



POSITION PAPER FOR G8

A LEGAL FOCUS ON EQUITY IMPACT INVESTMENT TARGETS

A legal focus on equity Impact Investment targets

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Introduction

The change of perspective from which Profit with Purpose businesses flourished originates from the socio economic crises that the world experienced in the last twenty years. Currently, we are forced to deal with unprecedented concerns; climate change and water scarcity, growing inequality of income and wealth, demographic shifts, trans-border and internal migration, and a global economy at a critical point and strongly unreliable. Even if the contributions of governments and society as a whole, will sure be part of the path, in the end the capital needed to practically solve those lies in companies and investors hands. Today, the enormous amount of private wealth forms a considerable part of the GDP and through impact investing the targeted use of the latter could be effectively promoted. The following paper focuses on equity impact investing, a growing global phenomenon, and more specifically on a small part of impact investing: its targets, and its legal aspects.

The paper starts by analyzing the existing environment, both institutional and legal, focusing on those institutions, which initiated acting in the field in a more constructive and targeted way.

The subject is broadened and reinforced through the practical example of the first Italian impact investment fund Oltre Venture.

Further, what could be a way of defining and circumscribing the sector, legally and practically? Impact investing is in fact, more than the mere concept of measuring. The question embraces accordingly also the possible targets of impact investing. Who would profit the most in terms of functioning and efficiency? Who would be legally entitled to impact investment destined funds?

The following therefore aims to furnish a comprehensive framework of Impact Investment targets. It is crucial that the reasoning, being this a juridical analysis, is highly influenced by the legal tradition of each country. In this case

Italy, where the discussion around Social Enterprises has always been characterized by the arguing on the profit distribution issue. The no distribution constraint, with exception of social cooperatives, has indeed historically set the perimeter of the sector. It is precisely the angle of legal traditions that serves as input material to find a way through immobility. Known that a precise perimeter is missing, it becomes clear that no convoluted intervention from the legislative side is needed. It is the measurement, pivotal point of the subject, that will serve as key characteristic to the conformity of different markets around the world.

This considerations are assumed to be given and fundamental basis of the reasoning: it is undoubtedly in Profit with Purpose and no profit doing business that the debate becomes concretely relevant.

1. The Targets – Profit with Purpose

The concept of maximizing short term profits rather than creating a long term vision has culminated in the crash of 2008, a turning point in the shared idea of capitalism. Further, the growing complexity of the environmental and social issues, as well as the failure of traditional welfare systems, has driven both finance and legislation to imagine a more “*sustainable capitalism*”¹. The broader aim is to promote social innovation also and especially in those areas that have not experienced innovation since decades, such as the Welfare Sector.

When speaking about capitalism, the key thought is the definition of profit only in terms of monetary gain. However it does not follow that this must forcibly be the sole aim of the enterprise.

It is likely that the same financial rules necessary for any traditional for-profit business can be applied to projects with the primary aim of improving socioeconomic conditions. In this case, the enterprise is a social enterprise². However the market is still at an embryonic stage, and most of it still has to be established, enlarged and shaped.

It becomes more and more clear, that the market is doomed to move towards impact investing with a social outcome, a process enabled by starting to qualify the profit with purpose. In fact, the G8 task force, established to analyze the

¹See also: Al Gore and D. Blood “Sustainable Capitalism, a framework that seeks to maximize long-term economic value by reforming markets to address real needs while integrating environmental, social and governance (ESG) metrics throughout the decision-making process.” , A Manifesto for Sustainable Capitalism, 2012

² Microeconomic Development and Social Enterprise - a 'Marshall Plan' for Ukraine, paper 2006

sector and the implementation policies within the G8 countries, as well as possible solutions, underlines the importance of shifting the targets of impact investing also towards profit with purpose entrepreneurs and nonprofit doing business activities.

As a wind up of the reasoning, the necessity of finding a way to measure the actual impact, a metric to be the basis of the investing.

Globally, at present, the aim is to break out onto the bigger stage and channel the allocation of portfolios of investments. Fact is, that the more capital businesses are bound to support social projects, the greater the social impact, therefore it gradually becomes more and more important that investors begin to look at the phenomenon as both a credible financial and social pay back.

In order to be successful, targets of such investments ought to be clearly defined. Knowing that the Investment market is today divided into sustainability, impact and philanthropy, the focus lays on the impact sector. Targets of which, are profit with purpose and not for profits.

The long faced issue of coupling creation of profits with accomplishments of social aims has led to a number of challenges. Purpose inherently is more than making money.

Social purpose businesses (SPBs) flourish in areas such as clean technology, health, education, finance and micro-finance. A business model is necessary to explain how a less profit driven program or initiative will work and how it will sustain itself.



Social enterprise versus traditional business enterprises

In a social enterprise its very heart of the business model is the intention of achieving a social goal.

A well-structured functioning SPB business model exists where two goals intersect successfully — where both social and economic value creation result.

Generally defined, those businesses seem to be characterized by four features³:

1. The social purpose can either be specific and tailor made to respond to a specific need or general, meaning to impact the society as a whole.

³ Executive Summary Orrick , Herrington & Sutcliffe LLP, 5 June 2014

2. At a managing level, the duties are bound to include the achievement of the social mission set.
3. A report and a transparent evaluation of the work done ought to be completed following the standard measurement forms.
4. No asset lock; profits are allowed to be distributed in a variable extent.

1.1 Measuring the impact

The scenery surrounding the measurement of the impact is, as most of the outlined aspects, at an early stage. This issue is extremely relevant, since failure in measuring achievements will hamper the growth of the sector.

Starting from the point of view that “Investment capital moves based upon its understanding of future opportunity—the risk, reward and performance offered by any given investment, fund or manager” , if this data is not available, investments will likely be lower and fewer. Performance data is a fundamental aspect of traditional investments and their success, so it becomes essential that this principle is transferred to impact investing, too.

Today, not many, but notable measurement systems have been created. To cite a few:

- Impact Reporting & Investment Standards (IRIS);
- The Global Impact Investment Rating System (GIIRS);
- Indirectly developed systems: ESG standards, UN Global Compact, UN PRI, Global Reporting Initiative (GRI).

Nonetheless, those schemes have strong limitations: lack of longitudinal data; benchmarks; third party verification; transparent methodologies; and publicly available and voluntarily provided reporting. Infrastructure developments are therefore still vastly required.

It is expected, that if impact investment should manage to affirm itself as an investment approach and not as an asset class, this part of the market, constituting today of 36 billion USD, is very likely to reach 0.1% of all financial assets by 2020,⁴ an enormous and unprecedented amount for the sector.

4 Martin, Maximilian “Making Impact Investible.” Impact Economy Working Papers . 2013.

1.2 Social enterprises

Even if Profit with Purpose still remains a developing concept, legislation gave first responses to the need of coupling business and social outcome with the creation of new legal forms to frame social enterprises.

The point of view from which social entrepreneurs look at the market is surely different and somewhat closely related to economics and philosophy.⁵ Correctly assessing social improvements and benefits for the disadvantaged parts of the community are moved at the top of the priority in the mind-set of social entrepreneurship. Consequence of this approach is the necessity of determining, whether and to what extent a social entrepreneur is generating social impact to legitimize the resources claimed.

These socially driven entrepreneurs work in and with traditional markets, although they lack for the most part of a suitable discipline.

The assessment of social value creation its measurement is inherently difficult. How to estimate the value that origins by an activity that causes reduced pollution or the rescuing a given ecosystem or providing social contact and affection to the less fortunate? Clearly such a calculus is not only extremely demanding but ultimately a sociological philosophical question. All the same where such an assessment is possible, the question of connecting the generated value to a single and distinguishable activity or product is hardly possible.⁶

Measurement was also set at the center of the G8 discussions on impact investment. As briefly sketched above, evidently measurement replaces naturally the legal intervention on the subject in the search of a normative definition. Setting the legislator aside in this process, by elevating measurement as common denominator for PwP globally, will indeed be much more effective in the attempt of correctly framing the sector.

1.3 Legal forms

The present scenery is characterized by a number of different legal forms which traditionally have been acting in the social area, separated from the for profit legal forms.

⁵ Noya A. and Clarence E., *The social economy. Building inclusive economies*, Paris: OECD publishing, 2007

⁶ Sacconi, L., Faillo, *Come emerge l'impresa sociale? Uno sguardo d'assieme alla teoria della complementarità tra ideologia, governance e accountability*, in *IMPRESA SOCIALE*, v. anno 15, vol. 74, n.4 (2005), p. 82-105

Depending on the country, we might find flourishing social cooperatives, traditional NGO's, associations, foundations, mutuals or perhaps new hybrid forms. It has to be kept in mind, that the viewpoint of this paper, is the Italian viewpoint.

Nonetheless, the aim is to analyze and examine what is done institutionally and transnationally to progress and improve the sector.

Social entrepreneurs operate in the market while adopting, as mentioned above, different legal forms, engaging in producing services and goods with a remarkable level of financial risks. They operate through paid workers, and are surely market oriented, in the sense that the functioning is assured by incomes deriving from the selling of goods and services on the market.

In the EU the two countries that stood out for innovation in the legislative approach to this new business form were Finland and Italy. The essential aspect of Social Enterprises laid in the absence of a specific legal form. Both regulations expressively used the term Social Enterprises⁷, but looking closely the ground upon which the two laws are built is to a great extent different.

In accordance with section 1 of the D.Lgs 155/06, starting with Italy, the status of social enterprises ex lege, can be obtained by all the private organizations (profit or not for profit) which permanently and primarily conduct an organized economic activity oriented to the pursuit of purposes of general interest. Within the Italian legal order the social enterprise ex lege does not represent a form of company, but a label that organizations can obtain in accordance with the requirements set by the law. Organizations can be non-profit (associations, foundations, committee), or can be for profit (e.g. Joint Stock Company, Limited Liability Company, Limited Partnership by Shares, Informal Partnership, General Partnership, Limited Partnership, Cooperative Company).

Other systems, mostly in the Anglo-Saxon world, developed legal forms that allow the creation of businesses in areas considered intrinsically to be of social interest and therefore, not needing of any further measurement of the resulting impact. Those businesses can consequently be easily investing targets. The most innovative legal form is the community interest company. Each month 100 new companies apply for registration⁸. This figure was regulated by law in 2005 and is probably the most efficient form of social entrepreneurship-encouragement. The legislator regulated the model through means of corporate law, addressing

7 Finland: Social enterprise (WISE) - law 1351/2003, in force since January 2004; Italy, Legislative Decree 24 March 2006, No. 155

8 www.cicassociation.org.uk

aspects that were forgotten in the Charitable Act. Its assets are locked: neither transfer is allowed, nor distribution of any kind. If the companies' act establishes it and it remains under the cap of 5 % set by the Regulator, it is allowed to distribute dividends to members or shareholders.⁹ If the activities should be carried out in a different state, than this community Interest Company shall participate in a CIC while distributing profits in order to sustain its further work. However, imminent changes to the rules will modify this restriction enabling the distribution of up to 35 % of the profits.

The regulation allows debt issuing and the utilization of equity tools and this has a reflection on the structure of the governance. Those individuals do not acquire membership by holding debts or equity. Indeed the actual standard structure is not defined in the Act. Seen that nothing is said about principles of governance it is assumingly left to the traditional corporate law, hence, capital means power.

Yearly, a report has to be issued which is surely expression of the needs on transparency and cooperation with beneficiaries. The most chosen form in the UK is the Company Limited by Share (CLS), a legal form usually chosen in for-profit, 'mainstream' business since it is seen as linear to set up, and easy understandable for every actor of the market no matter if customers, investors or other stakeholders.

Looking at the other side of the sea, Canada and the US created specific forms destined to enable for profit companies to act in public interest, for example the Canadian Community contribution companies or the American Low profit limited liability companies. The latter for instance have no restriction in distribution of profits, no matter what legal form chosen. Both have a strict mission lock; those companies cannot change their mission without substantial negative effects.

9. In part 6 of the Regulation the declaration of dividends is disciplined as follows:

"17.—(1) A relevant company may declare a dividend to its members only —

(a) to the extent that its memorandum and articles permit it to do so;

(b) if an ordinary or special resolution of the company's members has approved the declaration of the dividend; and

(c) if the declaration of the dividend does not cause —

(i) the total amount of dividend declared on any of the company's shares for the financial year for which it is declared to exceed the maximum dividend per share for that financial year; or

(ii) the total amount of all the dividends declared on shares in the relevant company for the financial year for which it is declared to exceed the maximum aggregate dividend for that financial year. "

1.4 Non Profit

If seen inside a welfare triangle according to Pelstoff (1998), the third sector is a circle in its middle and its very core ought to be associations in the form of voluntary/non-profit organizations: at the three peaks of the triangle state, community and market. Associations together with Foundations and similar entities they comprise about 65% of the total employment in the third sector, including both paid and voluntary personnel.¹⁰

Some countries coupled voluntary organizations mainly with idealistic purposes and advocacy, namely Italy, Spain and Germany. Accordingly, their national law considers the economic feature rather moderately. Where they operate on the market by producing or selling services and goods, like France, they somewhat developed into welfare providers.

Governments ruled associative forms in harmony with each country's history. Evidently the relations public authorities had with voluntary organization are a crucial point.

The most characterizing feature of associations however is their weak economic orientation. Just like the resources they have access to are mostly non- market sources, such as grants and subsidies or all the more, non-monetary when talking about volunteering.

As a general and more recent definition, one should preferably cite the one given by the EU:

"Private, formally- organized organizations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them¹¹."

The no- distribution constraint is therefore its bearing column. They run as non-market bodies serving the general interest. Still, the closer form of no- profit to Social Enterprise is surely the Foundation. They rest upon endowments of

¹⁰ R. Chaves, The Social Economy in the European Union, Report of the Economic and Social Committee, 2007

¹¹ This definition is based on the criteria established by the European Commission's Manual for drawing up the Satellite Accounts of Companies in the Social Economy and by Barea (1990 and 1991), Barea and Monzón (1995) and Chaves and Monzón (2000). It concurs both with the delimiting criteria established by the social economy organizations themselves (CNLAMCA charter, 1980; Conseil Wallon de l'Economie Sociale, 1990; CCCMAF and ESC-CMAF, 2000) and with the definitions formulated in the economics literature, including Desroche (1983), Defourny and Monzón (1992), Defourny et al (1999), Vienney (1994) and Demoustier (2001 and 2006).

individuals, or groups, relying most often on state financial support. However, assets of traditional no profits are not divisible and the circulation of their shares is prohibited. This makes them ineligible for FEI investing and here lies their greatest limit.

On the other hand, where specific legal forms lack, such as in Italy, the necessity brought to the development of a new model of social cooperatives, which were divided by the legislator in two types according to their final goal; type A which conduct an activity of educational and health services management and type B, concerning job inclusion for disadvantaged subjects. By stating that workers are not necessarily members of the cooperative the legislator draws a line with mutual organizations, concept that overlapped with ordinary cooperatives.

They can follow the rules of public limited companies, the so-called S.p.A, the joint-stock companies or the provisions of limited liability companies, the S.r.l.

Cooperative enterprises legislation, which matches with the social cooperatives guidelines, finds its grounds on the models of limited companies customarily founded with a profit-making purpose.

Most of the provisions however set back to the provision of the Civil Code regarding limited liability companies.

After the law of 1991 cooperatives developed massively, spreading to more than 20 % per year. This naturally resulted in the compression of the other non-profit forms at disposal.

Of great importance remains the difference between voluntary organizations, the value-based organizations, which are also to be considered under the No-profit roof and professional no profit. The first are mostly depend on mutual expectations, solid reciprocity with no formal contracts. Having looked at the bigger picture, doctrine and jurisprudence find this specific segment of the third sector the least efficient, lacking it not only in organization but more importantly in long run impact. Essentially, it is more a socially relevant phenomenon than an economic, juridical question.

2. The Social impact accelerator

Our analysis takes a step further towards the approach chosen at a global level. Principally the two spheres where this phenomenon has been taken into great consideration, rationalized and debated, are the G8 and the EU.

Evidently both point of views and approaches differ, but what stands out is the common desire to give considerable impulse and support to this new form of *sustainable capitalism*. It strikes the fact that perhaps for the first time, an economic phenomenon grows parallel and gains thriving importance, in different parts of the world.

At a European level a number of pilot initiatives were launched to support this growing phenomenon.

The present situation is the result of an evolution which started with the financing of small and medium sized enterprises (SME).

Its main source is the European Investment Fund (EIF) a European body focused on SME risk financing. It is part of the European Investment Bank group and is the result of a peculiar combination of public and private shareholders. Its owner is the EIB which holds approximately the 62.1% of the shares, followed by the European Union - through the European Commission (30%) and 25 public and private financial institutions (7.9%) spread to 15 different countries.

The goal of EIF is dictated by the recent EU initiatives born to support Europe's SMEs by facilitating their access to finance and their instruments. EIF primarily designs and develops venture capital and guarantees instruments which specifically target this market segment. As said, EIF is an arm to achieve the EU objectives set to be achieved by 2020 in support of innovation, research and development, entrepreneurship, growth, and employment.

Towards the end of 2013 its total net investments to venture capital and private equity funds amounted to over 7.9bn Euros.

Perhaps the most courageous solution was the Social impact accelerator (SIA), which stood out as the first pan European public-private partnership designed to support social businesses.

The initiative was established in May 2013 by the European Investment Fund as a further step to connect equity finance and social enterprises. SIA is structured as a fund of funds, with the support of private sector investors such as Deutsche Bank and Crédit Coopératif, but others are expected to join.¹²

With an initial capital of 60 ml Euros to invest in social impact funds, it targets social enterprises all over Europe.

¹² European Investment fund, J. Harvey 14 May 2013 Press release

But how does it work?

The fund will invest up to 50 % in impact investing funds and is managed by EIF. In fact extensive and precise guidelines are set by EIF to select the management team of the fund, namely:

- “address and achieve a measurable social and/or environmental impact by their investment into social enterprises
- measure and report satisfactorily on social impact achieved;
- select commercially viable social enterprises; and
- provide investee social enterprises with the necessary support for developing their social business activity.”¹³

The relevance of entrepreneurial managing capability is evident and follows the traditional venture capital model.

At the same time EIF sets a number of selection criteria for the prospective invested social impact funds:

- “in addition to financial return targets, also pursue explicit social impact investment targets at the level of their portfolio companies;
- measure and report on social impact performance achieved at social enterprise level, in addition to financial return performance; and
- follow strong environmental, social and governance standards in their own activities.”¹⁴

A solution is aiming at using EU social funds resources as matching grants to give an incentive to local governments to invest in central governments' priorities. Hence, they work as fund of funds.

This matching system has, for example, supported the case of Oltreventure, Italy's first venture capital fund addressing social issues, with a received funding of 10 Mio Euros.

However, the end beneficiaries may only be social enterprises with a substantial part of the revenues deriving from economic activities, no profits are therefore not included.

¹³ http://www.eif.org/what_we_do/equity/sia/index.htm

¹⁴ http://www.eif.org/what_we_do/equity/sia/index.htm



SIA aims at furnishing, along with the funds, a long lasting environment for social impact investing, by creating a new measurement system to both quantify and report the size and efficiency of the impact created.

2.1 Oltre Venture- An Italian perspective

Oltre Venture is the first Italian impact investment fund and has been promoted in 2006 by Luciano Balbo. The project of Oltre has been incubated for 3 years by Fondazione Oltre that encouraged the experience of Venture Philanthropy in Italy. The entire team that worked in Fondazione Oltre promoted the Oltre Venture fund combining social and financial experience. Oltre aims to intervene in those sectors where neither the state nor the market are present.

Luciano Balbo raised a small fund (7.5 Mio Euros) among wealthy individuals advertising the concept of Social Venture capital; that is to apply the Venture capital model to support sustainable start up in the social field by defining objectives, strategies and providing organizational support of the chosen investments. Oltre invests exclusively in Italy and finalized 17 investments with presently 4 exits. Further, Oltre attracted around 90 million Euros from external investors in its projects.

Investments assure Oltre, no matter the size, important governance rights, since the objective is to guide the companies into a managing and economic self-sufficiency, with a disinvestment goal in the medium- long term. Indeed, along with the investment, Oltre provides search of new investors/ partnerships as well as managing and financial support.

The three major investments of the fund are:

Permico – Microfinance

- Founder: Oltre Venture, Paideia Foundation
- Invested amount (at different times): 850.000 euros
- Present share: 11%
- Governance: members of the Board of Directors and of the Executive Committee

Permico is a microfinance institution born in 2007 in Italy that lends to individuals (mainly immigrants) that want start up a small personal business. It was founded jointly by Oltre and Paideia Foundation with an investment of 850.000 Euros and shares divided with a bank (BNL) and other major Italian bank foundations. Today it is the first Italian microcredit company, in dimension and geographic extension. The company's mission is the inclusion of " weak"

subjects in the financial system, seen as a step towards concrete territory belonging. From its birth, Permico has examined 20.000 requests, of which 7000 financed for a total amount of 40 Mio Euros. It is composed by highly professional individuals, rather than volunteers, innovating the approach on microcredit in Italy. The credit risk was always taken by Permico, instead of using guarantee funds and aiming at a medium term economic self-sustainability. It is a recognized financial intermediary and had a major role in the search of new investors, for example the European Investment Fund. Oltre will most likely exit by selling its shares to other shareholders.

Gastameco – Social housing

- Founder: Oltreventure
- Invested amount : 150.000 euro
- Present share: 15%
- Governance: President and members of the Board of Directors

Gastameco is a company, founded in June 2013 that develops the project of temporary social housing targeted for students and people that need a temporary low cost accommodation. Housing is currently one of the major issues of our society and the focus was set on the balance between good quality and accessible costs.

The Oltre team has developed a number of temporary housing projects, participating in every step of the process, from the concept developing to the actual building of the real estate. Moreover, Gastameco addresses its services to market actors that focus in the reuse of empty properties, helping them in the developing of functional projects and evaluating their architectural concepts. During this process it created operative companies which both developed and managed the property. Sharing Srl and Gastameco are surely the major examples in the sector together with Via Ivrea 24 Spa. Sharing Srl reached its breakeven point while Gastameco cooperated with *Cassa Depositi e Prestiti* (a public financial institution) and its funds dedicated to investments in this area, being today at the center of growth and development.

In the temporary housing sector Oltre created projects which received investments of a total amount of almost 80 Mio Euros from real estate partners and investors.

Società&Salute – Health sector

- Founder: Oltreventure
- Investment amount: 2.4 Mio Euros

- Present share %: 61%

It is a chain of low cost health care centers active mainly in the areas where the offer of the National Healthcare System is poor or no more present. It is born in 2009 and gradually covered 30 medical specialties, with over 20.000 patients under the name of Medical Center Santagostino. Prices are largely lower than the market offers and slightly higher than the public choice. Balbo is still president and created the concept as well as the management team which is presently directing the project.

These companies are now in the post startup phase and were able to attract, as shown, other investors to allow the growth.

All the companies where Oltre invested have traditional legal forms and are "social" in the aim to create a positive social impact, where traditional means the for profit form, not the social enterprise form

As the market is still very "immature" Oltre incubated the projects attracting people with interesting projects and helping them to develop a detailed business plan and start up the company.

Oltre is now fully invested. The target is to return to the investors their original amount.

The return on the portfolio will be positive, but the management costs were high due to the limited size of the fund and consequently the financial return will be reduced.

III. Europe and the G8 Task Force

The G8 Taskforce aims to report on October 2014 on at least three fronts: the policy framework required to take social impact investment to a tipping point; a common international approach for measuring social outcomes (developing a set of general guidelines to ensure that impact is widely recognized and employed as a fundamental part of the practice of social impact investing); and ways to achieve a specific allocation by Foundations, institutions and private investors to this new asset class.¹⁵ At the same time, complementing the work of the Taskforce, the Organization for Economic Cooperation and Development (OECD)

¹⁵ Cabinet Office, G8 Social Impact Investment Forum, Outputs and Agreed Actions, 2013.

will be undertaking a report on global developments in social impact investment to help assess how to drive the market forward.

Last year the European Parliament had voted strongly in favor of new legislation to support EU social investment funds. The new European Social Entrepreneurship Funds (EuSEF) regulations have been brought forwards in tandem with new European Venture Capital (EuVECA) regulations. Together they are intended to help streamline cross border capital raising as well as standardize compliance and reporting requirements for investment in small and medium-sized enterprises (SMEs) as well as social enterprises across member states.¹⁶

The new rules will create a pan-EU marketing passport with uniform criteria for all fund managers investing in social sector organizations through “funds” which meet the EuSEF criteria. Eligible funds will need to have the making of a measureable and positive social impact as their explicit focus. The regulation also requires EuSEF managers to put in place procedures for monitoring and measuring the positive social impacts, which are to be achieved by their investments. Additionally, the EuSEF label may only be used by fund managers that are fully transparent as to their investment policy and investment targets. The required transparency extends also to how the EuSEF managers’ pay is calculated and to profit disclosure.¹⁷

It is anticipated that the EuSEF regulation will also make it easier to leverage EU public capital with private investment to help scarce public funding go further and also enable private investment to complement grant funding. The EuSEF label is assigned through a three-step process:

1. EU-based Fund managers interested in acquiring the label need to register with the Competent Authority in their home member state, which will oversee the compliance of the fund with the EuSEF regulations.
2. This information is passed to the European Securities and Markets Authority (ESMA) so that it can compile a central register of EuSEF funds and their managers.
3. ESMA will inform the relevant authorities of the host member states in which the fund managers plan to market the fund.

¹⁶ EVPA, A Summary of the EUSEF and AIFMD Legislations, 2013.

¹⁷ <http://www.socialfinance.org.il/social-impact-bonds/40/aims-g8-task-force-for-social-impact-investment>

To qualify for the EuSEF label, these EU-based funds must allocate at least 70% of their investible capital to Social Undertakings.¹⁸

Conclusions

A new model is developing. At first glance and looking at the first Italian experiences, mostly at an embryonic stage, while at the same time keeping into account the development of impact investment models throughout the world, a number of sure facts emerge.

Firstly, the link between governance and investments is evident, being impact investment simply a specific form under the private equity umbrella. Predominantly because of the similarities in the operational and functional aspects of their systems. Therefore, other forms need to be enhanced and supported, namely, as stated above, PwP and no profits doing business, where possible. In fact, investors provide to the target companies, not only financial support, but most importantly competence and knowledge to guide them into the market (presence in the board, professional figures at disposal of the target company etc.). No different than the traditional private equity way. Impact investing comes, consequently, with a support mechanism to the chosen social business. Investments come with shares and where investments mean majority in shares, the democratic rules governing cooperatives are naturally conflicting.

The first experiences in this direction are undoubtedly not passive, but of concrete mentoring and support.

Professionalism is fundamental to elevate impact investing to an asset class, but further to grow the managerial structure of the target companies, a collateral instrument aside of the investment to foster growth.

A second key point is the freedom of profit distribution in the target companies. The “social” aspect of this new sustainable capitalism is, indeed not found in the “not for profit” concept, but rather in the already highlighted measurement system. It is not to forget, that the capitalistic market is determined by entry barriers and the presence of impact investing on the latter has to be consequently supported by rules. Wherefore the “profit” issue, is likely to find self-regulation: in fact, where this should exceed, measurement would serve as perimeter to determine an adequate and not speculative profit allowance.

Clearly, these considerations are not sufficient to provide a model which guarantees reliability and market certainty to the investors. Therefore, while

¹⁸ www.eusef.eu

developing, measurement systems are bound to consider this aspect in order to offer the both necessary and demanded guarantees fundamental on an economically driven market.

Also to consider is that capital employed for such investments is inherently different than capital used for profit maximization. Precisely this peculiar employment of capital needs to be correctly weighted and evaluated while developing the measurement scheme.

Lastly, concerning the duration of the mentioned investments, it is indisputable that capital has to be held longer than traditional private equity investments. Profitability is naturally lower and therefore slower to find convenience to potential investors. This should not surprise, being such investments burdened from their very start by the multiple goals they set; return both social and economic, rather than only economic.

Again, this last angle should be included in a reasoning on measurement, which should not only consider the outcome but also how the capital is used.

In conclusion, the desirable path to undertake should head towards working in the same direction, both at a European level and within the G8.

Remarkably, as discussed throughout the paper, impact investing is evolving spontaneously at different levels and rightly when for the first time a financial circumstance develops simultaneously at separated points, it would be regrettable and less effective to grow parallel solutions. Cooperation would capture positive synergies and facilitate the evolution of the not only broad, but also somewhat uniform phenomenon.

It remains unquestioned that the key unifying factor will be the adoption of a global measuring indicator. In fact, a fitting measuring system would annul the heaps and lacking in the complex and heterogeneous scene of suitable legal forms. Yet, the aim shouldn't be to rush into setting indicators, but rather to gradually form extensively supported guidelines. Especially the European Commission demands a prudent proceeding.¹⁹ Convergence is surely much more desirable than coexistence.

The highlighted result of the present exposition, nevertheless, is the importance and meaning that Profit with Purpose are gaining in this environment. It is in this outlined phenomenon that we find the ideal target of impact investing. If the

¹⁹ Social Impact Measurement- Considerations on the report by the GECES group, Marco Fantini, European Commission

concept of Profit with Purpose flourishes jointly with the developing of a uniform impact measurement system, the issue of attracting private capital in the impact investment area with effectiveness and productivity could be tackled successfully.

Only implementation of these new approaches together with a long-term practice will thrive and frame this crucial section of the Global market.

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