

OUTPUT 3.2.: SOCIAL FINANCE VEHICLE

Output 3.2

**Version 4
 12 2019**

DOCUMENT CONTROL SHEET

Title of Document	
Work Package	WP3 Analysis and Benchmarking
Output 3.2	
File Name	Output3-2-Social-Finance-Vehicle.doc
Number of Pages	13
Dissemination Level	Public
Due date of deliverable	31.10.2019

VERSIONING AND CONTRIBUTION HISTORY

Document Version	V4	
Status	Final	
Responsible Author	Helmut Gassler, Stefan Philipp	ZSI
Editor	Helmut Gassler	ZSI
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Last version date	09.12.2019	

WP 3 - Analysis and Benchmarking

Output 3.2 - Social Finance Vehicle

Compendium of Private-Public Partnership Investments

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1 Introduction

The project Finance4SocialChange aims at improving the eco-system for social investment in the Danube region. Social impact investment is an emerging approach to tackle social challenges that brings together capital and expertise from across the public, private and not-for-profit sectors. However, the Danube region still lags considerably behind global trends in the field of social entrepreneurship and social impact investment. It is estimated that only 2% of global social impact investment (with estimated market size of about 450 billion EUR in 2019) is targeted towards the Danube region social enterprises.

Within the overall project work package 3 provides different analyses and benchmarks to give policy makers, social impact investors as well as social entrepreneurs background information on the status quo of the respective eco-system and to highlight recent trends, developments and also good practices regarding impact investment.

This report provides a compendium of selected social investments in the Danube region which were organised as private-public partnership investments. The content is based on deliverables 3.2.1 and 3.2.2 within the Activity 3.2 of Work Package 3 of the Finance4SocialChange project.

This current report aims to shape the next generation of financing solutions to unlock private capital for social good. To attract more private capital, the current report is showcasing a variety of innovative finance solutions – the use of financing mechanisms to further mobilize private sector capital in new and more efficient and scalable ways to solve social, economic and environmental problems in the Danube region. Innovative financing vehicles cover new or newly combined traditional financing vehicles that are adopted for societal challenges. These vehicles may cover the entire spectrum of the lifecycle of social enterprises, or are tailored only to certain projects. Therefore, tailored financing options (including hybrid) are identified and showcased in line with objectives set within the EUSDR EU Strategy for the Danube Region.

2 Financial vehicles for impact investment

There exist a vast variety of different financial instruments and vehicles which are appropriate for social impact investments. Within the Finance4SocialChange project we classify this diverse range of different instruments as following:

- a) repayable financial instrument: loan, guarantee, **equity investment**, **quasi-equity investment**, and risk-sharing instruments;
- b) non-repayable financial instrument: **grant**, **donation**, bootstrapping and high net worth individuals / philanthropists;
- c) hybrid financial instrument: mezzanine finance (aka quasi-equity), **convertible loans** and recoverable grants.

Within the Danube region not all of these instruments are to be found. Therefore, we marked the instruments which are currently in use within the region in **bold** letters.

Another important classification to structure the variety of available instruments is shown in Figure 1. It classifies different forms of impact investments and their relation to the markets and allows to develop an understanding of predominant investment models in the social business economy.

Figure 1: Financial Instruments in Accordance with Investor Preferences

		← NO MARKET MARKET →			
		SPO'S BUSINESS MODEL			
		1A. THERE IS NO MARKET	1B. THERE IS NO MARKET YET	2. THERE IS A MARKET FOR PART OF THE SPO'S PRODUCT/ SERVICES	3. THERE IS A MARKET
VPO/SI'S IMPACT & FINANCIAL RETURN EXPECTATIONS	A. Social impact only	• Grants	• Grants (seed/market building)	• Grants (for the non-profit part)	• Grants
	B. Social impact first, financial return accepted		• Grants (seed/market building) • Social investment (validation & scaling)	• Grants (for the non-profit part) • Social Investment (for the income-generating part)	• Grants • Social investment
	C. Social Impact and financial return on the same level		• Social investment (scaling)	• Social Investment (for the income-generating part)	• Social investment

Source: own edition

3 An overview of financial vehicles for impact investment within the Danube region

In the following a selection of innovative financial vehicles are presented in an easily understandable way including good practices and concrete application cases of the instruments. The innovative financing vehicles are described in a concise way for further dissemination and awareness raising. The picture of financing instruments in the Danube region is quite a diverse one. The project partners of Finance4Social Change collected in total 17 financing instruments, ranging from public grants to private loans. Some of them have a clear focus on social impact and prioritise their achievement over monetary returns, others see the social impact as an added value but primarily count on financial incentives.

The list of selected financial instruments is as following (list is ordered alphabetically based on the country in which the instrument is applied):

Austria:

- Impact Innovation

Bulgaria:

- Sofia Public-Private Fund for Innovations

Germany:

- Social Impact Bonds,
- Special Impact Award,
- SEA: Act for Impact,
- ERP Gründerkredit

Hungary:

- MarketMate (PiacTárs)
- GINOP – Loan programme for support of new employment

Moldova:

- EEF – East Europe Foundation
- PARE 1+1 – Nation Programme for the Attraction of Migrants
- WiB – Women in Business

Serbia:

- WiB – Women in Business Programme
- Step-by-Step Programme

Slovakia:

- State aid scheme to support enterprises in the wider area of social economy
- Micro-loan programme

Slovenia:

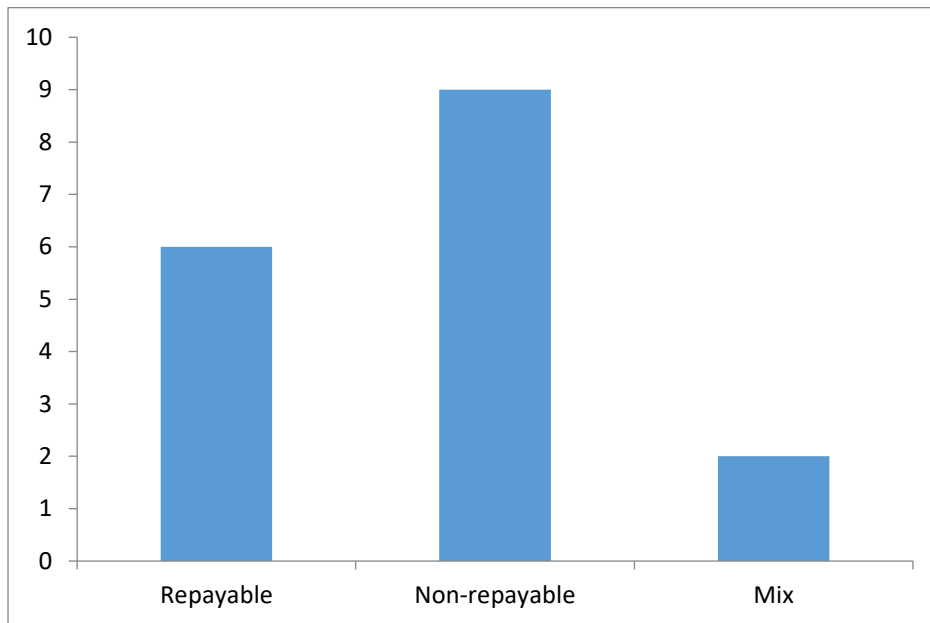
- ESRR – Public Tender for Startup and Youth Cooperatives 2016 - 2018

Following the model developed as a means for classification of existing financial instruments in the Danube Region (see Figure 1) were assessed and assigned to the different categories in order to get a good overview on the existing instruments. Obviously, this overview only presents a snapshot of the whole picture in the Danube region, as there are more than just 17 instruments. However, the input by the project partners already permits to deduce some patterns and tendencies for financing vehicles.

In general, the instruments collected by the partners show that the most common type of financial instrument in the field of social impact financing are delivered in the form of non-repayable financial resources (9, see Figure 2). On the other hand, 6 financial instruments were classified as repayable. These instruments mostly combine a focus on social and financial returns (see Figure 3) and are often managed privately or in public-private partnership.

It is noteworthy, that partners also reported two instruments that take a mixed approach, combining repayable and non-repayable financing approaches (“hybrid instruments”). Arguably, hybrid instruments offer a potential pathway to scale up social impact investing. They integrate both financial as well as social interest. In this way they open up the previously narrow field of non-profit activities (through public or private benevolent foundations) to private investors.

Figure 2: Typology of Financial Instruments.



Source: Own edition.

The classification of these financial instruments according to the model explained in chapter 2 is shown in Figure 3. Looking at this classification of the collected instruments, there are three main observations that can be made and that help to better understand the nature of social investment financing instruments in the Danube region:

- **Non-repayable support is still the first option for social impact financing instruments.** Financial instruments exclusively focusing on Social Impact are primarily available in the form of non-repayable support, primarily grants, provided by public entities, foundations or in some cases in public-private partnerships. For these instruments that focus primarily on social impact it is not a key factor if there is no market yet for a product or service, or if there is a market developed already. The decisive factor is purely the social benefit arising from the project, contributing to a more just and socially inclusive society. A classic example for this would be the Impact Innovation programme by the Austrian Research Promotion Agency (FFG/Public Agency).
- **Instruments combining financial and social return are rather scarce.** Mixed financing approaches Combining social and financial return oriented financing vehicles are rather scarce. If besides social return the financial component also plays a role, the instruments mostly take the form of repayable loans or start up support. An example for an instrument combining social and financial return would be the step-by-step program initiated and run by Erste Bank in Serbia (Private Bank).
- **Social Impact as added value in traditional financing instruments.** An additional category to the model presented in chapter Fehler! Verweisquelle konnte nicht gefunden werden. includes also financial instruments that are primarily focused on financial return, but also have some social impact criteria in their programme, introducing the category in more traditional market oriented financing schemes. An example is

the ERP Gründerkredit in Germany, which is targeting not only SMEs in general but specifically social enterprises creating social impact as well.

Figure 3: Classification of Financial Instruments in the Danube region.

		Business Model			
		1A. There is no market	1B. There is no market yet	2. There is a market for part of the Product/Service	3. There is a market
Social impact & financial return expectations	A. Social Impact only	Impact Innovation (AT), Special Impact Award (DE), SEA:Act (DE), EEF (MO), WiB (MO)	Impact Innovation (AT), PPF Sofia (BG), Special impact Award (DE), SEA:Act (DE), EEF (MO), PARE 1+1 (MO), WiB (MO)	Impact Innovation (AT), PPF Sofia (BG), EEF (MO), PARE 1+1 (MO), WiB (MO), MarketMate (HU)	Impact Innovation (AT), PPF Sofia (BG), EEF (MO), PARE 1+1 (MO), WiB (MO), MarketMate (HU)
	B. Social impact first, financial return later		PPF Sofia (BG), Step-byStep (SR)	PPF Sofia (BG), Step-byStep (SR)	PPF Sofia (BG), Step-byStep (SR)
	C. Social impact and financial return on the same level		ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)	ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)	ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)
	D. Financial Return first, SI as added value		Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)	Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)	Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)

Source: Own edition.

4 Conclusions

The picture of financing instruments in the Danube region is quite a diverse one. The project partners of Finance4Social Change collected in total 17 financing instruments, ranging from public grants to private loans. Some of them have a clear focus on social impact and prioritise their achievement over monetary returns, others see the social impact as an added value but primarily count on financial incentives.

The observations made above show that there is mixture of instruments available for social impact financing, targeting the beneficiaries in multiple ways. However, instruments specifically targeting social enterprises with a clear focus on creating social impact are still rather concentrated in the realm of public entities grant financing or private benevolence. There still is a noticeable gap in instruments combining social and financial return on a more or less balanced level. This indicates that this investment market has not yet been identified as profitable from a financial perspective. Nonetheless, a component not so much in the focus until now is the one of traditional financing instruments including some form of social impact criteria, without putting them at the core of the investment. The potential of this form needs to be further exploited in order to integrate social impact criteria in traditional financing models. Nevertheless, the information outlined in this document provides policy makers, impact investors as well as social entrepreneurs an overview about the wide array of available instrument for financing social business activities.

5 Article for General Dissemination

Finance for Social Change (F4SC): EU-funded Interreg-Project aims to stimulate social business across the whole Danube region

Today, social impact investment is an emerging approach to tackle social challenges that brings together capital and expertise from across the public, private and not-for-profit sectors. However, the Danube region still lags considerably behind global trends in the field of social business and social impact investment. It is estimated that only 2% of global social impact investment (with estimated market size of about 450 billion EUR in 2019) is targeted towards the Danube region social enterprises.

To close this gap, the project Finance for Social Change (F4SC) was launched in 2018. Supported under the INTERREG DANUBE Programme, Finance4SocialChange brings together a partnership of 14 Partners and 6 Associated Strategic Partners from 12 countries to deliver improved policy learning, and to develop practical solutions on impact investing. The Finance4SocialChange partnership promotes a mutual learning between social enterprises, accelerators, impact investors and relevant national and regional policymakers. With a variety of different approaches and activities Finance4SocialChange aims at improving the eco-system for social investment in the Danube region.

Currently, new financial vehicles are developed to shape the next generation of financing solutions to unlock private capital for social good. To attract more private capital a variety of innovative finance solutions is necessary. The use of innovative financing mechanisms could mobilize private sector capital in new and more efficient and scalable ways to solve social, economic and environmental problems in the Danube region. Such innovative financing vehicles cover new or newly combined traditional financing vehicles that are adopted for societal challenges. These vehicles may cover the entire spectrum of the lifecycle of social enterprises, or are tailored only to certain projects.

To understand the current trends of financing social businesses and entrepreneurship in the Danube region we undertook a comprehensive analysis of different funding mechanism throughout the whole region. For our analysis we used a simple classification model which combines two different factors. The first factor relates to the business model and indicates the existence of market income. The second factor relates to the target structure of the social business indicating if social impact is the one and only aim or if the endeavour combines social impact with financial returns (i.e. social impact as added value to the financing returns of the investment). By using this classification scheme we tried to understand the investment models currently predominant in the social business economy of the Danube region.

Three main observations that can be made and that help to better understand the nature of social investment financing instruments in the Danube region (see Figure below):

- **Non-repayable support is still the first option for social impact financing instruments.** Financial instruments exclusively focusing on Social Impact are primarily available in the form of non-repayable support, primarily

grants, provided by public entities, foundations or in some cases in public-private partnerships. For these instruments that focus primarily on social impact it is not a key factor if there is no market yet for a product or service, or if there is a market developed already. The decisive factor is purely the social benefit arising from the project, contributing to a more just and socially inclusive society. A classic example for this would be the Impact Innovation programme by the Austrian Research Promotion Agency (FFG/Public Agency).

- **Instruments combining financial and social return are rather scarce.** Mixed financing approaches. Combinations of social and financial return oriented financing vehicles are rather scarce. If besides social return the financial component also plays a role, the instruments mostly take the form of repayable loans or start up support. An example for an instrument combining social and financial return would be the step-by-step program initiated and run by Erste Bank in Serbia (Private Bank).
- **Social Impact as added value in traditional financing instruments.** An additional category includes also financial instruments that are primarily focused on financial return, but also have some social impact criteria in their programme, introducing the category in more traditional market oriented financing schemes. An example is the ERP Gründerkredit in Germany, which is targeting not only SMEs in general but specifically social enterprises creating social impact as well.

The picture of financing instruments in the Danube region is quite a diverse one with various instruments ranging from public grants to private loans. Some of them have a clear focus on social impact and prioritise their achievement over monetary returns. Other instruments do have the social impact as an added value but are primarily focused on financial incentives.

Instruments specifically targeting social enterprises with a clear focus on creating social impact use still rather traditional approaches like grants with public monies or by benevolent philanthropies. There still is a noticeable gap in instruments combining social and financial return on a more or less balanced level. This indicates that this investment market has not yet been identified as profitable from a financial perspective. Nonetheless, a component not so much in the focus until now is the one of traditional financing instruments including some form of social impact criteria, without putting them at the core of the investment. The potential of this form needs to be further exploited in order to integrate social impact criteria in traditional financing models. Nevertheless, the information outlined in this document provides policy makers, impact investors as well as social entrepreneurs an overview about the wide array of available instrument for financing social business activities.

Figure: Classification of selected financing instruments for social business in the Danube region

		Business Model			
		1A. There is no market	1B. There is no market yet	2. There is a market for part of the Product/Service	3. There is a market
Social impact & financial return expectations	A. Social Impact only	Impact Innovation (AT), Special Impact Award (DE), SEA:Act (DE), EEF (MO), WiB (MO)	Impact Innovation (AT), PPF Sofia (BG), Special impact Award (DE), SEA:Act (DE), EEF (MO), PARE 1+1 (MO), WiB (MO)	Impact Innovation (AT), PPF Sofia (BG), EEF (MO), PARE 1+1 (MO), WiB (MO), MarketMate (HU)	Impact Innovation (AT), PPF Sofia (BG), EEF (MO), PARE 1+1 (MO), WiB (MO), MarketMate (HU)
	B. Social impact first, financial return later		PPF Sofia (BG), Step-byStep (SR)	PPF Sofia (BG), Step-byStep (SR)	PPF Sofia (BG), Step-byStep (SR)
	C. Social impact and financial return on the same level		ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)	ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)	ERP Gründerkredit (DE), Slovakian State Aid Scheme (SK), GINOP (HU)
	D. Financial Return first, SI as added value		Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)	Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)	Start-up BE PRE-Seed (DE), WiB-Programme (SR), Micro-loans (SK)

Source: Finance4SocialChange project