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The growth of the "Impact Investing" model in the financial sector

Case studies: UniCredit and Santagostino medical center

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ABSTRACT

In a globalized and increasingly competitive world, the worsening of the social problems to which our society is exposed has highlighted the difficulty of traditional financial models to be sustainable, of welfare models and philanthropy to be effective and public finance to be efficient.

In this context of urgency, new social trends are emerging in order to face these social issues. In particular, one of the most innovative and influential ones, inside the social finance market, is represented by the "Impact Investing" model. This is characterized by the attempt to give a more entrepreneurial mind to the investments in the social field, trying to go beyond the old belief in which the social sector is exclusively linked to the non-profit concept and opening the social business to wider types of investors. Indeed, social "Impact Investments" are delineated by the clear *intention* to generate a *positive social impact* as well as a *financial return*.

The goal of my thesis is to provide a clearer vision of the new Impact Investing market, emphasizing its innovative features and analyzing its ecosystem. In addition, it will be analyzed the factors that may influence the development of this market, with particular attention to the social "Impact Measurement", that represents one of the biggest issues that this sector is dealing with but, at the same time, one of the most important opportunities for its real success.

Finally, the analysis will focus on the "Impact Investing/financing" market in Italy, presenting two successful case studies: UniCredit and Santagostino medical center.

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INTRODUCTION

In a globalized and increasingly competitive world, the worsening of the social problems to which our society is exposed has generated general discontent and skepticism towards the real capacity of traditional finance to be sustainable, of welfare models and philanthropic to be effective and of public finance to be efficient.
In recent years, our society has been challenging by two major problems: the continuing negative effect of the 2008 financial crisis and the demographic change with the aging of the population. As far as the financial crisis is concerned, it has reduced dramatically the available resources for the states. While, concerning the demographic change, the progressively aging population and the increased life expectancy, have generated an increase in the need for assistance that requires an enormous amount of capital resources (Fondazione Sodalitas, 2015). Indeed, it is estimated that by 2050, 17% of the entire population will be over 65 (Aging Word, 2015).
Still, the gravity and the spread of the most urgent social problems of our time, such as territorial diversity, lack of labor market, health system expenses, demographic transition, far exceed the capacity of resources available to their resolution, not only philanthropic but also public. In the last years, the situation has not improved also in developing countries, that are still facing problems of lack of water, poor education system, health disease and hunger (OECD, 2015).

Global philanthropic masses combined with government allocations for development or international cooperation are able to move billions in order to face these social problems; however, at the same time, the cost of solving the most critical social issues worldwide is around thousands of billions: indeed, it is estimated, for example, an annual gap for developing countries of about $ 2.5 billion a year in order to reach the new Sustainable Development Goals set within the year 2030 (Assoprevidenza and Itinerari Previdenziali, 2016). The Sustainable Development Goals (SDGs) were set in 2015 and they are 17 new objectives that aim to decisively improve the living conditions of the entire world population and provide a framework for investors who are looking for solving social issues.

Until now, the socio-economic system has too long relied on public resources to face social issues, while leaving markets, private capital and the traditional business sector to create solely financial value (Moore, Westley & Nicholls, 2012). However, since the role of governments and philanthropy is not sufficient to respond to increasingly pressing social problems, we have witnessed a growing interest in practices that aim to move private capital to effectively tackle social challenges and also being financially sustainable in the long term.

In this new urgent global trend characterized by instability, the social finance can play a key role as a fundamental tool for supporting traditional players in the social sector, presenting business models and skills deriving from market perspectives that help to make the system more sustainable in the long-run and able to face the challenges that society requires. Social finance, in theoretical terms, is a type of finance that collects and uses debt capital, risk capital, and hybrid capital forms, in response to social and environmental needs that ordinary credit and financial markets tend to overlook or to partially fulfill. The increasing interest in social finance is mostly due to the development of its new most innovative sub-set "Impact Investing", which will be the focus of this thesis. The Impact Investing model aims to create a positive social "impact" which is intentional, measurable and financially sustainable.

Still, the attention that social finance and Impact Investing are gaining should not be considered as a simple fashion effect but framed in the light of some socio-economic macrotrends in progress at a global level. The three main macro trends are: the potential at the base of the pyramid (BOP), the green economy and the welfare state gap.

As far as the BOP is concerned, today 1.3 billion people live with less than $ 1.25 a day, which is considered the threshold for extreme poverty. If on the one hand this is considered a dramatic event, where a huge number of the world's population is in a state of urgent need, on the other hand, it can be seen as a market opportunity for companies which could give access to low-cost products and services to large segments of the population (inclusive business). In this context, social finance can be engaged and have a key role.

Regarding the green economy, a model that aims to reduce the environmental impact through measures in favor of sustainable development that translates into increased well-being and a reduction in environmental risks, The World Business Council For Sustainable Development (WBCSD) estimates that, with the current level of consumption, we will need by 2050 the equivalent of 2.3 Earth planets to survive; at the same time, investments in clean energy, including production of electricity, biofuel, and heat, are expected to increase by 230% by 2030. In the face of the urgent social criticality, there is a big business opportunity in the Renewable and sustainable energy sector, which actually is the most consolidated areas of interest for impact investors (Assoprevidenza and Itinerari Previdenziali, 2016).

Concerning the other macro-trend that the western world is dealing with, where social finance can have a big impact, is the no-longer sustainability of the "Welfare state".

During the decades from the 1950s to the 1980s, we experienced a growing increase of the welfare state, making a sharp increase in public spending. This public expenditure, at that time, was supported by the positive trend of the GDP. The problem started in 2008 when the financial crisis brought the entire global economy to its knees.

So, while on one hand, the scale of social challenges is growing, on the other hand, governments have fewer and fewer resources to dedicate to welfare, falling into the paradox of having to face more needs with smaller budgets. A research conducted by Accenture and Oxford Economics confirmed this increasing trend and estimated a gap of 30 billion by 2025 for Italy, a gap of 80 billion for Germany, and a gap of 170 billion for the United Kingdom (Piovanello, 2014). Moreover, a study conducted by European association ELTI found that each year about € 170 million are spent only on social infrastructures in Europe. The Task Force has also estimated that other € 100-150 million would be needed. The plan calculates an additional commitment of 1,500 billion euros by 2030 (European Commission, 2018).

Furthermore, considering the trends highlighted, it can already be guessed how the social finance sector is not addressed to a specific category of investors; on the contrary, this asset class is characterized as multi-stakeholder, addressing a wide spectrum of subjects who can find their role as investors or as subjects that can be invested according to their own objectives.

In this context, the paradigm of *"social entrepreneurship"* represents a valuable opportunity for facing these important social challenges. In fact, the figures of the social entrepreneurs can represent a good answer to these social issues, both because they have

the peculiarity of being motivated primarily by achieving a social goal and solving social problems rather than only by reaching a financial return and because they use a managerial approach rather than a philanthropic one, in which the sustainability of the business is fundamental and essential for the life of the social company.
The organizational form of social enterprises should be tailored to the format that mobilizes resources needed to address the problem. Thus, social entrepreneurship is not defined by a specific legal form, as it can be pursued through various vehicles.

Recently, we have seen an impressive growth in social entrepreneurship, representing 10% of all European businesses (Wilkinson, Medhurst, Henry, Wihlborg, & Braithwaite, 2014). The increasing interest in this practice can be addressed to three main reasons (Doherty, Haugh, & Lyon, 2014):

- New-market opportunities have been created by the construction of a new model of public service delivery;
- There is a change in nature for philanthropic activities, which are trying to be more financially sustainable creating some source of revenues instead of depending exclusively to grants;
- A new form of capitalism and an alternative economic system is required to address the social challenges that the world is facing in this age.

As far as the profit and non-profit sectors are concerned, we have been having a new scenario: the new trend of Impact Investing is pushing for the emergence of hybrid organizations. These hybrid organizations/social companies are entities able to blend social values with profit generation, aiming to overcome the old “profit/non-profit” dichotomy (Figure 1).

Figure 1: Hybridization process. Source: Tiresia, (2017)

More in detail, on one side, third sector/non-profit organizations are trying to develop themselves, looking for being more sustainable in financial terms, which would mean to be able to access financial resources needed for addressing the social challenges (Santos, 2012). These types of companies were not used to borrow money because their activities were based principally on grants, but the increasing lack of funds has forced them to think differently and to move the focus on something sustainable in the long run (Varga, Hayday, E. a., & Malcolm. 2016). While, on the other side, the private sector is moving towards an increasingly social vision, due to the fact that customers are becoming more aware and sensitive to social and environmental issues.

Considering the scenario just described and the urgency to find a more sustainable way to face the current social problems, the objective of my thesis is to analyze the new trend of "Impact Investing" and understand how this model can be seen as a new "entrepreneurial" way of investing resources to create positive social impacts without excluding the economic sustainability. The analysis will be supported by the presentation of two actors operating in the Italian market that have successfully adopted the Impact Investing model.

In detail, the elaborate will be divided as follows:

- In the first chapter, we will try to outline the bases on which this model is founded, providing an analysis of its ecosystem, the available financial instruments and its potential market-size;
- In the second chapter, we will analyze what “social impact” really means and the importance of its measurement, which represents one of the biggest critical issues of the Impact Investing model but at the same time, one of the most important opportunities for its real success; Moreover, it will be provided an overview of the two most used measurement methods in the Impact Investing market: the Theory of Change and the SROI;
- In the third chapter, the focus will shift to the Italian market, where we will analyze the legal framework in which social companies are operating, the potential social landscape and the “investment readiness” of social companies in receiving impact capital;

- In the fourth and final chapter, after a brief introduction to the concept of Social banking, we will enter into the strategic analysis of the two actors: UniCredit and Santagostino medical center.

1. IMPACT INVESTING MARKET

1.1 SOCIAL FINANCE

Before focusing on the various features of social finance, and more specifically on its sub-set Impact Investing, it is necessary to have an idea of how to define them. Due to the fact that Social Finance is gaining attention just in the last years and since there are papers written both by practitioners and academics, it is difficult to have a single definition and a usage of homogeneous terminology (Nicholls et al., 2015 – Anna Hochstadter, Barbara Scheck 2014). Indeed, the various words “Social Finance”, “Impact Investing” and “Social investment” are often used as a synonym.

In this thesis, in agreement with Rehana Nathoo who states that Impact Investment is only one of the many strategies that social finance can dispose (The Impact Investing Podcast, 2017), and in according to Anna Oleksiak, Alex Nicholls, and Jed Emerson who have framed Impact Investing as a sub-market of the wide spectrum of Social Finance spectrum, we will consider the terms “Social Finance” and “Impact Investment” differently, considering the second as sub-group of the first. In addition, the term Social Finance is also considered to be wider than the term social investment/Impact Investing, because the former allows to embrace a wider risk and return instrument (such as philanthropy donations, government grants, soft return equity, and debt as well as for social investment), while the latter is considered more as an investment that would imply a return, excluding any type of grant or donation (Nicholls et al., 2015).

Coming to the definitions, Marco Gervini - Director of the Social Housing Foundation - gives an explanatory definition of what social finance is: “The term Social Finance refers to the process of finding monetary resources by organizations, projects or individuals committed to meeting social needs. In this sense, social finance includes both the income that organizations generate to cover their costs and the resources they receive in order to grow and develop". Social finance is made up of three interconnected elements: instruments, investors and funded entities (Assoprevidenza and Itinerari Previdenziali, 2016).

In other simple terms, Alex Nicholls and Jed Emerson define social finance as: "Allocation of capital primarily for social and environmental returns, as well as in some cases, to financial return” (Nicholls et al., 2015).
It is important to stress that the concept of Social Finance is still suffering from a lack of a clear definition. Instead, much more effort has been put in order to define its sub-set “Impact Investing”, which will be analyzed later and will be the focus of this thesis.

Social finance is therefore distinct from conventional finance for two main reasons:

- Yield expectations are different for social investors who expect a social return (which can be a resolution of a problem or the satisfaction of a need);
- The organizations or individuals that receive the investments have primarily social objectives rather than commercial ones.

Social finance can be seen both as a supply of resources for creating a positive social impact and as a criticism of the existing financial system, which someone is arguing that it has contributed to the creation of negative externalities for society and the environment. Therefore, social finance aims to internalize the possible negative externalities of traditional investments, having as its main primary objective to allocate the resources invested to solve social problems.
In addition, as Nicholls et al. state, social finance challenges the logic of the traditional investor, separating the logic of value creation from value appropriation (Nicholls et al., 2015). In fact, while in conventional investments the fundamental assumption is that the value created by the investment will be held by the investor, after removing costs and taxes, in the social investments the investor is aware that a part of the value created will be owned by someone else.
This separation has allowed social finance to focus on creating a blended social and financial outcome, across more than one interested party or stakeholder group (J. Emerson, 2003). If at the beginning this logic has been mainly attributed to philanthropy activity, nowadays this approach has been expanded to address multiples of investment approaches, finance instruments, and different capitals.

In Figure 2, we can see the three different investment strategies that compose the social finance spectrum and three different entities categories that adopt them, with their different expected returns (Nicholls et al., 2015). Now, each of the strategies will be analyzed:

- *"**Impact only**"* strategy has the only objective of creating social value without expecting any return, and it is adopted by charities and grant dependents (philanthropy). Clarification regarding the subsidies to philanthropy must be given: charitable donations and government grants are considered part of the social finance, but they are not considered as social investments because there is no attention to the economic sustainability of the social activity in the long-run. (Rangan et al, 2011 - OECD 2014);
- *"**Impact first**"* strategy primarily aims to create a social or environmental impact and secondly to reach a financial return. It is based on the challenge of trying to exploit the market mechanism to maximize the social impact return and in order to do this, it is willing to accept a lower financial return, varying from the repayment of the principal invested to below the adjusted market rate. This strategy is adopted by social enterprises that are both able to generate revenues and to be financially sustainable (Freireich and Fulton, 2009);
- *"**Finance first**"* strategy is the opposite of the "Impact first" one. Indeed, it primarily seeks to maximize financial return and secondly to create a social and environmental impact. Generally, the investors who undertake this strategy are driven by social value drivers in choosing the investment strategy but always looking at investments that guarantee a market return (Freireich and Fulton, 2009). This strategy is adopted mainly by traditional companies that are investing with a focus on not harming the society and environment, such as SRI, ESG, CSR companies.

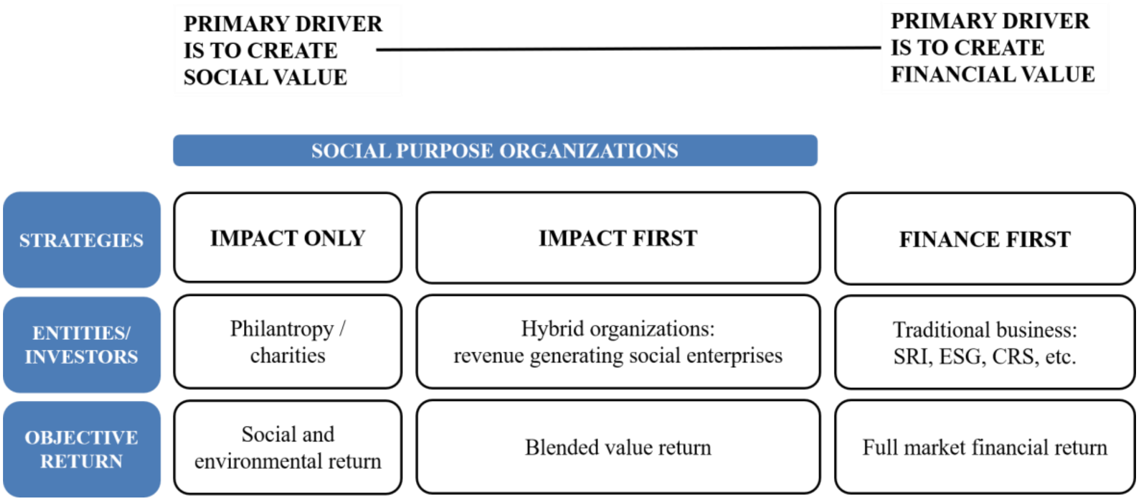

Figure 2: The spectrum of Social Finance. Source: adapted from Wilson, (2014)

As we have seen, “Finance First” investors/entities try to select investments that guarantee the minimum required market returns while “Impact First” investors/entities are willing to renounce to a part of the return and take on greater risk. Different returns expectations and different social investors' priorities have strong implications in the sector in which they decide to invest. While “Finance First” investors stay principally in mainstream sectors finding some opportunities to address also social needs, “Impact First” investors look for market-based solutions that aim to solve the most urgent global social challenges, such as affordable housing, accessible healthcare, financial services for poor people, job inclusion and sustainable agriculture (Wilson, 2014).

In practice, social finance includes a wide range of investors with different risk-return expectations, ranging from the total loss of the capital allocation (philanthropy) to the adjusted market rate of return (traditional companies).

In the past, the traditional belief was that pursuing a social goal would result in a financial trade-off, or rather a financial loss. However, based on market experience, many examples have shown that, in certain areas and in certain sectors, investments with a social aim can pursue both an economic and a social result (Wilson, 2014). Obviously, social investments can have different expected returns. This is due to the fact that they are carried out in different countries, in different sectors, with different asset classes and with a multitude of capital investor providers.

Moreover, the combination of different forms of capital with different return expectations makes possible that social issues can be addressed in more scalable ways than what it would be possible if the government worked alone (Rangan et al., 2011).

1.2 IMPACT INVESTING

In the last decade, among all the sub-markets within the wider social finance, the hot topic has become "Impact Investing", which is considered the most innovative trend of social finance (Nicholls et al., 2015).

The term "Impact Investing" was coined during the first international meeting on impact investments in 2007. The meeting was organized by the Rockefeller Foundation in Bellagio (Italy) to discuss how to *intentionally* pursue a dual objective in the allocation of capital: a *financial return* and, at the same time, a *positive* and *measurable* social impact. In the following years, several events contributed to the affirmation of this new practice. In 2009, J.P. Morgan, the Rockefeller Foundation and the United States Agency for International Development founded the Global Impact Investing Network (GIIN), with the aim of building the infrastructure, promoting research and networking. In the same year, the first standard attempts to measure the social impact of this new approach to investment was presented (IRIS), which is still indispensable to have reliable data on the capacity of these new investments to achieve real social objectives and attract impact investors.
In 2013 the British government promoted the establishment of the Social Impact Investment Taskforce (SIITF), established by the G8 with the aim of promoting the development of social impact investments and harmonizing growth in the G8 countries.
Since July 2015, SIITF has evolved into a Global Steering Group for impact investment, with the aim of promoting Impact Investing globally, extending to all countries that have a strong focus on the sector. Every year GIIN publishes investors surveys, market analyses, performance analyses, and future forecasts, to help investors to have a clearer view of how this market is evolving and to help the market to be more standardized.
Being "impact investment" a new concept and being this new market at the seed phase of development, it is impossible to have a homogeneous definition of what Impact Investing is.

However, since 2007 a lot of work has been done by academicians and practitioners in order to try to increasingly delineate and homogenize this trend. In fact, having a commonly shared definition would be vital for the Impact Investing market, both to understand which investment can be labeled as "Impact Investment" and to be able to analyze and collect market data in order to make deeper market analyses.
Here below, an overview of the most shared and respected definitions given overtime since 2007:

- According to O'Donohoe, "Impact investments are investments intended to create positive impact beyond financial return…Impact investors provide capital, expecting financial returns, to businesses (fund managers or companies) designed with the intent to generate positive social and/or environmental impact" O'Donohoe et al. (2010);
- According to the Social Impact Taskforce, Impact Investing is an "investment that intentionally targets specific social objectives along with a financial return and measures the achievement of both" (SIITF, 2014);
- According to Hochstadter & Scheck, a different view of the definition is given: "While the explicit goal to yield a financial return differentiates Impact Investing from grant funding and philanthropy, the explicit focus on some level of non-financial impact delimits it from traditional investments" (Hochstadter & Scheck, 2015);
- The Global Impact Investing Network (GIIN) in 2018 provided the most shared definition for Impact Investing: "impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending upon investors' objectives" (GIIN, 2018).

Although there is not a single definition regarding Impact Investing, we can identify some common characteristics that a social investment must have in order to be labeled as "Impact Investing":

- ***Intentionality***: the impact created through Impact Investing must be intentional (OECD, 2019). This is a key element in order to be considered "Impact Investing" because the impact of an activity must be more than a coincidental by-product factor: it has to be clear at the beginning and reaching the predefined impact objective has to be the first goal and not only a consequence of an externality of the business activity. Thus, the social impact created has to be tangible and able to be expressed in a Theory of Change (we will deepen it further in the second chapter), showing the "Impact Delta" obtained from the difference of what it would have happened without making the investment and what it happened by making the investment (Grabenwarter and Liechtenstein, 2011). Positive externalities created by traditional investments exclude them from the possibility to consider impact investments;
- ***Investment with return expectations***: impact investments are expected to generate a financial return on capital or at least to preserve the capital invested. This characteristic represents the main difference between Impact Investing and philanthropic activities because it introduces the concept of financial sustainability on social activities, where until now, they have always been driven mostly by grants and donations with any expectation of capital return (OECD 2019);
- ***Correlation between impact and financial return***: in order to have a long-term sustainable investment, the correlation between the intentional social impact and the financial return has to be positive. Even if it is acceptable that part of financial return can be sacrificed in order to reach a social goal, some practitioners affirm that social impact and financial return can be pursued together (Grabenwarter and Liechtenstein, 2011);
- ***Range of return expectations and asset classes*:** the expected rate of return range from below the market to the risk-adjusted market, and it can be made across various asset classes (such as fixed income, venture capital, private equity, and cash equivalent). Some practitioners specifically state that the return can vary but never non-existing in the Impact Investing (Evenett & Richter, 2011);

- ***Impact measurement and management***: the fundamental part of the Impact Investing model is the commitment of the investor in measuring and reporting the impact obtained, ensuring transparency and accountability. The impact must be quantifiable in order to see the real result obtained with the investment and a lot of efforts have been putting in order to try to achieve a standardize framework able to be adapted to this market. (OECD, 2019);

  In fact, a lack of a valid measurability framework, able to measure the impact created, could not only strongly limit the development of the Impact Investing market but also to prevent social enterprises to compete in the new emerging socio-economic market. Moreover, it can complicate the matching between supply and demand because it can limit social companies in obtaining private and public support and in communication with the different stakeholders (Arena, Azzone, Bengo, & Calderini, 2015). This argument requires an in-depth clarification and it will be discussed further in the second chapter in this thesis.
- ***Positive effect on society***: impact investments need to generate a positive impact on society. The return generated with the investment gives the possibility to scale the business and thus to always increase the positive impact created for the society.

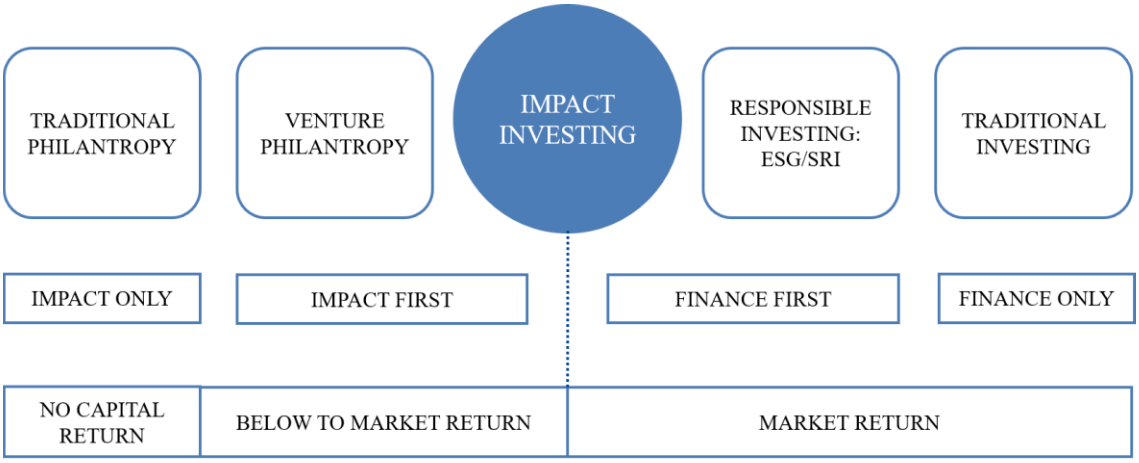

Figure 3: "Impact Investing" market positioning. Source: adapted from Sopac, (2018)[1]

[1] https://www.sopact.com/perspectives/how-impact-investors-can-help-foundations-make-better-mission-related-investments

As the Social Impact Investment Task Force states (SITF, 2014), the impact investment is placed in a position between venture philanthropy and the responsible investments such as ESG and SRI (Figure 3), distancing itself on one side from philanthropy thanks to the *economic return* that it is able to generate, but on the other side, also from the Social Responsible Investments on the other side, thanks to the creation of an *intentional* pre-defined positive social impact. Thus, Impact Investing qualifies as a reality in itself, in which the achievement of the social goal is inextricably linked to obtain a return. In other words, we are facing both the evolution of traditional philanthropy, responsible of having focused exclusively on doing charity rather than obtaining a sustainable and self-generating social impact and the evolution of SRI investment, which have tried just to avoid negative externalities without trying to create intentionally a real positive social impact.

The challenge of Impact Investing is therefore to originate a new way of investing more equitable and inclusive economic resources, based on permanent improvement of social problems without excluding financial remuneration. Moreover, Impact Investing adopts a holistic way to operate and it aims to realize a blended value, in which economic and social goals are perfectly integrated and enhance one another (Emerson, 2003).

Looking at the global trend, which highlights a constant increasing sensibility in addressing social needs and considering that much more capital will need to be unlocked to meet global needs, there is a good reason to be optimistic that this market will continue to grow exponentially. This thought is confirmed also by the GIIN research in 2018, which outlined that "one in four dollars of professionally managed assets (amounting to USD 13 trillion) now consider sustainability principles" and this means that a growing sensibility about the social sphere is spreading around (US SIF Foundation, 2018).

So, in the last decade, the situation of the global financial market is changing. In fact, an increasing number of investors are realizing that their capital is important not only to produce more money but also to try to create a growth that is sustainable both under a financial and also social point of view.

1.2.1 ESG, SRI AND IMPACT INVESTMENT. WHAT IS THE DIFFERENCE?

Nowadays, the value of an investment is not only based on the financial return, but it is also based on the social effect that it generates. As we have just seen, an increasing number of investors are aiming to use their money not only to generate a financial return but also to generate positive effects on the society where they live.

When we talk about social impact investments, people and investors are often confused about what we are speaking about, because some terms, such as SRI, ESG and Impact Investment, are used improperly with the idea that they have the same meaning and they use the same approach. However, among them, there are some differences and a good comprehension of this will allow to better differentiate the concept of Impact Investing and to well structure clients' portfolios choosing the best strategies for achieving the social goal.

Now, we will have a look at each of these, in order to give a clear idea about the peculiarities and the differences among these three:

- **ESG**: according to Investopedia, "it refers to the environmental, social and governance practices of an investment that may have a material impact on the performance of that investment"[2]. Using a ESG analysis is important in order to identify potential risks and opportunities, analyzing some qualitative aspects, such as the level of innovation, energy efficiency, the relation with the social partners, the quality of management and the level of transparency within a company, that a normal financial analysis is not able to detect. All these elements, along with the financial aspect, allow us to have a greater knowledge of the company itself, therefore, to be able to price it better[3]. An important aspect that differentiates ESG from others is that the main goal of ESG evaluation remains financial performances;

[2] https://www.investopedia.com/financial-advisor/esg-sri-impact-investing-explaining-difference -clients/
[3] https://www.we-wealth.com/it/video/esg-sri-impact-investing-sicuri-di-conoscere-la-differenza/

- **SRI**: "Socially responsible investing goes one step further than ESG by actively eliminating or selecting investments according to specific ethical guidelines"[4].
  It is an investment strategy that includes ESG factors to identify investments that are "best in class" in the effort to generate a sustainable long-term financial return. SRI uses ESG analysis in order to screen the investment positively or negatively. A negative SRI screen includes gambling, addictive substances, human rights violations, environmental damage, production of weapons. For investors engaged in SRI, making a profit is still important, but it must be coherent with the principles. The objective is to produce financial returns without creating damages to society;
- **Impact Investing**: it is an investment strategy made with the clear *intention* to generate a *positive measurable social impact* upon society while generating a *financial return*. Unlike ESG and SRI, SII focus primarily on the creation of intentional positive social impact along with a financial return, which is in line with the market average or below. Impact investors don't need to prioritize immediate returns through their investments; instead, they provide "patient capital" due to the fact that they give more value to the social or environmental return rather than the financial one (EVPA, 2018).

Thanks to the clarification provided, a substantial difference is highlighted between an Impact Investing investment and a more typical Socially Responsible Investment (SRI) already widely used in the last century (J.P. Morgan, 2010). On one side, an SRI acts through a screening of investments in order to avoid the "negative" ones that do not respect the ethical criteria of the investors. So, the "SRI" investment ethics prefer investments that respect certain environmental or social constraints and that do not damage the environment, having also a good governance system (ESG).
While, on the other side, the main peculiarity of the Impact Investing is that of being guided by the intention to generate a social impact together with a financial return. Thus, Impact Investing takes as a reference to all companies that have specific social and environmental impact objectives.

[4] https://www.investopedia.com/financial-advisor/esg-sri-impact-investing-explaining-difference-clients/

In a few words, with the SRI is therefore attempted to minimize the negative impact, while with the Impact Investing the intention is to create a sustainable positive impact considering also the economic sustainability of the project (O'Donohoe et al., 2010).

1.3 IMPACT INVESTING ECOSYSTEM

After having outlined and made clearer the concept of Impact Investing, a picture of the social impact market framework is needed. According to the Organization for Economic Co-operation and Development (OECD), the main components of the ecosystem are represented in Figure 4 and specifically, they are the Social Impact Investing (SII) demand, SII supply, and SII intermediaries. All the social impact investments start with the social need being addressed and with the enabling environment playing a fundamental role in the SII ecosystem (OECD, 2015).

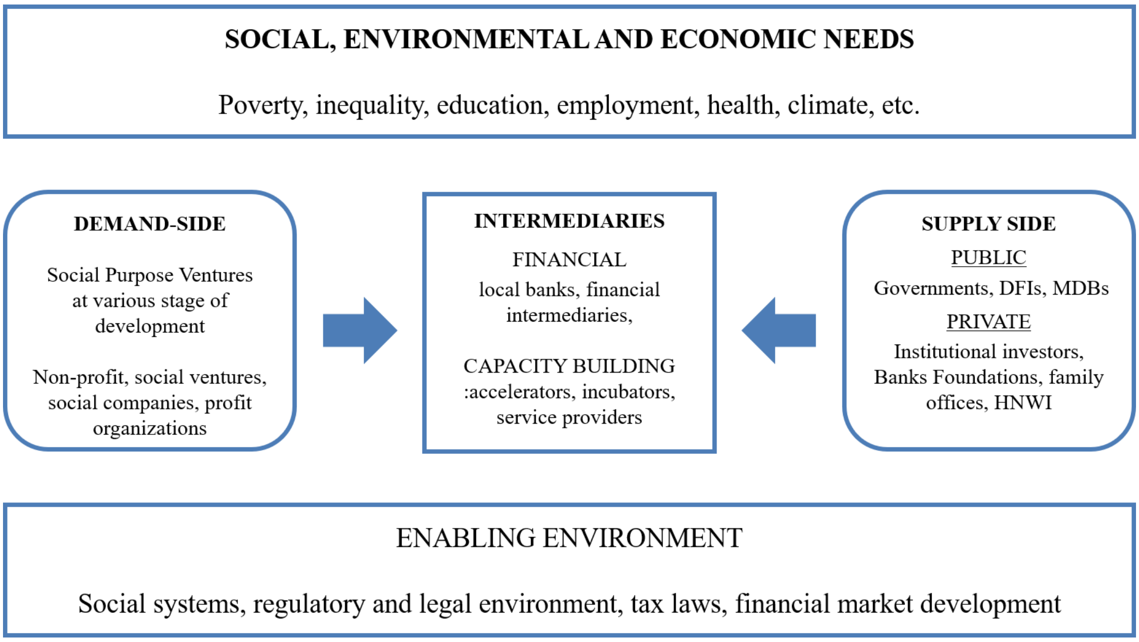

Figure 4: *The "Impact Investing" ecosystem. Source: OECD, (2015)*

The growth of this new market depends on the capacity of all the stakeholders working together to build a strong network, where tools and practices are studied and developed. The stakeholders of the market are represented by investors, investees, intermediaries, and policymakers, all with different interests and motivations (OECD, 2019). Also, governments have a key role in the ecosystem because they have both the power to set conditions for the enabling environment and for acting as a catalyst in the development of the market (Wilson, 2014).

Like any other market, Impact Investing is a combination of Demand (capital request from impact-driven organizations), Supply (providing capital in order to achieve social goals) and Intermediaries (having the role in helping to connect demand and supply and to build a strong ecosystem).

One of the most complete and detailed attempts to provide a systematic outlook of the demand and supply side of the Impact Investing ecosystem, and of the various forms of finance available for this market, is provided by the Social Impact Investing Taskforce (SIITF, 2014).

Figure 5 below provides a schematic overview of the ecosystem with its actors:

- *Impact-seeking purchases*: it is part of the demand side and these provide the sources of revenue to social enterprises. These purchases can include both public and private subjects, such as Government, corporations, foundations, and consumers;
- *Impact-driven organization*: it represents the demand side of all types of organizations with a long-term social mission (whether they are social sector's organizations or impact-oriented businesses with a clear intention of results and with a commitment to measuring their results);
- *Form of finance*: these represent all the principal forms of finance utilized in order to address different investment requirements;
- *Channels of impact capital*: this is part of the supply side and it has the function to connect investors to impact-driven organizations in the situation where the sources of impact capital do not invest directly in social companies, but they need to be channeled to them. These are represented by social banks, impact investment intermediaries, impact investment fund managers, Impact Investing intermediaries and crowdfunding platforms;
- *Sources of Impact Capital*: this represents the supply side and they provide the investment flow needed in order to run the Impact Investing activity. These are

represented by Governments, institutional investors, banks, foundations, high net worth individuals, corporations, etc.

Obviously, in each country, the ecosystem can vary according to the role of the government, the private sector, the social sector and the different policies present in the country in question. Thus, it would be meaningless to consider the Impact Investing ecosystem separated from its specific social and economic context.

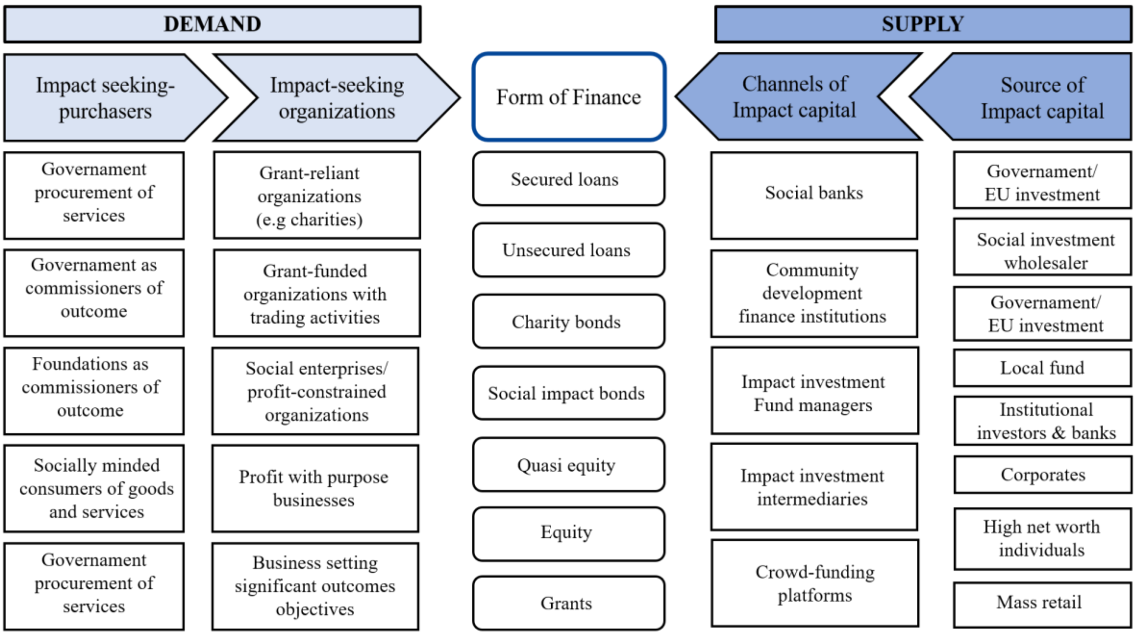

Figure 5: "Impact Investing" Market Structure. Source: SIITF, (2014)

Now, in the following section, it will be analyzed each of the main components of the social impact market framework (Figure 4).

1.3.1 SOCIAL NEEDS

The Impact Investing model/strategy is about addressing environmental, social and economic needs in a more efficient and effective way, and it starts with the request to respond to the increasing and urgent social needs. Therefore, the focus is to create tangible positive changes in various areas of need.

Regarding this, the 2030 Sustainable Development Goals (SDGs) have provided a useful framework for investors who are looking for investing in the social field, showing the most urgent social needs and making people and companies more aware of the social challenges that should be undertaken.

These SDGs were set in 2015 and they are 17 new objectives that aim to decisively improve the living conditions of the entire world population by 2030. Some of the areas of these goals where social investors can have an important role are: access to quality education, reducing the poverty in the world, ensuring an adequate health system, reducing inequalities, the creation of new jobs, contributing to economic growth, energy, and climate change. SDGs framework has opened different doors for impact investors, of course not forgetting that different countries and different local contexts will have different needs, and so the activity that should be done by impact investors might vary. It is also recognized that there are no possibilities to reach the SDGs goals without access to the untapped potential of the world's investment capital (OECD, 2019).

1.3.2 DEMAND - SIDE

The demand side of the Impact Investing ecosystem is represented by organizations requiring capital with the objective of providing goods or offering services in response to social needs (Chiappini, 2017).

Despite the growing interest in social enterprises, we still don't have a well-defined picture of the market. In order to provide a possible image of the demand-side, different attempts to do it will be provided. In addition, it is also important to clarify that the demand-side of this ecosystem is extremely heterogeneous and any attempt to set boundaries regarding their legal forms would be meaningless.

The spectrum of organizations (Figure 6), provided by Margiono, Zolin, & Chang in 2017, is one of the most exhaustive and it represents all the possible organizations that might need impact Capital. These organizations can range from "Social Value Creation" (where the only goal is to reach social impact without any profit generation – Impact Only – Pure Philanthropy), to "Profit Maximization" (represented by traditional companies aiming just to maximize profit – Finance Only – Only Profit).

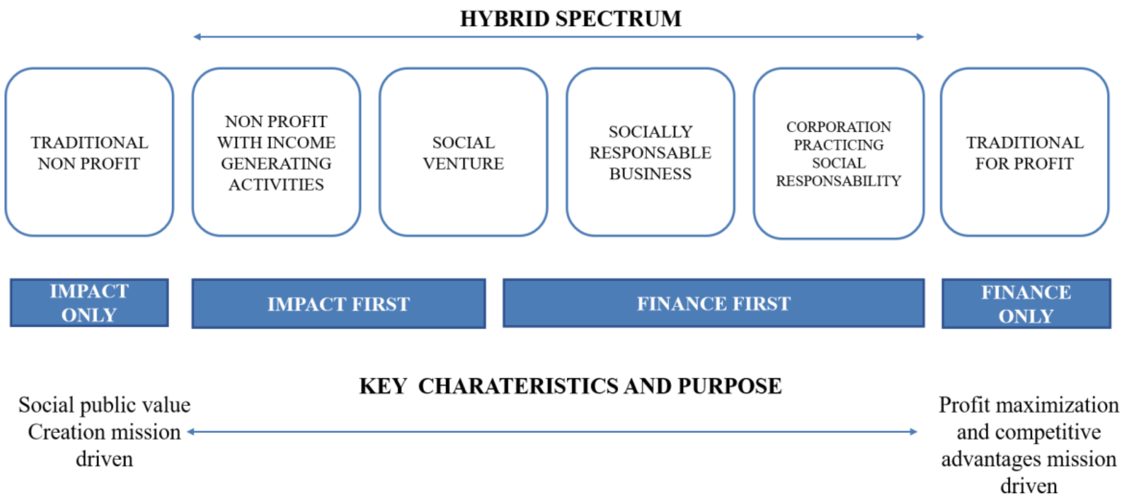

Figure 6: The spectrum of organizations. Source: adapted from Margiono, Zolin, Chang, (2017)

As we can notice from the spectrum above, on the left side we find the traditional no-profit organizations for which the dependency on donations or grant is still vital, even if in the last few years trend for becoming economically sustainable have been starting.
Moving to the right side of the spectrum we enter in the innovative "Hybrid part of the spectrum" of social impact companies, which are considered innovative due to the fact that they are aiming to blend a social goal through economic activities that are able both to repay the capital (economic sustainability) and, in some case, to have also a profit generation (Balandina Jaquier Julia, 2011). Specifically, in this *hybrid* part, the left part is represented by "impact first" companies such as Non-profit with income-generating activities and social ventures, which are companies with the main goal to reach social objectives with a secondary goal of financial returns (Wilson, 2014). These social companies undertake an "impact first" strategies and they represent the category that best fits the Impact Investing market. While, on the right side of the hybrid part, we go through the "finance first" companies such as SRI, ESG and CSR business. They have the priority to maximize first the financial return and after they are also looking for the social and environmental theme (Wilson, 2014). In the last few years, there has been a trend showing that mainstream enterprises are trying to become more sustainable, increasing attention to society and to the environment. This choice to become more "social" has been driven both by the legal rules or by customers' demand (SIITF, 2014).

Focusing specifically on the social ventures' category, which is the most suitable for Impact Investors, NESTA proposed a deep analysis regarding characteristics they should have in order to be considered as such (Shanmugalingam, Graham, Tucker, & Mulgan, 2011):

- *Tackle social problem*: they have to focus on social issues, reaching measurable outcomes instead of only outputs (this concept will be explained later);
- *Being financially sustainable*: they use revenue coming from paying customers, creating a sustainable model that is not only depending on grants;
- *Aim to scale what works*: they are able to grow businesses that are running and able to replicate what they are doing.

The biggest difference between general social enterprises and Social Ventures is the continuous search for innovation. Addressing social issues is certainly the principal goal of social ventures, but innovation is there to boost it. This characteristic differentiates Social Ventures also in terms of capital needed, due to an eventual request of new and more tailored forms of financing.

In the table below proposed by NESTA, we can see that social ventures may have various legal forms and different business models. The light blue square indicates the area in which organizations are often loosely referred to as "social enterprises". Charity with fundraised/grant income and Commercial enterprises are not considered properly as social ventures, because the former is based only on grants and donations and it is not financially sustainable while the latter is not taking care of social problems.

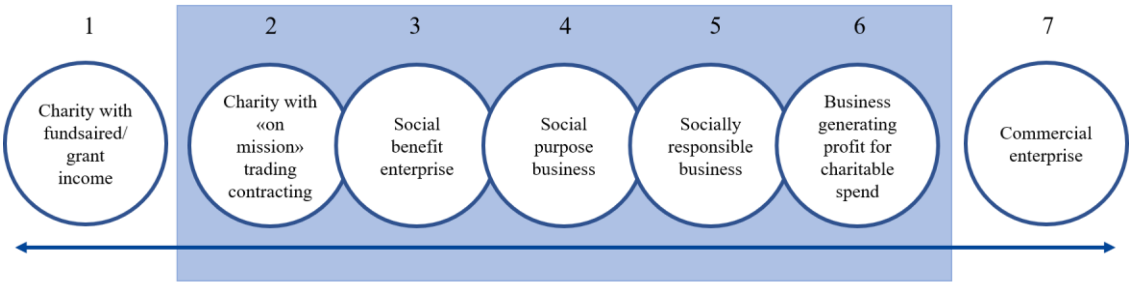

Figure 7: Range of organizational forms for Social Ventures. Source: NESTA, (2011)

Another attempt to define the Impact Investing possible demand-side, which is consistent with the one proposed by Margiono, Zolin, & Chang, has been proposed by OECD, in the last paper in April 2019. The key actors that play a fundamental role in addressing social needs for Impact Investing and that may be in need of impact capital are the *social purpose ventures* and *social service delivery organizations*. These organizations can include community organizations, charities or non-profit organizations (with trading revenue and grant), co-operatives, social enterprises, social "profit-with-purpose" businesses, social impact-driven businesses and private companies. All these actors are also contributing to the creation of the SII market, experimenting with new approaches to address social needs (OECD, 2019). They operate in a wide range of geographies and in different sectors and so they have different financing needs that depend on their business model, on the type of activity and on the stage of development.

Overall, social enterprises need financial resources in all stages of their development in order to start-up, operate and scale-up. However, due to a lack of a deep understanding of these kinds of social organizations in addition to the high-risk associated, it's not easy for social enterprises to get financed. Indeed, investors are often worried about the sustainability of these social companies in the long-run. Same, the bank system shares this fear, considering that social enterprises are not always able to repay back the loan (OCED, 2019). In this contest, the public actor has a key role in informing investors, supporting the development of intermediaries, providing incentives for investing in social enterprises and helping these companies to become "investment ready" for the investors.

Regarding the "investment readiness" of social companies, a really important tendency is underlined by Nicholls and Emerson, who affirm that: "despite a large number of organizations seeking social finance capital, the demand side appears to be the least well-institutionalized aspect of the market". Indeed, a lot of investors are looking for "investable" social companies, but they complain that they cannot find enough good deals, showing an excess of supply and a lack of demand (Nicholls et al., 2015).

Still, this is confirmed also by the Schwab Foundation, which affirms that: “while social investors are arguing that the deal opportunities are very limited, successful entrepreneurs complain about the difficulty of accessing capital” (Ann-Kristin Achleitner & Wolfgang Spiess-Knafl, 2011).

There are three main reasons limiting the ability of the demand-side to access impact capital:

- *Difficult to scale*: most social companies, due to their size and turnover, are not able to absorb a big amount of investment. Also, the transaction costs of such operations are really high. So, there is a need both to aggregate the various investment opportunities and more propensity to understand risks and provide the capital to these companies;
- *A gap in the funding options*: there is a lack of funding opportunity across their life cycle, especially in the middle between early-stage and large-scale debt or equity investment. This lack of social finance in the middle of the development is partly due to a lack of data on the risk and on the performance of these kinds of investments, where the economic sustainability of the model is not certain. In addition, their legal structure may represent a problem, due to the limit of the profit distribution, which has to be only reinvested in social missions;
- *A problem in understanding the right way to get financed and lack of skills*: there is an urgent need for social finance literacy, which would allow the investees to better understand which are the best form of investment for their structure and mission goals. Moreover, there is an urgent need for managerial and financial skills for social companies and social investors, that would allow increasing the attractiveness on the market.

1.3.3 SUPPLY - SIDE

As far as the supply side is concerned, capital providers are increasingly interested in diversifying their investments in order to contribute to having a positive social influence and Impact Investing is a great option for them, because not only it permits to pursue social goals but also allows to have a financial return.

As for the demand-side, also the supply side of the Impact Investing market is not well structured. This part of the ecosystem comprehends all those capital owners allocating their resources to achieve, in different measures, social objectives.

Nicholls, Paton, and Emerson gave a picture of how the supply side can be divided, identifying three main categories of capital owners looking for a “blended return” (social impact as well as financial return) on their capital allocation (Nicholls et al., 2015):

- *Government*: it is represented by public funds, commissioners and taxpayers. Even if the public expenditure is supposed to always target social problems, there is a certain amount that can be used for Impact Investing. For example, the UK government is the pioneer of this mechanism, allocating over 1 billion in Impact Investing (Nicholls, 2010);
- *Institutions*: they are represented by charitable foundations, cooperative and mutual members (such as Bill and Melinda Gates foundations, Rockefeller foundations, Bloomberg foundations, Case foundation, etc). These institutions are strongly committed to developing the Impact Investing model, able to create social initiatives but at the same time not to neglect economic sustainability;
- *Individuals*: they are represented by investors such as individual philanthropy, social investors, commercial investors, retail investors who are aiming to address social issues in a sustainable way.

Another picture of the supply side is provided by OECD, which divided the supply-side into two parts: public and private. The table below offers a list of the major players, with the main characteristics and preference, and what kind of financial products they may provide.

TYPE OF POTENTIAL INVESTORS	SUMMURY AND PREFERENCES	TYPICAL FINANCIAL PRODUCTS	EXAMPLES OF INVESTORS
PUBLIC			
National Governments	Governments focusing on outcome commissioning and public procurement from social enterprises.	Grants, SIBs	UK, CANADA, SWITZERLAND
Development Finance Institutions (DFIs)	National and international DFIs are usually majority owned by national governments and source their capital from national or international development funds or benefit from government guarantees.	Equity, debt, quasi-equity	CDC Group, Overseas Private Investment Corporation, Swiss Investment Fund for Emerging Markets
Multilateral Development Banks	Development banks are local, national, regional or multilateral financial organisations. Their shareholders are generally national governments, but could also include other international or private institutions. These institutions provide long-term capital to develop private sectors and for infrastructure, often accompanied by technical assistance.	Grants, equity, debt, quasi-equity	European Bank for Reconstruction and Development, Inter-American Development Bank, International Finance Corporation, African Development Bank
PRIVATE			
Philanthropic foundations	Invest endowments in projects, social enterprises and in developing countries.	Equity, debt, grants, quasi-equity for seed stage and market building. Typical deal size (direct investment): USD 50 000-1 million	• Bill & Melinda Gates Foundation • Shell Foundation • Omidyar Network
Family offices and high net-worth individuals	Invest own capital or capital of high net-worth individuals across a range of asset classes.	Debt, equity	-
Dedicated early-stage impact funds	Pool own capital with capital of high net-worth individuals, foundations and/or institutional investors into funds to support private impact focused enterprises.	Equity, debt, quasi-equity, inventory finance and grants for relatively early-stage enterprises. Typical deal size: USD 50k-2mil	• Acumen Fund • LGT Philanthropy • Root Capital • Gatsby • Charitable Trust
Commercial banks	Lend to small and large businesses.	Debt	• HSBC • Bank of America
Private equity (impact) funds	Invest institutional capital and own capital into private companies and funds.	Equity investment small and medium-sized enterprises growth stage	• Phatisa • Harith • Ariya

Asset managers	Invest institutional and retail capital across a range of investments.	Debt, equity	• Blackrock • Wellington
Insurance companies	Invest premium payments from policy holders to provide funding for future claims.	Debt, equity	• AXA • Zurich Insurance Group
Investment banks	Invest in and/or arrange large transactions for institutional clients. Tenor restrictions driven by capital charges are a constraint for on-balance sheet investments.	Debt, equity	• Goldman Sachs • JP Morgan • Morgan Stanley
Pension funds	Pension funds are established for purposes of providing benefits on retirement for specific groups of employees. Invest pension payments from policy holders to pay for future retirement benefits.	Equity, debt (often restrictions in some asset classes)	• California Public Employees' Retirement System • Universities Superannuation Scheme • AP4

Figure 8:Potential social impact investors. OECD, (2019)

Among actors, one of the most important ones for the development of the social market has always been foundations. Indeed, as it is written in OECD, "Private foundations have the advantage of being independent from the government and the markets and therefore are in a position to take on greater risk than other private investors and provide long-term "patient" capital. This gives them the freedom to explore and create innovative ways to address social, economic and environmental challenges". Even if there are foundations or donors that have the sole objective of generating social value without expecting any financial return, neither in terms of capital repayment nor in terms of interests, they still represent a key element in attracting real "Impact Investors" because they are often involved in the business strategy of social companies (Spiess-Knafl & Scheck, 2017). Furthermore, in the last years, a lot of foundations are becoming supporters of the new model of Impact Investing and they have started to look at the social issues in a more entrepreneurial way, paying attention to the economic sustainability of the social business. Indeed, an example is the Bill & Melinda Gates Foundation, which is not using the philanthropic model, characterized only by donations, but it is adopting an Impact Investing approach.

Also, Development Financial institutions (DFIs) have played a critical role in the Impact Investing market, by being first loss or "catalytic" funders (GIIN 2013).

As far as the mainstream investors are concerned, such as pension funds, insurance companies, and institutional investors, they have entered this market, but they still tend to focus on investments with almost market-adjusted financial returns due to fiduciary responsibilities (WEF, 2013). At the same time, other subjects such as banks and private equity funds are looking for some areas where they can allocate capital in order to grow businesses in the various social sectors (Wilson, 2014).

Concerning corporates, they are searching to go beyond corporate social responsibility by trying to integrate sustainable growth and a positive impact on their core business strategies.

1.3.4 INTERMEDIARIES

The role of intermediaries in creating the social impact investment market is crucial. Indeed, they represent the link between supply and demand, investors and investees. More in general, they might help in bringing the private investors' capitals toward the social impact sector, contributing to the development of the Impact Investing market.

Intermediaries also have a key role in improving the efficiency of the market such as (World Economic Forum, 2013; Shanmugalingam et al, 2011):

- *Lowering the transaction costs*: minimizing information costs, enabling lower transaction costs and providing infrastructure for buying and selling;
- *Reducing risks in the market*: bearing risk on behalf of investors, transforming risk by risk-spreading and pooling and allocating assets effectively;
- *Creating liquidity*: maintaining a constant flow of capital in the economy and matching needs of issuers and investors in terms of maturity and risk;
- *Provide payment mechanism*: facilitating payment, facilitating settlement of exchange and facilitating the easy exchange of assets;
- *Offering a consulting service in structuring deal and in managing funds;*
- *Providing market access and distribution (match-making);*
- *Providing investment monitoring and performance information to investors;*
- *Providing support for innovation and start-ups.*

Looking at the intermediary side, we can divide them into two types:

- *Financial intermediaries*: banks, fund managers, wholesale investment banks, stock exchanges, crowdfunding platforms, and social stock exchange;
- *Capacity-building organizations*: incubators and accelerators, networking platform and advisory firm.

"The lack of efficient intermediation in the Impact Investing market translates into higher transaction costs caused by fragmented demand and supply as well as complex deal structuring" (Freireich, J; Fulton, 2009). So, we understand that the creation of new intermediaries, which are able to manage these new types of social investments as well as the development of the existing one, it is essential both to create a solid Impact Investing ecosystem and to enable deals flow and for attracting new investors.

The World Economic Forum identified the most dynamic fields where intermediaries must focus the most (World Economic Forum, 2013):

- *Aggregating data and publish the findings*: intermediaries are best positioned to provide some information that the impact investors need, such as a library of best practice, shareholders agreements, and term sheets. Indeed, they are best suited to create a database with all the aggregate data. They also are able to record impact deals and giving a picture of the financial return realized. This would allow the investors to have a clearer view of the market and also to reduce the due diligence costs;
- *Aligning capital and deal flow with a standardize platform*: there is a classification need concerning social deals. Indeed, they should be classified based on factors such as risk, performance, expected social and financial return, in order to help the investors in choosing the best deal aligned with their preferences;
- *Construction of a measurement framework*: there is an urgent need of building a measurement framework that would allow the various stakeholders to communicate more effectively, to compare investments and to evaluate social performance. Intermediaries have a key role in creating and developing common accepted standard and metrics of measurement (e.g. IRIS or GIIRS), or at least

in setting baseline principles on how social metrics are measured and reported as well as defining how to use specific measures in a similar way (e.g. Theory of change).

1.3.5 ENABLING ENVIRONMENT

The general framework conditions in a country have a substantial impact on the progress of the financial market in general, particularly in the Impact Investing market, which is coping with social issues. In fact, The SII market is developing in different ways across countries. This is due to their different contexts, different economic policies, and different legal frameworks. Important is also how the social and financial system is structured in countries, which determine the role of public and private actors Also, a key element for the growth and the development of the Impact Investing market is represented by the presence of an entrepreneurial financial market in the countries (OECD, 2015).

In developed countries, the SII market has grown based on the venture capital model and nowadays, the number of local investors looking for social challenges is constantly increasing. Instead, regarding developing countries, the majority of investors are international, with development financial institutions playing a key role.

Looking at the enabling environment of Impact Investing, it is influenced mostly by three spheres (Varga, Hayday, E. a., & Malcolm, 2016):

- *Regulation and policies*: laws and regulations governing social companies. In some countries, a special legal form for social enterprises has been introduced, either for-profit and no-profit social companies, while in others there may be a subsidy or a tax incentive for certain forms of social enterprises;
- *Culture*: countries with strong philanthropic traditions allow social companies to get funds and partners more easily;
- *Market*: the way in which social and financial systems are structured, the role of the actors and the collaboration between the public and private sectors influence the social impact market and its development.

In the social context, characterized both by the need to face urgent social challenges and by the crisis of the Welfare State model, the public sector has been experiencing a strong transformation, increasingly leaving the role of the service provider and progressively assuming the role of policymaker (Dente, 2013). Indeed, having the power to make laws, governments can encourage the creation of a policy environment that favors the development of a socio-economic context, which in turn can help the development of the Impact Investing industry. Moreover, policymakers have identified in the new paradigm of Impact Investing the possibility of using private capital as resources to respond to social needs (Nicholls et al., 2015).

According to Clark, the Impact Investing market can be affected in three ways by the countries policies (Clark, Emerson &Thornley, 2013):

- *Policies for Demand*: these policies are addressed to the demand side of the Impact Investing ecosystem and have the aim of increasing the *readiness* of social enterprises in absorbing impact capital. An example of these policies is represented by the recent Third Sector reform in Italy, which has the goal to create favorable conditions for social companies (specifically, the new "Impresa Sociale"). This will be further analyzed in the third chapter;
- *Policies for Supply*: these are policies made in order to facilitate the collaboration between the private and public sectors. These policies work toward creating a mechanism in which the private investors provide the capital, but the risk is shared with the government;
- *Directing impact capital*: these policies have a regulatory role because they regulate the mechanism of the market. They can have an important impact on the perceived risk and return of impact investments;

In the Europe contest, a valuable initiative that has contributed to boosting the Impact Investing market is represented by the European Investment Fund (EIF), one of the most important suppliers of capital for small and medium enterprises. The EIF is based on a network of partners, such as the European Investment Bank, European Commission, Member states, various public administration, commercial banks, microfinance institutions, funds, etc.

Traditionally, EIF has worked toward the initiative of supporting the Microcredit activity around Europe, and recently it has been committed in the development of the Impact Investing market and the social enterprise sectors. In order to do so, the EIF has undertaken two main strategies:

- *Social impact accelerators*: it has the aim of offering capacity-building support to social companies;
- *European Program for Employment and Social Innovation (EsSI):* it has the aim of facilitating the granting of credit to companies with a clear social purpose (Impact Investing). Regarding this, the EaSI program is one of the most successful initiatives, because it works toward overcoming the lack of creditworthiness of social enterprises by covering part of the risk of default and allowing commercial banks to lower their risk exposure while fining these type of companies (EASI will also be mentioned in the last chapter when we talk about UniCredit and its impact banking offer).

1.4 FINANCIAL INSTRUMENTS FOR THE IMPACT INVESTING MARKET

After analyzing the concept of Impact Investing and its ecosystem an overview of the existing financial instruments available for the Impact Investing market is indispensable.

Even if grants, charitable donations, and public subsidies represent still a vital source of funding for social companies, the development of the new Impact Investing model has raised the need for social companies to have access to more traditional financial instruments. Indeed, Impact investment cover the whole panel of instrument adopted by traditional finance, both for debt and equity side.

If on the demand side, there is an urgent need for diversity among financial instruments, on the supply side, emerging social impact innovations are offering the opportunity to allocate capital in an innovative way to create social impact. Moreover, some investors are willing to experiment with new funding approaches either by combining existing forms or by developing new ones.

Regarding the financial instruments available for the Impact Investing market, they are based mostly on traditional financial instruments eventually adapted to address the social enterprise funding needs. Also, the variety of instruments includes some innovative solutions developed ad hoc for the Impact Investing market (such as the social impact bond). Different financial instruments have different implications for the investee company because they present different levels of risk and different return expectations (Julia Balandina Jaquier, 2011).

One of the most comprehensible classifications of financial tool available for the Impact Investing market has been provided by Achleitner, Spiess-Knafl, and Volk (Figure 9):

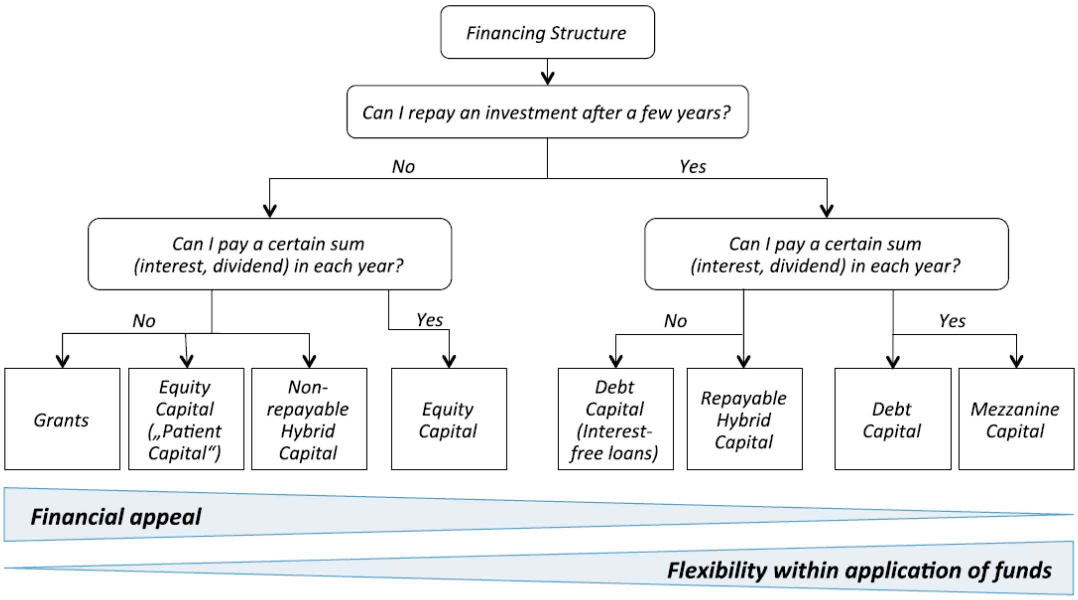

Figure 9: Classification of available financial instruments. Source: Achleitner, Spiess-Knafl & Volk (2011)

As in traditional finance, the choice of a financial instrument comes from the preference of the investors. In order to select the right one, the Impact investors have to look at its characteristics and at the social company's need: future cash flow, the riskiness of the business, its structure and the exit strategy (Nicholls et al., 2015). Basically, we can say that the social investment process is similar to the process that a traditional investor does. The only difference is that social impact investors have a step more: they look into the social value creation and its measurement.

Impact investors supply may provide equity, mezzanine capital, debt or hybrid capital. In addition to this traditional form of instruments, also grants are considered a kind of instrument, even if it is not intended to be a proper Impact Investing financial tool.

In the social investment manual Achleitner, Spiess-Knafl & Volk has provided also a spectrum in which there is a comparison of all the main financial instruments that may be utilized in the Impact Investing market, providing also the implications they may have in the social companies. Not all the instruments are intended to be investments in the strict sense (such as grant), but they are analyzed anyway because they represent a source of capital for the companies working in the social Impact Investing.

Financing Instrument	Term Sheet		Implications for Social Enterprise
Grants	Duration: Annual payments: Repayment:	Short term None None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) Interest payments (variable) Yes	- Annual interest payments require low risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity Capital	Duration: Annual payments: Repayment:	Unlimited Dividend payments (variable) No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) Interest payments (variable) Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) None Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Figure 10: Comparison of Financial Instruments. Source: The Schwab Foundation and Technische Universitat Munchen, (2011)

In the following section, an overview of the principal instrument present in figure 10 and of the innovative ones will be given.

1.4.2 GRANT

Grant is a traditional form of financing used in the social sector by individuals and foundations and it continues to be an important source of capital for social enterprises (WEF, 2013). The advantage of this instrument is that you don’t have to give the capital back to the investors (non-repayable), and so it is mostly used to finance the start-up phase of social companies, which wouldn’t be able to access to conventional bank funding. Thus, grants are better identified as a “charitable donation”, where the social impact goal of the investor substitutes completely the profit return. In reality, even if it is not considered as a proper “impact investment” instrument, due to the fact that it doesn’t expect the return of the principal, it is a critical element for the Impact Investing strategy because it helps to reduce the perceived risk on the counterpart. So, according to Nicholls et al, grants work as a warranty for the Impact Investing market, increasing the attractiveness of social companies among investors, that would otherwise avoid a too risky investment (Nicholls et al., 2015).

In recent years, due to the fact that investors are further looking for the sustainability of the social business (Impact Investing), the effectiveness and the efficiency of grants has been questioned (Nicholls et al., 2015). Indeed, investors are looking for social investments that are economically sustainable and able to generate revenue, moving from a short-run vision (grant funding) to a more long-run vision (more structured finance); Furthermore, social investors are increasingly adopting a “venture” approach, providing them financial and nonfinancial support in order to reach a solid positive social impact as well as its financial sustainability. This approach utilizes all capital spectrum of financing instruments (debt, equity, mezzanine, grants, etc.) and not only grants (EVPA, 2011).

Still, grants present also some adverse aspects, such as the high cost of raising funding for non-profit organizations (cost up to 30% of funds raised), difficulties to make a program or a business plan and lack of flexibility (Achleitner, Spiess-Knafl, 2011). In addition, because of the financial crisis in 2008, that reduced the governments’ funds available for donations, and because of the reduction of the foundation’s assets, accessing grants has become more difficult.

1.4.2 DEBT CAPITAL

A debt instrument, in all its various forms, is the most common type of investment used. The investor of capital expects that the company repays back the principal plus an annual payment of interests (all the conditions are pre-agreed in the contract). it is generally used for a long-term investment, even if sometimes it has a short-term nature too. In Impact Investing, the most suitable for using debt capital is represented by social companies in the phase of growing and developing their business.

There are five principal debt options for Impact Investing companies in need of capital (Nicholls et al., 2015):

- *Commercial loans from banks at market rate*
- *Commercial and semi-commercial loans from Governments and social investors*
- *Mortgage finance*
- *Personal credit cards*
- *Personal bank overdraft*

Since capital providers receive an annual interest payment, they demand predictable cash flows and guarantees. Thus, debt instruments best suit social companies that are more structured and able to give proof of a sustainable business model.

Even if for the natures of social companies is not easy to access to the debt market, it presents several advantages such as:

- Debt is faster to obtain than grant (if eligible);
- The debt contract is flexible (short-term, medium-term, long-term) and it can be renegotiated at any time;
- It offers more autonomy for borrowers;
- It requires less reporting requirements;
- Debt is useful in order to grow and scale.

Historically, social investors have always charged interests on an affordability basis rather than pricing the loan on perceived risk. For example, *semi-commercial loans* offer a longer repayment period or give the possibility to stop the repayment of interest

– and sometimes also of principal – for an agreed period, in order to give more time to the social company to cover their financial need (Joy et al., 2011).

Recently, also credit institutions are becoming more aware of the social companies' difficulty in being eligible for loans. Indeed, they are creating debt products tailored or social enterprises, which are more inclusive in terms of risk profile and less strict concerning the commercial conditions and the creditworthiness.

1.4.3 EQUITY CAPITAL

Equity instrument in Impact Investing is similar to equity investment in traditional companies. Impact Investors provide capital to the social companies, becoming owners of a part of the shares of the company. Equity capital represents the greatest risk for investors. Indeed, they will not receive any kind of annual payment, but they will get paid only when the social enterprise enters the profit phase and after that, all the debt capital has already been reimbursed. The equity instrument gives the possibility to investors to have a certain type of control and voting rights on the company investee, depending on the legal form of the companies (WEF, 2013).

The main difference between equity in traditional enterprises and in social enterprises is on the governance arrangements. Indeed, it may be restricted the freedom of investors on the board in order to protect the social mission of the company (Nicholls et al., 2015). But, even if some mechanisms to protect the social mission are utilized, when social enterprises decide to issue public equity, they should be aware that they are going to renounce to a part of the company ownership with a consequent loss of control. Thus, this can make the social enterprises to be reluctant to use this instrument because it is unattractive for the risk of mission drift.

Another difference between social and traditional equity lies in the legal constraints concerning the distribution of the profit that social companies might present. In order to overtake this limitation, investors provide capital without any dividend expectation defined at priori, but the returns for investors are generated by the sale of the shares of the social company (Spiess-Knafl & Scheck, 2017).

In the equity capital we can divide two main types of investors (Danish technological institute, 2016):

- *Social angel investors*: individuals who invest in promising social companies in exchange for a part of equity, with consequent decision-making power and focusing on social return. They provide also non-financial support in order to grow and develop the social companies in question, giving access to the network and building a successful strategy;
- *Social impact investors*: they either finance social or for-profit companies that have social impact potential as well as a financial return possibility.

1.4.4 MEZZANINE CAPITAL

Mezzanine capital is a sub-group of quasi-equity capital, which is technically a form of debt (loan), having at the same time some equity features, with a consequence of having the financial return linked to the company performance[5]. So, the mezzanine is presented as a combination of debt and equity capital and it is a useful financial alternative for social enterprises in case pure debt or pure equity is not applicable (WEF, 2013). The financial return of the investor is linked to the profit of the company, while the repayment of the principal takes place after a certain time period or it can be converted into equity capital in case the loan is not paid back (GIZ, 2014).

Being a fusion of debt and equity, also the advantages are combined: it is a flexible instrument as equity is, but at the same time it lowers the high risk with the payment of a return to the investors. Thus, this instrument presents advantages both for investors, who will have an equity-like return, and for investees since it allows them to keep the control of the ownership of the company (Nicholls et al., 2015).

[5] https://ww.attractcapital.com/what-is-quasi-equity-and-how-is-it-different-from-other-forms-of-capital.html

1.4.5 HYBRID CAPITAL

Hybrid capital contains elements of equity, debt, and grants. There are four main types of hybrid capital that have been identified by the social investment manual (Achleitner, Spiess-Knafl, 2011):

- *Recoverable grants*: it is technically a loan that must be paid back only if the project reaches a certain predefined goal otherwise it is converted into a grant. This instrument is useful for social enterprises that are able to pay back the loan only if there is the success of the project;
- *Forgivable grants*: it is the opposite of recoverable grants because it is a loan that in case of success is converted into grants.
- *Convertible grants*: the social investors decide to invest in a project, where, in the case of success, the grant is converted into equity;
- *Revenue share agreement/royalty financing*: the social investor finances a specific project and receives a pre-defined percentage of the future profit. The advantage for the social company is that it doesn't share the control of the company with the investors but the cons are high-interest rates.

1.4.6 INNOVATIVE IMPACT INVESTING FINANCIAL INSTRUMENTS

Until now we have analyzed the traditional financial instruments that are available also for the Impact Investing market. However, there are other innovative financial tools that can be exploited by Impact Investing and which are described below.

Social Impact Bond

The Social Impact Bond is probably the most important innovative tool for the Impact Investing market. It is not properly a financial instrument itself rather it is considered an approach/mechanism that can be applied with different financial instruments and capital approaches. It has been thought for the Impact Investing market and it is based on the idea of financing interventions that aim to solve a social issue through the use of private capital, making explicit in a contractual agreement the collaborative relationship

between public subjects and private subjects. Even if it is called Bond, it is not a bond in the strict sense. Indeed, the financial model and the cash flow generated are not attributable to those of a standard one (which would have a fix remuneration and a certain reimbursement of the principal).
The functioning of a social impact bond is based on the Pay by Result model (or Pay For Success), in which the remuneration of the investment to the investor is linked to the results of the activity financed in terms of value created for the society (Davide dal Maso – Assoprevidenza and Itinerari Previdenziali, 2016). The yield of the SIB is variable as the price of equity, which varies based on the performance achieved by the social company. So, if greater improvement in the social outcome is obtained, the government will pay more and the return of the investors will be higher. Effectively, the SIB acts as a social future contract rather than a debt instrument (Nicholls et al., 2015).
So, The SIB is a sophisticated financial instrument, like derivatives; unlike those normally circulating in financial markets, however, it is not created to encourage speculation, but to promote social innovation and make it more scalable. The complexity of the tool, in this case, is not linked to complex algorithms that make the success or failure of investment very difficult to predict; what makes the SIB complex is the network of relationships between the actors taking part in the process. SIBs require innovative collaboration among government, service providers and investors.

The SIB structure aligns all the stakeholders that compose the SIB mechanism around agreed and measurable social outcome as follows (Nicholls et al., 2015):

- *Government commissioners*: the SIB mechanism guarantees that the disbursement of money is done by the government only if the outcome objectives present in the contract are reached. The public sector transfers the risk of failure in reaching the social outcome to investors;
- *Investors*: SIB offers an opportunity to generate a social and financial blended value to foundations, commercial and institutional investors, high-net-worth individuals and retail investors. They provide the capital needed to sustain the initial start-up costs of the program;
- *Social Service Providers*: SIBs offer extra investment for service delivery. Service providers are represented by non-profit organizations, social enterprises,

B-corps: they mainly deal with offering the services outlined by the program to the identified beneficiaries and with SIB mechanism they are encouraged to innovate in order to improve outcomes for their target population;

- *Intermediaries*: SIBs create a new possible market for intermediaries. They represent the key figure in the structuring of the SIB since it plays the role of procuring funds among investors. In addition, they can perform due diligence, negotiate the deal, create a special purpose vehicle, raise capital and measuring performance;
- *Service users (population in need)*: they are represented by the target population to which the initiative's social services are addressed. They benefit from the improved outcome created by the service providers. The government pays only if pre-agreed outcome improvement is achieved for this group of users.

The SBIs mechanism starts with the government that has to solve a social problem. At the same time, there is an Impact Investor that is willing to undertake this social challenge and it commissions an intermediary to deploy capital to social companies.
The intermediary has the task to raise funds from private investors and after to select the best social enterprise/social service providers to which confer the capital of investors in order to reach the pre-agreed social goal, delivering a service to the population in need. After the delivery of the service, there is the measurement process in which the social outcome created will be assessed by an external and independent assessor. Once, and only if, the social outcome has been reached, there will be reimbursement to the intermediary by the government. In the last part of the mechanism, the intermediary will repay the investors with the money received by the government (OECD, 2016).

In the figure below provided by OECD, we can see in brief how SBI mechanism works:

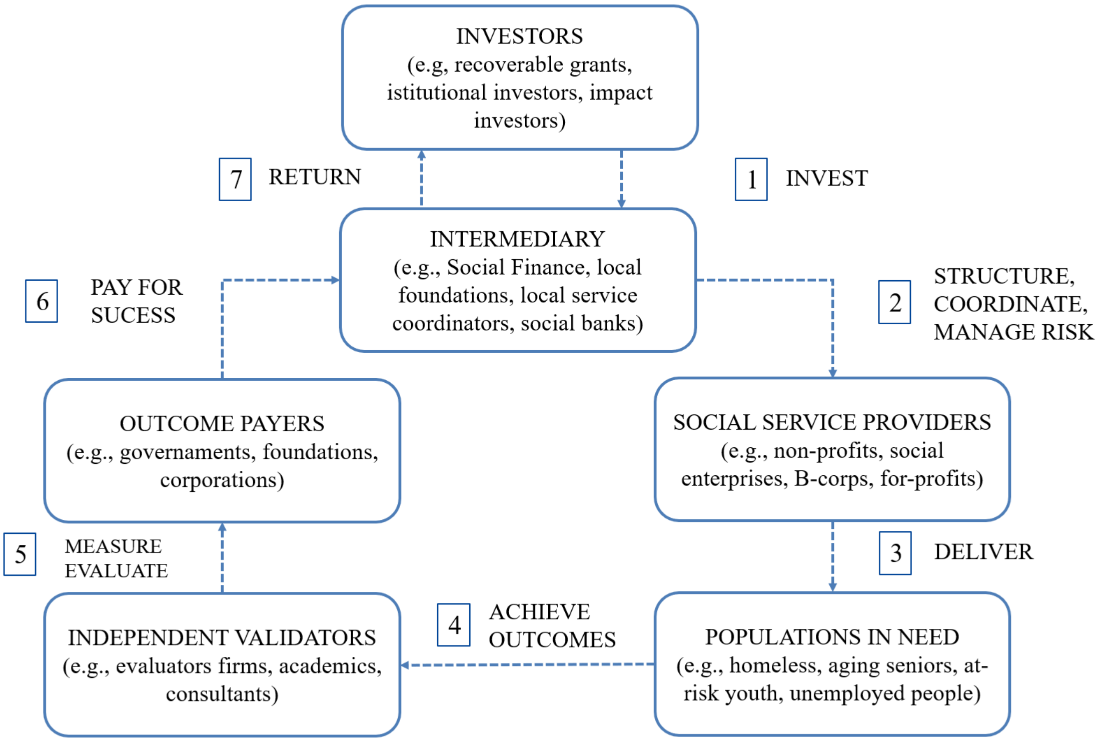

Figure 11: Social Impact Bond mechanism. Source: OECD, (2016)

Each social impact bond is structured around at least one social outcome pre-defined in a certain area, such as education, employment, health services, etc. The effective functioning of SIB is based on social impact metrics that measure the relevant changes in the life of beneficiaries. So, unlike the conventional public sector model, the measurement of the outcome results essential, due to the fact that the payment of the government occurs only if the social outcome goal is reached.

The idea behind the SIBs is that the government, through social programs created and managed by social organizations, can save money and achieve more satisfactory results than those it would have by acting independently. This is due to two main reasons: (Fondazione Sodalitas, 2015):

- Firstly, public entities do not always have the facilities, personnel, and knowledge necessary to intervene in contexts characterized by strong social problems. Therefore, by relying on organizations that already carry out activities in these areas, the government can benefit from know-how that it cannot be directly equipped and thus managing to respond to urgent social needs;

- Secondly, the payment of the debt that the PA has contracted with investors through the SIBs, is linked to the level of success achieved by the project to which they refer. Indeed, the repayment of the debt occurs only if the standards established at the time the SIBs were issued have been reached. The government, therefore, spends money only in case of success of the project: its only burden is to immobilize, for the periods corresponding to the duration of the project, the sums to eventually repay the SIB.

However, the social impact bond presents also some critical elements, such as (Fondazione Sodalitas, 2015):

- The relationship between the stakeholders taking part in the process, where there is a need for a specific contract in which all the responsibilities and the financial terms are defined;
- The need for a third-party independent assessor, who is responsible for measuring and certifying the performance obtained. The topic of measurement is critical for the Impact Investing market because it is difficult to reach a common standardized model (this critical issue will be analyzed deeply in the next chapter).

Finally, as affirmed by Davide dal Maso, the SIB continues to remain a tool to look at with interest for its ability to guarantee support for innovation in the mobilization of new actors, especially within the financial community. In addition, another important contribution that the logic of the SIB can provide is undoubtedly in improving the systems for measuring the performance of social operators and therefore in the affirmation of a culture of accountability on the one hand, and on the other hand, in the drive towards more effective formulas in the supply process by foundations and other donors, through the activation of a lever mechanism (Assoprevidenza and Itinerari Previdenziali, 2016).

Mini Bond

“Mini-bonds are debt securities, specifically bonds, which can be issued by an unlisted company, whose main objective is to collect new financial resources, realizing a diversification of its sources of financing with consequent mitigation of the risks connected to the strong dependence on banking channels" (Fondazione Sodalitas, 2015). They are therefore financial instruments for the SME market. We talk about it here because new financing possibilities are opening up also for Impact Investment social enterprises and cooperatives that can benefit from this type of way of getting financed.

Confirming this is also the commercial law lawyer Roberto Randazzo, professor of the Tiresia Research Group of the Politecnico di Milano, who says that "minibonds are involuntarily suitable for the social market".

Crowdfunding

Crowdfunding can be a new possibility for social companies in the Impact Investing market. In the crowdfunding mechanism, a group of people (crowd) confer an amount of money (funding), with the aim to finance an entrepreneurial project or various initiatives, through online platforms. So, social companies/ventures can present their social impact project to Impact Investors, in order to collect funds for their activity.

Crowdfunding platforms have different characteristics. It is possible to classify them into four categories:

- *Reward-based:* the individuals who decide to contribute to financing the initiative, they receive a non-cash reward. This reward varies based on the investment made and based on the project supported;
- *Donation-based:* this platform allows to make donations to sustain a project or initiatives, without receiving any reward;
- *Lending-based / Social lending:* in this platform borrowers and lenders can interact directly with each other, without the need for intermediaries. Conditions are generally more favorable for both: lower rates for those who get the loan and higher interest rates for those who lend money;
- *Equity-based:* it gives the possibility to an investor to purchase shares of a company, where the return is represented by property and administrative rights deriving from participation in the company.

1.5 IMPACT INVESTING MARKET SIZE

Since 2007, when the term was created, the Impact Investment market has grown exponentially and all investors, during these years, have always relied on proxies. However, having an accurate estimation of the market size is essential for three main reasons:

- Understanding and assessing the future dimension market size;
- Forecasting the impact capital needed by the market;
- Compare the social Impact Investing market to itself over time in order to attract new investors.

The Global Impact Network (GIIN), in April 2019 provided an attempt at analyzing the current supply of capital allocated to Impact Investing in order to give a picture of the current size of this particular market. This represents the most valuable estimation of the current market size of the Impact Investing in terms of actors, financial returns, areas of investments, etc.

Based on the analysis of 1340 impact investors around the world, the overall Impact Investing industry AUM (asset under management) is estimated at USD 502 Billion at the end of 2018. “While aggregate AUM is estimated at USD 502 billion, individual investor portfolios vary widely in size. Whereas the median investor AUM is USD 29 million, the average is USD 452 million, indicating that while most organizations are relatively small, several investors manage very large Impact Investing portfolios (Figure 12)” (GIIN, 2019).

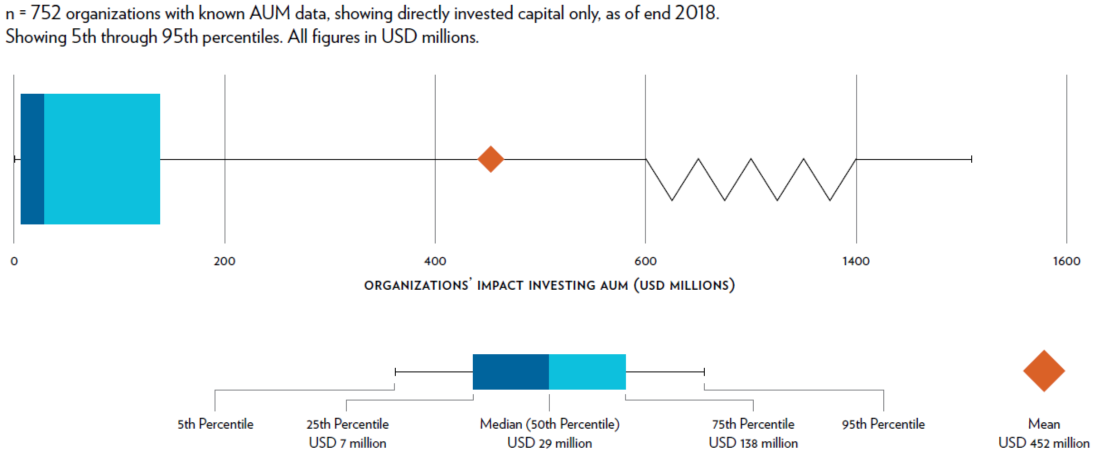

Figure 12: Distribution of organizations' Impact Investing AUM. Source: GIIN - Sizing the market, (2019)

Looking at figure 13, the asset under management estimated are managed for about 51% by asset managers, underlining that many impact investors prefer to channel their capital to specialized managers, who are investing in private equity, venture capital, fixed income, public equity, and real assets. About 27% of AUM is accounted for by DFIs while all the other 22% is represented by banks, insurance companies, foundations, pension funds, and family offices.

The AUM represented in Figure 13 is USD 418 billion instead of 502 billion, because the research team decided to exclude large outliers in order to get a more realistic estimation.

n = 1,340; figures represent direct investments only, as of the end of 2018.

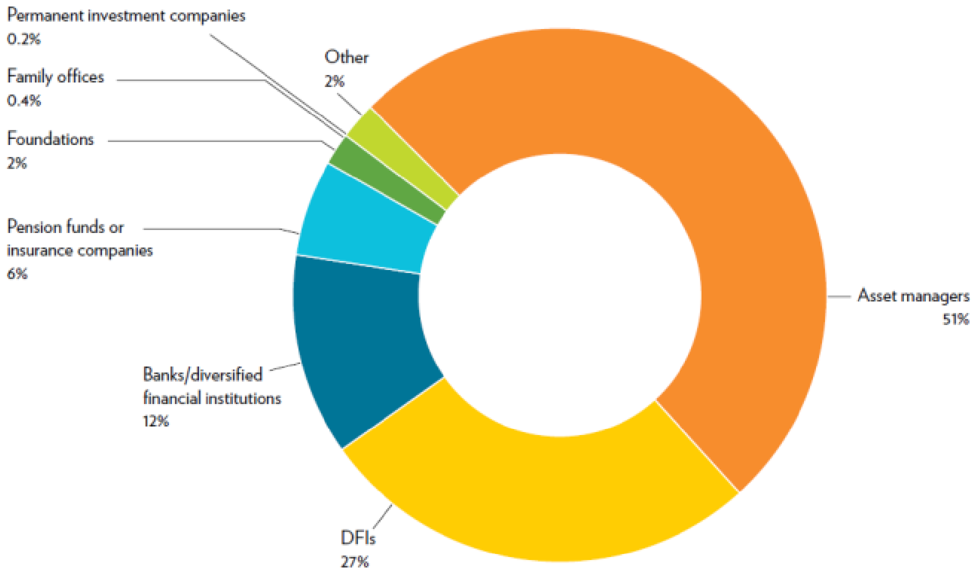

Figure 13: AUM by organization type. Source: GIIN - Sizing the market, (2019)

In 2008 the Monitor institute stated that the Impact Investing market could have grown to 500 billion within five to ten years, while in the 2010 Rockefeller Foundation and J.P. Morgan forecasted the industry’s invested capital would have been in the range of 400 billion to 1 trillion. As we have just seen in the analysis of GIIN, the various forecasts were not wrong, because $ 502 billion has been reached at the end of 2018. In the graph below, we can see an estimation of how the Impact Investing market has increased quickly over time (data of GIIN). Indeed, we can notice that from 10 billion in 2014, the investment in impact investment has risen significantly reaching an amount of $ 502 at the end of 2018.

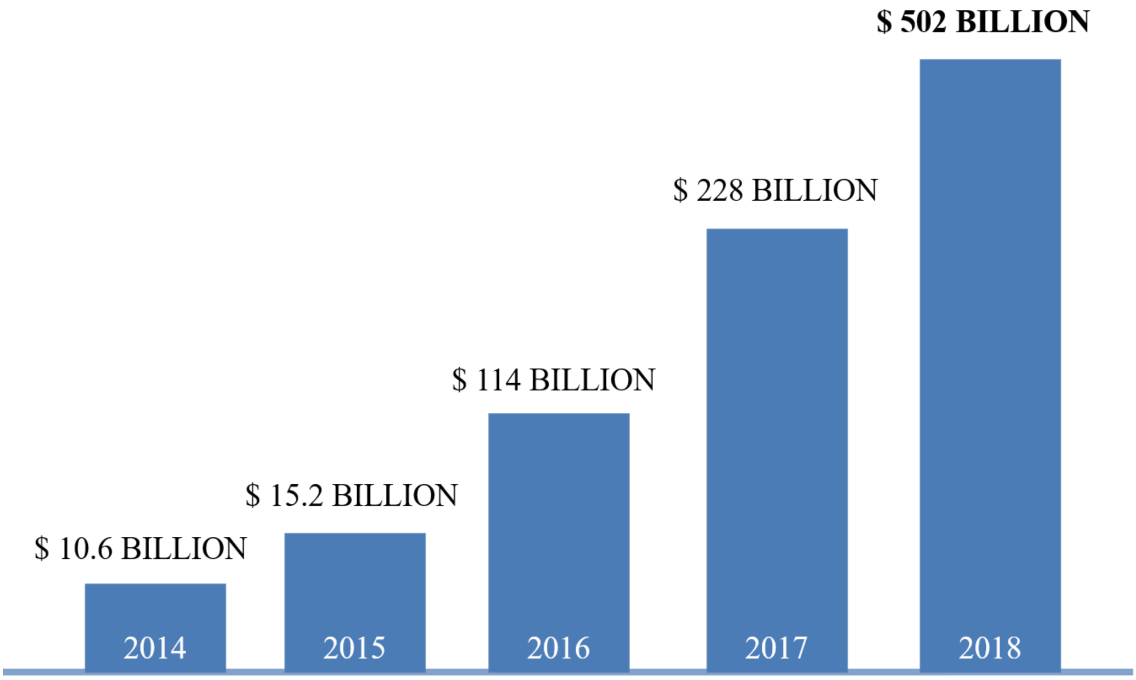

Figure 14: The growth of the Impact Investing market. Source: GIIN reports

Nowadays, it is very difficult to have a reliable estimation of the Impact Investing market, and this is mainly due to both the fast-evolving nature of this industry and the lack of homogenous definition of the Impact Investing practice.

Although the result that emerged from the GIIN report is certainly positive since it represents an important sign of the growth of the Impact Investing market, we need to be cautious in analyzing it. Indeed, GIIN's analysis is basically a survey that asks investors to define themselves as Impact Investors, but we don't know which type of investors they really are. According to Luciano Balbo, president of the Impact Investing fund “Oltre venture”, he stated that “if we look deeply into the research, we can see that it adds up a little bit of everything, such as investments in equity and debt. However, it is really difficult, and sometimes inappropriate, put together different things. So, it can be said that the result of 502 billion is very positive because it attests a strong interest in the Impact Investing market, but in reality, the real market made by investors who are dedicated to developing new activities that address social needs is much smaller”.

2. SOCIAL IMPACT MEASUREMENT

2.1 OVERVIEW

"[…] when companies do not understand and do not verify the results created by the close interdependence between business results with social results, they lose important opportunities for innovation, growth and creating impact regarding social sustainability"

Porter and Kramer, 2007

In the first chapter, we provided a detailed overview of the new Impact Investing trend, outlining its characteristics, its ecosystem and the financial instruments available for the new model.

As we have seen, Impact Investing is a type of investment whose main purpose is to create an intentional positive social impact as well as a financial return. Its innovation lies mainly in three fundamental and essential elements: the ex-ante intentionality of creating a positive social impact, a sustainable economic model in which the achievement of a social objective does not exclude a financial return and the measurability of the social impact generated.

With the constant growth of the "impact investment", it has been stressed several times how important is to measure the impact generated both from a social and financial point of view. Indeed, as in the conventional businesses traditional investors need transparency and security regarding the quality of the investment in question, also in social business is necessary to be able to quantify the generated impact, in order to understand the effectiveness and therefore the goodness of each investment.

International literature continues to emphasize that measurement practices are very complex and costly to put into practice. However, the lack of standardized systems represents one of the main limits in the spread of the Impact Investing model, limiting its attractiveness for various investors (Nicholls et al., 2015). Furthermore, this lack of homogeneity in measurement system brings with it not only the risk of losing the measure of the real impact created but also, without rigor and standardization, there is the risk that the label "Impact Investing" is used as a marketing tool rather than a way to contribute to creating real social change (So & Staskevicius, 2015).

What emerges from the final reports of SIITF (2014) is that the measurement of the impact created is still in its initial development phase and that there is difficulty in finding and spreading a common standard. Furthermore, according to the KPMG's report on current measurement approaches regarding Impact Investing, the measurement and the reporting of the outcomes and the impact achieved is still very weak: in fact, only 1/3 of organizations discuss generally about measurement topic and only 1/5 tries to measure some outcomes (KPMG's 2014).

In this second chapter, firstly we will focus on impact measurement, trying to define the concept of “Social Impact” and highlighting for whom and why its measurement is so important. Secondly, we will have a look at what are the main methodologies used by investors and social investees to measure the impact created.

2.2 WHAT IS “SOCIAL IMPACT”?

The notion of “social impact” is central in Impact Investing. In fact, the birth of Impact Investing and the creation of the first social impact financial instruments (such as social impact bonds) have highlighted the need to obtain an “impact” that can be measured reliably and transparently. But, the question is: what really means “social impact”?

Being a very broad concept and applicable to several practical and study fields, there is no single definition of “social impact” shared by all. In order to provide a general picture of the concept, a series of definitions coming from scholars and sector experts will be reported:

- “The social impact is the portion of the total outcome that occurred as a direct result of the intervention, after deducing the part of outcome that would have taken place even without the intervention” (Clark et al, 2004);
- “The social impact is the ability of an organization to contribute to a change in a given field of action by changing the status quo of a person or a community that represent the beneficiaries of the social activity” (Perrini e Vurro, 2013);

- “The concept of social impact is defined as the non-economic change created by the organizations’ activities and by investments” (Epstein & Yuthas 2014);
- “The social impact is defined as the long-term sustainable change in the environment or in the people’s living conditions that the intervention has partially contributed to achieving” (Zamagni, 2015);
- “Significant change in the wellbeing populations, whether intended or unintended, brought about by the allocation of social investment capital, going beyond what would otherwise have been expected to occur” (Nicholls et al, 2015).

Although the definitions may seem different from each other, making it difficult to develop a single concept, by comparing them we can derive common characteristics So, we can identify the “social impact” as:

- “The set of resources, inputs, and processes used in the activities of certain subjects, that in pursuing social or business objectives, modify the living conditions of the people directly or indirectly involved in those activities” (Impronta Etica, 2016);
- “The change in people or more generally in the territory generated by a company or an organization, directly through its activities and indirectly through the investments made in the short and long term” (Impronta Etica, 2016);
- “an impact that is judged against a benchmark of what the situation would have been without the proposed activity” (Policy Brief on Social Impact Measurement, 2015).

2.3 WHY IS IT SO IMPORTANT TO MEASURE “SOCIAL IMPACT”?

According to Nicholls et al., they affirm that social impact is a multidimensional and multilevel concept and so it does not have a single function but multiple (Nicholls et al., 2015). In fact, measuring the social value generated has a dual function for the company: one internal and one external. As far as the internal function is concerned, in the planning phase, measure the social impact allows companies to delineate the logical model of their operations and to create in a more conscious way the corporate strategy to be adopted. Moreover, in the final balance, it allows monitoring the results and, in case of a negative trend, to correct the strategy undertaken.

While, regarding the external function, measure the social impact allows social companies to bring reports to the stakeholders, being able both to demonstrate the actual effectiveness of the company's activity and to attract more investors.

Although to date there are no standards on impact measurement comparable to financial ones, more and more organizations and companies, both profit and non-profit, are becoming aware of the importance of adopting a measurement system.

In addition, there are also some political drivers that are pushing companies to take an interest in adopting a measurement system (Impronta Etica, 2016):

- *The growing attention from investors*: the birth of the Impact Investing model and its continuous development is requiring a more structured and complex measurement system, that can not only improve the quality of the measurement tool but also the adequacy in providing useful information to investors in order to choose which investment will give the higher social return;
- *Regulatory developments at an international level*: the European Commission has developed a methodology for social enterprises, while for-profit businesses, the European directive 2014/95 EU on the reporting of non-financial information, have made mandatory to report social matters for large listed companies;
- *The scarcity of resources*: there is the need to have tools that can demonstrate the value created by the activity and, at the same time, helps companies to use resources effectively in order to create more and more added value.

2.3.1 WHO IS THE MEASUREMENT DIRECTED TO?

As we have just seen, one of the many reasons why social companies decide to measure the impact created is that of being able to bring tangible evidence of the results achieved to all interested stakeholders, direct and indirect.

The main stakeholders to whom the impact measurement is addressed are (Neil Reeder and Andrea Colantonio, 2013 - Impronta Etica, 2016):

- *Investors*: it related to present or possible investors, and it is useful for them to understand to which extent their investment has created/will create a positive social impact. Moreover, it allows evaluating the possible continuation, interruption or revision of the support;
- *Customers*: for consumers who care about sustainability issues, measurement is a useful tool to be able to consciously choose from which company to buy a good or service;
- *Beneficiaries*: all the final recipients of the activities that may be interested in understanding the social performances of an organization;
- *Public entities*: are interested in evaluating the social benefits generated by private intervention in the territory;
- *Fund manager*s: they can use the measurement to benchmark the performances of different investment against each other, or overtime.

2.4 HOW TO MEASURE "SOCIAL IMPACT"

Due to the lack of shared and heterogeneous measurement standards, we have witnessed the creation and use of multiple measurement systems. Although it would be interesting to analyze all the existing methods of impact measurement, this would lead us to go outside the scope of this thesis. Thus, it will be provided just an overview of the two most used measurement methods in the Impact Investing market: The Theory of Change in its Logic Model representation and the SROI. Furthermore, also a general overview of the two-reference metrics created specifically for the Impact Investing market, namely IRIS and GIIRS, will be described.

2.4.1 THE THEORY OF CHANGE / LOGIC MODEL

Looking into different papers, sometimes the words Theory of Change and Logic Model are intended to have the same meaning and to describe the same model, while other times they show little differences among each other. In this thesis, according to So & Staskevicius, we intend the logic model as a common form of outlining a theory of change.

According to So & Staskevicius, the Theory of Change (ToC) is defined as "a process of intended social change by an organization, intervention or investment" (So & Staskevicius, 2015). Still, Jackson affirmed that "it is a link among the underlying logic, assumptions, influences, causal linkages and expected outcomes of a development program or project" (Jackson, 2013). What it is important to stress about the Theory of Change is that it refers to the logical model behind the investments in question with its impact desired, due to its ability to show the relation between inputs and outcomes.

So, the Theory of Change is best explained by the Logic Model, which is defined as: "a simple and useful framework to establish an investee's path toward creating a social impact". Indeed, the logic model allows to identify and clarify all the steps to be taken in order to create the desired social impact and to measure the result (So & Staskevicius, 2015).

Understanding the process of generating the impact which companies aspire to is of fundamental importance. Indeed, it allows not only to obtain a transparent and verifiable impact measurement but also to be able to compare the costs incurred to carry out these activities to the social benefits obtained and thus, to evaluate both the effectiveness and efficiency of a project.

Looking into the Logic Model framework (Figure 15) for a Theory of Change, in its simplest form, we can see that it is based on five different stages: Input, Activities, Output, Outcomes, and Impacts.

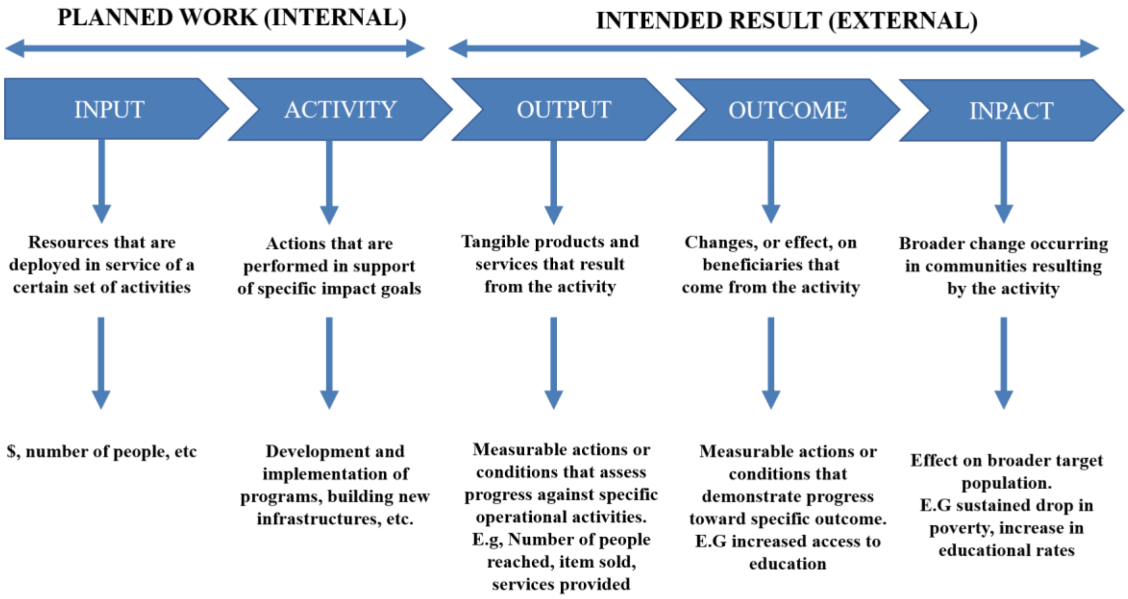

Figure 15: The Logic Model framework. Source: adapted from So & Staskevicius, (2013)

In order to use this framework and create a functional impact value chain for the project, it must be first understood and defined the various concepts within it (Impronta Etica, 2016):

- *"Input/Resources":* all the resources of various types conferred and used by the company for carrying out the project activities (financial, organizational, raw materials, instrumental assets, etc.). They, therefore, represent the investments made to achieve a specific social objective. The definition of the various inputs at the beginning of the project makes it possible to compare and then measure the resources used with the results obtained. So, it allows comparing the effectiveness and efficiency of that particular project with other similar or alternative initiatives;
- *"Activities":* the activities can be defined as the tool to obtain the desired social results. They represent all the actions, the work and the way in which the company has used the "input" resources for the realization of the project. The definition of the various activities allows detailed reporting of the costs of the various activities carried out to achieve the social objective;

- *"Output":* these are the direct results of the activities carried out and are identified with all the products and services created by these activities. They are therefore concrete and measurable results deriving from the realization of a project, such as the number of training hours provided for a specific course; Thus, the outputs are results that the company obtains in the short term, whose effects are directly controllable and under the responsibility of the organization itself;
- *"Outcomes - Results":* these are all the positive and negative effects, both short and long term, that occur in the life of the beneficiaries receiving the activities carried out. They can also be defined as the changes obtained following the achievement of certain outputs. The outcomes can be direct or indirect: it depends on whether the change is a direct effect, as a direct consequence of the product or service offered by the company, or indirect, as an indirect effect of the activities performed. Furthermore, they can be short, medium or long term, depending on the social need to be satisfied;
- *"Impact - Changes":* it is defined as the part of the outcome that is exclusively attributed to the activities carried out by the organization. If we want to define it in another way, we can say that the impact is like the outcome generated minus the changes that would have occurred even without the intervention of the project in question. The measure of the impact generated, therefore, represents the actual capacity of the project to generate the planned and expected social changes.

Theory of Change impact measurement process

Having defined all the various key components of the Logic Model for the Theory of Change, starting from the inputs and coming to the impact, we now need to understand how this methodology succeeds in measuring the social impact created.

The impact measurement activity is possible through the use of indicators, which represent measurement tools able to identify a variation or a change. The adoption of these indicators takes place in the Output and Outcome phase of the Logic Model since the final objective of the impact analysis is based on measuring the degree of realization of the planned results for each activity (output) and the results of the changes life expectancy for each beneficiary (outcome).

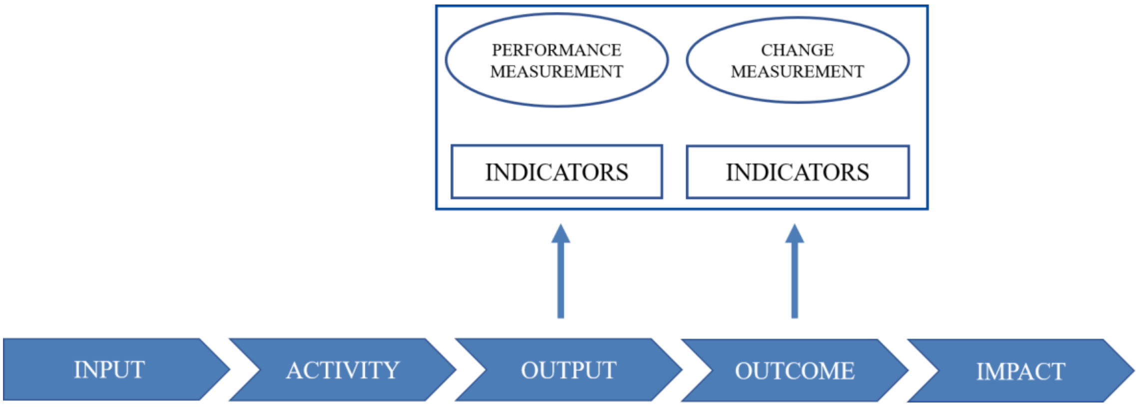

Figure 16: Output and outcome indicators. Source: adapted from Impronta Etica, (2016)

Regarding output indicators, these have the task of measuring the quantity or quality of the goods and services produced by the company that makes it possible to have a positive social impact and the relative efficiency of production.

Instead, as far as the outcome indicators are concerned, unlike the output indicators that measure the measurable quantity of what has been done, they detect the social objectives reached. These indicators, therefore, measure the positive social change generated by the company's activity (*Impronta Etica 2016*).
Concerning the indicator selection activity, it is considered to be one of the most critical aspects of the impact measurement. Indeed, since it is not regulated, there are no guidelines indicating which indicators should be used and for what. In recent years, standard metrics have been created by international organizations, on which social companies can rely on choosing these indicators. In particular, two ad hoc metrics have been developed to support specifically the Impact Investing market: Impact reporting and investment standards (IRIS) and the Global Impact Investing Rating System (GIIRS). A brief analysis of those will be given later.

Ones the output and outcome indicators have been defined and ones the results have been measured, the last phase is to evaluate and attribute to the company the effective "social impact" generated with their activity.
In order to estimate the effective social impact, it is necessary to subtract the following components from the overall observed *outcome* (Impronta Etica, 2016):

- *Deadweight:* the amount of outcome that would have occurred even without the project;
- *Attribution:* the amount of outcome that comes from the contribution of other organizations or people;
- *Displacement:* the amount of outcome that the project has generated but at the expense of other people or areas;
- *Drop-off*: refers to the duration of the impact and therefore to the fact that it may not be maintained over time, decreasing the results achieved over the years.

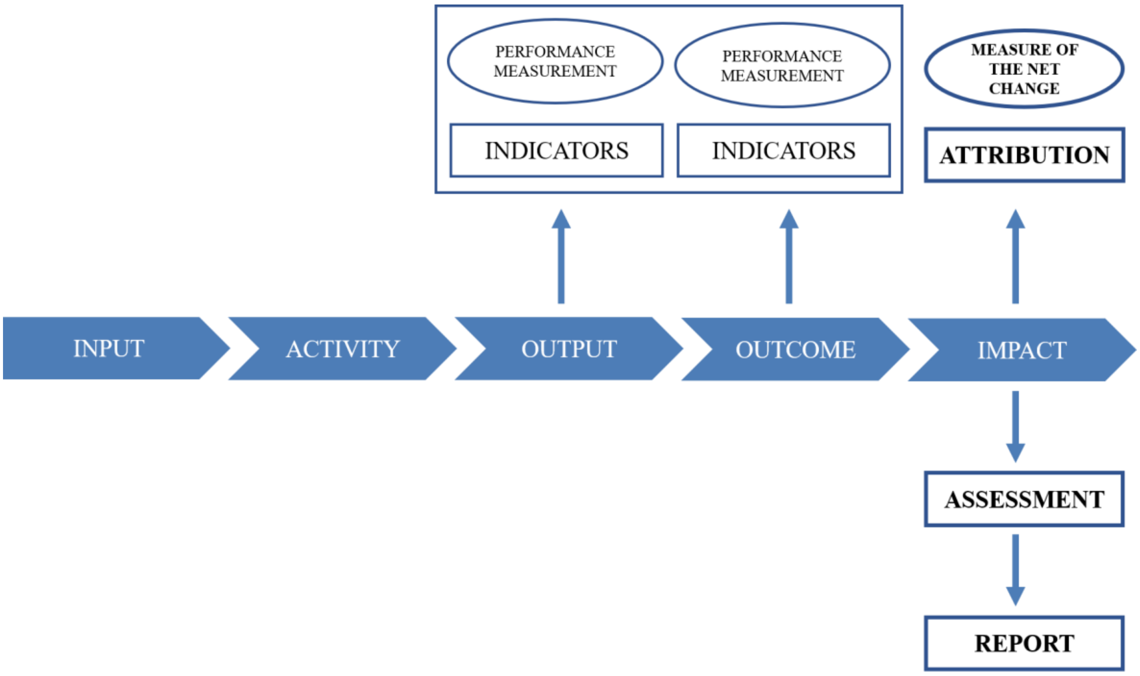

Figure 17: Evaluation and attribution of the net social impact generated. Source: adapted from Impronta Etica, (2016)

Application of the theory of change

As we have already seen, the ToC/Logic Model is a useful and easy framework to clarify the path toward creating social impact and to measure the impact created. Concerning the application of the model, it can have also other different utilities, such as (So & Staskevicius, 2015):

- *Due diligence and investment selection:* it is a useful tool for impact investors in order to communicate with social entrepreneurs and to understand the strategy and the path that the social company wants to undertake to achieve the impact planned. Doing this, investors can clearly understand all the assumptions made by the investees, and if they do not totally agree, they have the possibility to correct them and to choose another way to achieve the impact;
- *Goal setting:* it can be applied to help investors in defining the social impact goals with the investees and to establish a target for output and outcomes;
- *Tracking and monitoring progress of the investment:* it is really useful to define the data that should be collected for the measurement and to set the key performance indicators (KPIs) that will be monitored for the impact measurement. The output measurement represents an important measure for the management because it shows the operational aspect of the company;
- *Setting incentives*: showing the path from activities to impact, the logic model can be used by investors to set incentives based on output and outcome result achievement (such as pay for success);
- *Reporting activity*: it is a framework that can be used to report the impact path undertaken also to stakeholders that don't have any impact measurement background.

Advantages and concerns

There are many advantages of applying the Theory of Change: firstly, it provides an *"easy to understand"* model, which helps investors in understanding how the investments can create the social impact planned. Secondly, it is a *"versatile"* and *"flexible"* tool that can be used for multiple purposes (as we have just seen), including selecting investments and due diligence process. Also, it allows investors to identify the hypothesis of causation that could require more attention (So & Staskevicius, 2015). Moreover, another important advantage is the possibility of being applied also as an integral part of other more complex measurement methods. This has meant that Toc has had great success and that it is one of the most adopted models by companies that want to undertake an impact measurement process.

Regarding the concerns of this model, one significant problem is the difficulty to identify indicators to assess output and particularly to assess the generated impact. Another limit is the risk to reduce social change to a linear process, that in reality, it is more complex. Indeed, it can transfer the wrong information to the impact stakeholders regarding the production of impact. Moreover, Jackson pointed out that even if it is a powerful methodology, there is a lack of consensus among academics on the overall status of this methodology and how it can be developed in order to increase its effect (Jackson, 2013).

2.4.2 STANDARDIZED METRICS: IRIS AND GIIRS

Since the birth of the Global Impact Investing Network (GIIN), many specific support initiatives have been created for the development of the Impact Investing market. Two of the most important are represented by the sectoral standardization of impact measurement and by the formalization of the process of assessing the social impact generated.

On the one hand, as regards the sectoral standardization of impact measurement, GIIN has contributed to the development of a list of specific and standardized indicators divided by sector, which impact investors can draw upon for the definition of their indicators. This list of indicators is known by the name of Impact Reporting & Investment Standards (IRIS). While, on the other hand, as regards the formalization of the assessment process of the social impact generated, the GIIN and B-Lab have implemented a rating system based on the IRIS indicators, which serves the primary platform for the Impact Investing field. This system is called GIIRS. Now IRIS and GIIRS will be analyzed separately.

IRIS

The Impact Reporting & Investment Standard (IRIS) is one of the most utilized standard metrics by impact investment market. According to IRIS, it is defined as the "Catalog of generally accepted performance metrics/indicators that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the Impact Investing industry"[6]. So, the aim of IRIS is to create a common language that increases the value of social data by enabling performance comparison and benchmarking. IRIS is managed by GIIN since 2009, and it had been developed previously by Rockefeller foundation and B-lab in collaboration with PWC and Deloitte.

According to GIIN, while not offering any type of certification, this metric provides the basis for measuring the impact. Impact investors utilize this framework by choosing approved and standardized indicators, that are tailor-made to their company mission and sector. It is important to notice that the IRIS framework is utilized mainly in the phase of creating and choosing the specific metrics/indicators framework of the company in question (IRIS, 2015).

Figure 18: Getting started with IRIS. Source: adapted from IRIS website, (2015)

As we can read from the website, more than 5000 organizations are using the IRIS metrics. IRIS users include mainly impact investors, investors in funds and social enterprises.

[6] https://iris.thegiin.org/

Although it is a standard used and appreciated by many, there is no shortage of criticisms addressed to IRIS by practitioners and academics, who have stressed important limitations. One limit is cited by Hehenberger and Harling (2018), highlighting that “although the impact reporting and investment standards initiative is a significant step in the direction of generating indicators that are comparable across projects, the challenge remains to find the right indicators to measure the specific social change that each project aims for”. Still, Bengo and Ratti highlighted that the IRIS standard presents more than 400 indicators, but none of them help in comparing different projects because they are focused more on supporting the social reporting rather than the proper impact measure (Bengo & Ratti, 2014). Another limitation was mentioned by Brandstetter and Lehner, that have claimed that IRIS looks at the impact investment from an ex-post point of view. Thus, they are only able to provide supports to impact investments that are already established instead of giving support to impact investments that are at the beginning stage of development (Brandstetter and Lehner, 2015).

GIIRS

In order to respond to the limit of the IRIS metric and therefore to facilitate the comparability of different projects, GIIN supported the development of the Global Impact Investing Rating System (GIIRS), which was introduced by the non-profit organization B-Lab. GIIRS is defined as a “comprehensive and transparent system for assessing the social and environmental impact of developed and emerging market companies and funds, with a rating and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics”[7]. It focuses only on the social aspect of the impact investments, ignoring the financial aspect of it (B-analytics, 2017).
In order to provide a detailed assessment of key performance areas, such as leadership, governance, environment, social impact, etc, the GIIRS methodology is based on data reported using the IRIS classification. The rating methodologies also allows creating reports of aggregates over time in order to illustrate growth or an improvement in performance (Perrini & Vurro, 2013).

[7] http://thenewmediagroup.co/the-global-impact-investing-ratings-system/

In the GIIRS system, the companies are rated after completing a form of 200 questions, which are weighted based on the size, industry and geographical area (B-analytics, 2017).
As for the IRIS metric, also GIIN presents limitations. One of these is that the model is focusing on the output indicators instead of focusing on the outcome and impact created. Moreover, as underlined by Salamon, another limitation common to both GIIRS and IRIS lies in their orientation. In fact, instead of being ideated on the beneficiaries, they are designed on the investees and this “leaves the field of social Impact Investing vulnerable to false claims of social impact” (Salamon, 2014).

2.4.3 EXPECTED RETURN METHODOLOGY: SROI

After analyzing the Theory of Change Model, now we will focus on the second model that has gained a lot of consents by practitioners and academics in measuring social impact: the expected return model.
In the private sector, traditional investors usually calculate the expected return of their financial investments by taking the weighted average of the likely profits of the portfolio assets (benefits minus costs), weighted by asset class, and brought back to present value as needed. In a similar way, this methodology can be applied to estimate the social return of the investment. Indeed, impact investors use expected return methodology in order to measures the expected social benefits of an investment against its costs, discounted to the value of today’s value.
The expected return methodology can take various forms, such as Benefit-Cost ratio (BCR), Economic Rate of Return (EER) and Social Return on Investment (SROI). However, the method that is the most recognized and utilized by impact investors is the SROI. So, we will provide a brief analysis of it (So & Staskevicius, 2015).

Social Return On Investment (SROI)

The SROI model was developed by Robert Enterprise Development Fund (REDF) and it was tested by the New Economic Foundation (NEF). According to NEF, the “SROI framework is an approach to measurement – developed from a cost-benefit analysis, social accounting and social auditing – which captures social value by translating social objectives into financial and non-financial measures" (NEF, 2008). Still, according to Banke-Thomas et al., the SROI analysis is a framework for measuring and accounting for the much broader concept of value, reporting the blended value of an intervention (Banke-Thomas, Madaj, Charles and Van Den Broek, 2015).

The SROI approach is considered one of the best methodologies in the field of Impact Investing because it attributes a monetary value on social benefits, measuring the value of the benefits relative to the costs for achieving those benefits. To do this, it utilizes the SROI ratio that put in comparison to the impact generated by a project and the investment required to achieve that impact. For example, a ratio of 5:1 indicates that an investment of 1 € can reach 5 € in social value.

Mathematically, in its simplest form the SROI ratio is presented as:

$$SROI = [\textit{Net present value of benefits}] \,/\, [\textit{Net Present Value of Investment}]$$

Instead, the following formula shows how SROI ratio is practically calculated, even if we should remember to discount it in order to have the SROI present value (Nicholls et al., 2012):

$$SROI\ Ratio = \frac{Total\ impact\ benefits \times deadweights \times attribution \times displacement \times drop - off}{Total\ value\ of\ inputs}$$

Types of SROI

Regarding the types of SROI existing, they can be divided into two categories: the first is evaluative and the second is forecast. Let's have a look.

- *Evaluative SROI*: this is implemented when a project or activity has already taken place and the results are ready to be measured. This is mostly exploited when companies are already tracking outcomes data properly or at least they are able to track the social value created by activities;
- *Forecast SROI*: this is utilized before the project has taken place and it tries to forecast both how much social value will be created and if their activities will

reach their planned outcome. This is really useful when the planning process has to be done since the information coming from forecasted SROI can be used to create the strategic plan, to show how an investment can generate the most social value and to illustrate what is needed to adequately measure changes, such as choosing the best indicators.

SROI principles

As it is written in the SROI network guidelines, The SROI methodology is based on seven fundamental principles (The SROI Network):

1. "*Involve stakeholders*: inform what gets measured and how this is measured and valued by involving stakeholders";
2. "*Understand what changes*: articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended";
3. "*Value things that matter*: use financial proxies in order that the value of the outcomes can be recognized. Many outcomes are not traded in markets and as a result, their value is not recognized";
4. "*Only include what is material*: determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about the impact";
5. "*Do not over-claim*: Only claim the value that organizations are responsible for creating";
6. "*Be transparent*: Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders";
7. "*Verify the result*: Ensure appropriate independent assurance";

SROI Methodology

These principles are designed to ensure that this methodology is transparent and well-defined. The SROI model is based on the principles that we have just seen and it consists of a six-step process[8]:

1. *Establishing scope and identifying key stakeholders:* clear boundaries about what is the goal of the SROI are set and it defines who will be involved;
2. *Mapping outcomes*: Working with all the various stakeholders, an "impact value chain" is created, which shows the relationship between inputs, outputs, and outcomes (Logic Model);
3. *Evidencing outcomes and giving them a value*: This step first involves finding data to show whether outcomes have happened. Then, a monetary/financial value will be given to outcomes, including those that don't have a price attached to them;
4. *Establishing impact*: After collecting data on outcomes and after giving a financial value to them, it is taken off all the changes that would have happened also without the intervention;
5. *Calculating the SROI*: This step involves adding up all the benefits, subtracting any negatives and comparing them to the cost of the investment;
6. *Reporting*: this vital last step involves sharing findings and recommendations with stakeholders.

Advantages and concerns of SROI

The application of the SROI model presents some advantages and some concerns. The main advantage that this method presents lies in attributing a monetary value to the outcome indicators, thus making it possible to translate the notion of social impact into a numerical indicator of "social expected return". Indeed, a numerical indicator enables investors to better understand the social value created, making also the Impact Investing market becoming attractive. Still, translating impact in concrete numbers may present

[8] https://www.nefconsulting.com/our-services/evaluation-impact-assessment/prove-and-improve-toolkits/sroi/

also an important advantage in managing the strategy of the company, offering the possibility to make more reliable forecasts. Finally, another advantage of the SROI model is that of understanding what social value an activity creates and how to maximize it (So & Staskevicius, 2015).

Regarding limitations, the SROI system can lead to the risk of focusing narrowly on the ratio and making a comparison that is not objective, penalizing projects that are dealing with problems that are more challenging. Indeed, social return highly depends on the context, and it is more difficult to achieve in environments with poor infrastructures. So, investors have to use the SROI measure carefully to avoid making the mistake of taking resources off from investments that may be really impactful even if the numbers are not demonstrating this. For this reason, comparisons between organizations just based on the ratio are not recommended. Another concern is represented by the costs in terms of time and money and by the complexity that it has compared for example to the logic model. Finally, the results are based on the data, and the Impact Investing market is presenting a lack of trusty data available. So, when the data put in the SROI model are based on assumptions it may lead to wrong conclusions.

3. THE SOCIAL ITALIAN MARKET

3.1 OVERVIEW

Until now we have analyzed the Impact Investing industry at a global level and the importance of measuring the social impact created, looking at the two most established ways to measure it. Now, before focusing on my two case studies, in the following chapter, it will be provided a useful overview of the current Italian social context in which the practice of Impact Investing can spread.

In Italy, the particular shape of the contest shows that social finance has a long history and it represents an established pillar of the country's economy. In fact, there is a multitude of actors, both profit and non-profit, that have been always attentive to the social needs of citizens and communities. These players are represented mainly by cooperatives, mutual institutions, savings banks, cooperative credit banks and banking foundations (SIITF, 2014). Still, the strong tradition of mutual credit, the high number of Third Sector organizations and the highest per capita share of philanthropic capital in Europe, mean that the Italian context is particularly predisposed to the development of social innovation practices such as the Impact Investing one (Tiresia, 2016).

Since the Italian welfare system tends to be not sustainable in the long run anymore, due to both the lack of public funds and the constant growing of the population needs, now more than ever new sustainable socio-economic models are needed. In this context, the Impact Investing can engage to fill up the gap between the social needs and the resources available, creating a new “entrepreneurial” way of operating. Indeed, it would not only give the possibility to face social problems in a more efficient and sustainable way but also give the opportunity to boost the social economy in the country (SIITF, 2014).

In order to well understand how is structured the social ecosystem in Italy, it is necessary to provide both an analysis of the legal framework in which the social companies are operating and a picture of the social entrepreneurial scenario in Italy.

3.2 EVOLUTION OF THE ITALIAN SOCIAL LEGAL FRAMEWORK

The social enterprises were born in Italy since the late sixties. They come from the linking of different aspects: the strengthening of the productive and entrepreneurial dimension of the third sector, the social objective of cooperative enterprises, the increase in demand for services, the reorganization of subsidiarity principles of the public welfare system, the progressive differentiation of needs and from the recognition of new categories of disadvantaged subjects (SIITF, 2014).

So far, social cooperatives have represented the most widespread social enterprise model in Italy. It is important to point out that Italy has been the first country in Europe to discipline social cooperation in 1991 with the law 381, defining the aim of social cooperatives as: "pursuing the general interest of the community in human development and citizens social inclusion" (Law 381/1991).

Social cooperatives are considered to be an innovative model for many reasons: firstly, they do not only contribute to supporting the welfare system but also they are able both to collaborate in developing the local economy and to create employment opportunities. Secondly, the act of constitution of the social cooperatives is based on a group initiative that shares a common social need and that acts in the local territory. Thirdly, another important innovative aspect is represented by the nature of the governance: the principle "one person, one vote" drives the decision process of the approval of the budget and the business plan activity, regardless of the amount of capital provided by the investor (SIITF, 2014).

Concurrently with the growth of social cooperatives, Italy has seen the development of other types of organizations, both non-profit and for-profit, with the aim of promoting entrepreneurial social activities (social enterprises). Besides the law 381/1991 on social cooperatives, the new law 155 in 2006 defines social enterprises as: "*any private entity that runs economic activities with the clear purpose of generating services with social utility*" (law 155/2006). However, this new model of social enterprises proposed by the law in 2006 has never become successful (SIITF 2014 - Lepri, 2018): this is confirmed by the fact that in 2014, only 768 have been registered in the register of social enterprises (ISTAT, 2014) compared to the 12.000 of social cooperatives, (SIITF, 2014).

Indeed, the 2006 reform has presented many limitations (SIITF, 2014 - Lepri, 2018 - Musella, 2018):

- The spectrum of activities in which social companies can operate was very limited;
- Distribution of dividend to shareholders was not allowed;
- Absence of fiscal benefits;
- The presence of a legal structure that limited the attraction of impact investors since it was more oriented to avoid frauds than sustaining social activities;
- No possibilities for profit-oriented shareholders to be part of the management, resulting in the scarce interest of financial actors to invest in these types of social companies.

After several years of government debate, the new Third Sector Reform - D. Lgs. no.112 July 2017[9] and D. Lgs. no.95 July 2018[10] - took place in order to overcome the past limitations of the 2006 reform. The most important modifications are (Riforma del terzo settore, Gazzetta Ufficiale):

- A portion of profit now can be distributed;
- Tax benefits are introduced;
- Increment of the sectors in which social companies can operate;
- Social cooperatives are now recognized as social enterprises, enabling the law to include a greater number of entities;
- The social report has to be done in order to track all the social impact activities every year following the Labour Ministry guidelines;
- Changing of the governance model in order to attract more capital: it introduces the possibility for shareholders in the directory board, creating a more inclusive and empowering governance system.

[9] https://www.gazzettaufficiale.it/eli/id/2017/07/19/17G00124/sg
[10] https://www.gazzettaufficiale.it/eli/id/2018/08/10/18G00120/sg

According to Borzaga, the ambitious challenge of this new reform is represented by the aim of combining two different approaches: the first regarding the Anglo-Saxon system, in which social enterprises are barely restricted since they are free to choose the most suitable approach for delivering social impact. So, the focus is more on the creation of a measurable social impact rather than on drawing the line for social enterprises. The second regarding the Italian and European model, where social companies are seen as institutional entities aiming to contribute to solving the social needs with the exclusion of profit generation (Borzaga, 2014).

The overall benefit brought by the Reform in question is concentrated on its ability to re-shape third sector actors. A great advantage is also for cooperatives, that being included in the new social enterprise framework, they will have also benefits from a fiscal point of view (Verga, 2017). One important thing to underline is that, although the distribution of the profit remains prevented for many of the social actors, the creation of a more well-defined social market seems to boost an innovative scenario, where the Impact Investing model can take hold.

3.3 IMPACT INVESTING POTENTIAL LANDSCAPE IN ITALY

Moving ahead from the legal framework analysis and looking into the social Italian landscape, the potential target of Impact Investing is represented not only by the legally recognized social companies but also by a wider spectrum of organizational forms that somehow is cross-boarding the boundaries of the "Third sector" legal definition. Indeed, in the last years, the way of generating social impact is radically changing and considering this trend entirely internal to the Third Sector is too limiting.

So, in order to produce an estimation and to give a picture of the social entrepreneurial landscape in Italy, Venturi suggests looking beyond just the categorization of legally recognized social enterprises and expanding the spectrum to at least four other categories (Venturi, 2017):

- *Non-profit market-oriented*: this category includes all the non-profit companies (Third Sector Entities) that do not fall within the new Third Sector Reform;

These companies are considered “market-oriented” because al least 70% of their revenues come from the sales of products and services that they produce. Still, to be included in this category those products/services must be sold in a high quantity and with an advantageous price for the consumers (Venturi & Zandonai, 2014). This is a perfect example of the “hybridization process” of the non-profit organizations, which have adopted an entrepreneurial way of operating, creating a positive social impact that is financially sustainable;

- *For-profit companies with social goal project*: this category include all the traditional for-profit entities that are not legally recognized as social companies but that are pursuing specific social projects. These projects have to create a positive social impact able to respond to the impact investment characteristics of “measurability, intentionality, and sustainability”. Of course, it is practically impossible to estimate the dimension of this group, firstly because almost all traditional companies are developing a social and environmental program and secondly because it would require an individual analysis of each company mission;
- *Benefit Corporations*: benefit corporation has been introduced by the Law 208/2015, defining them as: “company that while running an economic activity, in addition to the purpose of dividing the profits, they pursue one or more social goals and operate in a responsible, sustainable and transparent way towards people, communities, territories and environment, goods and cultural and social activities, institutions and associations and other stakeholders”. These goals must be pre-included in the corporate purpose and they must be pursued by trying to balance the interests of the members with that of all the other people that are involved. Each year, the benefits corporations must report the impact that they have reached through a report and published on the website. These entities represent the social company concept as the Anglo-Saxon culture intends it. The legal status of Benefit corporations was adopted in Italy by almost 200 organizations, as reported by the Italian Benefit corporations' benefit[11];

[11] https://www.lifegate.it/persone/news/benefit-corporation-cosa-sono

- *SIaVS*: these entities represent innovative startups with a clear social impact goal and they have been introduced by art. 25 of Decree-Law 179/2012. They operate in specific sectors that are considered to have a particular social value, such as healthcare, culture, education, research and development, IT, etc. In a market logic, these types of start-ups may be less "attractive" on the market for investors since they operate in sectors that might provide a lower return if compared to other realities. However, in order to correct this asymmetry, art. 29 of Decree-Law 179/2012 has assigned increased tax benefits to those who invest in this particular type of innovative startup. Nowadays, the market of SiaVS in Italy is composed of 160 startups. These entities are mostly small and not very structured: 45% of them present a turnover that is lower than €100k[12] (Venturini, 2017).

Looking into the estimation of the Social Impact agenda per l'Italia (Figure 3.1), we can have a picture of the total social enterprises present in Italy until the end of 2017: 1.874 represents the Social enterprises while the 16.918 entities represent the social cooperatives. With the Third Sector Reform, as the cooperatives are included in the social companies, we can sum these numbers and obtaining the total social enterprises ex-lege: 18.792. However, this number represents only 20% of the potential social entrepreneurial scenario in Italy, which is estimated to be 92.799 if we include all the categories cited above.

[12] https://www.iubenda.com/it/srl/help/4029-startup-innovative-a-vocazione-sociale

TYPOLOGIES	UNITS NUMBER
Social companies ex-lege	1874
Social cooperatives	16918
TOTAL SOCIAL COMPANIES	**18792**
Non-profit market oriented (social cooperatives not included)	11940
Companies active in sectors provided by law 118/2005	61776
SIaVS	160
Benefit corporations	131
POTENTIAL ENTREPRENEURIAL LANDSCAPE	**92799**

Figure 19: Spectrum of social companies in Italy and its potential entrepreneurial landscape. Source: adapted from Venturi. (2017)

3.4 THE LACK OF INVESTMENT READINESS IN THE ITALIAN SOCIAL COMPANIES: SUPPLY EXCEEDS DEMAND

As we have mentioned in the first chapter, many reports have shown that there is a strong paradox concerning the Impact Investing market: supply of impact capital exceeds demand. Indeed, even if impact investors have been putting a lot of effort in creating different financial instruments with different level of sophistication to respond to all the different social company's needs, the number of companies able to represent a target for these new instruments are still low. All of this is due to the fact that social companies are not *ready* to be invested, making impact investors (capital providers) find more difficulties in allocating capital than in raising it (capital demanders) (Nicholls et al., 2015).

But what does it mean to be "*investment-ready"*? The concept of investment readiness in social companies refers to the ability of a company to be accountable both from a social and economic point of view. On one side, social accountability denotes the ability of a company to demonstrate that the capital used has actually produced a social impact. Hence, it is a matter of adopting a measurement methodology in order to plan, measure, monitor, and report the impact generated. On the other side, if financial accountability can be taken for granted in traditional businesses, it is not obvious for social enterprises. Indeed, it relates to the expectation of investors to have a reliable prediction of the social companies' future financial performances, but this requires a structured organization and an entrepreneurial maturity that, on average, social entities don't present.

Regarding the Italian landscape, Tiresia (which is an International Research Center promoted by the School of Management of Politecnico di Milano pursuing scientific excellence in the field of **Social and Impact Innovation)** in 2018 made a research in which elaborated a set of data able to provide a precious outlook about the *investment readiness* of the Italian social enterprises in attracting impact investments. The target of the research was represented by 3753 different social companies that generate positive social impacts such as social cooperatives, social companies, benefit corporation and SIaVS.

In order to understand their "*investment readiness*", the social enterprises have been analyzed on the following dimensions: organizational and strategic skills, technological dimension, and market orientation. In order to understand the overall result, it is useful to have a look at the analysis of each of them.

Concerning the first dimension – **organizational and strategic skills -** they have decided to focus on it because in literature it is considered as a primary necessity for social enterprises (Smith et al., 2012). On one side, concerning Organizational skills, social companies usually do not have well-structured governance and they are characterized by informal communication and control mechanisms. At the same time, they are dealing with the problem of having different types of stakeholders with different interests.

Tiresia's analysis has shown that in most cases *organizational skills* are medium-low. The possible determinants of this result can be multiple: only 34% of cooperatives and 48% of social companies have a founder with previous managerial skills. Still, it is also interesting to note that only 1/5 of organizations have lenders and investors on the board of directors. After organizational skills, also strategic competences of a company related both to economic aspects and to the social ones are influencing the *investment readiness* of social companies. The financial sustainability of a company is a function of the capacity of creating and maintaining a long-term strategic vision. The elements that characterize a healthy strategy can be identified in the company's ability to customize product and service, having a good measurement system and having the growth of the company as a key objective. Tiresia's analysis has shown overall a good strategic skill of the companies interviewed.

Secondly, the **technology dimension** has been analyzed. Indeed, nowadays the transformation power of technology represents a key opportunity for social companies in order to grow and develop. Looking at the level of technology intensity in the companies interviewed, overall it appears to be low in 73% of cases. This is due mostly to the presence of a high number of cooperatives in the sample, and more broadly, in the Italian social ecosystem in general. Specifically, social cooperatives show a low level of technology intensity in 76% of cases analyzed. Unlike cooperatives, SIaVS and Benefit corporations have shown a higher level of technology intensity.
Overall, the determining factors of such a low level of technological intensity can be attributed mainly to these reasons: only 3% of organizations have patents and less than 5% own active or passive intellectual property.

Finally, the last dimension analyzed has been the **market orientation**. Being immersed in a complex ecosystem, social organizations require to be constantly updated to market dynamics and not only to the pursuit of social objectives. If a social company is depending on grants and donation and it doesn't have a clear long-term perspective, it is not able to access the market and raising capital.

In Tiresia's analysis, the researcher has analyzed four variables:

- Income-based on the sale of its products and services;
- Presence of "commercial" funding source (not depending on grants);
- Presence of a business model able to address a broad type of customers;
- The coincidence between customers or workers and beneficiaries.

The result has demonstrated a high level of market orientation, precisely high on 47% and a really high in 26% of cases. It is interesting to note that 74% of the analyzed cases use commercial financing sources.

Now, after analyzing each dimension individually in detail, it is possible to put all the dimensions that compose the social *investment readiness* variable together (organizational and strategic skills, technological dimension and market orientation). The data of Tiresia analysis gives us a clear picture of the Italian ecosystem: the level of investment readiness of Italian social enterprises is low in 26% of cases and middle-low in 47%. Only 1% of companies are at a *very high level* of investment readiness and another 6% can be considered at a *high level.*

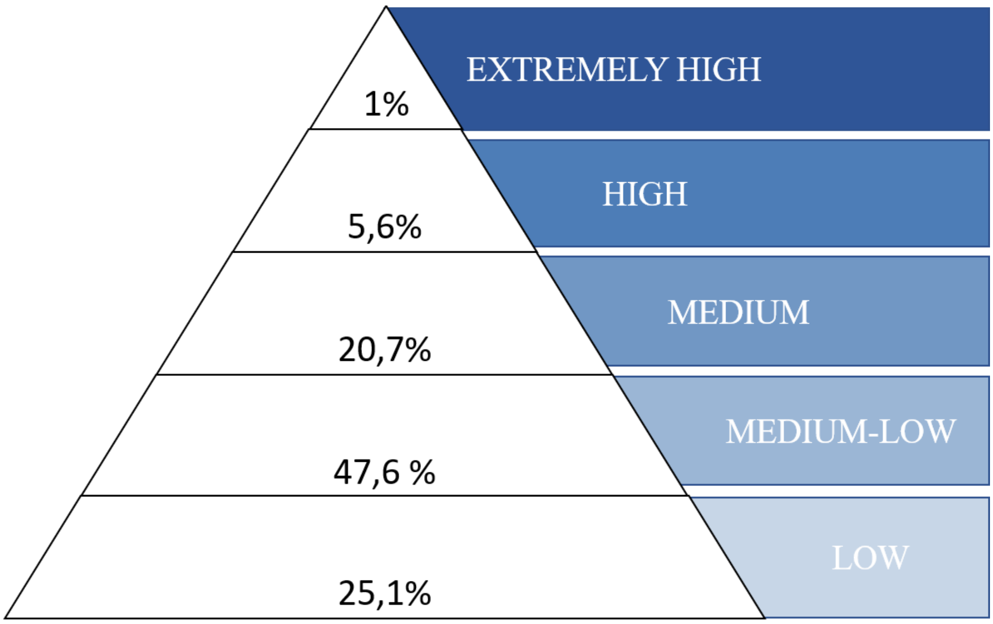

Figure 20: Investment readiness of Italian Social Enterprises. Source: Tiresia, (2018)

So, this analysis has been very useful for two main reasons: on one hand, it has confirmed that Italy is in line with the global trend, where we have seen only around 7% in total can be considered *investment-ready,* and so able to receive capital from impact investors. On the other hand, it has confirmed the paradox that we have seen before, which is having impact investors facing more problems in allocating capital than in raising it. Surely, this is not because there is no demand for capital from social enterprises because of course, they do need capital, but it is because they are not ready to meet the requirements of impact investors.

Thanks to the results of this research, we have understood that to develop the Impact Investing market we need to focus powerfully on the development of a strong ecosystem, and therefore to contribute in developing a "*ready*" and "*investable*" demand rather than continue to find the perfect financial instrument (which many times already exist and cannot even be exploited). In fact, the offer of impact capital will be justified if, and only if, there is a ready demand for this type of patient capital that is far more substantial and credible than the current one (Calderini & Chiodo, 2018).

In order to develop the *investment readiness* of social companies, practitioners and academicians agree that impact investors (supply side) should focus on two priorities:

- ***Capacity building***: providing all the managerial and financial support that is able to structure an organization in a more entrepreneurial way, in order to become investable (Calderini & Chiodo, 2018);
- ***Network creation***: creation of a network among intermediaries, social companies, shareholders and non-financial service providers able to overcome the fragmentation linked to the presence of small and medium enterprises. Moreover, there is a need to create tools and infrastructure for the Impact Investing industry (J.P. Morgan, 2012).

3.4.1 CAPACITY BUILDING

Focusing on the demand, we have seen how the lack of readiness of social enterprises limits the attractiveness of these companies for impact investors. On this point, intermediaries and impact investors should be involved in helping the creation of a *ready* demand of capital, and also, they should provide to social companies the skills, methods, and knowledge for being able to best undertake a transformation and adopting an Impact Investing strategy. Indeed, as professor Calderini has often declared, "the responsibility of creating the demand for impact capital is also up to impact investors". Hence, Financial intermediaries - such as banks - and impact investors, must somehow have the role of incubators for the companies in which they decide to invest. Actually, some practitioners and academicians agree on the fact that capacity building support represents itself as one of the real and diversifying characteristics of Impact Investing.

As highlighted in the GIIN report, capacity building support produces a two-side effect in social companies (GIIN, 2017):

- on one side, it improves their accountability and hence their attractiveness in the market;
- on the other side, it provides all the managerial and entrepreneurial competencies necessary to become more structured and increasing both the social and financial performances.

Claiming to be able to provide capacity building support that is suitable for all social companies is almost impossible since we are facing a very large market that presents different realities with different needs. However, GIIN has provided a list of the most common social companies needs in which impact investors should focus on (GIIN, 2017):

Measurement and Reporting impact: as we have already seen in the second chapter, having a standard framework able to target, measure and report the impact generated is vital for the life and the development both of social companies and the Impact Investing ecosystem. Indeed, the lack of measurement is strongly limiting the social enterprises from being competitive in the market and from being reliable for receiving impact capital (Grieco, Michelini, & Iasevoli, 2015). In this sense, the capacity-building support, provided by investors, can help social companies in understanding their social impact value chain, in defining their impact strategy, and in developing KPIs able to account for the social impact generated. Also, this would allow social companies in reporting the result to the stakeholders, improving the fundraising prospects and ensuring mission alignment (GIIN, 2017).

Managerial and financial skills: social companies are generally weak under a financial and managerial skills point of view. This is representing an important limitation that prevents impact investors in dealing with companies that are not skilled (J.P. Morgan, 2010). As a company starts growing, it requires a more robust and sophisticated financial and managerial system. Capacity-building support can help social companies in all the stages of the growth, from the early-stage to the maturity phase. Indeed, under a managerial point of view, it would support in structuring a business plan, developing strategies and maintaining high standards concerning operative performances, while under a financial point of view, it would help in managing cash flows, in the creation of financial statements and in developing financial plans.

Human resources development: Pursuing a double objective, social companies must find the right balance among employees. Indeed, a strong social vocation, typical of volunteers or non-profit employees, has to be balanced with a strong business background, in order to have the right skills to pursue social and financial goals. Capacity-building support can be useful in creating a good system of recruitment, training, and retention of trained staff with the implementation of human resource policies that attract skilled resources.

3.4.2 NETWORK CREATION

Even if capacity building is necessary in order to help social enterprises in becoming *ready* to receive impact capital, it is not the only thing to do. Indeed, becoming investable and being able to access credit can be helped also by the formation of a network composed by actors with the same nature such as social enterprises, or with a similar mission such as Public Administration or foundations (Venturi, 2017). Thus, the development of the Impact Investing industries, and of the social sector in general, might be boost by the aggregation of similar realities that can give mutual support to each other. Particularly in Italy, social companies can benefit from a natural inclination for developing relations with other similar entities, thanks also to the diffusion of consortia that favorite their aggregation.

Today, one of the most valuable ways to promote investment readiness for social companies is offered by incubators, which are able to provide knowledge and skills useful for growing, measure and reporting the impact created. Moreover, incubators can be also a connection point between impact investors, intermediaries and social enterprises.

4. STUDY CASES: UNICREDIT AND SANTAGOSTINO MEDICAL CENTER

4.1 OVERVIEW

So far, we have focused on providing a picture of the Impact Investing market as a whole and on the importance of measuring the social impact created. After that, particular attention has been paid to the Italian market, running a legal and market analysis of its social context. Still, we looked also at the situation of the Italian social enterprises, finding a low level of "investing readiness" and understanding how important it is the cooperation among the actors that forms the Impact Investing ecosystem (demand-side, intermediaries and supply-side), both for developing a "*ready*" and "*investable*" demand of capital and for supporting the growth of the entire Impact Investing ecosystem.

The following chapters have the objective of providing a more practical view of the Impact Investing market, analyzing the strategy of two actors that have been successful in adopting an Impact Investing model.

In particular, in the first part, we will focus on the accurate analysis of the Impact Investing strategy of one of the most important suppliers of capital, which can be understood both as an intermediary and as a capital provider: the bank. In this regard, the decision of concentrating on this actor of the supply-side comes from two main reasons: firstly, being the bank a very strong institution with abundant liquidity and managerial skills, it has both the economic power to provide capital to social enterprises and the ability to offer them non-financial support (such as capacity building and network creation), boosting the demand-side to become more *ready* to receive impact capital. Secondly, it is due to my six months internship into the UniCredit Social Impact banking department in Milan, in which I had the opportunity to both understand the UniCredit's new Social Impact Banking initiative and to see practically how the role of an actor as a bank can contribute to the development of Impact Investing ecosystem. Thus, firstly an analysis of the general theoretical concept of social banking will be provided and after we will move into the analysis of the specific case of UniCredit Social Impact Banking.

Instead, in the second part of the chapter, we will shift from the supply side to the demand side of impact capital, analyzing a company that represents one of the best practices in the Impact Investing field in Italy: the Santagostino medical center. The decision to choose this company as a case study derives from the fact that it represents one of the few for-profit companies in Italy that can be labeled as a "real" impact investment. In addition, thanks to their important result achieved, both under a social and financial point of view, Santagostino has become a landmark for all those who look at the Impact Investing market.

4.2 SOCIAL BANKING

In recent years, thanks to the effort put by social entrepreneurs in overcoming the traditional philanthropy model, in which the social companies were depending totally on grants and donations, some traditional institution have got involved in the social sector, developing equivalent institutions taking care of social needs, with the purpose of reducing the transaction costs and to provide capital in a more efficient way.

Until now, all the reports and the literature related to the impact investment market have been focused on trying to define the industry as a whole, without carefully describing its players. The first attempt to give an overview of how the traditional institutions have evolved over time into social institutions has been given by the Schwab Foundation. In figure 21 below, we can see the actors in the traditional capital markets and their equivalent in the social sectors (Ann-Kristin Achleitner & Wolfgang Spiess-Knafl, 2011):

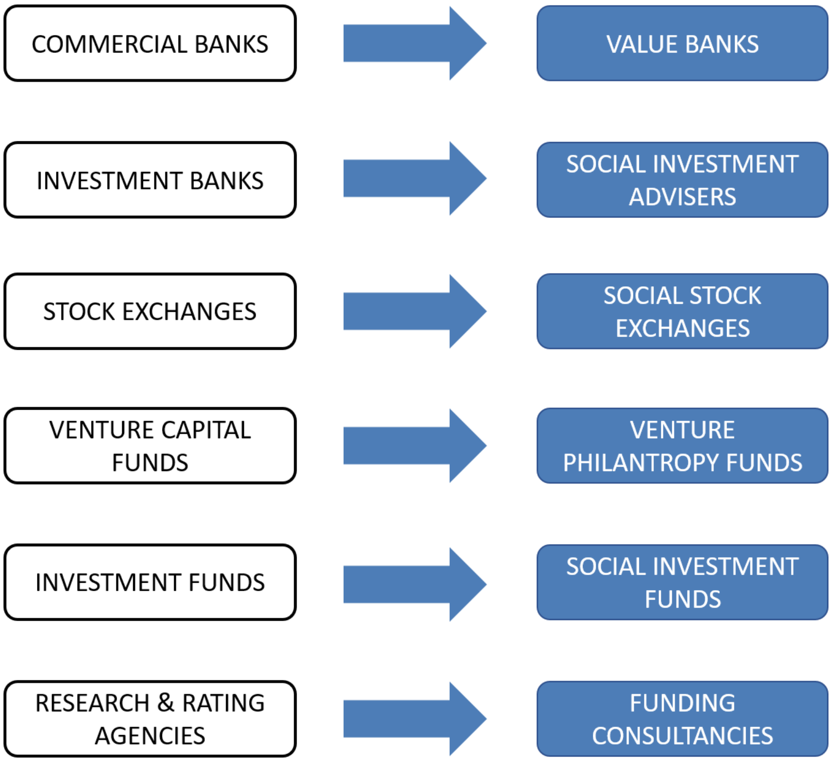

Figure 21: Social Capital Markets. Source: adapted from The Schwab Foundation, (2011)

Focusing on value banks (or social banks), they work with the same mechanism of banks in traditional capital markets: they both take money from savers and give loans to companies and individuals. However, the main differences lie both in the client target, which is social entities for value/social banks, and in the ability to understand the business and the specific needs of social enterprises.

Actually, traditional banks are hesitant in providing capital to social enterprises, and this is due principally to the following reasons:

- The business model of social companies is not interesting for traditional banks and financial institutions, mainly due to the fact that banks aim to maximize profit, as the first objective (Bengo & Arena, 2019);
- Social companies are often not able to provide guarantees for capital, making the risk of default rising dramatically and making them have a bad position on the bank risk scale. This coincides with the banks’ refusal to provide credit to this type of company;

- There is a lack of both a well-defined control system and of a structured framework on the part of social enterprises (Bengo, Arena, Azzone, Calderini, 2016);
- There may be a reputational risk for banks when they are involved in financing companies in the social sector.

In order to respond to these limitations, social banks have been ideated with the aim of creating an ad-hoc model able to understand the composition and needs of the social enterprises and giving them the financial and non-financial support needed.

Even if the literature is scarce concerning social banking, and thus there is not a homogeneous description that exactly defines this concept, it is useful to give an overview of the most accepted opinions. Looking into different papers, the most acknowledged contributions come from three main authors: Weber, Remer and De Clerck. Let's have a look.

According to Weber, he defines social banks as: "entities that provide financial services to individuals and organizations that create social, environmental or sustainability impact". Still, Social banks are "long-term, self-sustaining, transparent, inclusive and resilient to outside disruption" and unlike traditional banks, they apply these principles as their core strategy and not just as an additional element to the maximization of the profit (Weber, 2014).

Looking into the few social banks present in the world, even if they are trying to achieve a blended value, which is both a social and financial return, the focus is primarily on the creation of a positive social impact rather than the financial return. As far as the banking products provided by social banks are concerned, they can be described as traditional banking products with a social impact value-added. Indeed, social banks often let savers decide in which social sector to channel the capital deposited into the bank. Also, after the financial risk assessment to rate borrowers, social impact banks apply a positive or negative screening of the activities or projects that they are going to finance. So, there is a double risk assessment: financial and social.

Another interesting attempt to define social banks is provided by De Clerck in 2009, underlining the social banks' peculiarity of working with a "triple bottom line" approach (unlike traditional banks that work with a "single bottom line" approach, that is profit maximization). Thus, social banks are defined by applying "three different standards to judge investments and lending opportunities that take into account three different criterions", all of them equally considered (Weber & Remer, 2011):

- *Profit*: financial sustainability must be maintained in order to not threaten the development of the bank;
- *People*: the importance of the development of society;
- *Environment*: sustainable management of resources.

Moreover, another characteristic is added to these three, and it is the *transparency* of the social bank operations. Indeed, Social banks publish every year one or two detailed reports, in which they describe how much and what have been financed, what is the expected social and financial return of these investments and who are the beneficiaries of the funding operations. Thus, the costumers know perfectly where their money is going and what they are supporting.

As claimed by Sven Remer, even if some values of different social banks can differ in some ways, the common denominator that differentiates social banks from traditional ones is represented by the sharing of the prime orientation to the non-monetary value, which guides their business and practices. Social banks are also different from cooperatives banks since the latter, after the financial crisis, seem to have lost their social heritage, acting mostly like a normal bank (Remer, 2014).

Even if, social banking in Europe is still considered a niche, it is getting a lot of attention from costumers that are unsatisfied by traditional banks or that want to change their consumption style toward a more sustainable one. This is due to its strong value orientation and credible financial performance. Indeed, in the financial crisis period – from 2007 to 2010 – not only social banks showed to be resilient but also increased their customers and balance sheet growth rate of 20%-30% per year (Remer, 2014).

So, the important question that Remer asked himself in his paper “the social banking landscape in Europe” was the following one: can the social banking become a significant part of the banking industry in Europe?

Trying to respond to these questions, we can suppose two scenarios:

1) Existing social banks could try to growth in order to become an important player for the banking sector;
2) Traditional banks could try to adapt the social banking principles to their business.

Relating the first scenario, although they are growing, if we consider their actual level of development, it could take a lot of time to do this. Growing with a high rate, it is not always an easy task, both for keeping their “ethical” values and to control the increasing risks. Indeed, the difficulty is not only to find employees that have social and financial knowledge but also to allocate the capital collected to projects that are in line with the social bank mission and with the expectation of the savers. Already today, in some cases, there is an excess of capital in the account of social banks, that has to be channel into “more conventional” investments. Similarly, the low-interest rates after the financial crisis make life harder for social banks, which the main activity is based on loans and savings. Lastly, there is a regulation system defined in Basel IV which has tightened up the banking rules, without making any difference between social and traditional banks. This represents an important limitation for social companies, as they have to be compliant with stringent banking rules even if they are financing companies that are completely different and riskier than traditional ones.

Instead, looking at the second scenario, as suggested by Roland Berger, it can be the most plausible one, although there are some specialists that do not agree. Indeed, they are arguing that if traditional banks decide to enter the social market and offer social products, this strategy can be seen more as a “social impact-washing” operation rather than as “social impact-creating” one, making the reputation of traditional banks decreasing.

Looking at the Italian market, the prevailing scenario seems to have been the second, in which a part to the existence of Banca Etica, that has been the first real ethical social bank in Italy born in 1999 and that has maintained its identity, three conventional banks have decided to enter in the social segment. In particular, Intesa San Paolo entered the social market with the acquisition of the social bank Banca Prossima in 2007, UBI Banca with the creation of the internal division of UBI COMUNITA' (famous for issuing the first social impact bond in Italy), and UniCredit with the creation of the Social Impact Banking division. Obviously, this is the first response, but still, it represents an important point to understand the trend in which we are heading.

Although the attempt to define the concept of social banking can make it look like that social banking has nothing to do with the new trend of Impact Investing, this is not true. Indeed, it emerges two important commonalities between these two: both are not adopting a philanthropic model since they are not giving out grants, but they are giving out loans, and both provide capital in order to have a positive social and financial return.

Of course, if social banks want to be defined under an Impact Investing perspective and being classified as "Social Impact Banks", they have to update their mission adding the clear *intentionality* to provide capital for companies that have a *specific pre-defined social objectives* and to adopt a *measurement system* able to collect and report the impact created through the investments or loans.

In my opinion, in the Italian context, the bank that has demonstrated to undertake an initiative that can be labeled as "Impact Investing" is UniCredit. Indeed, with its project of "Social Impact Banking", it has demonstrated to embrace all the characteristics of the Impact Investing paradigm that we have seen before, namely the *intentionality* to finance social projects with a specific intention to generate a pre-defined social impact, the creation of a *measurement system* in order to collect and report the social impact created by the social companies financed and the maintenance of the *economic and financial sustainability*.

In the next section, after a brief presentation of the UniCredit group, it will be analyzed its Social Impact Banking (SIB) initiatives, with particular attention to the "impact financing" stream, understanding how its initiatives can be seen as a contribution to the development of the Impact Investing ecosystem.

4.3 UNICREDIT: COMPANY PRESENTATION

UniCredit group S.p.A is a European bank that is present strategically in 14 different European core markets, with a diffuse international network of branches and a representative network in other 18 countries worldwide. UniCredit has a portfolio of about 26 million clients in Europe, who is able to best serve thanks to the strong synergies among its three business dimensions: Corporate Investment Banking (CIB), Commercial Banking and Wealth Management. Moreover, even if UniCredit is an international player, it defines itself as “One bank, One UniCredit”, acting as a single team across all their respective markets and business divisions.

The Five fundamentals in which UniCredit has based its company vision and mission are customers First, People development, Cooperation and Synergies, Risk management and Execution and Discipline. A great effort has been done by the bank in order to gain an international reputation. In the picture below (Figure 22) we can see all the countries in which the bank is present.

Figure 22: UniCredit operating countries. Source: UniCredit Website [13]

[13] https://www.unicredit.it/it

4.3.1 SOCIAL AND SUSTAINABLE RESPONSABILITIES

Although the core business of a bank is based on financial performance, both for the group and the clients, this is not enough. Indeed, being a bank strongly spread in the territory, UniCredit has always been involved also in the social dimension of the territory in which has been operating, sustaining small enterprises and individuals' wealth.

As the bank has declared, it aims to "*achieve profit goals while catalyzing positive economic, social and environmental outcomes for all stakeholders*". In order to be sustainable and competitive in the long run, the management of the bank is aware of the importance to establish a significant and durative relation with the stakeholders. Indeed, in this sense, the strategy of the group for contributing and sustaining the value creation for the whole socio-economic environment is based on two pillars (Bilancio integrato UniCredit, 2017):

1) *Social and economic development:* the bank has the objective of contributing to the generation of wealth for people and society. Concerning financial inclusion, the bank offers products and services to companies and individuals who are limited to access credit, as well as offers programs for promoting financial education. While, regarding social inclusion, the group promotes crowdfunding activities as well as it is involved in creating networking initiatives with the aim of supporting specific sectors;
2) *Building a long-term relationship with all stakeholders of the group:* customers and stakeholders represent the vital part of the bank and thus it is essential to build a durable relation. For this purpose, UniCredit has created tools and channels to communicate with stakeholders, getting feedback to improve the quality of services. Moreover, the bank has put a lot of effort in recent years to respond to the request of transparency, being subject to be audited by sustainability rating agencies and presenting its sustainability report periodically.

Long-term relations with stakeholders	Social and Economic Development
Customers Involvement - Tools and channels for interacting with customers - Use of clients' feedbacks for improving quality of products and services **Interaction with groups of stakeholders** - constant dialogue with external stakeholders	**Financial Inclusion** - Offering product/services to individuals or enterprises with or with limited access to banking products - programs to promote financial education **Social Inclusion** - Promoting crowdfunding activities - Supporting social companies - Diffusion of culture in all its forms **Support to territorial development and countries prosperity** - Networking initiatives - Public support initiatives - Supporting specific sectors

Figure 23: UniCredit Social Commitment. Source: UniCredit Integrated report, (2017)

In addition, UniCredit is engaged in supporting the 17 Sustainable Development Goals on the United Nations Agenda 2030 for sustainable development, as it is strongly convinced that positive development of the communities creates the necessary conditions for the growth of all the actors involved. Regarding this, UniCredit has launched at the end of 2017 the project “Social Impact Banking”, which aims to contribute to the development of a more equitable and inclusive society, through the identification, financing, and promotion of initiatives that have a positive social impact.

4.4 UNICREDIT SOCIAL IMPACT BANKING (SIB)

After a brief presentation of the bank and its strategic vision regarding sustainable development, we now focus on presenting UniCredit's Social Impact Banking (SIB) project, understanding how it is interpreting this new trend of Impact Investing and how it is contributing to its development.

"We don't want to be just lenders, but also the protagonists and facilitators of positive change in our society. To do well, we have to do good."

Jean Pierre Moustier, UniCredit CEO

In December 2017, UniCredit decided to present the Social Impact Banking project, attesting the strong commitment of the bank in the social issues. This initiative has started in Italy and it has become international in 2019, spreading in all the European countries in which the UniCredit group is present. The main purposes of this project are three: helping people at risk of financial exclusion, supporting organizations that are dedicated to face social problems and contributing to the development of the Impact Investing ecosystem, providing patient capital, competencies and contributing to the network creation. Moreover, with this project UniCredit is involved in supporting the following SDGs:

3) Goal 3: developing initiatives for good health and well-being;
4) Goal 4: promoting quality education;
5) Goal 5: Gender equality;
6) Goal 8: work and economic growth;
7) Goal 10: reducing inequalities;
8) Goal 17: the creation of partnership and collaboration in order to create a strong ecosystem.

Even if UniCredit has not been the first bank in Italy to support individuals and social companies, its social initiative presents aspects and characteristics that can be considered, in my opinion, the most innovative in the banking industry in Italy and that best interprets the new Impact Investing trend. In order to create an intentional positive social impact for the society, the strategy that the bank is running is articulated in three projects: Impact Financing, Microcredit, and Financial Education.

4.4.1 IMPACT FINANCING

The impact financing project represents, in my opinion, the most innovative stream of the UniCredit Social Impact Banking initiative since it embraces the key characteristics of the Impact Investing model. The commercial offers are tailored to the social enterprise's needs, where more convenient financial terms are provided, having a cost of fund that is less than the normal commercial offers for traditional companies.

The innovative trait of this stream is that the bank has allocated to invest 100 million of euros in social companies that present Impact Investing characteristics, thus to companies that have: the *intentionality* of creating a positive social impact, which has to be clear at the beginning of the project, the capability to be *financially sustainable* during its social business activity and the willingness to provide a *measurement* of the impact generated. Moreover, associated with loans, UniCredit has introduced the P4S mechanism, which will give also a financial benefit to the companies that are able to attain the predefined goals.

Furthermore, thanks to the agreement signed between the bank and the European Investment Fund in July 2019, UniCredit has a guaranteed portfolio of 50 million Euros to use in order to provide social impact financing loans (up to 500k) to Italian social enterprises that meet specific impact criteria. The agreement benefits from the support both of the EU Program for Employment and Social Innovation (EaSI) and the European Fund for Strategic Investments (EFSI). EaSI represents a mechanism of risk-sharing, in which the European fund is covering partially the risk of the portfolio to which the bank is exposed.

Later, this stream will be analyzed more in detail and we will better understand how it is contributing both to the development of the Impact Investing ecosystem and to the creation of a more "investable ready" demand.

4.4.2 MICROCREDIT

This part of SIB supports micro-entrepreneurs with sustainable business projects, but potentially excluded from the traditional banking offer. Although microcredit is not an invention of UniCredit because it is the most established manifestation of social finance, the group has created a program that goes beyond just giving the capital. Indeed, it offers micro-lending combined with capacity building training programs provided by the UniGens volunteers, who are helping social entrepreneurs to strengthen their skills to make the business become successful. Hence, the bank is contributing to the development of small enterprises and thus to the generation of a positive social impact.

As for the impact financing, the microcredit stream of UniCredit is supported by the European Investment Fund (EIF). Indeed, in April 2018 and September 2019, there were signed two agreements for a guaranteed portfolio of respectively of 50 and 60 million between the bank and EIF, on the purpose of exploiting the EaSI program, that represent the same risk-sharing mechanism of Impact Investing, in which the portfolio risk is partially covered. The aim of the agreement is helping entrepreneurs and micro-enterprises with less than 10 employees with loans of up to EUR 25 000, as well as providing them with support on the development of their activities and access to a network of relevant industry partners[14].

4.4.3 FINANCIAL EDUCATION

Thanks to this project, UniCredit is involved in providing financial awareness and education to young people and to all individuals that are at risk of exclusion. This program is carried out by the UniGens volunteers, who are sharing their knowledge about the financial world to the young generation and the small business.

This is a very important program for our society, especially for young people that usually have not the possibility to have this type of financial education during their normal studies. Specifically, the program helps to prepare students to enter the labor market. The “Alternanza Scuola Lavoro” project, launched in 2017, is considered to be the main project of this stream. The bank has reached more than 900 classes, providing financial education to more than 15.800 students.

[14] https://www.unicredit.it/it/piccole-imprese/finanziamenti/tutti-i-finanziamenti/finanziamenti-agevolati/microcredito.html

4.5 UNICREDIT “IMPACT FINANCING” STRATEGY ANALYSIS

Now it is time to focus on the stream that, in my opinion, most represents the paradigm of Impact Investing. Specifically, the analysis of the UniCredit “Impact Financing” stream will be divided into sections, to make better understand its mission, the target to which this stream refers, its financial offer, the impact measurement system, the p4s mechanism, and the non-financial support provided.

4.5.1 THE GENERAL PROBLEM

There is always a greater number of people who are in personal or social conditions of difficulty, due both to the fact of a lack of economic resources and limited access to services. This situation leads to impossibility and discrimination for these people to be part of society.

The causes

- *The inefficiency of the public welfare:* the resources of governments are not enough anymore to cover all the population needs: there is a high waiting time for services provided by the public sector, while the services offered by the private ones are expensive and not accessible to everyone;
- *The gap between the economic needs of social companies and the offer of financial services:* access to credit for social companies that offers services for the society is limited: this is due to the inability to be financially reliable, not being able to offer guarantees for credit;
- *Lack of skills and financial know-how in the population and social companies:* there is a lack of financial education for social companies and also in the young populations, due to the limited resources invested in education and training.

Assumption

UniCredit believes that vulnerable people can be included in society by intervening in strengthening the positive links between social entrepreneurship and the provision of welfare services and also between social entrepreneurship and employment. This can be realized by both providing subsidized capital to companies with a clear intention to generate a positive social impact, also financing the ones with difficult to access credit.

4.5.2 WHAT IS THE UNICREDIT ANSWER TO THE PROBLEM?

Mission

The general mission of SIB is to contribute to the development of a fairer and more inclusive society, through the implementation of activities aimed at identifying, promoting and financing initiatives that generate a positive social impact on the territories in which UniCredit group operates. Specifically, for the "impact financing" stream, the main goal is to provide capital and capacity building knowledge to social companies that show a clear pre-defined intention to generate and measure the social impact created and that, at the same time, are economically sustainable.

"Impact financing" costumers target

The target of the "impact financing" strategy is represented by different types of social companies, regardless of their legal form, which run activities as producing goods and services for people in situation of exclusion or disadvantage, offering moderately price for goods and services for all the society (i.e. health and educations), or an activity aimed at job placement of people in disadvantaged situation. Besides, as repeatedly stressed, companies' initiative must have a formalized intention to achieve social impact, must be measurable with predefined KPIs and the business must be economically sustainable.

Thus, the focus is on the possibility to create a social impact and in the measurement of it rather than focusing if a company is a profit or non-profit entity. Indeed, with the "impact financing" model, UniCredit wants to overtake the limiting belief that social companies are identified only with the non-profit sector, and it wants to embrace all the potential social Italian ecosystem, including the entrepreneurial part of it, that in its strict sense, it represents the core innovation of the Impact Investing model.

The impact investment spectrum of companies targeted by the UniCredit offer is comparable to the one provided by Wilson in 2014, including non-profit, hybrid social enterprises and pure profit (Figure 24).

Non-Profit		Hybrid companies	Profit	
Charities with revenues	Cooperatives	Entities able to pursue a social and financial return	Profit for the social sector	Pure profit with social aim project

Figure 24: UniCredit costumers' target. Source. Adapted from Wilson, (2014)

The non-profit entities are represented mainly by the pure charities that are able to produce revenues and that are not depending totally on grants, and by social cooperatives, which are the most common form of social companies in Italy. After that, there are *hybrid social enterprises*, which are entities aiming to pursue both social and financial returns within the same activity. And lastly, we have the *profit category*, where we find profit companies for the social sector, which are social companies with the main purpose to generate profit and after to generate social impact (infrastructure for schools, elderly house, etc.) and the pure profit companies, which are represented by traditional companies running a specific social project.

The social dimensions in which UniCredit has decided to operate are the following: health and social assistance, education and training, recovery of the suburbs and goods/areas returned to the territory, social housing, social tourism and any sector that favors the employment of disadvantaged categories.

Financial offer

As regards the financial offer for "impact financing" operations, UniCredit is adopting mainly conventional medium-long term loans. Under a commercial point of view, the loans can be secured or unsecured and they are offered with a subsidized interest rate, depending on the rating class and the nature of the companies. The bank has also started to take into account the possibility to broaden the typology and the range of the financial product and recently, in July 2019, a step in this direction has been made, by issuing the first social mini-bond (Codess cooperative, Padova).

4.5.3 WHAT ARE THE INNOVATIONS OF THE IMPACT FINANCING STREAM?

KPIs and impact measurement

As we have seen in the second chapter, measuring the impact created is something vital both for the growth of social entities and for the development of the Impact Investing ecosystem. So, the idea of UniCredit is that since it is offering loans with a subsidized interest rate, it requires the commitment of social companies in sending every year the results of the social impact achieved.

In order to measure the impact created, it is essential to find the appropriate indicators (KPIs) for the outputs and outcomes. However, as we saw in the second chapter, it is not an easy task since there are different social companies operating in different sectors. So, UniCredit has decided to assist clients, deal by deal, in the choice of the right KPIs indicators. This process consists of a reciprocal agreement in which the bank and the costumers decide together the indicators on which the customer undertakes to measure itself.

The measurement system of UniCredit represents, in my opinion, the most innovative trait of the "impact financing" offer. In fact, it has a triple benefit: firstly, it is useful for the bank, that is able to quantify their contribution to the creation of a positive impact with the capital allocated to social companies. Secondly, it increases the attractiveness of the social companies since they are able to demonstrate their ability to create the social impact promised. Indeed, it has been seen that social companies do not have any idea how to measure the impact created and also, they are no awareness about the advantages of adopting a measurement system. Thirdly, increasing the impact knowledge of social enterprises helps to build a stronger Impact Investing ecosystem for all the actors, including social investors.

Pay For Success (P4S)

After providing an advantageous sustainable financing offer to social companies, with a subsidized interest rate, the impact financing model presents another innovative quality, directly linked to the measurement system: the "Pay for Success" mechanism. It consists of additional financial support (usually through donations), provided by the bank to the social company funded at the achievement of a social impact results. These social goals are settled in the contract and they are agreed together by the bank and the company. If the company wants to obtain the pay for success, it has to measure and report the outputs and outcomes achieved each year. The practical demonstration of the result reached is possible thanks to the use of the KPIs. Thus, we can say that the measurement system and P4S are strictly connected: they depend on one another.

An important aspect that has emerged in the use of p4s schema is the willingness of social companies in achieving higher social impact and also in getting involved in measuring it. The adoption of a pay for success scheme shows the real intention of UniCredit: they don't want to finance the social sector just giving money and waiting for the reimbursement, instead they want to finance pre-defined results in the social impact sector.

Non-financial support

In addition to the financial offer, UniCredit has decided to also provide non-financial support, which we have seen to be fundamental for the development of the readiness of the demand-side and of the Impact Investing ecosystem. The non-financial support is provided through:

Capacity building: they provide support for managers and employees of the social entities through the training concerning the most relevant needs that they have, such as marketing, finance, banking, communication, budgeting, etc.

Networking: the support in identification and creation of partnership and networks is provided. Indeed, being a big player in the Italian economy, UniCredit has the possibility to organize dedicated events and initiatives, with the capacity of bringing together different players such as foundation, associations, large corporations, etc, which can give a big contribution to the development of social companies and of the Impact Investing ecosystem in general.

Visibility: being a recognized and reliable player, UniCredit can give the light to valuable initiatives, thanks to its press release and website page, in order to help them in acquiring new clients and in scaling their activity.

Crowdfunding: SIB has not implemented a specific crowdfunding service for SIB clients. However, thanks to the funds collected by other projects and available for the "third sector", it can offer the possibility of making funds available also for the social companies financed by SIB.

4.5.4 CONSIDERATIONS

After the analysis of UniCredit's "Impact Financing" model, we have understood how a financial institution can adopt an Impact Investing strategy, creating a positive social impact for the community and contributing to the development and the growth of both social enterprises and the ecosystem of Impact Investing in general.

However, in order to do so, it is important to notice that UniCredit is not operating in the market in a passive way, which means providing capital with a subsidized rate and waiting for its repayment. Contrarily, it proposes itself as an active actor, providing both financial and non-financial support to funded companies, such as capacity building and network creation support. In addition, to release the loan, the bank requires the client's commitment to measure the social impact generated year by year for the project for which it requested the loan. Regarding this, the bank offers all the support to the clients in choosing the right KPIs on which they have to measure the impact created. Furthermore, with the mechanism of the P4S, the bank is stimulating the social enterprises financed to commit themselves to achieve the pre-agreed social objectives and to measure them.

So, considering the SIB project of UniCredit, we can say that not only is creating a positive social impact for society but also it is contributing to the development of the demand-side of the Impact Investing ecosystem, making it become more "investable ready". In my opinion, the strategy of UniCredit should be an inspirational model also for other banks and institutions that want to enter into the social market.

4.6 SANTAGOSTINO MEDICAL CENTER

After analyzing a practical example of how a capital supplier, such as the bank, can contribute both to the creation of a positive social impact and to the development of the Impact Investing industry (in our case we concentrated on the specific offer of UniCredit Social Impact Banking), now it is time to focus on the demand-side of capital, analyzing a company operating in the Impact Investing market: the Santagostino medical center. The objective of the analysis is to understand the strategy implemented by the company that led it to be a successful and reference example for anyone looking at the Impact Investing market in Italy.

The decision to choose this company as a case study derives from the fact that it represents one of the few "real" Impact Investing initiatives present in Italy today. In fact, Santagostino encompasses all the characteristics of the Impact Investing paradigm: *intentionality* in creating a positive social impact, *measurability* of the results achieved year by year, *economic sustainability* in the medium-long term and also *scalability* of the project. In addition, two other fundamental characteristics guided my choice: firstly, while in the Italian social context the companies are mostly social or non-profit cooperatives, Santagostino is one of the few profit organizations that has the main objective of creating a positive social impact before of a financial return. Secondly, it represents one of the very few Italian companies to have been founded and which continues to be part of a pure Impact Investing fund: Oltre Venture.

In order to run the analysis, different sources will be utilized: the official websites of both Santagostino and Oltre Venture, Santagostino social reports, the Santagostino Tiresia analysis, and some podcasts. In addition, the most enriching source that it will be used is the interview that I had the change to do to Luca Foresti, CEO of the Santagostino medical center. The interview questions have been made in order to understand different elements about the strategies of Oltre Venture and Santagostino that otherwise, it would have been impossible to understand. The interview itself was run by me and the CEO has given me the possibility to publish it in my thesis. For the analysis, I will take just a few parts of the interview, but you can find the complete one in the annex, at the end of the thesis.

Before analyzing Santagostino a little more in detail, going to see the various nuances of its success, it is essential to have a look at the Impact Investing fund that had the idea of founding Santagostino: Oltre Venture.

4.6.1 OLTRE VENTURE

Oltre Venture was founded by Luciano Balbo in 2006, and it is a social investment fund that offers private and institutional investors the opportunity to create a positive social impact through investments in social enterprises that promote social innovation. It operates in Italy, using patient capital to address social issues, such as health (access to good quality and low prices health services), social housing and unemployment. Its primary goal is to use economic resources and skills to promote solutions to address social needs covered neither by the state nor by the market, or, in some cases to find more affordable and efficient solutions for market needs that are covered but inaccessible for a part of the population. Oltre Venture's social impact goals are defined at the beginning of the investment. They measure the results obtained, monitoring every year if they have been achieved or not. They do not use either a predefined scoreboard or a third-party evaluation. Instead, for each funded initiative, Oltre Venture creates a tailor-made social impact measurement indicator and compares its operational model with that of other companies that tackle similar social problems, to learn from the best experiences and to avoid self-referencing[15].

The types of investors that are supporting Oltre Venture are represented mainly by entrepreneurs, private equiters and family officers. Their expected return is the maintenance of capital plus a small fee. In fact, as Luca Foresti stated: "Oltre Venture declared to investors that its investments are not speculative but are aimed first at creating a positive social impact and then at safeguarding capital" (Luca Foresti interview, 2019).

[15] https://evpa.eu.com/uploads/documents/170418_Brochure-Invest-for-Impact.pdf

In Oltre Venture, two funds have been set up: Oltre 1 and Oltre 2, relatively of 8 and 40 million euros. Regarding Oltre 1, it was a fund made up of "friends and family", namely friends and acquaintances of the founder Luciano Balbo who were wealthy people that decided to participate in the idea of undertaking an investment to get a social return. Instead, respecting Oltre 2, it is made up of 50% of private funds and 50% of funds provided by the European investment fund, with a "one to one" logic: for every euro raised, the fund provides another euro, doubling the investment (Luca Foresti interview, 2019).

The types of companies in which Oltre Venture is investing are represented by entrepreneurial and start-up projects both in the seed and in the expansion/incubator phases, which are characterized by innovation and a high potential for social development, but that does not find adequate support in the market. Moreover, they offer financial and non-financial support to social companies, accompanying their growth and development.

The social organizations in which Oltre Venture invests must have[16]:

- Clear and achievable social objectives;
- Business Plan with clear goals, aiming at achieving long term financial sustainability and organizational resilience;
- The capability of the social company to generate a cash flow that can cover the costs in the long term (the social organization has the potential of becoming self-sustaining);
- Scalability potential.

Moreover, Oltre Venture does not invest in Social companies that will need public funding to operate. All members of Oltre Venture are aware of the risk profile of their investments linked to the complexity and high innovation component of the interventions, but they are both aware of its potential and significant social return.

Oltre venture uses the new “Social Venture Philanthropy” approach, which derives from the operating model of the venture capitalist, in which financial resources are channeled

[16] https://evpa.eu.com/uploads/documents/CASE_OltreVenture_Ivrea24Sharing.pdf

towards efficient initiatives to finance their growth and development and offering entrepreneurs managerial and financial skills[17].

4.6.2 SOCIAL VENTURE PHILANTHROPY MODEL

The European Venture Philanthropy Association (EVPA) defines the Venture Philanthropy model as "a methodology aimed at building stronger social organizations, providing them with both financial and non-financial support, in order to increase their social impact. Therefore, there are social investment funds that finance organizations pursuing social useful goals according to a precise method that is socially and financially sustainable in the long-run". In fact, unlike traditional philanthropy based on short and small donations which prevent real development and constant growth and effective excellence, social investments imply a complete investment strategy whose fundamental elements are the evaluation of the initial investment, the planning of the exit strategy, the sustainability and the autonomy of the financed organization. Moreover, it involves also the transfer to the company of organizational and managerial skills in a structured and continuous way (capacity building).

The fundamental element that characterizes the Venture Philanthropy can be summarized as follows (EVPA)[18]:

- *High engagement*: an active and long-term partnership between venture philanthropists and funded social organizations, in which continuous and constant support is provided;
- *Capacity building*: support in promoting the growth of the entire organization in the long term, providing financial and non-financial support (skills, contacts, strategic support, etc.);
- *Performance measurement*: the activity carried out by the company is measured in order to understand the real social impact achieved and to better structure the strategy;

[17] https://www.secondowelfare.it/privati/investimenti-nel-sociale/centro-medico-santagostino.html
[18] https://www.secondowelfare.it/privati/investimenti-nel-sociale/centro-medico-santagostino.html

- *Tailored financing*: it can make use of various forms of financing such as donations, loans, participatory loans, and equity.

4.6.3 COMPANY PRESENTATION

So far, the most significant investment made by Oltre Venture has been the Santagostino Medical Center. This project was born in 2009 with a private capital investment of 2,120,000 euros, 90% of the capital was provided by Oltre and the remaining 10% by other private investors.

Santagostino's mission is to create an innovative health welfare model by offering high quality and affordable specialist medical services. The ambition and innovation lie both in bridging a gap existing between the public healthcare offer (large but not very efficient) and the private offer very expensive and accessible to few, and in creating a social initiative capable of pursuing a social return but without neglecting economic sustainability (Impact Investing)(Santagostino podcast).

Operating outside the accreditation of the Italian national health system, Santagostino affirms itself as a private service. Specifically, it is positioned in a "quasi-market", in the middle between the profit and the non-profit sector. In fact, as stated by Luciano Balbo - president of Oltre Venture - on one hand, this project does not belong to the non-profit since this sector is based on sporadic donations and therefore there is an absence of certain funds. On the other hand, it does not belong completely to the pure profit sector either, since the primary objective of investors is not profit, but the creation of economically sustainable initiatives of social interest (Venture Philanthropy).

Still, Oltre Venture has decided to enter an existing market, trying to offer a better-quality service at lower prices. If the initiative works and the margins are obtained, these are reversed on the medical center clients through constant investments, improving the services offered (market expansion, cost reduction, quality service and wider coverage in the area). Precisely, in this way of operating, we can see the real orientation to the Impact Investing model of this company, where it is not the profit that guides the business, but it is the social return and the constant improvement of it.

Since 2009, Oltre Venture in its 11 years of activity is obtaining important results: firstly, the annual turnover is constantly growing (+ 29% in 2019). Secondly, thanks to a policy of strong expansion and scalability of the model, the number of branches is constantly increasing, reaching 20. Thirdly, Santagostino has increased exponentially the services provided, reaching 664.248 and a number of treated patients who have reached Approximately 240.000 in 2019.

In the graphs below, we can see the development of the business year by year and its constant growth (Santagostino annual report, 2019).

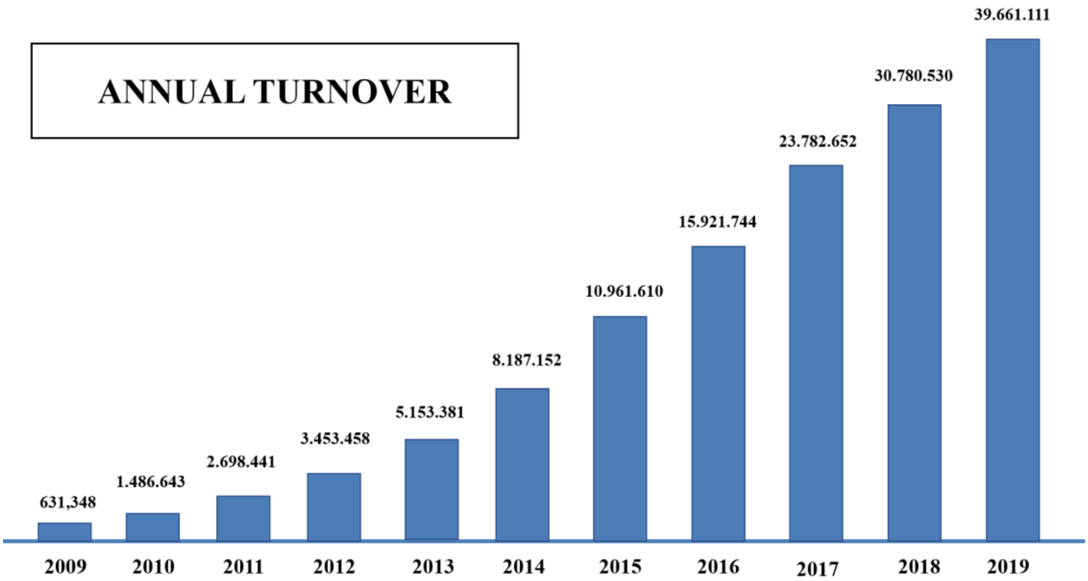

Figure 25: The growth of Santagostino turnover. Source: Santagostino annual report, (2019)

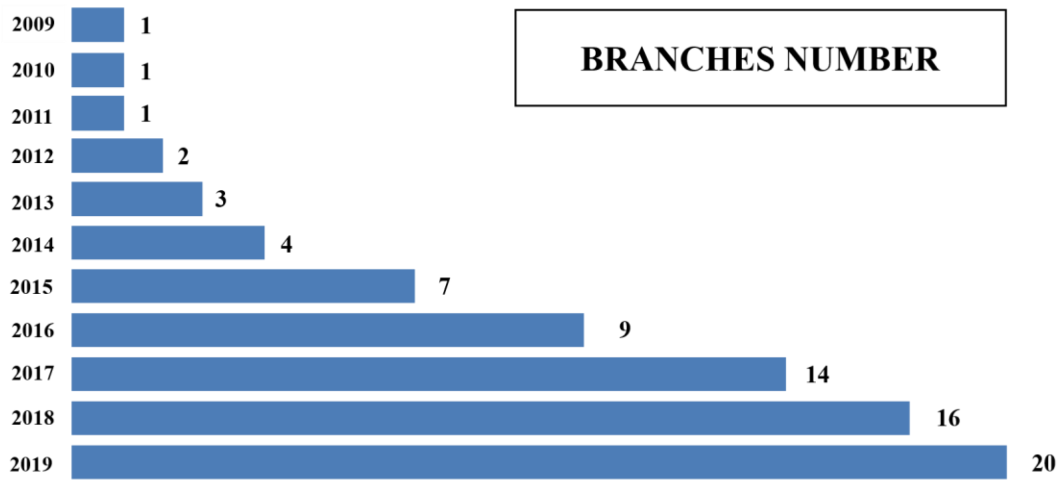

Figure 26: Number of Santagostino Branches. Source: Santagostino annual report, (2019)

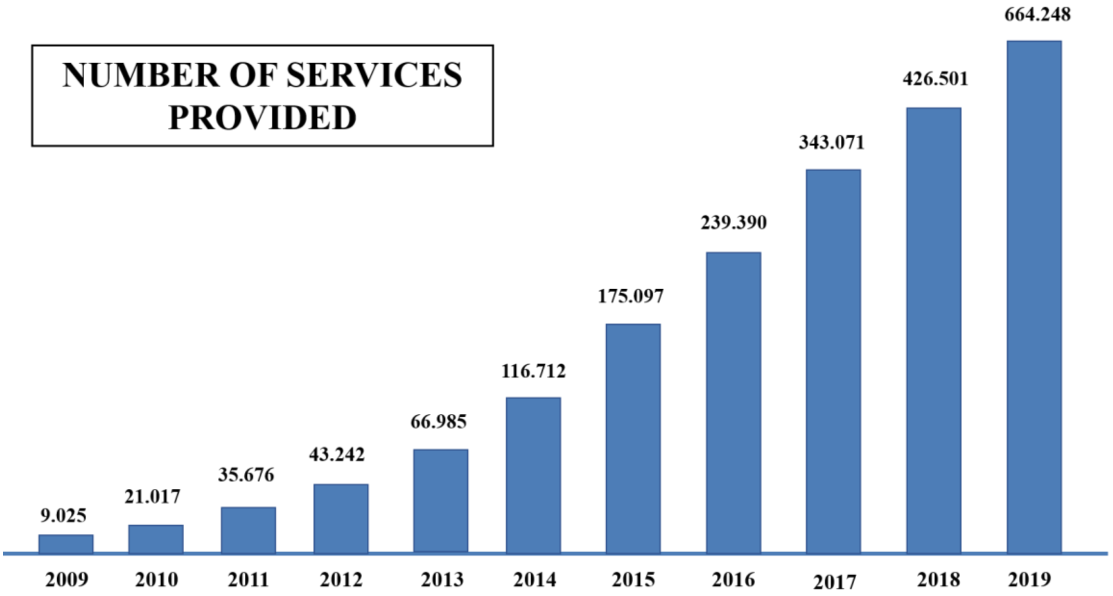

Figure 27: Number of services provided. Source: Santagostino annual report, (2019)

In addition to the company result, Santagostino has achieved also important social impact results such as the creation of a wide medical offer with excellent quality of services offered (only 0.20% of complaints rate), use of state-of-the-art medical equipment, very short waiting lists (3 days of average waiting for any service), prices contained in all services (an average of € 60 per visit since 2009 without ever-increasing the price) and the possibility of taking advantage of various conventions. Moreover, it has created 202 new jobs and 1018 doctors' collaboration.

Confirming the success and the credibility of Santagostino, there is also the decision of three important different actors in supporting the growth of this Impact Investing project. In particular:

- UniCredit bank contributed to financing this model through the social impact banking offer in 2017/2018, providing a loan at a subsidized cost with its "impact financing" offer;
- L-Gam (long-term investment firm established in partnership with the Princely Family of Liechtenstein) acquired 85% of Santagostino shares in December 2019[19];
- Amundi Finance et Solidarietè (which represents the first social and solidarity investment fund in France) has fully subscribed a mini-bond of 2 million euros issued by the medical center. This represents the Amundi first Impact Investing initiative supported outside of France.

Furthermore, in 2019 Santagostino was also awarded by two important prizes: **Financial times 1000 – Europe's Fastest-Growing Companies** – which lists the European companies that achieved the highest annual growth rate between 2014 and 2017, and **Growth Leader 2019 – Sole 24 Ore**, in which for the second consecutive year Santagostino is among the 400 leading growth companies in the small-medium enterprises segment.

4.6.4 ASSESSMENT OF THE SANTAGOSTINO SOCIAL IMPACT: TIRESIA'S ANALYSIS

The goodness of the positive social impact created by this initiative is also confirmed by the study "Impatto sociale del centro medico Santagostino" carried out by Tiresia

[19] https://www.mark-up.it/fondo-l-gam-acquisisce-l85-delle-quote-di-centro-medico-santagostino/

(2018)[20]. The analysis was based on 21 services provided by the center that were considered "key".

What emerges from this analysis is a saving for the patients of Santagostino of about 3.33 million euros compared to the average fare of other private operators (important to specify that this result is only based on the 21 services taken into consideration for the year 2016 on over 1000 services provided by the center). The average savings calculated is around 60 euros per visit compared to the average of the other 40 private providers in Milan.

Another less obvious aspect that emerges from the research is that Santagostino's offer is more related to the one of the national health system than to the private one since the cost of the 21 services analyzed is slightly higher than the cost of the ticket in the public system. Obviously, we must consider the time factor on the cost of the service provided by Santagostino, which present a huge advantage over the national system: for example, for an eye examination, a user saves 78 days compared to the national public health average, while for dermatological and orthopedic visits respectively 56 and 38.

Considering only the 10 treatments delivered most frequently, the Tiresia analysis estimates an overall cumulative time saving of 5,909 years on all users, involving a total of 25523 patients. On average, therefore, each patient saved 56.7 days.

Therefore, if we jointly consider the saving of time with the economic saving, we can confirm that Santagostino has achieved a huge positive social impact, presenting many advantages over both the public and private sectors. Moreover, its potential scalability will bring an enormous benefit also to other areas where this model will be expanded.

4.6.5 STRATEGIC ANALYSIS

After analyzing the general characteristics of Santagostino and seeing how this Impact Investing initiative has been able to create an important positive social impact on the society, now is the time to focus on its business strategy.

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[20] http://www.tiresia.polimi.it/about-us/tiresia-misura-limpatto-del-centro-medico-santagostino-il-risparmio-333-milioni-lanno/

Concerning this, the interview given by the CEO of Santagostino was of fundamental importance in order to understand and deepen its governance, its economic sustainability, its possible competitors, the pricing policy applied, its scalability and the elements on which its impact measurement is based (Foresti interview, 2019). Let's have a look at each of those.

Regarding the **governance**, Santagostino presents a typical SPA model: a board of directors, a president, and a CEO. Luca Foresti stated that "one of the fundamental elements of our success is precisely the governance of the company" (Foresti interview, 2019). In fact, thanks to the fact that the president of Santagostino is the same of the Oltre Venture fund (Luciano Balbo) and that all the investors of the fund have shareholders' agreements that follow the fund strategy, Santagostino presents a rapid decision-making process, which has allowed seize market opportunities in the correct time-to-market.

As we have seen before, while undertaking Impact Investing initiatives, in which the creation of a positive social impact is primarily driving the investment, it is very important to protect the social mission of this company. Having well-defined governance, it allowed Santagostino not only to have a correct time-to-market but also to safeguard its mission and its ethical and social values. Moreover, for social companies that decide to carry out an impact investment both the financial and non-financial support are essential. In our case, Santagostino’s management team and investors present high managerial skills and perfect knowledge of the financial market. This has allowed Santagostino to structure a consistent and reliable business plan and also to benefit from non-financial support that has been essential in the seed-phase of the company.

As far as **economic sustainability** is concerned, we have to make some considerations:

Firstly, having profit margins that are much lower than a pure for-profit company, economic sustainability is obtained on the basis of large volumes of sales of services. Indeed, Santagostino has understood that only by fully utilizing the capacity resources it makes sure that the sales volumes are adequate to achieve the economic sustainability of the model in the long-term. Because of that, unlike other private medical centers, Santagostino thinks differently and it is open every day from 7.30 to 22 (Luciano Balbo).

Secondly, if we look only at profit, we see that in reality, the Santagostino medical center has never made a profit in these 11 years. If we base only on this aspect, it may lead us to conclude that Santagostino is only able to make losses. However, as Luca Foresti states in the interview "profit is not an adequate unit of measure to understand some entrepreneurial initiatives like this one. In fact, when looking at a company we must take into consideration its EBITDA, the investments in progress and then look at the market value that the company is creating”. In fact, at first, it is important to look at EBITDA because it allows us to understand the profitability of a company, that is, its ability to generate income based solely on its operational management (cash flow produced). Secondly, it is of fundamental importance to also look at the investments that the company has underway since they absorb a large part of the cash produced. Thirdly, the most important thing when looking at a fast-growing company is its market value. In fact, as confirmed by Foresti: "Modern fast-growing companies have their focus on the value of the company and not on the profit, and the value is directly linked to the users and to the income per user. In fact, to date we have significantly increased the number of users, raising also the value spent on the service to the individual user and increasing the margin on an individual basis”. Santagostino, therefore, bases his strategy on creating value, and this is possible only because “behind Santagostino there are investors who look at the value of the company and not only at its profit, continuing to invest with capital increases to encourage growth and therefore to increase the value of the company" (Foresti interview, 2019). So, being sustained by investors who have always been focused on the value of the company, it has allowed Santagostino to continue growing in the last years, reaching important social and financial results. If we look at the financial results achieved, we can say that the business strategy applied has been successful. Indeed, at the end of 2019, the L-Gam decided to believe in this initiative, acquiring 85% Santagostino shares. As stated by President Luciano Balbo, this operation has allowed all investors to obtain the return of capital plus a part of capital gain (un modello di Impact Investing che funziona, podcast Luciano Balbo).

Thirdly, another important aspect to underline as regards economic sustainability is that Santagostino's EBITDA has been positive since 2011, and as stated by Foresti in the interview “at any time we can decide to go profit. However, the strategy implemented so far should be changed.” In fact, if Santagostino decides to go profit, it should surely decrease the growth of the company, decrease the quality of the service provided and reduce the range of services offered to the public. Nevertheless, this would mean two things: firstly, abandoning the company's value creation and therefore no longer operating in an entrepreneurial way. Secondly, it would also mean abandoning the Impact Investing initiative, as the value that Santagostino is creating is not intended to be only for the investors, but also for both all patients who benefit from the services offered and the employees.

Respecting the **scalability** on the Italian territory of Santagostino, the CEO has stated that “we think that Santagostino's model is scalable and replicable even if it is a difficult operation”. As we have seen before in the first chapter, each Impact Investing initiative must be collocated in a specific ecosystem. Regarding Santagostino, the difficulty lies in the fact that so far the project has been developed mainly in Milan, which in some ways it represents the most developed city in Italy from a socio-economic point of view. So, in view of a possible replication of the model in other Italian cities, it must be considered the different socio-economic environments in the cities and they have to be to adapt the Santagostino model to these contexts.

Regarding **competitors**, one question arises spontaneously: But if Santagostino is a successful model, why haven't other players entered the same market? According to Luca Foresti, there can be mainly two types of actors who can decide to enter this market: institutions and private investors. Firstly, as far as institutions are concerned, they are reluctant to enter this sector because they either do not have the expertise to do so, due to a lack of managerial and financial skills, or they should take a too high risk. Furthermore, they are used to living on a public budget and not to rely on market logic, thus showing a lack of entrepreneurial spirit. Secondly, regarding private investors, objectively they can enter this market, but particular attention must be paid to the final objective/mission that they have. In fact, if they do it only with the aim of achieving profit in a short period of time, Impact Investing initiatives do not represent the correct choice. As stated by Luca Foresti: "It has happened that private investors have decided

to replicate our model, copying us in prices and technological equipment. However, after a short period of time, they decided to change their strategy and began to increase prices, heading toward failure. If we look at the reason for these failures, “these companies have all made the same mistake: they underestimated the amount of capital necessary for undertaking this type of investment (this specific sector requires a huge amount of capital), believing that they can support themselves with the cash produced after a short period of time" (Foresti interview, 2019).
In addition, we must also remember that, in order to undertake an Impact Investing strategy, a "patient capital" is needed, and this is only possible if the main objective of investors is to achieve a positive social impact and a long-term market value creation for the company.

It is also very interesting to understand the **pricing policy** implemented by Santagostino. In fact, if we look at the cost per visit, Santagostino has never increased prices since 2009. As Luca Foresti said: “This is a strategic decision since it produces both a barrier to entry for possible new competitors and places us as the reference actor in the Milan market to which others must adapt ". In addition, when Santagostino introduces new services, it has decided to apply a low price also for them, accepting initial losses until the full load service delivery is reached, as we have seen previously. Once again, as confirmed by Foresti, “this pricing policy has a strategic vision since it represents an entry barrier for other possible competitors”.

Regarding the issue of **measurement**, Santagostino has always been very active in reporting the positive social impact created, monitoring constantly its growth, the prices of the services offered, the waiting times for visits, the number of patients treated, and the quality of the service offered. In addition, they are willing to collaborate with research centers and give them the opportunity to measure their social results, as in the case of the Tiresia analysis.
As we have seen in the second chapter, measuring the impact generated is something that has become vital for companies in the Impact Investing market. In fact, it allows both to be able to plan the impact strategy based on well-defined numbers and to be able to demonstrate the results achieved to the various stakeholders of the project. Moreover, if the social company is able to demonstrate good results, it has the advantage of attracting the attention of other Impact Investors and institutions, as in the case of

Santagostino. In my opinion, regarding Santagostino, the measurement of the social results achieved has played a key role in attracting the interest of investment funds and public opinion. Indeed, without measuring the results, Santagostino would have never been to demonstrate their ability to reach the social objective.

4.6.6 CONSIDERATIONS

To conclude, thanks to the analysis of this case study we have seen how an Impact Investing initiative can really help to do something important for the society without renouncing to the economic sustainability of the project. In the specific case of Santagostino, we can say that it represents an example of success from all points of view: firstly, on the social side since many people can take advantage of a service to which they previously did not have access. Secondly, on the financial side, since investors first managed to achieve economic sustainability and then with the sale of 85% of shares by L-Gam fund, they managed to recover the invested capital plus a small part of capital gain. And finally, also on the employment side, as more than 200 new jobs have been created from scratch and more than 1000 professional collaborations have been made.

Of course, we also understood that undertaking an Impact Investing project is not easy at all. In fact, these initiatives need both well-prepared managers/social entrepreneurs able to well understand the market logic of the sector in which it is decided to invest and investors willing to support the company with "patient capital", being driven by the desire to create long-term value both for the company and society.

As far as its future growth is concerned, it will be very important to understand both how the management will be able to raise funds to cope with the high investments that a strong company growth requires and how it will be able to adapt the Santagostino model to contexts that are completely different from the city of Milan.

Finally, I believe that Santagostino is a virtuous model of Impact Investing since he has been able to find a perfect trade-off between social impact and financial return. I also believe that the public sector should favor these types of initiatives since they not only contribute to the well-being of the community but also allow governments to save public resources.

CONCLUSIONS

The focus of my thesis has been the one to analyze the new trend of Impact Investing, understanding how this model can be seen as a new entrepreneurial way of investing resources in order to respond to the most urgent social problems of our days. After a long analysis, now it is time to make some considerations.

Firstly, we have seen that since the role of governments and philanthropy is not sufficient to respond to increasingly pressing social issues, new efficient and impactful ways of operating are needed. Regarding this, among the social finance spectrum, the practice of Impact Investing is the one that is increasingly attracting interest both for institutions and for private investors. In fact, as largely seen, Impact Investing is a new entrepreneurial business model for social innovation that aims to solve social problems through initiatives that are able to generate a positive social impact alongside a financial return. It is therefore proposed on the one hand as the evolution of the old philanthropic model, "guilty" of having focused exclusively on doing charity without thinking of using resources in an entrepreneurial way, namely to create initiatives capable of obtaining a social impact that is long-lasting and economically sustainable. On the other hand, it is proposed as an evolution of the SRI which has tried just to avoid negative externalities without trying to create intentionally a real positive social impact. However, if on one side the Impact Investing market has been growing a lot in recent years and it has been attracting more and more attention from a wide range of investors, on the other side, we are faced with a practice that is still looking for a clear definition. This issue represents a strong threat to the development of a solid Impact Investing ecosystem. Indeed, since it is not yet a well-defined sector, there is the risk that each actor interprets this model in different ways, using it for purposes that are different from its real mission. Furthermore, the lack of well-defined boundaries also limits the possibility of having reliable estimations of the market.

Secondly, we have understood how important it is to measure the social impact created by an Impact Investing initiative, both for social companies, in order to be able to demonstrate their ability in creating social impact to investors and stakeholders, and also for the development of the Impact Investing market in general. However, we are faced with a very complex topic, which today represents one of the most critical issues for the development of this sector. Over time, we have witnessed the creation and use of multiple measurement systems, but none of them has managed to establish itself as a standard method adaptable to all social realities. Furthermore, considering the fact that impact measurement is a very long and expensive practice, companies have always preferred to focus on other aspects. In my opinion, I believe that social companies and social entrepreneurs must be sensitized on this theme and they have to be made to understand the advantages in the long term of measuring the social impact created, both from an economic and strategic point of view. Furthermore, a clearer definition of the Impact Investing sector could certainly help in the development of more adequate and shareable measurement models and metrics.

Thirdly, two important aspects emerged from the analysis of the Italian social context. The first concerns the importance that governments have through their policy-making activity in creating the ideal conditions for social entrepreneurial initiatives to take place, and thus to contribute to developing a strong Impact Investing ecosystem. Regarding this, in Italy, a great step forward has been made thanks to the recent "Third Sector Reform", in which the third sector has been restructured and it has been introduced the New Social Enterprise (Impresa Sociale). With this reform, the non-profit element (senza scopo di lucro) has been removed, allowing social companies both to distribute dividends, under well-defines conditions, and to improve its competitiveness in the market and its attractiveness towards stakeholders.

The second concerns a strong paradox concerning the Impact Investing market in Italy: the supply of impact capital exceeds demand. As we have seen, this is not because there is no demand for capital from social enterprises because of course, they do need capital, but it is because they are not ready to meet the requirements of impact investors. So, in order to take advantage of the capital available for Impact Investing initiatives, there is the need to make the demand-side of the Impact Investing ecosystem become more "investable ready". Even if the analysis was run in Italy, this is a common problem also for other countries.

Finally, my thesis has been supported by the analysis of two actors that have been able to undertake an Impact Investing initiative, reaching important social and financial results. This has allowed me to have a more practical view of the Impact Investing industry and to better understand its dynamics.

In particular, on one side, the analysis of the UniCredit Social Impact Banking has made me understand how important it is to have investors and intermediaries who actively get involved in supporting entrepreneurs and various social enterprises, providing them financial and non-financial support. In fact, we have seen how UniCredit, with its initiative, is not only creating a positive social impact by helping social companies to access credit (financial support), but it is also contributing to the development of the Impact Investing industry, by providing a network of specialists with managerial and financial skills capable of supporting social companies and entrepreneurs in the various stages of growth (non-financial support).
Instead, on the other side, the analysis of Santagostino has shown me how an Impact Investing initiative can truly be an ideal way to respond to certain social problems of our days, since it is capable of achieving important social results without renouncing to the economic sustainability. However, from this example, we have also understood that being successful in this type of initiative is not an easy task. In fact, on one side, there is a need to have investors who have the aim of creating a positive social impact for the company, being willing both to provide patient capital and to accept a lower financial return. While, on the other side, there is a need for social entrepreneurs/social companies that are highly trained at the managerial level and that are able to operate in a complex market.

Limitations and suggestions for future research

This thesis presents some limitations that can be overcome by further researches. Firstly, my analysis has been supported by a small amount of numerical data. However, we must stress that at this stage of market development it is quite impossible to find reliable data. In addition, as we have seen before, the lack of a standardized definition of Impact Investing does not help in identifying which data should be collected. With the growth of the Impact Investing market and with the development of a homogeneous definition, it will certainly be more possible to have much more reliable market data and future forecasts about social and financial returns.
Secondly, my analysis has focused mainly on the Impact Investing market in Italy, providing an analysis of its social context and bringing the example of two successful actors that have undertaken an Impact Investing initiative. For further researches, it

would be interesting also to expand the focus to other European countries, analyzing both the various social contexts and their best practices, in order to find which are the commonalities and difficulties among actors in the application of Impact Investing strategy. This would be very useful for both social companies and impact investors that will decide to undertake an Impact Investing initiative and that want to know, for each country, which are the sectors that need urgent interventions.

Final considerations

In my opinion, the growing interest in the Impact Investing initiatives must be interpreted in a positive way since it demonstrates as investors are becoming aware that at least part of the investments must be directed towards activities that not only create a return for shareholders but that create also a social return for the community. In addition, to date, there is a big amount of liquidity to which the traditional financial world is no longer able to offer concrete investment opportunities, with high yield and low risk. So, the Impact Investing market can represent a new investment opportunity, since it offers the possibility of achieving a double return: social and financial.
However, in such a fast-growing and still not well-defined market, there is a risk that the Impact Investing model would be seen more as a fad than for its real purpose. In other words, there is the risk of using the label of "Impact Investing" for the purpose of "Impact Washing", namely labeling traditional activities with the name Impact Investing in order to have an image return and be more attractive to investors on the market.
Furthermore, with the constant increase of the capital available for Impact Investing initiatives, the biggest challenge will fall on social enterprises. So, again, developing a “ready and investable” demand-side of capital is more than ever needed.

Concluding, I think that in order to face the growing social problems in a sustainable and ethical way, a change of mentality in the social sector is needed. On one side, we need to overcome the old belief that the social sector is exclusively linked to the non-profit concept and opening the social business to wider types of investors. While, on the other side, there is the need to face social issues in a more entrepreneurial way, in order to be able to create initiatives that are long-lasting and that are capable of operating with market logic.

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APPENDIX

Interview with Luca Foresti, CEO of Santagostino medical center, 9 july 2019 (the original language of the interview is Italian).

Where did the idea of Oltre Venture come from to raise funds to invest in impact companies?

“The idea came from Luciano Balbo, who until 2007 was active in the private equity sector. After that, for personal reasons, he started to be interested in those areas of the economy in which, thanks to targeted investments and initiatives, it is possible to create a positive social change, going to address social problems that still need concrete solutions”.

Why did a private equiter decide to undertake this challenge?

“Luciano has always been driven and motivated in making investments that aim to innovate the offer of services for citizens. Obviously, everything is very difficult. Santagostino is the start-up of the fund on which the fund has focused the most”.

How did he convince investors to invest in a social impact company (Santagostino) and what type of investors are they?

“Two funds have been set up: Oltre 1 and Oltre 2. Oltre 1 has a fund of 8 million euros, while Oltre 2 has a fund of around 40 million euros.

Oltre 1 can be defined as a fund constituted by "friends and family". Indeed, Balbo's friends were the first to believe in the idea of investing in the social field. These friends are people with the appropriate financial resources that are interested in the idea of investing in order to create a positive social impact. For these reasons, they decided to actively participate with their own capital. The type of investors is mainly represented by entrepreneurs and private equiters or family offices. When Oltre 1 came to the end of life, a funding round was made in order to create Oltre 2 fund.

The Oltre 2 fund is made up as follows: 50% private funds (like Oltre 1) and 50% provided by the European facility (FEI - European Investment Fund) with a "one to one" matching, that is, for each private euro collected, the fund doubles with additional investment (1;1). The type of investors of Oltre 2, therefore, is similar to Oltre 1”.

What do investors expect from these types of investments?

“They expect to have capital maintenance with a very small margin. So compared to venture capital investors, who instead expect a return with significant percentages, the commitment is different: at the beginning, it was declared to the Oltre’s investors that the goal was the maintenance of capital, plus a small fee. Therefore, the investment is not speculative but intentionally aimed towards the goal of creating a social impact, first, and of safeguarding capital, then”.

What is an expected return for impact investment?

“A clarification regarding this question has to be given: The Impact Investing ecosystem is not yet fully defined. If you search on the Internet for "Impact Investing", you will find six different definitions. So, it is difficult today to define the object all-round. In fact, there are entities who utilize "the hat" of Impact Investing, but that, in reality, they have nothing to do with it. While others, who identify themselves as “impact investors”, but in reality, they still operate according to the logic of traditional non-profit.

Therefore, "impact" and "investing" are today two words in search of a shared definition that can assert itself in the long term. Today the picture is still varied and for this reason, we have difficulty in having a common language and metrics.

So, the only thing that can be done is to analyze the individual subject/company and understanding what rules it has given itself, how it fits into the public debate about Impact Investing and its idea of it. Therefore, if you ask me: what is the return of an Impact Investing investment? the answer is with another counter-question: what Impact Investing? English, American, or what else?”.

How did the idea of Santagostino come about? Was it born because you saw a gap in the public welfare system between what the public sector offered and what people asked for? Was born first Oltre or Santagostino?

“Oltre venture was born first, which in turn led to the birth of Santagostino. As for other Oltre Venture investments, there is an entrepreneur who presents a business plan and Oltre collaborates with the entrepreneur.

Regarding Santagostino, a need has been identified and it has also been easy to identify it. In fact, if you take the Italian health economy you understand that there are two types of services, one public and one private: 117 billion euros for the public (this data is certain) and 44 billion euros for the private sector, as ISTAT and Bocconi estimated.

In those 44 billion euros, 90% is out of pocket and 10% is insurance. Still, in the 44 billion, one part is represented by products, while the other part is made up of services.

So, when we started analyzing the market we asked ourselves: where do citizens spend more today? In services and not in the hospital. Specialist visits to Italy represent 50%, a very important figure. How are visits to Italy delivered? With high costs and poor quality of the extra-clinical service, while for the clinical one it generally depends on the quality of the doctors.

So, the question that we asked was the following one: is it possible to offer a better extra-clinical service than the one present at much lower prices? At that moment we worked on a business plan and we understood what the fundamental drivers were (i.e. filling the doctors' agenda: in fact, if you succeed in this, at the end of the month the doctor still earns, even if to a lesser extent than in other structures). This is how the Santagostino project was born, from the identification of a very concrete need”.

How has Santagostino's strategy changed over time?

“The strategy has not changed, but what has changed is the execution of the company. The area in which we operate has been the same for 10 years, but we have expanded the offer, thanks to both an increase in capital and skills. What positively surprised us was the success achieved. In fact, when we started with the Impact Investing initiative, we imagined to open one or two centers and that would have been enough. However, there has been an exponential growth of 50% per year that continues.

Today we do not have a market problem because it responds, but we have a problem with the number of doctors, which is not enough to answer market demand. If we had it, we would grow much more”.

How is the relationship between Santagostino and its investors at the decision-making level?

“It presents typical governance of the SPA model: a board of directors, a president, and a CEO. Since the fund owns the majority of company shares and the other investors have shareholder agreements that follow the fund's strategy and given the fact that the fund president is also the president of the medical center, the decision-making process is leaner. To date, one of the fundamental elements of our success has been our corporate governance. Other companies with more complex governance may face greater difficulties in seizing opportunities and in choosing the right time-to-market”.

What are the sources of revenue?

“So far, we have never made a profit, and therefore in this respect, it seems that we don’t make a profit.

But, if we look at Amazon, we can see that also it has never made a profit. Profit is not an adequate measure unit to understand some business initiatives like this. When you look at a company you have to consider EBITDA (cash-flow), the investments (because companies that grow fast must use most of the cash-flow produced for investments), and then look at the value of the company (which price the company has the potential to be sold at?).

Modern fast-growing companies, such as those of Silicon Valley, have their focus on the value of the company, and the value is directly linked to users and income per user. SO far, we have significantly increased the number of users, increasing both the value spent on the service by the individual user and the margin on an individual basis.

Growth produces slight margin improvements year after year. However, we continue to reinvest everything we make in the company's growth. Our survival is possible because there are investors who look at value and not only to the profit and because they continue to invest by making capital injections.

And why do they do it? because they are mainly interested from an ethical point of view and because in doing so, it increases the value of the company”.

According to the balance sheet, Santagostino has always had losses since 2019, right?

“EBITDA has been positive for a long time, since 2011. It is the profit to be negative for the reason explained before”.

If we look at Santagstino, it seems to be a successful model. How come other people have not replicated your model? And if you increase your turnover year on year, can the costs be sustainable?

“Other investors who can access this market can do so from “above" or from “below".

From above, large and small institutions can access, but they either do not have the skills to do it or they should take a too high risk. Furthermore, they are all institutions used to living with public budgets. Instead, we do not have even one euro of public budgets. In fact, our business model depends totally on the market.

While, from “below”, the dynamic is different: competitors enter, make prices like ours or a euro less, make sites and technological tools like ours, but after 6/8 months they increase the prices. But after about a year and a half, they close.

What has happened? Always the same thing: they underestimated the amount of capital necessary to survive. They thought they could make the first center and that this would have produced cash enough in order to finance the growth of the company. The problem is that up to 20/30 million of turnover it is difficult to produce cash considering the level of our service. So, this is an initiative that has a critical mass of investment needed to exist. And not only that. Indeed it needs also investors that put patient capital and that are willing to wait years before getting it back”.

Are you financially and economically sustainable?

"Yes, we are sustainable. We can decide at any moment to make a profit. In order to do this, the strategy should be changed but it would go at the expense of the continuous increase in quality that we have been giving to patients over the years.

In fact, we have progressively improved the quality of what we are doing, and we are giving to the clients a part of our improvements. Our way to operate has a strategic purpose, in order to create a barrier to entry for competitors. Indeed, it is not easy to compete with our model: the cost of a visit is 60 euros per visit, we have a perfectly digitalized extra-clinical path, we have the quality system that collects feedback on doctors' qualities, we have the space available for visits published online 24/7, etc.

If we want to go in profit immediately, what we can do is: decrease the growth of the company and stop continuing to give higher quality, or rather rationalize some qualitative elements a little more in favor of the company and go profit immediately. But this is the same operation that also Amazon can do in order to reach immediately profit - but instead, for 20 years it has been investing all the profits in creating value. Same thing".

How are you able to not increase prices and continue to buy new types of machinery?

"it is a strategic choice. Indeed, not increasing prices produces an entry barrier to competitors while for other actors operating in the same sector they have to reduce prices. We are in Milan today and we hope to become for all Italy the anchor at which private individuals must report".

But with the investments you make, do you have to continually increase the costs of the visits?

"New activities are priced in a way that when they are fully loaded, they produce margin.

The idea is that when we price a new service, we do it by accepting the losses as long as we are not fully loaded, but when we are fully loaded, we make a margin. This is once again our strategy in order to build an entry market barrier to competitors.

The opening hours, for example, are aimed at facilitating patients. We open at 7.30 in the morning and close at 22 from Monday to Sunday. Competitors are not used to reasoning in terms of such large agendas. We now have a situation where if you try to book an MRI scan (which is the most expensive and requested machine on the market) you can do it in the shortest possible time. This means maximum use of assets. Nobody does it, neither public nor private hospitals".

Does it drive more profitability or social impact for you? And for the investors?

"It guides the value that is created for society and the value is equal to the number of patients multiplied by the value per patient. The moment you create value for the company, your company increases its market value itself.

Now we have half a million patients. Let's assume that in 5 years from now, the Santagostino medical center will have 5 million patients. It is well understood that a health care provider with 5 million patients has enormous value. So, when investors decide to sell their shares, they will have back the invested capital plus a return. Obviously, the return will not be as important as in the traditional venture capital model, in which if the project is successful the return can have multiples of 10x 20x 30x. In our case, we can have a 3x return in 5 years which is a good result.

However, be careful to judge this investment as a good opportunity for investors, because we are analyzing our position after 11 years of successful activity. But if you try to identify yourself with investors who undertook this initiative in 2009, and who saw 600,000 euros in turnover and 1 million in losses in the first year, the result of today is not so obvious.

I say this because this is one of the classic mistakes that are generally made. For example, regarding the media, they only look at the final result of those investments who have been successful".

How much is the expected return of an investor who decides to exit the investment?

"The venture capital model has the rule of 8-9 out of 10 bankruptcies, and when there is a successful case, it has a return of 10x 30x in 3/4 years. Impact Investing instead, on the other hand, has a lower number of failures but when you decide to exit the investment, instead of having a 30x they will have a 3-4x, hopefully".

Have you achieved more social impact or finance results in 10 years?

"This is a success story from all points of view. On one side, it is a success story in terms of social impact because the number of patients and the value per patient is really high and it is constantly growing. On the other side, it is also a success story under a financial point of view because when the partners who have invested will decide to sell the company, the money invested will return with significant multipliers. Still, it's a success story for employees because we generated 220 jobs from scratch and for patients who have a service that previously did not exist in Milan and to which they have become accustomed. In addition, we have generated professional relationships with 1,000 professionals who find it possible to work from 4 hours to 40 hours a week in an optimal working condition".

Is it not difficult in the Impact Investing market to have a strong impact without sacrificing profitability?

"So, the question is the following one: Who invests in Impact Investing? Usually, people who have economic resources. Many people donate money or create foundations, all in the non-profit sector. Within this human phenomenon where people who have achieved a good level of well-being decide that they want to return something useful to society, there are several opportunities and ways to do it.

Impact Investing has become one of the sources of investment in this area, with the difference that it is not a non-profit activity in the classical sense. Indeed, if the investment is successful, the investors retain capital and this should not be underestimated.

I personally think that the world is changed widely by politics and companies. So, the moment you want to change something you have to do it with an entrepreneurial mindset. An example of success in this new way of contributing to social development is represented by the Bill & Melinda Gates Foundation, since it is a foundation organized following an entrepreneurial approach, integrating a new way of operating in traditional philanthropy, completely equal to that of a for-profit enterprise.

However, Impact Investing does not work in some areas. There are some sectors where you cannot do Impact Investing, such as the area of disability. There are areas that are now considered areas where citizens' taxes must pay for services and therefore, they are largely free services offered by the state. In the minds of citizens, this must work like this. If you bid on the market it doesn't work. We must be very careful to identify a dividing line between what is in the so-called market area and what is in the non-market area. What is in the non-market area is useless for Impact Investing. To meet these needs, we only have two options: either citizens' taxes, which is the best option for me, or pure philanthropy. There are no other possibilities".

Do you think the Santagostino model is scalable and replicable? If so, how difficult is it?

"Yes, we think this model is scalable and replicable. It is very difficult basically because we have made our decades of experience in a city, Milan, which by now is not comparable to the rest of Italy. Milan is a city different from the rest of the country from a socio-economic and political point of view. So, the model that we developed here, perhaps applied in other places still needs to be adapted. It is as if it were a start-up again to start".

What measurement factors do you use to say that you have achieved a social impact?

"Growth, prices and waiting times".

What do you feel to recommend to anyone who wants to enter the world of Social Impact Investing? And what macro-trend do you see?

"Being very strong from a professional point of view because making this type of investment and then managing these types of companies is more difficult than investing in traditional for-profit companies. In fact, here the margins of error are smaller. If you make a mistake because of the small margins, the company will collapse immediately. Therefore, you must be professionally very solid".

What is the medium-long term trend regarding the Social Impact Investing market?

“There is a trend of increasing capital available for the reasons we said before: there is liquidity in the world thanks to the availability of private assets of wealthy people. The possibilities of high-yield, low-risk investments around the world have dried up over time. Indeed, investments in government securities that were a significant part of the investments went at interest rates equal to 0 or even negative and in any case are risky. The risk of a crash is real now. So great liquidity, few possibilities for low-risk investment, therefore low returns.

So, in this scenario, a model like Impact Investing becomes a good possibility. The economic resources coming from Impact Investing will certainly increase and therefore the bottleneck will be fundamentally on the operators.

In Italy, there is just one real operator of Impact Investing and this is OltreVenture. When in a country you have a single operator, you do not have an ecosystem but a single case. This situation is not good because there could be capital available to be invested in the Impact Investing market but there are no operators. Operators must be understood in two ways: on the one hand, the financial operator, that is, the one who creates the fund and invests, and on the other hand, the entrepreneurs in the Impact Investing field. Being an entrepreneur in the Impact Investing field is a different thing from being an entrepreneur in a classic context because at a value and internal drive level you must have characteristics that you don't necessarily need to have if you are an entrepreneur in the classic field. There are some very good classic entrepreneurs who are totally oriented towards seeking profit. If you have that driver, you cannot operate as a social entrepreneur”.

So, can you earn with Impact Investing?

"Of course, you can earn but not as much as in private companies”.

But you must have a motivation that goes beyond money, right?

"Exactly. If you do something to earn and riskless, Impact Investing is not the sector you should invest in. If you add the motivation to do something relevant to others, then impact is the right sector”.

Is it possible that investment in Impact Investing becomes more a question of the image than of ideal?

“I don't want to be unfair. Some people certainly do it in order to have an image return. This can be the case when they give you money and the day after they publish it. But I must also say that there are some of my investors who do it because they really think they can contribute to society. The behaviors are very different, and the internal drives are very different. So, it would be unfair to tell you that everyone does for the image return”.

So, we can consider Social Impact Investing like an innovative model for philanthropy activities rather than a substitute for traditional finance, right? And therefore can it be considered as an investment made in order to maintain capital rather than invest to make money?

“Yes exactly”.

Concluding, if I have well understood, you are aiming for value creation rather than immediate profit generation, right? And if investors decide to exit the investment tomorrow, they would get their money back, right?

"We have created value for both investors and society. This is why it is a winning model, because nobody loses, only the competitors ... But that's the market".