OUTPUT 3.1.: TRANSNATIONAL POLICY LEARNING TOOL

Output 3.1 **Version 5**
11 2019

DOCUMENT CONTROL SHEET

Title of Document	
Work Package	WP3 Analysis and Benchmarking
Output 3.1	Transnational Policy Learning Tool
File Name	Output3-1-Transnational-Policy-Learning-Tool.doc
Number of Pages	16
Dissemination Level	Public
Due date of deliverable	31.10.2019

VERSIONING AND CONTRIBUTION HISTORY

Document Version	V5	
Status	Final	
Responsible Author	Helmut Gassler, Wolfgang Haider	ZSI
Editor	Helmut Gassler	ZSI
Contributor		
Last version date	30 November 2019	

WP 3 – Analysis and Benchmarking

Output 3.1
Transnational Policy Learning Tool

Authors: Helmut Gassler (ZSI, PP1) and Wolfgang Haider (ZSI, PP1)

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

Contents

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

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 transnational Policy Learning Tool aiming to support policymakers across the Danube region by providing information on various good practice policy measures addressing the social impact market in the various countries of the Danube region. These selected policy measures demonstrate the wide array of approaches which may be used to enhance the functioning of social impact investment markets in the Danube region. This Tool will enable policymakers to better shape available ESIF resources toward addressing the challenges of local social entrepreneurs.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

2 Policy Approaches and Measures to Finance and Stimulate Social Businesses and Impact Investment

Access to finance was identified across almost every European country by the European Commission in 2015 as a significant barrier to the development of social enterprises. This holds true especially in the countries of the Danube region. Today, Danube region lags considerably behind global trends in the field of social entrepreneurship and social impact investments. According to recent esimates only 2% of global social impact investment (with a potential for growth of up to 450 billion EUR by 2019) is targeted towards the Danube region social enterprises, compared to 78% reaching Western Europe.

Hence, the public sector could and should play a catalytic role in the social impact investment market in terms of creating a conducive regulatory environment, encouraging greater transparency and taking concrete steps to help develop the market. In principle such measures and steps can be differentiated into following categories:

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

The various research activities and interviews conducted throughout the Danube region reveal a great variety of financing instruments and policy measures already in place in the Danube region. These measures and instruments can be summarized as follows:

- Self-financing: Social enterprises have some self-financing abilities. It is based on the significant contribution of volunteers in the start-up phase of their life. Later, when they scale up the non-distribution constraint is a mechanism which supports self-financing and attracts external finance.
- Grants: Some countries established funding mechanisms via “traditional” non-repayable instruments which are specifically targeted towards the social business sector (and social entrepreneurs).
- Loans: In some countries, financial intermediaries already address the credit needs of social enterprises. Existing intermediaries include traditional banks, socially-oriented banks, and dedicated financial institutions.
- Where the social enterprise sector is well developed, traditional financial intermediaries are in principle able to respond to the credit needs of social enterprises. In countries like France, Italy and Ireland etc., retail banks are generally willing to provide loans to social enterprises, since the sector appears to be less affected by the economic situation than traditional SMEs, and generally show a low level of risk due to the small size of social enterprises.
- Socially-oriented banks, like cooperative banks and ethical banks, are in principle particularly willing to fund locally-based initiatives, such as the ones promoted by social enterprises.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

- Various traditional banks have created specialised institutions or particular sections (e.g. in case of the Danube region ErsteBank), which provide financial support within the framework of EU funds or address specifically the financial needs of non-profit organisations.
- Innovative social finance instruments: The role of innovative financing opportunities for social enterprises is increasing generally. In new member countries the development of alternative financing schemes tailored for social enterprises are mainly supported by European funds. (European Commission 2016:35.) These kind of instruments include:
  - Social impact investing,
  - social impact bonds,
  - social venture capital
  - other participative finance like crowdfunding.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

3 Good Policy Making Practices for Social Business and Impact Investment in the Danube Region

The following list of good practices in impact funding and investment results from the learning and networking workshop where these cases have been presented, discussed and assessed on different dimensions. From the resulting ranking we selected 4 case studies that are presented in detail in chapter 4. The remaining good practices are shortly described in the Annex and referred to in the conclusions in chapter 5.

Table: List of selected good practice policy examples to foster social business in the Danube region

Good practice	**Score relevance**	**Score impact**	**Score sustainability**	**Score transferability**	**Score scalability**	**Total score**
YouthBank	**58**	**57**	**57**	**56**	**55**	**283**
Mezzanine capital	**62**	53	**55**	49	**52**	**271**
Impact Innovation Call 2018	**58**	54	49	53	50	**264**
Social Impact Bond Juvat	54	50	52	54	49	**259**
Social Impact Bond Integrativer Schulcampus Mannnheim	**58**	51	49	51	46	**255**
SEEDS development program	52	53	48	50	49	**252**
Bildünger	54	**55**	53	38	49	**249**

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

The model of „municipality social enterprise“	**54**	**50**	**53**	**48**	**42**	**247**
AWS Jumpstart	**47**	**49**	**48**	**50**	**47**	**241**
Hungarian development bank programme for SEs	**55**	**52**	**47**	**38**	**44**	**236**
Sofia public-private fund for innovations – Instrument for testing & development	50	49	44	45	42	230
Social Impact Award (SIA)	**47**	**46**	**41**	**46**	**43**	**223**
Financial instruments for social economy	51	42	40	40	43	216
East Europe Foundation	50	46	39	37	41	**213**
legal recognition of social entrepreneurship	46	39	35	34	36	**190**

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

4 The Funding Instrument Canvas (FIC) to Assess Good Policies

For describing and assessing policy measures a Funding Instrument Canvas (FIC) was developed. The FIC describes the main features of a funding instrument such as the value proposition to investees or the key actors needed to set it up. The FIC answers the guiding questions summarized below.

FUNDING INSTRUMENT CANVAS – GUIDING QUESTIONS

1) Value Proposition of the FUNDING INSTRUMENT (FI)

- What is the min and max investment sum?
- What type of funding is it? (grant, loan, investment,…). Is it repayable or non-repayable?
- What kind of training, mentoring, consulting, networking is provided to investees?

2) Key Actors

- What are the main actors that are setting up/managing this FI?
- Describe the types of organizations and their sector (private individual, private company. Public authority, public intermediary, social enterprise, civil society, etc.)
- Which kind of resources does each partner provide?
- Which kind of activities does each partner perform?
- In which legal setup do the partners operate?

3) Investees

- Which kind of investees is the instrument addressing? Describe the type of organizations (Provide target group description of FI)
- Specify organizational type (Start-up, Social business, Social enterprise)
- Specify the stage of maturity of the investees (pre-seed/seed/mature/scaling)
- Provide more specific characteristics of the investees if available

4) Impact on investee

- What positive impact does the FI want to have on investees and their development?
- Does this FI prioritize social impact (as a success criterion for investments/investees) over financial outcome?

5) Relationship to investee

- How does the FI assess/select investees?
- How does the FI monitor (the development/success of) investees?
- How long does the FI usually "stay invested"?
- How would you describe the role of the FI towards the investee and vice versa?
- How does the investee participate in/contribute to the FI?

6) Pipeline Building

- Is the funding instrument providing processes to build a pipeline of potential investees?

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

- Is the funding instrument connected to specific organizations, programs or networks that build a pipeline of potential investees?

7) Key activities

- What key activities does the FI need to perform for providing the VP?

8) Key resources

- What resources does the FI need to mobilize for providing the VP? (funding source)

9) Cost structure/items of the FI

- What is the cost structure of the FI (main cost items such as coordination, support programs, experts etc.)

10) Income of the FI/Return on Investment

- Is there a return of investment?
- How is the funding capital of the FI re-generated?

11) Transferability

- What are the pre-requisites to transfer this FI to another country?
- Is the FI very context-dependent or can it work in different countries?
- How feasible is it to transfer this FI to another country?

Based on the assessment conducted using this FIC approach detailed information on four cases studies were compiled. These case studies illustrate state-of-the-art instruments from different sector that support the impact investment readiness of social enterprises and/or provide them with opportunities to attain impact. These case studies include following programmes/instruments:

- Social Impact Bonds (public-private measure), Bavaria/Germany,
- Mezzanine Capital Investment model organised by a private organisation (FASE), Germany/Austria
- FFG Impact Innovation (grant programme organised by a public agency (FFG), Austria,
- Youth Bank (social enterprise) organised by an international charity fund (YouthBank International) with local partners, Bosnia-Herzegowina.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

5 Conclusions

For designing policy instruments to foster social businesses and impact investment an eco-system view is necessary. The respective eco-system needs to be established from the ground up and throughout all development stages of social enterprises. We briefly outline these stages to show how the featured funding instruments (and similar approaches) may contribute to the ecosystem.

Stage 1: Encourage young changemaker & founders

Stage 1 starts with the encouragement of young changemakers & young founders to explore social entrepreneurship through programs such as the Youth Bank (SE driven) or – at a later stage – programs such as FFG impact innovation (public driven). These programs allow young changemakers & young founders to direct their efforts towards social impact goals, to structure their ideas, and to involve stakeholders and target groups early on to achieve a good solution-need (respectively product-market) fit. For this they receive initial and (more) easily attainable funding. In our view, these programs could comprise a stronger mentoring component to deepen the learning experience of participants and to improve the outcome. For the most promising ideas coming out of such prototyping processes follow-up funding opportunities could be offered. These follow-up opportunities could include a transition from public-only to mixed public-private funding or private funding (early stage impact funding). Bildünger is a cross-sector campaign n with the aim to transform the Austrian educational system. It features different engagement levels, community building and seed funding for SE projects as well as projects from young founders. The advantage of the campaign is that selected SEs/founders are introduced to an already established network of actors in education which allows them to access the educational system, find partners, and apply for funding.

Stage 2: Support the development of social enterprises and their investment readiness

We know from our mapping that more advanced social enterprises (clear impact model, clear product/service offer, proven social impact, stable team) will rely on tailor-made impact funding (not impact investment) provided by impact angels or private foundations. Impact angels can act as mentors in addition to funding the social enterprise. At this stage, an impact angel will not expect a financial return. However, impact angel and social enterprise will align on expectation regarding the further development of the impact and business model, a strategy for replication/scaling (from partnerships to social franchising) and improvement of organizational performance. As a result of this stage, we would expect to see professional social enterprises on a development path towards scalable impact and business models. An interesting strategy in stage 2 can be the financial support of SE incubators as for instance provided by the Austrian good practice AWS Jumpstart. The program funds incubators that provide support to start-ups and/or SEs to build up their capacity. A part of the funding is dedicated directly to SEs supported by the incubator.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

Stage 3: Provide private investments to investment-ready SEs

At this stage, the social enterprise may be ready to ask for impact investment based on a track record of achieving social impact, a track record of good organizational performance, a clear product/service offering and proven demand, and a smart replication/scaling model that allows the social enterprises to increase revenue over time. At this stage, funding instruments such as the mezzanine capital instrument used by FASE can be applied. These models work with scenarios with low but realistic returns on investments while also emphasising the impact goals of the social enterprise. Investment collectives are a new trend in the impact investment sector. A group of investors established a shared process and criteria to identify, assess, select and fund social enterprises. Furthermore, the collective setups processes to generate a pipeline of new, investment-ready SEs. The investment collective may for instance be connected to an incubator program.

Stage 4: Provide opportunities for long-term funding for SEs

An instrument such as the social impact bond seems to be designed for providing funding to established social enterprises that show all the characteristics of stage 3 and have a strong track record of not only achieving social impact, but achieving more impact than comparable public support offers. The idea of social impact bonds is to introduce new, innovative and improved approaches to respond to the needs of specific target groups who may already receive support provided by welfare state institutions. Social impact bonds leverage private funding so that new solutions can be introduced that can potentially be funded by public money in the future. The social enterprise is relieved of the financial risk that is taken solely by the private investors and the public institutions that guarantee to cover the investment if the impact goals are reached. The social enterprise however has a strong incentive to perform as the state may continue to pay for their product/service.

Generally, we would emphasize that all these stages and funding instruments allow the involved stakeholders to learn more about social impact and processes that lead to improved and sustained social impact. As a result, the ecosystem becomes smarter and provides pathways for the development of social enterprises and the diffusion, scaling and institutionalization of social innovations.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

6 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.

In a first step the relevant framework conditions and policy systems of the countries of the Danube region were analysed.

The analysis reveals a great variety of financing instruments and policy measures already in place in the Danube region. These measures and instruments include:

- **Self-financing:** Social enterprises have some self-financing abilities. It is based on the significant contribution of volunteers in the start-up phase of their life. Later, when they scale up the non-distribution constraint is a mechanism which supports self-financing and attracts external finance.
- **Grants:** Some countries established funding mechanisms via "traditional" non-repayable instruments which are specifically targeted towards the social business sector (and social entrepreneurs).
- **Loans:** In some countries, financial intermediaries already address the credit needs of social enterprises. Existing intermediaries include traditional banks, socially-oriented banks, and dedicated financial institutions.
- Where the social enterprise sector is well developed, **traditional financial intermediaries** are in principle able to respond to the credit needs of social enterprises. In countries like France, Italy and Ireland etc., retail banks are generally willing to provide loans to social enterprises, since the sector appears to be less affected by the economic situation than traditional SMEs, and generally show a low level of risk due to the small size of social enterprises.
- **Socially-oriented banks**, like cooperative banks and ethical banks, are in principle particularly willing to fund locally-based initiatives, such as the ones promoted by social enterprises.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

- Various traditional banks have created **specialised institutions** or particular sections (e.g. in case of the Danube region ErsteBank), which provide financial support within the framework of EU funds or address specifically the financial needs of non-profit organisations.
- **Innovative social finance instruments**: The role of innovative financing opportunities for social enterprises is increasing generally. In new member countries the development of alternative financing schemes tailored for social enterprises are mainly supported by European funds. (European Commission 2016:35.) These kind of instruments include:
    - Social impact investing,
    - social impact bonds,
    - social venture capital
    - other participative finance like crowdfunding.

The next step included a comprehensive overview of political measures which target social businesses. Based on this systematic policy screening the project partners selected so called “good practice policy measures” which may act as “role models” for policy learning and may inform and help policy makers throughout the Danube region. This so called “Policy Learning Tool” provides information on various good practice policy measures addressing the social impact market in the various countries of the Danube region. These policy measures demonstrate the wide array of approaches which are currently used to enhance the functioning of social impact investment markets in the Danube region. From the total list of policy measures considered, 15 were selected and evaluated by the project partners in interactive discussions.

The underlying basis of this tool is a system that evaluates the selected policy measures according to eleven different criteria. Examples for these criteria are the value proposition to investees, the key actors needed to set it up, the possible impact for the investee, the cost structure, the key resource needed etc. A particular important criterion is transferability since this is necessary to adopt the measure in other countries / circumstances.

Based on the assessment conducted using this approach detailed information on four cases studies were compiled. These case studies illustrate state-of-the-art instruments from different sectors that support the impact investment readiness of social enterprises and/or provide them with opportunities to attain impact. These case studies include following programmes/instruments:

- Social Impact Bonds (public-private measure), Bavaria/Germany,
- Mezzanine Capital Investment model organised by a private organisation (FASE), Germany/Austria
- FFG Impact Innovation (grant programme organised by a public agency (FFG), Austria,
- Youth Bank (social enterprise) organised by an international charity fund (YouthBank International) with local partners, Bosnia-Herzegowina.

Overall, the following conclusions can be drawn from these policy analysis and evaluation activities for a step-by-step approach towards stimulating and fostering social business and impact investment in the Danube region:

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

Stage 1: Encourage young changemakers & founders

Stage 1 starts with the encouragement of young changemakers & young founders to explore social entrepreneurship through programs such as the Youth Bank (SE driven) or – at a later stage – programs such as FFG impact innovation (public driven). These programs allow young changemakers & young founders to direct their efforts towards social impact goals, to structure their ideas, and to involve stakeholders and target groups early on to achieve a good solution-need (respectively product-market) fit. For this they receive initial and (more) easily attainable funding. In our view, these programs could comprise a stronger mentoring component to deepen the learning experience of participants and to improve the outcome. For the most promising ideas coming out of such prototyping processes follow-up funding opportunities could be offered. These follow-up opportunities could include a transition from public-only to mixed public-private funding or private funding (early stage impact funding). Bildünger is a cross-sector campaign n with the aim to transform the Austrian educational system. It features different engagement levels, community building and seed funding for SE projects as well as projects from young founders. The advantage of the campaign is that selected SEs/founders are introduced to an already established network of actors in education which allows them to access the educational system, find partners, and apply for funding.

Stage 2: Support the development of social enterprises and their investment readiness

We know from our mapping that more advanced social enterprises (clear impact model, clear product/service offer, proven social impact, stable team) will rely on tailor-made impact funding (not impact investment) provided by impact angels or private foundations. Impact angels can act as mentors in addition to funding the social enterprise. At this stage, an impact angel will not expect a financial return. However, impact angel and social enterprise will align on expectation regarding the further development of the impact and business model, a strategy for replication/scaling (from partnerships to social franchising) and improvement of organizational performance. As a result of this stage, we would expect to see professional social enterprises on a development path towards scalable impact and business models. An interesting strategy in stage 2 can be the financial support of SE incubators as for instance provided by the Austrian good practice AWS Jumpstart. The program funds incubators that provide support to start-ups and/or SEs to build up their capacity. A part of the funding is dedicated directly to SEs supported by the incubator.

Stage 3: Provide private investments to investment-ready SEs

At this stage, the social enterprise may be ready to ask for impact investment based on a track record of achieving social impact, a track record of good organizational performance, a clear product/service offering and proven demand, and a smart replication/scaling model that allows the social enterprises to increase revenue over time. At this stage, funding instruments such as the mezzanine capital instrument used by FASE can be applied. These models work with scenarios with low but realistic returns on investments while also emphasising the impact goals of the social enterprise. Investment collectives are a new trend in the impact investment sector. A group of investors established a shared process and criteria to identify, assess, select and fund social enterprises. Furthermore, the collective setups processes to generate a pipeline of new, investment-ready SEs. The investment collective may for instance be connected to an incubator program.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange

Stage 4: Provide opportunities for long-term funding for SEs

An instrument such as the social impact bond seems to be designed for providing funding to established social enterprises that show all the characteristics of stage 3 and have a strong track record of not only achieving social impact, but achieving more impact than comparable public support offers. The idea of social impact bonds is to introduce new, innovative and improved approaches to respond to the needs of specific target groups who may already receive support provided by welfare state institutions. Social impact bonds leverage private funding so that new solutions can be introduced that can potentially be funded by public money in the future. The social enterprise is relieved of the financial risk that is taken solely by the private investors and the public institutions that guarantee to cover the investment if the impact goals are reached. The social enterprise however has a strong incentive to perform as the state may continue to pay for their product/service.

Generally, all these stages and funding instruments allow stakeholders to learn more about social impact and processes that lead to improved and sustained social impact. As a result, the ecosystem becomes smarter and smarter providing pathways for the development of social enterprises and the diffusion, scaling and institutionalisation of social innovations.

Finance4SocialChange is a project co-financed by European funds (ERDF, IPA, ENI).
Project website: www.interreg-danube.eu/finance4socialchange