AT A GLANCE

Requested by the EMPL committee

Study in Focus

European Parliament

Social Impact Investment

Best Practices and Recommendations for the Next Generation

The original full study[1] provides an in-depth overview of **Social Impact Investment** (SII). It aims at providing a critical analysis of the SII ecosystem, by highlighting its current trends, existing limitations and potential to solve key social challenges. The report also illustrates best-practices and lays out policy recommendations.

Check out the original full study by scanning this QR code!

Background

Social Impact Investment (SII) is the **provision of finance to organisations addressing social needs**. Its three main principles are social impact intentionality, impact measurement and profit orientation. SIIs aim at achieving both **social impact** and **financial returns** by **connecting the supply-side** (i.e. investors providing sustainable funding) **with the demand-side** (i.e. social organisations delivering impact). The SII ecosystem also includes intermediaries who link and support both sides, as well as an enabling environment.

The EU SII market has **expanded rapidly** over recent years, as positive social impact became a central objective for governments. Current policy agendas focus increasingly on **social goals**, whilst maintaining an **economic coherence**. Yet, as societies face increasingly complex societal challenges, traditional strategies struggle to deliver results, notably because of budgetary constraints. The SII approach thus appears as an **innovative, viable and potentially efficient alternative**. It is also relevant for achieving the Sustainable Development Goals (SDGs) and delivering on the European Pillar of Social Rights.

Nonetheless, despite its potential and growth over the last decade, the SII market has yet to achieve its full potential. Its **size remains limited**, and its **maturity level varies greatly** across EU Member States. While SII markets in Germany, France, Portugal and Italy are relatively developed, it is not the case in four fifths of the EU, notably in the Central and Eastern European (CEE) countries.

The **COVID-19 crisis represents a unique opportunity** to promote and apply the SII approach and to tackle the challenges generated by the pandemic and the economic crisis. But the pandemic **also affects the SII market negatively** by decreasing revenues. Thus, it is probable that the overall amount of SII will decrease in 2020.

Key findings

The study identifies **three main challenges** which appear to slow down the development of SII in the EU:

- **National governments are not sufficiently involved**. Indeed, most EU countries do not have comprehensive national SII strategies and lack governmental entities focused on the development of SII;
- **Most EU and national initiatives** in support of SII (e.g. financial schemes, funds or fiscal incentives) **target the supply side rather than the demand side or intermediaries**. Moreover, many

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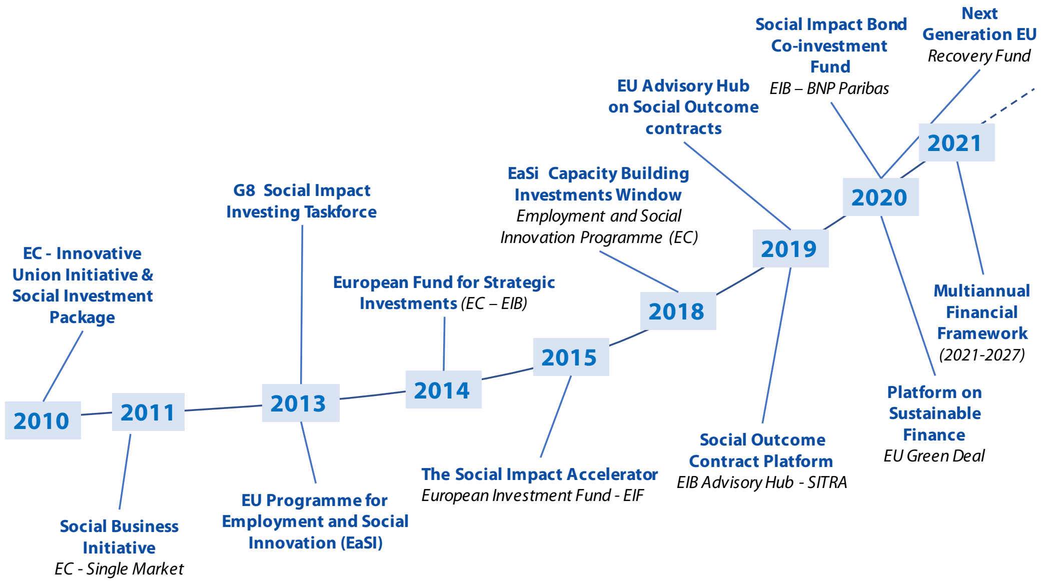
demand-side actors are not ready to receive SII, often because they lack the human resources necessary to manage these investments; and
- European funds are almost exclusively distributed through funding mechanisms which are not tailored to the specific needs of social enterprises.



Source: Elaboration of authors in collaboration with PlusValue Ltd.: https://www.plusvalue.cloud/.

Key recommendations

The study presents a number of **recommendations for national and EU-level policymakers** to address these existing challenges, based on the analysis of successful SII market initiatives. It notably suggests:

- **Closing the knowledge gap** by raising awareness about SII and creating a base of qualified specialists who could foster the national SII markets;
- **Encouraging potential stakeholders** by demonstrating governmental support for the SII market, through the creation of a national SII strategy and/or a public body responsible for SII; and
- **Promoting international initiatives** such as EU-level policies or funding programmes.

Since 2010, the EU has been facilitating SII market development, using three main policy tools: funds, strategies and EU-level legislation. The study suggests that the EU now focuses on impact measurement, by:

- **Promoting the standardisation of impact measurement** through the further development of the Taxonomy Regulation to include social objectives;
- **Facilitating capacity building** in the area of impact measurement; and
- Increasing the availability of relevant data.

With regard to the Covid-19 pandemic, in order to avoid missing the current "window of opportunity", actors at the EU and national levels should join forces and make use of their political leadership to **encourage new SII market development initiatives**. They should also **support SII actors in the short term**, to mitigate the negative impact of the crisis.

[1] http://www.europarl.europa.eu/RegData/etudes/STUD/2020/658185/IPOL_STU(2020)658185_EN.pdf.

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