

INVESTING FOR IMPACT

EVPA Impact Strategy Paper

A CHANGING LANDSCAPE

The space of social impact¹ is changing. When EVPA started almost fifteen years ago, venture philanthropy was a new concept, and social investment was not so well-known. Few venture capital experts, eager to give back to society, were trying to see how to make their approach and capital work for the greater good. At the same time, some foundations were starting to think how they could use their grants to support better their grantees, for longer time periods, in a more engaged way and with more focus on the impact to be delivered. **That is how EVPA was born**, and how the concepts of venture philanthropy (VP) and social investment (SI) started spreading in Europe.

Today, fifteen years later, venture philanthropy, social investment and impact investing are terms that resonate not only with few experts, but with a broader array of actors.

On the one hand, **traditional philanthropy** is moving into venture philanthropy. It is calculated² that European foundations spend about €60 billion a year on philanthropy. Estimating that there are about 200 VP/SI organisations in Europe, if we consider that each of them spends on average €7.8 million a year³, we see how big the potential is to move part of the philanthropic capital towards the venture philanthropy approach.

On the other hand, **traditional investors**, such as pension funds and asset managers, are entering the space of impact investing. Although these actors will always look at social impact as a side effect of the generation of a financial return, they are increasingly interested in screening investments according to ESG (environmental, social and governance) criteria, assessing the contribution of their investments to the SDGs (social development goals) and in complying with PRIs (principles of responsible investment). As these actors bring along trillions of Euros in investments, the potential for social impact is huge, but the danger of diluting the impact discourse is real as well. Hence, it is crucial to make sure they maintain a certain “impact integrity”, by being able and capable to measure and demonstrate the social impact their investees generate.

In parallel, **social purpose organisations (SPOs)** are becoming progressively diverse in their forms – from NGOs, to social enterprises and hybrid structures – and traditional businesses are starting to embed sustainability and social impact considerations in their business models.

As the actors change and evolve, the **type of social issues** the VP/SI sector is addressing are also changing. In Europe, migration, aging population and the shrinking space of open societies are just few of the issues that are increasingly central, and call for new solutions, financed in innovative ways.

In this changing landscape we ask ourselves: what is the role of different actors? How can they contribute to making a lasting positive change? What can EVPA do to support this change?

1 With the term “social impact”, we acknowledge all types of impacts, including social, environmental, medical or cultural.

2 Source: **McGill, L. T.**, (2016), “*Number of Registered Public Benefit Foundations in Europe exceeds 147,000*”, compiled by the Donors and Foundations Networks in Europe (DAFNE) and analysed by Foundation Center (New York). Available here: <http://dafne-online.eu/wp-content/uploads/2016/10/PBF-Report-2016-9-30-16.pdf>

3 Source: **Gianoncelli, A., Boiardi, P. and Gaggiotti, G.**, (2018), “*Investing for Impact | The EVPA Industry Survey 2017/2018*”. EVPA. Available here: <https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-the-evpa-survey-2017-2018>

DEFINING IMPACT STRATEGIES

With this large set of actors playing a role in the social impact ecosystem, there is a need to define the role each actor is playing. To this end, EVPA published a report introducing the concept of “impact strategies”⁴. An **impact strategy** represents the way in which a VP/SI organisation or impact investor **codifies its own social impact investing activity** along three axes: **social impact**, **financial return** and **risk** associated with the achievement of both the social impact and the (eventual) financial return. At the two edges of the spectrum of possibilities, we find two approaches (Figure 1).

On the one hand, we have organisations that **invest⁵ for impact**. These organisations take the SPO’s needs as the starting point, and back-engineer which financial instruments are most appropriate to support them. Investors *for* impact often invest in new solutions to pressing social issues, taking on risks that no other actor in the market can take or is willing to take. Investors *for* impact invest smaller amounts, providing SPOs with in-depth non-financial support. On the other hand, we have organisations that **invest with impact**. These investors have access to larger pools of resources, but need to guarantee a certain financial return on their investment alongside the intended positive impact they aim at generating.

Investors *for* impact can adopt multiple roles. These organisations often test – and bring to the market – new and additional solutions to pressing social issues that have the potential to become financially sustainable (i.e. for which there is a market). But investors *for* impact also have a role to play in supporting SPOs that provide valuable social products or services with no market outlet, or contribute to the building of a social infrastructure. Investors *with* impact mainly have a role in scaling proven business models, and in making sure social impact considerations become part of all their investment decisions.

4 See: **Gianoncelli, A.** and **Boiardi, P.**, (2018), “*Impact Strategies – How Investors Drive Social Impact*”. EVPA. Available here: <https://evpa.eu.com/knowledge-centre/publications/impact-strategies>

5 With the term “investing” we aim to cover the whole spectrum of capital, from grants to debt and equity, including hybrid financial instruments as well. We use the word “investing” because it is not only about the capital provided, but also about the non-financial capacity building support activities provided by VP/SI organisations.

Investing *for* impact and investing *with* impact are **both important and valid strategies**, often complementary and hence needed in the ecosystem. **Recognising the differences** though is important to make both spaces more transparent on intentions, better align shareholders, manage expectations towards investees, and create the right setting to collaborate with other types of capital providers.

The two impact strategies represent two typologies. Which strategy is most appropriate to address a certain social challenge will in practice depend on a number of factors, including:

- the **maturity of the market** in which the capital provider operates – defined as a combination of geography, sector, beneficiary group targeted;
- the **type of SPOs supported** – in terms of business model;
- the **financial and non-financial support** the capital provider wants to provide – e.g. the type of financial instrument(s) available and the capacity building support potentially offered;
- the **type of change the capital provider** is seeking – e.g. making a change at transactional level or aiming for systemic change.

The factors included in the box above are briefly outlined in the third part of the EVPA Impact Strategies report, but need a more in-depth analysis, based on real cases and on the field experience of practitioners.

Although the report helps to clarify the position of the different strategies in the ecosystem, we have to move to look at **the implications for an individual investor** of adopting one of the two strategies (or both), with a specific focus on foundations and funds that invest *for* impact, as they constitute EVPA’s core members.

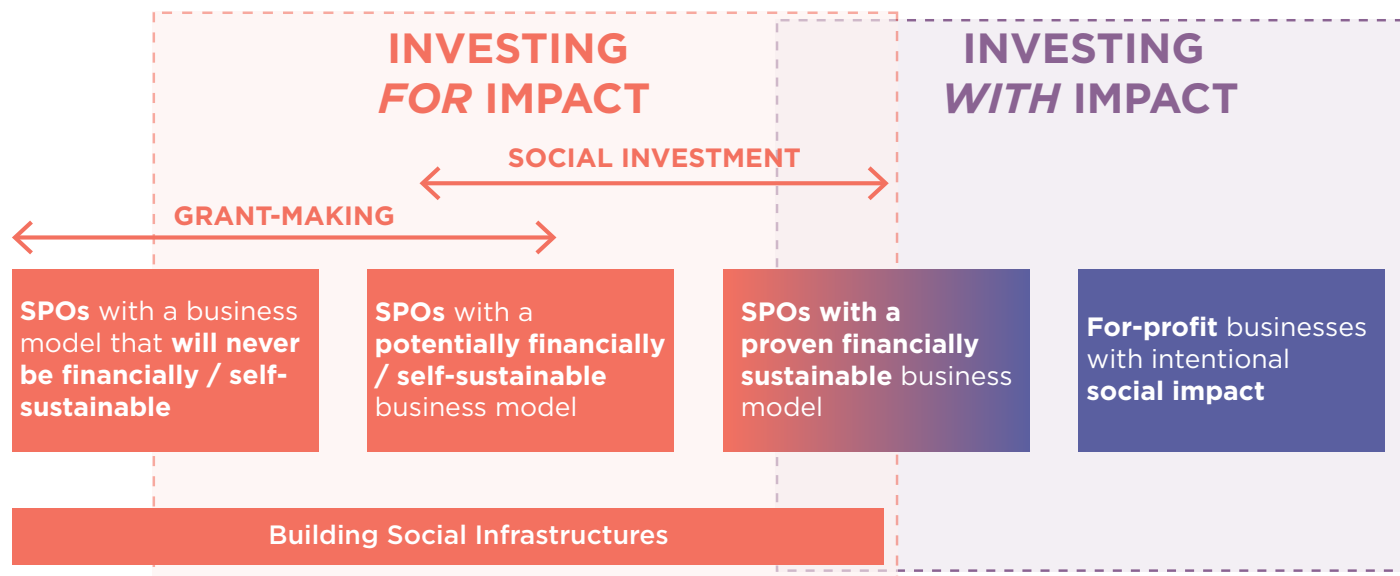


Figure 1: Adapted from: “Different types of business models for the two impact strategies” (Source: *EVPA Knowledge Centre*) in **Gianoncelli, A.** and **Boiardi, P.**, (2018), “*Impact Strategies - How Investors Drive Social Impact*”. EVPA.

WHAT’S NEXT? – EVPA IMPACT STRATEGIES JOURNEY

The impact strategies presented in the report “[Impact Strategies - How Investors Drive Social Impact](#)”, launched at EVPA’s 14th Annual Conference in Warsaw in November last year, provide the framework for the intentions – the next step is to uncover **how impact capital providers adopt an impact strategy in practice**. As such, the research report constituted a first step into a broader discussion, aiming at **uncovering reality beyond intentions**.

In the course of 2019, EVPA will lead an informed and constructive dialogue with a broad range of stakeholders, from philanthropic funders and investors *for* impact to investors *with* impact, from NGOs to social enterprises and social businesses, and from experienced VP/SI practitioners to newcomers in the VP/SI and impact investing space, based on real cases and, most importantly, relevant for practitioners. We want to hear from practitioners how they shaped their impact strategy, how they put it in practice, the challenges they faced, the lessons they learned and what is the way forward.

Philanthropic funders, investors and social purpose organisations alike are **welcome to give us feedback**, share their experiences and challenge our thinking. All feedback can be shared using [this link](#).

EVPA will engage in an “**Impact Strategies Journey**” on 3 levels (Figure 2): (i) the development of investor cards and success stories, (ii) the engagement of thought leaders, and (iii) the development of a Manifesto and a Roadmap.

INVESTOR CARDS AND SUCCESS STORIES

Throughout 2019, we will publish **case studies**, labelled “**investor cards**”, to show how practitioners have translated their intentions into practice, providing a reality check, showing the elements of their investment strategy, and starting to pave the way forward for the VP/SI sector in the next years. Each investor card will be coupled with a success story, which will be featured on [EVPA Success Stories Website](#), showcasing practical examples of innovative solutions developed by SPOs, with a specific focus on the way investors *for* impact contribute to generate and scale social impact.

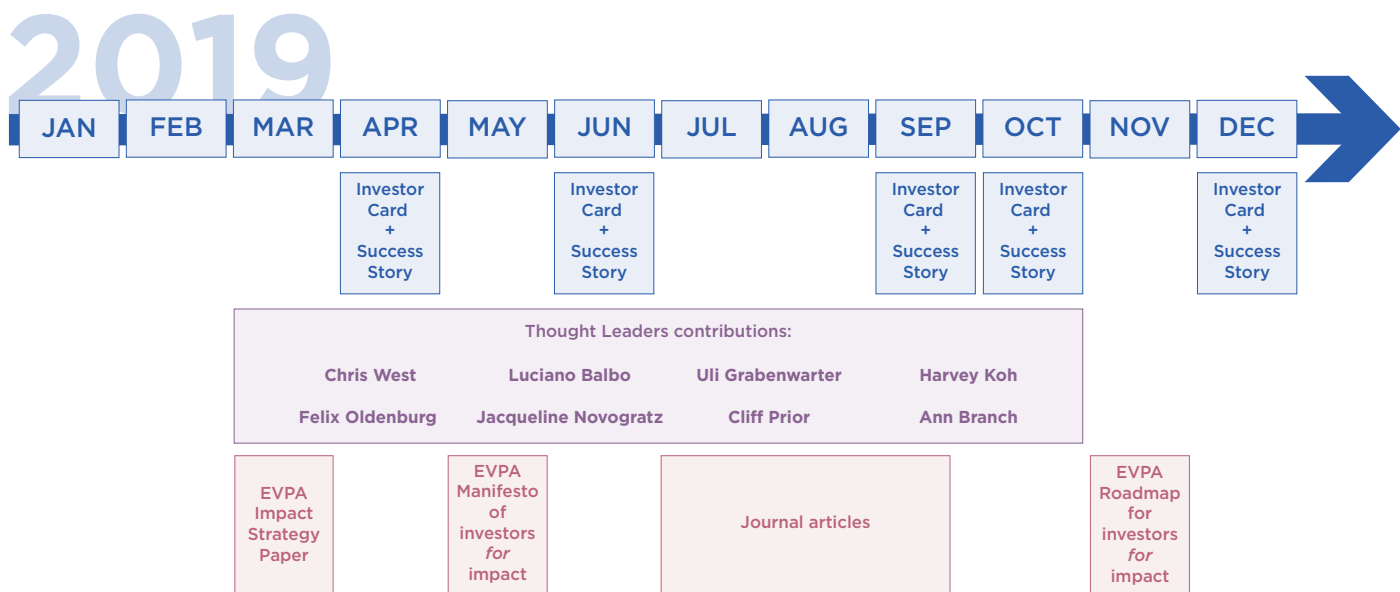


Figure 2: EVPA Impact Strategies Journey – Timeline 2019

ENGAGING THOUGHT LEADERS – REFLECTIONS FROM PRACTITIONERS

Throughout 2019, we will engage a number of **thought leaders** in the venture philanthropy, social and impact investment space to hear their voices and stir the discussion.

Chris West, Partner at Sumerian Partners, will be looking at the differences and complementarities of the two main impact strategies. More specifically, Chris’ contribution will be focused on the need of clarity around investors’ intentions and expectations. His thought piece will build on the insights presented in his article “Marginalized Returns – Impact investing has been seduced by a false narrative of combining social impact with financial gains”, recently published on Stanford Social Innovation Review⁶.

Felix Oldenburg, Secretary General of the Association of German Foundations will be reflecting on the role of foundations as investors *for* (and potentially *with*) impact.

Luciano Balbo, Founder and President of Oltre Venture, and one of the five founders of EVPA, will tackle the issue of transitioning from *for* to *with* impact, including new ways of segmenting the market, importance of advocacy and the concept of value.

Jacqueline Novogratz, Founder and CEO of Acumen, will look into how an individual investor can manage multiple financial instruments in the same portfolio, and how that relates to having multiple impact strategies, from *for* to *with* impact, in its portfolio.

Uli Grabenwarter, Deputy Director - Equity Investments at the European Investment Fund, will suggest a new type of “impact first” investing that places the targeted impact objective at the heart of the investment approach and backward engineers finance solutions tailored to a specific impact target. He will explore the question whether a new type of “impact engineers” as intermediaries could revolutionise the use of capital as a catalyst for impact at scale.

Cliff Prior, Chief Executive at Big Society Capital (BSC), will focus on finding the highest points of value in bringing together different capital providers, ranging from foundations to commercial co-investors. He will look at both the practical and cultural aspects of these collaborations, drawing on the experience of BSC in connecting investors which have different requirements and goals to address specific social challenges.

⁶ See: https://ssir.org/articles/entry/marginalized_returns

Harvey Koh, Managing Director at FSG, will contribute by taking a deeper look at the implications of the geographical regions on being an investor *for* and *with* impact. Harvey will build on his vast experience in both western societies and emerging economies, such as India, and the pool of knowledge he has been developing within the series “Beyond Tradeoffs: Voices Across the Returns Continuum”⁷ curated by Omidyar Network and supported by FSG for The Economist.

Finally, **Ann Branch**, Head of Unit at DG Employment, Social Affairs and Inclusion at the European Commission (EC) will discuss the role of the EC in fostering a vibrant market for social enterprise finance.

These interesting and much needed discussions should create further clarity to allow impact investors to become even more effective, and also remain credible over time.

INVESTING FOR IMPACT – A MANIFESTO AND A ROADMAP

For EVPA 2019 is an important year. It is the 15th anniversary of our association, which calls for a new and stronger positioning in the market. We believe that the “Impact Strategies Journey” will help clear the air around the role of different capital providers in the impact ecosystem, allowing investors *for* impact to recognise themselves in our community. This is why we will have two reflection moments with our community during our “Impact Strategies Journey”.

The first one will be the development of the “**EVPA Manifesto of investors for impact**” at our Annual General Meeting in Venice in May. The Manifesto will propose a handful of statements that characterise investors *for* impact in Europe.

The second moment will be our Annual Conference in The Hague, where we will publish the “**EVPA Roadmap for investors for impact**”, outlining EVPA’s future strategy to support the community in Europe.

⁷ See: <https://beyontradeoffs.economist.com/voices-across-re-turns-continuum>

CONCLUSION

Let’s join the forces and build on the momentum in this changing landscape, engaging the relevant practitioners and the multiple stakeholders, seasoned players as well as NextGens and all the investors *for* and *with* impact aiming to address and solve pressing social issues. Being explicit about ambitions, intentions and results will be crucial to preserve “impact integrity” and identifying **ways to collaborate along the continuum of impact strategies** will allow to generate collective impact at scale, to achieve a global change. We hope you all join us in this journey, building a stronger narrative for investing *for* impact in Europe!

MORE INFORMATION

Email us at knowledge.centre@evpa.eu.com

Visit:

- [Impact Strategies report and resources](#)
- [Impact Strategies Journey](#)
- [EVPA Success Stories Website](#)

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