THE HOWS AND WHYS OF SOCIAL IMPACT INVESTING

Financial innovation driving social innovation

Report from the National Advisory Board on Impact Investing

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Rapporteur **Cyrille Langendorff**

Government representatives
Claude Leroy Themeze
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In the name of the members of the French Consultative Committee, the Chairman Hugues Sibille would like to actively thank the Minister responsible for the Social and Solidarity-based Economy (SSE) and his cabinet team for having accompanied the studies of the French committee. In particular, special thanks are tendered towards Thomas Boisson, Romain Guerry and Antonin Conrath for their participation in various working meetings of the committee and for their assistance in organising the reception of the International Taskforce on April 7th and 8th 2014 in Paris.

IMPORTANT NOTICE

This report is the work of a National Advisory Board, the composition of which is set out below. The Board was formed and chaired by Hugues Sibille, Vice-Chairman of Crédit Coopératif and Head of Avise, pursuant to a mandate given by Benoit Hamon, who was then Minister Delegate with responsibility for the Social and Solidarity-based Economy (mission statement letter in the appendix), and Sir Ronald Cohen, Chair of the Social Impact Investment Taskforce, which was announced at the G8 Social Impact Investment Forum held in London in June 2013.

The Board met six times between November 2013 and July 2014. Its assessments and recommendations, which are contained in this report, are not binding on the government departments that were involved in its work as observers, nor on government bodies such as Bpifrance or Caisse des Dépôts.

The report includes a summary which provides the Board's overview of impact investing, a map of France's existing ecosystem, recommendations for building an ecosystem to foster such investments, using a forward-looking experimental method and factoring in features specific to France.

The report's findings and suggestions have been sent to both the French public authorities and the International Taskforce and should encourage discussions and exchanges on these new investment methods between relevant public and private stakeholders.

The Board members are aware that their work provides a preliminary approach to an emerging topic. As a result, the purpose of the report is not to draw conclusions but to open the debate.

BOARD MEMBERS

We are stakeholders committed to social and financial innovation.

We have backgrounds in banking, private equity, social entrepreneurship, government agencies, independent advisory services, government departments, academia and international organisations.

The 29 members of the National Advisory Board were determined to pool their methodology and values to compile findings and make suggestions to better address the major social issues of the 21st century in France, Europe and Southern countries.

The members worked as much on their own behalf as on that of organisations. They did not agree on everything but all shared the desire for new partnerships to be forged between social entrepreneurs/stakeholders and finance professionals.

FRENCH REPRESENTATIVES ON THE TASKFORCE

Hugues Sibille, Chair of the National Advisory Board and Vice-Chairman of Crédit Coopératif, in which capacity he heads up the private equity firms IDES and ESFIN.
Being closely involved in social entrepreneurship, Mr Sibille set up Avise (Agency for leveraging socio-economic initiatives) which he still chairs. He was previously an inter-ministerial delegate for social innovation and now advises the public authorities through his role as Vice-Chairman of the Governing Council for the Social and Solidarity-based Economy and member of the GECES European Expert Group.

Claude Leroy-Themeze, a macroeconomist, has held a number of positions as senior economist in French government departments such as the Ministry for Labour and Employment, the National Institute of Statistics and Economic Studies (INSEE) and Banque de France.
Since 1996, she has held a number of positions as economist responsible for countries, particularly those in Sub-Saharan Africa, with institutions such as the IMF and the World Bank. More recently, her work has been focused on development evaluation and she is currently in charge of the Evaluation of Development Activities Unit at the Directorate General of the Treasury. She graduated from the *École Nationale de la Statistique et de l'Administration Économique* (ENSAE) and the *École des Hautes Études en Sciences Sociales* (EHESS).

Nadia Voisin, Support Adviser to the private sector in developing countries with the Ministry of Foreign Affairs and International Development (MAEDI).
She is responsible for oversight of the private sector support instruments of the French Development Agency (AFD), including management of the *Fonds d'investissement pour le soutien aux entreprises en Afrique* (FISEA), which is an "impact investment fund" for SMEs in Africa. She outlines French positions vis-à-vis the EU as regards private sector support in developing countries and French positions in the context of G8 support for SMEs in Deauville Partnership countries. She is also involved in establishing positions within the framework of the G20 Development agenda on private investment and job creation. She also rolls out the national action plan in favour of fair trade.

Cyrille Langendorff, Rapporteur
As Project Manager of International Affairs with Crédit Coopératif, he is essentially responsible for relations with the bank's European banking partners and for fostering common project funding. He has been involved in impact investing for seven years and was a member of Nexus' Advisory Board for impact investing (NEXII).

MEMBERS OF THE NATIONAL ADVISORY BOARD

Mathieu Cornieti, Impact Partenaires
Chairman of Impact Partenaires (an investment fund focusing on underprivileged neighbourhoods), member of Bpifrance's National Policy Committee for Urban Policy and Chairman of AFIC Impact (an AFIC club composed of French impact investing management companies).

Henry de Cazotte, French Development Agency
As an agronomist who graduated from ETH Zurich and from ESSEC Business School Paris, he is Innovation Adviser with the Executive Strategy Directorate of the French Development Agency, responsible for monitoring the post-2015 development agenda. He was previously Special Adviser to the Executive Director of UNCSD (Rio+20).

Béatrice de Durfort, Centre Français des Fonds et Fondations
After organising and managing a number of cultural projects for the Paris Town Hall, Béatrice de Durfort began to acquire a solid grounding in foundations when she became Managing Director of the *Fondation Napoléon* in 1994. Between then and 2000, she established the strategy, set up the teams and rolled out the mechanisms. She has been Delegate General at the *Centre Français des Fonds et Fondations* since January 2004.

Olivier de Guerre, PhiTrust
As partner and co-founder of Finance Indosuez Technique and the Cristal Group, both specialising in asset management, Olivier de Guerre went on to become Managing Director and Member of the Management Board of Crédit Suisse Asset Management. He is Chairman and CEO of PhiTrust Active Investors which was established in 2003.

He is also Chairman and CEO of Proxy Active Investors, which is the first French open-end investment company (SICAV) dedicated to shareholder engagement, and joint manager of the Euro Active Investors mutual fund (FCP). He is also Chairman of PhiTrust Partenaires (set up in 2005) and PhiTrust Impact Investors (founded in 2012).

He is a Board member of the PhiTrust Endowment Fund (established in 2009) and graduated from ESSEC and Nanterre University.

Élise Depecker, Avise
A graduate of SKEMA Business School (Lille), Élise Depecker has been working in the social and solidarity-based economy sector for more than ten years. She had management responsibilities with *Unis-Cité*, an association which is a trailblazer in civic service. In 2010, she joined Avise to oversee measures to foster social entrepreneurship and innovation. She took over management of the agency's programmes in 2012.

Sophie des Mazery, Finansol
She gained extensive experience in the non-profit sector by firstly working for the *Comité de la Charte* for almost five years. In 2004, she left her position as Manager of the *Syndicat de la presse hebdomadaire régionale* to become expert adviser to the Chair of Crédit Coopératif (BPCE Group), particularly in the field of partnerships. In May 2010, she joined Finansol where she is Delegate General.

François de Witt, Finansol
A graduate of *École Polytechnique* and the *Institut d'Études Politiques de Paris*, François de Witt has spent his career in the economic and financial press sector. He started out as a journalist before becoming deputy editor of *L'Expansion* (1969-1986). He went on to become editor of *La Vie Française* (which became *La Vie Financière*) from 1986 to 1993, Challenges until 1996 and, lastly, *Mieux Vivre Votre Argent* from 1997 to 2003. Between 1985 and 2009, François de Witt was also contributor for a number of radio stations: Europe 1, RMC, Radio Classique and, especially, France Info (1990-2009). He became Chairman of Finansol in June 2007.

André Dupon, Mouves (Mouvement des Entrepreneurs Sociaux)
André Dupon is 57 years old and began his career as a special-needs teacher. In 1995, he joined the VITAMINE T Group which he significantly scaled up by forging partnerships with private-sector economic stakeholders. Under his leadership, in 15 years, the Group went from five to 12 social enterprises and from 600 to over 2,500 employees. André Dupon also chairs the *Sauvegarde du Nord* association and the *Mouvement des Entrepreneurs Sociaux.*

Guilhem Dupuy, Ecofi Investissements, Crédit Coopératif Group
Head of the Managing Director's Office with Ecofi Investissements, a subsidiary of the Crédit Coopératif Group, he has specific responsibility for solidarity-based funding products and partnerships (solidarity-based employee savings schemes, impact investing, microfinance, etc.). He is also preparing a PhD thesis on the issues surrounding social and environmental impact measurement.

Geneviève Ferone, Prophil
Chairwoman and founder of ARESE, the first French corporate and social responsibility rating agency for listed companies. She was Director for Sustainable Development for both the Eiffage Group and Veolia Environnement.

She is now co-founder and Managing Director of Casabee, a regional innovation design office, a partner of Prophil and member of the Board and Director of Agrisud International.

Patrice Garnier, SIFA (Société d'Investissement de France Active)
Chairman of Société d'Investissement France Active (SIFA). He has spent most of his career with Caisse des Dépôts, most notably as Chairman of the holding company containing property and service firms.

Bernard Giraud, Livelihoods (Danone investment fund)
Co-founder of the Livelihoods Fund and President of Livelihoods Venture. He was previously Vice President Sustainability and Shared Value Creation with Danone. He created the Danone Fund for Nature in partnership with IUCN and RAMSAR. This success story inspired him to set up the Livelihoods Fund, a mutual fund with investors such as Danone, Crédit Agricole, CDC-Climat, Hermès, and other leading European businesses, in 2011. Before joining Danone in 1998, Bernard Giraud was Executive Director of the Invest in France Agency North America (DATAR).

Nicolas Hazard, Groupe SOS, Comptoir de l'Innovation
A graduate of HEC and Sciences Po Paris, Nicolas Hazard is Chairman of Comptoir de l'Innovation, which supports social enterprises throughout the world, via an impact investing fund and an international network of incubators. He is also President of Calso Inc. (a non-profit organisation based in California) and Vice-Chairman of Groupe SOS (12,000 employees, turnover of Đ600m). He is also a member of the European Commission's Expert Group on Social Entrepreneurship (GECES) and the National Council for International Development and Solidarity, amongst other organisations.

Lisa Hehenberger, EVPA (European Venture Philanthropy Association)
Lisa is the Research and Policy Director of the EVPA. She is also a member of the European Commission's Expert Group on Social Entrepreneurship (GECES) and the Impact Measurement Working Group of the Social Impact Investment Taskforce established by the G8. She has a PhD in Management from IESE Business School and holds a number of academic positions with European higher education establishments (IESE, Bocconi).

Magali Joëssel, Bpifrance
Magali Joëssel is Strategy Manager with Bpifrance. In her previous positions with the Inspectorate General of Finance then as General Interest Investment Manager with Caisse des Dépôts, she gained experience in the micro-credit and social and solidarity-based economy fields.

Jean-Michel Lécuyer, Comptoir de l'Innovation
Managing Director of this company which supports social enterprises throughout the world, via an impact investing fund and an international network of incubators.

A graduate of *École Polytechnique* (1989-1992) and *École des Mines de Paris* (1992-1994), Jean-Michel Lécuyer was a consultant in the eco-industries sector for several years. From 2003 to 2014, he was Managing Director of SIFA and Operations Manager with France Active.

Jean-Marc Maury, Caisse des Dépôts
Director of the Economic Development and Social Economy Department with Caisse des Dépôts, and Human Resources Director since 2005. Between 1979 and 2005, he worked in the Personnel Directorate, the General Tax Directorate, as Adviser in the Private Offices of Laurent Fabius and Florence Parly, before becoming Deputy Secretary General of TRACFIN (France's Financial Intelligence Unit).

Laurence Méhaignerie, Citizen Capital Partenaires
Co-founder and Chairwoman of the Management Board of Citizen Capital Partenaires, one of the first impact investment funds in France geared towards economic performance and positive social impacts. Before founding Citizen Capital with Pierre-Olivier Barennes in 2007, Laurence was Research Partner at Institut Montaigne where she co-authored the report *"Les oubliés de l'égalité des chances"* and the *Charte de la diversité dans l'entreprise*. In 2005-2006, she was Technical Adviser to the Minister Delegate for Equal Opportunities.

Antoine Mérieux, independent expert
Government representative at the IDES (Social Economy Development Institute) and at the *Fondation Caisses d'Epargne pour la solidarité*, and co-publisher of the *"Rapport moral sur l'argent dans le monde"*, Antoine Mérieux was, until October 2013, responsible for the social and solidarity-based economy taskforce reporting to the Director General of the Directorate General of the Treasury.

Antonella Noya, OECD
She has been working at the OECD since 1997 as Senior Policy Analyst with the LEED Programme and the Manager of the OECD/LEED Forum on Social Innovations (http://www.oecd.org/cfe/leed/). She specialises in the social economy, social enterprises, social innovation and women entrepreneurship, amongst other fields. She has authored OECD publications in these areas.

Jean-Luc Perron,
Grameen Crédit Agricole Foundation
In 2008, Jean-Luc Perron played a key role in setting up the Grameen Crédit Agricole Foundation. The Foundation emerged from a partnership between Crédit Agricole and Professor Yunus, founder of Grameen Bank and winner of the 2006 Nobel Peace Prize. With 20 staff members and credits of Đ50m, the Foundation fights poverty in developing countries through micro-financing and social business. He is Vice-Chairman of Convergences and a member of the European Commission's Expert Group on Social Entrepreneurship (GECES), and the National Council for International Development and Solidarity.

Patrick Savadoux, Mandarine Gestion
He has been in charge of socially responsible and solidarity-based investment with Mandarine Gestion since 2009 and has over 30 years' experience in the finance industry, 20 of which in socially responsible and solidarity-based fund management. After having managed share portfolios, he was one of the forerunners of socially responsible and solidarity-based investment management with the Caisse des Dépôts et Consignations Group in the early 1990s. In 1994, he was involved in setting up the very first French solidarity-based fund and over the years he has taken an active part in the expansion and promotion of solidarity-based financing in France.

Christian Schmitz, SIDI (Solidarité Internationale pour le Développement et l'Investissement)
After having been an expatriate for 15 years, Christian Schmitz, a graduate engineer, became involved in social finance responsibility. Since 1995, he has headed up SIDI, a solidarity-based enterprise which manages a social investment portfolio in around 40 Southern countries amounting to almost Đ30 million. It provides technical support to microfinance stakeholders in developing countries, principally in Africa. It is very active in professional ethical and social financing networks both in Europe and worldwide (FEBEA, INAISE, ESF, MAIN, etc.).

Blanche Segrestin, École des Mines de Paris

Blanche Segrestin is a professor at Mines Paris-Tech, PSL Research University. Her research covers corporate theory and governance models. She is member of the "Theory and Methods for Innovative Design" chair and her work focusses on the connection between collective innovation and governance. She co-authored the book, *Refonder l'entreprise*, with Armand Hatchuel (La République des Idées, Seuil, 2012).

Jean-Michel Severino, Investisseurs & Partenaires

He manages Investisseur et Partenaires (IP), an impact investment company devoted to African entrepreneurs. He was previously Director General of the French Development Agency (AFD) and Vice President of the World Bank. He is Chairman of the Convergences World Forum which aims to develop partnerships between all private- and public-sector stakeholders with an eye to achieving the Millennium Development Goals. He is also a director of Danone and Orange and chairs the Board of Directors of Ecobank international (EBI).

Pierre Valentin, Crédit Coopératif

A graduate of *École Polytechnique* (1976) with a PhD in Physical Sciences (1984). After acquiring experience in the research and corporate treasury fields, Pierre Valentin joined the banking sector in 1989 and spent 15 years working on the financial markets with the CPR Group.

In 2004, he became Chief Financial Officer of Crédit Coopératif before being appointed Deputy Managing Director in 2007.

The members of the National Advisory Board join its Chairman, Hugues Sibille, in thanking Sir Ronald Cohen for having started and overseen the work of the International Taskforce. They would also like to thank Rebecca Thomas and Stephen Brien for their important contributions and constant support, and Kieron Boyle, Claire Michelet and Alexandra Meagher for their help and input.

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I. OVERVIEW

1. It is the opinion of the National Advisory Board that, as the market and public policies currently stand in France, addressing social requirements which are being met only partially or not at all, involves promoting major social and financial innovations, including impact investing. The latter is not intended to replace the current funding methods for all general interest social services, but to supplement them in specific circumstances.

2. The Board defines a social impact investment as an investment that generates a social outcome alongside a financial return. As a result, specific key social goals have to be identified with the impact being gauged by an ongoing assessment procedure. Investments may be made in any type of organisation with a sustainable business model, regardless of its legal structure, with returns ranging from zero to close to market rates.

3. The Board differentiates the impact investment market from the socially responsible investment (SRI) market, and from investments with impact, the social purpose of which is negligible or unintentional and cannot be quantified. Impact investments for development made in developing countries are classified as social impact investments and the Board welcomes shared thought processes and experiments with new social impact financial instruments in both the North and South (Faber/Naidoo report).

4. We already have the basis for expanding these investments, both domestically and in developing countries, and French cultural, economic and institutional features must be factored in. These include the existence of a robust and growing social and solidarity-based economy, which has been recognised in a new Act, and which has qualified investors. A shining example is the solidarity-based employee savings market and the know-how of the "90/10" funds, a cornerstone which needs to be built on in France and promoted abroad. That said, impact investing extends beyond, and is not confined to, the social and solidarity-based economy.

5. The Board puts forward proposals to the government to expand the impact investing market in France. It underscores the role currently played by public-sector investors (Bpifrance, Caisse des Dépôts, AFD, etc.) in this respect, by funding segments with market access problems such as social enterprise start-ups, countries or international causes which traditional market stakeholders have difficulty in reaching, or by promoting specific leveraged guarantee instruments.

It suggests piloting social impact bonds, tailored to the domestic environment, in the shape of social impact securities.

These securities would become part of the financial ecosystem by initially offering this funding for innovative projects falling outside the scope of existing financing options, by reducing the risks and returns for investors, by making use of the French legal framework and by forging strong ties with local authorities.

6. The National Advisory Board considers that there is an ecosystem conducive to impact investing. It draws attention to the need to match the funding offering to the requirements of social impact enterprises and organisations. It highlights this ecosystem's regional reach and the importance of having high-level project support mechanisms such as incubation programmes for social entrepreneurs and investment bank facilities. The business models for this support have yet to be determined.

7. The Board welcomes the international work on impact investing under the aegis of the G8 and G20. It encourages the French government to play a full role in helping international organisations achieve their goals in this respect. It acknowledges the importance of the EU's work in this area, as the Social Business Initiative (SBI) has been followed by the setting up of European Social Entrepreneurship Funds (EuSEF) and the report on Social Impact Measurement (Expert Group on Social Entrepreneurship, GECES).

8. Lastly, the Board believes that there is scope for continuing its work in a manner to be determined. This would involve monitoring the actual implementation of its proposals and taking part in piloting social impact securities, and assessing the benefits and drawbacks.

THE INTERNATIONAL TASKFORCE'S DEFINITION OF IMPACT INVESTING

The Taskforce noted various definitions for impact investing. The broadest definition includes all investments having any impact whatsoever. The Taskforce's work concluded that a more specific definition was needed to get investors and political decision-makers to commit to supporting more action to achieve a measurable impact. Throughout this report, the method set out for ensuring a social impact also applies for the environmental impact.

Impact investing aims to deliver measurable social outcomes. It is part of the broader realm of socially responsible investments extending to CSR, Environmental, Social and Governance (ESG) and SRI. Although the Taskforce is attempting to foster all types of investment, its main aim is to encourage the ramping up of a global market for financing entrepreneurship and innovation which directly addresses social issues, in much the same way as development capital did for the technology sector.

In light of the foregoing, the definition of social impact investments has changed to "those that intentionally target specific social objectives along with a financial return and measure the achievement of both". The investment targets are both non-profit organisations and profit-with-purpose businesses, in which the social mandate informs strategic decisions and resource allocation. Investments are made through a range of instruments offering both financial and social profitability.

GENERAL FEATURES OF IMPACT-DRIVEN ORGANISATIONS

A social mission targeting beneficiaries with social needs:

→ A group or sphere of action targeted by a government or philanthropic foundations (i.e. disease prevention)
→ A company based in the regions that creates jobs in underprivileged areas, and which is transparent about its overall impact
→ A group of customers without access to basic goods and services
→ Employees of a company or in the supply chain who have social needs
→ Civil society organisations (i.e. those encouraging civic participation)

The social mission informs the main management and resource allocation decisions to achieve both social and financial goals:

→ A regular business activity which sometimes extends to impact investing projects for which the goals are set and measured without the enterprise being classified as an impact-driven organisation
→ The achievement of social goals is regularly measured in terms of quality and quantity, and the overall social impact is transparent

The social mission is protected :

→ By governance, certification or owing to the legal form
→ Non-profit legal entities are always vehicles for locking in a social goal. Profit-with-purpose businesses may embed a social goal into the business activity or a specific corporate legal form can allow the mission to be locked in.

II. REVIEW OF THE FRENCH IMPACT INVESTING ECOSYSTEM

The purpose of this review is to explain how the financing requirements of social stakeholders (long-standing associations and new social enterprises) are matched to the funding on offer from both the public and private sectors, and to what extent this balance is tailored to tomorrow's world.

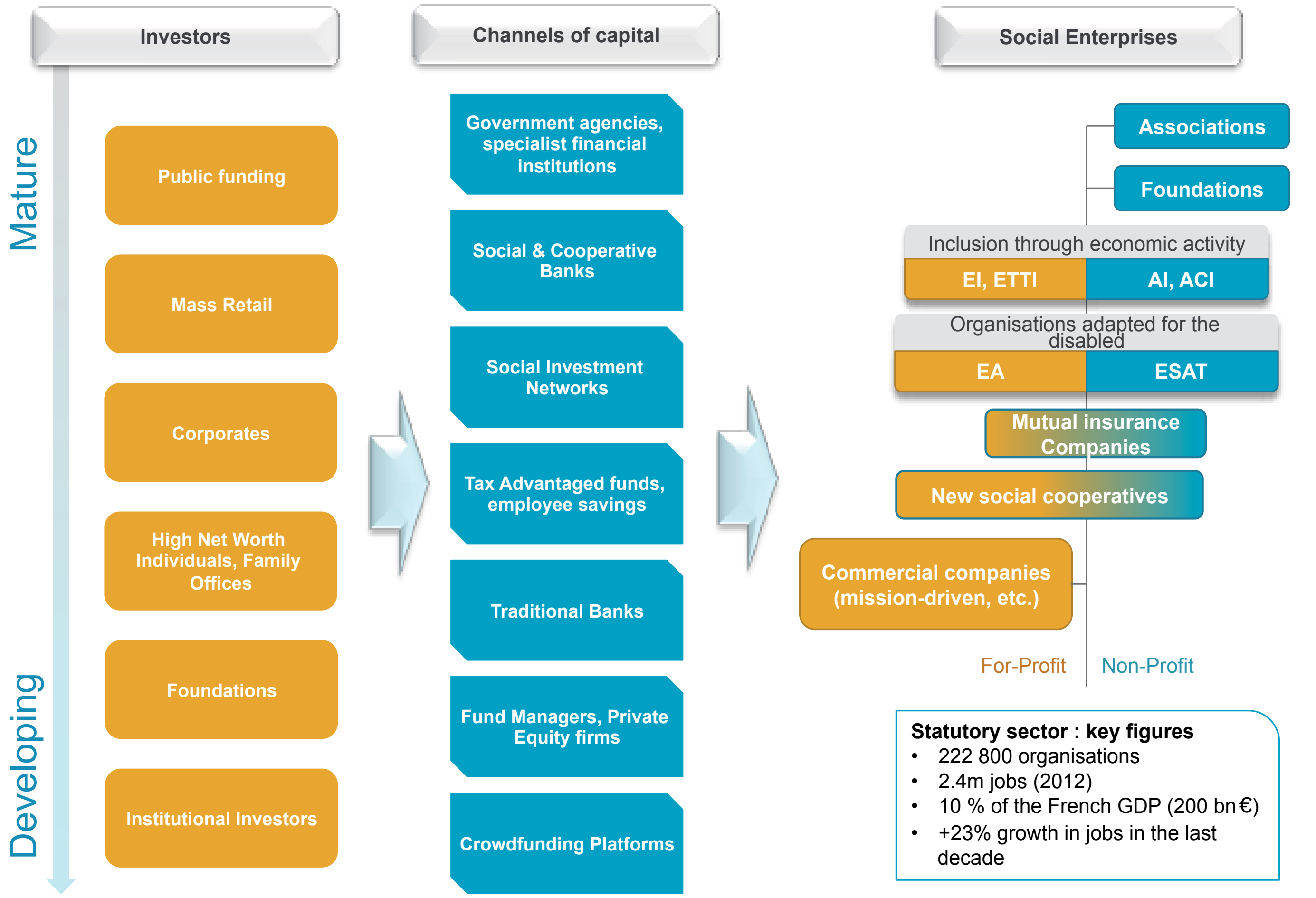
File 1, which begins on page 53, provides details of this French map

1. OVERVIEW OF THE FRENCH ECOSYSTEM

The table below maps out social enterprises, funding channels and investors. They are presented from top to bottom according to their level of maturity.

OVERVIEW OF THE FRENCH SOCIAL INVESTMENT ECOSYSTEM

A robust system combining various longstanding channels with recent innovations



EI – professional integration company	**EA – firm providing sheltered employment**
ETTI – temporary employment integration company	**ESAT – vocational rehabilitation centre**
AI – professional and social integration association	**SCIC – multi-stakeholder cooperative**
ACI – professional integration workshop and work site	**CAE – business and employment cooperative**

The following observations can be made about this table:

In France, the social stakeholder landscape is characterised by the considerable influence of the public administration and the traditional social and solidarity-based economy (SSE) sector. Only some of the 223,000 establishments and the 2.4 million jobs that make up the SSE are involved in impact investing. It is particularly prevalent in sectors such as elderly care, disabilities, social rehabilitation, education and social housing. As regards the principles of the SSE and the legal forms of its enterprises, new types of innovative organisations have emerged. These include business and employment cooperatives, multi-stakeholder cooperatives and local sourcing (see box below). In the last two decades, across all sectors, a new form of commercial entrepreneurship with social impact has appeared, following on from integration companies and firms providing sheltered employment. There are thought to be around 5,000 such enterprises (Impact study: Social and Solidarity-based Economy Act) and they hold increasing appeal for young entrepreneurs. One feature of the ecosystem of possible recipients of impact investments is therefore the co-existence of established players and new stakeholders, between whom relations may be strained. The National Advisory Board elected not to play these two sides off against each other but attempted to come up with solutions that take account of their diversity. The SSE Act promotes this concept of inclusiveness. Moreover, the social and solidarity-based economy cannot deal with all the issues of social impact investing.

Funding channels are comprised of public financing stakeholders (Bpifrance, Caisse des Dépôts and the AFD international group) which provide leverage and can regulate the ecosystem. There are high expectations following the creation of the Public Investment Bank with a new offering (fund-of-funds, equity loans, guarantees). Cooperative banks also play an important role in France (60% of deposits) and, in the last 30 years, high-performance solidarity-based investment networks have been established to fund and support small-scale projects.

More recently, drawing on a fairly solid Web 2.0 culture, a large number of crowdfunding platforms have been set up. They offer tangible opportunities and this has spurred the government to introduce regulations mitigating the risks associated with this type of funding (see box).

In the past, the national investor pool was dominated by the public administration which is now subject to severe constraints in light of the government deficit. France is also the only country in the world that has a sector for solidarity-based financing by individuals (general public), underpinned by individual and collective employee savings schemes (company savings plans). These savings options are increasingly popular.

Innovative financial mechanisms such as the "90/10" investment funds (10% invested in accredited solidarity-based enterprises and 90% in listed securities managed in line with responsible investment principles) have been established and are attracting interest from abroad (see box).
Lastly, France's network of foundations is less extensive than in English-speaking countries, but their number is growing rapidly and interest is being shown in innovative measures such as Mission Related Investments. The *Centre Français des Fonds et Fondations* has shown an interest in setting up regional foundations to raise funds locally and to act as a trusted third party between donors and a broad-base of social entrepreneurs

NEW FRENCH COOPERATIVES

Business and employment cooperatives (CAE)

CAEs give project initiators the dual status of entrepreneur and salaried employee. This enables them to pilot a product or service whilst receiving a salary and being entitled to welfare cover. CAEs are formed as worker cooperatives and the entrepreneur-employee is provided with a legal framework, a status, bookkeeping services and access to a network comprised of other entrepreneurs. The entrepreneur-employee pays 10% of his/her turnover to the CAE.

There are 100 CAEs in France with 5,000 entrepreneur-employees, 70% of whom were previously unemployed. The SSE Act aims to increase this figure by 30% per year.

Example: Coopaname

Coopaname, a Paris-based CAE, has the battle cry "*travailler pour soi, réussir ensemble*". Coopaname currently hosts 500 entrepreneurs and it is France's largest CAE providing 1/3 of its services to businesses, 1/3 to individuals and 1/3 to craft businesses and the trades.s.

Multi-stakeholder cooperatives (SCIC)

SCICs are governed by the Act of 17 July 2001 and have commercial company status either as public limited companies (SAs) or private limited companies (SARLs). They manufacture goods and provide services catering for collective requirements, are based in regions and, as they are cooperatives, have a multi-membership comprised of employees, product and service users, volunteers, private-sector legal entities looking to be involved in the cooperative's expansion and public-sector legal entities wishing to support general interest activities. All members may be shareholders in the cooperative on the basis of "one person, one vote". Five growth sectors are currently being promoted: health and healthcare and social services, agriculture, the environment, culture and fuelwood energy. There are 360 operational SCICs with 3,600 employees.

40% of SCICs have public body shareholders. They operate in sectors such as organic product stores, care homes, retirement homes, cultural infrastructure management and energy generation from waste.

VITAMINE T – a social enterprise

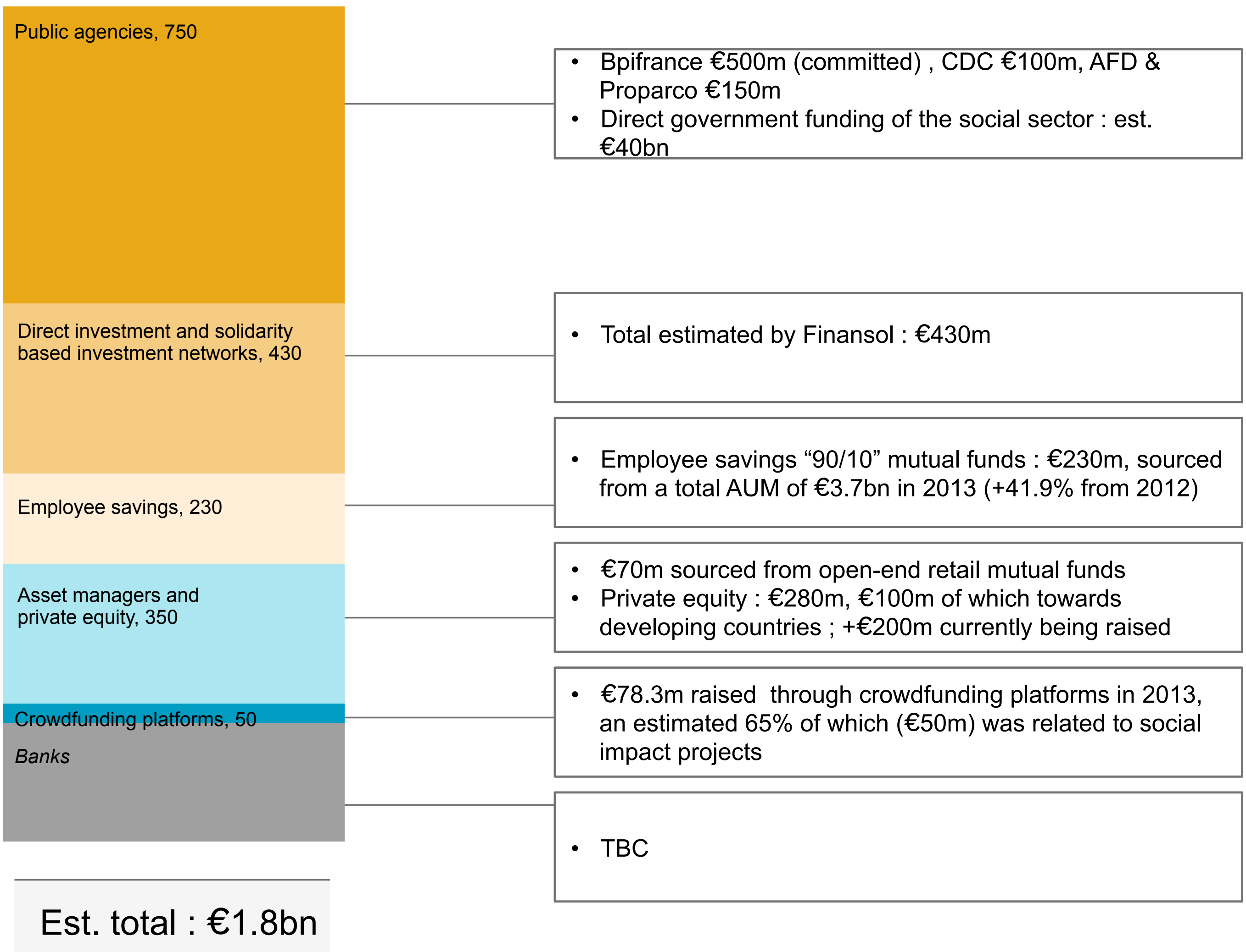
The VITAMINE T Group is a trailblazer in France for inclusion though economic measures and embodies the need for, and reality of, the ramping up of the social and solidarity-based economy. Since it was formed in 1978, the Group has been pursuing its social mission on the market in compliance with ordinary law rules. It operates by governance without personal gain - its sole shareholder is an association, no dividends are paid out and all profits are reinvested. In the 1990s, the VITAMINE T Group was comprised of six companies with turnover of €3.5m. The figures are now 12 and almost €50m respectively. Its headcount has risen from 700 to 2,600, 1,800 of whom are on integration pathways (the long-term unemployed, minimum welfare benefit recipients, school dropouts, etc.). Government grants now only represent 12.5% of VITAMINE T's resources compared to up to 50% in the past and are used to fund the social and professional support mandate delegated by the public authorities. The scaling up of the VITAMINE T Group reflects its ability to forge partnerships with traditional businesses (customer-supplier relations, setting up joint-ventures, etc.), invest in growth drivers such as the circular economy (collecting and recycling electronic appliances, written-off vehicles, furniture waste, railway equipment, etc.) and bolster its core business (temping, mobility, cleaning, the environment, mediation, market gardening, etc.).

2. COMMITMENT-BASED ESTIMATE OF THE SIZE OF THE MARKET TODAY

It is hard to come up with a reliable estimate but, by adding up available resources, a consolidated figure of €1.8bn can be advanced, including €750m from public-sector stakeholders (Bpifrance: €500m potentially, Invest for the Future programme (PIA): €100m, AFD: €150m). According to Finansol, direct investment accounts for €430m and employee savings for €230m. Asset managers and venture capitalists are thought to contribute around €300m in a growth market characterised by new entrants and noticeable interest.
The National Advisory Board chose this assessment of the market rather than an examination of the social-based expenditure of central and local government. Nevertheless, by way of example, in 2011, government funding for associations (subsidies and public procurement) stood at €42bn.
A supply-based analysis does not factor in actual demand from social stakeholders and entrepreneurs. Impact investing schemes (PIA, with appropriations of €100m) show that progress still needs to be made with the deal flow of high-quality projects.

SIZING THE SOCIAL IMPACT INVESTMENT MARKET IN 2013

Estimated volume of outstanding capital invested in social enterprises (m€)



BPIFRANCE AND FUNDING IMPACT-DRIVEN ENTERPRISES, COMPANIES OPERATING IN THE SSE AND THOSE PROMOTING SOCIAL INNOVATION

Impact investing in France is being driven by new financial instruments offered by Bpifrance. Three future schemes frame the bank's involvement:

1. **An investment budget earmarked for funds targeting SSE enterprises, defined as such in their articles of association, and impact-driven enterprises** (volume: around Ð100m within the timeline of the bank's 2014-2017 Strategic Plan).
   This measure for funding the SSE and impact-driven enterprises also involves setting up a special investment fund for cooperatives.

2. **A social and solidarity-based equity loan**
   This medium-term loan stems from widespread use of SSE and commercial bank financing networks.

3. **Social Innovation Fund** (long-term government commitment volume of €40m (€20m in 2014)
   Jointly financed by central and local government, the purpose of this measure is to fund socially-innovative projects which address social requirements that are not being met by the market or government policies. It will be rolled out, by design, in the regions. Its chosen operating method (repayable advances) will foster a controlled lending risk.

FINANSOL

The Finansol Label allows the general public to identify solidarity-based savings vehicles from amongst other savings vehicles. It is granted to vehicles that help **fund activities of social or environmental interest**. The idea is to gain the trust of savers and thereby increase take up of these investments. At the outset, the Label was geared towards individual savers but institutional investors are now taking an interest.

There are three core principles for the Finansol Label:

→ **Label regulations** set out the criteria for granting it (solidarity, transparency, promotion, management costs, etc.) as well as stakeholder commitments

→ **An independent Label Committee** whose members are drawn from the non-profit, financial, union, academic or media sectors. It examines new applications and monitors all the vehicles to which the label has been delivered

→ **An annual review of compliance with the Label's criteria**, which is a mandatory step for Label renewal. Every year, some vehicles lose their Label whilst others are granted it. The Label was introduced in 1997 and the number of vehicles granted the Label rose from 66 in 2007 to 135 at the end of 2013.

On 31 December 2013, the global value of solidarity-based savings was €6.02bn.

"90/10" FUNDS

Three quarters of French solidarity-based savings are made via "90/10" funds with, in practice, around 93% of assets being "conventional" (shares, bonds, monetary) and the remaining 7% invested in solidarity-based organisations. Solidarity-based employee savings account for over 80% of this total. The functioning of the "90/10" funds is well-tailored for solidarity-based investments by individuals with the risk being broadly the same as on the financial markets.

When the markets rise, the impact on the solidarity segment, with returns of around 1% per annum, is minimal. When they fall, the solidarity segment reduces unrealised losses.
With a view to building an impact investment vehicle offering for individuals, the "90/10" fund format could be expanded to include life insurance policy mediums and defined-contribution pension investments. There is a substantial potential market and it is thought that between 800,000 and 900,000 French savers currently use this scheme.

3. STRENGTHS AND WEAKNESSES OF THE FRENCH ECOSYSTEM

The table below provides a brief overview of the strengths, weaknesses, opportunities and threats. In short, the following should be noted:

OVERVIEW OF THE FRENCH IMPACT INVESTMENT ECO-SYSTEM SWOT ANALYSIS

Strengths	Weaknesses
• Substantial, long-standing support (subsidies) from central and local government, Public Investment Bank • A solidarity-based employee savings market which is almost the only one of its kind in the world in terms of volume and instruments (technical know-how of the "90/10" funds which many analysts believe could be exported "as is") • A broad ecosystem of qualified investors with in-depth knowledge of the social economy • The social economy sector has its own social innovation culture via numerous actions in, for example, the inclusion, health and education fields	• The capability building infrastructure is still in its early stages of development : small scale, inadequate funding • Financing capacity and requirements are mismatched • Few intermediaries and market makers • Asset allocation restrictions combined with poor knowledge of the risks discourage institutional investors, with the exception of public investors
Opportunities	**Threats**
• Fall in public funding : new opportunities for central government, local government and social enterprises to jointly build services of general interest • Fast growth in number of foundations, especially corporate foundations and endowment funds • New acts and a stable legal environment: social economy, crowdfunding, European Social Entrepreneurship Funds • Growing training options (Masters degrees at universities and business school courses) • Appearance of commercial enterprises with social objectives	• Fall in public funding: many of the smallest structures and those most reliant on public financing could disappear • Uncertainty surrounding future employee savings policies and the related tax breaks • International regulations (Basel, UCITS, etc.) could stop impact investing reaching a wider audience, particularly owing to the risk profile • Risk of free riding behaviour such as "social washing"

- The traditional public subsidy contribution is now subject to extreme constraints thus requiring radical change

- The resulting possibility for new types of funding, particularly vis-à-vis local government, geared towards leveraging government funds and measuring impact

- A solidarity-based savings and employee savings market which is almost the only one of its kind in the world in terms of volume, networks and know-how, which should be extended to include insurance, upheld in France and exported

- Funding and support arrangements for social entrepreneurs that are well-suited to small scale projects but which are fewer and inadequate for high potential projects of over €1m.

- A rapidly changing legislative environment (SSE Act, crowdfunding initiatives) which, whilst being largely beneficial, does mean that the legal framework is complicated and often unavailable

THE SOCIAL AND SOLIDARITY-BASED ECONOMY ACT

The main aim of the Social and Solidarity-based Economy Act is to acknowledge France's historic social economy stakeholders (associations, cooperatives, mutual insurance companies and foundations), whilst fostering the arrival of new types of social entrepreneurship. It bolsters the institutional framework governing these stakeholders' representation, redefines their legal status and provides financial instruments for their expansion.

This Act also changes the conditions for entitlement to some tax incentives that channel long-term savings into solidarity-based investments, in two ways:

1/ The Act provides for several corporate structures for SSE enterprises:
Besides the historic players in the French ecosystem, the Act sets out new legal forms based on commercial company status which meet a number of requirements compatible with equity financing. The purpose of this extension is to encourage the emergence of progressive business models.

2/ The Act also sets out a considerable social impact condition for investments eligible for certain tax incentives to boost solidarity-based savings deposits:
- Previously, the "entreprise solidaire d'utilité sociale" accreditation, providing social enterprises with entitlement to a share of solidarity-based employee savings, was awarded by the government authority on the basis of regulatory criteria.

- Companies have to set the target of achieving a considerable social impact to be awarded this accreditation giving entitlement to these tax incentives.

- This greater certainty means that private and public sector investors can more easily identify companies working towards a considerable social impact and provides a "catalogue" for investors.

- The Social and Solidarity-based Economy Act no. 2014 – 856 was enacted into law on 31 July 2014 by President Hollande.

CROWDFUNDING REGULATION

Crowdfunding, which is gaining in popularity, uses the Internet to bring project initiators and individuals together. There are three main types of crowdfunding: donation platforms, loans to individuals and to SMEs and platforms for investment in VSEs/SMEs.

The implementing decrees will be published during the second half of 2014 and the act will take effect on 1 October 2014.

France is one of the first countries to regulate this emerging sector which doubles in volume every year. Last year, 32,000 projects were funded with the Ð80m collected.

Many investments were donations to support association or solidarity-based projects, or to "pre-purchase" goods and services.

The draft order essentially covers platforms offering loans or shareholdings in companies.

Its sets out new statuses:
- Crowdfunding investment advisers (CIP) and investment service providers (PSI) offer securities to investors on websites

- Crowdfunding intermediaries offer individuals loans for projects, either interest-bearing or not, on websites.

The order contains rules for the responsibilities and integrity of the managers of these platforms. The platforms must comply with rules of conduct as regards advice given to their clients. These include setting out the risks, conducting suitability tests, transparency concerning the services provided to issuers and fees received, and an obligation to handle conflicts of interest.

The platforms are audited by the accredited professional association of which they are members, and by the *Autorité des marchés Financiers* or the Prudential Supervisory and Resolution Authority (ACPR). The order provides for exemption from producing a prospectus for financial securities offerings made via crowdfunding platforms.

4. SECTOR-BASED APPROACH TO REQUIREMENTS

The table below shows that impact investing cannot be addressed simply by a global approach.
The sectors listed in the table have different business models and varying levels of development, meaning that there are diversified risks and rates of return.

The Board decided that the approach to type I and/or type II social impact securities:

- should be examined in light of the features of these socio-economic models, which are well-adapted for certain sectors but not currently for others.
- should be based on experiments to better identify the financial vehicles to be formed, in particular in respect of risks and rates of return.

Social impact securities are a new form of bond issued by social enterprises, with bullet redemption and earmarked to fund initiatives with social impact. The securities are type I when investors bear a capital risk which is offset by a potentially high rate of return indexed to social performance levels. With type II securities, there is no capital risk and investors receive a minimal return (see page 85).

Type of social enterprise	Legal statuses	Number of social enterprises in the sector	Financing requirement type and coverage	Can social impact funders be used?	What does this sector lack in terms of funding?	Are social impact bonds possible?	If so, what are the potential criteria for assessing social performance levels?
Firm providing sheltered employment	Commercial companies, cooperatives, associations	655 enterprises	Productive investments: subsidies, quasi-equity and loan to cover working capital requirement: equity and quasi-equity	Primary (cornerstone) and secondary (all comers) solidarity-based investors	Equity for startups and innovative projects	Yes, type I or II Third party payer: government, foundations	Number of jobs created for disabled persons
Establishments specialising in vocational rehabilitation	Associations	1364 establishments	Productive investments: subsidies, quasi-equity and loan to cover working capital requirement: equity and quasi-equity	Primary (cornerstone) and secondary (all comers) solidarity-based investors	Equity for startups and innovative projects	Yes, type I or II Third party payer: government, foundations	Number of jobs created for disabled persons
Integration companies (incl ETTI)	Commercial companies, cooperatives, associations	1416	Cover working capital requirement : equity and quasi-equity Productive investments: subsidies, quasi-equity and loans	Primary (cornerstone) and secondary (all comers) solidarity-based investors	Equity for startups and innovative projects	Yes, type I or II Third party payer: local government, foundations	Number of jobs created under integration arrangements, Sustainable integration when people leave and/or 6 months after leaving
Other association inclusion structures (ACI, AI, RQ (neighbourhood boards), GEIQ (employer's groups for integration and qualification))	Associations	2700	Especially for working capital requirement: equity and quasi-equity	Secondary solidarity-based investors		Yes, type I or II Third party payer: local government, foundations	Number of jobs created under integration arrangements, Sustainable integration when people leave and/or 6 months after leaving
Environmental associations	Associations	1717	Especially for working capital requirement: equity and quasi-equity	Secondary solidarity-based investors	"Real" equity (e.g. association securities) for large structures		Hard to define
Fair trade	Commercial companies, cooperatives, associations	371	Pre-purchasing of inventories: equity, quasi-equity, loans (seasonal loans)	Solidarity-based investors (in associations and cooperatives) impact-driven investor capital (in cooperatives and commercial companies)		Yes, especially type II Third party payer: foundations, official development assistance	Considerable volumes of raw materials with fair trade certification (by label)? Number of established farmers
Home care services	Associations, cooperatives	4392 enterprises	Especially rebuilding working capital requirement (often following losses): equity and quasi-equity	Secondary solidarity-based investors	"Real" equity (e.g. association securities) for large structures		

Type of social enterprise	Legal statuses	Number of social enterprises in the sector	Financing requirement type and coverage	Can social impact funders be used?	What does this sector lack in terms of funding?	Are social impact bonds possible?	If so, what are the potential criteria for assessing social performance levels?
Social tourism	Associations, cooperatives	456	Funding property renovations: equity and LT and MT loans (requirement costed at €500m over several years)	Equity: ? MT loans: secondary solidarity-based investors LT loans: banks	Low profitability makes it hard to raise equity and quasi-equity, and repay loans	Yes, especially type II Third party payer: ANCV (National Agency for Holiday Vouchers), regions	Number and % of people entitled to welfare received
First-level social housing	Associations, cooperatives	691	Funding property purchases and renovations: equity (10 to 40% depending on the project) and LT loans Bolstering working capital to pre-finance property transactions: equity and quasi-equity	Equity: subsidies and primary solidarity-based investors Quasi-equity: secondary solidarity-based investors LT loans: banks	It is difficult for some companies experiencing financial difficulties or which are in the start-up phase to use equity and quasi-equity to pre-finance and finance transactions	Yes, especially type II Third party payer: government, ANAH (National Housing Agency)	Number and % of families coming from emergency housing (i.e. not housed in shelters or hotels)
Housing for the elderly	Associations, cooperatives	706	Funding construction or property renovation projects: equity and LT and LT loans Bolstering working capital to pre-finance property transactions: equity and quasi-equity	Equity: subsidies (CNAV, social security protection funds) and primary solidarity-based investors Quasi-equity: secondary solidarity-based investors LT loans: banks	It is difficult for some companies experiencing financial difficulties to use equity and quasi-equity to pre-finance and finance transactions	Yes, especially type II Third party payer: CNAV (National Pension Fund), CG (General Council)	Number and % of people entitled to welfare actually housed
Early childhood development	Associations, cooperatives	TBD	Funding construction or property renovation projects: equity and LT and LT loans Bolstering working capital to pre-finance property transactions: equity and quasi-equity	Equity: subsidies (CAF [Family Allowances Fund], municipalities) and primary solidarity-based investors Quasi-equity: secondary solidarity-based investors LT loans: banks	Low profitability of the sector "organised" by supervisory authorities (CAF and municipalities) which do not allow for surpluses, makes equity and quasi-equity contributions difficult	Yes, especially type II Third party payer: CAF, municipalities	Number and % of low-income beneficiary families Number and % of disabled children
Integrating vocational training	Associations, cooperatives, commercial companies	TBD	Funding "productive" infrastructure: training classes and equipment: Quasi-equity and bank loans Funding of working capital requirements: equity and quasi-equity		A high risk sector as it is dependent on public procurement (regions, job centres) which is sometimes uncertain and hard to finance	Yes, type I or II Third party payer: regions, national employment offices	Number of people trained and having found sustained employment
Culture	Associations	31 400	Funding "productive" infrastructure: stages, rehearsal and recording studios, etc.: quasi-equity and bank loans Funding working capital requirement: equity and quasi-equity	Equity: ? Quasi-equity: secondary solidarity-based investors MT loans: banks	Who will contribute equity to this sector with uncertain profitability, but which is in dire need?	Yes, especially type II	Number of people from underprivileged areas and social and professional classes catered for, etc.
TOTAL		48220 + ?					

III. SUMMARY OF GUIDELINES AND PROPOSALS

GUIDELINE 1[1]

BETTER MATCH FINANCING OPTIONS AND REQUIREMENTS OF SOCIAL IMPACT ENTERPRISES AND ORGANISATIONS

This involves building an offering tailored to the different development phases of the social impact enterprise or organisation and to the range of risks. Methods for marketing this specific offering need to be improved by project-support initiatives.

Proposal 1: Foster the appearance of early stage venture capital stakeholders by providing access to the fonds national d'amorçage (national seed capital fund)

Proposal 2: Allow a real growth capital activity to emerge for the benefit of associations which are ramping up

Proposal 3: Pilot social impact bonds in France by tailoring them to the domestic context

Proposal 4: Boost the support provided to social enterprises with growth potential during their initial startup phase or when they are scaling up

Proposal 5: Attract more solidarity-based savings investors for ambitious projects

Proposal 6: Improve the liquidity of solidarity-based or impact securities

Proposal 7: Make changes to the UCITS IV EU Directive to allow investments in promissory and interest-bearing notes

GUIDELINE 2

INCREASE AVAILABLE FINANCIAL RESOURCES

This involves underpinning, heightening and expanding the arrangements successfully rolled out for solidarity-based savings in France.

Proposal 8: Raise new sources of funding by marshalling dormant assets

Proposal 9: Give a solidarity-based slant to all savings products

Proposal 10: Differentiate solidarity-based investments by a Label

Proposal 11: Promote the sector among the financial markets

GUIDELINE 3

PROMOTE THE EMERGENCE OF SOCIAL IMPACT ENTERPRISES

Proposal 12 : Offer a legal framework adapted to suit the needs of social impact commercial enterprises through the creation of a "Company with an extended corporate purpose (S.O.S.E.)".

[1] *On this point, refer to file 2 from which the proposals under this guideline are drawn.*

GUIDELINE 4

DEVELOP MISSION RELATED INVESTMENT THROUGH FUNDS AND FOUNDATIONS

This involves promoting foundations and endowment funds by establishing an environment conducive to mission related investments.

Proposal 13: Ensure funds and foundations play a role in developing social impact investment

Proposal 14: Confirm the key role played by funds and foundations in providing innovative funding for the social sector and the social and solidarity-based economy. Enable them to play a full and active role in the sector as investors.

Proposal 15: Quickly create a framework to promote Programme Related Investments (PRI) in France

GUIDELINE 5

STIMULATE IMPACT INVESTMENT TO PROMOTE INTERNATIONAL DEVELOPMENT

The impact investing strategy should be tailored to the requirements of the countries of the South.

Proposal 16: Introduce "solidarity-based development enterprise" accreditation

Proposal 17: Amend the EuSEF regulation so that the funds finance social enterprises in developing countries

Proposal 18: Alter interpretation of the Budget Act on the tax arrangements for donations to foundations and NGOs

Proposal 19: Make changes to the structure of open-end investment companies (SICAV) and mutual funds (FCP)

Proposal 20: Change the status of guarantees so that they are better accounted for by the OECD

Proposal 21: Increase the AFD group's commitment to impact investing

GUIDELINE 6

ESTABLISH TERMS OF REFERENCE TO MEASURE SOCIAL IMPACT

IV. DETAILS OF THE PROPOSALS

GUIDELINE 1

BETTER MATCH FINANCING OPTIONS AND REQUIREMENTS OF SOCIAL IMPACT ENTERPRISES AND ORGANISATIONS

PROPOSAL 1

Foster the appearance of early stage venture capital stakeholders by providing access to the f*onds national d'amorçage* (national seed capital fund)

Problem

There are currently very few stakeholders (apart from PhiTrust, Solid and SIFA/Innov'ESS) able to invest substantial equity in social or innovative impact enterprises at the outset (less than three years old and turnover under €1m). This does not apply to hi-tech companies which have special financing channels.

For these enterprises to successfully and quickly move on to the next stage, they require significant funding, particularly in equity, and appropriate support.

Solution

Set up a seed capital fund to finance innovative social enterprises at the start-up stage and as they begin to expand and use public resources as part of this fund's endowment.

Impact

Marshall sufficient equity to speed up socially innovative enterprise projects.

PROPOSAL 2

Allow a real growth capital activity to emerge for the benefit of associations which are ramping up

Problem

None of the impact private equity and solidarity-based financing players are currently planning subscriptions of titres associatifs (association securities) [with the exception of the future Cooperative Impact Fund; in part for two or three projects], even following the changes introduced by the SSE Act.
The association sector is confronted with essential restructuring and expansion issues in areas in which it has substantial economic and social influence: personal services, housing for the elderly, early childhood development, healthcare sector, social tourism, etc.

Solution

Consider establishing an "association growth capital" fund, that would essentially invest in association securities and focus on the healthcare and social services sector which has the most potential for future growth in this field. The new features of association securities enshrined in Article 70 of the SSE Act should allow for this type of fund to be satisfactorily set up.

Impact

Catalyse appropriate financing to accompany changes to the association sector and give it the capacity to compete with the private sector as regards access to equity financing resources.

PROPOSAL 3

Pilot social impact bonds in France by tailoring them to the domestic context

Problem

Social Impact Bonds (SIBs) very cleverly transfer the risk of not achieving social outcomes away from public authorities to private investors. As consideration for assuming this risk, investors receive a significant return if the target social outcomes are realised (up to 13% per annum, i.e. 90% over seven years), but lose their investment if the floor for social impact is not reached. As returns on investment come from the public sector savings made as a result of the successful social outcome, the public authorities are in a win-win situation.
In France, the development of "type I" SIBs could be curbed by two issues. First, the significant risk taken by investors means that solidarity-based savings funds are unlikely to subscribe for SIBs. Second, public sector stakeholders may be reluctant to pay out a substantial return on investment (albeit less if a third party provides a partial capital guarantee) as consideration for the risk taken.

Solution

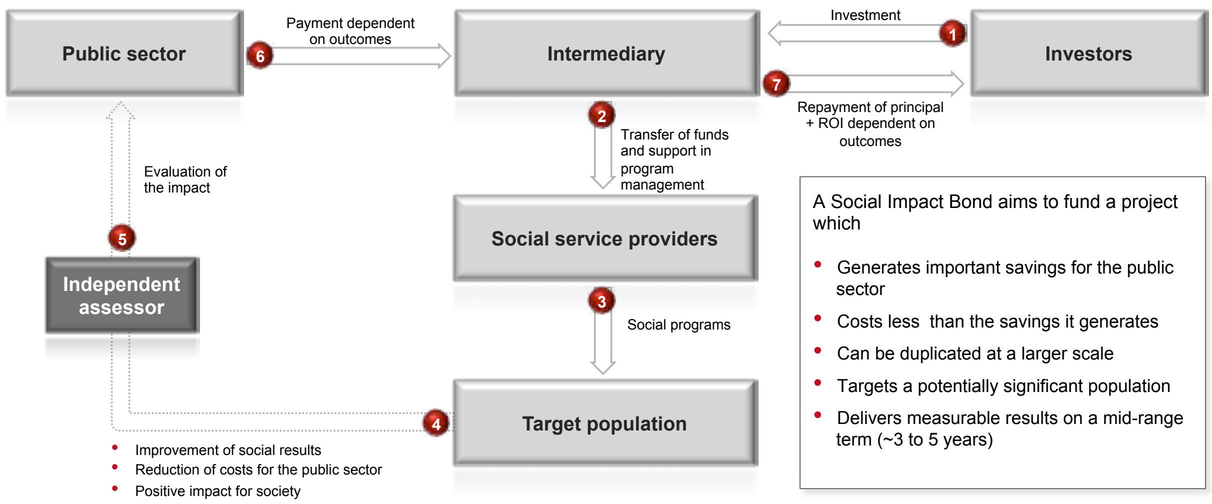
Alongside the trial issuing of this type of SIB, experiments could be conducted:
- on "type II" SIBs with returns on investment fluctuating depending on the social impact, but without capital loss (unless the issuer becomes insolvent
- or on SIBs with a partial capital guarantee, combining the features of both "type I" and "type II" SIBs, with the capital loss being restricted to a percentage (i.e. 20%) of the amount invested in the event of failure to achieve a minimum social outcome.
The return on investments in SIBs with a partial capital guarantee would be positioned between the return on "type I" SIBs, which is high in the event of a successful outcome, and that on "type II" SIBs, which is lower.

Type II" SIBs could function with the issued bond paying X% (i.e. 2%), settled by the issuer to the subscriber. Achievement of the desired social outcome would increase the rate to X+Y% (i.e. 2+2% - where Y is a "social performance bonus"), with payment being made by a third party (public authority or foundation), which could also grant an equivalent bonus to the social enterprise. With this scenario, all the stakeholders would benefit from the successful social outcome. The issuer would not pay financial costs and could potentially receive a bonus, the subscriber would receive more interest and the third party would only pay (20 to 30% of the amount of the bond using our example) if the social outcome is achieved. A review of the sectors in which social enterprises operates showed that "type II" SIBs could be used in a number of them.

Impact

Vitalise the market for security issuing by impact-driven enterprises with higher potential returns for subscribers if the desired social outcomes are reached and incentives for the funded companies to achieve these outcomes.

- A Social Impact Bond (SIB) allows private investors to finance a social project which generates savings for the public sector



The repayment of private investors depends on the social program's outcomes. In the original Social Impact Bond, the public sector didn't have to repay investors' capital if the defined objectives of social outcomes weren't met.

PROPOSAL 4

Boost the support provided to social enterprises with growth potential during their initial startup phase or when they are scaling up.

Problem

As well as financial backing, **social enterprises often require significant amounts of advice and support**. The social enterprise sector must of course attract capital to grow, but it must also adopt a certain structure and take a professional approach if it is to remain viable and last the course. Consequently, many promising social enterprises, whether they are in the start-up phase or scaling up, are not investment ready: they must establish growth plans that are realistic from an economic, legal and financial standpoint to attract investors that can help them meet their growth targets. As a result, these social enterprise start-ups sometimes lack the support required to turn their development goals into reality and to help them address the challenges faced (company's goals and limitations, expectations and limitations of potential investors, etc.). Consequently, development programmes presented are often difficult to finance as they stand.

Social enterprises require not only significant financial support but also help from experts in the sector to tackle all of the key development issues. A survey of associations carried out by AVISE in 2012 clearly highlights this need: **a majority of the associations surveyed sought support in rolling out their growth and consolidation strategies (56% and 53% respectively)**. The main challenges faced included anticipating change, developing a strategic vision and managing growth in a consistent manner.

There are currently few programmes or organisations devoted to providing social enterprises with the support they require to gain access to funding. The relevant stakeholders provide support services that are poorly adapted to the needs of social enterprises or entrepreneurs, as they are relatively unfamiliar with this type of company, their business model, legal environment and legal status. We therefore feel that the support infrastructure for social enterprises needs to be bolstered.

Solution

- Promote the emergence of incubator and accelerator programmes for social enterprise start-ups through alliances with local authorities and/or large businesses. This could also involve partnerships between existing incubators and social entrepreneurs, a worthwhile venture that could build bridges between social and traditional entrepreneurs.

- Promote the emergence of one or more specialists in providing support to social enterprise programmes with strong growth potential when they are scaling up (through organic growth or growth through acquisitions). In addition to the help available through existing programmes, such as the "Scale Up" initiative run by *ESSEC*, or the Support for Associations in Strategy and Innovation (DASI) initiative run by *Le Rameau*, specialists must be capable of:

- helping draw up a development programme that outlines the company's economic, legal, organisational and financial plans

- making it easier to find funding by putting the company in contact with potential investors, particularly solidarity-based and impact investors

- Look into new sources of funding to help support social enterprises with strong growth potential; companies find it very difficult to find funding themselves:

- Create a "National Support Scheme" *(Dispositif National d'Accompagnement)* to provide assistance to companies with strong growth potential that are scaling up. This national scheme would complement the existing local support schemes *(Dispositifs Locaux d'Accompagnement)* which are too small to handle these kinds of programme.

- Introduce a repayable advance system that would be triggered if the enterprise was successful, i.e. the enterprise would pay back the funds it received if it achieved its goals

- Marshall investment foundations' resources to support the emergence and scaling up of social enterprises with strong growth potential; such a move could provide some real leverage to help these enterprises grow. Similarly, it would play an important role in rounding up important funding (equity, loans) in line with the enterprise's requirements.

Impact

- Support from incubator programmes for social enterprise start-ups with strong growth potential would help speed up the emergence of the healthy, buoyant and successful companies required to help grow the social enterprise sector.- An adequate degree of support for social enterprises that are scaling up will help these companies with strong growth potential to prosper and attract more funding.

PROPOSAL 5

Attract more solidarity-based savings investors for ambitious projects

Problem

Many social enterprises still find it difficult to obtain and manage funding from investors; they receive solidarity-based funding from several sources (primary sources: asset management companies; secondary sources: France Active; institutional investors: Caisse des Dépôts/Invest for the Future Programme, social and solidarity-based economy) and/or impact investors (ESFIN IDES, PhiTrust, CDI, etc.), and must form a bilateral relationship with each of them; each then carries out their own due diligence work.

Solution

Hold regular (each month, for example) "high-level committee" meetings of key solidarity-based investors to exchange information on past or future investments, and to discuss raising funds:

- when the amount to be raised requires it, the existence of this high-level committee should make it easier to organise investor pools with an appointed lead manager who will play a key strategic role alongside the manager of the social enterprise, providing him/her with support, if required, when talking to other investors and banks
- one of the committee members could sponsor a social enterprise and invite the company to a committee meeting to present its project – the committee member (acting as sponsor) could then make any due diligence work already performed available to the rest of the committee members

Impact

Ambitious funding for ambitious projects made easier; more solidarity-based savings for wide-reaching projects easier to obtain; improvement in the risk assessment work carried out by each investment manager.

PROPOSITION 6

Improve the liquidity of solidarity-based or impact securities

Problem

Solidarity-based savings managers face liquidity issues because they manage open or semi-open funds (solidarity-based collective investment schemes (FCP) and solidarity-based employee shareholding funds (FCPE) that are subject to market volatility and possible withdrawals). They therefore tend to take a conservative approach to their social investments, maintaining a large liquidity margin (solidarity-based ratio – 6% on average – close to the legal minimum, maturity of promissory notes limited to three years for some).

Similarly, investors in social enterprises with low liquidity (shares, bonds, equity capital, association securities and social impact bonds) will be even more inclined to be active on the market, as they know that solutions will be available if they are looking to sell their securities before maturity. This is particularly important given that the volume of these relatively illiquid securities is set to increase in the future as impact investing becomes more widespread.

Solution

- Create a dedicated market place.

This proposal complements proposal number 5 (high-level committee). Although flawed in terms of dealing with liquidity problems, it is not very complicated and it would be a pity not to implement it: create a market place where traders of solidarity-based securities raise their profile alongside potential investors. In this way, supply and demand would be brought together.

This market place would have to be run by a market player trusted by the other investors. This person would act as a go-between between investors, actively collecting sales offers on a regular basis and matching them to buyers based on the amount required or sought.

- Obtain approval from the AMF to temporarily exceed the solidarity ratio thresholds

The 90/10 threshold for solidarity-based funds is often exceeded due to unforeseen circumstances (market crash, withdrawal of a large investor) and is rarely related to the solidarity-based nature of the fund. This type of problem tends to sort itself out over time: either the market recovers, or the securities invested in solidarity-based enterprises end up being redeemed by the beneficiary company.

The AMF could therefore grant approval for temporary exceeding of the thresholds in the following cases:
• immediate requirement for compliance if the solidarity ratio exceeds 15%
• compliance delayed for up to three years if the ratio is between 10% and 15%

Create a market liquidity mechanism that would acquire the investor's solidarity-based securities if the ratio was exceeded.

Several asset managers have confirmed that Pierre Valentin's (Crédit Coopératif) idea of creating a market liquidity mechanism makes sense. These same managers face restrictions on collecting more solidarity-based open funds (mutual funds (FCP) or venture capital investment funds [FCPR]) due to concerns about their liquidity. Some investment schemes for the solidarity-based portion of *"Vie-génération"* life insurance policies (at least one-third of which is invested in SMEs, social housing or solidarity-based enterprises) are currently finding it impossible to offer satisfactory liquidity levels.

The introduction of a liquidity scheme (option of a third party acquiring solidarity-based securities if a "partner" fund exceeds the ratio) would represent genuine progress and would help promote the growth of solidarity-based and impact investment savings.

Asset managers that we interviewed nevertheless drew attention to the fact that their companies or parent company banks do not have the required resources or the desire to pour equity into this kind of structure, but that they might help underwrite the cost of the liquidity guarantee provided.

Involving a third party (public or private institution) that could bring guaranteed liquidity (by contributing equity) is an option that could be explored.

Impact

Solidarity-based and impact investors will be more confident in the liquidity potential of the securities they own, which will help to boost the "solidarity ratios" of solidarity-based funds and more generally investor confidence in this asset class. In turn, this should lead to improved access to solidarity-based savings (90/10 investment funds, *"Vie-génération"* policies, solidarity-based venture capital investment funds, etc.)

PROPOSAL 7

Make changes to the UCITS IV EU directive to allow investments in the form of promissory notes

Problem

Promissory notes are negotiable instruments (governed by the French Commercial Code). They can be issued on very flexible terms by almost any kind of business or association. An equivalent exists in most countries. Due to their flexibility, they are particularly suited to the requirements of small social enterprises. Their main drawback is that they are not looked upon as financial securities. They are therefore not eligible for inclusion in funds that hold a European passport, destined for the general public, governed by the "Undertakings for Collective Investment in Transferable Securities" (UCITS IV) European Directive which came into force in 2009. French 90/10 funds, which use a considerable amount of promissory notes to make up the 10% of solidarity-based funds, can therefore no longer benefit from the European passport. This is a pity as it makes it difficult to promote 90/10 funds in Europe.

Solution

Amend the UCITS IV Directive to recognise promissory notes or similar European assets as eligible securities (part of the 10% quota for unlisted assets or similar) for 90/10 funds which have at least 5% invested in impact investments.

Impact

Approximately €3bn is invested in 90/10 funds. Most of these funds are small (less than €50m). The solidarity-based portion is equal to around 7%, equivalent to less than €3.5m available to invest in around ten counterparties for diversification purposes, i.e. less than €350k per investment. Such a small amount does not justify a bond issue.
Although we are unable to calculate an exact figure, making promissory notes eligible for 90/10 funds would help to create a genuinely close relationship between savers and social enterprises, which would in turn help boost impact investing by avoiding focusing on only two or three targets.

GUIDELINE 2

BRING THE SUPPLY OF FUNDS MORE INTO LINE WITH DEMAND FROM SOCIAL IMPACT ENTERPRISES AND ORGANISATIONS

PROPOSAL 8

Raise new sources of funding to promote the development of social impact investment funds and financial innovation in this sector by marshalling dormant assets.

Problem

Impact investment funds are relatively new, and the teams managing them are fairly recent or do not have a long track record in managing this type of fund or achieving a certain level of performance.

These funds invest in relatively unusual targets for the venture capital sector (cooperatives, associations, and social enterprises that require innovative funding solutions (social impact securities and social impact bonds, association securities, etc.)

It is therefore difficult to find private investors willing to contribute to these funds, particularly institutional investors who traditionally invest in standard venture capital funds.

Bpifrance invests in social impact funds as part of its "Fund of Funds" general policy framework (minority investments that do not exceed the amount invested by the largest private investor; investments targeted at venture capital investment funds rather than investment companies).

These features (little or no performance track record, requirement for innovative sources of funding) explain why it takes a relatively long period of time to set up a significant social impact fund. This could be changed if a genuine infrastructure to manage these investments was put in place (difficult to bring together when the assets under management are less than €50m).

Solution

To support the development of social impact funds and encourage private investment in this very promising sector, new measures for raising funds by the public authorities would be useful to complement the schemes that already exist.

One measure could focus on marshalling dormant assets. This has been done in the UK through the Big Society Capital model. Bank deposits and dormant life insurance policies (estimated by the French Government Audit Office to be in the region of at least €4bn, and which a recent act debated by the National Assembly allocated to the Caisse des Dépôts) could be partially used to feed a specific investment fund devoted to supporting the social enterprise sector.

Big Society Capital, which will have £600m available from the marshalling of dormant funds on top of monies contributed by private UK funds, has an experienced team specialising in social investment. The team has significant room for manoeuvre to contribute to completely new or existing initiatives; it can top up investments made in social impact enterprises by up to 50% of the total funds invested.

The introduction of a similar scheme in France, which would marshall a small portion (10-20%) of dormant funds, would not put a strain on the public coffers, and would have the appropriate resources and enough room for manœuvre to sidestep the traditional investment schemes used to fund the mainstream economy. Such a scheme would inject a great deal of momentum into developing the social investment sector in France.

Impact

Faster emergence of social impact funds.

PROPOSAL 9

Give a solidarity-based slant to all savings products

Problem

One of the differences of solidarity-based investment in France is that it targets the general public rather than qualified investors. Currently, one million private individual savers have made a solidarity-based investment. This is the first step on the road to the generalisation of solidarity-based savings. What steps should be taken so that in fifteen years' time, 1% of France's financial wealth is channelled towards solidarity-based investments?

Solution

- EuSEF (European Social Entrepreneurship Funds)

Since 22 July 2013, funds with a high percentage of investments (at least 70%) in social enterprises (as per the individual Member States' definitions) have been entitled to raise capital in all Member States. They can start by raising capital from "professional" investors (e.g. family offices, business angels, wealthy private individuals, charitable organisations, philanthropic foundations, etc.).These funds will be entitled to an EU-wide "passport" as long as they comply with the requirements for transparency, the amount of assets under management (less than Đ500m), management, conservation, how they measure the social impact of their investments, etc. As far as we are aware, no EuSEF has been set up to date as the competent authorities of each Member State have still not defined what constitutes a social entrepreneur.

- Solidarity-based life insurance, which has strong growth potential, is quite rightly reputed to be the most popular type of investment vehicle in France. It is a natural choice for developing social impact investment. In general, the policies have relatively long terms, with the length of capital ownership often exceeding ten years. Moreover, bancassurance groups and mutual insurance companies belonging to the social and solidarity-based economy may feel that this type of life insurance offers the opportunity to make their members or clients more aware of causes that are of general interest. Some of them, such as the Carac or the MAIF, already distribute policies or unit-linked investment plans with the Finansol Label. In May 2013, Prédica, a Crédit Agricole subsidiary, launched a Solidarity Policy comprising a solidarity-based euro fund with at least 5% of investments covering community initiatives, and seven solidarity-focused unit-linked products with 10% of funds earmarked for specific solidarity-based targets, such as first-level social housing or programmes designed to help the long-term unemployed return to work, or for a wide selection of large social enterprises. This initiative should encourage others. Life insurance currently contributes only 2% to global solidarity-based savings.

The December 2013 Supplementary Budget Act introduced two new policies, the *"Eurocroissance"* policy, a multi-fund policy which guarantees to return the capital invested at the end of eight years, and the *"Vie-génération"* policy, which we will focus on here. One-third of the capital must be invested in securities issued by SMEs and mid-tier companies, social housing associations or approved (solidarity-based?) enterprises that form part of the social and solidarity-based economy. To foster the success of this new policy, its holders will be entitled to an inheritance tax allowance over and above a certain threshold. However, it will only offset the increase in the tax that was adopted as part of the same Act. This may not be such a good idea after all: holders of large policies will not run the risk of investing in unlisted assets and the social and solidarity-based economy to reduce a tax that appears to be higher than the inheritance tax due for the same amount. And other investors may be more inclined to take out policies that have invested most of the 33% in large SMEs or mid-tier companies listed on the stock market that insurers are more than likely to offer them. Securities issued by social and solidarity-based enterprises risk becoming victims of a crowding-out effect. Nevertheless, it would be a worthwhile exercise if GEMA *(Groupement des entreprises mutuelles d'assurance)* members were to look into this option.

But we must first and foremost look to boost life insurance policies with a social impact via unit-linked products that have invested 10% of their funds in solidarity-based organisations. The risk of losses on these assets is limited, which means that allocating capital to them is low-risk and easy to trace. Finansol members are also promoting traditional euro policies with at least 5% of the assets invested in solidarity-based businesses, such as the model introduced recently by Prédica.

- Solidarity-based property investment companies (SCPI) and the 90/10 rule

SCPIs are still relatively insignificant (around Đ30bn currently invested), but are very popular with the million or so relatively small savers who invest in them. The majority have invested in commercial property that brings a higher return and is easier to manage than residential property. Apart from some infamous scandals and the Paris property crisis of the 1980s, they have recorded excellent results since their arrival on the scene in the 1960s. We could apply the 90/10 rule to these investments. In practice, this would mean investing 90% of their assets in traditional vehicles and the remaining 10% in first-level social property, such as the programmes supported by the *Fédération Habitat & Humanisme* or *Solidarités Nouvelles pour le Logement*. Solidarity-based SCPIs of this type could be awarded the Finansol label (and possibly tax relief).

- Solidarity-based savings accounts: the emergence of an investment vehicle for the general public

The definitive generalisation of solidarity-based savings could come through the creation of an investment for the general public that is tax-free and available through any bank. Banks would promote this product to encourage their customers to "invest usefully" in a simple way. Rather than create a new account, savers could turn their sustainable development savings account (LDD) into a solidarity-based one on condition that it complied with the labelling requirements, i.e. 5-10% of total funds collected must be earmarked for investment in solidarity-based activities. The traceability of this portion of the funds would be compulsory to ensure savers that their money was being used to finance activities that would bring environmental or social benefits.

At a recent social entrepreneurship conference, Michel Barnier said that the European Commission was looking into the possibility of creating a European savings account; some of the capital collected would be used to fund SMEs, innovation and social entrepreneurship.

More generally, it is worth mentioning the interest shown by certain institutional investors in social investment, particularly pension funds which, like ERAPF, are already aware of its existence. Similarly, social and environmental foundations are also taking an interest. To enable organisations of this nature to invest, the rules would have to be changed to authorise them to do so.

See Proposal 3, Social Impact Bonds.

Implementation
As a key factor in the expansion of solidarity-based employee savings schemes, the development of a favourable legal framework is required to open up other social impact investment avenues in France. Players in the finance industry (banks, mutual insurance companies, savings banks, etc.) must get involved and promote these new solidarity-based savings products.

Impact
The development and generalisation of new, solidarity-based investment vehicles will help the bold target set by players in the solidarity-based finance sector to invest at least 1% of French financial wealth (equivalent to €4,000bn in 2013) in solidarity-based savings products by 2025 to be achieved.

PROPOSAL 10

Award a Label to solidarity-based investments to differentiate them from traditional investment products

Problem

The French have never saved so much. However, they often do not know where to invest their money or who to entrust it to. A survey carried out in 2012 showed that when it came to placing their money in solidarity-based investments, the French cited the resulting tax benefits as being an important incentive, as well as the guarantee (via a label) that the funds would be correctly invested. A label therefore provides a genuine benchmark and guarantee for savers looking to give their savings some social purpose. How does this certification process, which is central to measures taken by Finansol to develop social enterprise funding, work?

Solution

In 1997, Finansol, an association of solidarity-based finance stakeholders, created the Finansol Label, which is awarded to solidarity-based savings products that comply with certain solidarity and transparency criteria. The Finansol Label has three main goals:

- Develop investor confidence in solidarity-based investment vehicles: France currently boasts almost one million individual solidarity-based savers. The process for verifying compliance with the solidarity and transparency criteria required to obtain the Finansol Label has been key to developing solidarity-based financing. The Label, which was originally created to give individual savers confidence in the product, is now also used by institutional investors when making investment decisions.

- Promote the development of a wide range of solidarity-based savings products. Since the Label was created in 1997, the number of certified products has risen from eight to 132. They are diverse in nature, and include unlisted social enterprise securities, time deposit accounts, bonds, solidarity-based UCITS and savings accounts, life insurance policies, social enterprise investment savings schemes, etc.

- Raise the requirement levels for solidarity-based savings products to ensure that they fully meet investors' expectations as well as the financial needs of social enterprises: the criteria used to verify compliance with the Label is in constant flux. For example, annual checks have been a systematic requirement since 2011, policies to promote solidarity-based savings products are closely examined, the non-solidarity-based portion of UCITS must be comprised of SRI assets etc.

For more than fifteen years, the number of solidarity-based savings products has grown considerably and stood at 132 at the end of 2013. This is due to the need to offer solidarity-based investors a guarantee, and to the diverse range of existing products on offer. Each year, new solidarity-based investments are awarded the Label, while others lose it.

Implementation

The principles governing the Finansol Label are as follows:

- An independent Awarding Committee and Label certification:

The Finansol Label Committee is an independent body responsible for awarding the Label and Label certification. Its current members are drawn from associations, the financial sector, unions, academia and the media. The Committee meets four to six times a year to assess new candidates and check all of the labelled products to ensure compliance with solidarity, transparency, commercial and marketing criteria.

- Label regulations outlining the criteria for awarding the label and the commitments required from the stakeholders.

→ Solidarity criteria

→ The procedure for candidate savings products states that one of the following two criteria must be met:

- The savings invested are used to fund solidarity-based projects:

  For UCITS and life insurance policies, a minimum of 5% of the savings collected must be put towards financing solidarity-based activities. This minimum threshold is set at 10% for other savings products, particularly the unlisted securities of social enterprises. For the latter, the Awarding Committee will assess the solidarity-based nature of the company's business as well as its social and environmental contribution.

- Interest earned on savings is used to finance solidarity-based businesses:

  At least 25% of the interest from savings or performance is regularly donated to associations by savers.

→ Transparency and information criteria

A "solidarity-based savings" contact must be appointed to inform investors at all times about the product and to provide support to the product's distribution networks.

→ Commercial activity criteria
The commercial goals of developing the product and the measures taken to promote it are assessed each year by the Label Committee.

→ Qualitative management criteria for labelled products (UCITS)
Securities not devoted to financing solidarity-based activities must be selected using a method that takes into account extra-financial as well as traditional financial criteria, i.e. environmental, social and governance issues.

In addition, the Label Committee assesses other points: the cost of entry or exit, management fees, and the dilutive impact of the solidarity-based investment between funds, etc.

- An annual check to ensure compliance with the Label's criteria is a compulsory step and a key part of the Finansol Label's regulations for products looking to renew their membership or for awarding the Label to savings products that do not comply with the Label's regulations.

Impact

A measure of confidence, ethics and transparency, the Finansol Label contributes to reaching the bold target set by players in the solidarity-based finance sector to invest at least 1% of French financial wealth (equivalent to €4,000bn in 2013) in solidarity-based savings products by 2025.

PROPOSAL 11

Promote the social impact investment market among players in the finance sector

Problem

In spite of the quality of incentives used to promote impact investing, the sector is currently not very well known to potential individual or private investors. The complexity of these players, the variety of causes they support, the diverse range of products on offer and their originality compared to traditional investment products all represent barriers to funding for the social impact investment sector. Although the sector draws its inspiration from values that are deeply entrenched in French history, it is still relatively new and many of the players involved are young.

Researchers have so far devoted little time to the social impact investment sector. It is the subject of relatively few in-depth studies and even fewer publications. This lack of academic backing has an impact on both the sector's profile and credibility, i.e. businesses and investors find it difficult to obtain good quality academic studies on the sector that would enable them to improve their awareness and opinion of the sector, and learn more about the sector's areas of involvement, the variety of products it offers and the impact it has.

Similarly, few higher education courses are devoted to social impact investment. Although some universities have shown a considerable amount of interest in the sector, and despite the presence of specific social enterprise programmes, mainly in France's major business schools (HEC, ESSEC, etc.), few university courses are devoted to the subject, and there are even fewer degrees or diplomas to be gained (such as a Masters). The subject rarely forms an integral part of a traditional university or business school finance degree and is more or less absent from law schools.

Given these circumstances, the social impact investment sector is finding it relatively difficult to make a name for itself, resulting in the creation of additional barriers to entry for new private investors.

Solution

Private and public social impact investors must work together to improve the sector's profile on the financial markets, attract the interest of academics and develop communication methods geared towards a wider audience.

The National Advisory Board could therefore provide a platform for bringing together as many relevant stakeholders as possible in a forum offering guaranteed neutrality vis-à-vis legal form, business purpose or sector of activity. The platform would allow for continued dialogue between public and private players in the sector and for progress made on the regulatory, tax and legal fronts to be monitored. It would also help to create and implement joint measures targeting:

→ The general public: by producing general articles and media events

→ Businesses: by attending general or specialised business events, organising events and communication drives targeting financial brokers, creating an information database, etc.

→ Academia: by encouraging the production of specialist articles, theses, academic conferences, etc.

Impact

This type of investment can only be conducted over the long term and its effectiveness is difficult to measure. Nevertheless, a five-year target could be set for attracting a significant portion of the assets managed by institutional investors (Amundi, Mirova, etc.), insurance companies, and private equity fund managers, such as family office private investment companies.

GUIDELINE 3

PROMOTE THE EMERGENCE OF SOCIAL ENTERPRISES

Foreword

This guideline is designed for enterprises that boast a standard commercial legal form but have integrated social or environmental targets into their core strategy or business model. In theory, there is no limit to the profit levels that can be achieved by these profit-with-purpose businesses. They can therefore attract investors. In contrast, they may encounter other difficulties that argue in favour of creating an environment conducive to their development, in particular:

> to maintain the enterprise's social goals regardless of changes to the shareholder structure

> to protect the corporate officers from the risk of non-compliance with their fiduciary duties vis-à-vis the shareholders, especially if the social goals are perceived as having an impact on the company's financial performance

The guideline that follows has been voluntarily watered down into a proposal. In keeping with the G8 Social Impact Investment Taskforce's Mission Alignment Working Group, it aims to create a favourable legal environment for the emergence of social impact investment enterprises or funds.

PROPOSAL 12

Offer a legal framework adapted to suit the needs of social impact commercial enterprises through the creation of a "Company with an extended corporate purpose (SOSE)"

Problem

Throughout the world, a growing number of entrepreneurs are striving to place ambitious social and environmental goals at the heart of their business.

However, various studies carried out in France and abroad show **that company law generates asymmetries that are likely to place limits on commercial companies pursuing social ventures (profit-with-purpose businesses):** the shareholders are legally entitled and capable of challenging decisions by directors to pursue social goals at the expense of shareholder value. Company law does not provide any means of protecting the social ventures pursued by these companies or investment funds from the shareholders who demand that the company refocuses on profit and profit alone in the short term. This risk is particularly acute if control of the company changes hands. Consequently, **company law weakens the position of commercial companies trying to pursue social goals and profit simultaneously.**

In the US, this realisation has in recent years led to significant efforts being made to give companies new legal options. New legal forms have been created for companies pursuing both commercial and social or environmental goals. These company forms make it possible to: 1) continue to pursue goals in the event of a change in shareholder structure; 2) guarantee that a balance is struck between the parties and the objectives set; and 3) ensure management transparency and its effective impact. The box below outlines these new company forms (benefit corporations and flexible purpose corporations).

BENEFIT CORPORATIONS AND FLEXIBLE PURPOSE CORPORATIONS

Two new legal forms for social impact enterprises were added to the federal laws of several US states in 2011: the benefit corporation and the flexible purpose corporation. These two forms were created to resemble as closely as possible the traditional commercial company forms to minimise legal uncertainty and maintain investor appeal. Each one nevertheless represents a key legal innovation:

As well as standard corporate purposes, Flexible Purpose Corporation (FPC) status, adopted in California in 2012, provides for companies to pursue social or environmental goals, otherwise known as "special purposes". These special purposes must be of a charitable nature or serve the general interest, or reduce the negative impact or increase the positive impact of the company's activities on its stakeholders (employees, customers, the community, the environment, etc.). To protect this mandate, legislation requires the special purposes to be written into the company's articles of association. Any change to these special purposes will require 2/3 of all shareholder classes to vote in favour of it. Managers are protected against legal action even if they take decisions that reduce the company's profitability while pursuing their special purpose. The strategies implemented in pursuing this purpose and the outcomes must be included in an annual report which is made available to the general public and discussed in detail by the Board.

Benefit Corporation status, which was first adopted in 2010 in Maryland, is geared towards a "general public benefit". This impact must be measured against an independent third-party standard. The company must explain the choice of standard in its annual report which is made available to the general public. Depending on the jurisdiction, Benefit Corporation status also allows for the appointment of "Benefit Officers" (directors responsible for overseeing the general public benefit goal), or offers the possibility of giving a minority of shareholders (from 5% of the share capital) the option of taking legal action against the company if it does not comply with its mission.

Solution

Like the Mission Alignment Working Group, we recommend creating a legal framework that is adapted to the challenges faced by these companies. In France, this would include the creation of a "company with an extended corporate purpose" (SOSE).

As with Benefit Corporations and Flexible Purpose Corporations, the aim is to offer companies a means of explicitly mentioning in their articles of association their social or environmental goals as well as their for-profit activities, and to adopt a suitable governance structure. By way of comparison, the SOSE is both simpler and more general.

Extend the company's corporate purpose

This is based on the principle that legislation enables any company, regardless of its legal form, to extend its corporate purpose to include a "mission", and in this way set its own human, social or environmental targets. This is what we call "extended corporate purpose".

Suitable governance

To protect this mission and provide it with a legal framework, a SOSE must set out two important governance procedures in its articles of association:

→ **the procedure for approving or altering the mission ("mission-lock").** It should be possible to make changes to the mission, but only under certain conditions. There are several options:

- the shareholders can only change the extended corporate purpose if they achieve a supermajority (or 2/3 or ¾.) ;
- in addition, the articles of association may state that the shareholders cannot make changes to the extended corporate purpose until such a change is approved by the works council, the employees or another governance body to be specified[2]

→ **Assessment procedures and transparency.** The extended corporate purpose strategy must undergo specific assessment. The articles of association may provide for performance assessment criteria or, more generally, a specific committee known as a "social impact board" that is separate from the board of directors: this committee would be comprised of competent members able to assess the management approach taken in relation to pursuing the social mission. It would be responsible for producing a report on how the social mission was managed and the board of directors would be required to take this report into consideration. In addition, the social impact board would be able to convene an extraordinary general meeting. If it did not agree with the management approach adopted, it could also ask for the extended corporate purpose to be abandoned.

- IMPLEMENTATION

The introduction into US law of several new legal forms shows that there are no major obstacles to creating this type of company. The Mission Alignment report puts forward a raft of options that could complement the SOSE. We could build on several options while ensuring that a simple and attractive structure was adopted. It could also be adapted to take into account the specific features of the French market.

Impact

The creation of SOSEs would help promote the development of social impact enterprises.

1. Recognising "mission-driven companies" would help to challenge the idea that companies must be for-profit only. It would also encourage the development of growth companies with significant social impact potential.

2. In terms of viability, the proposal consists of an incremental change, i.e. introducing a new option into company law.

3. In terms of impact:

- organising governance around an extended corporate purpose would renew stakeholder confidence (as long as the extended corporate purpose outlined in the articles of associations requires a commitment from the managers and shareholders)
- a company pursuing a particular aim would be easily recognisable (by government, investors and outside partners)
- the SOSE would be an attractive option that would enable a company to pursue a social mission without giving up on making a profit (it puts mission lock before asset lock)
- the option to extend the corporate purpose is open to every type of company, regardless of its initial legal form (PLC, simplified limited company, private limited company, or cooperative manufacturing company, etc.)

[2] *Where applicable, the opinion of a social impact board as outlined later on*

GUIDELINE 4

DEVELOP MISSION-RELATED INVESTMENTS THROUGH FUNDS AND FOUNDATIONS

The following is based on the work carried out by a working group comprising foundation members of the Centre Français des Fonds et Fondations on mission investing, the report of a trip to London by the Centre (published in the Centre's "Question de Fonds" publication) and an article by Gaspard Verdier published in the social and solidarity-based economy white paper on mission investing..

PROPOSITION 13

Ensure funds and foundations play a role in developing social impact investment to make a significant contribution to the cultural changes required

Problem

Along the social economy stakeholder chain, foundations are the only group exclusively devoted to exercising and supporting missions of general public interest. These missions are traditionally carried out either in-house (for operating foundations) or through partner associations appointed by distributing foundations. They have chosen to focus their support on the mission-related investment sector. Through regular contact, they have developed expertise in the sector and gained an understanding of its needs and strengths, as well as the requirements of its stakeholders.

Nevertheless, the rapidly changing economic landscape, which has been marked by the withdrawal of public resources and the need to find new, more sustainable business models for general interest missions, have breathed new life into foundations, prompting them to participate in a different way and take an interest in solutions offered by a new generation of social entrepreneurs. The model used by not-for-profit organisations benefitting from the foundations' input is now changing towards a model designed to bolster equity, generate income, and create not-for-profit commercial subsidiaries or social enterprises for capitalisation.

Foundations have some unique advantages (knowledge of the sector, detailed understanding of its requirements) that they can use to support social innovation and act as a solidarity-based investor on the innovative segment during the start-up phase when a little money and a lot of support go a long way. They can also help to promote the spread and ramp-up of the solutions found, but it would be useful to add another string to their funding bow by taking on the role of philanthropic investor. As investors, they cannot fail to see the logic of an investment that would offer both a financial return and have an impact on the problem areas they are working on. As far as using philanthropic funds effectively is concerned, if the investment goes according to plan, the money can be reinvested in mission-related investments and therefore recycled on several occasions.

Using mission investing tools to complement initial donations could be a viable way of meeting the changing funding needs of beneficiaries. The limitations of these less liquid, more risky investments are well documented and integrated into the overall asset management approach: capital invested over a very long time period gives an expected low return, and only a limited portion of the assets are invested.

In a given area, foundations could play a key role as strategic partners of the companies receiving funding. They could vouch for the company's professional approach, and guarantee the social impact of the investment made. They could also act as caring investors keen to avoid "mission drift".

Solution

French foundations are facing growing demand for philanthropic capital due to the changes that beneficiaries are undergoing. A growing number of them are trying to direct their increasingly rare donations towards more innovative and long-lasting programmes. The main social economy foundations are a prime example of this trend.

Foundations must allocate their donations as efficiently as possible, as well as meet requests for funding; donations are not necessarily the best resource available for this (weak leverage). At the same time, they cannot offer beneficiaries the best investment products as this would fall outside of the remit of funds and foundations in France.

The appetite for mission-related investments has been whetted, particularly among programme teams, but a significant amount of work must be done to make all foundation stakeholders aware that mission-related investments exist.

The path ahead is not a straightforward one. Certain skills will have to be acquired and limitations taken into account. The most important thing will be to provide a suitable climate for those keen on trying out this type of investment for the first time.

The requirement in France to serve the general interest provides a specific framework when deciding how philanthropic funds should be invested. Numerous debates have taken place recently regarding the definition of general interest. Sector players note that the public authorities (particularly the tax authorities) clearly do not necessarily understand how the new hybrid models that combine associations and enterprises serve the general interest. From a cultural viewpoint, the governance and supervisory bodies must strictly interpret the regulations. Failure to do so would risk depriving the sector of a key investor.

Impact

Involve funds and foundations, the strategic and financial partners of the beneficiaries, in the expansion of social impact investing. Boost the sector by attracting players whose core business is solving the social problems addressed by this type of investment, and who have a considerable degree of expertise in dealing with impact investment issues.

PROPOSAL 14

Confirm the key role played by funds and foundations in providing innovative funding for the social sector and the social and solidarity-based economy. Enable them to play a full and active role in the sector as investors.

Problem

Social impact investing in France must carve out a place for itself in a restrictive framework which means that providing funding other than via a donation can be relatively complex for funds and foundations. At this stage, it is therefore not possible to envisage switching public funds or voluntary contributions to the social impact investment sector. However, it is important to help foundations play a full and active role in the sector through the funds they invest.

The members of the *Centre Français des Fonds et Fondations* are well-placed to assess the funding problems faced by the general interest sector in France. Voluntary contributions are stagnating and not keeping pace with requirements.

Numerous organisations serving the general interest have been forced to diversify their funding sources and find new ones. The hybrid association/enterprise models are becoming more popular as funding requirements change and sector players show a growing interest in trying out new, innovative formulas (association securities, social impact bonds, etc.).

For the reasons outlined above, foundations are a natural choice for this type of investment, and are attracted by the opportunity of rolling out funding for general interest projects; the launch of the first social impact bond in the UK was only possible thanks to the firm support of the foundations for this new type of funding. The story is similar in France, where funds and foundations are driving efforts to introduce the first French social impact bond. Unfortunately, however, efforts today to introduce new forms of funding and move away from donations as the sole investment method possible for the mission-based investment sector are meeting fierce opposition.

In reality, investments are more or less limited to donations. Companies could, however, still invest a reasonable proportion of their financial assets set aside for investment in mission-related programmes.

Solution

Investing in mission-related projects is theoretically possible under Article R.931-10-21 of the Social Security Code which outlines the assets eligible for investment via donations . Contrary to common misconceptions, the investment universe is relatively vast as it includes funds of hedge funds. Nevertheless, it is worth asking the question: when it comes to diversifying, should we invest in funds of hedge funds or solidarity-based SMEs? What objections could be raised today, for example, to investing in unlisted SMEs (e.g. an integration company) or a social investment fund in France or abroad? While some foundations do currently highlight without any difficulty the progress they have made in investing in socially responsible investments (finance first), communicating on riskier investments (which do exist) in socially innovative organisations (mission first) is significantly less popular in France. Some foundations are held back by the Economy and Finance Ministries' relatively restrictive interpretation of Article R.931-10-21 of the Social Security Code (i.e. investments in association securities are seen as being non-eligible) and by the fact that they are encouraged to make conservative investment decisions.

A considerable amount of work still needs to be done to encourage innovation that would help to boost funding for the social investment sector in France, and we cannot do without the strategic and financial role played by funds and foundations in developing social impact investing in France.

Impact

When raising funds for projects, involve stakeholders seeking to finance innovation and who could strike a balance between the financial and social requirements. This would be particularly useful during the key start-up phase which requires high-risk equity investment either directly or to provide support to impact investment funds.

[3] Changes made to the standard articles of association for Public Benefit Foundations (FRUP) were approved by the Conseil d'État on 13 March 2012; they therefore apply to organisations founded after that date. The previous standard articles of association dated 2 April 2003 stated that endowment funds could be invested in securities listed on an official French or foreign stock exchange, or unlisted, or in negotiable debt instruments, French government bonds, or in buildings required for the investment purpose or in investment properties.

PROPOSAL 15

Quickly create a framework to promote Programme Related Investments (PRI) in France

Problem

Many foundations would be reluctant to make an investment offering a low return, particularly as they need the returns to finance their programmes and operating activities. In addition, low-yield, high-risk investments could give them financial reporting problems, the consequences of which must be taken seriously, particularly in France.

It would therefore be worthwhile to allow endowment funds to diversify their investments to test impact investment vehicles as part of their funding programmes. This would require setting aside funds for Programme Related Investments (PRI), like in the US.

Solution

PRIs are, according to precise criteria outlined in the 1969 Tax Reform Act, investments that comply with US foundations' minimum annual payout requirement. According to this Act, the investment's main goal must not be to generate a financial return. Generally speaking, PRIs are perceived as having a much lower return on investment than equivalent market investments. PRIs are booked as an asset on the balance sheet and benefit from favourable tax rules. For US foundations, they generally take the form of a loan or stake in organisations that are normally funded by donations. They also represent clearly-identified opportunities that have been largely analysed by programme teams, thus developing their financial acumen and their understanding of the financial impact their programmes will have.

Although we can classify impact investments made by French foundations as PRIs, discussions regarding the eligibility of certain investment vehicles will provide one less pretext for avoiding carrying out mission-related investment tests and innovating. The questions as to how much should be put aside for PRIs, calculated as a percentage of the foundation's wealth, and which investment policies should be pursued, are still difficult to answer. Each stakeholder will have a different response, but a certain number of players, who have already tested mission-related investments in France, can contribute freely to this debate and help develop this type of investment.

Impact

Quickly grow the funds that foundations have available, which could become significant for the sector relatively rapidly, particularly during the key start-up phase, offering additional funding over and above that offered by other impact investors which is perfectly in line with goals established.

GUIDELINE 5

STIMULATE SOCIAL IMPACT INVESTMENT TO PROMOTE INTERNATIONAL DEVELOPMENT BY INVOLVING THE PUBLIC AND PRIVATE SECTOR IN FRANCE, AND SUPPORTING DEVELOPING ECONOMIES

Problem

As an additional source of funding for development, and as a source of innovation in terms of providing official development assistance, impact investing for development purposes (see definition p. 94) helps in the fight against poverty in developing economies, and in reaching the sustainable development goals set for 2015 and beyond.

Impact investing helps improve access to funding for companies and organisations that make a significant and positive social impact in developing countries. It funds the development of new products and services for the least well-off socio-economic groups, but also contributes to addressing a wide array of challenges that will exist post-2015, such as climate change, pollution, regional management or healthcare and education issues. Lastly, it helps speed up economic growth that is still lagging behind in many countries.

However, the money being channelled into funding social enterprises and organisations in developing economies is still not enough. To develop their activities, impact investing enterprises and organisations need access to greater volumes of funding which are better-suited in terms of nature, length and cost.

National regulations and international accounting standards for official development assistance are holding back the set-up and growth in France of impact investing organisations. Consequently, the regulatory and tax frameworks applied in France to solidarity-based savings and the social and solidarity-based economy could be adapted to ensure more funds reach social enterprises in developing countries.

In addition, the current financial and technical conditions for official development assistance are not in tune with the needs of impact investing organisations.

The following proposals are therefore designed to deal with the various issues holding back the development of impact investing for international development programmes and are intended to encourage development agencies to work to promote the sector..

Solution

Create the tools and regulatory environment that will improve access to funding for companies with a strong development impact.

PROPOSAL 16

Introduce "solidarity-based development enterprise" accreditation enabling enterprises based in developing economies to gain access to solidarity-based employee savings funds (and European Social Entrepreneurship Funds - EuSEF).

PROPOSAL 17

Make a proposal to the European Commission to amend the EuSEF regulation blocking investment in social enterprises in developing countries (pursuant to the current regulation, the funds cannot invest in enterprises in countries that have signed a tax cooperation agreement with EU Member States, i.e. almost all developing countries).

PROPOSAL 18

Alter interpretation of the Budget Act on the tax arrangements for donations to foundations and NGOs to encourage funding of their development initiatives.

PROPOSITION 19

Make changes to the structure of open-end investment companies (SICAV) and mutual funds (FCP) to raise the 10% limit on funds invested in impact investing projects. Similarly, make changes to venture capital investment fund (FCPR) regulations limiting the proportion of assets held as debt and acting as a barrier to the creation of self-managed funds.

PROPOSITION 20

Change the status of guarantees awarded to impact investing funds so that they are better accounted for as official development assistance by the OECD Development Assistance Committee (DAC).

PROPOSITION 21

Support the AFD group's commitment to design and implement a full range of impact investing products.
Although private players have played a pivotal role in getting this sector up and running, the quantitative growth in requirements means that public sector players must join the fray to support the sustained involvement and ramp-up of private sector players, and to help contribute to the growing need for greater investment volumes. This could be done through the development of equity- or debt-based funding instruments, as well as the development of new forms of equity- and debt-based guarantee products, to promote initiatives with a risk-reward ratio that differs from the norm. The EIB could also introduce these kinds of instruments and they could become a standard category of products rolled out by international development finance institutions. Government development agencies in G8 countries would benefit from discussing this topic and developing joint expertise in this area.

Impact

→ Better access to funding for enterprises and organisations that play a key impact investing role in developing economies, thus significantly increasing the positive development impact.
→ NGOs and foundations operating in the impact investing sector can increase their capacity for intervention.
→ French impact investing funds can be domiciled in France.
→ Official development assistance can support impact investing initiatives more easily and thus improve its effectiveness.

GUIDELINE 6

ESTABLISH TERMS OF REFERENCE TO MEASURE SOCIAL IMPACT

Problem

Social impact investment currently attracts a growing number of investors looking to give meaning to their investments. They want to create a positive effect on the company they invest in. However, investing in social enterprises and getting involved in their programmes with social, societal or even environmental goals is not enough to ensure that these investments will result in real change. Impact investing can only be effective if the impact resulting from it is carefully assessed.

The aim of social impact measurement is to manage and monitor the creation of social impact in order to achieve maximum effect. There is currently a consensus emerging regarding the best practices for measuring social impact, although the methods and measurement tools used have still not been harmonised. Different methods are used to either measure outcomes, assess dimensions, indicators, or the weighting allocated to the various criteria that are used to measure the impact.

Steps have already been taken in this area

- The European Venture Philanthropy Association (EVPA) has produced a practical guide to measuring and managing impact. It outlines best measurement practices to help social impact investors and organisations measure the impact of their investments more effectively. The guide is divided into five steps: setting objectives, analysing stakeholders, measuring results, verifying and valuing impact, monitoring and reporting.

- The Expert Group on Social Entrepreneurship (GECES) has been set up to measure the social impact of investments. The aim is to implement a universal process and to outline reporting criteria. The framework will help to produce standardised outcomes that can be used as indicators to measure social impact. This above-mentioned process is relevant for investors and social enterprises. It must factor in the risk to which both are exposed and involve the key stakeholders throughout the process. The process involves five stages:

• identify objectives: of the various parties in seeking measurement, and of the service being measured
• identify stakeholders: who gains and who gives what and how?
• set relevant measurement
• measure, validate and value whether the targeted outcomes are actually achieved in practice
• report, learn and improve (monitoring and reporting)

- The G8 Impact Measurement Working Group (IMWG) has issued a report containing recommendations based on the work carried out by the EVPA and GECES. It outlines seven best practice guidelines for impact measurement. Two key changes have been approved: a clear distinction is made between impact at individual investment level and at portfolio level, and a French case study has been included in the final report (previously dominated by US and UK cases).

- Measurement tools exist and are used by French investors on a daily basis. A diverse range of tools and methods are used, but show how important it is to measure impact. They supply useful guidelines for existing practices. In addition, many investors assess the impact at corporate and portfolio level. An assessment is therefore performed on two fronts to establish whether or not the investment fund's goals have been reached.

Solution

Make use of the main conclusions drawn in the GECES Sub-group's report on social impact measurement. The GECES Sub-group on Social Impact Measurement was set up to establish a method for measuring social impact that can be applied to the entire social economy in Europe. The Sub-group has been tasked with implementing a universal process and outlining reporting criteria.

A French contribution to the Europe-wide measurement framework is in progress. This active contribution by France should help France's case to be heard when the common framework and measurement tools are being implemented.

Set up a French knowledge centre for social impact measurement.

Impact

The creation of a Europe-wide measurement framework – or a consensus on certain best practices that should be adopted for social impact – is an essential prerequisite if we want to consolidate social impact investment in France and Europe.

We must therefore create standard social impact measurement tools and frameworks that can be used as a benchmark for the sector to gauge the quality of the measurement performed and to compare the social impact of different investment funds.

The use of standard methods and indicators by social impact investors should make it easier to compare the outcomes obtained and help promote the use of best practices in social impact investment while continuing to maximise the impact.

V. FILE

FILE 1

MAP OF THE FRENCH IMPACT INVESTING ECOSYSTEM

File drafted by Guilhem Dupuy, Ecofi Investissements, Groupe Crédit Coopératif

GENERAL REMARKS

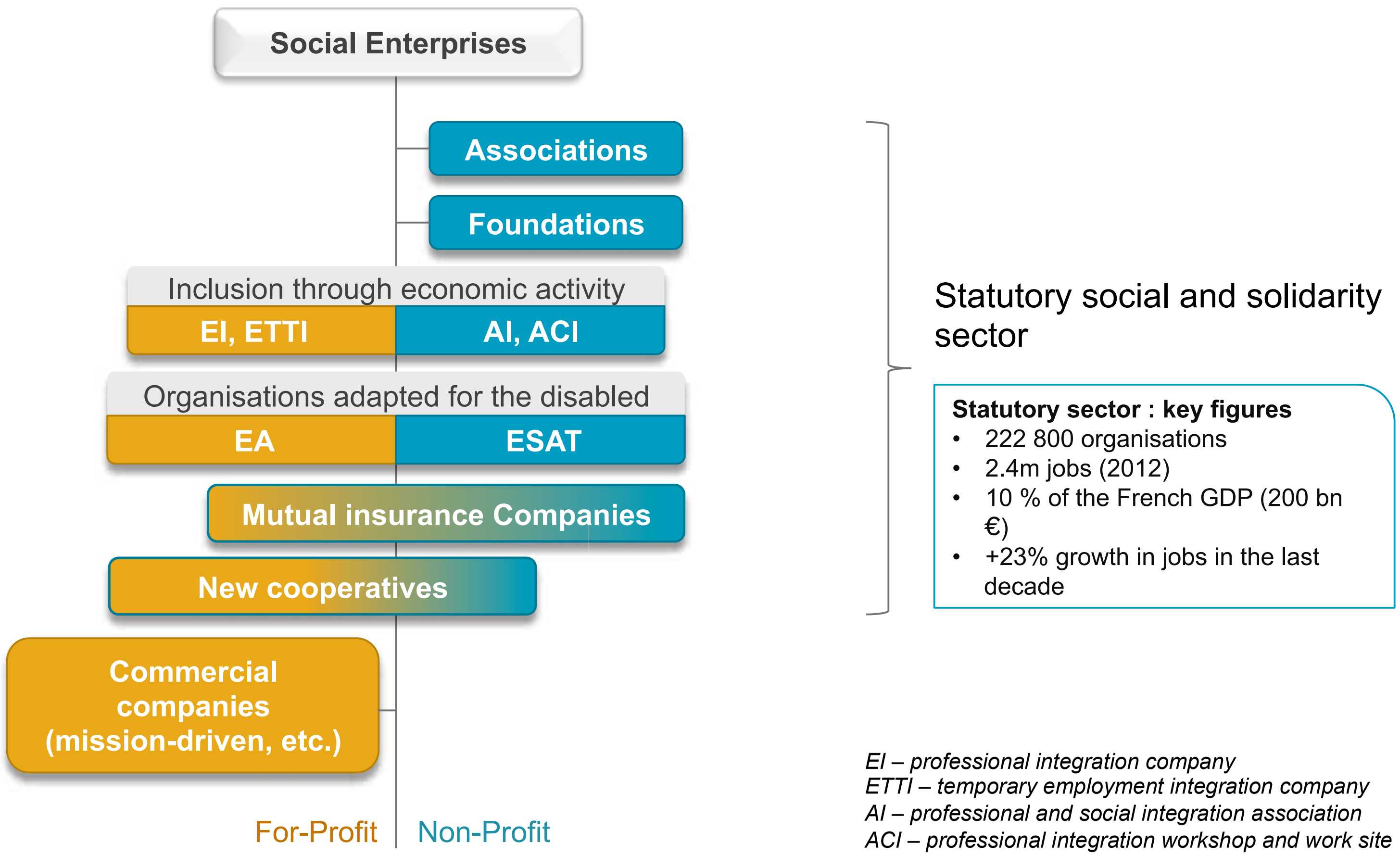
- International comparisons between the national ecosystems of social economy are always a difficult exercise.
- In France, there are two main sources of data about social economy :

  - **State data**
    - It should be underlined that the French “Social and Solidarity Economy” is a sector shaped by status. There is a legal definition of which organisations belong to the sector and which do not, and state authorities have a power to deliver specific agreements for that purpose. The issues at stakes are mainly about funding, since only agreed organisations are entitled to benefit from the earmarked, tax advantaged, low rate solidarity funds sourced from short-term deposits and employee savings plans.
    - As a consequence, most of the data produced by government and public agencies about the social and solidarity sector are based on these legal categories. As “social entrepreneurs” are not such an official category for now, data is scarce as far as they’re concerned.

  - **Civil society data**
    - Several quite exhaustive and widely used databases are produced within the social economy sector by national federations, associations, and researchers.
    - The categories used within these databases may be consistent with legal categories, but may also reflect other priorities. As such, while using together several sources of data, it should be underlined that items, categories, and especially cash flows and assets might be counted twice or not at all. Overall, the data presented in this document should be considered significantly underestimated, especially when it comes to the actual number of social enterprises, and the amount of money at stakes.

OVERVIEW OF THE FRENCH IMPACT INVESTMENT ECO-SYSTEM

The French social enterprises : a multi-secular sector, yet diversified enough to tackle the most contemporary challenges



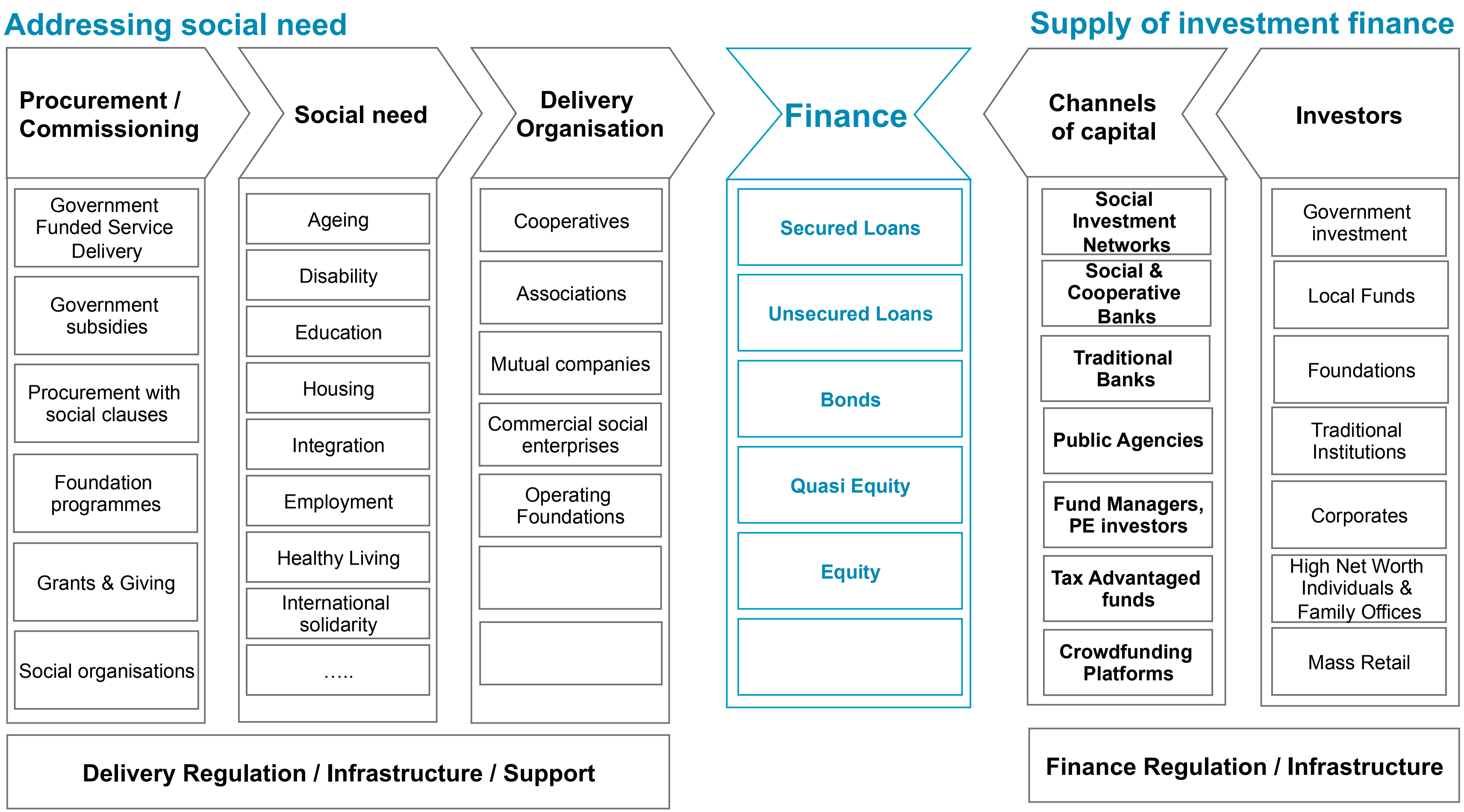
Statutory sector : key figures
- 222 800 organisations
- 2.4m jobs (2012)
- 10 % of the French GDP (200 bn €)
- +23% growth in jobs in the last decade

EI – professional integration company
ETTI – temporary employment integration company
AI – professional and social integration association
ACI – professional integration workshop and work site
EA – firm providing sheltered employment
ESAT – vocational rehabilitation centre
SCIC – multi-stakeholder cooperative
CAE – business and employment cooperative

1

OVERVIEW OF THE FRENCH IMPACT INVESTMENT ECO-SYSTEM

Each financial transaction has its own 'signature' across the many parties



PROCUREMENT / COMMISSIONING

Public funding dominates the sector, although several specific activities and organisations rely highly on fees and private funding

Government Funded Service Delivery

- Public service is mostly delivered through public organisations
- Growing trend of Public Service Delegations though, only a fraction of which may be considered as social
- Strong cultural barrier against outsourcing to private providers, but innovative public-private partnerships are a consensual – and promising – way to go

Governments subsidies

- Account for 24.7% (€21bn) of the resources of associations – the most frequent French Non-Profit Organisations (NPO) category – in 2011, but this type of funding tends to decrease both in proportion and absolute terms.
- Regional and local authorities play the main role in allocating subsidies to the social sector

Procurement with social clauses

- Government procurement with social clauses is a small yet growing aspect of public spending – was 1.6% of total public procurement in 2007, 4.3% in 2012. Estimate amount of €3.96bn in 2011, could grow to 10-15% of total public procurement in the next 5 years – roughly €10bn.
- Also, a significant share of public procurement (with or without social clauses) directly funds associations – €21bn in 2011.The share of public procurement in the overall resources of associations has grown by 73% since 2005.
- On the private procurement side, three significant trends are emerging :
  - “Responsible” procurement of traditional goods & services could represent a €50bn market for social enterprises by 2020 (low estimate) ;
  - CSR policies will increasingly lead to corporate procurement of social services (empowerment of disabled employees & customers, low-income employees mobility issue, etc.)
  - Corporate foundations increasingly contribute to financing and supporting social enterprises, both in the domestic market and abroad

Foundation programmes

- Growing will of foundations to experiment venture philanthropy alongside their traditional activities
- Total number of foundations has grown by 60% between 2001 and 2009, from 1108 to 1771
- Foundations are currently one of the fastest growing non-profit sector, though relying heavily on public funds for now

Grants & Giving

- An estimated 66% of the French households are reported to have made at least one donation to NPOs in 2009.
- Individuals €1.95bn in 2010, Corporates €683m in 2011 (141% growth over the last 5 years)

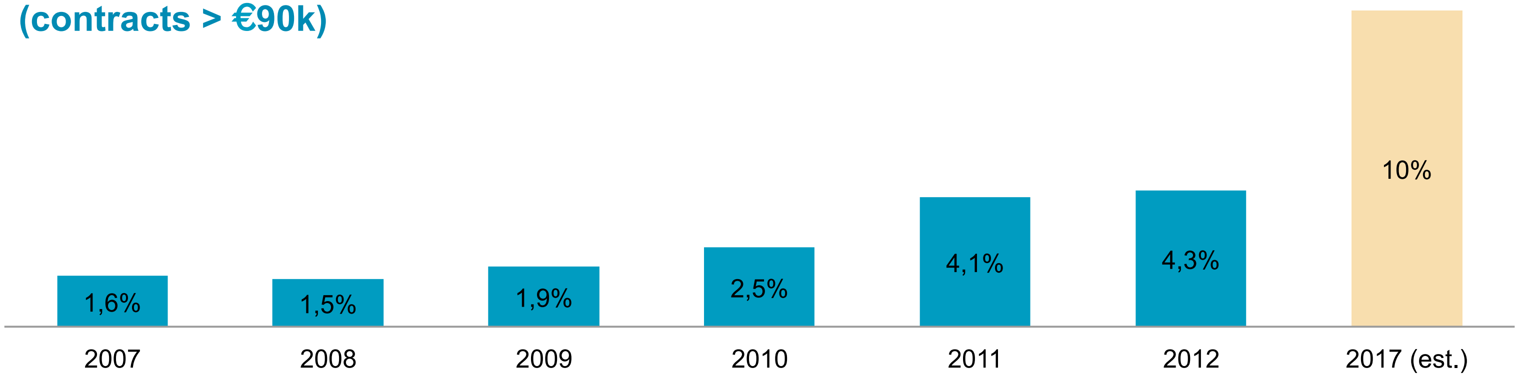
Social organisations

- Social organisations play an important role in setting up innovative ways of addressing social needs, outside the public procurement environment.
- E.g. work-integration organisations achieve social impact through production and sale of products or services while employing people with disabilities, long-term unemployed, etc.
- E.g. Social real-estate investment trusts with specific agendas, like Terre de Liens

PROCUREMENT WITH SOCIAL CLAUSES

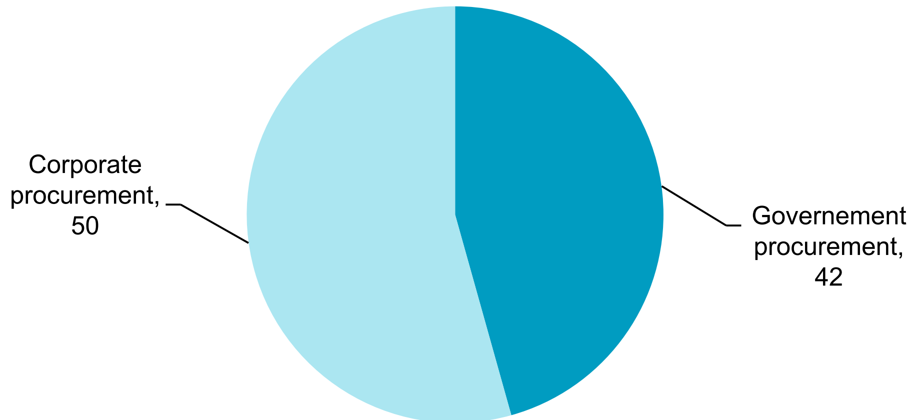
Growing, may grow faster

Share of social clauses contracts in government procurement (contracts > €90k)



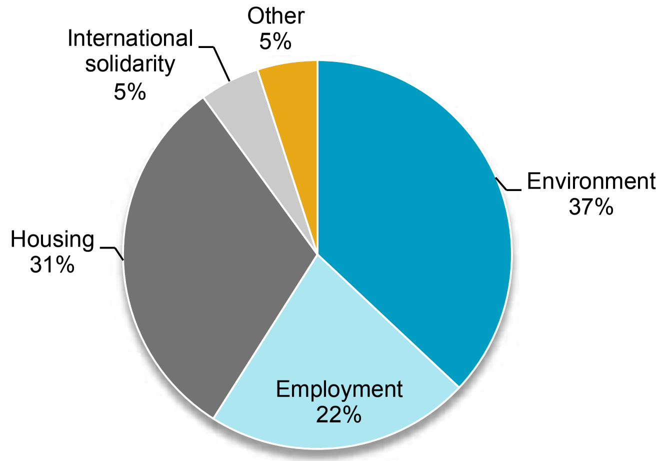
Source : Patrick Loquet, Les clauses sociales - bilan et perspectives ; Observatoire Economique de l'Achat Public – Recensement 2012

Estimated accessible procurement market for social enterprises in 2020 (bn €)



ADDRESSING SOCIAL NEEDS

Uses of solidarity-based savings by impact sector (2013)

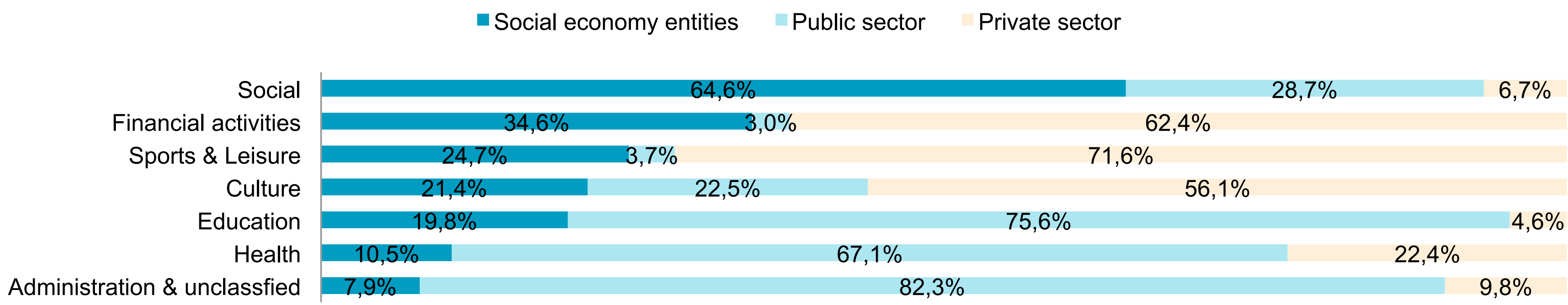


Source : Finansol

These figures are about the mass-retail market only. Since unemployment has become a dominant issue on the political agenda, a significant shift of retail impact investment towards employment themes is to be expected in the coming years.

A co-construction of public interest service providing between public and social sectors

Share of Social and solidarity organisations in the total employment of each business sector



Source : CN CRESS – Atlas de l'Economie Sociale et Solidaire, 2009 (2006 Data)

DELIVERY ORGANISATIONS

Social organisations have a wide range of legal structures, with different abilities to absorb risk capital

Social enterprises

- Estimates vary from 15.000 to 50.000 active social enterprises
- Can take debt and equity depending on legal status

Commercial social enterprises

- While a majority of work-integration organisations are associations (NPOs, thus cannot take equity), around 16% (620 work-integration social enterprises) are commercial, and can take equity.
- A dedicated sector of commercial status social enterprises is aimed at disabled people ("Entreprises Adaptées"), roughly 600 enterprises.
- No aggregated data on non statutory commercial social enterprises yet

Cooperatives

- Global turnover is €288bn in 2012, but a sizeable part of cooperatives do not provide direct social impact
- Cooperatives close to social enterprise model : around 52.500 employees, €6.7bn turnover in 2010 (low estimate)
- Can take debt and quasi equity

Mutual companies

- Mutual companies are a traditional part of the social and solidarity economy (democratic governance, non-profit status). A large majority of them provide health insurance, with a global outreach of 38m people and an annual turnover of around € € 22bn. Overall, the French public health insurance system rely heavily on the mutual companies.
- Can take debt and quasi equity or equity depending on status.

Associations

- Budget wise, 61% of the associative sector is dedicated to social causes in 2011 – €52bn, roughly 230.000 associations
- Can take debt but cannot take equity. A revamped "titre associatif" (quasi equity) has been created in 2014.

Associations, as well as commercial status social enterprises, can take secured debt thanks to the France Active guarantee system

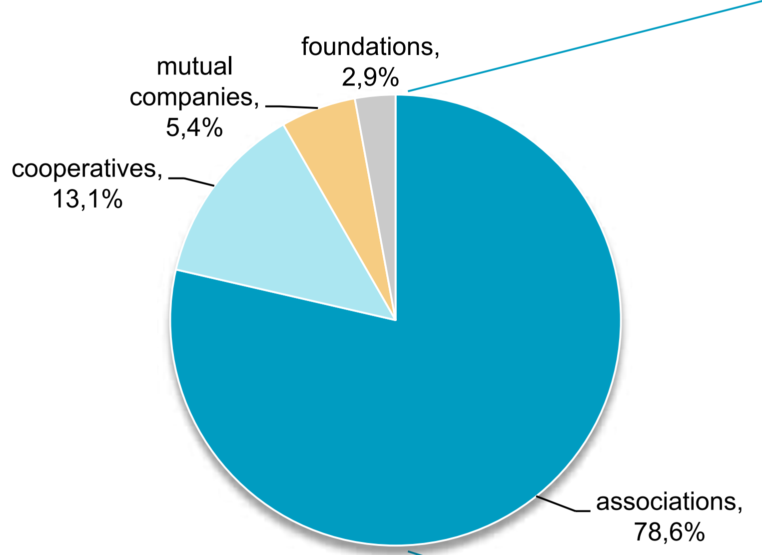
Operating Foundations

- Around 500 operating foundations in 2009, employing 58 500 people. Total expenses are €4.32bn, 48% of which in health, 32% in social action, and 9% in education.
- Cannot take equity.

DELIVERY ORGANISATIONS

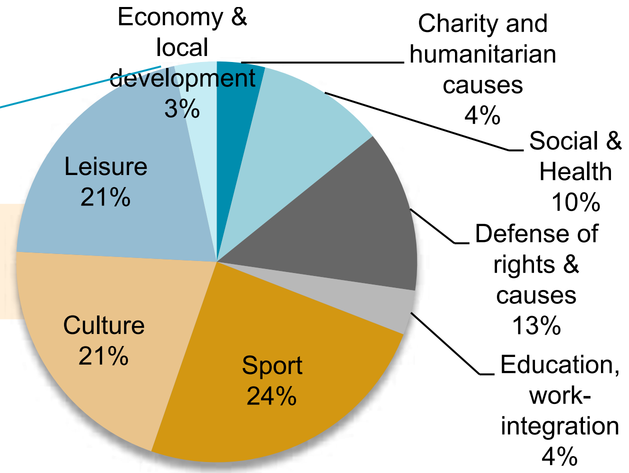
A lack of data encompassing the whole "social enterprises" concept, but some telling facts anyway : example of associations (French most frequent NPOs)

Legal structure of social and solidarity organisations (share in total employment)

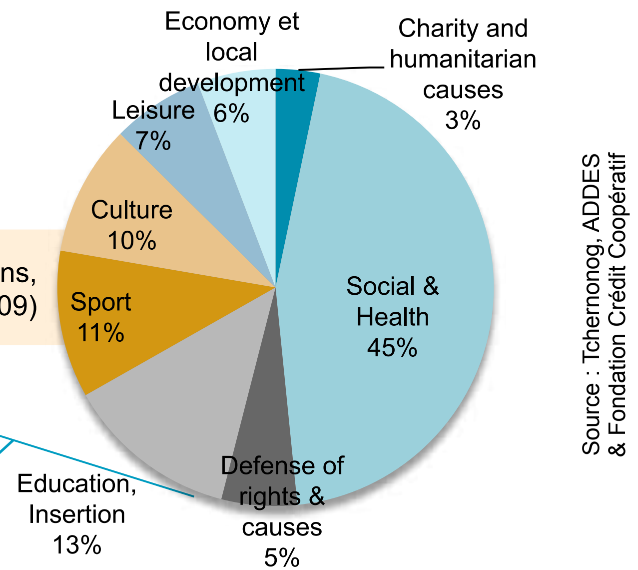


Source : Insee - Clap 2010

Number of associations, by activity (2009)



Total employment in associations, by activity (2009)



Source : Tchernonog, ADDES & Fondation Crédit Coopératif

Around 2/3 of total employment in associations is dedicated to typical areas of social impact investment

DELIVERY MARKET REGULATION AND CAPABILITY

Infrastructure required to support service delivery is emerging in six areas

Regulation

- Existing regulation on public procurement allows for social or environmental clauses to be included in the contracts

Delivery-Capability Building

- Advising : Avise, Mouves, and regional networks (e.g. L'Atelier)
- Social Entrepreneur Schools : e.g. Coeptis in Montpellier
- Dedicated departments in Business School (HEC, Essec…)

Innovation Support

- State funded support : Bpifrance, CDC Entreprises
- Various social entrepreneurs contests, either state supported, or organized by business schools, entrepreneurs networks, newspapers, or corporate foundations.
  - Around 30 contests every year according to Convergences.

Impact Measurement

- Platforms : IRIS (GIIN network), SROI Network, CERISE, proprietary models (e.g. PhiTrust Partners, Comptoir de l'Innovation, Citizen Capital…)
- Consultancies : Comptoir de l'Innovation, Social Business Factory…
- Labelling : Finansol

Best-practice Sharing

- Several active professional networks of social organisations : Coop FR, Les Scop, CNEI, Coorace, Centre Français des Fondations, AFIC Impact…
- Numerous large-scale professional meetings : Convergences, Impact², Finansol events…
- Corporate Responsible Procurement clubs : Pas@pas

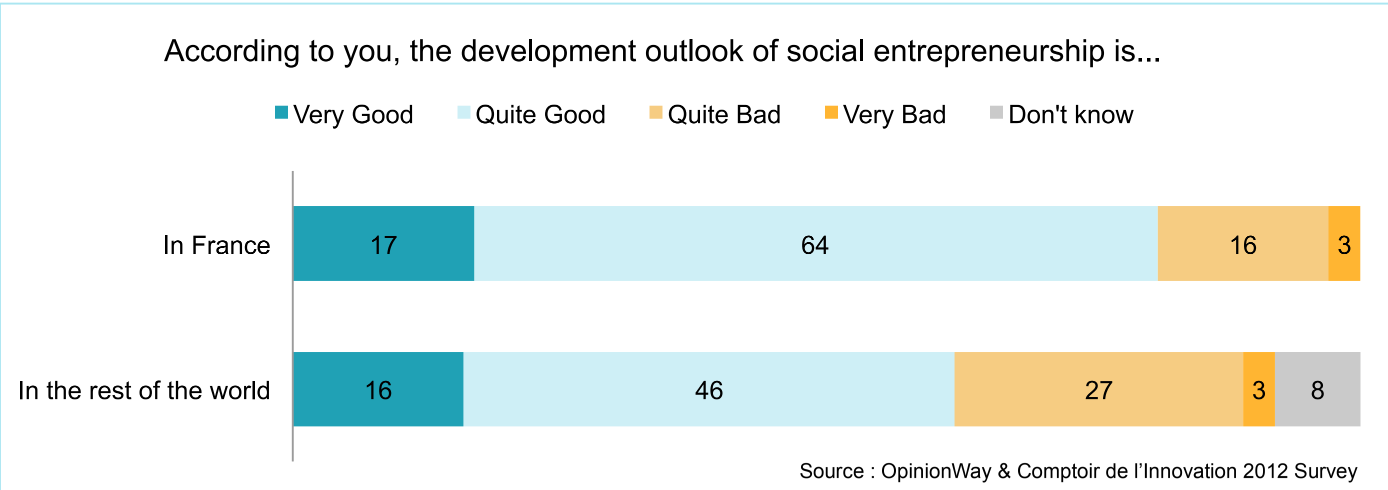
Accelerators / Incubators

- Alter'Incub, Antropia, Stand Up HEC, Social Good Lab, Le Comptoir, Ashoka France …

FUNDING GAP : ACCESS TO FUNDING IS THE MAIN DIFFICULTY ACCORDING TO 67% OF SOCIAL ENTREPRENEURS

2012 Data. Source : OpinionWay & Comptoir de l'innovation 2012 survey

- The 62 biggest French social entrepreneurs report an average financing requirement of 2.5 m€ for the next 3 to 5 years
- The 50 biggest social investors can invest only €252k (barely 10% of total estimated financing requirement) per enterprise
- Both agree that a 5% return is a satisfying balance between high social impact and cautious risk management
- The funding gap doesn't stop social entrepreneurs from being optimistic about the future : 81% of them think that the development outlook of the sector is quite good or very good in France (they were 68% in 2010). See chart below :



BREAKDOWN OF MAIN FINANCIAL INSTRUMENTS BY MAIN SOCIAL INVESTORS (€, 2012) (PUBLIC INVESTMENT NOT INCLUDED)

Equity and quasi-equity	Min	Max	Average
Cigales	1 000	6 000	2 000
IéS	5 000	50 000	15 000
Garrigue	7 500	60 000	20 000
SOFINEI	7 500	50 000	39 000
Herrikoa	10 000	150 000	50 000
France Active	5 000	1 000 000	51 000
Financités	25 000	125 000	52 900
Autonomie et Solidarité	5 000	120 000	67 105
Femu Qui	50 000	600 000	200 000
Phitrust	100 000	600 000	265 000
Entrepreneurs du Monde	10 000	500 000	178 345
SIDI	3 000	537 000	216 000
Oikocredit	7 000	2 500 000	854 000
Energie Partagée	50 000	500 000	350 000
IDES*	150 000	1 500 000	300 000
Comptoir de l'Innovation*	500 000	1 000 000	600 000
Citizen Capital*	800 000	3 000 000	1 500 000
Impact Partenaires*	100 000	1 500 000	750 000
Mandarine Gestion*	50 000	200 000	100 000
Ecofi Investissements*	50 000	925 000	244 000
Investisseurs & Partenaires*	50 000	1 500 000	500 000

Guarantees	Min	Max	Average
France Active	10 000	250 000	na
Finantoit	50 000	150 000	100 000
Cofides	500	20 000	700
SIDI	5 000	400 000	84 000

* 2013 Data

Microcredit / loans	Min	Max	Average
Clefes	1 000	6 000	3 000
ADIE	1 000	10 000	5 000
Initiative France	3 000	25 000	8 000
France Active	5 000	30 000	17 000
Caisse Solidaire Nord-Pas de Calais	10 000	100 000	27 000
Veecus	100	1 000	500
Babyloan	610	23 530	7 455
Ecidec	5 000	150 000	27 988
Entrepreneurs du Monde	40 000	305 000	141 250
SIDI	6 000	700 000	143 000
Oikocredit	50 000	5 000 000	788 000
La Nef	3 000	1 800 000	85 000

Real-estate investment	Min	Max	Average
Habitats Solidaires	5 000	400 000	15 000
Habitat et Humanisme	1 0000	3 000 000	30 000
Solidarités Nouvelles pour le Logement	2 0000	2 000 000	120 000
Pierres d'Histoire	100 000	800 000	350 000
Foncière Chênelet	200 000	1 000 000	350 000
ESIS	320 000	800 000	500 000
Entreprendre pour Humaniser la Dépendance	500 000	2 908 000	1 500 000
Terre de Liens	1 0000	1 200 000	180 000

Source : Finansol - Baromètre professionnel de la finance solidaire 2012

CHANNELS OF CAPITAL – DIRECTED AT SOCIAL IMPACT

Boosted with tax advantages, mainstream channels are growing at a steady pace, although mainly driven by the retail market for now

Social Investment Networks

- Nation wide : France Active (€218m of outstanding loans in 2012), Adie (largest French MFI, €58m of outstanding micro loans in 2012), Habitat & Humanisme, Entreprendre pour Humaniser la Dépendance…
- Local investment networks, either backed by national networks (réseau France Active) or only local (Herrikoa, Femu Qui, Iés)

Social & Cooperative Banks

- Crédit Coopératif, NEF, Banque Populaire, Caisse d'Epargne

Public Agencies

- Revamped government investment bank Bpifrance has earmarked €500m toward social enterprises funding
- Public bank Caisse des Depots manages a €100m endowment dedicated to social sector funding. Besides, as a major social housing funding partner, the bank pioneered the conversion of short-term savings into long-term social investment
- International solidarity and development : the public agency Agence Française de Developpement (and subsidiaries like Proparco) total €8bn of outstanding loans and guarantees in 2012, €150m of which directly aimed at providing equity to social business

Traditional Banks

- Growing supply of solidarity-based savings accounts in most mainstream banks – €886m in 2012

Fund Managers and private equity investors

- Most asset managers offer one or several solidarity-based employee savings funds
- Solidarity and revenue-sharing mutual funds – €832m in 2012
- Capital investment (equity or quasi equity) : SIFA, IDES, NEF, PhiTrust, Impact Partenaires, Citizen Capital, Alter Equity, Mandarine gestion, Financités, Solid, I&P, Grameen-Crédit Agricole…(around €280m under management in 2013, €100m of which invested into developing countries)

Tax Advantaged funds

- Solidarity-based employee savings funds accounts for 61.4% of total solidarity assets in 2013 – **514**% growth since 2007. Total amount is €3.69bn in 2013.

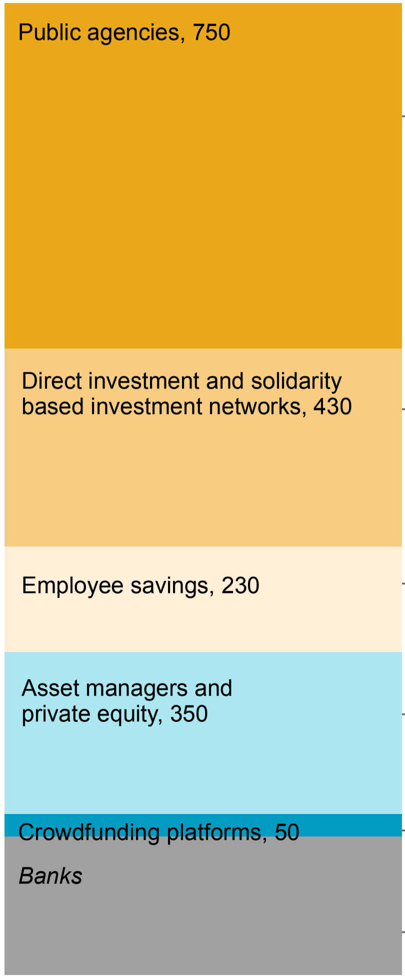
- These mass retail funds and products are a risk-adjusted way of collecting savings, thus not fully invested into social organisations
- The share of available funding sourced from these products into social organisations is €1.02bn in 2013

Crowdfunding Platforms

- Thriving ecosystem of French crowdfunding platforms (Anaxago, Babyloan, KissKissBankBank, Ulule…). Although only a fraction of the funded projects should be regarded as social enterprises, specialized social platforms are emerging (SPEAR, HelloMerci…)
- platform "Tous nos projets" hosted by Bpifrance, aggregates impact & social projects from most of the French crowdfunding platforms on a daily basis

SIZING THE SOCIAL IMPACT INVESTMENT MARKET IN 2013

Estimated volume of outstanding capital invested in social enterprises (m€)



- Bpifrance €500m (committed) , CDC €100m, AFD & Proparco €150m
- Direct government funding of the social sector : est. €40bn

- Total estimated by Finansol : €430m

- Employee savings "90/10" mutual funds : €230m, sourced from a total AUM of €3.7bn in 2013 (+41.9% from 2012)

- €70m sourced from open-end retail mutual funds
- Private equity : €280m, €100m of which towards developing countries ; +€200m currently being raised

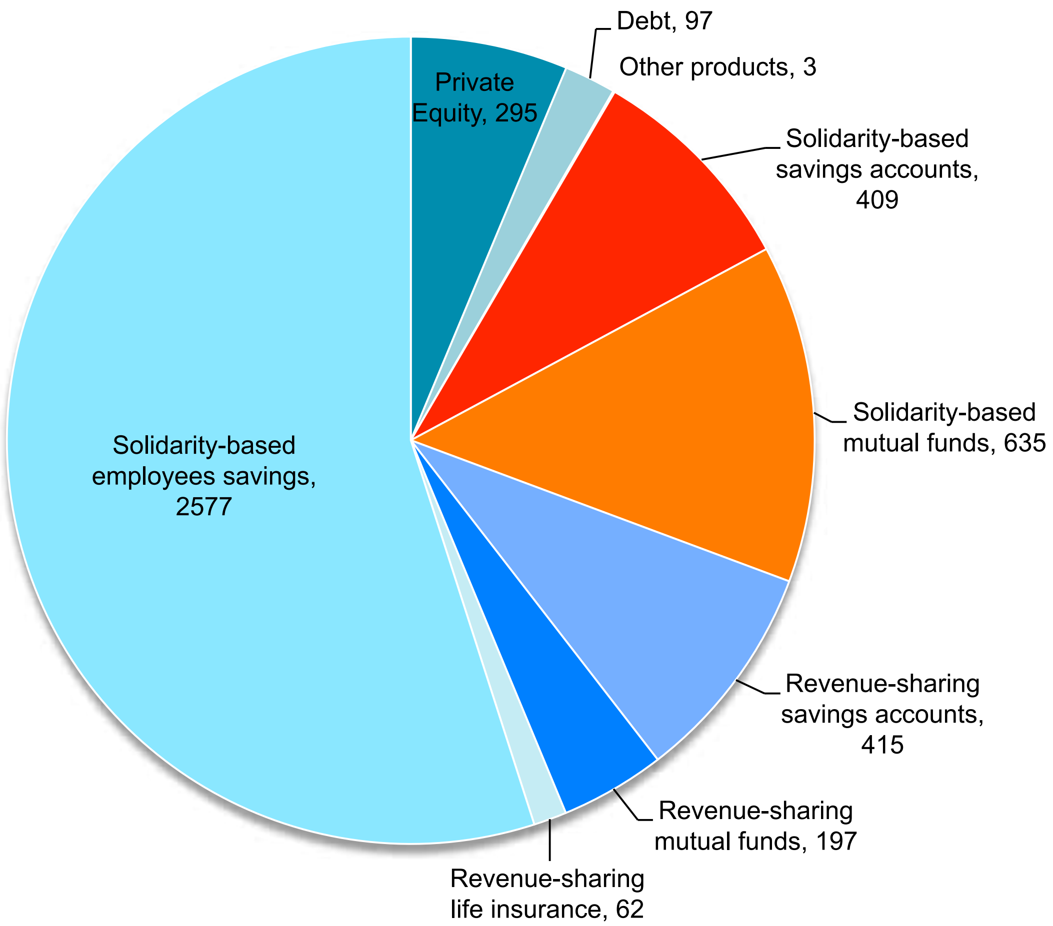
- €78.3m raised through crowdfunding platforms in 2013, an estimated 65% of which (€50m) was related to social impact projects

- TBC

Est. total : €1.8bn

CHANNELS OF CAPITAL

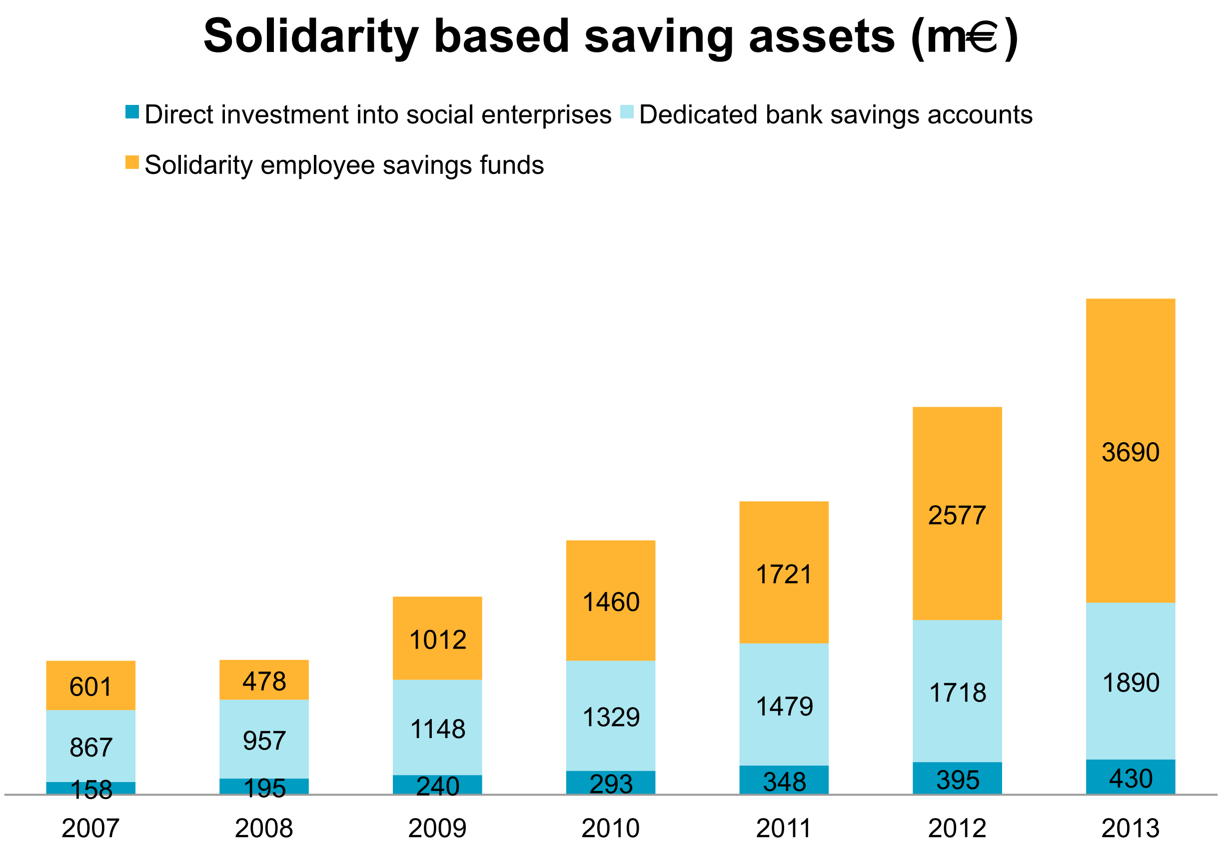
Breakdown of solidarity-based assetsby financial products (m€, 2012)



Source : Finansol - Baromètre professionnel de la finance solidaire 2012

IMPACT OF THE 2008 LME LAW ON SOLIDARITY-BASED EMPLOYEE SAVINGS ASSETS

The 2008 LME Law made it mandatory for all liable companies to offer at least one solidarity fund within their employee savings plan (tax-advantaged)



Source : Finansol

INVESTORS

Where does impact investment come from ? Where will impact investment come from?

Mature

Government investment	• Historically a strong source of capital • Widespread fiscal incentives, through multiple tax advantages, state supported working contracts, etc. Available data on total amount is scarce.
Local Funds	• Regional and local authorities play a major role as financing partners in several social sectors : associations (subsidies and service procurement) , local social investment networks, microfinance (e.g. Crédit Municipal), social housing
High Net Worth Individuals & Family offices	• 66% of high net-worth individuals are interested in financing social enterprises through bank or savings products (vs. 60% on average), provided decent return • Several investors clubs (national or local) dedicated to direct investments into social enterprises (e.g. Cigales, Garrigue) • Growing interest for venture philanthropy and social finance from family offices
Mass Retail	• Deposits at Social & Traditional Banks, revenue-sharing savings accounts (tax-advantaged), solidarity savings accounts and mutual funds • Employee Savings plans (PEE, PERCO…) accounts for a significant part of social economy funding (also tax-advantaged)
Corporates	• Several large companies have launched dedicated social investment funds over the last years : Danone, Crédit Agricole, EDF, Renault, Schneider, Veolia… • Most of the time these funds are linked to the companies' employee savings plans.
Foundations	• Adding up "meaning" to the management of their assets is a growing concern – around 10% (€1.5bn) should be allocated to social investment in the next years • Foundations expenses amounted to €4.914bn in 2009, 93% of which made by "Fondations reconnues d'utilité publique" (Public interest foundations) • Corporate Foundations : 291% growth between 2001 and 2010 (from 67 to 262)
Traditional Institutional Investors	• Institutional investors (except for public ones) are still cautious about impact investing, due to a perceived mismatch between high risks and relatively low returns, while increasingly subscribing socially responsible investment funds : €107.2bn in 2012, 72% of French SRI total asset • Growing interest in risk-adjusted ("90/10") solidarity funds, with little massive subscriptions as for now • Moreover, the first equity impact funds are mostly held by public and private institutional investors . An "Impact" club has been recently created within AFIC (French representative group of private equity investors)

Rising

Although under budget pressure, the public authorities remain quite assertive about their will to foster the development of social enterprises

INVESTMENT MARKET REGULATION AND INFRASTRUCTURE

The infrastructure emerging to support financing of impact investment

Regulation	• The 2001 Fabius Law created employee savings solidarity funds, along with other tax-advantaged employee savings products • The 2008 LME Law made mandatory for all liable companies to offer at least one solidarity fund within their employee savings plan • The 2014 Social and Solidarity Economy Bill set a legal definition of social enterprise, based on criterions rather than status, raising the potential number of social enterprises entitled to access the low-rate dedicated solidarity funding • The 2014 law on crowdfunding has created a special status to make the crowdfunding platforms compatible with the banking monopoly rules, thus fixing legal hazard and fostering the sector. Investors can now invest up to €1m in equity through crowdfunding platforms (no individual limit) and lend up to €1m to any project (€1000 individual limit).
Market Builders	• Not yet at the national level, the lack of market builders is often pointed out as one of the main obstacles against the fast development of impact investing in France. • Crowdfunding platforms could play a major role if focused on social impact.
Investment Brokers / Advisers **Financial Product Developers**	Emerging, but social funds are still mostly developed and promoted in-house by banks and asset managers
Angel Networks	• Cigales, Garrigue, Racine – Clefe network ; Avise & France Active ; public agencies
Data Capture / Standard Setters / Documentation	• CN CRESS, Finansol, Insee
Research Houses / Product Reviewers	• Research: Dedicated research departments in Business Schools ; in-house social organisations dedicated teams ; consultancies (independent consultants and Big 4 companies). Overall, research about socially responsible investing is much more developed in France than research about impact investing, but priorities and agendas should shift as impact investing gather momentum. • Financial product reviewers and certifiers: Finansol

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