INCLUSIVE FINANCE: SOCIAL IMPACT INVESTMENTS FOR A NEW ECONOMY

Italian Report of the

Social Impact Investment Task Force

Established by the G8

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Foreword

by Graziano Delrio

The topic of change, so forcefully pursued by this new government, is of key importance in order to try to overcome the economic crisis with courageous solutions, even in the face of apparent dead ends.
Social Impact Investment, as discussed in the report of the G8 Task Force chaired by Sir Ronald Cohen, is undoubtedly one of these new and courageous answers that are so sorely needed.

This provides strong impetus for a change of paradigm, as suggested by Giovanna Melandri[1].
We must thus encourage and support the efforts of those attempting to assess the practicability and necessity of competitive, innovative tools to re-think an economy where, for once, everyone wins – or better yet, everyone benefits.

The crisis notwithstanding, guaranteeing social cohesion is beyond the limited ability of services – whether private or public – to respond. What makes a person feel acknowledged, a citizen part of a community, and a community able to participate in a leading capacity in the complex dynamics of a broader context – whether it is a country, Europe, or today's globalized world - is a combination of actions, interests and relations, produced by multiple actors in a variety of contexts, whose main point of reference is the public system.

Now more than ever, the public system is called upon to play a steering and governance role where the social fabric is fraying and where social cohesion is beset by tension. At the same time, it appears increasingly unable to provide direct answers. A concrete application of the principle of subsidiarity, through virtuous contents and concrete actions, is an attempt to bridge this gap, and to imagine new and positive forms of cooperation between the institutional system and the plethora of socio-economic stakeholders working to meet new and increasingly urgent needs for welfare and services.
This is a wide-open space, in cultural even more than in market terms, for innovative, social, and young entrepreneurship.
This potentially growing and undoubtedly strategic sector is the focus of both the 'Reform of the civic sector and social entrepreneurship and for the regulation of universal civil service' law that the government recently submitted to Parliament, and of the law on international cooperation, which was recently approved definitively.

At the same time, with the approval of the partnership agreement, the State and Regions will be called upon to make a clear commitment to their local territories and cities, on behalf of businesses and individuals, to the optimal and full use of Community funds for the Cohesion and Competitiveness objectives. Within the framework of sustainable, intelligent, and inclusive growth, as part of a national plan for recovery which the Italian government and the European Commission worked together on, the use of the European Social Fund will be a valuable tool in making strengthening social capital once again a central issue, and in entirely new ways.

1 Chairwoman of the Italian Advisory Board to the G8 Social Impact Investment Taskforce

Reducing unemployment and improving active citizenship, cohesion, and social protection; facilitating participation and personal development; investing in lifelong training; and improving the quality of services guaranteed by the Constitution: these are the goals we intend to achieve and sustain over time.

A precious ally in this challenge, especially the implementation of policies in the field, is the vast and complex community working on issues related to social innovation.

Only if we win this challenge will we see a greater sense of belonging and mutual trust that binds lives and identities together in a shared project. This growth is no less important than that measured by more traditional indicators, because "trust in the future" is the essential condition for economic and productive recovery.

Graziano Delrio
Undersecretary to the Office of the Prime Minister

Introduction

by Giovanna Melandri

> *"He understood: that association renders men stronger and brings out each person's best gifts, and gives a joy which is rarely to be had by keeping to oneself, the joy of realizing how many honest decent capable people there are for whom it is worth giving one's best (while living just for oneself very often the opposite happens, of seeing people's other side, the side which makes one keep one's hand always on the hilt of his sword). So that was a good summer, the summer of the fires. There was a common problem which everyone had at heart to resolve, and each put it above every personal interest, and all were repaid by the pleasure of finding themselves in agreement and mutual esteem with so many others."*
>
> (Italo Calvino, *The Baron in the Trees* – ch. XIV)

A spectre is haunting the world: the spectre of the effects of the lengthy post-Fordism transition, the technological revolution, with its romanticized and ambivalent contents alternatively described as the key to overcoming any barrier to sustainability or as the very cause of these obstacles.

The technological revolution of the last few decades and the profound global changes that ensued helped radically change the face of our society, for better and for worse. Economic cycles have entered a recessive spiral and many traditional policy instruments now seem insufficient. This transformation must urgently be accompanied by a massive dose of social innovation.

This is the initial premise for the work that inspired over the last few months the "Social Impact Investment Task Force" established by the G8 and chaired by Sir Ronald Cohen, the creator of the British social finance system and the father of the Big Society: in order to harvest the positive potential of the on-going technological revolution, the word 'innovation' must necessarily, and urgently, be accompanied by the word 'social'. Evoking the innovation society as a miraculous force is no longer enough. Financial collapse, structural youth unemployment, the exclusion of billions of human beings from social dignity, environmental emergencies, and global warming are but a few symptoms of its inadequacy.

Social innovation is necessary to correct the negative effects of the innovation economy. And for social innovation to go beyond being a mere statement of principles destined for quick irrelevance, and to help us overcome the structural shortcomings of the innovation society, a paradigm shift is necessary to steer economic processes towards measurable and socially positive impacts.

The real strength of impact investment, which this Task Force worked on, lies in its ability to support development, innovation, and social inclusion processes all at once. This message rings loud and clear in the Task Force's Final Report, which on 15 September 2014 will be delivered simultaneously to the heads of the USA, French, UK, Japanese, German, and Canadian governments, and which in Italy will be entrusted to Matteo Renzi's government. The international report is then "adapted" to the national context by the individual national reports, which, much like the one presented here, attempt to identify the best ways to create, in each single country, an ecosystem with the ability to generate impact investing.

The goal of impact harvesting is to generate – through investments in social entrepreneurship activities aiming to solve a given social or environmental problem – positive results that would not otherwise be achieved. The intent to produce a social impact is thus the defining characteristic of a social entrepreneur, who expects a return that is at or below market value.

In keeping with the title of the international report, which evokes "The invisible heart of markets", the global movement in favour of impact investment, if successful, will finally be able to make that heart beat, and thus help improve the lives of millions of people who "are still left behind by the invisible hand of markets".

We do not yet know how strongly this "invisible heart" will beat, but in order for this to happen and for the innovative potential of social investment to be fulfilled, we must acknowledge and strengthen, first and foremost, the "third dimension" of investment choices: no longer driven exclusively by profit and risk assessments, but also by the social impacts they produce.

The introduction of this "third dimension" can generate an epoch-making paradigm shift with profound impacts on the economy, the welfare structure, and even finance.

In other words, the new paradigm of impact investment is making headway between a state that is not always efficient and the invisible hand of a globalized, digital market that has left far too many behind. In order to fully understand the role that social investment can play in this paradigm shift, we must not confuse the means with the ends.

In this light, the work of the Italian Advisory Board, which I had the honour to chair, was extremely important and able, I think, to provide a constructive and highly original contribution to the international effort launched in June 2013 by the G8 Task Force.

There are at least two reasons for this. The first concerns the method that was used. All potential players in the 'impact' revolution in Italy, whose histories and activities are strikingly disparate, shared a possible platform of action to define the perimeter of our 'impact finance' ecosystem. This report is the fruit of 6 months of dialogue and discussions involving all possible stakeholders in the Italian social impact investment sector.

The second motive for satisfaction is that social cooperatives and bank foundations, volunteer groups and private investors, non-profits and stock brokers, institutional investors, banks, and corporate charities all equally shared in a key premise that is extremely useful in preventing any possible misunderstandings: that social impact investment is a precious tool – a means – to promote and support the well-being of the community through the growth of social entrepreneurship – the end.

This tool can make public spending – and the welfare state we are trying to defend – more effective and efficient; a way to channel additional resources and innovative approaches towards the most fragile sectors of our society. It is a means to address those new, complementary needs that typify the structural weakness of the contemporary welfare state: almost unwieldy in the social security sector, yet very frail in terms of inclusion and prevention policies.

Hence, in order to defend the welfare state as a civil conquest before the major structural challenges brought about by the economic crisis, we must renew it radically, without adopting entrenched, conservative positions which may, paradoxically, facilitate its actual dismantling.

In order to escape the rigidity of a struggling model and effectively address the plurality of social needs, including many new ones, facing contemporary societies, we must thus embrace the season of innovation, social entrepreneurship, and social impact finance. As stated in the introduction to the international report there are various "signals" pointing to the development of a veritable movement in favour of social impact investment.

The first signal, as many studies show, is the desire on the part of the generation now entering the labour market to combine income production with a strong collective motivation and the production of social value. At the heart of this revolution is social entrepreneurship, the multiplication of business initiatives linked to the digital platform of the sharing economy and the management of the common good.

Turning our attention to the offer of capital, an interesting indicator is the presence of 1,200 asset managers in the world today, managing over 45 trillion dollars, who have undersigned the UN Principles for Responsible Investment, thus incorporating environmental, social, and governance factors in their decisions.

This is not yet social impact investment, but after the 2008 economic crisis the issue of the "third dimension" – the social value produced – is making headway, alongside risk and profit, in investment decisions.

The Task Force hopes that in the coming years, social impact investments might grow to a billion dollars worldwide, a great flow of capital in search of investment opportunities with a measurable, positive social impact.
On the offer side, the challenge is truly ambitious: incorporating the "third dimension" into financial markets.

But the true key to the impact revolution lies on the demand side, and particularly in those "lucidly unreasonable" entrepreneurs who are working passionately and with dedication to generate a positive social impact. These men and women understood, borrowing the words from Italo Calvino's wonderful The Baron in the Trees, that "association renders men stronger and brings out each person's best gifts, and gives a joy which is rarely to be had by keeping to oneself, the joy of realizing how many honest decent capable people there are for whom it is worth giving one's best". Non-profit and volunteer associations, in a broader sense than the current legal one, are a vital and dynamic sector bringing together diverse experiences, histories, and cultures, but with a shared goal: improving the life of the community.

Of course, in order to take advantage of the opportunities provided by social impact investments, the legal status of social enterprise must change. In Italy, the current regulatory framework makes almost impossible for investors and social enterprise to come together. In this regard, we are very happy to report that the recommendations we set out in this report are very closely reflected in the enabling act for the reform of the Third Sector recently approved by the government in the section concerning social enterprise. We very much hope that the act may be speedily approved, so that a new legal framework for non-profits in Italy may be in place in the coming months.

But in order to strengthen social entrepreneurship, we must work to create an environment in which supply and demand can meet. Many of the recommendations set out here, and especially the platform of 40 proposals that concludes this report, are addressed to the government, which plays a crucial role in designing such an environment, as it would in any other G7 country.

There is one essential condition that I shall never tire of repeating.
In no way must impact investing be considered a way to "outsource" to the private sector the provision of welfare services, or be used to introduce unwanted privatizations through the back door. Instead, it must be a tool to better innovate and honour the responsibilities of the public sector in areas which it currently fails to reach, and to help make public spending more efficient.

Indeed, through some typical "social impact" tools such as Social Impact Bonds, one can find additional resources to support experimental innovative efforts that would not be funded otherwise, while showing that a preventive approach is a more effective way to use increasingly scarce public resources. In the age of the spending review, this is no small feat.

In Italy, like in other continental European countries, the role and perception of the subjects of the 'social economy', and especially social cooperatives, plays a crucial role in this process. Indeed, some of what is written in this report and that of the international Task Force is not new.

The cooperative movement in Europe, and especially in Italy, has a long and storied tradition with roots in the great social emancipation movements of the 'short century'. These collective stories contributed decisively to the frame upon which the European social model was built, and today, thanks to their ability to interpret the needs of communities, they can make an invaluable contribution to the modernization of the welfare state, both in Italy and in Europe.

In fact, we are still in search of a "continental" approach to impact investing that adopts the best aspects of the Anglo-Saxon model while remaining true to our roots. In such an environment, a fundamental role is played by many of the subjects that helped us identify the proposals set out in this report. An environment that includes, just to mention a few, the social cooperation sector and the structures regarding the private collection of individual savings, such as the Cassa Depositi e Prestiti bank, as the possible provider of the necessary guarantees for the launching of new tools such as social bonds, and grant-making and banking foundations, which may play a role in steering some of their capital stocks towards social impact investment.

What we know for sure is that we need to remove a number of barriers and promote a new flow of capital towards impact investment. In Italy, banking foundations, institutional investors, stock brokers, and even individual investors can play a key role in steering resources towards new-generation social impact investment.

Our recommendations thus fall into three categories: the demand side, the supply side, and the intersection of the two. We are in search of a middle ground, where the legal structure of social enterprises, whether for or not for profit, is very important in terms of size and scalability.

The impact agenda also addresses the for-profit sector, through the promotion of businesses that aim to have a social impact (profit with purpose) and can contribute to a gradual transformation of the economy. Central and local administrations also play an important role in the impact agenda: in their capacity as buyers of social services that must produce the greatest possible impact from public expenditure. The case of Social Impact Bonds, which we mentioned above, is a typical one. It is no coincidence that interest in these 'pay for success' instruments, together with all other types of funding tied to measurable social goals, is on the rise everywhere.

The public sector needs a revolution. A focus on results and the involvement of private investors represents a precious chance to re-evaluate the role of the State as an efficient creator of inclusiveness. In this light, it is necessary to promote approaches based on change theory and the assessment of outcomes that are relevant for people and communities.

It is no longer enough to know how many hours of training we have provided, how many meals have been distributed, or how many hospital beds are available if we are unable to assess the change we have actually produced in the everyday lives of people and communities. This brings us to another of this report's conclusions: the paradigm shift, the 'impact revolution', and the assertion of the invisible heart of markets through the 'third dimension' will never be possible without metrics and measurement tools that can assess the creation of social value.

Finally, let me say a word about impact investment as a new potential force for international cooperation and development policies. Although developing countries were not the main focus of the Task Force's international report, or of the Italian one, it is clear that social impact investment has extraordinary potential, and can play a key role together with traditional flows of direct investment and bi-lateral and multi-lateral aid to achieve post-2015 goals.

The introduction of new 'impact' approaches to the private-public partnership will also play a decisive role in the recent reform of international cooperation in Italy. Tools such as development bonds can prove crucial in this process. In conclusion, I would like to stress the fact that this report is truly the result of collective intelligence. The work of the G8 Task Force would not have been possible without the intuition, deliberations, and proposals of the national Advisory Boards. The Italian board patiently and generously took part in this exercise, and provided an extraordinary contribution. I thus conclude with a heartfelt thank you to everyone who worked on this report, beginning of course with Professors Mario Calderini and Mario La Torre, with whom I shared these last few months of fascinating research as part of the international Task Force. A sincere thank you also goes to all of the members of the Italian Advisory Board, who helped us steer this course, and the over 100 sector experts who participated in the working group, greatly improving the report's authoritativeness. I also thank the Office of the Prime Minister, the Ministry of Labour, and the Ministry of Foreign Affairs for the constant attention they devoted to our work. Finally, I cannot fail to acknowledge the organizations that helped us along this path. I thank ACRI for their contribution, Federcasse - BCC for printing this report, UBI Banca, and finally the Italian National Agency for Microcredit for support with translations.

Just a few months ago, we could not have taken such an excellent summary of our work for granted. After all, as Henry Ford said, "coming together is a beginning; keeping together is progress; working together is success."

Giovanna Melandri
Chair, Italian Advisory Board
Social Impact Investment Task Force

Acknowledgments

This Report is the product of a collective effort.

First and foremost, we would like to thank the international Task Force and its Coordinator Sir Richard Cohen for their vision and unfailingly original input.
We also thank all the members of the Italian Advisory Board (Appendix I) for their constant commitment and their key contribution in steering our work.

We would additionally like to thank all the participants in the Italian Working Groups (Appendix II) for open and lively discussions, both technical and theoretical. This testifies to the fact that impact investing is an issue that engages a diverse array of stakeholders, all facing the shared challenge of launching a social and economic development process based on innovation.
A special thank you goes out to the rapporteurs and coordinators of the Working Groups, who carefully and patiently listened to and incorporated the contributions of all participants.

Raffaella Abate, Fondazione Cariplo
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Danilo Giovanni Festa, Ministry of Labour and Social Policy
Alessandro Messina, Federcasse
Riccardo Petrocca, Looking for value
Roberto Randazzo, SDA Bocconi
Marco Ratti, Banca Prossima
Marco Santori, Etimos Foundation

In this page we also thank ACRI for supporting the process that brought about this report, and all the organizations that provided a contribution: BCC-Federcasse, UBI Banca, Human Foundation, the Milan Polytechnic and La Sapienza University in Rome.
We thank the Italian National Agency for Microcredit for supporting the English translation of this report.

Finally, we thank the Office of the Prime Minister, the Ministry of Labour and Social Policy, and the Ministry of Foreign Affairs for the constant attention they devoted to our work.

Definitions, perimeter, and motivations of the Task Force

This report presents the results of a wide-ranging consultative effort involving the stakeholder brought together in the Italian Advisory Board of the "Social Impact Investment Task Force established by the G8".
The object of the report is thus impact investment, or social impact investment.
These two terms are used interchangeably in the text, and they both fall within the broader framework of social impact finance.

Social impact investment comprises a wide array of investments based on the assumption that private capital can intentionally contribute – sometimes in combination with public funds – to creating **positive social impacts** and **economic revenue** at the same time. The **proactive intention** with which an investor pursues a social good, together with economic returns, distinguishes this new generation of investing from the Social and Responsible Investing (SRI) approach, which is based on the use of screening systems that can prevent investments from flowing to enterprises with negative or insufficient impacts on environmental, social, and governance issues. Nevertheless, companies that benefit from SRI have a traditional core business, which is different from the social and environmental improvement that drives impact investment.
Impact invesing thus stands out because it is conceived around **social impact targets**; built upon **models to measure** its impact and made sustainable through a link between the impact goals achieved and the **returns on invested capital**.

While **capital supply** and related financial tools are the specific object of this report, we have extended our analysis to the demand side – social entrepreneurship – in the awareness of the central nature of co-evolution dynamics between supply and demand in determining the characteristics of the entire social finance ecosystem.
A significant portion of the ideas presented here is thus dedicated to the **evolution of social entrepreneurship** and the interventions that can encourage capital flows towards such types of investment.

It should be specified here that for the specific purposes for which we discuss the issue of social enterprises, the latter are defined broadly and not exclusively pursuant to law n. 155 of 2006, indeed, we also include the cooperation sector, in particular social cooperation, together with new hybrid forms (profit-non-profit), sharing economy platforms and applications, multi-utility companies and those of community interest. Having defined our perimeter and reference context, we must define the role and centrality of impact investment in the broader debate on **inclusive and sustainable growth**. Today's enterprises are facing entirely new challenges: the increasing demand for services on the part of the poorer sectors of society, population growth and ageing, and climate change. These problems highlight the obsolescence of many of the tools and strategies upon which the European social protection model was built. The growth potential of social impact investing can contribute to the modernization of environmental and social inclusion policies in industrialized countries and emerging economies, in keeping with the idea of sustainable growth and able to generate an **innovative system-wide perspective.** On the demand side, social impact investment facilitates the growth of social entrepreneurship and the ability to provide comprehensive solutions to complex new social needs, while maintaining the economic and financial sustainability of intervention models. For the social entrepreneurship sector, impact investment can provide an opportunity to strengthen and fine-tune the model through the establishment of a robust culture of **accountability**, in both financial and social terms: the relationship with the investor is thus enhanced by a significant **capacity building** dimension. On the supply side, social impact investment stimulates the growth of a new generation of investors, and contributes to the dissemination of an **outcome-oriented**[1] approach that is the theoretical underpinning of the various impact-measurement tools. Overcoming a perspective based solely on achieving individual outputs is a key step towards funding models based on the principles of **payment by result** and **public-private partnerships.**

Social impact investment facilitates, first and foremost, the dissemination of social innovation tools, both in terms of process innovation and the provision of individual services. For instance, **social impact bonds**, which are undoubtedly among the most advanced outcome-oriented tools, are helping policy-makers frame the debate on the efficiency of public spending and the efficacy of social policies.

Financial and social innovation are the keywords for the concrete application of these principles, and the use of social impact bonds in the welfare sector is the most emblematic such example. This implies the need for a **regulatory environment that is favourable** to efficient and sustainable financial innovation that facilitates social impact investment. To this end, this report sets out a **platform of concrete actions** for the creation of such an environment in Italy.

There is extensive evidence that **social growth stimulates the growth of the real economy**, leading to improved stability in medium- and long-term results; unfortunately, over the last 25-30 years traditional financial markets have encouraged investors to concentrate solely on short-term financial results, while medium- and long-term social growth has been left exclusively in the hands of public welfare policies, which themselves have been sorely tried by the financial crisis of 2008 and by austerity policies.

If social impacts, defined as explicit and quantifiable development goals, were considered a fundamental component of the economic system and financial flows much like profit and risk assessment, **a new market oriented towards the creation of value** could emerge.

1 An outcome-oriented approach privileges the social impact that is actually generated by an intervention. According to this model, the goal of an action is to generate positive change unlike traditional output-based approaches. While for the latter success is measured by the quantity of services provided, the outcome-oriented approach instead focuses on changes that actually affected the beneficiaries.

This process requires time and **major cultural change**, but there are certain specific interventions that could kick-start the progressive development not only of social impact investment, but **of the economy as a whole, while searching for that invisible heart of the market** so often evoked by the international Task Force's report.

More pragmatically, and alongside this systemic view, there can be no doubt that the evolution of financial instruments and financial institutions themselves towards impact finance is driven by **the struggles faced by traditional welfare systems in responding to growing social needs**. However one looks at it – whether from the financial perspective that sees a potential new market in the shortcomings of the welfare state, or from that of a policy-maker, which identifies the public-private partnership as the best way to face the lack of resources – **constraints on public spending for welfare are likely to be a powerful driver for the dissemination of impact finance instruments, together with the need for social innovation**. Over the coming years, G7 countries, Italy in particular, must face expenditure shortfalls for welfare services. These resources are unlikely to be available by recurring to traditional public spending policies.

Similar situations, or variants thereof, occur in almost every other G7 country. **In response to this shortfall in public resources, impact finance proposes to encourage the intervention of private capital in order to help fund social programmes**[2].
An awareness of this urgency and the pressure that the funding gap exerts on the environment **must not lead to hurried considerations** regarding a phenomenon that, in Italy more than elsewhere, implies strategic choices in the culture and operations of institutions and enterprises that have so far virtuously and originally complied with their social mission.

2 Cfr: Martin M.,(2013) *Making Impact Investable*; Monitor Institute (2009), *Investing for social and environmental impact*; J.P. Morgan and the Global Impact Investing Network (GIIN) (2011), *Insight into the impact Investment Model*

The structure of the Task Force

The *Social Impact Investment Task Force established by the G8* – promoted by the UK Cabinet Office during the *Social Impact Investment Forum* held in London on 6 July 2013 in the presence of Prime Minister David Cameron – aims to promote the development of social impact investment and harmonize its growth in G7 countries.

The Task Force is coordinated by Sir Ronald Cohen. The Italian members of the Task Force are Giovanna Melandri, President of Human Foundation, representing operators in the impact investment sector, and Professors Mario Calderini and Mario La Torre in their capacity as government-appointed experts.
The Task Force coordinates specific second-tier operating structures identified by the national Advisory Boards (ADB) and Working Groups (WG). In each country, the ADB is chaired by the Task Force member nominated to represent sector operators.

The Task Force has established four Working Groups in the following areas

- *Impact Measurement* – this group will seek to identify suitable processes to achieve greater uniformity and transparency in the techniques and instruments to measure the social impact of investments;

- *International Development* – this group will seek to identify the necessary actions to develop the social impact investment market in the international cooperation sector;

- *Asset Allocation* – this group shall define actions and instruments to stimulate capital flows to social impact investing;

- *Mission Alignment* – this group shall identify the most suitable governance models to provide assurances to investors regarding the continuity and coherence of the social impact actions of the institutions they are funding.

The WGs worked together with the OECD to support the drafting of a specific OECD Report that will include a comparative analysis of impact investing markets in G7 countries.

The Italian Advisory Board

The Italian component of the Task Force is based at the Office of the Prime Minister. The Italian Advisory Board - ADB is represented by numerous experts and operators in the fields of impact finance, social entrepreneurship, and traditional finance, and avails itself of the support of institutional partners such as the Ministry of Labour and Social Policies and the Ministry of Foreign Affairs. The Italian ADB has established several internal working groups that reflect the characteristics of the national market, and which highlight the relevance of issues related to social entrepreneurship and best practices.
More specifically, the Italian working groups focus on the following specific areas:

- Capital attraction;
- Social impact indicators and metrics;
- Development cooperation;
- Role and development of social entrepreneurship;
- Italian best practices and pilot projects;
- Normative and fiscal implications.

Each working group elected its own "rapporteur" who summarized the group's positions.
Over one hundred sector experts participated in the work, which took place over the course of about 6 months. The working groups saw the participation of trade associations, non-profit organizations, banking foundations, cooperatives, banks, stock brokers, public institutions, supervisory bodies, social enterprises, and universities.

The working groups drafted specific executive summaries whose key contents are incorporated in this report.

Additionally, the attached CD includes additional material produced by the ADB and the working groups: Italian best practices in impact investing and individual contribution, in the form of in-depth subject papers.

Biographies of the Italian members of the Social Impact Investment Task Force

Giovanna Melandri, economist, former minister and member of Parliament. She has a degree in financial science from La Sapienza University in Rome, and in 2000 she received an honorary degree from John Cabot University. In 2003 she was awarded the title of "Officier de la Legion d'Honneur". She is currently the President of Human Foundation, established in 2012 to promote innovation and social finance in Italy, and whose Advisory Board includes, among others, Jacques Attali, Matthew Bishop, Pamela Hartigan, Kerry Kennedy, Gunter Pauli, Sanjit Bunker Roy and Muhammad Yunus. Since November 2012 she is the President of the MAXXI Foundation. She was elected to the Chamber of Deputies in 1994 where she served until 2012. From 1998 to 2001 she was Minister of Cultural Heritage and Activities, and from 2006 until 2008 Minister for Youth Policies and Sport. Previously, she worked for two years in Montedison's Research Department. Between 1988 and 1994 she directed Legambiente's International Office and coordinated its scientific committee, and served as the editor of "Ambiente Italia", the annual report on the state of the environment in Italy. She was a member of the Italian Delegation to the Bergen Conference on Sustainable Development in 1990 and of the Italian delegation to the United Nations Earth Summit in Rio de Janeiro in 1992. In 1998 she authored the book "Digitalia, l'ultima rivoluzione" published by Reset, and in 2006 "Cultura Paesaggio Turismo. Politiche per un New Deal della bellezza italiana". In 2007 she wrote "Come un chiodo. Le ragazze, la moda, l'alimentazione", published by Donzelli.

Mario Calderini graduated in Mechanical Engineering from the Turin Polytechnic and earned a PhD in Economics from the University of Manchester. He is a Full Professor in the Management Engineering Department of the Milan Polytechnic, where he teaches Economics and Business Management. From 1994 to 2013 he was a researcher and subsequently full professor at the Turin Polytechnic, where he taught Economics and Business Management and Innovation Management and Strategies. He teaches Innovation Management at the Luiss Business School and was Visiting Professor at Tongji University in Shanghai. Mario Calderini serves in a number of national and international organizations and public institutions. He is an advisor to the Ministry of Education, Universities, and Research on research and innovation policies. He is a member of the Advisory Board of the European Patent Office Academy and a consultant on innovation policies for the OECD and the European Commission. After serving as director of innovation policies at Fondazione Cotec, chaired by the President of the Italian Republic, he was appointed to its board of directors. He is a member of the jury for the European Commission's Social Innovation and the Italian representative for the European Commission's High Level Expert Group for Digital Agenda. From 2005 to 2010 he was the President of Finpiemonte, the financial company of the Piedmont regional government.

Mario La Torre is Full Professor of Financial Markets and Institutions at La Sapienza University in Rome, where he also teaches a course in Ethical Finance and Microfinance, and is a member of the teaching body for the doctorate in Management, Banking and Commodity Science. He is currently the editor of the Palgrave Studies in Impact Finance international series. Some of his publications in inclusive finance are: Microcredit Securitization in "Bank Stability, Sovereign Debt and Derivatives", Palgrave Macmillan, 2013; Social Lending in Europe: Structures, Regulation and Pricing Models, in "Crisis, Risk and Stability in Financial Markets", Palgrave Macmillan, 2013; and Microfinance, Palgrave MacMillan, 2006. Mario La Torre serves in a number of institutional capacities. He is on the board of directors of the Italian National Agency for Microcredit and a member of the European Commission's Audiovisual Working Party. He is the Ministry of Cultural Heritage and Affairs' point man for financial policies in the audiovisual sector and a member of the European Commission Expert Group on access to finance for the cultural sector. He previously served as an advisor to the Minister of Cultural Heritage and Affairs, and member of the boards of directors of Cinecittà Holding and of the Latium Region's Fondazione Rossellini per l'Audiovisivo. He was responsible for extending fiscal exemptions to the cinema sector and member of the advisory committee for the definition of the law on microcredit. He coordinated the Research and Study Group of the "Committee for the International Year of Microcredit in 2005" established by the Ministry of Foreign Affairs

Summary

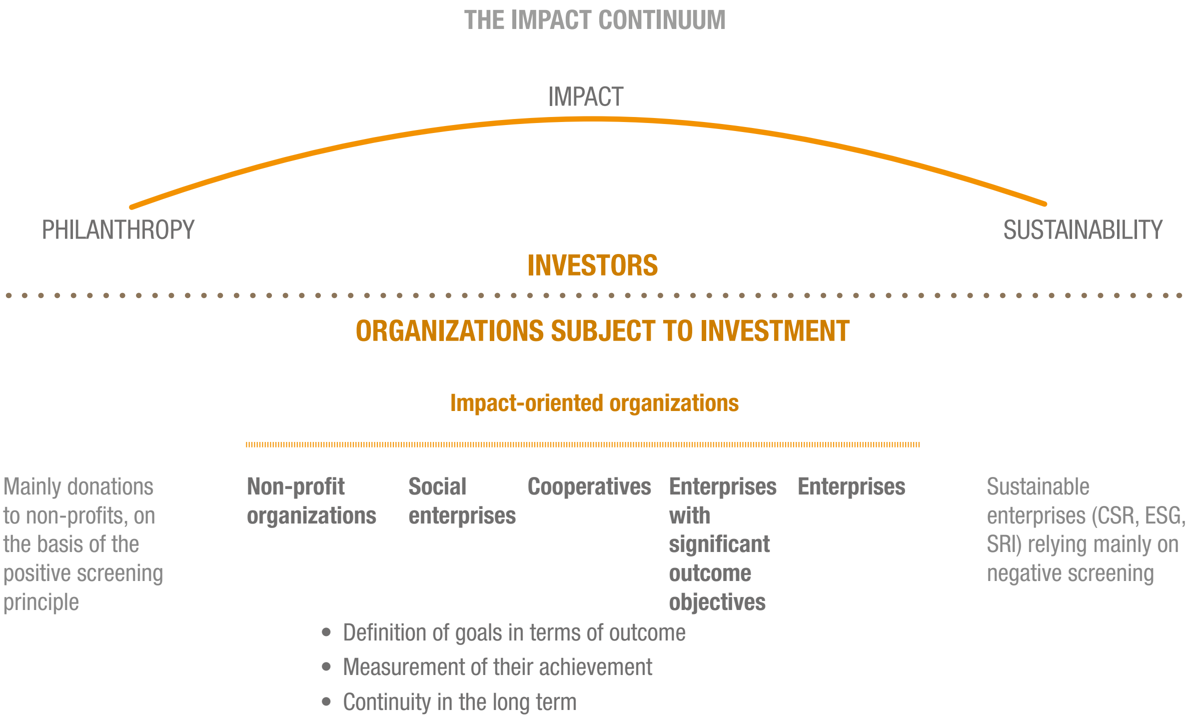
1 The social impact investment ecosystem

The expression “social impact finance” refers to investments tied to measureable social goals that can also generate an economic return for investors. The unique nature of this new business segment can be found in the combination of social goals and economic return, and in the qualification of the trade-off between the two.

Social impact finance is born out of the **intent** to actively invest financial resources in projects, businesses, and funds that generate social benefits – without prejudice to **economic returns** for the investor. In social impact finance, the **social objective** is the driver, while the financial architecture is put in place to make that objective sustainable and profitable.

In the nascent impact investment market, researchers and stakeholders are currently attempting to arrive at a widely-shared definition of impact finance that can capture the varied characteristics of this business model. Impact finance can take on different forms depending on the balance between its three components: **social impact**, **revenue levels**, and levels of **risk to the investor**. The various degrees of balance between these three components comprise the perimeter within which social impact finance can be defined (Figure 1).

FIGURE **1** The impact investing space



Source: **Adapted from the International Report of the Social Impact Investment Task Force established by the G8.**

Within the impact continuum, whose extremes range from non-repayable donations to the management of SRI investments, social impact investment occupies the "middle ground" where **the goal and intent of generating a positive social impact are as important as the investor's financial and economic goals**.

BOX 1.1

***WHAT IS* IMPACT INVESTING?**

Impact investing consists of investing in enterprises, organizations, and funds that operate with the goal of generating a measurable social impact that is compatible with economic revenue.

Impact investing is defined by:

- *The **intent** on the part of the investor to generate **social impact**;*
- *The expectation of **economic returns** as motivation for the investor;*
- *A flexible yield on investment, which may be lower than average market yields or in line with them;*
- *The variety of financial tools and forms of investments used, ranging from debt to pure equity;*
- *The **measurability of social impact**, of key importance to ensure transparency and accountability.*

The latest data in social impact finance at the international level

Social impact finance was born and developed in the Anglo-Saxon market. The United Kingdom, United States, Australia and Canada are – each in their own way - at the forefront of this phenomenon in terms of on-going experiences and dissemination. In the United States, the main drivers of the impact finance market include the strategic repositioning of a number of charities, which were spurred by the financial crisis to change their intervention and contribution modalities, thus laying the foundation for impact investing. In the United Kingdom, the growth of impact investing is driven by institutional action. Beginning in 2000 with Tony Blair, the U.K. created a complex ecosystem whose cornerstone is Big Society Capital, a financial institution dedicated to impact investing that receives both public funds and resources from the private banking sector.

One of the first forms that social impact investment took on consists of direct support to social business initiatives in developing countries to meet the needs of the so-called "bottom of the pyramid"[3] . Social enterprises, and social impact investments, are increasingly being used in conjunction with traditional international aid interventions, and provide innovative solutions targeted to the needs of local populations, with a strong emphasis on financial self-sustainability and accountability. In developing countries, achieving social goals has a partially different significance compared to the developed world context, as greater emphasis is placed on guaranteeing access to basic services such as health, energy

3 The "*bottom of the pyramid*" refers to the segment of the global population that lives on less than 2.50 dollars a day. In Prahalad, C.K., (2004), Fortune at the Bottom of the Pyramid, Wharton School Publishing.

efficiency, access to water, rural development and education to as large a share of the population as possible[4].

On the other hand, radical processes of impoverishment and social exclusion mean that issues related to inclusiveness are increasingly relevant in the developed world as well, especially in major urban centres. Social impact investing can take place either through direct interventions or via additional support to social organizations working on innovation and community development in places where such opportunities are otherwise lacking. In other words, it is a way to generate a potential driver of economic growth.

In the United Kingdom, as in other European countries, impact investing is also becoming an experimental platform for the establishment of public-private partnerships in which private investors are willing to invest resources to fund socially relevant projects. In many cases, the savings achieved by the public sector in pursuing its social goals are re-distributed between the public and private subjects and represent the main source of revenue for the investors.

The first example of **social impact bond** issued by the UK revolves around this paradigm[5]. A public-private partnership allows the British government to catalyse private investors around a project that aims to lower the re-incarceration rate. Private investors fund the project and are remunerated only if the social objective is achieved. Savings in public spending on the part of the British government brought about by the lower re-incarceration rate are then shared with the private investors, which thus benefit from them.

A Continental approach to impact investing is also making headway. Indeed, in Continental Europe, social impact investing is being developed differently, reflecting a **strong tradition of social entrepreneurship**. In this context, demand is the driver of social impact investment, and a fixed ceiling compared to market rates may be applied to revenue for investors.

The latest data of impact finance in Italy

Social finance boasts a longstanding tradition in Italy, and is rooted in the presence of for-profit and non-profit subjects that have long been concerned with the social needs of citizens and communities: cooperatives, consortia, savings banks, credit unions, cassa peota savings unions, and banking foundations. Indeed, access to private capital is changing partly due to the fact that profit-oriented operators are beginning to pay increasing attention to the social impact of their actions. The entry of new operators in the market is stimulated partly by a growing demand for services brought about by the emergence of new and different needs. If innovation is sustained, first and foremost, by emerging interest on the part of new subjects, it can be equally supported by the possibility – and need – to experiment with the use of new tools such as, for

4 Numerous scholars and institutions have decided to study social impact investing in developing countries, including:Whitley S., Darko E., Howells G., (2013), Impact investing and beyond: mapping support to social enterprises in emerging markets. Simon J.,Barmeier J., (2010), More than Money: Impact Investing for Development. The Center for Global Development. The Rockefeller Foundation, United Nations Global Compact (2012), A Framework for Action: Social Enterprise and Impact Investing. IISD (2013), Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries.

5 The first and best-known **Social Impact Bond** was issued by the United Kingdom in September 2010 to finance the rehabilitation of former inmates at Peterborough prison.

example, social impact bonds, local impact funds, or innovation funds, all of which are of key importance for the future development of this market.

The co-existence of social and economic elements makes it difficult to establish an unambiguous definition for the social finance market. Indeed, supply and demand are cross-cutting with respect to traditional financial market, and partially overlap with those typical of the non-profit sector.

Intercepting emerging supply and demand for social impact investment, its intangible structures, instruments currently in use, and those of potential use in the future is an exercise that goes hand-in-hand with strategic and institutional analyses. The goal is to identify a series of actions – 40 of which are proposed at the end of this report – to develop an impact investment market that can effectively respond to growing social needs and underpin a new and modern public spending policy.

2 The demand for social impact investing

The development of a social impact finance market in Italy depends, first and foremost, on the evolution of capital demand. This is a particularly complex co-evolution scenario with an uncertain outcome, given the diversity and wealth of institutional and private sector actors on both the demand and supply side, and in light of the presumably tumultuous transformation that will affect the entire social finance and entrepreneurship environment.

Paying careful attention to both sides of the problems will prevent the replication of recent errors: all too often, excessive focus has been placed on creating sophisticated financial tools without verifying whether there was a latent or explicit demand for them that was sufficient enough to justify the mobilization of a significant amount of capital. Policies in support of the high-tech business sector can serve as a useful paradigm in this regard.

More specifically, an analysis of the demand side is particularly complex for a variety of reasons.

The first is that there **is no real clearness regarding the reference population involved in the demand for social capital**, either in the present or in the future. This is of key relevance to the very definition of social enterprise, and is part of a broader debate that extends beyond the scope of this project. Certainly, the quality and quantity of the demand for impact finance capital will depend on which enterprises will be the object of this type of investment, along a continuum that ranges from social cooperation in the narrow sense to for-profit enterprises working in the social sector.

Secondly, there can be no doubt that regardless of the evolution of social finance in Italy over the coming years, **the social cooperation system represents the vast majority of business initiative**, with well-structured, often virtuous models that have been tried and tested. With regards to the issue at hand, the relevant question is the extent to which a largely labour-intensive business model will need capital in such an amount as to mobilize financial markets on a vast scale. The answer is far from obvious, and this is one of the key issues that will determine the future of impact finance in Italy.

The paragraphs that follow address the issue of demand from two different perspectives, and aim to show that **social entrepreneurship will undergo major changes**, both exogenous – as concerns new technological opportunities and new models to address needs – and endogenous – concerning the nature itself of social enterprises and its legislative, statutory, and governance constraints. Paragraph 2.1 is dedicated to the former aspect, and 2.2 to the latter.

In light of these considerations, it would be both naive and unrealistic to attempt to quantify potential demand in an excessively precise manner. **The simultaneous launching** of the transformation processes outlined in the two paragraphs below is of far more relevant, as it is a necessary condition for the existence of a consistent and credible demand for impact finance.

2.1 Innovation and new needs for capital

The indisputable starting point concerns the **labour-intensive nature of the majority of social cooperation models**. This fact underpins much of the scepticism, well founded in some regards, that accompanies the birth of social impact finance.

We refer here first and foremost to the emergence of a new frontier of technological opportunities, due essentially to the digital revolution, but also to the *commodification* of certain technologies in the life sciences field, which will radically change the quality and modality of the response to traditional and emerging social needs. The impact of new technologies manifests itself on the one hand in the greater availability of solutions to social problems, drawing from new technologies in the fields of assistance, care, education, inclusiveness, transport, and environmental protection; and on the other in the improved ability to identify the needs themselves, for example through 'big data'. Two important European Commission policy guidelines, transposed by many member states including Italy, are quite relevant in this regard: the centrality of societal changes in industrial and research policies, and the smart communities paradigm, which combines the technological dimension of smart cities with social agenda innovation. In summary, a new demand for investment and capital will presumably arise from the introduction of tried-and-tested business and intervention models in the **social cooperation and entrepreneurship** sectors and from the availability of **innovative technologies** on a wide scale, and this demand may potentially transform the labour-intensive nature of social enterprises and perhaps the nature itself of business models.

The availability of new technologies and the consequent need to endow social enterprises with the necessary skills brings a new dimension to the scalability of the enterprises themselves, which was traditionally understood purely in terms of increased volumes of activity and labour. It should be stressed that the potential for change generated by new, innovative opportunities is likely to enjoy a formidable boost: the evolution of the management of common goods – such as climate, the environment, cultural heritage, water, and energy – towards a more participatory framework. **New solutions for the management of common goods** lie at the intersection between new technologies and new business forms; this is an enormous market in which social enterprises can provide efficient, business-minded management, while preserving universal access and guaranteeing multi-stakeholder governance. Impact investment capital is well suited to these new markets and service models.

Therefore, it is first and foremost the **demand for knowledge and technology-intensive scalability** that makes plausible the need for new capital and supports the idea of a **consistent** and **increasing demand** in the near future. As we argued above, this demand will be incremented both by the need for growth of existing businesses and by the potential emergence of new enterprises taking advantage of new economic opportunities.

A second driver of innovation, no less explosive for its soft nature, is the increasing re-engineering of responses to social needs in a way that shifts focus to **prevention**. An extensive body of evidence demonstrating the efficacy of preventive approaches is destined to lead many public administrations to impose innovative social intervention models with a target audience that is much wider than the subjects actually requiring intervention. There are thus three ways in which new prevention models directly impact demand for capital: the first is the scale of preventive interventions, which by nature is quite large; the second is that such interventions anticipate the availability of public resources; and the third lies in the fact that preventive activities are knowledge- and technology intensive. To summarize once again, we have a crosscutting innovative process, namely the preventive approach, which for the three reasons listed above supports and justifies the hypothesis of a growing demand for capital to be met by innovative financial tools. In this case as well, potential demand comprises both existing businesses and new enterprises that can successfully interpret preventive intervention models.

The primary driver for the emergence of a **new market for impact finance** thus lies in this **breach of the social intervention paradigm, engendered by technological innovation and prevention**. The dimension, nature, and quality of such a market can only be analysed through a profound understanding of demand modalities and evolution.

This endogenous approach to the emergence of demand for impact finance marks the difference with another, arguably more cursory approach, which identifies in it in the limited ability of public finance to support welfare, both because of the limited availability of such funds and the growing extent of welfare needs. A wealth of indisputable data documents the growing gap between welfare needs and public funds. Nevertheless, this condition cannot be considered the primary driver for new capital demand, but rather the ultimate goal of a process to make intervention models more efficient by attracting new capital on one hand, and on the other, through this new capital and the enterprises that use it, help in bridging the gap between available public funds and needs to be met.

To put it very briefly, this report assumes that the **gap between public funds and welfare needs**, now as in the future, must not be simply made to correspond with the potential market for impact finance, but should instead represent the **quantification of improvement in efficiency and effectiveness that the new model of social entrepreneurship, supported by impact finance capital, is called upon to achieve**.

Having said this, it is evident that a different perspective that identifies the need to bridge the gap between needs and resources as the primary driver for the development of public finance is well founded, and it is not implausible that impact finance will end up standing in for public or philanthropic resources that are destined to become scarcer.

BOX 2.1

SOCIAL ENTREPRENEURSHIP, DIGITAL TECHNOLOGIES AND CO-CREATION: THE CONCEPT OF SMART COMMUNITIES.

New forms of social entrepreneurship may represent a privileged partner in the process to put **digital technologies** in the service of **local social needs**, which process both **re-instates the debate on social innovation** and anchors **technological development**, with all its potential, **to the real needs of the community**. Major social challenges such as growing inequality, increasing urbanization, and environmental pressure caused by population growth require a re-definition of the 'social' concept itself. The web platforms of the **sharing economy** are a virtuous result of this combination. Indeed, there are a growing number of instances where the Internet has facilitated the aggregation and sharing of economic, intellectual, and environmental resources, often with innovative modalities that are a radical break from the dominant model. In Italy, **the collaborative economy** is mediated through **platforms that**

draw 120 together users of goods and services in the most disparate sectors: from food to mobility, and from entertainment to culture and corporate service providers. This is a radical transformation of social and economic relations whose turning point lies in consumer practices and strategies. We see a shift from a **featureless mass** of consumers exposed to marketing campaigns to **communities that act** as «public bodies» that can influence production and consumption processes, generating profound changes in business organization and strategies. Social enterprises can intercept this emerging sector and act as an **"offline" terminal for the provision of goods and services, or as a business model that can govern these new social flows**. By combining the social and technological approaches, strategic systems can emerge that will use ICT tools as an innovative support for the provision and management of services through public-private partnerships that can ensure grassroots participation and develop scalable solutions that can address real local needs. This framework is known as **Smart Communities**.

Whatever the perspective, **estimating public spending for welfare needs remains an important point of reference** to set goals regarding the efficiency or extent of the amount of impact finance on offer and, consequently, to arrive at an estimate of the potential market.

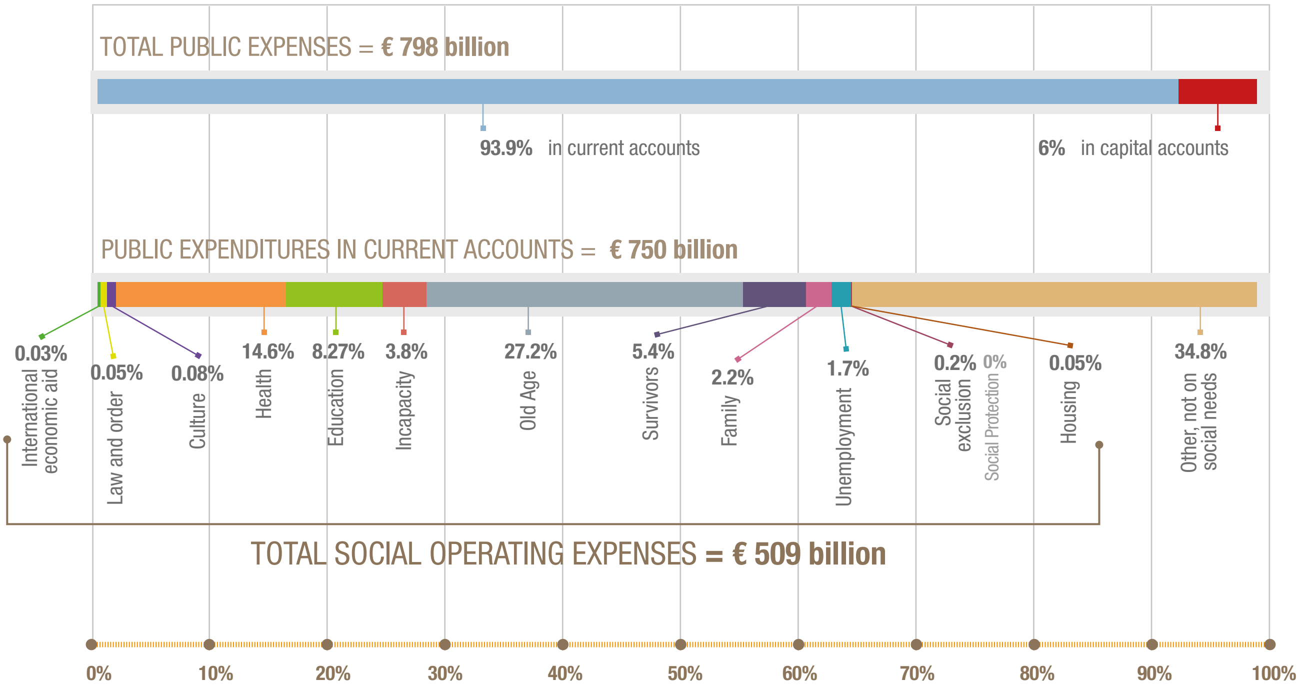
Since welfare needs in Italy are met primarily by public spending, an estimate of public spending and related trends, both in overall terms and per social sector, is a sufficiently significant proxy to estimate current unmet social demands.

In Italy, public spending in the social sector amounts to 68% of the operating expenses of the central government budget, for a total of over € 509 billion[6].

Sectors such as health care, disability payments, family support, housing, and social exclusion amount to only 20.85% of operating expenses, for a total of € 165 billion. Operating expenses for education account for 8.5% of the total and amount to € 65 billion. Public spending on culture amounts to barely 0.7% of operating expenses, or about € 6 billion.

6 ISTAT, (2013), Public administration spending per function.

FIGURE 2 **Public spending on social needs in Italy**



Source: **ISTAT, (2013), Public administration spending per function**

Just under one-third of operating expenses (28.9%) comprises social security spending for the elderly, for a total of € 216 billion. Pensions for survivors of the deceased and unemployment subsidies respectively amount to € 43 billion and € 13 billion.

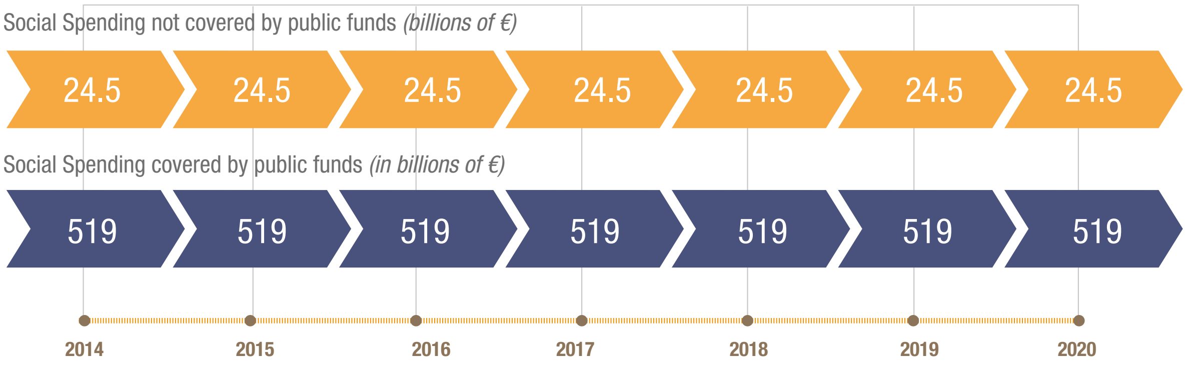
Economic conditions – such as the financial crisis – and demographic factors – such as an increase in life expectancy – in addition to the need to promote Italy's immense cultural heritage, protect its environment and landscape, and improve its human capital, provide incentives for increasing public spending. On the other hand, national and EU **constraints on public spending**, such as those imposed by the **fiscal compact**, make it very difficult to do so.

Under current conditions, **the gap between necessary public spending and sustainable public spending** seems destined to grow.

Assuming that social needs can be met by a rate of increase in public spending equal to the average rate in the years prior to the economic crisis (1997-2007), and assuming a level of sustainable public spending unchanged since 2013, the gap between social needs and public spending **for the period 2014-2020 would amount to about €150 billion**.

FIGURE 3 Projected shortfall in public spending 2014-2020

The projected shortfall in social spending amounts to about **€ 171 billion**



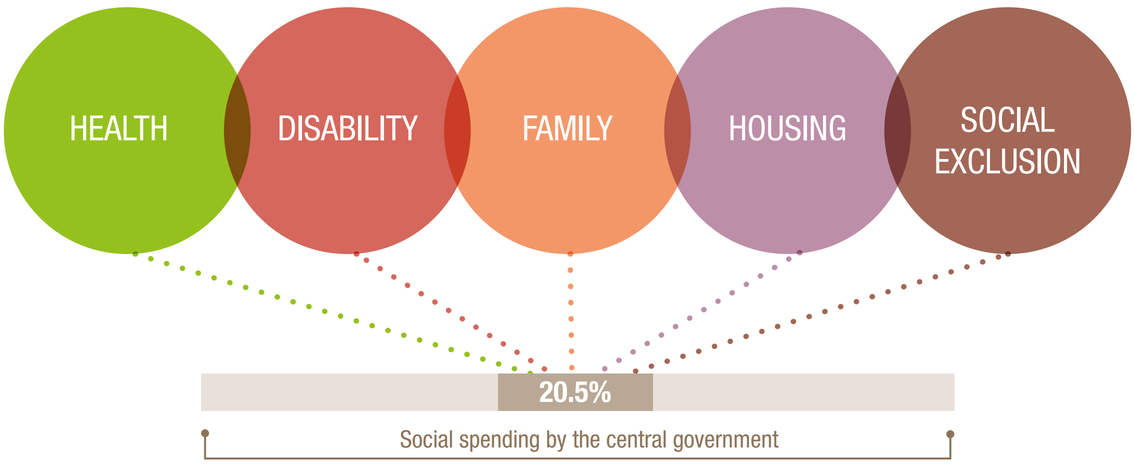
Source: **La Sapienza University Department of Management, analysis of data from ISTAT, (2013), Public administration spending per function.**

The health care, disability, family support, child support, housing, and social exclusion sectors are those with the most urgent needs, and as such, they are potentially the sectors in which the social impact investment market could operate with the most success.

FIGURE 4 Potential markets for social impact investment in Italy

According to the **2014 ISTAT Report**, there are five particularly critical sectors in which increasing social needs must be met and where spending must increase to be in line with European Union averages.

Currently, these **sectors account for 20.85% of central government social spending = € 165 billion**



Source: **Analysis of data from ISTAT, (2014), Fourth report on social cohesion.**

This data on public spending and shortfalls is the starting point for setting out on an innovative technological and organizational path to re-engineer spending and build new, more effective and efficient models of intervention. Social impact finance is asked to help businesses along this transformative process, first and foremost by **making available patient capital in line with the social nature of the interventions**. Impact investing will thus **indirectly** contribute to closing the growing gap between public funds and needs. On the other hand, the identification of a direct, **additional contribution from impact finance to the lack**

of public funds would constitute a short-circuit that is incompatible with the wealth of values and experiences that characterises **welfare systems** in Italy and elsewhere in continental Europe, and is likely to lead the debate on social impact investment to an ideological dead-end.

2.2 The transformation of social entrepreneurship and the demand for new capital

Evolution and regulation

The concept of a social enterprise, in the broadest sense, first emerged in Italy in the late 1960s, and established itself in Europe over the last few decades. It is rooted in the strengthening of the productive and entrepreneurial dimensions of third-sector associations, the social goals of cooperative enterprises, the re-organization of the public welfare system to reflect the subsidiarity principle, the increase in demand for services, the gradual differentiation of needs, and the recognition of new categories of disadvantaged subjects.

Italy boasts a **wealth of organizations working in the social economy** and in 1991, with the introduction of the law on social cooperation[7] it was the first European country to codify the social enterprise phenomenon into law.

So far, **social cooperatives** have been the most widespread model of social enterprise in Italy. These statutory and organizational bodies bridge the social and economic dimensions and serve as a model of innovative entrepreneurship, not only in terms of planning and managing welfare services, but also with regards to local economic development processes and employment policies to recruit the most vulnerable citizens into the workforce. The main innovative characteristic of the social cooperation model lies in the act of constituting an enterprise, the result of initiatives on the part of groups that share a social need and local roots. Another important feature concerns the democratic, multi-stakeholder nature of governance: the approval of a budget and of a plan of activities takes place according to the principle of "one person, one vote", regardless of the actual contribution of each to the share capital. Both the service providers and users participate in the management of the services themselves. An additional distinctive factor of this well-established form of social entrepreneurship regards the intent of promoting the well-being of their reference community, as defined by article 1 of law n. 381/91; indeed, this intent is enshrined in the mission statement of such organizations. Finally, the business model adopted by social cooperatives reflects their ability to raise funds and the resources available within their reference community.

Other types of organizations, both for-profit and non-profits, that promote social entrepreneurship evolved simultaneously with social cooperatives in Italy; these include ***social enterprises*****, as defined by law n. 155 of 2006**. However, this model has not met with widespread acceptance: there are only 768 companies in the register of social enterprises against 12,000 social cooperatives. The main causes for this are thought to lie in the excessively restrictive legislation and the lack of fiscal and economic incentives. The shortcomings of the current legislation include: (a) the definition itself of a social

7 Law 381/1991

enterprise, which excessively narrows down the sectors in which such an enterprise can operate; (b) the absolute prohibition on distributing dividends to shareholders; (c) the legal structure that makes it impossible to attract capital from outside investors; (d) the governance regime that prevents profit-oriented shareholders to contribute to management; and (e) the lack of fiscal benefits.

On 10 July 2014, the Italian government, in response to extensive public consultation, approved an **enabling law for the reform of third-sector associations and social enterprises** which, among other things, calls for a major revision of the legal status of social enterprises. This reform, which will be discussed in the coming months, aims to overcome the normative barriers that have greatly hindered the growth of social enterprises, and, as a consequence, the development of social impact investing. Of specific relevance to impact finance, it addresses the shortcomings of law n. 155 of 2006 on social enterprises by revising the distribution of dividends and the link between social entrepreneurship and a measurable social impact (Box 2.1).

The Italian legislature has recently shown **sensitivity to social entrepreneurship issues** in other sectors as well. In addition to the above-mentioned enabling laws, it has reformed the operativeness of the Central Guarantee Fund for SMEs (Box 2.2) and the 2012 law on start-ups, which included social start-ups, but which was hindered by an excessively restrictive interpretation on the part of the Ministry of Economic Development, which extended technological innovation pre-requisites to social start-ups as well. Indeed, such an interpretation seems to be in keeping with what we have argued in paragraph 2.1.

BOX 2.2

THE REFORM OF SOCIAL ENTREPRISES

The reform of law n. 155 of 2006 on **social enterprises, which is part of the Enabling Law for the reform of third-sector associations**, is based on several principles that are coherent with the impact investing approach.

- It transposes a well-established national and international principle on the role of social enterprises as an **engine for innovation and job creation**.

- The re-definition of the social enterprises **no longer prohibits the distribution of dividends,** albeit with the **necessary constraints to ensure inclusive governance**, including a **ceiling on dividend income**. This is an important change that allows the **entry of private capital** into social enterprises.

- The new definition of social enterprise rests, first and foremost, on the **achievement of measurable positive social impact**: this paradigm shift is entirely consistent with the international approach promoted by the Social Impact Investment Task Force established by the G8.

- The enabling act also re-established, with renewed functions, the Third Sector Agency; it simplifies registers and rationalizes fiscal disciplines for bodies covered by the first book (persons and family) of the Italian Civil Code.

BOX 2.3

THE EXTENSION OF THE CENTRAL GUARANTEE FUND FOR SMEs TO SOCIAL ENTREPRISES

The Guarantee Fund provides guarantees to facilitate access to credit on the part of SMEs. The SMEs that can benefit from the Fund's interventions include "social enterprises" pursuant to legislative decree n. 155 of 24 March 2006, and "social cooperatives" pursuant to law 381/1991. Access requirements for these two categories are the same as for start-ups, and simplified compared to those for ordinary enterprises. The operativeness of the Guarantee fund was extended to microcredit operations with legislative degree 201/2011 converted to law 214/2011 cf. art. 7bis.

The characteristics and potential of Italian social enterprises

In addition to the 768 legally recognized[8] social enterprises, there are a number of others which for all intents and purposes can be classified in the same category, and others yet that may potentially augment the number of Italian social enterprises.
Based only on the company title, there are 404 companies whose primary mission is social entrepreneurship[9]; the same holds true for the 11,264 social cooperatives[10]. As we hinted at previously, most social cooperatives have not yet become legally recognized social enterprises, despite the fact that they have the de facto right (and not obligation) to do so. This is explained by the fact that there are few advantages to legal recognition, but many more formal obligations that must be complied with. Nevertheless, social cooperatives are, for all intents and purposes, social enterprises. Extrapolating further, we can attempt to quantify **the potential of Italian social entrepreneurship** should the normative conditions emerge to include all entities (for-profit, non-profits, hybrid, etc.) whose primary mission is social, and which are endowed with inclusive governance, a system of accountability, and a market dimension.

We must begin by taking into consideration 22,468 non-profit organizations different from social cooperatives[11], some of which could become social enterprises. This may happen, for instance, in cases in which for-profit enterprises – without prejudice to their social mission and all other prerogatives – may intend to develop their commercial activities beyond the limits allowed by the fiscal regime and legal constraints that apply to bodies covered by the first book of the Italian Civil Code.

8 Unioncamere – Si.Camera, (2014), Cooperazione non-profit e imprenditoria sociale: economia e lavoro

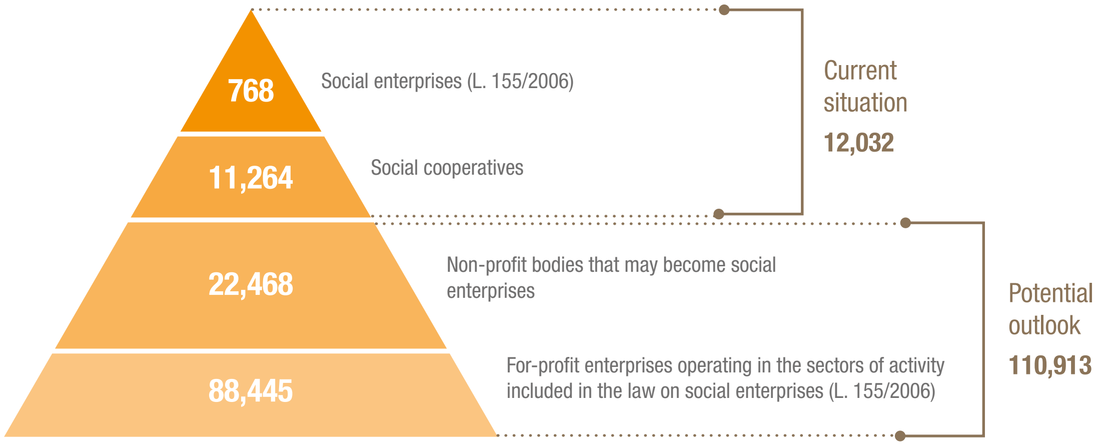
9 Unioncamere – InfoCamere (2011) Movimprese.

10 ISTAT, (2014) Censimento dell'industria e die servizi 2011, Istituzioni Non-profit

11 Unioncamere – InfoCamere (2011) Movimprese

Finally, the 88,445 for-profit enterprises operating in the sectors covered by law n. 155 of 2006[12] may in part be included in the social entrepreneurship should they abide by its additional governance and accountability prerogatives.

FIGURE 5 **The current situation and potential outlook for social entrepreneurship in Italy**



Source: **Analysis of data from ISTAT, (2014), Censimento dell'industria e dei servizi 2011, Istituzioni Non profit.**

BOX 2.4

Sectors of activity

Most social enterprises are active in the **service sector** (92.2%); 50.1% of these are mainly in social assistance and health care services; 16.4% in education and training services; and 9.9 % in services to citizens and enterprises. Only 7.8% of social enterprises are active in the industrial sector[13].

13 Unioncamere-InfoCamere, (2011) Movimprese

BOX 2.5

Impact on employment and value of production

43.6% of social enterprises have less than 10 employees; 21.4% have more than 50, and 35% have between 10 and 49 employees. Half of the enterprises employ volunteer workers. In terms of value of production[14], for 28.3% of them it amounted to between € 50,000 and 250,000; for 25.1% to less than € 50,000, and for only 12.5% of them production value surpassed € 1 million.

14 Venturi P., Zandonai F. (eds.), (2012), L'impresa sociale in Italia. Pluralità dei modelli e contributo alla ripresa. Rapporto Iris Network, Edizioni Altreconomia.

12 ISTAT- Statistical archive of active businesses (Asia) (2011), Sturttura e dimensione delle imprese.

BOX 2.6

Turnover

In 2010, third-sector associations, including legally recognized social enterprises, had a total turnover of **€ 10 billion[15]. Less than one-sixth of the total revenue of non-profit enterprises[16]**

15 Venturi P., Zandonai F. (eds.), (2012), L'impresa sociale in Italia. Pluralità dei modelli e contributo alla ripresa. Rapporto Iris Network, Edizioni Altreconomia.

16 ISTAT, (2014), Censimento dell'industria e dei servizi 2011, Istituzioni Non profit.

Social enterprises and the challenges of managing common goods

The evolved management – or better yet – the shared management of common goods and public services comprising climate, the environment, our cultural heritage, or more simply water and energy is one of the great social challenges of the 21st century. New forms of social entrepreneurship can contribute to the **management of common goods**.

In fact, social enterprises can manage public resources in an efficient and business-oriented manner, preserving universal access to them and guaranteeing multi-stakeholder governance; by the same token, impact investing also seems well suited to the management of common goods.

This issue takes on particular importance for municipally owned or multi-utility companies that manage local public services and pursue a strategy oriented towards expanding beyond their reference territory while maintaining close ties to its communities.

BOX 2.7

New forms of social entrepreneurship: hybrids

Socially oriented enterprises should also include a hybrid form of enterprise akin to the 74 Newcos recently promoted by the social cooperatives associated with the CGM Cooperative Group. These are subjects that, while pursuing a social mission, also produce revenue from commercial activities, and which in 2012 generated economic value for a total of over € 50 million.

Outlook

Any attempt to **estimate the demand for impact finance must grapple with the uncertainties** implicit in the transformation of technological opportunities and thus in the factors that produce social value, the shift of intervention modalities towards a preventive approach, advance payments, and the transformation of the nature itself of the social enterprise through the legislative and market processes that are currently affecting the sector.

The two preceding paragraphs attempted to trace an outline of this transformation and to highlight the fact that **new enterprises with new technologies and organizational models will attempt to respond to longstanding and emerging social needs through new tools of intervention**. The dimension and the nature of the demand for impact finance depends on the outcome of these processes.

As of today, attempts to quantify the demand – and thus the potential market – for impact finance with any precision would be difficult – and in any case such an attempt would fall outside the scope of this report. It is nevertheless evident that, on the one hand, **the quantification of demand can only be achieved through an analytical study of these processes**, and by defining a clear objective for any future agenda; and on the other, that **policy actions on the demand side must concentrate on accompanying such processes**, as we shall argue in Chapter 6.

3 Social impact investment supply

The social impact investment market comprises both **"typical" and highly innovative financial instruments**. The overview provided here describes their main characteristics, including their degree of development and maturity in an Italian context, and for each instrument described it outlines some examples of institutional best practices.

The chapter continues with a brief analysis of the **subjects** that provide these instruments on the market, specifying whether they are "for profit" o "non profit", and whether they are fully "impact-oriented" or whether this approach is just one of several business lines, and a newly-adopted one at that. The goal is to describe, first and foremost, the framework of instruments and operators currently active on the Italian impact investment market, and subsequently to provide a rough **estimate** – as outlined above - of the potential for the development of this market in Italy, in order to begin to define a perimeter for the resources necessary to facilitate the operating, financial, and dimensional growth of social entrepreneurship.

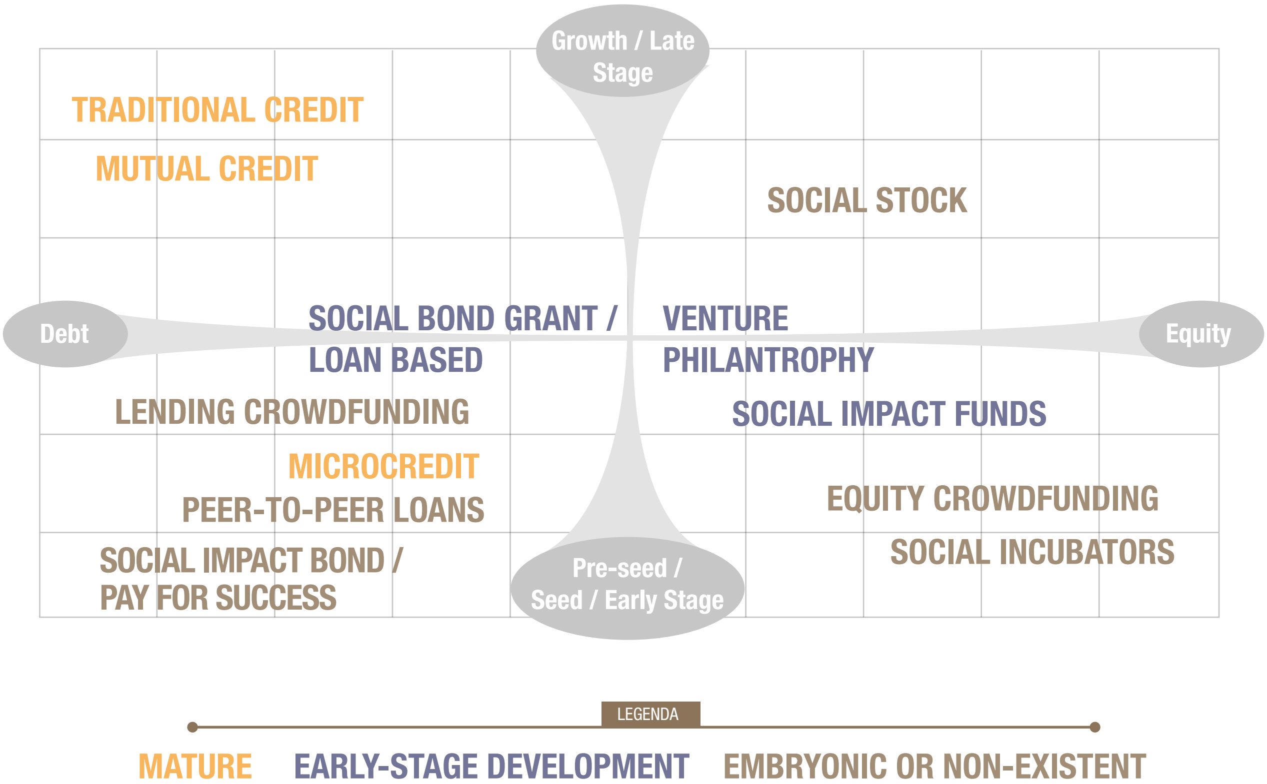
3.1 The instruments

The instruments for social impact investing can be assigned to different categories depending on whether they are debt or equity instruments, on the maturity of the instrument, and on the stage of development at which the investment takes place. One can broadly distinguish between debt instruments and equity instruments and, at the same time, between an initial growth phase and a subsequent phase in which they come into play (Figure 6).

In particular, in the impact investment market the following can be identified:

- **A traditional segment**, with mature instruments, supplied by established brokers and operating according to well-defined rules, producing profits;
- A segment characterized by **instruments under development**, supplied by a small number of brokers with a structured operating approach, for which there is as of yet no information on track record and profitability;
- A segment that comprises instruments at the earliest **stages of development or yet to be developed**, where a few pioneering brokers are operating in an as-of-yet insufficiently structured manner, so that they are not yet relevant in terms of market research.

FIGURE 6 Instruments for impact investing in Italy



Source: **Data analysis by the "Capital attraction" working group**

The analysis of individual tools is also an opportunity to present a sample of best practices that are representative of social impact investing in Italy.

Traditional credit and mutual credit

In Italy, **traditional and mutual credit** are mature debt instruments.

Traditional credit

Loan categories promoted by traditional financial institutions and created to meet the short-term and long-term financial needs of so-called third-sector associations. Interest rates and loan conditions vary widely on a case-by-case basis.

Mutual credit

Funding provided as debt through mutual loan funds whose resources come both from the deposit of 3% of the annual earnings of associated cooperatives, and from the pooling of savings through shareholder loans and other funding from non-profit financial institutions, which use the resources at hand to fund the development needs of associated social cooperatives.

BEST PRACTICES

Traditional credit

BANCA PROSSIMA - PAN

Pan is a non-profit consortium that aims to create new nursery schools and child-care facilities throughout Italy, providing children and their families with high-quality services guaranteed by the Pan system. The Pan Consortium was born out of the union of the three largest networks of non-profit enterprises– CGM Gruppo Cooperativo (Consorzio Gino Mattarelli), Con. Opera – Cdo opere sociali di Compagnia delle Opere and Consorzio DROM di Legacoop – da Banca Intesa San Paolo – Federazione Italia Scuole Materne. Banca Prossima, in particular, makes available to PAN members financial solutions that can meet their main banking needs.
Results: so far, over 400 nursery schools belong to the consortium, which has provided € 6.6 million in funding.

UBI BANCA - FONDO JEREMIE FSE

The initiative consists of loans issued by UBI - Banca Popolare di Bergamo to physical persons who use these funds to capitalize the cooperatives in which they work or will work as partners. Loans are issued using, in equal proportions, funds from the Bank and the Jeremie FSE Fund.
Results: over 3,000 loans issued by UBI Banca Popolare di Bergamo to cooperative partners, for a total of over € 6 million in funding and the involvement of 190 cooperatives[17].

Mutual credit

BCC - BUONA IMPRESA!

Launched in 2012, this is an integrated project by Credito Cooperativo Italiano targeting youths under the age of 35 who intend to open or develop their own business, including cooperatives and non-profits. The goal is to facilitate access to credit by providing support services and making available tools to steer the design, testing, and submission of a business plan (dedicated website and app). A unique feature of the project is a partnership with local institutions who are responsible for providing support services and assistance.
Results: in 2013 the "Buona Impresa!" project funded 2,530 youth-owned businesses, including 1,020 start-ups, for a total of € 64 million.

BCC- DAL BENE CONFISCATO AL BENE COMUNE

Credito Cooperativo Italiano's "From confiscated assets to the common good" is implemented in cooperation with the Libera anti-mafia association. It aims to support enterprises whose aim is to manage assets confiscated from organized crime groups for socially beneficial purposes. It does so by facilitating access to credit (on the part of local Credito Cooperativo branches) and implementing a series of supporting activities (grants, free tutoring) in collaboration with local bodies and associations.

17 A similar initiative was carried out by Banca Etica in Lombardy and will be replicated in Campania and Sicily.

BOX 3.1

The social re-use of assets confiscated from organized crime groups

Best practices in traditional and mutual credit include an exemplary Italian experience: the **re-use for social purposes of assets confiscated from organized crime groups.** Once these assets are confiscated for good, they are turned over, free of charge, to institutions, associations, and cooperatives which are then responsible for managing them in a way that creates opportunities for economic, social, and local development. The efficient re-use of these resources, which would otherwise remain unused, create economic opportunities and new jobs, and therefore improve society as a whole. One such exemplary experience is "Dal bene confiscato al bene comune" (see box above). At the same time, Banca Popolare Etica is collaborating with the "Libera" anti-mafia association to provide funds to businesses that manage confiscated assets. There are currently 179 active projects for a total of € 5 million.

Microcredit

As defined by the new articles 111 and 113 of the Consolidated Banking Act, **microcredit** consists of small loans, without collateral, associated to tutoring and coaching services. These loans can be issued to support micro-enterprises (less than ten employees) – in which case, the loan cannot exceed € 25,000 – non-profit organizations (associations and cooperatives), or financially vulnerable physical persons – in which case the loan cannot exceed € 10,000.

In 2013, the 105 microcredit initiatives monitored in Italy issued just under 10,000 micro-loans, for a total of over €100 million[18]. It should be kept in mind that while most micro-credit loans (59.9%) were issued for social assistance purposes, self-employment initiatives count for most of the amount issued - over € 76 million, almost three-quarters of total resources and a full € 50 million more than the € 26 million devoted to social micro-credit.

BEST PRACTICES

Microcredit and Microfinance

ETIMOS FOUNDATION - MICROCREDITO PER L' ITALIA

Microcredito per l'Italia is a social enterprise that pursues its social assistance and promotion goals through tools such as inclusive financing, microcredit, and access to basic financial services. It not only provides support in post-emergency contexts, but also provides broader assistance in the fight against social exclusion and poverty, and addresses the need for financial support for small and micro-enterprises.

Results: as of March 2014, funds disbursed amounted to € 22 million, of which 8% were directed to micro-enterprises.

18 Source: National Microcredit Agency

BCC MICROCREDITO (FERDERCASSE)

Today 51% of the branches of the Italian Credit Union – Credito Cooperativo Italiano (BCC; 385 in all) provide micro-credit to support the launch and development of micro-enterprises with one-time loans of less than € 5,000, or to support individuals (for the purpose of facilitating financial inclusion) with loans of less than € 10,000. Micro-credit initiatives are accompanied by assistance activities using the integrated synergies of the BCC system (expert advice on the launching of micro-enterprises, tutoring, etc.) or of the credit union itself (expert advice on debt, financial education, etc.).

Results: in 2013, a total of € 37 million was disbursed to 3,377 subjects.

BCC MICROFINANZA CAMPESINA

Launched in 2002, "Microfinanza Campesina" is an integrated community development project in rural Ecuador and is the largest development project using private funds in that county. The key elements of the project include the mutual relationship between small village banks and the BCC and the breadth of support – not only in economic but also in social, cultural, and value terms -thanks to shared recognition of the value of cooperation.

Results: so far, over USD 40 million in funds were made available, at a token rate, by the BCC. Over 150,000 rural families now live above the poverty line and are self-sufficient in terms of food; over 22,000 new brick homes were built; and USD 110 million in micro-credit loans was issued.

PERMICRO

Permicro, the first micro-credit enterprise in Italy, was founded in 2007 in Turin with the goal of promoting employment and social inclusion through professionally issued micro-loans, financial education, and the provision of services to support the creation of new businesses. It targets micro-entrepreneurs and individuals with primary financial needs (housing, health care, training) and who are excluded from traditional credit channel.

Results: so far, it has issued 6,500 micro-credit loans for a total of € 38 million.

Social Bond Grant/Loan Based, Lending crowdfunding and Peer-to-peer Loans

Social Bond Grant/Loan Based, Lending Crowd funding and Peer-to-peer loans are **debt** instruments, currently in an embryonic development phase, whose international reference markets are characterized by varying degrees of maturity.

Social Bond Grant/Loan Based

These terms refer to bonds recently issued by several socially oriented Italian banks. They offer investors earnings in line with the market (or lower), while the issuer undertakes to forego a pre-defined share of its profit (and/or the investor undertakes to forego part of their earnings); funding from the bond is used to disburse money, either as grants and/or loans, at competitive conditions to support projects or investments with a high social impact.

Lending crowdfunding

Form of lending which uses an online platform to allow private investors (physical or legal persons) to loan funds, either interest-free or at a market interest rate, for socially-valuable projects (with bank-issued guarantees for the return of capital), while allowing non-profit organizations to obtain loans at sustainable rates.

Prestito peer-to-peer

A debt instrument that allows individuals to borrow or loan money without using professional financial institutions as brokers. Loans take place online using various platforms and financial verification tools.

BEST PRACTICES

Social Bond Grant/Loan Based

SOCIAL BOND UBI COMUNITÀ

Bonds issued by UBI Banca or another of the group's banks that offer investors a market rate; the money from the sale of these bonds is then used by the Bank to support investments or other projects with a high social impact, through grants and/or market-rate loans.
Results: since the initiative was launched in April 2012, Gruppo UBI Banca has issued and sold 54 social bonds amounting to over € 560 million that have made it possible to issue over € 2.8 million worth of grants and to earmark a loan ceiling of about € 19.5 million.

BANCA PROSSIMA - OBBLIGAZIONI SERIE SPECIALE

Thanks to the funds raised by the sale of Intesa Sanpaolo – Serie Speciale Banca Prossima bonds, Banca Prossima can issue medium- and long-term loans to secular and religious non-profit organizations at a subsidized rate compared to the conditions normally applied to similar loans. The reduced earnings to bond subscribers are entirely transferred, in terms of reducing the rate applied, to these loans (credit application fees are also waived).

BEST PRACTICES

Lending Crowdfunding

BANCA PROSSIMA - TERZO VALORE

Terzovalore.com is the web platform where non-profit organizations that are clients of Banca Prossima can present socially oriented projects and appeal to the public to rise – either as loans or donations – the necessary funds to carry them out.

Results: as of 10 April 2014, € 8.7 million worth of projects have been published, € 3.65 million in loans have been raised from 837 lenders and € 638,000 in donations from 102 donors.

Peer-to-peer Lending

SMARTIKA

Thanks to the portal Smartika.it, demand for credit and the supply of loans on the part of private citizens can meet online, without banks or other financial institutions acting as intermediaries. Everyone benefits: lower rates for borrowers and higher interest for lenders.

Results: so far, 2,424 loans have been issued totalling € 13.74 million.

Venture philanthropy and social impact funds

In Italy, **equity** instruments, where they exist at all, are at a far less advanced state of development compared to debt instruments. Some of the most evolved equity instruments include **venture philanthropy** and **social impact funds**.

Venture philanthropy

A series of initiatives that aim to create sound social organizations by providing them with financial and non-financial support (e.g. capacity building), with the goal of increasing their social impact. The venture philanthropy approach encompasses both the use of social investments and donations, and generally implies more complex forms of involvement with a longer time-frame compared to acceleration programmes.

BEST PRACTICES

Venture Philanthropy

FONDAZIONE CARIPLO- FONDO FIL

Fondo Immobiliare di Lombardia is Italy's first ethical real estate fund; it is a closed real estate mutual investment umbrella fund reserved to qualified investors and relates to social housing (or private social housing) interventions in Lombardy. Fondo Immobiliare di Lombardia – Comparto Uno aims to make available on the market, by 2015, over 2,500 apartments destined primarily to rent-controlled housing, rent-to-buy contracts, or sale at prices that are not only lower than the market rate, but also lower than those of subsidized housing.

Social impact funds

Funds investing risk capital in enterprises or organizations that can generate a measurable social or environmental impact together with financial returns.

BEST PRACTICES

Social Impact Funds

OLTRE VENTURE

Oltre Venture was established with the idea of bringing venture capital methodologies and tools to bear to meet social needs. The goal is to attract private capital to support new business ideas and new entrepreneurs in a sector in which an increasing demand for services on the part of citizens is not fully met by either the private or public sector.

Results: so far, € 7.5 million have been raised from private subjects, and they have been entirely invested in 17 new enterprises, exclusively in Italy, and mainly in the social housing, micro-credit, and health care sectors.

FONDAZIONE OPES

Fondazione Opes ONLUS aims to acquire capital shares in enterprises selected for their high local and social impact, after the start-up phase. The strategy is to become minority shareholders of such enterprises while playing an active role in their management boards.

Results: so far, Fondazione Opes has five investments in its portfolio – two in India, two in Kenya, and one in Uganda- in a range of social business sectors: solar power,women's hygiene, distribution of primary goods, pre-school education, and waste recycling.

ETIMOS FOUNDATION - MICROFINANZA POST-EMERGENZA

The Italian Civil Defence has entrusted Etimos Foundation with launching a micro-finance programme in Sri Lanka, with an initial endowment of € 5 million. The projects consist of supporting, through Consorzio Etimos, local micro-finance institutions, whose loan portfolios were severely compromised by the damage caused by the tsunami to the island's economic fabric.

Results: With an initial fund of € 6.5 million, over € 10 million in loans were issued. The initial fund is still almost intact and amounts to € 5.2 million (net of management expenses and funds destined to capacity-building activities).

Social impact bond/Pay for success

For the time being, these instruments are entirely absent in Italy. A few stakeholders are currently exploring Social Impact Bond[19]. In particular, the Ministry of Justice has entrusted Human Foundation with a feasibility study for the use of social impact bonds/pay for success for experimental prisoner rehabilitation interventions.

Social stocks, equity crowd funding, and social incubators

Social stocks, which are at an advanced stage of development internationally, are still at the embryonic stage in Italy, much like **equity crowdfunding** and **social incubators**. This is mostly due to a regulatory framework that hinders their development, such as current regulations on social enterprises – which appear to be headed for a major revision[20] - and the lack of proportionality between stockholders' capital shares and voting power.

Social stocks

Stocks that make it possible to invest directly in the share capital of enterprises with a high social impact. The advantage of these stocks is that they provide interested investors with the necessary information to identify and compare, in a transparent manner, the enterprises that provide social and environmental value. Social stocks, which are at an advanced stage of development internationally, are instead at an embryonic stage in Italy. This is due mainly to a regulatory framework that limits their development – such as the current law on social enterprises, whose shortcomings should be overcome by the recent reform law, and the lack of proportionality between stockholders' capital shares and voting power.

Equity crowdfunding

Form of investment in which a number of people use an online platform to raise funds – even if in limited amounts -for a business project, and acquire shares in said business.

Social incubators

Organizations that provide assistance services, often with small investments.

19 Fondazione Cariplo (2013), I Social Impact Bond. La finanza al servizio dell'innovazione sociale?, "Quaderni dell'Osservatorio" series n. 11

20 20 In July 2014, the Council of Ministers of the Renzi government approved an Enabling Act for the reform of third-sector associations and social enterprises and for the regulation of the universal civil service

BEST PRACTICES

Social Stock

BANCA POPOLARE ETICA

In Italy, the capitalization of Banca Etica over the last 20 years is a clear example of a retail investment in the shares of a bank with explicit social goals and a remarkable degree of transparency.

Results: the bank's capitalization is now worth € 48 million (37,000 shareholders including 30,000 citizens) and it collects € 900 million, of which € 600 million in loans being disbursed – both positive signals of constant growth. 40% of loans go to social cooperation and another 40% to third-sector associations.

BEST PRACTICES

Social Venture Incubator

MAKE A CUBE

Make a Cube is a joint venture between Make a Change and Avanzi S.r.l. It is the first Italian low-profit and the first business incubator dedicated to start-ups with a high social/environmental value; it is accredited in several provinces and regions. Its aim is to launch and support start-ups, small for-profit or non-profit enterprises, and large companies in developing initiatives that can generate positive social and economic impacts.

The identification of **best practices** makes it possible to draw several important conclusions: a great variety of stakeholders are active in the Italian market, and **retail** investors are increasingly interested in traditional instruments with investment lines dedicated to social impact projects.

The lack of a link between social impact financial instruments and the retail investors market, which is where most of the wealth and assets in Italy lie, **is one of the main obstacles to the development of impact investing at the national level**[21].

21 Banca Fideuram's Fonditalia Ethical Investment (FEI), which currently has 2,500 subscribers, is an interesting such example on the Italian retail market

3.2 The stakeholders

The social impact investment market is characterized by a vast number of stakeholders involved in the supply of investment tools. These include: banks, banking foundations, insurance companies, pension funds, and social cooperatives. In attempting to define a perimeter within which we can assess the potential of the impact market in the short- and mid-term, we must first identify the quantity and origin of what we define as social finance in terms of:

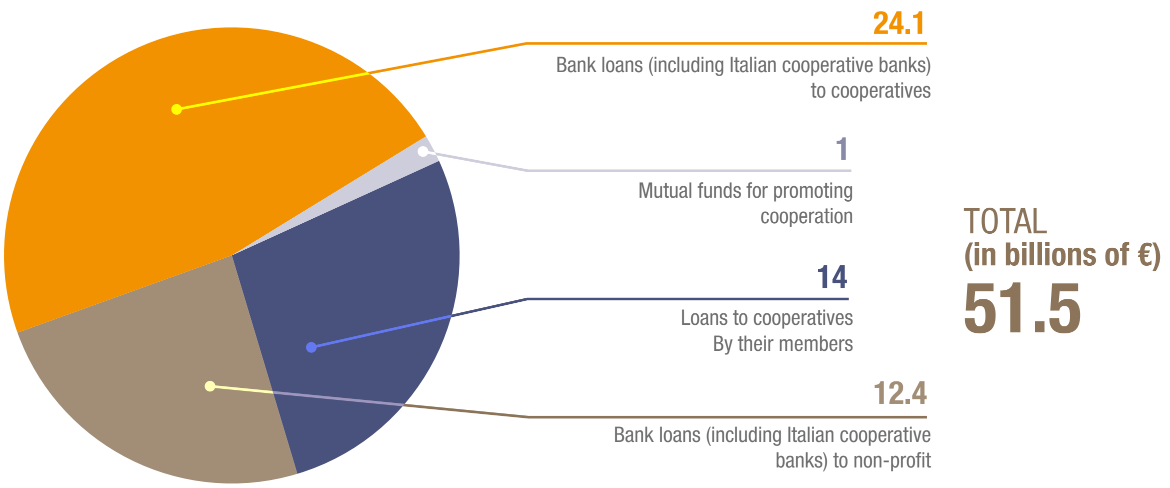
- origin (in terms of how funds are raised, such as in mutual or cooperative finance);
- destination (because funds are destined to so-called social economy operators).

Currently, a wide array of traditional brokers is operating in this sector in Italy, and mobilizing about **€ 175 billion** towards non-profits, social enterprises, and small and medium enterprises as detailed below.

In particular, about **300 commercial banks** provide loans to non-profits and social enterprises, for a total volume of about **€ 30 billion**[22], while the **380 Italian Italian cooperative banks** have a volume of activity amounting to about **€ 130 billion**[23] (distributed between families, SMEs, and non-profit bodies not included in the previous calculation). **Cooperatives** manage three mutual funds that promote cooperation for a total of **€ 1 billion**, and other mutual loan funds for a total of **€ 14 billion**.

The figure below depicts loans to the social economy (non-profits, cooperatives, and social enterprises), which amount to about **€ 51 billion**.

FIGURE **7** **Loans to the social economy (in billions of €)**



Source: **Data analysis by the working group on capital attraction.**

22 Data from Felici, R., Gobbi, G., Pico, R., (2012), Il credito al Terzo Settore in tempo di crisi. Servizio Studi di Struttura Economica e Finanziaria della Banca d'Italia

23 Federcasse, Federazione Italiana delle Banche di Credito Cooperativo - Casse Rurali ed Artigiane (www.creditocooperativo.it)

It should be noted that most of the loans for the social economy are issued by banks. The Italian social finance environment is thus highly influenced by the predominance of retail-type investments in the Italian financial market, by the preponderant role of banks, and by the excessive reliance of Italian enterprises – including non-profit ones – on bank debt (compared to equity and other forms of debt).
In addition to the above, other holders of capital that may potentially play an important role in impact investing include **banking foundations**, **pension funds**, and **insurance companies**, in light of the vast patrimonies they manage and of their very mission.

Banking foundations are typically Italian institutions; they are non-profit, private, and autonomous subjects that exclusively pursue social utility goals and the promotion of economic development[24]. They manage vast patrimonies, whose earnings are invested in activities of great collective interest, such as education, scientific research, art, health care, and cultural heritage. As of today, there are 88 banking foundations in Italy, and in 2013 they financed socially oriented projects amounting to a total of € 884.8 million. At the end of 2013, they held about € 41 billion in total assets.

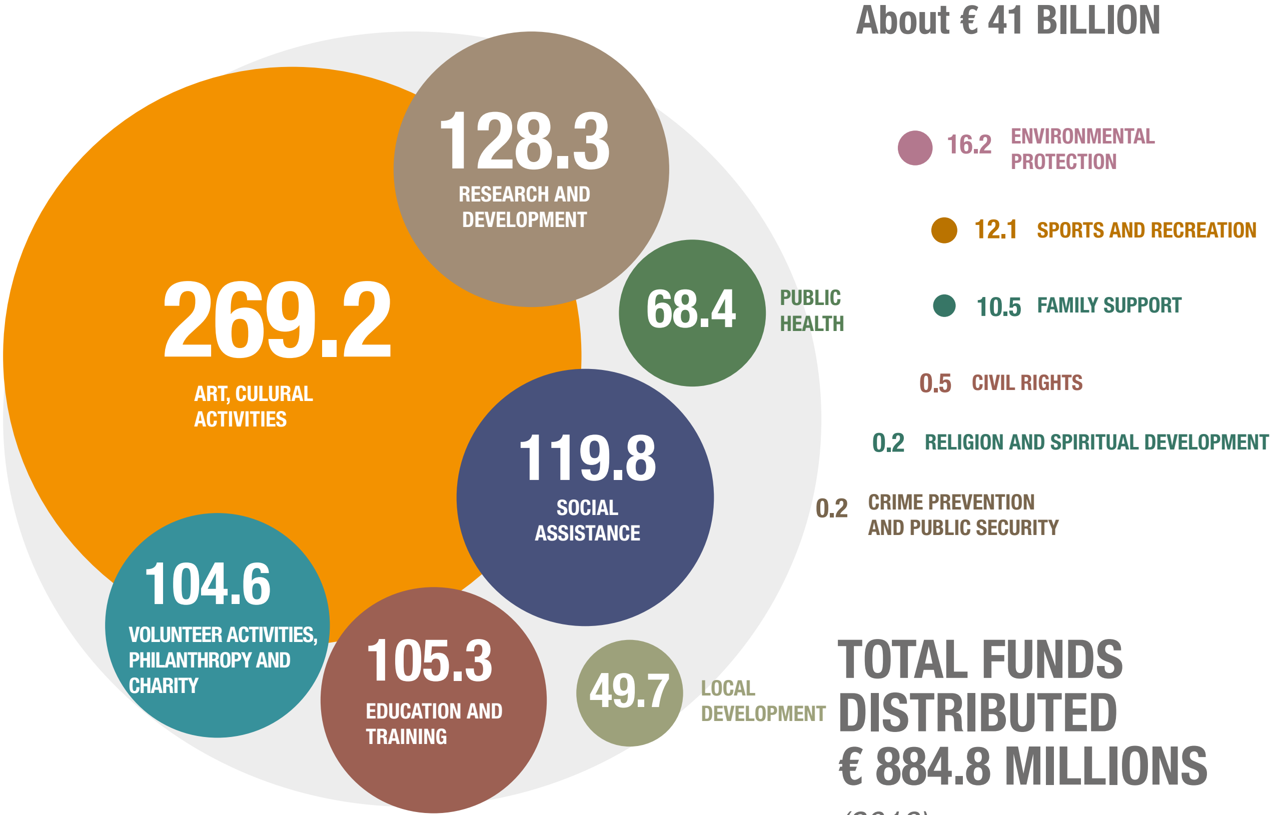
FIGURE **8** **Funds disbursed by Italian banking foundations in 2013** (in billions of €)

Banking foundations serve both as financing institutions providing philanthropic resources to non-profits and local agencies, and as major institutional investors. *www.acri.it*

In absolute terms, funds disbursed by Italian banking foundations in 2013 amounted to **€ 884.8 million for a total of 22,334 interventions.**

TOTAL ASSETS OF BANKING FOUNDATIONS *(2013):*

About € 41 BILLION



TOTAL FUNDS DISTRIBUTED € 884.8 MILLIONS
(2013)

Source: **ACRI Annual Report (2013)**

24 Presentazione delle fondazioni bancarie. Associazione di fondazioni e di casse di risparmio S.p.A. www.acri.it [http://www.acri.it/3_fond/default.asp]

Pension funds and insurance companies have a trust-based relationship with the public and a long-term investment outlook. As of the third trimester of 2013, assets invested by pension funds amounted to about **€113,135 million**, and those invested by insurance companies to **€ 526,899 million**.

In such an environment, the number of brokers dedicated exclusively to impact investing is extremely limited. In recent years, some pioneering brokers have begun to operate in the impact finance sector and to promote the first social impact investment funds. These brokers operate primarily with a long-term outlook, and promote both equity and debt investments.

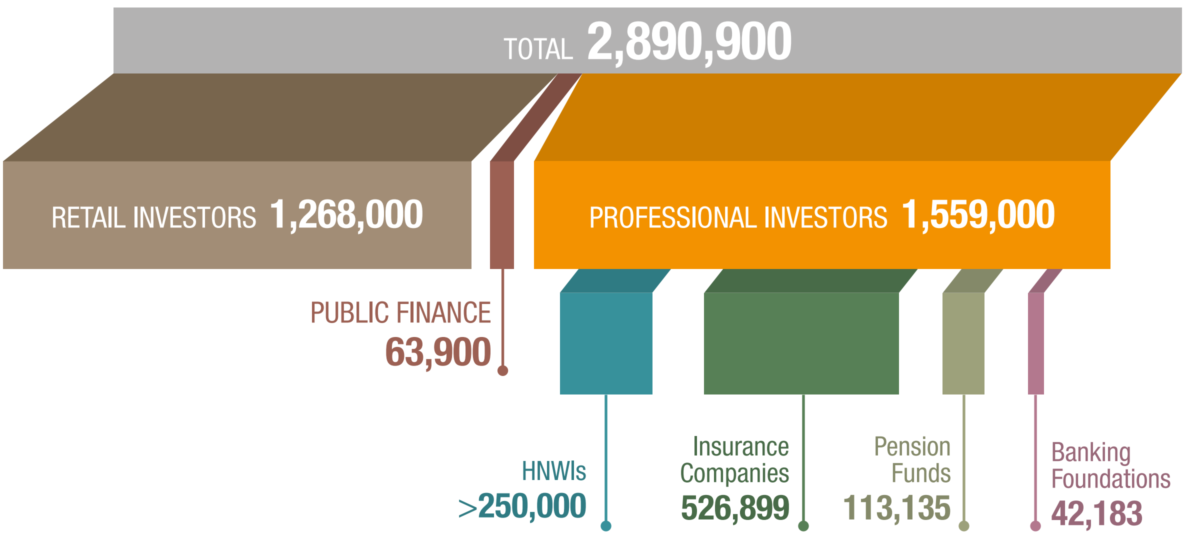
Once the framework for socially oriented loans is defined, we can then provide a prudential estimate of the development of the **impact investing market** in Italy.

3.3 The market

At the end of the third trimester of 2013, assets managed on the Italian capital market amounted to about € 2.89 trillion. Over 54% of this total, or € 1,559 million, consisted of capital invested by institutional investors, of which € 526,899 million was invested by insurance companies and €113,135 million by pension funds (Figure 9).

The second-largest category of investors in terms of capital invested are retail investors, with € 1,268 million. Their strong propensity to steer their investments towards instruments dedicated to socially oriented projects is a typically Italian prerogative.

FIGURE 9 **Capital holders and investable capital, 3rd trimester of 2013** (in billions of€)



Source: **Data analysis by the working group on capital attraction based on Monitor Institute, (2009), Investing for Social and Environmental Impact**

An estimate of the resources available for the social economy

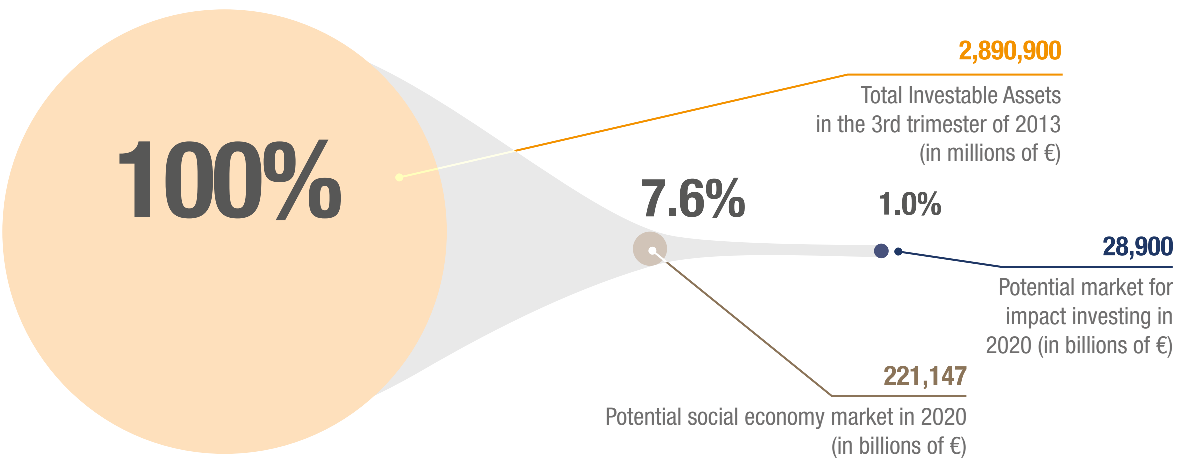
As we have said, the **social economy market** is currently estimated at around € 175 billion. Assuming an annual growth rate of 3.4% – the average annual growth rate for turnover in the non-profit sector over the last 10 years as calculated by ISTAT – the market would growth to **€ 221 billion by 2020**: 7.7% of assets currently in the capital market (Table 10).

An estimate of the resources available for impact investing

Unlike the social economy market, the impact investment market in Italy is still in the early stages of development and remains a small niche market; it is thus difficult to quantify it with any precision.
By using the growth dynamics of SRI markets in certain advanced contexts as a template, we might prudentially estimate that between 2013 and 2020 ***impact investing* in Italy may grow to account for at least 1% of active assets managed in the capital market as of the third trimester of 2013**[25]. Under a conservative approach that assumes that in the period in questions these assets won't grow and inflation will remain constant, the € 2.89 trillion in total assets would mean that **the value of social impact investments would amount to about € 28.9 billion** (Table 10).

Therefore, by adding up the estimates for the impact investing market with those for the social finance market, by 2020 the overall market may amount to about **€ 250 billion**.

FIGURE 10 **Estimate of the potential market for impact investing in 2020** (in billions of€)



Source: **Data analysis by the working group on capital attraction**

25 Monitor Institute, (2009), Investing for Social and Environmental Impact, p. 9

4 Intangible infrastructure for social impact finance: measurement and regulation

4.1 Measurement and metrics

The measurement of social performance is a vital prerequisite for the development of social finance. Matching supply and demand, and improving efficacy and control over investments are hindered by the lack of a solid framework for assessing the social impact that has been generated. The **measurement of social impact** is essential since the distinguishing characteristic of social impact investment is the **intent on the part of the investor** to produce a positive social impact.

The Italian social economy is an important economic sector; according to recent estimates, it contributes significantly to GDP and accounts for about 10% of total employment[26]. Any effort to highlight the crucial role that the social economy can play in Italy's socio-economic development must begin by demonstrating the actual impacts that have been or could potentially be generated. As a consequence of this, it is essential to **develop measurements systems that are up to the task**. Indeed, in addition to contributing to internal growth, accountability, and transparency, accurate impact measurement would help social entrepreneurs document their importance to the community. On the enterprise side, this would improve access to funding, while on the side of the investors, it would provide an additional and decisive factor on which to base future investment choices in this sector. Therefore, this additional goal of bridging the information gap between lenders and borrowers makes it even more urgent to develop measurement infrastructure.

4.1.1. The measurement of impact: the latest data in the Italian context

The measurement of impact is currently at an **early stage of development worldwide**, and Italy is no exception. Nevertheless, the great variety of experiences in this sector in Italy, and its areas of development, testify to the vitality of its operators. Should the Italian social sector be able to develop effective instruments to measure and report social impact, it will make it easier for the quality and quantity of social goals achieved to emerge.

One of the most widespread practices is the **social report**, which in Italy is drafted by both non-profit and for-profit enterprises under various names (e.g. social report, sustainability report, mission report, report on intangibles, or integrated report) and following various standards, principles, and guidelines (such as SA 8000, GRI, Equator, and other national or international guidelines). Similar activities and reports are also used by the public sector.

Although in most cases drafting social reports remains an elective activity, certain subjects are required to produce some sort of sustainability report. (Box 4.1)

26 ISTAT, (2014), Censimento dell'industria e dei servizi 2011, Istituzioni Non profit.

BOX 4.1

Mandatory forms of social reporting

Legally recognized "**social enterprises**" on the basis of Legislative Decree n. 155/2006 (currently about 700) have the obligation to submit a social report whose minimum requirements were established in 2008; in practical terms, these enterprises' social reports do not contain any information additional to that required by law. A particular aspect worth underlying is the explicit request under Article 14 of the law for the report to mention the ways in which workers and beneficiaries are involved, in light of the relevance assigned to participatory, multi-stakeholder governance. "**Banking foundations**" (established on the basis of legislation adopted in the early 1980s) are obligated to draft an annual report comprising two sections: a report on financial aspects and a mission report: there are specific guidelines concerning the former, but the contents of the second are subject to a certain amount of discretion.

In some regions, such as Lombardy and Friuli Venezia Giulia, **social cooperatives** are obligated to draft a social report as a prerequisite for the accreditation process with public administrations.

Numerous **cooperatives** publish a social report on a voluntary basis, and efforts are increasing to encourage such practices. Indeed, several non-profit networks and organizations have made a significant commitment to defining standards and templates to make available to their members. Another such example concerns **cooperative banks**, which have established a shared system of mutual reporting based on pre-defined indicators.

For the remainder of the social sector, social reports remain an elective activity, albeit with some truly excellent examples, such as the social reporting activities of consortium networks. At this "third" level, social reporting is encouraged **among network members**, namely consortia of cooperatives (second level), through the development of reference standards and indicators. An additional effort was spearheaded by the Agency for the Third Sectror[27] to promote and ensure a certain level of **standardization in social reporting** establishing in 2011, guidelines for third-sector associations; nevertheless, neither the Agency nor any other authority have ever made it mandatory to draft a social report.

Many **for-profit enterprises** are also engaged in social reporting, including banks and brokerage firms: the number of social reports in the for-profit sector has grown significantly over the years, but has not yet gained universal acceptance. In this context, and especially for listed companies, the contents of the social report follow the guidelines issued by the Global Reporting Initiative.

27 The Agency for the Third Sector was abolished in 2012. Currently, Article 2 of the Enabling Act for the Reform of Third-sector Associations calls for the establishment of an independent national body to promote and oversee third-sector associations.

4.1.2. Common reporting practices

In spite of the uneven use of social reporting, it is worth analysing certain common practices in specific scenarios, whether related to specific sectors or applied across the board.

BOX 4.2

Reporting per sector or across the board

Work placement

Work placement is probably the sector in which social reporting is most advanced. Social reports generally concentrate on the effects of work placement efforts on beneficiaries; these effects are generally evaluated using questionnaires, although there have been occasional attempts to quantify them in financial terms. Nevertheless, some interesting results have been achieved in terms of qualitative measurements at both the academic and professional levels: these indicators suggest significant savings for the public sector, given that public spending on cooperatives that employ disadvantaged citizens are much lower than the cost of enrolling the same people in public health programmes.

Microfinance

In the micro-finance sector, the Italian experience is part of a much wider global effort. Measurement activities comprise a number of indicators that focus primarily on several specific aspects: outreach, female participation in the workforce, income support, and sustainability.

Local development

Concerning local development, there have been interesting attempts to create specific ex ante metrics, especially in terms of re-assigning abandoned public buildings (former arsenals, prisons, etc.) and granting their use to social cooperatives for ground-breaking social work experiences.

Culture

In the cultural sector, there are some excellent examples of social reporting concerning museums, festivals, and libraries, but overall the sector suffers from a lack of managerial expertise and still depends on a public support system that has failed to motivate operators to develop effective reporting practices. After all, this sector should be a fertile breeding ground for experimenting with measuring social impact: the great variety and quality of cultural institutions in Italy and a changed approach to the use of public funds (with the possible transfer of many such institutions from the public to the social sphere) should undoubtedly provide strong motivation for quickly adopting cultural impact reporting forms.

There is thus reason to believe that social impact reporting and measurement practices are gaining ground in Italy, yet there is an evident lack of a single, universally recognized system that can measure and represent the entire spectrum of activities included in the social sector.
For the time being, the **standardization of social reporting using a single framework appears implausible.**

Concerning the specificity of indicators, operators in the social and financial sectors agree on the need to search for **a better balance between financial and qualitative indicators** for measuring subjective well-being, dignity, or capabilities.

Principles

Certain **minimum basic principles** should be applied to the measurement process and the drafting of reports; compliance with these principles should be formalized in certain areas, such as public procurement, and informally encouraged in others.

BOX 4.3

Process-related principles

The measurement process should follow standard procedures[28] which, even if under different names, essentially follow a sequence that involves: identifying the stakeholders, scope, and objectives of the activity, and subsequently identifying indicators (a); taking measurements, validating them, and assigning a value to them (b); and finally reporting the results and using them to suggest ways to improve performance (c). The phases that make up the process should be described and explained in greater detail, and their results highlighted, in the reports and by the relevant organizations. The purpose of measuring social impact is to **influence the behaviour of the parties** that play a key role in achieving project goals – in other words, the stakeholders. **Stakeholder involvement**, ideally in every phase of the measurement process and especially in the identification of relevant outcomes, is of the utmost importance. Additionally, such information, which is costly to acquire, should be produced only if it can be reasonably expected to sufficiently modify stakeholder behaviour. In turn, verifying this circumstance requires the participation of the stakeholders themselves, and is thus a distinguishing characteristic of a well-executed social impact measurement process, in addition to generating social value of its own.

Principles related to indicators and measurements

It would be preferable for **indicators to refer to the final rungs on the "impact chain": either**

28 The Italian working group of the Social Impact Investment Task Force has decided to adopt the specific characterization of the measurement identified in the G8 Impact Measuring Global Group.

outcome or impact. Under certain circumstances, even output indicators can be considered significant; nevertheless, they are more relevant to the activities of the social enterprise than to its social impact. If we wanted to rank measurements in terms of quality, **impacts** should have the highest score, followed by **outcomes**, and finally **outputs**.
Of course, **indicators must generate high-quality measurements**; in order to achieve this, data collection and analysis must be performed with great care. For example, the **target population** should be estimated using sufficiently large and representative samples; the results of the questionnaires should be adjusted to take into account unanswered questions; changes should be estimated using both pre- and post-intervention data; data analysis should be in line with the quantitative or qualitative level of measurements. On the other hand, the **cost of statistical precision** must also be considered. The total cost of the measurement process should be **proportionate** (on the basis of the size, breadth, and implicit risk of the aspect being measured); and costs beyond a reasonable share (around 5%) of the funding requested should be borne by the sponsors.

Principles related to reporting

Reporting should follow standard principles such as:

- Explaining and justifying how impact measurements were obtained on the basis of the process described above;
- Explaining how the measurements that were actually used emerged from the process;
- Explaining clearly and specifically to the stakeholders in question: «the desired or obtained outcomes;» their impacts, accounting for (and/or describing) any changes due to inertia, unpreparedness, attribution to others, decline over time, and any other relevant effects;
- Describing the subsequent dissemination process, in which stakeholder should be duly involved. Of course, this process must then be implemented.

4.2 The regulatory framework

The normative framework of reference

In Italy, social impact investment is still a young market, which developed thanks to financial innovation promoted by the operators themselves rather than to specific policies. As a result, there isn't a regulatory framework specific to the sector. Nevertheless, **Italy has adopted several legislative measures** which facilitated, either directly or indirectly, the development of social impact investing, and which contributed to creating a favourable regulatory environment for impact finance.
These comprise three types of intervention aiming to: a) create a framework for the definition of ethical finance and, more specifically, impact finance; b) promoting financial instruments typical of impact finance; c) attracting financial resources to be used for socially-oriented projects.

The framework to define social impact finance

Although there isn't a specific regulatory framework for impact finance, it can be likened to ethical or socially responsible finance, in which sectors specific legislation has been adopted. Article 117-ter of the Consolidated Finance Act[29] introduces specific information and reporting obligations on the part of "authorized subjects and insurance companies that promote ethical or socially responsible products and services". Art. 117-ter does not specifically define ethical or social responsible financial products, but it leaves it up to the financial institution promoting them to define their characteristics and inform potential investors about them.

Nevertheless, if on the one hand the legislation makes an important effort to promote the provision of **transparent information** on ethical finance products, on the other hand it can lead to a **lack of uniformity** concerning financial products that are qualified as 'ethical' or 'socially responsible'. The shortage of information to qualify these products and the objectives they aim to achieve makes them **difficult to classify them**, much as for 'traditional' financial products. The need to codify objective pre-requisites has led operators and institutions to promote **sector-specific initiatives**; these include the definition adopted by the Forum on Sustainable Finance[30], and the definition adopted by the insurance sector, which sector, in keeping with the provisions set out art. 117-ter, has introduced a series of information and reporting obligations concerning "ethical" or "social responsible" insurance products. Impact finance products can thus fully be included within the perimeter of art. 117-ter in light of the social objectives that inspire them. This approach would stimulate the provision of transparent information in an emerging sector, but it also highlights the need for a uniform framework of definition.

4.2.1 The regulation of financial instruments

In recent years, Italy has adopted specific norms to facilitate the emergence and development of social impact products.

In this sector, Italy is well represented by its norms on **microcredit** and **crowd funding**, which represent regulatory best practices of a type that is still quite uncommon in Europe. Italy also stands out for second-level regulations, such as those concerning **social lending** – and for the issuing of specific debt securities to support social initiatives, such as the so-called **"solidarity bonds"**.

The social re-use of assets confiscated from organized crime groups

Law n. 109/1996, proposed by a petition promoted by the antimafia association *Libera. Associazioni, nomi e numeri contro le mafie*, established that confiscated assets can be turned over to the state for justice-related purposes, or to the municipality where they are located, which can then loan them free of charge to associations, cooperatives and other bodies that will re-use them for social purposes.

With the gradual increase in confiscation procedures, it became necessary to a legal entity that could oversee all aspects of the procedure, from confiscation to consignment. Law Decree n. 4 of 4 February 2010 instituted the National Agency of Seized and Confiscated Assets as the sole authority in charge of all

29 D.Lgs. 58/1998 and subsequent amendments

30 A proposal to define ethical and socially responsible products was made by the Forum on Sustainable Finance: "Social and Responsible Investment aims to create value for the investor and for society as a whole, though an investment strategy oriented towards the mid- and long-term that integrates environmental, social, and good governance analyses in the evaluation of enterprises and institutions." Forum on Sustainable Finance, 2014.

decision concerning the management and destination of these assets.
In April 2014, the European Union approved a directive (PE-CONS 121/2013) on "*the freezing and confiscation of instrumentalities and proceeds of crime in the European Union*", which directive encourages the social re-use of assets confiscated from organized crime in the member countries.

Micro-credit

Italian legislation on micro-credit is more advanced that in other European countries; the regulatory framework for the micro-credit market is defined by three specific norms concerning: a) the institution of a government agency entrusted with steering policies and monitoring the market; b) the introduction of micro-credit regulations; c) the extension of the Central Guarantee Fund for SMEs to micro-credit operations.
The National Microcredit Agency is a not-for-profit public body, entrusted with promoting and developing the micro-credit market. It is a government tool whose institutional goal is to coordinate micro-credit policies at the national and European market levels, and to provide market operators services to support their operations.
The *legislation on micro-credit* was introduced by Legislative Decree n. 169 of 19 September 2012, which transposed an overhaul of Title V of the Consolidated Banking Act (Testo Unico Bancario - T.U.B.). Italian law defines the regulatory framework for microcredit, and with the new art. 111 of the T.U.B., it establishes its objective and subjective pre-requisites and its economic conditions, and with art. 113 of the T.U.B. the supervisory framework for the market and its operators. The law introduces a specific category of broker – the micro-credit operator – whose sole business purpose concerns micro-credit activities, and which is the de facto equivalent of a *micro-finance institution* in Italy. Supervision of the market is temporarily entrusted to the Bank of Italy, but there are plans to establish an ad hoc authority for the sector.
Furthermore, Italy has extended the *Central Guarantee Fund for SMEs to micro-credit operations*.
Law n. 214 (art. 39) of 22 December 2011 sets aside a share of the *Central Fund for micro-credit operations*; it also establishes that public and private subjects that intend to promote micro-credit programmes may establish, as part of the Central Fund, guarantee funds reserved for specific programmes, making available their own resources through an ad hoc agreement to be stipulated with the *National Microcredit Agency*. This is an extremely important measure for the development of the micro-credit market: thanks to the *Central Funds*, banks and financial intermediaries, and microcredit operators pursuant to art. 111 of the T.U.B., can access state guarantees on the share of micro-credit loans issued and guaranteed by the Fund.

Crowdfunding

In Italy, regulation of equity-based crowdfunding begins with the introduction of the so-called "innovative start-ups" pursuant to Legislative Decree n. 179/2012[31]. The law establishes that **innovative and socially oriented start-ups can raise risk capital through online portals**. The management of these portals is reserved to investment firms and banks intangible infrastructure for social impact finance: measurement and regulation authorized to provide related investment services regulated by the Consolidated Finance Act (Testo Unico Finanza - T.U.F.)[32] – defined as "rights managers" – in addition to other subjects, recognized

31 The Legislative Decree was converted to law on 17 December 2012, with Law n. 221; also known as "economic growth decree-bis". It deals with start-ups under Section IX, articles. 25–32 "Measures for the launch and development of innovative start-up enterprises". The Inter-ministerial Implementing Decree of 30 January 2014 completed the regulatory framework.

32 Legislative Decree 58/98 and subsequent amendments by the decree, registered in an ad hoc Consob register, and which meet specific requirements. Through its own regulations, Consob defined the operating modalities of these portals and supervision over their managers. On the basis of Legislative Decree 179/2012, social enterprises are thus able to raise funds through web portals.

Social lending

There is no ad hoc regulation for *social lending*. The two social lending platforms currently operating in Italy were authorized by the Bank of Italy as Payment Institutions, and thus amount to intermediaries whose sole role is to **facilitate the transmission of money from lenders to beneficiaries**, without interfering with credit brokerage or the collection of savings. Within the framework of Community Directive on Payment Services[33], this system could serve as a useful **benchmark for regulation in other EU countries**.

Solidarity bonds

As early as the late 1990s, Italian fiscal legislation began to take into consideration the financial needs of the social economy with an initial intervention to facilitate this sector. Legislative Decree n. 460/1997 introduced the so-called "*solidarity bonds*" to finance non-profit organizations of social interest; these are non-convertible bonds that can be potentially issued by banks and financial intermediaries. By agreeing to use the funds collected to benefit social enterprises, banks and financial intermediaries can enjoy fiscal benefits. So far, however, the instrument has not yet met with significant success; this can be partly explained by the ceiling on earnings imposed by the law[34], making it more convenient for banks to sell banking products that are free of constraints and thus more profitable.

4.2.2. Resource attraction and fiscal policies

Attracting resources for social finance essentially means **providing fiscal advantages**. Currently, Italy does not have a specific fiscal discipline for social impact investments. Legislative initiatives have focused on introducing specific benefits directly targeting social enterprises or institutional investors.

In this framework, the introduction of "socially-oriented innovative start-ups" was accompanied by fiscal benefits for investors[35]. Law Decree n. 179 of 2012 introduced a deductibility regime for these types of investment; more specifically, deductibility is set at 20% - up to a threshold of € 1,800,000 – for legal persons (IRES), and 19% – up to a threshold of € 500,000 – for physical persons (IRPEF).

The "solidarity bonds" introduced by Legislative Decree 460/1997 also confer fiscal advantages upon the subjects that issue them[36]: this is an incentive for banks and other financial intermediaries to raise funds for social projects.

33 Directive n. 2007/64

34 The maximum threshold of the rate applied upon the issuing of "solidarity bonds" is based on the average gross monthly yield of bonds issued by banks (Radio).

35 The European Commission has authorized the fiscal benefits set out in article 29 of D.L. n. 179 of 2012 to encourage private investment in the share capital of innovative start-ups, classifying it as state aid "compatible with the internal market", on the basis of the Community Guidelines on State Aid destined to promote risk capital investment in small and medium enterprises.

36 In particular, the issuing of such bonds makes it possible « to fiscally deduct from business income the difference between the rate actuallyused and the reference rate determined by the Ministry of the Treasury, in collaboration with the Ministry of Finance, provided that the funds collected and subject to separate management are destined to ONLUS». Ministerial Decree 328/1999 contains the implementation norms.

Cultural enterprises, which in some cases are set up as social enterprises, also enjoy fiscal measures to encourage social investment. Since 2009, tax credits have been available for the film sector, and they have recently been extended to the audio-visual sector as well, while a fiscal bonus for culture was recently introduced[37]. The positive outcome of these experiences is due in part to the existence of significant financial benefits for investors outside the sector. The model of fiscal incentives for culture could thus also be extended to the other typical sectors of social spending.

4.2.3. EU Regulations

The regulatory framework

Community policies are paying increasing attention to the social economy. The 2011 Social Business Initiative Communication from the European Commission is the reference point in terms of social impact investment and support for social entreprises[38]. In Italy as in every other EU country, the social economy is thus not merely a domestic issue, but also one with European relevance. In strictly financial terms, the European Commission's initiative resulted in a two-pronged effort: a) social business is an integral part of the new funding programming period 2014-2020; and b) specific funds for investing in social enterprises have been set up.

The regulation of the European Social Entrepreneurship Fund and its instruments

The approval of EU Regulation N. 346/2013 of the European Parliament and Council of 17 April 2013 on the "*European Social Entrepreneurship Fund*" ("EuSEF") concretely implements key action n.1 of Communication n. 682/2011, and establishes the pre-requisites for **social entrepreneurship investment funds** to be included in the EuSEF category[39]. The main pre-requisite is a minimum investment, equal to at least 70% of total contribution of capital, to social entrepreneurship initiatives (defined in the Regulations as "admissible investments") and the remaining 30% to commercial enterprises that carry out their activities in sectors that are compatible with the social purpose of the majority share of the rest of the investment. In addition, art.3, comma 1, lett. d), of Regulation n. 346/13, clearly and precisely establishes the pre-requisites for a social enterprise. Currently, a *Fund for social entrepreneurship* is already operational and has an endowment of € 90 million, in addition to a *Social Impact Accelerator*, with an endowment of € 60 million, a veritable social impact fund managed by FEI.

37 Tax credits for the film sector were introduced by Law 244/2007; Law L.112/2013 extended the tax credit to the audiovisual sector. Legislative Decree 83/2014 (Culture Decree) established a three-year tax credit for donations to concessionaires of cultural assets.

38 EC Communication n. 682/2011.

39 Legislative Decree n. 44 of 4 March 2014, n. 44 implements the Directive on Alternative Investment Funds (Directive 2011/61/EU) and regulations (EU) n. 345/2013 on the European Venture Capital Fund (EuVECA) and n. 346/2013 on the European Social Entrepreneurship Fund (EuSEF).

Directives on procurement, concession contracts, and special sectors

On 15 January 2014 the European Parliament approved the new Directive on Public Procurement (Directive n. 24/2014) and the new Directive on Concession Contracts (Directive n. 23/2014)[40]. In particular, article 24 of Directive n. 23/2014 establishes that Member States may reserve the right to participate in concession awards procedures to sheltered workshops and economic operators whose main aim is the social and professional integration of disabled and disadvantaged persons, or may provide for these concessions to be performed in the context of sheltered employment programmes, provided that at least 30% of the employees of these workshops, economic operators, or programmes are disabled or disadvantaged workers. This disposition aims to **facilitate the integration of social impact in public procurement and concession contracts in the EU.**

40 The two Directives were published in the Official Journal of the European Union on 28 March 2014.

5 Impact investing prospects in international development cooperation

The philosophy underpinning impact investing can also be adopted in the field of development cooperation. *The Millennium Development Goals (MDGs)* approved by the General Assembly of the United Nations have guided international development policies for the last 15 years. However, the global crisis has made it necessary to re-formulate its traditional approach. The *High Level Forum* on aid effectiveness[41] and the European Union's "*Agenda for Change*" Communication **sanctioned the key role of the private sector in stimulating sustainable development processes, including in partnership with the public sector.**
As part of the process to re-define the post-2015 Agenda for Development, the first *High Level Meeting* on Global Partnership (Mexico, April 2014) identified as a primary goal the steering of development policies towards effective cooperation.
It is thus becoming increasingly urgent to affect the global governance of trade, financial, and investment flows in order to incorporate human well-being and environmental sustainability into the concept of economic development. Additionally, environmental protection and social inclusion should be rewarded within the framework of the international flow of goods and services.

In this context, the combination of "***inclusive business and social entrepreneurship***" is not only an innovative form of public-private cooperation, but can also help respond to the pressing environmental and social concerns within development processes. Under this perspective, networks that aim to coordinate agendas and methods of intervention can play an active role: the GIIN, the Global Alliance, and Febea, the latter active at the European level.

The Italian ecosystem

On 1 August 2014, both houses of Parliament approved the government-sponsored bill on the general discipline of international development cooperation. Over the coming months, the bill's implementation will be discussed along with the conventions already established by the law, which represent an opportunity to modernize and consolidate cooperation policies in Italy, harmonizing the country's foreign policy with the promotion of a shared and sustainable global development.

The law creates the Italian Agency for International Cooperation, autonomous in terms of both budget and organizations and subject to a series of internal and external controls; the Agency is expected to put together a team of development economics experts. Additionally, it creates a "financial arm" for the cooperation sector, which is entrusted to Cassa Depositi e Prestiti as the reference Italian bank. This instrument will have the primary task to promote financial blending with European and international agency, and to facilitate the development of social impact funds for international cooperation.

41 Organization for Economic Co-operation and Development (OECD), (2011), Busan Fourth High Level Forum on Aid Effectiveness.

This new institutional entity will draw from the experiences of Italian Development Cooperation, which still has at its disposal a number of financial instruments to support the development of social entrepreneurship in developing countries.

Through the synergic managements of donations and credit (Tables 5.1 and 5.2), Italian Development Cooperation has already carried out pilot projects – initially in the Mediterranean area, and subsequently in Africa and Asia – that can serve as strategic templates for other donors.

Table 5.1 - Total funding for business development projects and programmes currently managed by the General Directorate for Development Cooperation per type of funding (in millions of €)

Development credit	243.2
Donations	51.18
Total	**294.38**

Table 5.2 - Total funding for business development by the General Directorate for Development Cooperation between 1997 and 2014 per funding tool and amount.

Funding tool	Amount of funding (in millions of €)
Donations	361.39
Development credit	1044
Joint venture (Art. 7 Law 49/1987)	35.2
Total	**1044.59**

Additionally, by extending the activities set out under the former art. 7 of Law n. 49/87, which called for rapid and mutual **technology transfers** through the establishment of joint ventures, it has already supported financial inclusion activities in Africa and Latin America (Table 5.3). This was an example of the **principles of *ownership* and *accountability***, which have become the cornerstones of effective multilateral development, and which the operational instruments of the new law will be called upon to develop.

Tabella 5.3 - Total funding for business development projects and programmes currently managed by the General Directorate for Development Cooperation per geographic area and amount

Geographic area	**Number of projects**	**Amount of funding** (in millions of €)
Mediterranean and Middle East	17	266.68
Asia	3	14.6
Africa	3	13.1
Total	**23**	**294.38**

Sustainability and social protection, which are important factors in business creation and development, are easier to achieve through the involvement of new private actors and **financial *blending*** aimed at the improved integration between public and private funds and between domestic and international resources (Box 5.1).

BOX 5.1

Financial blending and impact investing in development cooperation

Financial blending, which revolves around public-private partnerships, encourages development cooperation to embark on a process to free itself from a model that focuses solely on donations. Financially innovative, pioneering experiences in developing countries have shown that there are financial architectures that can generate a positive social impact together with economic returns. In the development cooperation framework, impact investing must also take into consideration its impact on the local economy. From this perspective, the use of financial structures borrowed from the microfinance market and from cooperative social enterprises can provide inspiration to combine impact finance and development cooperation, with a positive social and environmental impact, economic returns, public-private partnerships, scale, and applicability.

The changed approach on the part of Italian Development Cooperation is confirmed by the reform of Law n. 49/1987, whose goal is to bring the development cooperation system up to speed with the main models used in the European Union's partner countries (Box 5.2).

BOX 5.2

Changes brought about by the reform of Law n. 49/1987

- International development cooperation is considered an *"integral and meaningful part of Italian foreign policy"*. The Ministry of Foreign Affairs will thus change its name to "Ministry of Foreign Affairs and International Cooperation";
- The donor-recipient concept is replaced by an approach focused on cooperation and partnership, through the replacement of the expression *"public development aid"* with *"public development cooperation"*;
- Formalization of the goals of "poverty eradication", "reduction of inequalities", "promotion of sustainable development", "achievement of human rights", "conflict prevention", and "support for peace processes";
- Recognition of the various public and private subjects operating in Italian development cooperation;
- Adoption of two strategic documents: Three-year Programming Document – indicating the strategic vision, objectives, criteria for intervention, and geographic and sector priorities; and Annual Report, on development cooperation activities carried out in previous years, including the results they achieved as measured using qualitative and quantitative indicators;

- Ministry of Foreign Affairs and International Cooperation supported by a Deputy Minister for Cooperation and Development;
- Institution of an Inter-ministerial ***Committee for Development Cooperation*** (CICS) to oversee the programming, coordination, and coherence of all activities;
- A political/diplomatic function for the *General Directorate for Development Cooperation*, which is called upon to support the Ministry of Foreign Affairs and International Cooperation and the Deputy Minister for Cooperation and Development in performing their duties, in addition to supporting the activities of the CICS;
- Institution of the Italian ***Agency for Development Cooperation*** as a legal entity governed by public law, and endowed with organizational, regulatory, administrative, financial, accounting, budgeting, and spending autonomy up to a maximum of € 2 million. The Agency implements development cooperation policies by carrying out "*technical and operational activities related to the preparation, formulation, funding, management, and supervision of cooperation initiatives*". All initiatives valued at more than € 2 million must be approved by the ***Joint Committee for Development Cooperation***;
- Creation of the ***National Council for Development Cooperation***, comprising the main public and private subjects, as a permanent participatory, consulting, and proposal-making body;
- Enhancement of the **role of Cassa Depositi e Prestiti S.p.A. as the reference public financial institution for development and cooperation**.

5.1 Scalability and applicability

Development cooperation can benefit from the *impact investing* philosophy by combining business models in which social enterprises and investors take on roles that change in relation to the programme's objectives and dimensions, which may be oriented either towards scalability or applicability.

From an *impact investing* perspective, scalability is seen as a preferred – and at times binding – dimension if it is instrumental for the optimization of *scouting*, *due diligence*, and management portfolio costs in projects. The myth of "great numbers", however, implies two potential risks to be assessed: on the one hand, it can make small or medium social enterprises with a great impact potential unattractive to investors; on the other, it accelerates *mission drift* towards larger social enterprises. There is thus the risk that large social enterprises, or particularly profitable ones, may be considered the sole models for success and become magnets for funding, at the expense of smaller enterprises that may nevertheless be able to implement strategies focusing on deep *outreach*.

The Italian development cooperation experience is unique in that it has always sought a balance between the between the depth and the breadth of the social and economic goals pursued. This was achieved by balancing the scalability of each individual project with applicability. The reason for this approach lies for the most part in the cultural heritage and specific nature of the Italian social and economic fabric: one need only think of the morphology of the industrial districts, or of the backbone of an economy that relies on hundreds of thousands of medium, small, and micro-enterprises, but also of the pulverization of experiences in the social cooperation sector.

Certain success stories – those of Etimos, Opes Impact Fund and the Italian Federation of Cooperative Banks, together with those of networks of social enterprises – such as those represented by Fondazione Solidarete – testify to this multi-faceted and balanced approach.

Italian Development Cooperation should adopt a concept of *social investing* that respects this balance. Italy's economic fabric, its social sector, and Development Cooperation require a balance between scalability and applicability; social and economic outreach must respond to business models that are opportunely calibrated each time. The presence along the development cooperation chain of actors with different strategies and approaches – scalability versus applicability – the use of financial *blending*, and the promotion of enterprise networks can be the biggest assets of a new business model for Italian development cooperation and for a more generous *pipeline* of social entrepreneurship that can combine small size and narrow goals with large numbers and wide-ranging objectives.

6 An Italian platform for social impact investing

Conclusions

By Mario Calderini, Mario La Torre and Giovanna Melandri
Italian members of the Social Impact Investment Task Force

The Italian market for social impact investing – defined as the products, subjects, rules, and infrastructure to implement investments that can produce both a positive, measurable social impact and economic returns - is young, structured, and complex.

Based on the extensive overview above, the Italian Advisory Board believes that a **complex and structured policy framework** is necessary to facilitate **the growth of social entrepreneurship and the attraction of capital for social impact investing** (§ 6.1).

In light of the nature of the exercise carried out by the Italian Advisory Board, which we would like to thank once again for its contribution, the **40 recommendations** presented here are **a veritable working platform upon which to build a policy agenda for impact investing in the coming months**.

As the Italian members of the Social Impact Investment Task Force, we have shared this platform at the international level.

The policy indications contained herein refer to various levels of government –supra national and national – whose levels of operating impact are often very different. Such a scenario is tailored to the pioneering phase currently experienced by impact investing in Italy, in which demands for mid- and long-term structural change go hand-in-hand with very specific, urgent needs and with issues that need to be tackled in an international as well as a national context.

Policy approaches in this sector are also highly heterogeneous. On the one hand, there is a holistic approach that aims to create a veritable ecosystem for impact finance; and on the other is an approach that focuses on specific examples and pilot projects. Furthermore, there is constant tension between normative determinism and an awareness of the global and market nature of impact investing, which will presumably produce structural changes on an international scale. The idea of proposing a platform for impact finance is thus rooted in **the desire to draw together all contributions in their heterogeneity and variety, and to offer them, in a systematic context, to the government and anyone else willing to contribute to the consolidation of an Italian strategy and plan of action**.

The platform draws together the various proposals, organized according to the approach outlines in this report, and distinguishing between actions to improve capital supply, those to promote demand for impact investing, and finally, those to match supply and demand.

The supply of capital for impact finance

On the supply side, the specific characteristics of the national finance system mean those interventions may vary greatly depending on whether the reference market is the debt market or equity market. On the one hand, Italy boasts a well established and widely distributed credit-brokerage market, with a long-standing orientation towards the social dimension through mutual and cooperative credit and several highly innovative experiences. On the other, the capital market for inclusive finance is still at the embryonic stage, due to the reduced development of the traditional equity market; while it boasts some highly significant experiences, they conducted at a very small scale.

A first general consideration, related to the specific characteristics of the national framework, relates to the need for the **widespread involvement of the banking system** in the funding of social enterprises and, more generally, in creating a market for social impact finance.

This line of thinking is based on two main motives. First of all, the banking system in Italy is one of the most structured in the world – including at the local level – and with high degree of compliance with both European regulation and vigilance and the management of credit and distribution of financial products. In such a context, the idea of funding Italian social enterprises primarily through the use of investment funds seems a poor fit for Italy's financial system; furthermore, many of these investment funds are captive companies owned by banks or banking groups. As a consequence, the banking system is a crucial link in supporting the market for social impact investing and social entrepreneurship.

Secondly, in Italy banks are still, together with the postal system, the main holders of private savings, and can thus play an important role in selling social impact financial products to private clients. Of course, this would need to be accompanied by a regulatory framework that ensures transparent information, the protection of clients, and the reduction of potential conflicts of interest. For banks especially, the capital absorption requirements set out by the Basel Accords would need to be modified to make them less onerous regarding credit exposure related to social impact investments.

Thanks to their presence throughout the national territory, and in light of the amount of private savings they hold, **the banking and postal systems are the perfect candidates for the large-scale distribution of social impact financial products**. Any effort to facilitate their entry in the social investing market deserves to be suitably promoted.

In addition to banks, a great many other financial brokers and institutions can play an important role in developing the impact finance market; among them, four categories of asset owners are particularly relevant: **banking foundations, corporate charities, pension funds, and insurance companies**. Since these asset owners manage vast patrimonies – which at the current state are relatively concentrated on traditional investments, in part for reasons of vigilance – the right combination of metrics to measure the social impact they generate, possible fiscal benefits, and moral persuasion may create suitable conditions to facilitate the rapid shift towards social impact investments of part of the resources invested by these subjects. In particular, the mission of banking foundations is quite closely aligned with the purposes of social impact investing.

Indeed, banking foundations may well be considered the most natural social impact investors, in light of their non-speculative nature and their commitment to the development of a fair, inclusive, competitive, and sustainable society. It would be desirable to create the conditions to **encourage the diversification of the**

portfolio of banking foundations – which are currently focused on debt securities and stocks, together with donated funds – to include forms of venture philanthropy and impact investing.

Corporate foundations could also promote social entrepreneurship, both through direct investments and by improving synergy with their corporate sponsors.

Pension funds and **insurance companies** represent a challenge for the supply of impact finance; in this instance, in addition to a cultural change in terms of management perspective, it is indispensable to modify the regulations on vigilance and the constraints on investments that these institutional investors must currently abide by.

Finally, there is **great potential as regards public finance as well**. In this sector, there is a clear need to strengthen the links between national and European Community resources. Regional governments to create investment vehicles dedicated to social entrepreneurship that could operate in part as integration funds could use European Funds –such as the ERDF –. In order to mobilize these resources, however, it is necessary to develop pilot projects that could lead to successful examples of impact investing, together with applying moral pressure to regional governments as early as fall 2014, when the Regional Operating Programmes are discussed and approved.

An additional measure to increase the availability of capital for impact investing would be to encourage **greater involvement on the part of public financial institutions**. For instance, the Cassa Depositi e Prestiti bank could provide a key contribution for investments in the social sector, as it has already done with regards to social housing. In this regard, the French experience of Caisse des Dépôts et Consignations is a useful example.

Finally, a **fiscal policy that rewards impact investing** would be crucial in attracting both professional and retail investors, especially with an eye towards a balanced government budget. In this regard, it is worth noting that certain fiscal measures, such as those set out in the regulations for innovative start-ups, incubators, and crowdfunding (L. 221/2012) already include fiscal incentives for investments and investment vehicles – including incubators for start-ups – with specific incentives for socially-oriented start-ups. Using this law as a starting point, similar benefits could be extended to newly-founded social enterprises – and not just to technological start-ups – and to established social enterprises, steering investments towards the areas where they are most needed – i.e., those that often result in market failure. The need to maintain high levels of efficacy and supervision mean that such initiatives would require a solid framework for the assessment of social impact.

A second goal, one closely linked to the attraction of capital, concerns the **creation and dissemination of innovative financial instruments** that can help institutional investors with risk management and with reducing the operating costs needed to implement the financial architecture to support social impact investing. Innovative financial instruments that have been experimented with in the impact investment market often used flexible structures built around special purpose vehicles dedicated to individual projects – such as in the case of Social Impact Bonds – and to supporting socially-oriented start-ups.

The Italian market requires a good dose of innovation oriented towards performance-based instruments. In particular, the **development of a regulated market for "pay-for-success"** bonds could prove crucially important, as it would lead to significant benefits both in terms of improved efficiency in public spending and in the development of more effective activities in the social sector. There is room for process innovation together with product innovation, in terms of both indirect and market-oriented brokerage. Italy boasts a modern regulatory framework that is potentially favourable to impact finance. Investment funds for social entrepreneurship and crowdfunding platforms – both lending and equity-based – are frontier sectors that will have to co-evolve hand-in-hand with traditional forms of brokering. It is up to policy-makers to stimulate this innovation, including through the promotion of dedicated pilot projects.

The demand for impact finance capital

The efficacy of actions to promote supply is strictly linked to the availability of valid investment opportunities. As indicated in a study published in 2014 by GIIN/JP Morgan[42], **investors worldwide point to the lack of investment opportunities as one of the main obstacles for the development of impact investing.** This means that attention must also be paid to **initiatives to promote demand**.

In Italy, it will be easier for new investment opportunities to emerge in the presence of a social entrepreneurship market that can adapt to a **variety of business models**. There is reason to believe that in the future, a *demand-driven* approach more oriented towards the depth of social impact and a *market-driven* approach more oriented towards its scaling will co-exist. The former is closer to the current morphology of Italian social entrepreneurship, while the latter sees a greater degree of involvement on the part of institutional investors and financial brokers. It is thus necessary to find the right balance between consolidated culture and innovation; the advantage of having more financial resources must not compromise the natural ability of social investors to operate in difficult and marginalized environment. Social impact and economic returns must find ways to co-exist without attempting to prevaricate over each other. A process to consolidate social enterprises – through mergers, acquisitions, and more generally, internal growth – can help create a category of social enterprises that can operate in partnership with public institutions and financial brokers and serve as a link with smaller social enterprises.

It is evident that the potential development of a favourable environment for social entrepreneurship and impact investment is tied in large part to the ability of the regulatory context to **evolve towards an inclusive definition of social entrepreneurship** and a system of rules that can innovate the very nature of social enterprises, with particular references to constraints on mission statements, profit distribution, forms of governance, and the transfer of assets.

We are thus glad to note that while the Task Force's work was underway, **the Italian government transposed the suggestions of the Italian Advisory Board concerning the reform of social enterprises in the Enabling Act on the Reform of Third-Sector Associations.**

Intangible infrastructure to match supply and demand

Matching supply and demand effectively relies closely on the development of intangible infrastructure that can reduce the information gap between lenders and borrowers, especially **measurement infrastructure**.
The necessary condition for this to happen is the ability to easily quantify the "success" of financial instruments by benchmarking with reference standards or case studies. **Social enterprises that ask for external funding or contributions should regularly measure their social impact**; providers of public and

42 The GIIN, (2014), Spotlight on the Market: The Impact Investor Survey.

private financial instruments should require this, and public administrations should actively promote such requirements.

The methods used for measurements should not be identified using a 'one-size-fits-all' approach. The social sector is extremely varied in terms of size, sector, activity, philosophy, "theory of change" pursued, values, etc. Imposing standard methods on this sector risks diverting resources away from their optimal social use. In fact, the choice of how many resources should be set aside to measure social impact beyond the minimum requirements should be left up to the individual social enterprise and determined in light of the size, scope, and risk level of the project or organization that requires funding. Nevertheless, the measurement process and impact report must meet certain **basic principles**; this should be formalized in areas where legal regulation is warranted (e.g. public procurement) and informally encouraged in other sectors (e.g. negotiations between private parties, such as most impact investment initiatives). These proposals are not new in Italy: a prior example concerns the Guidelines on Reporting in the Public Sector published by the Office of the Prime Minister, which call for the reporting of project results. Additionally, Italy already has norms on social reporting for social enterprises; nevertheless, the proportionality of measures in light of the size of the enterprise remains to be defined.

It is clear that reform on the part of institutions is the driver for the various **actions to be carried** out both on the demand and supply sides.

The development of the impact investment market can be part of a broader government effort to improve **the efficacy and efficiency of public spending and to promote development and employment**. Social impact investing creates a culture of inclusion and employment; it can be dedicated to supporting welfare services (especially those of a preventive nature) and related infrastructure; and it can generate economic savings, with a positive impact on the public accounts of the central and regional governments. The type of public-private partnership proposed by social impact investing is able to create effective interventions in those sectors where welfare is increasingly less effective (cultural activities and sports) and less efficient (citizen services), or is affected by a lack of funds (social housing).

In order for the impact investing market to develop successfully, it is essential to create **a favourable regulatory environment and to facilitate the promotion of pilot projects**. It is also necessary to adopt a mid-term strategy that adopts a system-wide vision of the stakeholders and the governance to be pursued for a young market with potential for expansion. The governance model is a key strategic variable to ensure a balance between different stakeholders – social enterprises and financial brokers – and goals that are apparently at odds: social impact and profit. Nevertheless, strategies and governance are issues that are highly relevant outside of national boundaries as well. In this light, Italy can and must play a leading role in Europe, building on a longstanding attention on social issues and an increasing interest in the innovative regulation of inclusive finance. From this perspective, the adoption of the law on micro-credit, the regulatory framework for crowdfunding, and the regulations authorizing the use of social lending platforms show that Italian lawmakers are responsive to such concerns.

In conclusion, we hope that this collective effort, codified in the **40 recommendations** below, will help extend the potential of social entrepreneurship and impact finance, both in Italy and abroad, as agents for the development of an inclusive economy.

6.1 Promoting capital supply and demand:

recommendations

LEGENDA

🔴 SHORT-TERM 🟡 MID-TERM 🟢 LONG-TERM

SUPPLY	SUGGESTED TIMETABLE
Facilitate the creation of **funds of funds**, through supranational structures – such as the European Investment Fund (EIF) – that can encourage national initiatives, and linking these resources and tools with well-established social economy brokers in order to attract additional funds.	🟡
Using **structural funds** through central administrations and regional governments to create investment vehicles oriented towards integration or guarantee schemes dedicated to the development of social entrepreneurship.	🟡
Using the facilitation instruments for equity, quasi-equity and debt loans issued by the European Investment Bank (EIB): These include **JEREMIE**, an umbrella fund that provides support to SMEs and microcredit organizations; **JASMINE**, which targets micro-finance institutions and aims to improve the impact of microfinance on the real economy; and **JESSICA**, a fund that operates much like JEREMIE but targets urban development projects and integrates the ERDF at the national, regional, and local levels.	🔴 🟡
Encouraging the European Commission to promote, in the Social Investment Bonds field, the development of services to fund the **additional remuneration** of projects with **superior social performance**, for example through structural funds.	🟡 🟢
Creating a specific fund for social entrepreneurship that acts in synergy with the Central Guarantee Fund for credit to SMEs, with three lines of funding dedicated to: start-ups, the participation of capital in active enterprises, and capacity-building services.	🔴
Concerning bank loans, inducing all EU states to **cut the capital absorption** rate by assigning a lower risk level to social enterprises, adopting a 'Social Supporting Factor' of sorts similar to the SME Supporting Factor introduced by the European Commission for SMEs.	🟡
Adapting the regulatory treatment of the credit exposure of banks with regards to the entities listed under book I, chapters II and III of the civil code and social enterprises in keeping with existing regulations in other EU countries.	🟡
Guaranteeing fiscal benefits not only to institutional investors, but also to individual investors and citizens, unlike the solidarity bonds set out in Legislative Decree 460/1997, which reserve all fiscal benefits to the banks that issue them and none to their buyers, and in keeping with the TREM Bond* formula, under which revenue for buyers is tax-free.	🔴 🟡
Promoting **adequate regulation in the crowdfunding and social lending sectors**, by extending the range of enterprises that can benefit, which range is currently limited to innovative start-ups, and by simplifying procedures for access to equity crowd funding.	🔴
Excluding social impact financial products from the tax hikes on financial products under Law 66/2014.	🔴

Increasing the **involvement of Cassa Depositi e Prestiti** in support of social investing, as is already the case for the social housing sector.

Introducing **regulation on micro-insurance**, including definitions, in keeping with the guidelines issued by IAIS.

Approving the implementation decree for the law on microcredit, and fully implementing the norm that calls for extending the Central Guarantee Fund for SMEs to microcredit loans.

Promoting the regulation of **micro-credit in EU countries**.

Introducing normative measures that make it possible to purchase new financial instruments, such as "**social impact bonds**", in parallel with what has been done for the so-called "mini-bonds" with the recent law decree n. 145/2013.

In light of an increase in the **capital gains tax rate** from 20% to 26%, adopting lower tax rate, of 20% or 12.5%, for social impact investments, as is already the case for TREM-Bonds.

Amending current norms on **ethical and socially responsible products** with a definition regulating their specific characteristics.

Reducing administrative barriers and costs to make social impact investments available to institutional and private investors.

Extending the possibility of using a **simplified prospectus** for impact finance instruments provided they are adequately defined and monitored. In keeping with the French model, making it mandatory for financial planners to include social impact products in their portfolio.

Introducing **fiscal leverage** for social impact investments through special lower tax rates.

Simplifying and attenuating ordinary issuing procedures for structures operating in a network and linked by mutual guarantee instruments.

Creating **mutual learning platforms and instruments, drawing together Italian best practices in impact finance** and encouraging the sharing of experiences.

*The so-called TREM-Bonds (Titoli di Risparmio per l'Economia Meridionale – Savings Bonds for the Southern Italian Economy), disciplined by Legislative Decree 70/2011 (art 8.4). For more information see www.consob.it.

DEMAND	SUGGESTED TIMETABLE
Encouraging the European Commission to further develop the **Social Business Initiative**, a comprehensive framework that can **facilitate the mobilization of financial resources towards social entrepreneurship**, drawing together and strengthening other scattered initiatives by the European Union in the field of social entrepreneurship.	
Promoting an **inclusive definition of social enterprise for regulatory purposes**: 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.	
Innovating the definition of social enterprise to include those enterprises whose **primary mission is to generate a specific or generic social impact**. Using the enabling act to make such a mission mandatory (mission-lock), and define adequate tools to monitor compliance and to measure the achievement of social impact goals.	
Promoting, with the regulatory framework for social enterprises, the introduction of **constraints on transferring or alienating assets (asset-lock)** that are coherent with the social mission of the organization in question and not with its legal form.	
Promoting, with the regulatory framework for social enterprises, a revision of the constraints on profit re-distribution (profit-lock) using a broader definition of low-profit enterprises and allowing for the **limited re-distribution of profits**.	
Promoting, with the regulatory framework for social enterprises, forms of **multi-stakeholder governance** that can impact decision-making processes. Promoting transparent, responsible governance for the purpose of aligning and balancing the interests of institutional and individual investors, users, beneficiaries, and public administrations.	
Creating **mutual learning tools and platforms**, drawing together **Italian best practices in social entrepreneurship** and facilitating the sharing of experiences.	
Promoting initiatives to **scale-up social enterprises**, both through platforms to facilitate the standardization, interoperability, and applicability of services and through innovative, technology-intensive capacity-building activities.	
Inspiring a new regulatory framework, starting with the Single Market Act, that takes into consideration the role of social enterprises and the **necessary exemptions regarding legal obligations on competition**, in relation to the **provision of public services** and the new EU directive on public procurement.	
Promoting the introduction of the legislative equivalent of the UK's **Social Value Act** in the transposition of the new European directive on public procurement (including the creation of a positive social impact in the total score). The directive already makes this possible, but leaves the final decision up to local administrations. **Updating the Directive of Public Procurement** in its definition of disadvantaged workers, and introducing a social impact requirement for the eligibility of suppliers.	
Extending to social enterprises the benefits granted to innovative and "socially-oriented" start-ups (Legislative Decree 18/10/2012 n.179 converted to Law 17/12/2012 n.221).	
Introducing **simplified tax laws** in favour of social enterprises.	
Facilitating the collection of private investment (corporate/retail) to support international cooperation through debt and equity instruments, promoting and supporting a social business fabric that can combine economic sustainability and local social and environmental impact. Particular attention will have to be paid to the applicability of these experiences and how to combine them with the benefits of scaling up.	

6.2 Helping to match supply and demand:

recommendations

MATCHING SUPPLY AND DEMAND	SUGGESTED TIMETABLE
Promoting the **measurement of impact in the social business sector** by adopting (i) minimum regulations in terms of content, establishing principles concerning process and reporting; and (ii) guidelines based on best practices concerning *frameworks* and indicators.	
Promoting, at the G7 level, the creation of a commission whose mandate is to verify, on a regular basis, the state-of-the-art in terms of impact measurements in member states, taking into consideration any changes in *disclosure* requirements and reporting any contents with possible political implications to the competent authorities.	
Creating a **system of web resources** in which i**nformation on the measurement of social impact** and best practices can easily be organized, consulted, and updated; at the national level – both in Italy and elsewhere – put together a web platform providing resources to facilitate the collection and consultation of existing information on practices to measure social impact. Work to persuade the new European Commission to include such a project in the *follow-up* to the Social Business Initiative, and **encourage the creation of a European platform built using the national resources of each Member State**.	
Instituting an **experimental impact investment fund** using an approach focusing on complete transparency, the promotion of innovation, and the dissemination of best practices, even in the most difficult sectors. Such an investment fund could, for instance, have a mandate to carry out impact investing activities in an experimental fashion in critical sectors, in order to understand what works and what doesn't.	
Promoting a **new regulatory framework for the European Investment Fund** in the social sector to facilitate the fair and transparent development of the market through, for instance, shared indicators for measuring social impact.	

Appendixes

Appendix I

Members of the Italian Advisory Board

Coordinator

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Delegates

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Bank of Italy

Cassa Depositi e Prestiti

State-Regions Conference

Office of the Diplomatic Councellor to the Prime Minster

IVASS – Supervisory Institute for the Insurane Sector

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Ministry of Labour and Social Policies

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Appendix II

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3. **Development cooperation**
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4. **Role and development of social enterprises**
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Appendix III

Schedule of International Task Force meetings

1st Meeting of the International Task Force
30 September – 1 October 2013
Washington DC

2nd Meeting of the International Task Force
4-5 December 2013
London

3rd Meeting of the International Task Force
18-19 February 2014
Berlin

4th Meeting of the International Task Force
7-8 April 2014
Paris

5th Meeting of the International Task Force
Open to all National Advisory Boards
19-20 June 2014
London

6th Meeting of the International Taskforce
28-29 October 2014
Rome

Schedule of Italian Advisory Board meetings

1st Meeting of the Italian ADB
17 December 2013 *Rome* – Human Foundation

2nd Meeting of the Italian ADB
24 February 2014 *Rome* – Ministry of Labour and Social Policies

3rd Meeting of the Italian ADB
19 May 2014 *Rome* – Ministry of Labour and Social Policies

4th Meeting of the Italian ADB
9 June 2014 *Rome* – Human Foundation

5th meeting of the Italian ADB
17 July 2014 *Rome* - Federcasse

Schedule of meetings of the Italian working groups

1st Meeting
10 March 2014
Milan Polytechnic

2nd Meeting
4 April 2014
Rome - Human Foundation

3rd Meeting
14 April 2014
Milan Polytechnic

4th Meeting
14 May 2014
Rome - Human Foundation

5th Meeting
28 May 2014
Milan Polytechnic

Appendix IV

Subject papers submitted by the working groups*

Subject papers for the working group- **Capital attraction**

1. Government & Impact Investing; Vecchi, V.; Casalini, F.; Cusumano, N.; Brusoni, M.
2. A legal focus on Equity impact investment targets; Balbo, L; Randazzo, R.
3. Social venture incubator. A new instrument for supporting social businesses; Bartolomeo, M.; Boccia, M.; Zanoni, D.
4. The multifaced features of microcredit in Italy - Monitoring Project; National Microcredit Agency.

Subject papers for the working group – **Social impact metrics and indicators**

1. La misurazione dell'impatto sociale nell'inserimento lavorativo: l'esperienza italiana; Mento, F.
2. L'impresa sociale come agente di sviluppo locale; Lorenti, A.
3. Misurazione dell'Impatto sociale nella microfinanza; Petrocca, R.
4. Which benefits in attracting impact investors come from the measurement of the social impact?; Bengo, I.; Chiodo, V.; Corti, A.
5. Towards an Italian platform for social impact measurement; Chiodo, V.; Dal Negro, L.
6. Outcome indicators for the cultural sector; Ratti, M.
7. Rendicontare il cambiamento. Una nota su rappresentazioni dell'efficacia organizzativa e pertinenza dell'impatto sociale nei contesti non profit ; Scialdone, A.
8. IM indicators and best practice in H&SC (Health and Social Care); Vecchiato, T.

Subject papers for the working group – **Role and development of social entreprises**

1. Le radici dell'impresa sociale. La storia peculiare italiana; Giorio, A.C.
2. Hybrid Organisations; Venturi, P.
3. Nuovi modelli di consumo e impatto della sharing economy: sfide sistemiche per l'impresa sociale; Zandonai, F.
4. Economia e tecnologia digitale per l'innovazione sociale; Camiciotti, L.; Orestano, L.
5. L'impresa sociale per la gestione dei beni comuni; Benussi, L.; Profumo, F.
6. Il tratto distintivo delle imprese sociali la multistakeholder governance; Lorenti, A.

Subject papers for the working group – **Italian best practices and pilot projects**

1. La destinazione a fini etici dei beni confiscati alle organizzazioni criminali come investimento ad impatto sociale; Commisso, M.; Reggio, M.

Subject papers for the working group – **Normative and fiscal implications**

1. Una nuova Impresa sociale; Menne, A.
2. Tax impact; Mazzullo, A.
3. La cooperazione sociale in Italia; Dutto, D.

* The subject papers should be considered individual contributions, food-for-thought for the debate on social impact finance.
The subject papers are available in the original language.

Appendix V

Best practices in impact investing identified by the Italian Advisory Board*

MICROCREDIT/MICROFINANCE

Microcredito per l'Italia / *ETIMOS FOUNDATION*
Microfinanza per lo sviluppo / *CONSORZIO ETIMOS*
Microfinanza post- emergenza / *ETIMOS FOUNDATION*
Microcredito BCC / *BCC - FEDERCASSE*
Microfinanza campesina del credito cooperativo / *BCC - FEDERCASSE*
Permicro / *FONDAZIONE CARIPLO*
Crescita / *FP BNL BNP PARIBAS ITALIA E MEFOP*
Prestito della speranza / *CEI E ABI*
Microcredito assistenziale / *BANCA ETICA*
Microcredito imprenditoriale / *BANCA ETICA*
San patrignano / *FONDAZIONE SAN PATRIGNANO - BANCA PROSSIMA*

TRADITIONAL INSTRUMENTS WITH DEDICATED LINES OF FUNDING

Programma per l'efficienza energetica del Terzo Settore / *BANCA PROSSIMA*
PAN / *BANCA PROSSIMA*
SPIN / *BANCA PROSSIMA*
Fondo di investimento Jeremie FSE / *UBI BANCA*
Autocostruzione / *BANCA ETICA*
Mutuo Ad 8 / *BCC - FEDERCASSE*

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Metrica mutualistica del credito cooperativo / *BCC - FEDERCASSE*
Dal bene confiscato al bene comune / *BCC - FEDERCASSE*

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Smartika / *SMARTIKA*

LENDING CROWDFUNDING

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Budget di salute / B*ANCA PROSSIMA - FONDAZIONE SAN PATRIGNANO*
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Gastameco / *OLTRE VENTURE*
Microfinanza post- emergenza / *ETIMOS FOUNDATION*
Opes fund / *FONDAZIONE OPES*

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Cooperazione finanza impresa / *ALLEANZA COOPERATIVE ITALIANE: CONFCOOPERATIVE, LEGACOOP E AGCI*
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