



Impact Investing: A factor of transformation of the social sector in Europe

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Theoretical and practical frameworks have shifted from the « evaluation » to the « measurement » of Social Impact

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The increasing popularity of « measurement »

- **Emerging conceptual framework:** « Impact Economy » (Clinton), « Economie positive » (Attali)
- **Evolutions of the financing of the social sector:** indebted states and weakened banks leave enable the financial market players to meet the financing needs of social economy players
- **Development of randomized methods** after the relative failure of development policy evaluations

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The increasing popularity of « Social Entrepreneurs »

- **The concept of « Social Enterprise » is now competing with the notion of Social Economy** and covers entities with increasingly diverse characteristics.

3

The increasing need of laws and regulations

- In order to frame the simultaneous rise of new capital providers and new players , European states must develop a normative framework .The European Commission has given a definition of Social Enterprise and has initiated a project to deepen this definition. Social Impact measurement tools are to be selected.

Social Impact Measurement : issues at stake

Observations

1) Social impact measurement is used both for the **qualification of social enterprises** and for the **assessment of their performance**

“A social enterprise... has the **achievement of measurable, positive social impacts as its primary objective** in accordance with its articles of association, statutes or any other rules or instruments of incorporation establishing the business, where the undertaking:

- ✓ provides services or goods to vulnerable or marginalized, disadvantaged or excluded persons
- ✓ employs a method of production of goods or services that embodies its social objective
- ✓ provides financial support exclusively to social undertakings” (I)

2) A measurement tool is **never neutral** and often gives rise to **performative effects** (II)

Research question

How will Social Impact Measurement influence the European Social Sector?

- What are the logics underlying the measurement of social impact? Who or what will it serve?
- How could the measurement tools influence the functioning of social enterprises?

(I) Proposal for a regulation of the European Parliament and of the Council on European Social Entrepreneurship Funds (EP, March 6 2013)

(II) CHIAPELLO Eve, “La mesure de l’impact social, pourquoi tant d’intérêts ? », Interfaces Confrontations Europe, n°86, mai 2013

Impact Investors have developed their own understanding of Social Impact Measurement...

Who are the Impacts Investors?

- “Impact investments are investments made into companies, organizations, and funds **with the intention to generate measurable social and environmental impact alongside a financial return**. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.” (thegiin.org)
- This sphere gathers both new entrants and traditional players, attracted by a potential market of \$ 400m(1)

How do they work?

- New entrants apply a **portfolio approach**: a social impact dimension is added to the tradeoff between risk and return
- Social Impact Measurement must participate to a framework that allows for the management of Impact portfolios. The corresponding tools are:
 - **Reporting tools** : IRIS, Impact Base, GIIN
 - **Rating tools**: GIIRS



Our critical analysis of these tools (2)

- **Ex-ante rating vs ex-post assesment**: these tools apply nothing more than a rating agency's methodology
- Very similar to Socially Responsible Investment methods

(1) Source: J.P.Morgan

(2)Source: « Mesure de l'impact social, enjeux d'une régulation européenne sur le financement des entreprises sociales », A.BAUDET, mémoire de recherche master 2 HEC Alter management, sous le tutorat de Eve Chiapello

Social Entrepreneurs also have a specific understanding of Social Impact Measurement

What challenges do Social Entrepreneurs face?

- The limit of the social sector fluctuate and the traditional players face « hybrid » new entrants. The scarcity of fundings implies a competition between these structures.

How can Social Impact Measurement help?

- In this context, Social Entrepreneurs seek to optimize the way they address social problems, and to increase the attractiveness of their structure to raise funds. Hence, they are developing:
 - **Management tools:** (understanding and explaining impact chains, quantifying the impacts of different programs to enable strategic decisions, Social Scorecard..). Ex: **SROI**
 - **Fundraising tools:** (impact measurement as a marketing argument) Ex: **Avoided Social Costs**

We conducted a critical analysis of these tools :

- Few (if any) tools come close to being an **actual management solution**
- The emphasis must be put on the tension between internally developed tools and turnkey solutions
- Most tools are costly and of uneasy use

We identify two different logics of Social Impact Measurement

	Social Entrepreneurs Logic	Impact Investors Logic
Objectives of Impact Measurement	Managing the activity,, Attracting funds Marketing, Certification	Driving investments, Reporting Portfolio management
Underlying logic	Management of Social Impact	Contractualization of Social Impact
Objectives of the players	1) Social Impact 2) Sustainable Activity	1) Return 2) Social Impact
Promoters	Structures helping people in need with help of public authorities	Investors looking for profitable social enterprises (J.P.Morgan, Monitor, Rockefeller Fondation, financial markets)
Impact sought	Palliative or preventive activity	Goods or Services for BoP clients
Localisation	Europe, developed countries	Developing countries
Main tools	SROI, Outcomes Star Avoided Social Costs...	Data basis, Social Bonds ...
Risks faced by the players	Cost of use Conformation effects Averaging of players	difficulties in understanding the social sector
Gouvernance : transverse issue		



Investors demonstrate a greater lobbying capacity. They are more audible to the European authorities

Despite its attempt to increase its notoriety , the Impact Investing's theoretical framework does not match the ground truth...

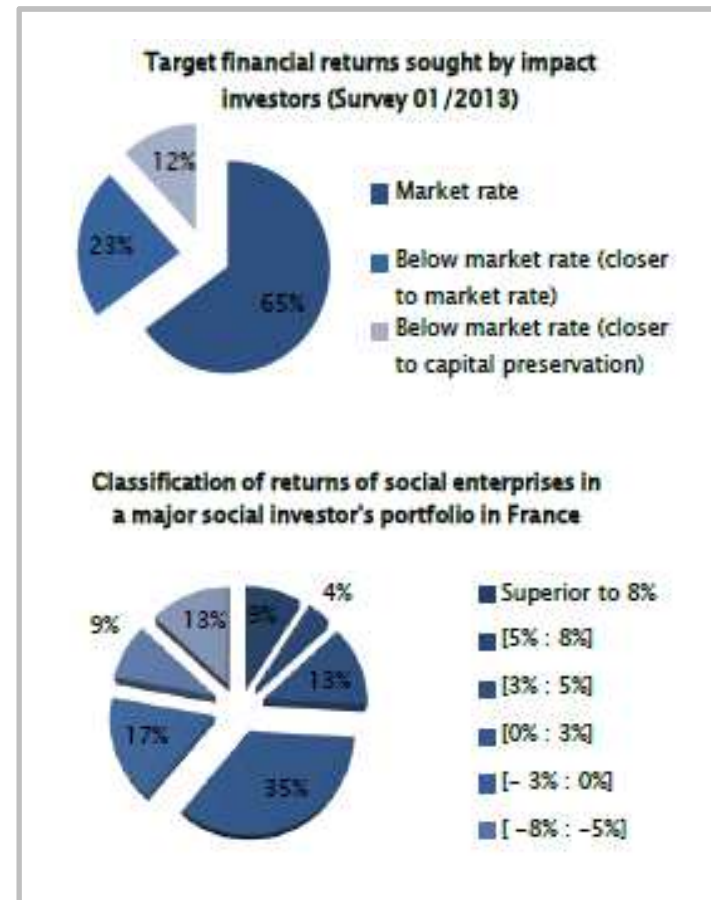
1 The practices and national situations vary

- « European » vs « british » understanding of double return
- European Social sector vs Social Business in developing countries
- Impact First vs Return First: a large variety of players
- Gifts vs Venture Philanthropy

2 The diversity of sectors among the Social Economy impedes the implementation of a single measurement standard

- Sectors of the Social Economy are not homogeneous and have different financial potential : some activities are more “difficult” than others.

Conclusion: a critical approach on the Impact Investing sphere has to be adopted



... which might influence investors' decision making...

Remote decision making according to market rules disadvantages small and atypical players

1 The theory of Adverse Selection applied to the social sector

- Social impact measurement is used to raise information from the field towards financial decisions makers.
- A lack of information (or inaccurate information) about the impact performance of social enterprises would likely resort in the generalization of a « **best in class** » logic :
 - « Champions » only would be fostered.
 - Innovative creations would not be supported.
 - Risk of financial exclusion for some sectors of Social Economy

2 The « Pioneer Gap » (1)

- Investors point out a lack of viable opportunities
- States or fondations are meant to address this issue by providing funds to the smallest entities
- Venture Philanthropy foundations are becoming « trigger funds ».

(1) MONITOR (KOH Harvey, KARAMCHANDANI Ashish, KATZ Robert) "From blueprint to scale: The case for philanthropy in Impact Investing" Monitor, Avril 2012, 68 p.

... and the functioning of Social Enterprises.

Social Impact Measurement might influence Social Enterprises through « conformation effects » (1)

1 Influence on the structure and governance

- Ex-post measurement vs ex-ante assessment: **the right structure is « pre-defined »** (in order to receive a high grade from the GIIRS, social entrepreneurs have to adopt its vision)
- Actually created impacts do not matter as much as the compliance to the rating criteria.

2 Influence on the financial objectives

- Risk of "averaging" of social enterprises
- The concept of dual cost is a form of denial of the trade-off between profitability and social good.

3 Influence on the time frame

- Investors often have an « exit strategy » and a relatively short term strategy. The Social Sector is essentially long term driven. There is a risk that it has to adapt to its investors.

((1))CHIAPELLO Eve, "La mesure de l'impact social, pourquoi tant d'intérêts ? », Interfaces Confrontations Europe, n°86, mai 2013

The choices of European institutions will therefore be crucial

The **competitive dynamics of social measurement tools** (historical perspective on the social impact measurement phenomenon)

First Phase	Second Phase	Third Phase
~1986-2003	Starting ~2007	Starting ~2010
<p>Proliferation of highly context-dependant measurement tools</p> <p>Promoters are:</p> <ul style="list-style-type: none"> - NGOs attempting to measure their development programs, - “Start-up“ in impact investing (smaller investment funds oriented social economy) - Some social enterprises. 	<p>Concentration of impact measurement methodologies</p> <p>Stakeholder groups seek to reach a critical size: there is a concentration measurement initiatives.</p> <ul style="list-style-type: none"> • Foundations develop the “Venture Philanthropy Association“ framework • Investors gather in the GIIN • The development organizations gather in the NONIE (Network of Networks on Impact Evaluation) 	<p>Should witness a state intervention to regulate oligopolistic competition</p> <p>The European Commission reaches on the market at a time when competition between different models is strong and that some tools have been sidelined. It is in a position to arbitrate between competing methods of measurements.</p>

Government intervention; risks and issues at stake?

- **Market regulation:** On what basis should government make their arbitrage? Should a highly visible « soft law » be converted into « hard law »?
- **Extension of the investment logic to social policies:** Social impact Measurement that targets private equity could find a wider field of application. For instance, working papers of the Commission will now refer to the notion of "portfolio of projects" to drive social programs

Conclusion

- 1) At the “macro” level: an adequate communication and training is required to **strengthen policy makers’ level of awareness**

- 2) At the “micro” level: knowing that conformational effects are bound to take place regardless of the care taken in the development of measurement tools, it is important to:
 - Preserve the **diversity of standards**,
 - Promote the **evaluation of "programs"** (vs. the activity of the company in general)
 - Build on **field expertise** as it is a key complementary element of social policy ,
 - Promote **process as well as results**
 - Differentiate between **profit and non-profit structures**
 - Build on the **structures that involve stakeholders** in their governance, as it is the best way to sustainably act on social, economical and political risks



Thank you for your attention !