


Financing social innovation – international evidence

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Political priorities



Pitch

„We'll help you make the BEST pasta!“

„We'll save the world!“

Finance



E-R-R-O-R

The problem won't magically vanish ³

 Access BlackRock's Q4 2021 earnings

Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not “woke.” *It is capitalism*, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to *prosper*. This is the power of capitalism.



In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term. Make no mistake, the fair pursuit of profit is still what animates markets; and long-term profitability is the measure by which markets will ultimately determine your company's success.

But impact investing is different, right?

Target financial returns

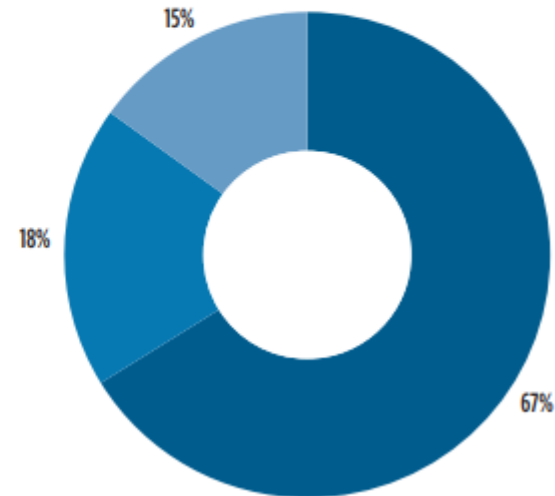
While impact investors target financial returns along a spectrum ranging from capital preservation to market-rate, most respondents in this sample target risk-adjusted, market-rate returns (67%; Figure 5).

Figure 5: Target financial returns primarily sought

n = 294

Percent of respondents

- 67% Risk-adjusted, market-rate returns
- 18% Below-market-rate returns: closer to market rate
- 15% Below-market-rate returns: closer to capital preservation



Source: GIIN, 2020 Annual Impact Investor Survey

How do we do better?

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	Programme	Principle
Sweden	Vinnova	<i>From base to innovation funding</i>
Scotland	Power-Up Scotland	<i>Local social enterprise support</i>
Netherlands	Brabant Outcomes Fund	<i>Bottom-up impact evolution</i>
Finland	Sitra	<i>Impact reform of the welfare state</i>
UK	Big Society Capital	<i>Building an impact investing market</i>
Portugal	Portugal Social Innovation	<i>Building an ecosystem</i>
Canada	Fund-of-funds	<i>SDG-investments</i>

Overall: 23 experts, 10 countries, 3 international organizations



We need: A master plan

6

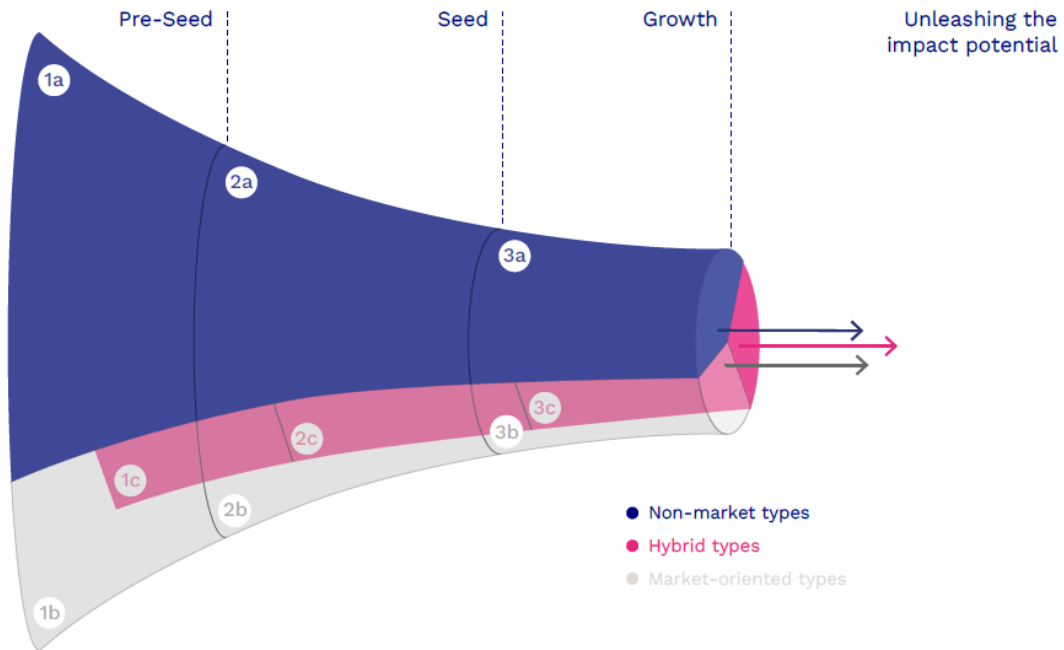


Figure 1 Innovation funnel: Phases and types of social innovators

4 strategies:

1. Prioritize process, not singular support!
2. Support all types of social innovators!
3. Nurture the ecosystem!
4. Increase impact orientation across society!



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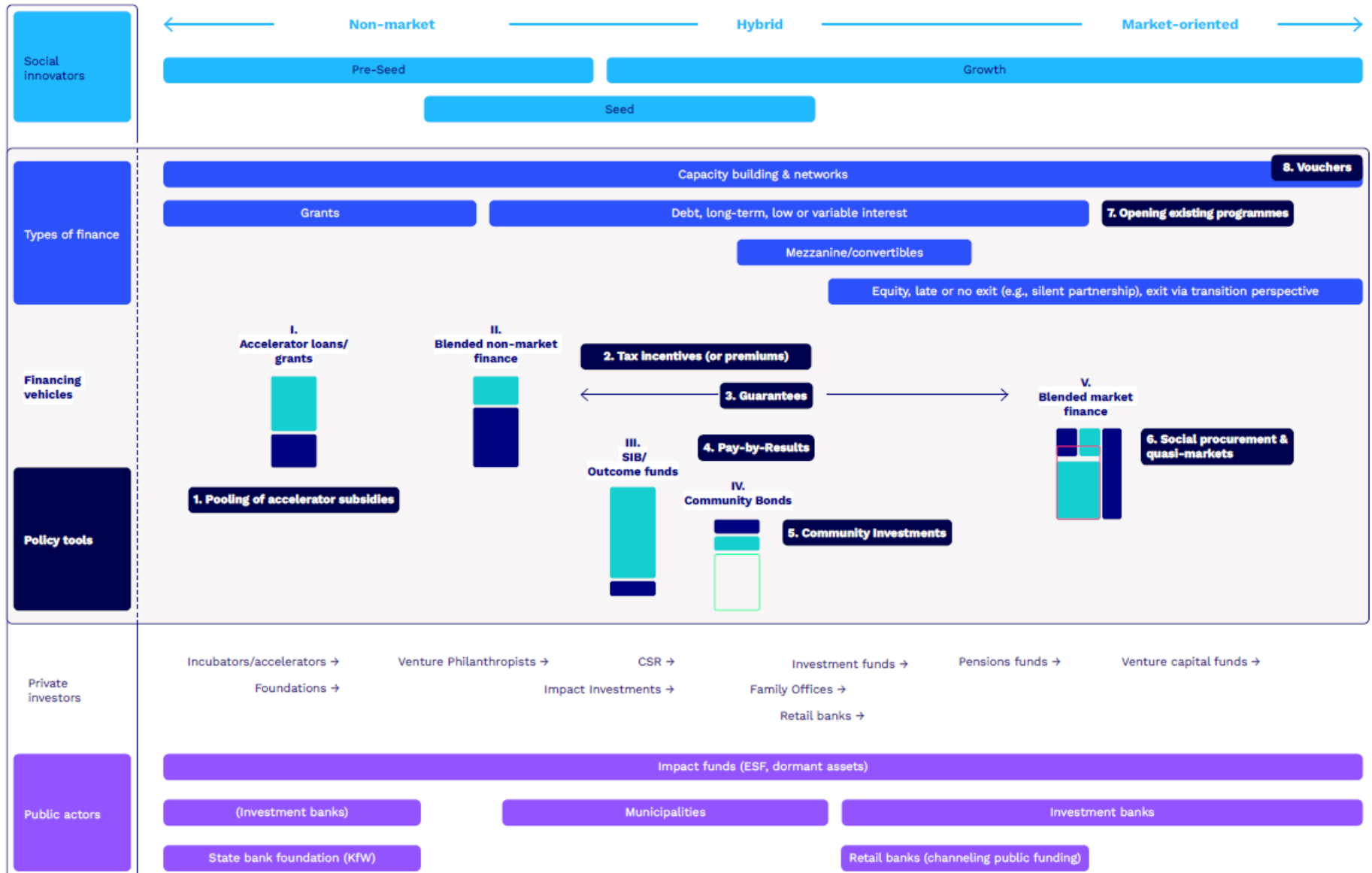
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Financial architecture



8 policy instruments

8

1. Pooling of accelerator grants

[to focus on organizations instead of projects]

2. Tax incentives or premiums for impact

[to promote non-market-oriented social innovations]

3. Guarantees

[to balance out risk-reward-impact profiles]

4. Pay-by-result principle

[to promote the maximization of impacts instead of the minimization of costs]

5. Local Community Investments

[to enable citizens to invest in social innovations]

6. Social procurement & quasi-market building

[to create income streams for organizations and exit options for investors]

7. Opening up existing programmes

[to make instruments of established innovation support available to social innovators]

8. Vouchers for capacity building and networks

[to create an ecosystem that is essential for the scaling of social innovations]



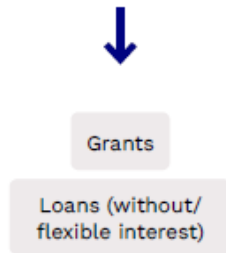
5 financing vehicles

II. Blended non-market finance

[risk reduction, potentially impact premium, tax incentive]

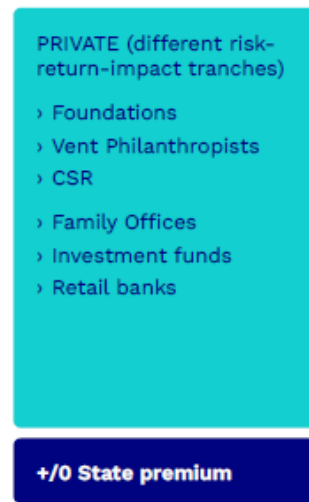


Portugal
INOVAÇÃO SOCIAL

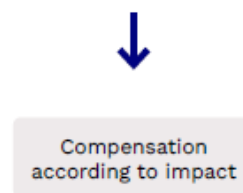


III. SIB/Outcome-Funds

[risk shift, pay-by-results]

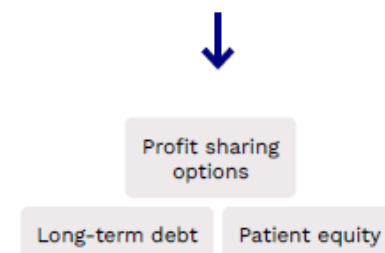
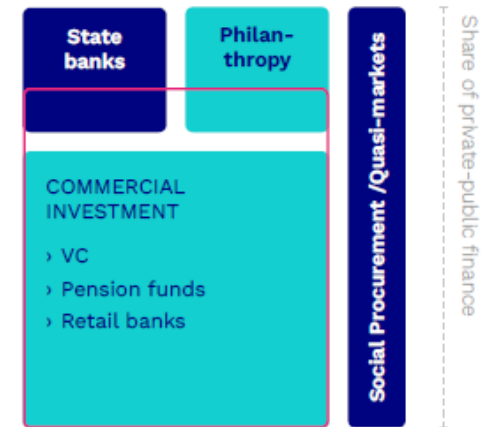


SITRA



V. Blended market finance

[first-loss capital/guarantees, exit through long-term perspective]



BIG SOCIETY CAPITAL

VII Call to action

Germany and other countries have the opportunity to benefit from the experiences of established funding programmes for social innovation across the globe. **The needs and challenges which social innovations face are clear and there is no perfect response to them. However, any effective solution will need to take the complexities of supporting social innovation seriously.**

