

2

An Introduction to Social Impact Investing

Abstract The aim of this chapter is to introduce the topic of social impact investing. For this purpose, the chapter accurately defines impact investments, analyzing the main features and identifying the ‘perimeter’ and nature of SIIs. The market structure is analyzed focusing on: demand-side and supply-side organizations; intermediaries and other institutions involved in the SII market; regulation; and the SIIs market in numbers. Moreover, the chapter describes asset classes among which SII spreads and typologies of financial instruments employed. The topic of social impact measurement is discussed as well.

Keywords Social impact investment · Impact investing · Impact measurement · Ethical investing · Social investing · Mission driven investing · Sustainable and responsible investing · Blend value · Values-based investing · Measurement of social impact · Literature of impact investing

2.1 Introduction

Social impact investments (SIIs) aim to achieve both social goals and financial returns. The name impact investing originated at the Rockefeller Centre in Italy in 2007 (Harji and Jackson 2012), where several practitioners gathered to define a new investment approach able to generate more than financial return.

Since 2007, many practitioners, international organizations, and governments demonstrated their interest in impact investments. Many for-profit institutions (i.e., firms, banks, financial institutions) increased their involvement in the market, and a new paradigm of investment was created. In 2010, the first social Impact Bond (SIB) was launched in the UK and it is known as the Peterborough's SIB. Furthermore, several international organizations have paid attention to SII: the World Economic Forum (WEF) dedicated a panel to SIIs during the 2013 World Economic Forum Annual Meeting, while the G8 Meeting in the summer of 2013 saw Prime Minister Cameron (UK) promote the institution of a G8 Taskforce on SIIs (SIIT). In particular, the SIIT aimed to 'catalyze the development of social impact investment market' (SIIT 2014).

Regarding market growth, the Monitor Institute in 2008 estimated a potential market growth in the \$500 billion range for the next 5–10 years (Freireich and Fulton 2009), while a report sponsored by J.P. Morgan and the Rockefeller Foundation in 2010 valued the potential growth of the SII industry between \$400 billion and \$1 trillion by 2020 (O'Donohoe et al. 2010).

The aim of this chapter is to provide an overview of impact investment. For this purpose, Sect. 2.2 accurately defines impact investments and Sect. 2.3 identifies the perimeter and nature of SIIs. The market structure is analyzed in Sect. 2.4 focusing on: demand-side and supply-side organizations, intermediaries and other institutions involved in the SII market, regulation, and the SIIs market in numbers. Section 2.5 describes asset classes and typologies of financial instruments used in the SII framework. The topic of social impact measurement is discussed in Sect. 2.6.

2.2 Definition and Main Features

During the first phase of market development—approximately the first three or four years of market growth—the need to define SIIs in a unitary way was not a big issue. Any practitioner defined a set of features for SII and set up projects or financial products accordingly. However, in a second phase of market development practitioners and some international organizations have stressed the need to develop a clear framework that contributes to market growth (i.e., Saltuk et al. 2014; Eurosif 2014; OECD 2015) increasing the investors' confidence (i.e., Freireich and Fulton 2009; Drexler and Noble 2013).

Freireich and Fulton (2009, p. 11) define impact investing as 'actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor.' A more precise definition of SIIs was ideated by O'Donohoe et al. (2010) who recognized a list of features for SIIs. They focus on:

- the provision of capital;
- the intention to generate social impact;
- the measurement of social impact; and
- the return expectation.

O'Donohoe et al. (2010) stressed the intention of generating social impact because any investment creates an impact, but within the SII's framework the potential impact should be targeted a priori (Drexler and Noble 2013).

The proliferation of various definitions of impact investment has continued for several years. Table 2.1 illustrates many definitions provided by practitioners, international organizations and scholars (this list does not claim to be exhaustive).

A multi-faced context emerged from the analysis of definition presented in Table 2.1.

The most cited element within SII definitions is the aim of generating social impact and financial return (Table 2.2). This goal can be reached by channeling capital toward institutions, as enterprises and funds that

Table 2.1 Definitions of SI

Author	Institution	Definition
Freireich and Fulton (2009)	The Monitor Institute	Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor
O'Donohoe et al. (2010)	J.P. Morgan	Investments intended to create positive impact beyond financial return. Impact investments provide capital, expecting financial returns, to businesses (fund managers or companies) designed with the intent to generate positive social and/or environmental impact
The Parthenon Group (2010)	Report Commissioned by Bridges Venture and GIIN	Actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor
AlphaMundi (2010)	Alpha Mundi Group	Any profitable investment activity that purposefully generates measurable public benefits. Impact finance therefore spans multiple assets classes, economic sectors and geographical areas ^a
Grabenwater and Liechtenstein (2011)	IESE University	Any profit-seeking investment activity that intentionally generates measurable benefits for society
Brown and Swersky (2012)	Boston Consulting Group for Big Society Capital	The provision of finance to organizations with the explicit expectation of a social as well as financial return
Credit Suisse (2012)	Credit Suisse	Investments made with the primary intention of creating measurable social impact, with the potential for some financial upside. The investment may face some risk of financial downside, but no deliberate aim of consuming capital as with a charitable donation
Addis et al. (2013)	Australian Government and JBWere	Impact investing intentionally seeks to achieve a positive social, cultural or environmental benefit as well as a measure of social return. Impact investing can span asset classes, types of organizations, sectors and locations, and deliver a range of financial returns and societal benefits. The key feature is the intention to create positive impact and financial return

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Table 2.1 (continued)

Author	Institution	Definition
Brest and Born (2013)	Stanford University and Hewlett Foundation	Actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns from the highly concessionary to above market
Drexler and Noble (2013)	World Economic Forum	An investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured
Johnson and Lee (2013)	Cambridge Associates LLC	Investment made in an enterprise (whether a corporation, a non-profit, a government or some other entity) because that enterprise offers a market-based solution to a social or environmental challenge that the investor wishes to address
GIIN (2014)	The Global Impact Investing Network	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 the circumstances. The practice of impact investing is further defined by the following four core characteristics: <ul style="list-style-type: none"> • <i>Intentionality</i>. An investor's intention to have a positive social or environmental impact through investments is essential to impact investing • <i>Investment with Return Expectations</i>. Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital • <i>Range of Return Expectations and Asset Classes</i>. Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity • <i>Impact Measurement</i>. A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field

(continued)

Table 2.1 (continued)

Author	Institution	Definition
Indian Impact Investors Council (IIIC) 2013 in Dutt et al. (2014)	Indian Impact Investors Council	Impact investment is a for-profit enterprise that: <ul style="list-style-type: none"> • Serves underserved beneficiaries who are producers, consumers, suppliers, employees or users or entrepreneurs; underserved beneficiaries should comprise majority (two-third or above) of the beneficiary base • Willing to carry out third-party reporting/assessment in conjunction with investors • Follows all compliance and regulatory norms as prescribed by the authorities • Demonstrates high standards of corporate governance and consumer protection A middle way between philanthropy and pure financial investment. A means of using capital to drive financial value and social environmental impact simultaneously
Rodin and Brandenburg (2014) SIIT (2014)	Rockefeller Foundation SIIT	Investment made into business and social sector organizations directly or through funds, with the intention of generating measurable, beneficial social and environmental impact alongside a financial return
Burckart (2015)	Burckart Consulting	Socially motivated investing that deploys capital with the anticipation of generating financial returns to the investor alongside positive social and/or environmental impact Distinguish between: <ul style="list-style-type: none"> • Non-concessionary impact investing: investing that seeks measurable social impact alongside risk-adjusted financial returns • Concessionary impact investing: investing that is willing to make some financial sacrifice—either taking greater risks or accepting lower returns—to achieve social goals A transaction between an investor and investee in a social area, targeting beneficiaries in need. Beneficiaries targeted should be at risk populations and the good provided should have a mix of public and private good characteristics. These transactions are often made using intermediaries. The investee in the transaction should, at least, inscribe a compulsory reporting clause of its social activity in the statutes, as well as provide a formal evaluation of social impact. In parallel, the investor should at least have a compulsory reporting clause for social impact investment and have return expectations above or equal to zero, but not above the market rate of return
OECD (2015)	OECD	

Source Adapted from Vecchi et al. (2014)

^aThe AlphaMundi (2010) definition refers specifically to 'impact finance'

Table 2.2 Features of social impact investments, by literature

Feature of SII	Freireich and Fulton (2009)	O'Donohoe et al. (2010)	The Parthenon Group (2010)	Alphamundi (2010)	Grabenwater and Liechtenstein (2011)	Brown and Swersky (2012)	Credit Suisse (2012)	Addis et al. (2013)	Brest and Born (2013)
Social (or environmental) impact and financial return	✓					✓		✓	
Social and/or environmental good									✓
Primary intention to generate social impact and potential for financial return							✓		
Intent of obtaining social impact/benefits				✓	✓	✓	✓	✓	
Measurement of social impact				✓	✓		✓	✓	✓
Formal evaluation of social impact									
Profitable investment activity				✓	✓				
At least return of principal	✓								
Financial return ranges from principal to market return									
Return that range from below market to risk-adjusted market rate									
Deliver a range of financial return								✓	

(continued)

Table 2.2 (continued)

Feature of SII	Freireich and Fulton (2009)	O'Donohoe et al. (2010)	The Parthenon Group (2010)	Alphamundi (2010)	Grabenwater and Liechtenstein (2011)	Brown and Swersky (2012)	Credit Suisse (2012)	Addis et al. (2013)	Brest and Born (2013)
Public benefits/benefits for society			✓	✓	✓				
Investment made in enterprise because offers market base solution to social or environmental challenge						✓		✓	
Placing capital in businesses/organizations		✓							
Placing capital in businesses designed with the intent to generate positive social and environmental impact			✓						✓
Placing capital in enterprises/businesses which generate social and/or environmental goods/ services	✓								
Investee organization should inscribe a compulsory reporting clause of its social activity in the statutes as well as provide a formal evaluation of social impact									
Transaction between investor and investee in a social area									

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Table 2.2 (continued)

Feature of SII	Freireich and Fulton (2009)	O'Donohoe et al. (2010)	The Parthenon Group (2010)	Alphamundi (2010)	Grabenwater and Liechtenstein (2011)	Brown and Swersky (2012)	Credit Suisse (2012)	Addis et al. (2013)	Brest and Born (2013)
Range of asset classes				✓				✓	
Range of geographies				✓				✓	
Beneficiaries are at-risk population									
Investor should inscribe at least a compulsory reporting clause									
Feature of SII	Drexler and Noble (2013)	Johnson and Lee (2013)	Dutt et al. (2014)	GIIN (2014)	Robin and Brandenburg (2014)	SIIT (2014)	Burckart (2015)	OECD (2015)	
Social (or environmental) impact and financial return	✓			✓	✓	✓	✓		
Social and/or environmental good									
Primary intention to generate social impact and potential for financial return									
Intent of obtaining social impact/benefits				✓		✓			
Measurement of social impact	✓			✓		✓			
Formal evaluation of social impact								✓	

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Table 2.2 (continued)

Feature of SII	Drexler and Noble (2013)	Johnson and Lee (2013)	Dutt et al. (2014)	GIIN (2014)	Robin and Brandenburg (2014)	SIIT (2014)	Burckart (2015)	OECD (2015)
Profitable investment activity								
At least return of principal								✓
Financial return ranges from principal to market return								
Return that range from below market to risk-adjusted market rate				✓				
Deliver a range of financial return								
Public benefits/benefits for society								
Investment made in enterprise because offers market base solution to social or environmental challenge		✓						
Placing capital in businesses/organizations						✓		
Placing capital in businesses designed with the intent to generate positive social and environmental impact								

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Table 2.2 (continued)

Feature of SII	Drexler and Noble (2013)	Johnson and Lee (2013)	Dutt et al. (2014)	GIIN (2014)	Robin and Brandenburg (2014)	SIIT (2014)	Burckart (2015)	OECD (2015)
Placing capital in enterprises/businesses which generate social and/or environmental goods/services								
Investee organization should inscribe a compulsory reporting clause of its social activity in the statutes as well as provide a formal evaluation of social impact								✓
Transaction between investor and investee in a social area								✓
Range of asset classes				✓				
Range of geographies								
Beneficiaries are at-risk population								✓
Investor should inscribe at least a compulsory reporting clause								✓

Source Author elaboration

provide social or environmental goods/services (Freireich and Fulton 2009; The Parthenon Group 2010; Brest and Born 2013) or toward institutions designed with a social purpose (O'Donohoe et al. 2010).

Jones and Lee (2013, p. 4) focus on the role played by social enterprises as institutions able to optimize social impact using 'market-based solutions.' The OECD (2015) defines organizations providing social goods as 'delivery organizations.' In order to improve industry standards amongst such organizations, the OECD identifies the need for compulsory reporting, the need to create clauses in order to prevent mission drift or to certify social impact.

Clear identification of SII beneficiaries is rare. Before the OECD (2015) definition, which focuses on 'at-risk population,' several practitioners focused on society as a whole (as Grabenwater and Liechtenstein 2011).

The measurement of social impact appears a crucial element too, and it will be comprehensively discussed in Sect. 2.7.

The financial return can be fixed, at least, in the payback of investee capital (Freireich and Fulton 2009) or can range between the payback of capital and the market rate of return of similar investments (OECD 2015). Grabenwater and Liechtenstein (2011) and GIIN (2014) both focus on the financial profitability of SII without setting a target return.

With regard to the level of financial return, Burckart (2015, p. 4) distinguishes between:

- 'non-concessionary impact investment'—financial return in line with market rate return (MRR)—and
- 'concessionary impact investment' characterized by financial return below the MRR and a sacrifice supported by investors in order to obtain a social impact.

Other elements underlined by practitioners are the SIIs' spread across asset classes (AlphaMundi 2010; Addis et al. 2013; GIIN 2014) and geographies (AlphaMundi 2010; Addis et al. 2013).

The analysis conducted by Höchstädter and Scheck (2015) on 151 publications from academics and practitioners confirmed that:

- SIIs are generally defined around financial return and some typologies of non-financial impact;
- ‘the return of the invested principal appears to be a minimum requirement’ (p. 459); however, the expected financial return can fluctuate from below to above MRR; and
- non-financial impact consists in social and/or environmental impact that should be intentionally pursued and measured (or measurable).

The OECD (2015), following the SIIT’s report (2014), has identified seven features of SIIs alongside a list of eligible conditions. Elements identified by the OECD are: social target areas, beneficiaries, goods or services, delivery organizations, measurability, investor intent, and return expectation.

Thus, according to this definitional framework:

- SIIs should target social areas identified in a close list, including: aging, disability, children and families, public order and safety, unemployment, affordable housing, education, and training. Social areas not eligible for developed countries (as, for instance, micro-finance or environmental protection) can be admitted when the investment is realized in developed countries.
- Beneficiaries of SIIs should be ‘at-risk population’ and in order to be included in this category, poverty does not represent a sufficient condition. The status of ‘at-risk population’ should generate and result in some costs for social exclusion ‘if not managed’ accordingly (OECD 2015, p. 48).
- Goods or services offered by delivery organizations should be featured by a ‘degree of publicness’ (OECD 2015, p. 49) where outcomes result in the improvement of individual or societal life and in social costs saving and/or in the improvement of efficacy.
- Delivery organizations should:
 - establish within the statute the duty of social impact accountability;
 - receive an external certification label; and
 - fix clauses in order to prevent social mission drift.

- Delivery organizations should measure the social impact generated. The measurement should occur within a process and social impact should be evaluated in a monetary or non-monetary way.
- Investors include in their statute the obligation of social accountability to shareholders and/or some clauses which help to prevent social mission drift.
- The target return should vary from the payback of capital to return above or in line with the MRR.

2.3 The Perimeter of SIIs

Impact investing is a concept that originated in 2007, and it is considered a new paradigm of investment. However, such investments were well rooted in the literature and practice before the specific term was used in 2007. Some examples of institutions and movements who are considered pioneers in the investment for social purpose are the Italian Monti di Pietà, established in the XV century thanks to the Franciscan movement. More recently, credit unions and cooperative banks have been established to offer financial resources to disadvantaged or cooperative members. Thus, SII is a new term used to define this type of investments and activities, although it is strictly related to similar investments. Freireich and Fulton (2009) recognize a ‘Tower of Babel’ of terms that are similar to SII. In particular:

- socially responsible investing (SRI);
- social investing;
- mission-driven investing;
- sustainable and responsible investing;
- blend value, value-based investing;
- mission-related investing;
- ethical investing;
- responsible investing;
- program-related investing;
- triple bottom line; and
- environmental, social and governance screening.

Rizzello et al. (2017) analyzed a sample of 50 papers published in peer-reviewed journals and showed that terms related to impact investing—such as philanthropy, social finance, microfinance, social impact bond, social policy, impact enterprises, and others—revolve around two concepts: ‘private or market perspective’ and ‘public or social intervention/instruments.’

The nature of SIIs is also controversial: over time SIIs have been assessed as: a new asset class, a new investment strategy, a new market, and an evolution of other investments.

Thus, the perimeter of SIIs can be analyzed considering:

- the relationship between SIIs and other types of investments and
- the nature of SIIs.

2.3.1 SIIs, SRIs, and Other Investments

The unclear boundaries between SIIs and other types of investments induced Rodin and Brandenburg (2014) to title a paragraph in their book: ‘what impact investing is not.’ They point out that impact investing is not philanthropy and responsible investment.

Many practitioners and scholars examine the perimeter of impact investments, at least, in relationship with: philanthropy, SRIs, and for-profit investments. In fact, it can be argued that SII ‘sits on a continuum with SRI investing on one side and venture philanthropy on the other’ (Rodin and Brandenburg 2014, p. 5; SIIT 2014).

The aim of philanthropy is to realize a social impact, and investors do not obtain financial returns from this type of investments (Freireich and Fulton 2009). Typically, a philanthropic investment is realized by the provision of grants as well as accessory services. In a start-up phase, a venture philanthropist helps organizations that receive grants to build a business plan or to set up a management structure, while in the day-by-day operations they can help institutions in the measurement and reporting social impact (Rodin and Brandenburg 2014).

The common element between SII and philanthropy is the social aim of the investment. Unlike philanthropy, SIIs attract commercial

investors interested in gaining financial return. Thus, SII's meet funding needs that cannot be achieved by philanthropy (O'Donohoe et al. 2010), while complementing philanthropy (Rodin and Brandenburg 2014) in raising higher amounts of capital. Donations are generally characterized by discontinuity over time, which can compromise the financial sustainability of social projects (La Torre and Vento 2006).

SRI's aim to obtain a financial return—typically at least in line with other financial investments—employing negative or positive screening in order to select the investment portfolio. Thus, SRI's use negative screening in order to exclude investments that can damage society or the environment and a positive screening to select investments meeting some established environmental, social, and governance (ESG) criteria (Drexler and Noble 2013). For this reason, O'Donohoe et al. (2010, p. 14) recognizing features of SII's and SRI's state that SII's 'proactively create a positive social or environmental benefit' while SRI's 'seek to minimize negative impact.'

Höchstädter and Scheck (2015, p. 456) analyzing scholars' and practitioners' publications conclude that SII 'go beyond SRI,' identifying another two elements distinguishing SRI's and SII's:

- the size of investment: SRI's generally target large investee organizations, while SII's invest in small organizations and
- the nature of investment: responsible investors channel funds toward investees through publicly traded bonds, stocks, or funds, while impact investors finance delivery organizations through debt or equity.

Other practitioners identified less demarcated boundaries between SRI's and SII's: Eurosif in the 2012 and 2014 report defines SII's as an investment strategy of SRI's, instead of another typology of investment (Eurosif 2012, 2014).

Traditional investments can be distinguished from SII's because they target high market return, providing an incidental social impact (Freireich and Fulton 2009).

Another term synonymous to SII is social investment. Höchstädter and Scheck (2015) demonstrate that social investment is considered as

synonymous or as a subset of investment by scholars and practitioners. Moreover, they recognized ‘social investment’ as synonymous to SRI. According to Freireich and Fulton (2009, p. 14), ‘impact investing includes all mission related investing that actively seeks to have a positive impact. Almost any program related investment would be considered a form of impact investing.’¹

2.3.2 The Complex Nature of SII

Practitioners and scholars have characterized the nature of SII as:

- a new type of asset class;
- an investment strategy;
- a new market; and
- an evolution of other investments.

O’Donohoe et al. (2010, p. 5) characterized SII as a new asset class. According to O’Donohoe et al. an asset class should not be identified by ‘the nature of underlying assets, but rather by how investment institutions organize themselves around it.’

In contrast, Drexler and Noble (2013) argue that SII are better defined as an investment strategy than as an asset class, because the underlining assets of SII are the same as traditional investments. The SIIT (2014) put forward the idea that SII can be considered a new market. This new market is characterized by demand and supply of financial resources and by intermediaries channeling capital toward demand-side organizations.

Moreover, SII are considered the evolution of philanthropy, SRI, and ESG investments (PWC and City of London Corporation 2015).

The idea supported by this book is the following: impact investments spread across many asset classes and generate a new market—the impact investing market—characterized by demand-side and supply-side organizations, intermediaries, and infrastructures (i.e., rules, platforms). Any SII combines different levels and types of social and environmental impact, as well as different levels of financial risk and return. The investment

strategy includes a targeted social impact. Some ESG criteria can also be considered in the investment strategy.

2.4 Market Structure and Size

The SII market is characterized by demand-side and supply-side players who operate within a complex and sometimes fragmented regulatory framework. The role of market players is interchangeable: Oleksiak et al. (2015) noted that some institutions can ‘serve more than one function’ (p. 225). For instance, microfinance institutions can act as delivery organizations or as intermediaries, while foundations can be seen as asset owners or as delivery organizations.

Moreover, the SII industry is characterized by the involvement of mainstream players (i.e., banks) and organizations established with the specific purpose to operate in the SII market (i.e., some specific consultancy firms).

The following paragraphs will assess the above-mentioned aspects.

2.4.1 Demand of SIIs

The demand-side actors include organizations demanding financial resources in order to offer goods and services to address uncovered social needs (investee organizations) and people who demand social goods or services.

Scholars and practitioners (i.e., Harji and Jackson 2012; Drexler and Noble 2013; SIIT 2014) frequently refer to demand-side actors without including people who demand goods and services. Many publications (i.e., SIIT 2014; OECD 2015) describe impact investing as able to finance the supply of social goods and services that governments are in difficulty to cover.² Implicitly, the demand of impact investing includes people who are underserved with their social needs unsatisfied. These social needs, for instance, include affordable housing, education, health care, and environmental protection. In particular, Martin (2013, p. 10)

states that ‘impact investing must help provide investment solutions to four megatrends that are reshaping how companies, governments and civil society are creating value and financing public goods:

- massive pent-up demand at the bottom of the pyramid (BoP);
- the need for radical resource efficiency and green growth;
- restructuring of the welfare state to drive efficiency; and
- the rise of the lifestyles of health and sustainability (LOHAS) consumers.’

Therefore, beneficiaries include people at the base of the pyramid, people who are looking for environmental benefits, LOHAS, and governments (indirectly) as potential beneficiaries.

According to O’Donohoe et al. (2010), people in general are end-beneficiaries when investments fall into environmental field. The OECD (2015) creates a *trait d’union* between beneficiaries, at-risk populations, and social costs.

For specific categories of impact investing, such as microcredit, the literature defines the taxonomy of potential beneficiaries, including: poorest and poor, unregistered, disadvantaged, and marginalized (La Torre and Vento 2006, p. 5).

Investees (or delivery organizations) receive impact resources in order to offer impact goods and services. They include both for-profit and non-profit organizations. In particular, delivery organizations can be classified as enterprises, social enterprises, cooperatives, mutuals, and microfinance institutions. The SIIT (2014) and particularly the Working Group on Mission Alignment (WGMA 2014) characterized impact-driven organizations for their long-term social mission and the measuring of social impact. Impact-driven organizations include:

- Impact-driven businesses, entities with ‘no kind of asset-lock’³ (WGMA 2014, p. 5):
 - businesses-seeking-impact do not lock their mission. However, these businesses fix social outcomes for a large number of their activities and

- profit-with-purpose businesses with a mission locked in their business model or through governance tools.
- Social sector organizations are ‘asset-locked organizations’ (WGMA 2014, p. 5) and they include:
 - social and solidarity enterprises and other constrained organizations;
 - charities and membership groups that trade but do not distribute profits; and
 - charities that do not engage in trading.

2.4.2 Supply of SIIs

Supply-side actors of the SII market can be classified as asset owners and asset managers (Harji and Jackson 2012). The category of asset owners includes people who own capital as high-net worth individuals (HNWIs), retail investors, foundations, corporations, and governments. Asset managers include fund managers, family offices, pension funds, banks, development finance institutions, and government investment programs.

The SIIT (2014) recognized several foundations involved in the SII market like the Bill and Melinda Gates Foundation, Bloomberg, Ford, MacArthur, and Rockefeller. Moreover, many banks—such as Morgan Stanley, Goldman Sachs, Bank of America, UBS, BlackRock—and specialized banks—such as Triodos Bank, Banca Etica, and Banca Prossima—operate in the SII market.

The involvement of banks in the SII industry ranges from a sporadic supply of products, to the establishment of divisions/firms dedicated to impact investing. For instance, Triodos Bank’s mission is to ‘make money work for positive social, environmental and cultural change’ (Triodos Bank 2016). Triodos Bank’s activities include commercial and private banking as well as investment management carried out through a ‘wholly owned subsidiary’ labeled Triodos Investment Management BV.

In 2015, BlackRock announced the establishment of BlackRock Impact focused on three main segments: exclusionary screens, ESG factors, and impact target investments (BlackRock Impact 2015, 2016).

Moreover, in the last few years, Zurich Insurance and AXA Group have participated in the SII market.

Governments have been active for many years in social finance, especially with developing intent, through national and/or multilateral development finance institutions, providing grants, loans, and guarantees.

Development finance institutions operate directly or through ad hoc funds that frequently suffer from the problem of financial unsustainability due to the ‘politically motivated investment mandate.’ Nevertheless, opening the impact-fund investment to fund managers—catalyzing financial-first investments—leads to the risk of mission drift (Bugg-Levin and Emerson 2011, p. 27).

Governments at national or international level have to identify strategies and policies in order to address social needs by fostering the SII market. Governments can identify potential areas of investment for asset owners, define a favorable regulatory environment, and set up proper incentives, like tax incentives (Bugg-Levin and Emerson 2011; Addis 2015). Moreover, governments can develop specific and innovative investment architectures, such as the social impact bond (SIB) promoting public–private partnership to address specific social needs.

Investment by pension funds in the SII market is strongly encouraged by industry players. The investment in impact activities is compatible with the mandate of pension funds when it does not compromise expected return and the mandate itself. Other obstacles to pension funds’ investment into the SII market are represented by scarce awareness of investment opportunities, a limited number of outstanding asset managers, and the perception that traditional consultants could not approve investments (Social Finance and Finethic 2012).

DeNederlandscheBank (2016) has investigated the Dutch pension funds’ attitude to sustainability and impact investing showing that 25% of funds between 2013 and 2015 ‘have an integrated sustainability policy, implementing sustainability in the various phases of the policy process. Furthermore, they take proactive action to achieve objectives and communicate openly about their efforts and results’ (p. 11) realizing, among others, impact investing.

Fund managers with expertise in development funds and microfinance funds have been attracted by impact investing sectors. For instance, the

microfinance fund manager Responsibility established the first impact-focused enterprise fund in 2010 (Bugg-Levin and Emerson 2011).

Another relevant classification of supply-side players differentiates impact-first investors and financial-first investors (Freireich and Fulton 2009). The former ‘optimize social or environmental impact with a financial floor’ while financial-first investors ‘optimize financial return with an impact floor’ (p. 4). According to Freireich and Fulton (2009) financial-first and impact-first investors can cooperate through a ‘yin-yang’ deal, also called layered structure by Burkett (2012) attracting investors with different purposes and risk–return appetites.

2.4.3 Other Market infrastructures and Actors

The SII market includes several specialized platforms, research centers, advisors, and independent evaluators.

Among platforms, the SII market has experienced the birth of a social stock exchange. The first social stock exchange was established in the UK in 2013 and is labeled London Social Stock Exchange (SSX) (Drexler and Noble 2013). The SSX includes 32 member companies (Social Stock Exchange 2016). Another social stock exchange is the Impact Investment Exchange Asia II. It is situated in Mauritius and has been created thanks to the joint contribution of the Stock Exchange of Mauritius (SEM) and IIX. This exchange follows the regulatory prescriptions of SEM and IIX supervises the social and environmental aspects (Asia IIX 2015).

Other platforms include ImpactBase, a database managed by the GIIN that provides information on impact investment funds and products (Drexler and Noble 2013; GIIN 2016).

Advisors also play a critical role in the SII market by facilitating funding flows and by supporting promoters of impact investing in building strategies and products. The big accounting firms, like Ernest & Young and PricewaterhouseCoopers, have dedicated a specific division to social enterprises and impact investing (Schwartz et al. 2016). Moreover, some advisors were established with the specific intent of fostering impact investing initiatives. This is the case, of Innpact, a dedicated advisor based in Luxembourg, with a mission ‘to foster sustainable impact

finance initiatives by providing innovative advisory, consulting and management support services' (Innpact 2016).

Other organizations involved in the SII market are the external evaluators of social impact. They are essential in the SIBs models.

2.4.4 Regulation

The SII industry lacks a specific regulatory framework for impact investing. Some jurisdictions have introduced regulations on definite products, such as the Italian regulation on Microcredit, established in 2010. In 2013, many governments considered the possibility to regulate crowdfunding (Addis 2015), while in the USA the Guidance for the investments of Pension Funds has included the duty of considering social and environmental goals 'as tie-breakers when choosing between investment alternatives that are otherwise equal with respect to return and risk over appropriate time zone' (Department of Labor 2015).

The Charity Commission in the UK developed a guideline focused on the duties of trustees and the potential for funds to realize mission-related investments.

The setup of a clear regulatory framework is considered an essential element in order to foster growth in the SIIs market (Wood et al. 2012; Drexler and Noble 2013). The SIIT (2014) has recommended governments to work closely in order to issue legal forms allowing investors and delivery organizations to lock in their social mission. Furthermore, the SIIT (2014) has recommended that governments remove barriers causing potential obstacles for impact investments with social or environmental purposes.

Another key regulatory problem is to set up an optimal legal form for investee organizations involved in the SII market (SIIT 2014; Schwartz et al. 2016). Non-profit organizations are meeting some limits in raising capital (Doeringer 2010; Schwartz et al. 2016), and profit-with-purpose businesses miss the possibility to lock in their social goals (SIIT 2014).

Some innovative and hybrid forms of enterprises have been set up under US and UK jurisdictions. In the USA, a movement encouraged by B-Lab (a non-profit institution operative in the social finance sector)

promoted a certification to for-profit corporations that ‘meet rigorous standards of social and environmental performance, accountability, and transparency’ (B-Lab 2016). Certified b-corps account for 1600 companies in 42 countries (B-Lab 2016).

In a second phase, B-Lab promoted the legislation of a new corporate form labeled Benefit Corporation⁴ (Munch 2012; Steinberg 2015) that is law in 31 states in the USA and is under approval in another 7 states (Benefit Corporation 2016). Since 2008, benefit corporations have been included in US legislations, while other countries expressed interest in the Benefit Corporation’s model. Italy has recently approved this new form of legislation, and Australia is currently reviewing the legislation. Despite differences among US state legislations, benefit corporations are characterized by:

- the aim of creating a public benefit (i.e., to protect environment, to support local community);
- reporting social results and their external certification;
- managers’ duty to consider stakeholder’s interests—and not only shareholders’ interests—in their decision making; and
- the shareholders power to require, through an ‘enforcement procedure,’ the compliance with the public benefit obligations in the company’s buildup (Morryssi 2016).

2.4.5 The SII Market in Numbers

SIIs represent an infinitesimal part of the worldwide investment market; nevertheless, Mudaliar et al. (2016) show an indication for a growing industry. SIIs accounted for \$77.4 billion in 2015 and \$8 billion in 2012 (Saltuk et al. 2013).⁵

According to the last available survey from JP. Morgan Chase & Co. and GIIN (Mudaliar et al. 2016), the most relevant percentage of assets is managed by fund managers (58%) while development financial institutions and banks manage 18 and 9% of AUM, respectively (Fig. 2.1a). Regarding the geographical allocation of SIIs (Fig. 2.1b), most of AUM is allocated in North America (38%) and Sub-Saharan Africa (15%).

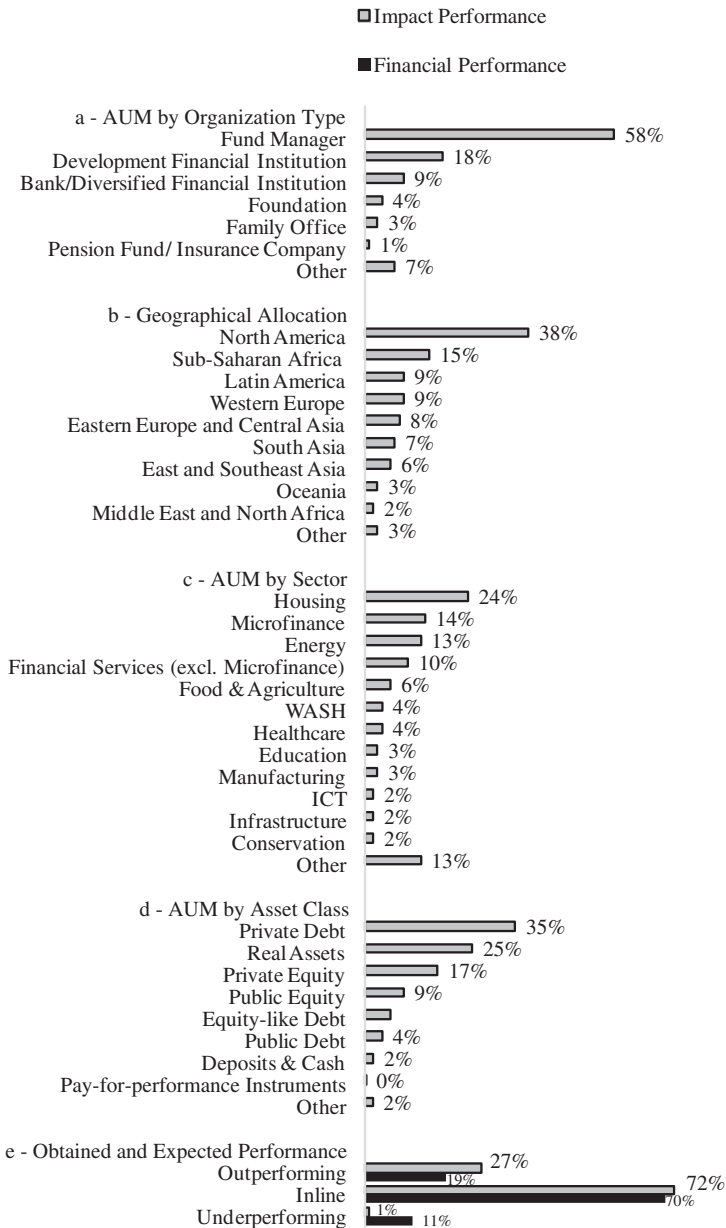


Fig. 2.1 The SII market in numbers. *Source* Author elaboration based on Mudaliar et al. (2016)

Sectors mostly financed by SIIs are housing (24%), microfinance (14%), energy (13%), and financial services (10%) (Fig. 2.1c).

Private debt (35% of AUM), real assets (25%), and private equity (17%) represent the most common asset classes of SIIs (Fig. 2.1d).

SIIs mostly target social aims (48%) and a combination of social and environmental objectives (47%). The remaining part of the sample targets environmental aims. Regarding the targeted financial performance, 59% of investors target 'risk-adjusted market-rate return'. Moreover, 25% of investors target 'below-market-rate returns: closer to market rate' and 16% of the sample target 'below-market-rate returns: closer to capital preservation' (Mudaliar et al. 2016).

When comparing social and financial performance with target performance, most of the investors declared that they are in line with expectations (Fig. 2.1e). Financial outperformance was declared by 19% of investors while social outperformance has been declared by 27% of investors. In comparison, underperformance for social investments occurs less frequently than for financial investments (1 versus 11%).

2.5 How Does SII Channel Funds to investee organizations?

SIIs use multiple asset classes and many financial instruments in order to provide funds to an investee. Several publications (AlphaMundi 2010; Addis et al. 2013; Drexler and Noble 2013; GIIN 2014) recognized that SIIs 'spread across multiple asset classes' (GIIN 2014).

Drexler and Noble (2013) list SII asset classes in: cash and cash equivalents, fixed income, investment funds (private equity and venture capital), public equity, real estate, infrastructure, other real assets, and remaining asset classes including commodities, direct private equity, venture capital, and hedge funds. By contrast, the Working Group Asset Allocation (WGAA 2014) of SIIT identified traditional and alternative asset classes for SIIs. The WGAA includes equity and bond within the traditional asset class, while alternative assets include the investment in private markets, such as real asset and real estate, private equity, venture capital, private debt, and including SIB.

The classification of asset classes identified by the WGAA (2014) does not match the general literature. According to Anson et al. (2011),⁶ traditional asset classes are cash, bonds, stocks, and real assets, while alternative asset classes include hedge funds, private equity, and commodities.

With regard to financial instruments, scholars and practitioners (SIIT 2014; OECD 2015; Martin 2013) identified several products employed in order to channel finance toward investees. The SIIT (2014) recognizes six forms of finance: secured loans, unsecured loans, charity bonds, social impact bonds, quasi-equity, and grants. However, this book follows the classification of the Italian Advisory Board of SIIT (2014) including: credits, microcredits, social bonds and charity bonds, peer to peer lending, equity crowdfunding, social impact bonds, and mutual funds.

Microcredit is the provision of financial resources to poor people and the financially excluded. It is characterized by a small amount of disbursement and for the absence of guarantees (La Torre and Vento 2006) and can be offered by microfinance institutions (MFIs), banks, and other financial institutions.

Mix Market (2016) recognized more than 100 million of worldwide active borrowers, a gross loan portfolio of \$87 billion, and 1627 institutions.

Social bonds and charity bonds are issued in order to finance social impact activities and organizations. An example of a social bond is the Social Bond UBI Comunità, issued by UBI Banca with the purpose of financing—through grants and loans—relevant social projects (UBI Banca 2016). The UBI Banca initiative has permitted the issuance of 76 social bonds for a value of €786 million that corresponds to €3.8 million of grants and €20.55 million of loans disbursed (UBI Banca 2016).

Peer to peer lending (or lending crowdfunding) is a finance model realized through an online platform, where organizations in need of financing connect to potential borrowers and lenders catalyze money to the entrepreneurs (Lee and Lee 2012). Equity crowdfunding is another form of financing realized on internet platforms. Entrepreneurs who demand equity make an open call for funding and the interested investors can finance entrepreneurs receiving some form of equity (Ahlers et al. 2015).

According to Massolution (2015) the crowdfunding industry grew fast between 2013 and 2014. In fact, the overall funding accounted for \$16.2 billion in 2014, an increase from \$6.1 billion in 2013. In total, \$11.8 billion was raised by lending crowdfunding and \$1.11 billion was raised by equity crowdfunding. Moreover, 58% of the fundraising was realized in North America, 21% in Asia, and 20% in Europe.

SIB or pay for success bond (in the US terminology) is a financial structure characterized by a public–private partnership (OECD 2015; Warner 2013): a public entity (i.e., a government) can finance social services with private capital and subordinate the repayment of investment to the achievement of fixed social outcomes (Fig. 2.2).

The SIB model is relatively new; the first one was issued in the UK in 2010 with the aim of reducing the recidivism in the Peterborough prison (Warner 2013).

SIBs, like SIIs in general, involve many social areas such as support to children, education, health, youth employment, and homelessness. SIBs’ aim of improving child care was promoted in Australia in 2013 and in the UK between 2012 and 2014. Unemployment and NEET⁷ SIBs have been launched in the UK and in Netherlands in 2013 and in Germany in 2014 (Social Finance 2014).

Pay for success instruments can also involve the *tout court* theme of development or the environment. These instruments are labeled as

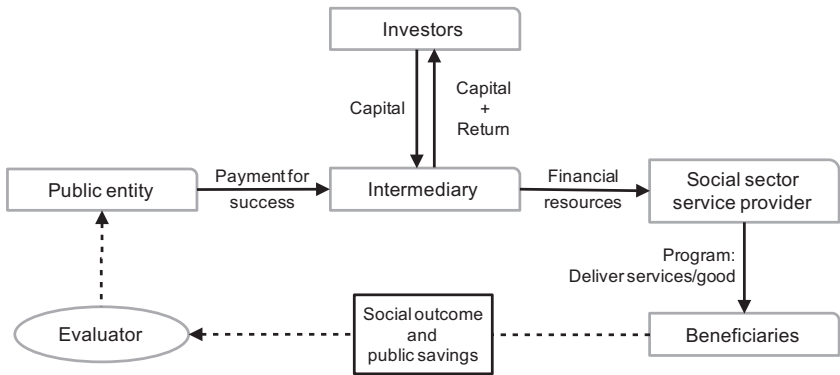


Fig. 2.2 The SIB scheme. *Source* Author elaboration based on SIIT (2014), Warner (2013)

development impact bonds (DIBs) and environmental impact bonds (EIBs).

With regards to EIBs, the Washington DC Water and Sewer Authority, in collaboration with their investors Goldman Sachs and Calvert Foundation, announced the issuance of the first national EIB in September 2016. According to this financial structure, the costs of constructing the green infrastructure are paid by DC Water, but the performance risks of managing of stormwater runoff are shared among DC Water and the investors. Consequently, payments on the EIB may vary in relationship with success of environmental interventions (DC Water 2016).

Examples of DIBs include the Ugandan Rodesian Sleeping Sickness and the DIB located in Mozambique aiming to reduce instances of malaria (Social Finance 2014) both focusing on the health social theme.

Even though pay for success bonds (such as SIBs, DIBs and EIBs) are the most original financial instruments in the SIIs market, they do not attract a significant number of investors. They suffer from a problem of asymmetrical information: Investors receive payments only when the activities undertaken by service providers produce a social outcome. Investors do not have the direct power of control; this is one of the most relevant reasons for skepticism on SIBs (McHugh et al. 2013; Del Giudice 2015).

Moreover, the anticipated closure of Peterborough SIB exacerbates the risk that public administrations involved in the SIB partnership could operate as issuers of callable obligations. Public administrations can recall the obligations when interest rate flows down and it is more suitable to reimburse obligation before the maturity expires (Del Giudice 2015). The experiment of Peterborough's SIB was terminated due to the setup of a new national program, called Transforming Rehabilitation focused on all the UK prisons.

Grants also cover a specific role in the impact investing industry. In fact, grants do not seem to be considered on a stand-alone basis like financial instruments for the SII market, but play an unquestionable role supporting complex financial architectures mainly based on tranching techniques. Philanthropic investment can be channeled into the highest risk tranches, reducing the risk for institutional investors (Oleksiak et al. 2015).

2.6 Measurement of Social Impact

The measurement of social impact incorporates a distinctive element of SII, and it is also a fundamental element for social impact bonds. Nevertheless, measurement is an unassessed challenge.

Literature does not unanimously define social impact (Mass and Liket 2011; Nicholls 2007; Reeder and Colantonio 2013). However, one of the most accredited definitions of social impact is ‘the portion of total outcome’, which is directly linked to the social activity put in place ‘above and beyond what have happened anyway’ (Clark et al. 2004, p. 7). Thus, the concept of social impact focuses only on direct and intentional impact generated by an activity, separating what happened incidentally.

According to Vanclay (2003), social impact concerns changes in beneficiaries’ life or in the social context or in the political system, as well as in health or wealth. Moreover, Vanclay (2003) includes changes in personal or property right and/or in personal desire.

The spread of SIIs across many sectors (i.e., education and financial services) hinders the development of a unique and universally accepted metric to measure social impact. Indicators that may be useful in order to evaluate the social impact of health programs could not be employed for the evaluation of educational programs. Thus, the multi-sectorial nature of SIIs can partially justify the proliferation of measurement metrics. Trasi (2016) identified more than 150 metrics for the evaluation of social impact, grouped in tools and methodologies.⁸

Another characteristic of impact measurement is that most metrics were born to evaluate social impact of non-profit organizations and only in a second phase they were adopted in the measurement of the impact of for-profit organizations (Mass and Liket 2011). Furthermore, some metrics quantified the social benefit in a monetary sense and others provide a qualitative or non-monetary assessment of social impact.

Strategies followed by practitioners and international organizations in order to manage the measurement challenge include a sectorial standardization of tools and formalization of a measurement process.

Regarding sectorial standardization of tools, the GIIN has proposed a catalogue allowing practitioners to select social impact indicators, classified according to social sectors such as education, health, and financial access.

The catalogue is named the Impact Reporting Investment Standard (IRIS) and has the mission to 'support transparency, credibility and accountability in impact measurement practices across the impact investing industry' (IRIS 2015).

The formalization of a measurement process is supported by the Working Group on Impact Measurement (WGIM 2014) of the SIIT and by the OECD (2015). The WGIM (2014) identified seven steps in the measurement of social impact. These steps include: definition of measurement goals; design of a measurement framework and identification of indicators; data collection and storage; validation; data analysis; reporting of results; and process improvement (Fig. 2.3). For each phase, the WGIM identifies several resources that could be used in the implementation of a measurement process.

The OECD (2015) has followed the approach by WGIM (2014) in the identification of eligible criteria to measure social impact. As a result, the OECD called for a formal measurement process and for an evaluation of monetary or non-monetary impact.

The state of measurement in the SII market has demonstrated that we are currently in a phase of 'global guideline diffusion,' and the identification of global common standards are desirable in the early future (WGIM 2014). The long-term goal should be to set measurement standards, similar to what happened for financial accountability through the International Financial Reporting Standard (IFRS) or US Generally Accepted Accounting Principles (GAAP).

According to the annual survey conducted in 2015 by GIIN and J.P. Morgan, the measurement of social and environmental impact is mostly perceived as a component of SIIs mission, even though some investors admit that they feel a grooving external pressure regarding the measurement of social and environmental performance (Mudaliar et al. 2016).

Moreover, most investors (80%) declare the use of social and environmental performance to inform business decisions. Particularly, they are used in order to:

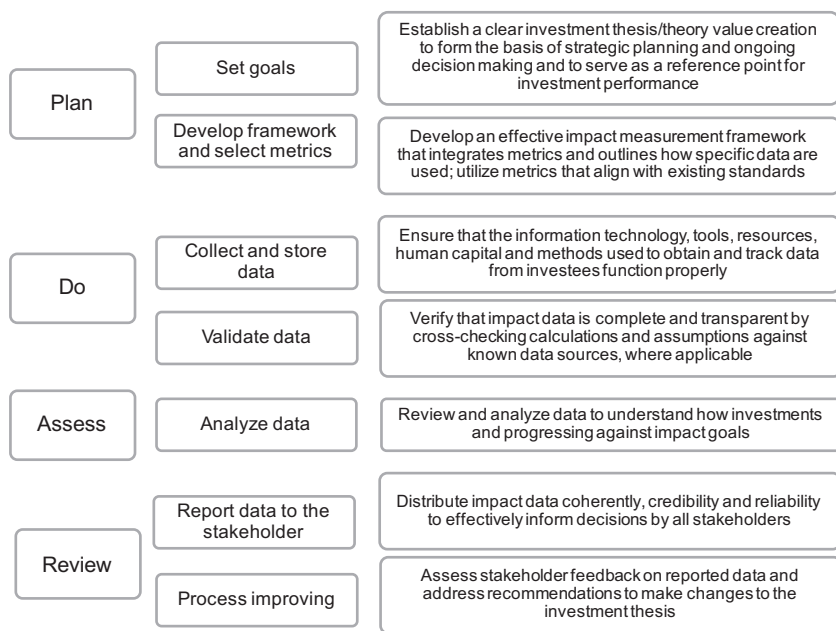


Fig. 2.3 Phases of impact measurement. *Source* WGIM (2014)

- undertake the pre-screening due diligence;
- improve investment management; and
- inform portfolio allocation decision making (Mudaliar et al. 2016, p. 36).

The same survey assessed metrics mostly used in the SII market:

- proprietary metrics and/or frameworks that are not aligned to any external frameworks or methodologies (103 investors out of 158);
- metrics that are aligned with IRIS (102 investors out of 158);
- qualitative information (89 investors);
- standard frameworks and assessments (such as GIIRS, GRI etc.) (59 investors); and
- no measurement of social/environmental performance (one investor).

2.6.1 The Impact Reporting Investment Standard

The IRIS is a catalogue of measurement metrics generated by the GIIN in order to increase the comparability of social and environmental impact of SIIs with the overall aim to support market transparency and credibility (IRIS 2015).

The IRIS catalogue allows for a selection of metrics employing several research criteria. First of all, metrics can be selected in accordance with organizational description, product description, financial performance, operational impact or product impact (Table 2.3). Another way to select metrics is by sector. IRIS (2015) recognized ten sectors—agriculture, education, energy, environment, financial services, land conservation, health, housing and community facilities, water, and other cross sectors—and any metric can be common for two or more different sectors. Moreover, each metric may be classified into: the metric type (metric or sub-metric), the level (provides information about organizations, products, both), or the metric quantity type (flow or stock).

Furthermore, the IRIS catalogue provides both a description of metrics and calculations.

2.6.2 The Global Impact Investing Rating System

The Global Impact Investing Rating System (GIIRS) rates companies and funds. The GIIRS has been developed by B-Lab, a non-profit organization active in the SII market with the participation of the GIIN.

The rating system for companies is based on two rating evaluations: the Impact Business Model and Impact Operations (B-Lab 2015).

The Impact Business Model rating evaluates the specific model developed to generate social or environmental impact, while the Impact Operation Rating assesses ‘the impact of the business in how it operates.’

The rating system for funds is based on three assessments: Fund Manager Assessment, Overall Impact Business Model Rating and Overall Operation Rating (B-Lab 2015).

Table 2.3 IRIS 3.0 catalog guide

Components	Description
ID	Any IRIS metric is associated to unique IRIS ID
Section	<p>The IRIS metrics are categorized in five core sections:</p> <ul style="list-style-type: none"> • Organization Description: includes metrics on the organization's mission, operational model, and location; • Product Description: inscribes metrics that focus on the organization's products and services, and target markets; • Financial Performance: includes financial metrics; • Operational Impact: includes metrics that describe the organization's policies, employees and environmental performance; • Product Impact: metrics that describe the performance and reach of the organization's products and services
Subsection	Includes 21 subsections, ranging from Client Information to Environmental Performance
Sector	<p>Each metric is categorized across one of the following ten sectors:</p> <ul style="list-style-type: none"> • Agriculture • Education • Energy • Environment • Financial Services • Land Conservation • Health • Housing/Community Facilities • Water • Cross-Sector <p>Metrics included in more than one sector are classified as Cross-Sector</p>
Metric name	The name of the metric
Definition	The definition of the metric
Calculation	Describes mathematical calculation, if the metric requires a calculation or a formula
Usage guidance	Provides additional information beyond the details and description included in the metric definition. This may comprise considerations related to aggregating data for these metric, recommended sources for supplementary information pertaining to the metric, clarification of the metric calculation and intended usage
Citation	Identifies the citation that should be used in public materials when providing data related to the specific metric

(continued)

Table 2.3 (continued)

Components	Description
Metric type	Specifies whether a particular metric is a 'metric' or 'sub-metric.' The information captured by a 'sub-metric' is related to the information captured by its parent 'metric'. For example, Client Individuals: Female (sub-metric) captures a subset of what is captured under its parent Client Individuals: Total (metric)
Related metrics	Specifies a list of the IRIS metrics and sub-metrics that relate to the specific metric being reviewed
Metric level	Specifies whether the metric captures information at the organization, product/service level or both. IRIS metrics can be used to differentiate between values that apply to specific products/services offered by the organization and values that apply to the organization as a whole
Metric quantity type	Specifies whether the quantity captured in the metric is a stock or a flow <ul style="list-style-type: none"> • Stock: Metrics that capture information and data at a specified point in time. The majority of stock metrics ask for information reported as of the end of a reporting period • Flow: Metrics that capture information and data measured over an interval of time. The majority of flow metrics ask for information based on activities over the course of a reporting period
Reporting format	The format for reporting against the specific metric. Examples of reporting formats include: hectares, number of days, and number of people. Some metrics such as currency and unit of measure refer to specific sets of option values (which are described in specific IRIS metrics) and it is requested that users indicate which option is used

Source Adapted from IRIS (2015)

The Fund Manager Assessment Rating evaluates the social impact intent of the fund. This includes the assessment of investment criteria and portfolio management.

The Overall Impact Business Model Rating analyzes the business model used in order to achieve social or environmental impact. The analysis covers products and beneficiaries.

The Overall Operation Rating 'measures impactful practices, policies and achievements related to companies' such as governance, workers, communities, and environmental footprints (B-Lab 2015).

Governance evaluation covers aspects like mission, stakeholder engagement, governance structure, and control; worker areas include aspects that allow the evaluation of employee's treatment and concerns compensations, professional growth, and the work environment. Community refers to the impact of investee companies on external stakeholders, while the environment concerns the environmental impact of the investee.

2.6.3 Other Metrics for Impact Evaluation

Metrics mapped by Trasi (2016) for Social impact evaluation also include cost-effectiveness analysis, cost-benefit analysis, social return on investment (SROI), and metrics as the Global Reporting Initiative (GRI).

Cost-effectiveness analysis is more intuitive and less costly than metrics based on the monetization of social impact, as cost-benefit analysis and SROI.

The cost-benefit analysis permits the comparison between monetized benefit and cost of a social project.

Thus, cost-benefit analysis allows practitioners to value initiative answering the questions:

- Are the benefits greater than the costs? (Stand-alone basis)
- What initiative presents major benefits compared to costs? (Comparative basis)

The SROI—as the ROI for economic aspects—measures the return generated by an investment. However, the return object of measurement is the social return. Thus, this ratio at the numerator has the monetized social value of an investment and at the denominator it has the funds invested in the social project.

Metrics based on the monetization of social benefit—like the SROI—are characterized by several limitations recognized by scholars (as in Arvidson et al. 2010; Emerson et al. 2000).

Arvidson et al. (2010) criticized some hypotheses at the base of the SROI metric and the emphasis on impact quantification. O'Donohoe et al. 2010 point out that the measurement cost for SROI is higher than other metrics.

Other methodology such as the GRI standard 'offers a method to assess the sustainability of organization's activities' (Trasi 2016). The GRI (2016) states 'GRI Sustainability Reporting Standards (GRI Standards) help businesses, governments, and other organizations understand and communicate the impact of business on critical sustainability issues.' Thus, the GRI assesses the specific impact of an organization upon sustainability and is between pure sustainability/corporate social responsibility standards and social-impact standards. This is not unusual that metrics for sustainability are used also in social impact evaluations. The GRI has the advantage that it can be used for any type of organization, even if it has set indicators for specific sectors.

2.7 Conclusion

The definitional framework of SIIs is clearer than in the past, although the regulatory environment is still at an early stage of development. The interest of practitioners and scholars toward investments generating both social and financial return is growing. Nevertheless, in order to foster market growth the involvement of institutional players is essential. Their involvement demands better track records on financial (and social) performance. The implementation of financial architectures like social impact bonds and impact investment funds can help further the development of the SII industry.

Notes

1. Mission-related investments (MRIs) 'are market-rate investments of endowment funds that align with the social or environmental mission of a foundation.' Moreover, MRIs can employ social investing tools and

sometimes shareholder advocacy and positive and negative screening (OECD 2015, p. 130; based on Rangan et al. 2011). Program-related investment (PRIs) are ‘investments which often take the form of loans, loan guarantees or equity investments that are derived from a foundation’s assets but count toward its charitable distribution requirement. Generally, these investments yield below-market-rate returns for the foundations’ (OECD 2015, p. 130; based on Lawrence and Mukai 2011).

2. According to Accenture and Oxford Economics (2012), the potential gap between public resources and social needs can reach \$940 billion for the United States and \$170 billion for the United Kingdom.
3. Referring to ‘asset-lock’, the WGMA (2014, p. 3) specifies that it consists in ‘a combined restriction that (i) during the life its assets will not be disposed of for less than their value except in furtherance of the social impact purpose of the company, and (ii) upon winding up, the assets of the company remaining after all debts have been settled will be transferred to a company with an asset lock and similar social impact purposes. An asset lock does not apply to profits when initially earned by a company, but will apply to any profit reinvested in the company in lieu of distribution to the owners.’
4. In order to avoid any potential doubt or misunderstanding, it is important to state that a for-profit company in the USA can be established as a benefit corporation without being certified as b-corps. There are also cases of companies matching both the features. Moreover, in countries where benefit corporations are not law, many b-corps have been certified.
5. The GIIN and J.P. Morgan annual survey does not include the same investors in the sample and this should be considered in confronting data.
6. Anson et al. (2011) also include within traditional asset classes real estate justifying this choice with: (i) an historical criteria: real estate was the first asset class in our society while bond and equity became an alternative to real estate; (ii) a portfolio diversification criteria according to which real estate should be included in each portfolio, while alternative asset classes should be included in order to diversify assets within the portfolio.
7. NEET is the acronym of Not (engaged) in Education, Employment or Training.
8. According to Trasi ‘tools’ include indicators of social impact, while ‘methodologies’ identify step by step measurement metrics. Thus, IRIS is included in the first class, and SROI in the second one.

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