrumental to assess the social impact achieved by projects and organisations, including the Impact evaluation framework developed by the Expert Group on Social Entrepreneurship[50]. The methodological framework of analysis of the impacts generated by ICT-enabled social innovation initiatives promoting social investment which is currently being developed by the Institute for Prospective Technological Studies (JRC-IPTS) is another useful reference[51].

It is this approaches that should be used to assess EFSI's projects' social value.

[49] The Global Reporting Initiative guidelines are used by the 82% of the 250 largest global companies. https://www.globalreporting.org/Pages/default.aspx
[50] http://ec.europa.eu/internal_market/social_business/expert-group/social_impact/index_en.htm
[51] http://is.jrc.ec.europa.eu/pages/EAP/eInclusion.IESI.html

Recommendations

Evidence shows that unless we are able to reduce inequality and invest adequate resources to enhance and modernise European welfare systems, we will not be able to re-ignite long-lasting growth. As we have seen, both social investment and investment in public good can be economically rewarding, and a growing number of investors across Europe is ready to take up the challenge. Further to this, stakeholders from both the private and third sectors, as well as citizens and communities, are willing to step in - not only in a co-funder capacity, but also to help design, deliver and monitor the good and services which are instrumental for achieving the agreed social outcomes, taking into account the complexity of the underlying issues and their mutual relations.

We believe that, if the assessment of projects' "societal value" is taken seriously for the funding decision, Juncker's Plan could lead to a fundamental change in the way we invest in Europe, contributing to address inequality while inaugurating a new phase of economic growth and democratic participation.

Investments in public good and systemic social innovation, as well as social investment should be promoted under EFSI, and every project funded, including "hard-infrastructure" projects, should be evaluated also for their social impact. In order to achieve this, we recommend the following:

1) **"Societal value" in the new investment strategy has to be clearly spelt out, aligned with consolidated practice, and implemented in every investment decision.**
    a) Ensure that the "societal value" is **properly weighted in the projects' evaluation grid** (e.g. by assessing infrastructure projects' also in terms of local work-force upskilling, new jobs created, related RDI activities, smart specialization, partnerships with local actors etc.)
    b) Ensure that at least one member of the **Independent Expert Committe**e has **specific expertise** in evaluating social impact and that each member of the Independent investment Committee is provided with detailed information on the importance of taking into account the' "societal dimension" of every project.
    c) Ensure that the **Investment Advisory Hub** includes social investment and impact investing experts to provide guidance on how to evaluate societal impact and build effective public-private partnerships for social investments and investments in public good.
    d) Ensure that a share of the available funding resources are allocated for **social investments and investments in public good as ends in themselves** and not just as a complementary investment to hard infrastructure. This can be achieved by ensuring that **the "Investment Task Force" in charge of identifying strategic investment projects across member states includes experts in social investment and investments in public good.** Finding investable projects for the investment pipeline is the main obstacle to capital deployment in the social investment/public good fields. Therefore it is important to have both experts in terms of scouting projects and providing technical assistance to project managers. Technical assistance at the national level combined with an open and transparent process is recommended.
2) **Public and private funding streams have to be aligned within the new investment framework.**
    a) EuSEFs funds and other impact investment funds such as the EIF backed Social Investment Accelerator (SIA), recently re-capitalized with €610m (and a further €300m is in discussion with the EC) should be among EFSI's investment options and on an equal footing with ELTIF funds. Broadening the scope of the definition of social undertakings under the EuSEF regulation review (due in 2017) will be of the utmost importance in order to ensure the take-up of the label by impact investors and the quality and ambition of projects funded.
    b) Private impact investors (eg Bridges Ventures in the UK, OltreVenture in Italy) should be considered investible vehicles, and projects dealing with systemic social innovation should be encouraged with higher scores in the "societal value" assessment.

c) Impact funds capitalized through structural funds such as the recently launched Portugal Social Innovation Initiative and the Key Fund already operating in the North East of England offer viable opportunities to align the new strategy with cohesion policy, leveraging structural funds.

Appendix 1 - EU countries' social expenditure and share of social investment

This appendix reviews the trends in expenditure on social welfare (broadly defined) and social investment across Europe – within specific areas, such as education and employment, and across temporal and national dimensions.

Social expenditure trends across Europe

According to Vandierendonck (2014), total general government expenditure in the EU reached 49.0% of GDP, averaging €12,617 per inhabitant in 2013, of which more than half covered health and social costs. Based on Eurostat data, social expenditure accounted for the 29.5% of the EU28 GDP in 2012, but spending rates varied broadly across member states, from around 15% in Latvia and Estonia, to over 30% in Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, the Netherlands and Sweden. While all pre-2004 member states (except Luxembourg) spent at least 25% of their GDP on social protection, all post-2004 member states spent less than this.

In most countries, the largest component of social expenditure is old-age pensions, accounting in 2012 for 13.2% of EU GDP. The lowest levels are in Lithuania and Ireland (about 7.5% of GDP), and the highest in Greece and Italy (17.5% and 16.6% of GDP). The second-largest budget item is healthcare, which accounts for the 8.3% of the EU28 GDP, ranging from 3.2% in Latvia to 12.8% in Ireland.

Spending on disability in 2011 amounted to 2.1% of GDP for the third consecutive year on average in the EU, ranging from 0.8% in Cyprus and Malta to 4.1% in Denmark. While old-age and health expenditure increased by 1.2 and 0.8 percentage points respectively between 2003 and 2011, disability expenditure decreased by 0.1%.

Social investment expenditure

There are different approaches to classifying social investment expenditure. For instance, Hemerijck (2012) combines active labour market policies, childcare education, research and rehabilitation as proxies for social investment expenditure, while Nikolai 2012 considers family/child benefits, education and active labour policies.

Appling Nikolai's classification to the latest available Eurostat data, we find that the EU28 average expenditure for Family/Children benefits was 8.14% of total social expenditure in 2008 and 7.81% in 2011. In 2012, spending varied from the 3.50% of total benefits in The Netherlands to 16.18% in Luxembourg.

Unemployment benefits amounted to 4.94% of total social expenditure in 2008 for the EU28 and 5.35% in 2012 (around 1.89% of GDP), with Spain spending 14.03% of total benefits and Poland and Romania about 1.5%. Of these benefits, activation measures (including training, job rotation and sharing, employment incentives, direct job creation and start-up support) in the EU28 amounted to 0.5% of GDP in 2005, 0.44% of GDP in 2008 and 0.60% of GDP in 2012. Spending varies widely across European countries, with 15 countries (including all Eastern Countries except Hungary, and Germany, Greece, Italy, Cyprus and Malta) under the 0.5% threshold and only Sweden and Denmark surpassing the 1% threshold.

Public expenditure on education made up 4.91% of public expenditure across the EU28 in 2000, 4.92% in 2007 and 5.25% in 2011. In 2011, Denmark invested 8.75% of its GDP in education, Romania 3.07%. The average *private* expenditure in the EU28 amounted to 5.27% of GDP in 2002, 6.22% in 2007 and 6.85% in 2011. As for lifelong learning, in 2011 8.9% of persons in the 25-64 age range in the EU27 receiving some form of education or training in the 4 weeks preceding the survey. Scandinavian countries reported participation rates of 32.3% in Denmark, 25% in Sweden and 23.8% in Finland. The

Netherlands, Slovenia and the UK surpassed the 15% threshold, while Bulgaria, Romania, Greece and Hungary reported participation rates of less than 3%.

It is not possible to infer data on preventive healthcare policies from the Eurostat figures. However, according to Fourage (2008) only about 3% of current health expenditure is allocated to prevention programmes.

The context of social investment across Europe

This data confirms the findings of Nikolai (2012). Since the 1980s, it is mainly expenditure on old age insurance and pensions that has increased, and the social investment turn of the 2000s has not resulted in significantly higher public expenses for education and training, family and child benefits, health prevention or active labour market policy. Even considering demographic shifts or the growing role of private investors it is hard to justify this decrease in social investment policy expenditure either economically or socially.

Of course, there are broad differences between EU member states. According to Commission 2013a, social investment policy expenditure is higher than the EU average (7.5 % of GDP) in Belgium, France, The Netherlands, Austria, Ireland and Cyprus. It reaches more than 10% of GDP in the Scandinavian countries but it is relatively low in some southern and eastern Member States (especially in Bulgaria, Romania, Latvia, Czech Republic, Greece and Slovakia).

Social investment accounts for 21% of total social expenditure in EU on average, and is higher than 25% in northern Member States, in the Baltic Member States and in Cyprus. It is lower than 20% in Greece, Italy and Latvia.

Even the best performing countries have shown worrisome trends, for instance, in Sweden and Denmark there has been a shift to less costly forms of labour market activation, with counseling taking the place of training and a considerable reduction of unemployment benefits. According to De la Porte-Jacobsson (2012), who examined EU member states employment policies in the 1990s and 2000s, "there have not really been clear and massive shifts from passive to active expenditure on labour market policies in the EU-15, but expenditure for both is depleting, while participants in active labour market programmes are increasing in order to be able to receive benefits. Unemployment insurance has been reformed in most member states, increasing conditionality, decreasing the replacement rate, and decreasing the length of receipt of benefits. 'Activation' schemes are hardly comprehensive and individually tailored in line with the social investment agenda, but are instead workfarist, and there is more counselling than comprehensive training".

Even more alarming – considering the positive correlation between high rates of women in employment and poverty reduction, and between the availability of CEC and future career development prospects for children – is the decrease in public expenditure on families and children.

As for education, findings are confirmed and extended by the 2014 OECD Social Report, according to which "consolidation efforts halted the long-term trend of rising public spending on education: it declined relative to GDP between 2009 and 2010 in more than half of OECD countries, with cuts especially sharp in Hungary, Iceland, Italy, Sweden, Switzerland, and the United States." In the medium to long term, these cuts are likely to translate into lower student participation, reduced upward mobility for children of low-income families and a poorly skilled workforce, which in turn will lead to increased public spending for social protection and the re-building of the necessary social infrastructure.[52] Europe has been championing fiscal consolidation as the main way out of the crisis, but if we want to achieve the

[52] See OECD 2014: "Service cuts are typically not easily reversed. Temporary reductions in service capacity may eventually lead to higher costs than temporary changes to cash transfers or taxes, as staff need to be rehired or retrained or infrastructure rebuilt".

ambitious targets set out in the Europe 2020 Strategy, it will be necessary to scale up efforts to promote further coordination and integration of economic and social policies among member states.

Appendix 2 - The EU impact-finance market: Germany, Italy, France and Poland

In this section, we provide an overview of the social impact investing market in Germany, Italy, France and Poland. Our findings are based on Evers-Laville (2004), the G7 Impact Investing Taskforce Country Reports and on contributions provided by Jake Benford (Bertelsmann Stiftung); Fiammetta Fabris (Unisalute); Margaret Gralińska (Independent Healthcare Expert); Paolo Nardi (CDO Opere Sociali); Giovanna Melandri (Human Foundation); Izabela Przybysz (Polish Institute of Public Affairs) and Karol Sachs (Credit Cooperatif).

Germany

The German market is still in its infancy, and in 2013 only €24 million was invested into frontline organisations out of the €40 million under management, for a total of 29 deals. Public banks like KWF and cooperative banks have a good track record of providing finance to social organizations (about €9 billion is lent annually to the free welfare associations), and public grants and contracts are still the most important sources of income for most social organizations. But there is great interest for social impact investment, and especially from often underfunded municipalities. New funds are needed in particular for three kind of activities: prevention, innovation and scaling up of successful pilot initiatives. Furthermore, the increase in social impact investing could offer an opportunity to improve impact evaluation processes, which could become increasingly present in more traditional public and welfare associations: at the moment, there is indeed very little transparency on how public funding is used for social services.

Italy

Like Germany, the Italian social impact investing market is also in its infancy. Traditionally, third sector organizations are not-for-profit or, as in the case of cooperatives, profit distribution is strongly constrained. The legal framework is quite rigid and very diversified, with many legal forms available for different aims, meaning that social organizations are often compelled to create spin-offs adopting different legal forms and responding to different fiscal treatments according to the activities they specialize in. This diversity, while protecting the specificities of the sector, makes it extremely difficult to appreciate the market in a holistic sense and to coordinate and scale-up experiences that often have limited ambitions and geographical scope. While the social finance landscape is quite developed, including a wide network of cooperative banks, ethical banks and commercial banks offering specific products targeting the not-for-profit sector, financial models bringing together different investors with different risk profiles are rare, and investment products are still underdeveloped.[53]

The relative scarcity of funds and of a full set of financial instruments is mainly due to a lack of absorptive capacity on the demand-side of social investees, with most of them still heavily relying on public grants as their main source of funding. Additionally, the lack of financial skills within social enterprises and organizations is not only hampering the development of a social impact investing market but, more generally, it is one of the principal reasons for the limited nature of Italian social organizations and projects. Partnerships between the public, the private and the third sectors for the provision of welfare services are not as frequent as they could be, due not only to the lack of a conducive regulatory framework and financial capacity of third sector organizations, but also the lack of knowledge as to how different sectors can interface and begin to build a shared picture of what social good looks like. On one hand, third sector organizations often lament the fact that public authorities, especially at the local level, are seldom open to the concept of "partnership", preferring to contract out services with a top-down approach, and preventing third-sector organizations being able to work to their highest standards. On the other hand, public authorities, with very limited budgets at their disposal, tend to give precedence to basic services over more innovative initiatives, while looking to reduce administrative costs by dealing with a

[53] An exception in this regard is Oltre Venture, a fund established in 2006 to bring venture capital methodologies and tools to bear to meet social needs. About € 7.5 million have been raised from private individuals to date, which has been fully invested in 17 new enterprises, mainly in the social housing, micro-credit, and health care sectors.

limited number of services providers. On both sides, social impact evaluation is still an infrequent practice: public authorities evaluate at best outputs and costs, while both private and third sector organizations, if providing some form of social impact evaluation, adopt very different criteria and tools, making it difficult for investors to compare performance.

France

The economy modernization law adopted in 2008 made it compulsory for all enterprises implementing a corporate saving plan for their employees (Plan d'Epargne Enteprise) to include at least one solidarity fund in their offer by January 2010. More generally, mass market savers and pension holders in France are given the option of allocating their savings into solidarity funds (so called 90/10 funds) where 90% of funds are allocated to traditional mainstream investments and the remaining 10% to funding social enterprises, mostly with long-term loans at low interest rates.

In 2013, the Plans d'Epargne Enterprise accounted for 61.4% of savings invested into solidarity funds amounting to €3.69 billion, of which about €1.02 billion was directly invested into social enterprises. This sudden growth in available low cost funding, yet at the same time the inability of the third sector to absorb it all into socially beneficial projects, implies limited financial readiness of most social enterprises; meaning that more work is required to build organizational and financial capacities within the social economy sector while creating the right ecosystem for social enterprises to partner and grow.

Poland

In Poland, the social impact investment market is also underdeveloped, due to several interrelated factors: social enterprises and third sector organizations have limited understanding of financial instruments and yet have relatively easy access to grant funding; on the supply-side, the specificity and diversity of social enterprises makes it difficult for mainstream financial institutions to assess their credit risk, while the relatively small pool of potential borrowers and their small size (and financing needs) makes the market unattractive.

Of the investment products that are available for Polish social enterprises, the Polish-American Community Assistance Fund offers NGOs loans at a 12% interest rate, and the Fund for Social Economy in Małopolska, established in 2009 by a consortium of private and public entities, has provided 103 guarantees and some micro-loans for €1.2 million of investment, contributing to the creation of 32 social cooperatives and 35 microenterprises. In 2013, the BGK bank selected TISE, a private investment fund, as a financial intermediary to manage five regional funds targeting small and micro organizations and businesses having the creation of public value as a statutory objective. In its first 10 months of operations, the ES Fundusz, capitalized with around €6 million from the ESF, provided around 70 discounted loans (up to €25,000) to be reimbursed within 60 months. The facility also provides free consulting services for the credit beneficiaries. Based on the results of the pilot, which will run until 2015, a permanent National Fund for Social Entrepreneurship shall be established, to be capitalized with a mix of EU structural funds, a fraction of the corporate tax revenues and private investments.

In addition, microloans and guarantee funds and social venture capital funds are being piloted in several regions. For example, the Centre for Economic Development in the Warmińsko-mazurskie region is developing and testing a model of social venture capital targeting organizations active in vocational training and work integration with support from EU funds. Capacity building and investment readiness support will be provided together with seed funding to unemployed young people to become social entrepreneurs. Several local pilot projects aimed at developing financial products, testing credit risk assessment methodologies for social economy entities have been implemented (e.g. microloan funds in the regions of Dolnośląskie and Kujawsko-Pomorskie, the loan fund for NGOs implemented by the NIDA Foundation, the guarantee fund in Działdowo operated by the local development agency DAR.S.A and the Social Venture Capital fund in Pasłęk /Warmińsko-Mazurskie).

Appendix 3 - The role of government in catalysing impact investing: the UK case

Summary

Although the UK is not alone in facing pressures on the delivery of public services, it has made much effort to increase the capacities of its diverse social sector so that it too can play a role in public service delivery.

The development of a social impact investing infrastructure has been central to expanding the capacities of the social sector. Development of this infrastructure has been made possible as a result of the following initiatives:

- A co-ordinated approach from central government to champion the impact investment agenda.
- Creation of a capacity building ecosystem for social sector organisations.
- Targeted regulatory reform.
- Transparency & learning sharing initiatives.

In this case study of the UK experience, we outline briefly the pressured faced by public services, the existing role of the social sector and discuss the specific occurences within the above initiatives.

Context

Like most EU states, the UK has experienced demographic and economic pressures on the delivery of its public services:

Increased demand: the proportion of individuals aged 65 and over continues to increase; in 2010 over 65s made up 17% of the population, and by 2051 it is expected to be 24%, with nearly a third of this group over 85. The 'old age dependency ratio', which measures the number of people of state pension age for every 1,000 people of working age, is also expected to rise from 310 in 2008 to 342 in 2051. At the other end of the age spectrum, there has been a sudden increase in births. There were nearly 17,000 more babies born in England and Wales in 2010 than 2009, the equivalent to over 650 additional classrooms when the children start school. Without offsetting tax increases or spending cuts, these demographic pressures could increase budget deficits and, according to the UK government's Office for Budgetary responsibility, could "eventually put public sector net debt on an unsustainable upward trajectory".[54]
Fiscal constraints: the UK government's Treasury department's 2010 Spending Review outlined spending cuts across government departments averaging 19% over four years. In addition, it projected that capital expenditure would nominally fall from a total of £59.5 billion in 2010/11 to £47.1 billion in 2014-15. Analysts suggest that the strong funding settlements enjoyed by public services in previous years can no longer be expected today, the medium term and even long term.[55]

Within the context of these pressures there has been a move towards creating a greater plurality of public service providers in recent years. This has been coupled by a political consensus that increased competition for public service contracts can increase value for the taxpayer.

The social sector

Before exploring the steps taken by the UK government to make public service delivery more inclusive of the social sector and how the development of the social investment market has played a part, it is worth outlining the characteristics of the UK's social sector. There are over 160,000 charities and 70,000 social

[54] See 'Under Pressure: Securing success, managing risk in public services', PwC (2012) p. 10. Data from , 'Pension Trends Chapter 2 2012 edition', ONS, 2012; 'Birth summary tables, England and Wales, 2010', ONS, 2011, www.ons.gov.uk/ons/publications/rss.xml?edition=tcm:77-225702 ; 'Fiscal Sustainability Report', Office for Budgetary Responsibility, July, 2012.
[55] Information taken from 'Out in the Open: Delivering public service reform', 2011. Data from 'Spending Review 2010', HM Treasury, October 2010, p. 5 & 17

enterprises[56] in the UK with a combined annual income greater than £60 billion and workforce of more than 1.5 million people, representing over 4% of Gross Domestic Product and 5% of national employment.[57] Scale among these organisations, however, is rare. Only the top 100 charities have income of above £45 million per annum and there is a strong reliance on income from statutory bodies, with 35% of income coming from these sources.

Government initiatives to broaden the role of the social sector in the delivery of public services

On election of the Cameron-led coalition in 2010, the government expressed a clear commitment to the creation and expansion of social sector organisations, and the greater inclusion of these organisations in the running of public services.[58] To implement these commitments, the government intended to:[59]

- Make it easier for social sector organisations to bid for public contracts through, for instance:
    - Making the procurement process more transparent and accountable, by publishing opportunities on easily accessible databases and taking steps to ensure that the public sector discloses how much it spends on social sector procurement.
    - Educating public service commissioners as to the needs and sensitivities of the social sector
    - Promoting better dialogue between the social sector and commissioners, for example, by encouraging government departments to commit to the Compact principles of working with the social sector.[60]
- Make it easier to set up and run social sector organisations through the reduction of bureaucracy and incubation support for innovations.
- Increase social sector organisations' access to people, time and money, with expansion of the social investment being a central aspect of increasing access to the latter.

The social impact investment context

Active development of the UK's social impact investment market started in 2000 with the creation of the Social Investment Taskforce by the government's Treasury department, which called for a number of initiatives that were implemented over the next decade. These included:[61]

- Creation of a Community Investment Tax Credit (implemented in 2003).
- Development of funding partnership between government and the venture capital industry, entrepreneurs, institutional investors and banks to establish 'Community Development Venture Funds' (Bridges Ventures, founded in 2002, being a leading example).
- Encouragement for charitable trusts and foundations to invest in community development initiatives (through guidelines from government and changing grant-maker appetites, trusts and foundation have increasingly begun to use some of their endowments for social impact investing purposes).
- Greater support for Community Development Financial Institutions (CDFIs), including the creation of an effective trade association for CDFIs (the trade body for CDFIs, the Community Development Finance Association was launched in 2002).

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[56] Comprising a wide range of legal structures – from private companies limited by shares, community interest companies, co-operatives and mutual.

[57] This summary is taken from 'Building a social investment market: The UK experience', UK National Advisory Board, 2014, p. 5. Data from National Council for Voluntary Organisations Almanac 2012; Government estimates from the Department for Business, Innovation and Skills, Small Business Survey, 2010; Office for National Statistics, Blue Book, 2011; Charity Finance, Charity 100 Index.

[58] 'The Coalition: Our programme for government', HM Government, 2010, p. 29.

[59] Framework set out in 'Growing the social investment market: A vision and strategy', HM Government, 2011, p. 14. Updates on individual initiatives taken from 'Making it easier for the civil society to work with the state: Progress update', HM Government, 2014, pp. 8-9.

[60] An agreement between Government and social sector organisations to work effectively in partnership to achieve common goals and outcomes for the benefit of communities and citizens in England. See 'The Compact', HM Government, 2010.

[61] 'Enterprising Communities: Wealth beyond welfare', Social Investment Taskforce, 2002.

Beyond these points, the 2000s witnessed development of the market from a supply, demand and intermediation perspectives.[62] On the **supply** side, a wide range of investors entered the market, including private equity funds backing venture philanthropy initiatives, wealthy individuals and institutional investors investing directly in social enterprises.[63] The growth of new funds was accelerated by the launch in 2012 of the £600m, government backed impact investment wholesaler, Big Society Capital, an independent organisation investing into intermediaries making frontline social sector investments. Data on the main drivers for growth in impact investment **demand** is limited. However, it is clear that the 2008 economic crisis and the period of austerity that followed it had a highly adverse effect on traditional grant funding streams for the social sector, meaning that many organisations faced closure or adaptation, which often required new investment. Additionally, pressures on government budgets, on local and national levels, resulted in new commissioning trends such as payment by results and associated impact investing structures (social impact bonds) that required up-front funding that many social sector organisations did not have, which led them to pursue repayable finance as an option. At the same time, early efforts were made through government funds to systematise capacity building and investment readiness support on offer to frontline organisations. Futurebuilders, which opened in 2004, provided loan financing, often combined with grants and professional support, to help social sector organisations bid for, win and deliver public service contracts.[64] More recent investment readiness programmes are discussed below.

Over the course of the 2000s, many new investment intermediaries entered the market too – from providers of funds, such as Bridges Ventures, to early stage social venture support organisations such as UnLtd awarding small grants to get ideas for social innovation off the ground, to intermediaries experimenting with new financial models for delivering social value such as Social Finance, which was responsible for the development of the first social impact bonds.

Current state

The UK is now home to a leading social impact investing market, valued at approximately £202m in 2011/12,[65] with the possibility of growing to £1bn by 2016/17.[66] In 2011/12, 29 intermediaries were identified as actively investing, led by four large social banks and nine other entities. 90% of the value investments made in that year were through secured loans.[67] Outside of secured lending, the range of social impact investment products is relatively broad, comprising unsecured lending, quasi-equity, equity and a growing number of social impact bonds. In terms of demand however, research suggests that unmet need exists for products that can tolerate a higher level of risk in order to invest in innovation and the availability of more affordable finance at lower amounts.[68]

Supply of investment remains heavily dominated by government funds, charitable trusts and foundations and Big Society Capital. There have been significant steps towards promoting greater individual investor participation through Social Investment Tax Relief (effective from 2014) and retail investor products (such as social bonds) as well as the first steps to encourage broader institutional investor participation, such as local government pension funds.[69]

The UK government has consistently played facilitating role in the development of the market with the Cabinet Office, the office of the Prime Minister that co-ordinates actions between the different departments of government, being a particular champion. The fundamental role of government was summarised well in the 2014 UK National Advisory Board report to the G8 Social Impact Investing Taskforce: "The development of the UK market has been led by a strong focus on building robust diverse intermediaries. It has targeted access to deep pools of capital from specific sources. It has also

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62 For a more complete timeline, see 'Building a social investment market: The UK experience', UK National Advisory Board, 2014, pp. 13-27.

63 'Social Investment: Ten Years On', Social Investment Taskforce, 2010, p. 8.

64 'Building a social investment market: The UK experience', UK National Advisory Board, 2014, p. 16.

65 'Growing the Social Investment Market: The landscape and economic impact', City of London Corporation, 2012.

66 "The First Billion: A forecast of social investment demand', Boston Consulting Group, 2012.

67 'Growing the Social Investment Market: The landscape and economic impact', City of London Corporation, 2012, p. 3.

68 "The First Billion: A forecast of social investment demand', Boston Consulting Group, 2012, p. 16. Also, for a specific focus on the charity sector, see 'In Demand: The changing need for repayable finance in the charity sector', CAF, 2014.

69 'Building a social investment market: The UK experience', UK National Advisory Board, 2014, p. 6.

focused on building a case for social investment through supporting social organisations in public services delivery. This has all been driven by the committed support of central Government."[70]

Key features & lessons of the UK impact investment experience

The UK's National Advisory Board report to the G8 Social Impact Investing Taskforce identifies the following themes within the initiatives it considers to have been key to developing the UK market:[71]

1) Interplay of multiple actors – government, institutional and individual investors
2) Focus on development of an ecosystem that supported demand, supply and intermediation
3) Use of a broad range of interventions: policymaking, market initiatives, support programmes, infrastructure development (organisations) and product innovation
4) Ambition in terms of scale
5) Recognition of the need to find market champions, such as government and Big Society Capital
6) Recognition of the need for ongoing grant support, particularly in building capacity to scale

In what follows, we complement these themes by exploring four aspects of the UK market that could provide interesting lessons to policy makers across EU institutions and member states, for the purposes of developing social impact investment markets in their own countries: (i) the need for co-ordination and championing from central government; (ii) creation of a capacity building ecosystem for social sector organisations; (iii) the role of targeted regulatory reform; and (iv) the need for transparency and knowledge sharing initiatives.

(I) *A co-ordinated approach from central government to champion the impact investment agenda*

The development narrative of the UK social impact investment market is littered with references to arms of government that have had a catalysing role. It is the Cabinet Office in particular however, that has taken on central, championing role, supported by the residence of the Minister for Civil Society, within it. The Cabinet Office has achieved the following in relation to developing the social impact investment market:

- Shared knowledge with sector stakeholders, ranging from technical implementation knowledge (for example, Cabinet Office manages the Centre for Social Impact Bonds[72] resource online), data (the most prominent example being the Unit Cost Database,[73] which compiles public service costs (discussed below)) and information on where products and services delivered by the social sector can be accessed (the Buy Social Directory, developed in partnership with Social Enterprise UK). Cabinet Office staff also provide verbal updates regarding government initiatives at national and regional sector events.
- Implemented sector strengthening initiatives, for example:
    - Funds – namely the Social Incubator Fund,[74] a £10m fund to support organisations the that help develop and grow social start-ups and social entrepreneurs; the Investment and Contract Readiness Fund,[75] also a £10m fund to help social businesses secure social investment and bid for public service contracts; and the Social Outcomes Fund,[76] a £20m

[70] Ibid., p. 10.
[71] Ibid., p. 27.
[72] The Centre for Social Impact Bonds has the following aims: 1. building a repository of expert information and guidance on how to develop SIBs; 2. making available practical tools so that SIBs can be developed easily and cost-effectively; 3. providing funding for a portion of outcome payments for new SIBs; 4. showcasing how SIBs are transforming public service delivery and building an evidence base of what works and 5. stimulating and sharing the latest thinking, research and media coverage on SIBs. http://data.gov.uk/sib_knowledge_box/
[73] Quality assured by New Economy in co-operation with HM Government: http://neweconomymanchester.com/stories/832-unit_cost_database
[74] http://www.biglotteryfund.org.uk/global-content/programmes/england/social-incubator-fund
[75] http://www.beinvestmentready.org.uk/
[76] https://www.gov.uk/government/policies/growing-the-social-investment-market/supporting-pages/top-up-fund-for-social-impact-bonds

top-up fund to support social impact bonds and payment-by-results projects working on complex and expensive social issues.
- The Red Tape Challenge, a government-wide initiative to reduce bureaucracy, including the removal of conflicting rules and exclusions in the current legal and regulatory structure that governs social investment.[77]

- Co-ordinated policies and initiatives between different government departments. For example, working with the government tax department, HM Revenue & Customs, and the Treasury to implement the Social Investment Tax Relief.

Lessons

Impact investing is a means of expanding the capabilities of the social sector, which can use these funds to deliver public services. Because this does not fall within the remit of one government department, it follows that a central actor can be helpful in co-ordinating policies and efforts, sharing learning and implementing sector strengthening initiatives. Across Europe, different contexts may preclude a given central authority (be it government departments of member states, or organs of the EC) taking on all of the activities attributed to Cabinet Office in the UK as listed above. However, we hope that this discussion raises questions for policymakers as to (1) what body, within their sphere of influence, would be an appropriate champion and facilitator of these activities; and (2) if only one of these activity strands could be implemented, which one would be most useful for their context. On this latter point, it is worth clarifying that knowledge sharing, sector strengthening and cross-departmental coordination are naturally complementary activities, and yet at the same time, they are discrete activities that do not require adoption altogether and all at once. What is important is that whichever of these activities is adopted, they are led by a central authority to ensure consistency and clarity of information and initiative.

(II) ***Creation of a capacity building ecosystem for social sector organisations***

Over time, the UK impact investing market has evolved an ecosystem of support for social sector organisations that may benefit from repayable finance. This ecosystem comprises a range of support providers (private sector, social sector, government), relationships (pro bono; commercial, paid for consultancy; through support programmes) and programme focus (thematic; organisational development; outcome – capacity building, impact investment readiness). Whether access to impact investment is the primary goal of the support provided (or not), most support tends to contribute to it. The underlying point is that there is a range of support packages available to the social sector in the UK and these strengthen organisations' capacity to take on repayable investment.

The support programmes on offer have changed and will continue to change, responding to the needs of the market. Here we give some illustrative examples of these:

Programme	Funder	Who is it aimed at?	What does it deliver?
Social Incubator Fund	Cabinet Office	Start-up and early stage social enterprises	The establishment of a number of social venture incubator programmes across the UK, ranging in geographical reach and thematic focus
Big Potential	Big Lottery Fund	Early stage social enterprises aiming to access impact investment and contracts of up to £500k	Capacity building grants that afford expert consultancy for frontline organisations

[77] https://www.gov.uk/government/policies/growing-the-social-investment-market/supporting-pages/red-tape-challenge-improving-how-social-investment-is-managed

Investment and Contract Readiness Fund	Cabinet Office	Relatively mature social enterprise, aiming to access impact investment and contracts in excess of £500k	As above
Big Venture Challenge	Big Lottery Fund	Social enterprises with growth potential and delivery track record	An intensive investment readiness support programme, investment brokerage and match funding of investment

Lessons

A 2012 report identified that support available for social sector organisations varied across the four countries of the UK and was influenced by how support was financed, and whether it was closely connected to local need and to the supply of capital available.[78] It suggested that smaller countries, such as Northern Ireland, managed to deliver a more coordinated structure of investment readiness provision than other countries, taking advantage of their smaller but tighter networks across the sector.

The same report suggested that non-targeted support may be more suitable in the earlier stages of investment readiness. The more costly and time-consuming tailored support is then reserved for organisations that have advanced beyond early stages of preparation and seek to tackle more specific and / or complex needs. Categorizing investment support into generic and bespoke provision can help make support as cost effective as possible.[79]

Policy makers from across Europe should think about the needs of social sector organisations within their jurisdictions and consider what support packages can be delivered.

(III) *Targeted regulatory reform*

Since 2000, a number of regulatory changes have been made with the aim of supporting social sector organisations and the impact investment market:[80]

New regulation	Outcome
Community Investment Tax Relief (2002): A tax incentive for institutional and individual investors to invest in Community Development Finance Institutions (CDFIs) in the UK. The scheme was a recommendation of the Social Investment Task Force in 2000 to attract significant funding into CDFIs. It is available to any individual or company with a UK tax liability where the investment is held for at least five years. The taxpayer receives a relief of 5% of the amount invested per annum, in addition to any interest or dividend paid by the CDFI.	Take-up of the scheme has been limited (less than £100m, and 40% of this through one institution, the Charity Bank); only a minority of CDFIs became accredited to use it. Its design was too complex, the terms under which it can be used are too restrictive and public awareness has been limited.[81]
Community Interest Company (CIC) (2004): A company legal structure designed for social enterprises that want to use their profits and assets for public good. These have three unique features: (1) they must have	In 2014, the number of CICs is now close to 10,000, and the number of applications increased 20% on 2013.[82]

[78] Investment Readiness in the UK', Big Lottery Fund, 2012, p. vi
[79] Ibid.
[80] Information taken from 'Building a social investment market: The UK experience', UK National Advisory Board, 2014.
[81] 'Social Investment: Ten Years On', Social Investment Taskforce, 2010, p. 10.
[82] Regulator of Community Interest Companies, Annual Report, 2013/14

activities carried out for the benefit of their communities; (2) there is a limit on how the amount of reserves that can be drawn out of the venture for non-community purposes, such as dividend payments to investors; (3) they must publish an annual report of their activities to the CIC regulator.	Although the CIC has legitimised and normalised the concept of a social enterprise, the dividend restrictions to external investors have been a significant disincentive to the supply of growth capital (such as equity).
Social Value Act (2012): Designed to open up more opportunities for social enterprises to win bids for the delivery of public service, the Act requires public sector agencies, when commissioning a public service, to consider how the service they are procuring could bring added economic, environmental and social benefits. In having to factor in social impact in public service procurement decisions, it is hoped that the number of social sector organisations needing financing will increase.	The Social Value Act came into force in early 2013. There is limited data on the impact it has had on the sector, although there is some evidence that commissioners are beginning to embed consideration of social value in their practice.[83]
Social Investment Tax Relief (2014):[84] Introduced to address the gap in the tax system for incentivising risk capital for small social sector organisations, this relief will give individuals investing in qualifying social organisations a reduction of 30% of that investment in their income tax bill for that year. The Social Investment Tax Relief is aims at creating a level playing field between small and medium sized, private and social sector investment propositions. However, under EU state aid rules, the maximum investment amount is approximately £275k over 3 years, which is considered to be a limiting factor on the scheme.	It is too early to tell whether the Social Investment Tax Relief will have the intended effect of bringing new capital, particularly from high net worth individuals, into the sector. However, the UK government is seeking consultation on enlarging scheme so that larger amounts are investable.

Lessons

It may be tempting for policy makers attempting to encourage the development of an impact investing market in their own states to seek regulatory reform as a catalyst. In the UK, this has so far had limited success.

(IV) *Transparency & knowledge sharing initiatives*

Efforts are increasingly being made to share knowledge and best practice at all levels of the UK's social impact investing sector. In this section, we consider some of these initiatives:[85]

- **Big Society Capital**: as well as providing an injection of investment capital into the sector at the wholesale level, Big Society Capital's role has been to build the social impact investment market in the

[83] 'The Public Services (Social Value) Act 2012: One Year On', HM Government, 2014
[84] Full details on tax relief mechanisms can be found here: https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief
[85] Taken from 'Building a social investment market: The UK experience', UK National Advisory Board, 2014.

UK – a task achieved largely by sharing information and best practice. Amongst these activities, it publishes an annual compendium bringing together the latest available research on the market,[86] shares a directory of known social investment and finance intermediaries in the UK[87] and publishes information on its own investments made into the sector in its annual report.

- **What Works Centres**:[88] a network of seven independent specialist centres to support evidence-based policy-making, particularly in areas where the evidence base is limited. The centres cover health and social care, educational achievement, ageing, local growth, crime reduction and effective early intervention. The Centres, independent of government, collate published evidence on the effectiveness of interventions, assess these using a common 'currency', publish synthesis reports and share findings in an accessible way with practitioners, commissioners and policy makers. In doing so, they have the potential to be a major force for consolidating a common understanding of social impact and for compiling evidence-based recommendations on public service procurement.
- **Unit Cost Database**:[89] the aim of this database to help commissioners, providers and intermediaries articulate the value of the services delivered by social sector organisations in terms of monetary savings to public finances. The database provides more than 600 cost estimates in a single place, most of which are national costs derived from government reports and academic studies. The costs cover crime, education and skills, employment and economy, fire, health, housing and social services. The costs can be used by local commissioners, charitable organisations and social enterprises to inform social impact bond proposals for new interventions or the redesign of existing public services and feasibility studies and evaluations.
- **Investment intermediary led initiatives**: increasingly, organisations lending directly to frontline social sector organisations are sharing data and learning from their experiences. For example, the EngagedX initiative aims to aggregate and analyse investment data from individual investors, in order to better understand the market, drive transparency, investment flows and push impact investing to become more like an alternative asset class.[90] Some investors are beginning to discuss with their peers what failure in the impact investing context looks like and why it happens.[91] Other investors, like Charity Bank and Social Investment Scotland, publish lists of all investments made in a given year.[92]

Lessons

Transparency and knowledge sharing initiatives contribute to making the impact investing market more efficient by facilitating a better understanding of:

- Trends in terms of the supply and demand for capital, identifying the types of capital needed and where, as well as its potential sources
- What interventions work to tackle particular social needs
- The costs and benefits involved in delivering these interventions and the business models that implement them. This allows intermediaries and commissioners to identify what is sustainable and high impact, leading to (in theory) more effective pricing of investment products, reflective of actual risks borne and social benefits created.

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86 http://www.bigsocietycapital.com/sites/default/files/pdf/20140912_Market%20Intelligence%20Compendium_2014_FINAL%20%282%29.pdf
87 http://www.bigsocietycapital.com/open-funds
88 http://www.bigsocietycapital.com/key-documents
89 http://neweconomymanchester.com/stories/832-unit_cost_database
90 http://www.engagedinvestment.com/engagedx.html
91 CAF Venturesome is currently working on a paper on this subject and has held discussions with sector peers.
92 Charity Bank: http://www.charitybank.org/sites/default/files/pdf/Charity%20Bank%202014%20Portfolio.pdf
Social Investment Scotland: http://www.socialinvestmentscotland.com/files/6014/1131/0474/list_of_SIF_customers_2014.pdf

Appendix 4 - Social investment priorities across different European welfare systems and the role of third sector organisations[93]

Different welfare systems face different challenges and influence the size, composition and role of the third sector. The size of the so-called third sector in Europe varies according to the different definitions which have been proposed over time. While for many years the sector has been associated with social sector organizations and associations, the rise of more economically sustainable business models in the 20th century has led to a broader definition. More recently, with the spread of social enterprises and profit-with-purpose businesses, the traditional distinction between for-profit and non-profit organizations has blurred, and the third sector has come to encompass every commercial or non-commercial organization or business whose principal objective is achieving a positive social impact.[94] This syncretic approach has been adopted by the Commission in its definition of social businesses as "companies that have a positive social impact and address social objectives as their corporate aim rather than only maximizing profit",[95] irrespectively of their legal forms. According to the Commission, "social economy enterprises represent 2 million enterprises (i.e. 10% of all European businesses) and employ over 11 million paid employees (the equivalent of 6% of the working population of the EU): out of these, 70% are employed in non-profit associations, 26% in cooperatives and 3% in mutuals". Of course the size and characteristics of the third sector, as well as its role as a co-funder and provider of welfare services, vary to a great extent across Europe.

According to De la Porte-Jacobsson 2012 European Member States can be divided into 5 groups relating to their welfare model:

1. **Nordic countries** (Denmark, Sweden, Finland) enjoy mostly universal, tax funded welfare states, with very high labour market participation and high unemployment benefits coupled with active labour market policies. The main challenges faced by Nordic countries are gender segregation in the work-place, the integration of migrants and the need for fiscal consolidation.

2. In **English speaking countries**[96] (UK, Ireland) the role of the State is limited to acute market failures, and uptake of private/third sector welfare provisions is strongly supported. While education and health are still mainly publicly funded, social benefits have become increasingly work-related. This has led to a rising of both inequality and in-work poverty over the last decades, with certain categories. Industrial relations are poorly coordinated, with moderately strong unions and low levels of collective bargaining coverage.

3. **Continental welfare states** (Austria, Belgium, France, Germany, Luxembourg, The Netherlands) present a mix of statist, corporativist and familialist traditions. Social protection is low for people who have not enjoyed stable, lifelong employment, and rigid employment guarantee and regulation exacerbate the disparity between employed and unemployed. In addition, fiscal consolidation needs are negatively affecting the uptake of social investment oriented policies.

- In **Germany** the changing demographic has strongly affected the demand for welfare services and especially for health care. An innovative "Prevention law" is being passed which will oblige healthcare providers to work preventively within the whole range of the healthcare services. A more country-specific problem is long-term unemployment. While unemployment rates are relatively low in Germany, long-term unemployment rates are higher than the EU average. This is mainly due to the lack of alternatives to formal qualifications that are prized in the job market, meaning that those who fall out of the formal education system find it difficult to connect with employment opportunities. Migrants are overrepresented within the category. The government allocated a €150 million budget to address the issue through specific training programmes and prevention measures that will target mainly two categories of end-users: teenagers aged 14 to 15 who are at risk of leaving school and young people aged 20 to 30 who did not attain any formal

[93] Case study n. 3 is based on Evers-Laville 2004, on the G7 Impact Investing Taskforce Country Reports and on contributions provided by Jake Benford (Bertelsmann Stiftung); Fiammetta Fabris (Unisalute); Giovanna Melandri (Human Foundation); Paolo Nardi (CDO Opere Sociali); Izabela Przybysz (Polish Institute of Public Affairs) and Karol Sachs (Credit Cooperatif).

[94] Of course the debate on the definition of "third sector" is still lively, for an overview see e. g. Evers-Laville 2004.

[95] http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/

[96] See Hemerijk 2002 and 2012 and De la Porte-Jacobsson 2012.

qualifications. In Germany, welfare services are provided mainly at municipal level and in part at regional level, with municipalities often underfunded and legally prevented from going into debt. Welfare service providers can either be public (mainly operating at local level), private or private not-for profit. The private sector begun to play a role only very recently, as a consequence of the healthcare reform that in 1995 introduced an integrative insurance system, creating this way an entirely new market. More recently, a law granting the universal right for childcare for under 3 year olds further opened up the social system to private players. The private not-for profit sector has been dominated, since the times of the Weimar Republic, by 6 large, heavily subsidized, very structured and well organized "free welfare associations" bringing together more than 100,000 individual organizations, employing about 1.4 million people and generating an annual turnover of about €55 billion. These associations have developed impressive infrastructures and know-how, and while they are not perceived as being particularly innovative, experimentation and innovation can be very frequent among member associations, to the point that a new term, "intrapreneurship", has been coined to designate the most innovative projects and programmes born within them. Outside of these associations, social enterprises are not very widespread in Germany, either in terms of turn-over or the number of employees; even though, they have been very vocal and put a lot of pressure on traditional welfare associations to demonstrate how they are innovative. In fact, if they want to have an impact, social enterprises must find a way to collaborate with the free welfare associations.

- In **France**, the social economy sector encompass about 200,000 organizations, responsible for 2.4 million jobs (with a 10% growth over the last decade) and accounting for 10% of national GDP. Most welfare services are still funded and provided by the public sector, and political barriers to contracting-out services to the private sector are relatively strong. At the same time, the role of the third sector as an alternative provider of services has become increasingly important and recognized, and innovative partnerships and co-design of services is becoming mainstream. While public grants still account for 24% of French associations revenues (€20.4 billion in 2011 in absolute terms), public procurement that takes into account social impact is becoming a major source of funding for social enterprises, accounting for €3.96 billion in 2012, with a growth rate of 2.7% between 2007 and 2012. Responsible supply from for-profit enterprises is also growing rapidly, and it is estimated that this market will amount to €50 billion by 2020. The French third sector also has a pivotal role in developing services answering to social needs not sufficiently covered by the state, as in the case of "entreprises d'insertion" which produce goods and services while employing disadvantaged categories (including long-term unemployed). Childcare and early years education are two social investment fields that are not yet sufficiently covered by the public sector, where the potential contribution of third sector organizations is therefore particularly high.

4. The **Mediterranean rim** (Greece, Spain, Italy, Portugal) is also based on a contributory welfare model, with extremely low employment rates for women and young people, high pensions expenditure and rigid labour markets. The crisis has exacerbated the situation, and social protection systems are struggling to adjust to significant cuts in public spending.

- In **Italy**, an ageing population has already produced a dramatic impact on the national welfare system, and the sharp increase in chronic-degenerative health diseases over the last decades created a new demand for health services. This, in a context where citizens are already burdened with health costs of around €30 million per year that are not covered by the Italian national health service, such as dentistry, certain medicines and specialized diagnostics. The fact that health services are managed at regional level and not systematically monitored make it difficult to evaluate the system's efficiency. Despite this, there are signs of new initiatives: for instance, in the last 5 years, the development of integrative welfare as a contractual prerequisite led to a dramatic increase of people enjoying full health coverage, in total, around 10 million now. Another important initiative consisted in obliging integrative health fund to allocate at least 20% of their resources to dentistry and disability, creating a market which was previously almost non-existent. Women are currently carrying the burden of intergenerational care, which heavily affect their employment rates and working life. The crisis further exacerbated the situation: cash transfers seem not sufficient for dealing with the soaring rate of unemployment, which in turn is eroding the pool of contributions that feed public benefits and pensions. In particular, youth unemployment has arrived at the levels of 1977, over 40%. As a consequence, emigration to other countries also skyrocketed. Finally, an emerging societal challenge, which could be considered as an inconceivable problem in Italy a few years ago, is food insecurity. According to Coldiretti, together with 579,000 over 65 year olds (+14% compared to 2012), who had to resort to food aid, in Italy there were 428,587 children under the age of 5 who in 2013 needed help just to be able to drink milk or eat. The supply side of public services is inadequate if we consider that the Italian State invested only 4.8% of public spending in family support schemes and 0.3% in poverty and social exclusion policies in 2011. Only recently, the Italian Government, which up to this moment has mainly focused on passive welfare measures (such as the pension reforms of 1995 and 2013), has started to build the data infrastructure necessary to systemically analyze public spending and the delivery of social services in some sectors (health and education, e.g. SISM, SIND, etc.). However, even for those sectors, still much has to be done. There exists no common methodological framework, and interoperability is still far from being achieved.

In **Italy**, the third sector includes about 470,000 registered associations and 14,000 social cooperatives and is responsible for around 1 million jobs and €38 billion turnover – although it is heavily dependent on public funding. It has also taken on a pivotal role in terms of quantity and quality of services provided. But experimentation and collaboration between the non-profit and profit sectors, and between public and private sectors are becoming more common; for instance 74 new socially-oriented enterprises have been recently created by the GCM Cooperative Group, which, while pursuing a social mission, also produces revenue from commercial activities, and which in 2012 generated economic value of over €50 million. Regulatory action is required in order to create a more supportive environment for social organizations and particularly for social enterprises. The Italian Advisory Board of the G8 Taskforce on social impact investing has pointed out the need for an inclusive definition of social enterprise for regulatory purposes, which would encompass the traditional social economy (cooperatives and social cooperatives) together with new hybrid forms (profit/non-profit), sharing economy platforms/applications, multi-utility companies and those of Community interest. The role of the private sector, historically negligible, has been growing in importance in the last two decades, but is still hampered by a rigid labour market and heavy taxation.

5. **Eastern European welfare states** (Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia) are characterized by low social protection spending, low labour costs intended to attract direct foreign investment and very weak industrial relations and union movements.

- In **Poland**, a topic which has been widely debated is its ageing population. The country has seen a disproportionate fall in fertility rates in the last two decades, with young people under 17 shifting from being 29% of the population in 1989 to the 18% in 2012, while over 65s are predicted to comprise 30% of the total population in 2050, making Poland the oldest country in Europe by 2060. In spite of the availability of data and projections, public response has staggered: elderly services are underdeveloped, and care is almost totally up to families. More generally speaking, healthcare is perceived as an increasingly worrisome issue, with poorly accessible public services and large out of pocket costs and a lack of data on service use. In common with other Eastern European countries Poland needs to deal with legacy costs of centralised, supply driven system based on very expensive inpatient care that is both financially and clinically inefficient, prevents private and third sector investment and where incumbents are the main barrier to any reform. Given the advances made by other EU countries, especially Nordic and Scandinavian in ambulatory and community care Poland is currently 25-30 years behind, and with no signs of paradigm shift designed to reach international benchmarks. Low labour costs and preferential tax treatment seem no longer a satisfactory way to economic growth, but the expected shift from the low-wage/low-skills economic model to more innovative developmental strategies has not been accompanied so far by an increase in research and education expenditure levels, which amounted at 0.9% of GDP in 2012.

  In Poland, a traditionally very strong cooperative sector – which developed between the 19th and 20th centuries and was then nationalized under the communist regime and put in charge of housing, integration of the disabled, agriculture, small craft and services delivery -has been struggling in the last 15 years to find a new identity. While the great variety of co-existing legal forms makes it difficult to estimate how many organizations are active in the social impact field, estimates from the Council on Systemic Solutions in the Field of Social Economy appointed by the Polish Prime Minister in 2008 to put in place a national strategy to foster the sector, indicate that there are about 77,000 organizations carrying out services of public general interest. Of this, about 4,500 (mostly associations and cooperatives), were engaged in revenue generating activities in 2012. As of early 2014 there were close to 900 social co-operatives, many of which very recently established. The number of social co-operatives has been growing quickly in recent years driven by substantial financial resources directed towards them by government. High start-up rates have been accompanied by high failure rates, mainly due to the lack of social infrastructure and capacity building and support services. There is insufficient data from which to estimate the number of social enterprises among limited liability companies and corporations, but the overall number is likely to be very small.

Developing a multi-sectoral, collaborative approach

Practitioners all across Europe have identified that an important barrier to the creation and scaling-up of innovative social services bringing together the public, private and third sectors is the lack of mutual trust and understanding between representatives of these three sectors. From the public sector point of view, it is important to highlight how involving private actors into the funding and provision of public services of general interest is often very difficult politically, being perceived by the general public as an attempt to retrench and discharge responsibility. Especially when the for-profit sector is involved, the potential advantages brought to beneficiaries by increased market competition and the consequent availability of more and cheaper services are not perceived as offsetting the risk of a privatization of services, and therefore of reduced accessibility and quality of services. Also when the public sector is willing to partner with the private and third sectors, time and budget constraints are often at odds with the possibility of co-designing innovative services so as to take full advantage of the partners' characteristics and know how, and this situation is further aggravated by the lack of mutual knowledge and therefore by the difficulty in identifying from the beginning the right stakeholders to involve for the setting-up or implementation of a particular service. Additionally, third-sector organizations often lack sufficient management and financial capacity when it comes to scaling-up services beyond the pilot phase. On the other hand, third sector organizations often complain of being treated as mere executioners of orders to be summoned only in emergency situations. Local authorities are often accused of affecting in a negative way the sector activities by precluding intervention in certain areas or fields.

One remarkable example of this tension between the public and third sector is provided by ANT (National Cancer Association), a foundation that for over 35 years has been active in the palliative care and pain management field in Italy. Since 1985, ANT has assisted 100,000 patients in their homes, in 9 Italian regions, completely free of charge. In 2013, ANT assisted 9,962 patients – 10% of the total number of patients treated under the "Integrated Home Care" public programme in Italy, providing more than 1,315,126 days of care, 24 hours per day, every day of the year, through 20 multidisciplinary teams including 400 paid professionals and 1800 volunteers. The foundation carries out many activities, including education and training and research and prevention projects, but its core business is homecare for the very sick. The peculiarity of the ANT approach lies in the integration of the services offered: not only medical home-care provided by trained doctors and nurses, but also specialized care provided by nutritionists, physical therapists, psychologists (who are available not only for the patients, but also for their families) and social assistance (for instance, "solidarity packages" providing food for families with economic problems). All the activities are supported organizationally by a data management system, connected with the local healthcare system, which helps medical organizations to plan and manage these programs using innovative technologies such as mobile cloud computing. Both the Foundation and the home-care services – called Eubiosia "the good life" in ancient Greek – are economically sustainable. Of the Foundation's €22m income in 2013, only 16% came from contracts with local authorities for the provision of services. Expenses in 2013 accounted for 20,825,785. As for the Eubiosia project, 100 days of ANT care cost on average €2,100, plus about €50 per day per patient for the medicines which are paid by the NHS. On the other hand, based on Health Ministry data, the average cost of 100 days in specialized in palliative care amounts to €24,000 euros, while hospitalization is worth around €78,000 . Considering that 78% of ANT patients die at home (which is the wish of the 79% of Italian patients according to a 2010 ANT survey) against the 57.9% national average, the potential efficiency gains for the public sector are striking. Most importantly, the quality of the services provided by ANT is clearly higher than that of its public counterpart, as proved not only by the results of patients satisfaction surveys, but by the fact that, according to Beccaro (2007), only a very low proportion of Italian cancer patients received palliative care support: 14% of those cared for at home and 20% of those admitted to hospital, against the 100% of ANT patients. Clearly, the fact that only 18% of ANT revenues stem from public tenders signals that more must be done to sustain public-third sector partnerships in order to spread and scale-up successful experiences.

Clearly, promoting intersectoral mutual knowledge and communication will be instrumental to the success of the mixed social investment perspective. At the same time, awareness raising and communication campaigns making citizens and politicians aware of the difference between partnering and contracting out and the need to maintain social protection while promoting social investment are strongly needed.

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