	a4i – Alliance for Inclusive investment in Social Care & Support Grant N° 600958-EPP-1-2018-1-BE-EPPKA2-KA

D1.2 European Guidance on quality social investment: core principles, guidance factors and national examples

This publication has been produced with the financial support of the Erasmus+ programme of the European Union. The information contained in this publication does not necessarily reflect the official position of the European Commission.

Co-funded by the Erasmus+ Programme of the European Union

Document identification	
Deliverable ID	D1.2
Version	6.0
Dissemination Level	
Restricted	X
Public	
Authors and contributors	
Author(s)	Jo Armstrong, Steve Wright and Joanna Lane (SHCN)
Contributors	a4i partners

Co-funded by the
Erasmus+ Programme
of the European Union

CONTENTS

Co-funded by the Erasmus+ Programme of the European Union

1. Executive Summary

1. As suggested in the a4i project's State of the Art Report, the social investment domain, and for that matter social impact investment, is enormously variable across EU Member States. The underlying sectors respond to very different cultural, economic and legal drivers. The national taste for engaging different types of private investment is equally very varied. Notably, at the most basic level, the data for the underlying provision subsectors are both poor and inconsistent between states. In this context, any pan-EU guidance will overshoot the mark dramatically; there is simply no common basis at present for universal prescriptions.
2. Covid-19 is an ongoing yet still rapidly developing concern. It impacts on users of social services, providers, governments and funders. This may blur in to the ability or willingness of governments to fund the user sectors, and potentially then in to the appetite to employ more private funding (but in, of course, unknown ways).
3. There is no prospect that government steerage of the social sectors will diminish, even if more of social services provision were to shift to the private sector, either For-Profit or Not-For-Profit enterprises. This is a necessary reflection of the responsibilities that the state has and will continue to have. At the heart of this is a human rights perspective, which can be seen as going further than "Environmental, Social and Governance" obligations.
4. There are "state aid" considerations which will need to be respected in all EU Member States, in terms of the support that government can offer, in these subsectors as much as anywhere else.
5. Each of the major stakeholders in this domain – central government, regional and local government, users, provider organisations (also in their guise as borrowers or investees), and lenders and investors – has a different perspective about the introduction of more private finance. There is always going to be a trade-off to meet the needs of the various parties.
6. There is a series of fundamental principles which need to be satisfied – upholding basic human rights, government as a market enabler, value for money, co-design between stakeholders, outcome alignment with policy priorities, robust measurement for outcomes-based arrangements and fair risk and return sharing.
7. Throughout, the divide between conventional commercial bank finance and performance- and outcome-based finance needs to be borne in mind. There is some blurring of the line, in that social banks have a wider perspective than commercial banks (but usually expect the money to be repaid), and venture philanthropy investors may well require less than full reimbursement either of their original capital or of some part of the interest payment. Conventional finance is dominant quantitatively for the provider subsectors but there is clearly much interest in more innovative financial instruments.
8. It is critical for a promoting service provider seeking funding to be able to set up a clear business case/business plan to funders – and clarity required here applies irrespective of whether the finance sought is "conventional credit" or "innovative performance-based". An appraisal by a funder of the business case (again, both conventional and innovative) will cover some or all of several criteria – legal, technical, financial, social, economic and environmental. This is not to say that all funders will require all projects to demonstrate comprehensive and in-depth evaluation of all criteria, but elements are likely to require attention. This may appear to over-focus on

Co-funded by the
Erasmus+ Programme
of the European Union

financial analysis but in reality, such an approach is useful to establish a common vocabulary and a way of looking at trade-offs (between criteria and between stakeholders).

2. Purpose of the Guidance

All investments have consequences—not just for individual investors, but also for whole communities and for the economy at large. In addition to creating financial returns for the investor, investments can create jobs and expand the provision of goods and services. They may also have positive and negative effects on society and the environment.

2.1 Why is there a need for new Guidance

A current important issue, and one which quite possibly will retain importance in impacts on the long-term, is the Covid-19 pandemic. This has reshaped much in the last two years: including the position of the more vulnerable members of society who are often the main users of social services, the balance between the public and private sectors, and the ability of government to finance its activities. Inflation to higher or even accelerating levels could turn out to be a significant concern, with unknown repercussions for all actors in social services. It is very unlikely that the *status quo ante* will return - but nobody knows what the *status quo post* will look like.

As the State of Play paper makes clear, the a4i research project aims to support the development of more informed and intersectoral working between investors and social care providers to facilitate the delivery of increased and more appropriate levels of care and support. As financial austerity at the government level continues, additional and / or new sources of funding and finance[1] are growing in popularity as a means of securing the increased need and demand for care and support services.

The purpose of this new Guidance, therefore, is to help all those participating in the social care sector (be they providers, local and national government authorities, lenders, borrowers and service users) to be clear on how best to secure the funding and financing that may now be needed. The Guidance starts with a set of core principles that are key to quality social investment across all EU Member States. Then, at a generic level it provides a clear framework for stakeholders on what specific evidence needs to be marshalled to secure the funding and financing needs. It ends with national investment policy examples from the three pilots in Belgium, Czechia and Spain.

The Guidance follows the well-used approach already adopted by national and local governments and lending authorities[2]. While the Guidance is detailed and specific, the a4i approach with this Guidance is the development of a high-level framework, which can then be adjusted to suit the myriad of specific country and local legal and regulatory requirements as well as user preferences and expectations.

---

[1] Treating these terms as interchangeable, for the purposes of this paper. Some authorities regard funding and financing as NOT the same. In this view, funding (usually provided by governments) is the financial resource required to support a business proposition whilst the financing is the private sector financing element of the monies used that may (though not always) need to be repaid by the business.
[2] See InvestEU (2021); EIB (2018); Infrastructure Australia (2018).

Co-funded by the Erasmus+ Programme of the European Union

2.2 The continued role of the state

There are clearly growing opportunities for the private sector to offer funding solutions in the delivery and development of care and support in the social sector across the EU. However, it is important to stress that it is not anticipated [or thought desirable] for there to be no continued state role. Obviously and in addition, the state (national, regional and local) will continue to play pivotal roles in for example commissioning of services, licensing institutions, regulating health and safety and quality as well as monitoring performance. Although public sources of funding are unlikely to be adequate to provide for all the growing care needs, and perhaps more so with the economic repercussions of the pandemic, it is this project's expectations that the state will continue to require adequate levels of social protection. It is likely therefore that there will be growing needs for greater collaboration between service providers (state, third sector and private) to foster innovation and deliver increased levels of service within the financial resources available. The state's role will then also need to ensure service provision is affordable and ensures inclusion for all in need.

State Aid - The provision of social care is undertaken by public as well as private sector organisations. Where funding support (or government support more widely) is given to private sector providers, there will be a need to ensure the support offered does not contravene EU State Aid rules. Whatever financial support is provided, it must clearly be the minimum necessary and not directed to giving an unfair advantage to any specific provider.

Definitions

- The borrower or investee is the provider of the care and support services.
- Funding can come from government agencies, private sector entities or from services users (e.g., in the form of service fees and charges).
- Private finance covers a wide array of products from simple, traditional commercial loans, through more structured finance solutions (e.g., mezzanine finance, bullet loans, bond financing, etc.) to equity investment products. The breadth and variety available will depend on the level and sophistication of the financial sector with which the borrower or investee engages. As an aside, the parallel State of the Art paper indicates that from our survey of a4i Partners that the private finance currently deployed in the provision of services has been more traditional (debt-based) and rather less innovative i(performance-based). Yet with growing unmet investment needs, there is also a strategic interest to explore more innovative forms of finance.
- "Appraisals" are the systematic, disciplined study of the context and nature of the project being developed. These cover legal, technical, financial, economic, environmental and social aspects in order to give maximum confidence that the project is sound, will deliver the expected benefits, and is robust against

Co-funded by the Erasmus+ Programme of the European Union

foreseeable events. Needless to say, such appraisals should be tailored to the size and complexity of the situation.

2.3 Key stakeholders

As we see from Table 1, the Guidance will be used by a number of key stakeholders with both unique as well as overlapping requirements. As a consequence, the initial high-level set of investment factors (Section 3) will need to be further developed in the three pilot sites to be of relevance to both country and sector-specific preferences, lending and borrowing requirements as well as provider capabilities.

Table 1: Stakeholder roles and responsibilities that the Guidelines need to accommodate

Stakeholder	Involvement / Responsibility	Borrower's response to stakeholder needs
Government bodies - central; national; regional; and local	Responsible for establishing government and / or sector policy that will be key to directing the activities of care and support providers	Deliver the services required to meet the Government's policy and proposed targets.
	In addition to their legal and regulatory roles, Government bodies can also be interested stakeholders in other ways: ● providing funding support (be that up-front capital or equity investment) to help the service provider deliver an affordable, quality product; ● providing some form of ongoing revenue support to help cover the operating costs of service delivery; ● supporting the service user, in whole or in part, through subsidising the users' costs	Demonstrate how the additional / new funds help in the delivery of the outcomes specified by the central government's funding criteria. Demonstrate how financing will be used and, where required paid back on time and in full.
	Will also have the direct or indirect responsibility for all the relevant regulatory bodies and regulatory policies that set the rules for the effective operation and support of the care providers	Provide the necessary evidence (initially and on-going) that will confirm the proposed approach to delivery secured with the funding and finance proposed, will meet all known regulatory requirements.
Public authority (national / regional / local)	Will have the legal and possibly statutory responsibility to implement both national, regional and / or local policy established by central government	Provide evidence of how the organisation will deliver to the stated local government policy objectives

	May also have the statutory obligation of being a service provider, or have the right to seek to contract with 3rd party service providers for end users, through the implementation of pre-defined guidelines	Deliver what end-users require and provide evidence that organisation is delivering as per required by the regional authority pre-defined guidelines
	May also provide supporting funding (capital and/or revenue) to facilitate the delivery of services	Use funds in accordance with funding support and provide evidence of such actions
Private sector financial institutions **These cover ALL organisations that may wish to lend or invest in the sector.** **e.g., Traditional Banks; Social Enterprise Institutions; Pension Funds; Crowd Funding; Foundations; etc.**	Lends or invests funds with the borrower: ● short-term or long term; ● asset backed or cashflow based; ● secured or unsecured; ● interest payable, deferred or nil coupon; ● full repayment of principle or delayed, deferred or cancelled depending on agreed terms	Need to provide lender or investor with the relevant evidence that allows full credit assessment: ● financial strength to meet operating and repayment obligations based on realistic assumptions; ● appropriate governance and credible senior management arrangements in place; ● appropriate and effective risk management systems in place
	Lends more Innovative types of funding: ● subordinated or participatory type loans ● performancerelated loans or non-repayable grants. This funding could be used to replace traditional asset-backed lending but more likely to assist the development of new approaches to service delivery where operational risks are less clear.	As above PLUS provide in-depth evidence that outlines how the borrower will effectively manage the risks associated with doing business differently and the new outcomes expected to be delivered.

Co-funded by the Erasmus+ Programme of the European Union

	Invest in the business with equity return being clearly related to the risks being taken by the investor: ● the ability to deliver this required equity return will also depend on operational performance from the growth or new delivery opportunity being exploited (e.g., a new market segment, or a new geography); ● where lending is also being used, the investor will only get their return after loan interest is paid (and ultimately the principal repaid)	Provide the evidence that indicates the factors that will deliver the equity return anticipated by the investor ● it is likely that the lender and investor will not be the same institution and so multiplying the evidence needed to secure both financing sources.
Service provider (borrower/investee)	Delivering the new (refurbished) asset being funded by the private finance ● this may be to expand geographical stretch and / or to expand any service offering	Provide the necessary assurances that: ● the organisation has the necessary skills and experience to deliver on time and on budget; ● is clear how the new asset will be integrated into the operations of the business (delivering any necessary efficiency savings) ● the security value of the asset will be as required should it be used as collateral to secure any private finance
	Delivering a new operational model that is funded by the private finance: ● this may be to expand geographical stretch and / or to expand any service offering	Provide a comprehensive business plan that allows lenders and authorities to undertake detailed risk assessments: ● in addition to the financial evidence this will also need to cover the skills and competence available to deliver the new services; the regulatory approvals to operate differently and safely ● the approval and buy-in of the staff and unions to operate in a new manner and to deliver the efficiencies assumed in the business plan

Co-funded by the
Erasmus+ Programme
of the European Union

Service User	User articulates what care and support is needed: ● as an individual, outlines own care and support needs to be delivered if self -funded ● if support is needed, work with advocate to ensure needs fully articulated (may be self-funded or paid in part or fully by statutory authority); ● work with any relevant statutory authorities to ensure services are acceptable (meet minimum quality standards; providers are suitably licensed etc)	Ensure services provided meet the users' needs within the funding envelope provided or forecast and within regulatory guidelines: ● need to confirm charges regime for services offered which will need to be 'affordable'; ● need to show how service quality is secured through sufficiently, suitably qualified staff

4. Core principles for social investment

The following principles for social investment should provide the setting within which the guidance factors in Section 3 are addressed. As such, they provide a minimum set of criteria for assessing the behaviour of stakeholders in developing and implementing investable propositions for social care and support. And this applies to public, private and bundled social investments.

Uphold and protect fundamental human rights: This has two elements that relate to the lifecycle of social investments: human rights and labour rights. Regarding human rights, stakeholder organisations should avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services. With labour rights, stakeholders should be guided by international norms on labour rights issues (the right to fair wages and equal remuneration, to safe and healthy working conditions, to equal opportunities; and to rest, leisure, reasonable limitation of working hours and periodic holidays with pay) and consider violations by organisations or their key suppliers on the following conventions (employee rights and child labour) to be a violation with this set of social investment principles.

Government as a market enabler: Reflecting its role as a market enabler, where possible, a national government and/or sub-national public authorities, will work with stakeholders to address regulatory barriers that impede the continued development or sustainability of the social impact investing market. Social investments should be ready to leverage additional private capital or other investment opportunities, as appropriate, and help to grow the social investment market in EU member states.

Value for money: Social investments should only proceed where they are reasonably expected to offer a net benefit, and represent a cost-effective delivery mechanism for the social care provider to deliver on intended outcomes.

Co-design: To encourage better outcomes in social service delivery and provide for innovation, social investments should be designed in collaboration with a broad range of stakeholders, including

Co-funded by the
Erasmus+ Programme
of the European Union

independent experts, and the social care & support providers. communities and other stakeholders who will implement them.

Outcomes that align with relevant policy priorities: Social investments will increasingly need to demonstrate sustainable impacts. So, they should have a well-developed case for being able to successfully address social and/or environmental issues which are priorities at national, regional or municipal levels.

Robust outcomes-based measurement and evaluation: Social investments should be made only where there is agreement between co-investors and their service delivery partners on the social or environmental outcomes to be achieved. Ongoing outcomes-based measurement will be used to monitor the progress, risk and returns of the investment, allowing for the investment to be refined as appropriate.

Fair Sharing of risk and return: Opportunities to put funds into social investments, and the risks and returns of those investments, should be fairly shared between parties to the investment (including, investors, service providers and other public authorities).

Co-funded by the
Erasmus+ Programme
of the European Union

5. Guidance factors

5.1 Setting project objectives and the rationale for funding

To secure access to funding (public or private), a project sponsor needs to show how the funds to be secured will deliver the targeted objectives. If more than one source of funds is to be used, the objectives will need reflect how the outputs and outcomes of the project meet these multiple external funders' objectives.

Objectives: an example

The Scottish Housing Regulator (SHR) regulates the provision and management of social and affordable housing in Scotland. It has been clear in its governance reviews of the sector that good governance is an essential element of the long-term viability of a housing association.

In its guidance to housing associations[3], the SHR suggests that the Committee of Management of the Registered Social Landlord concerned agrees a clear statement of the organisation's mission and vision, with the objectives then articulating just how the organisation's vision and mission will be delivered[4].

In addition to any statement of objectives, the various stakeholders involved in any project will have expectations as outlined below.

a. Project leader or promoter	b. National government authorities
The board or governing body of the organisation seeking to borrow the private sector funding needs to be clear how the project will contribute to the delivery of its long-term strategy. Without such clarity, the board cannot be sure that the management time and effort that will be required to deliver are best allocated. It also means the allocation of internally generated financial resources, and any operational and organisational changes necessary to delivery, are possible and achievable.	Where national government authorities are involved, they will need to be assured that the service provider's objectives are appropriately focused on and consistent with the delivery of the relevant associated government policy. They will also want to understand what alternative projects or organisations may be able to offer the same outcomes, perhaps for less funding or to a better quality of service.
c. Regional/local government authorities	**d. Funders**
Where a local government authority has a statutory obligation for the delivery of services, they will need to understand how the care provider's project will contribute to the delivery of these obligations. They will also want to understand if there is a more cost-effective means of delivering and whether there may be any state aid challenges to be assessed.	Funders will expect to see a clear objective statement that assures them that the project will contribute to the organisation's long-term strategy, that it is consistent with the organisation's operational expertise, and that skills and internal resources will follow. They will also need to be assured that the private funding provided will help generate sufficient revenues, thus justifying their loan or investment.

[3] Housing associations are also called registered social landlords (RSLs) in Scotland
[4] See Scottish Housing Regulator, 2015

Co-funded by the Erasmus+ Programme of the European Union

Questions for all stakeholders

- Does the proposal deliver to your organisation's specific objectives?
- Are there others better placed to deliver the proposed outcomes without and or some of your support?
- Are there any potential state aid issues to be assessed that might stop any of your support being possible?

5.2 The Business case

Having a clear rationale for the project that helps to justify seeking private funding is only part of what is needed to secure such funding. The potential borrower or investee will also need to provide a detailed business case that shows how it will adapt its operations accordingly, and achieve the needed financial, economic and regulatory results.

For the business case to meet the need of government authorities, it will also need to include a formal, detailed description of the social needs to which the project answers and how it is anticipated these will be delivered through the use of the funding being secured.

Example: Scottish Housing Regulators guidance on the role of a business plan

The Scottish Housing Regulator[5] offers its own guidelines for registered social landlords (RSLs) as an aid to ensuring boards, regulators, lenders and tenants understand how the provision of services will be delivered and can be financially accommodated.

The business plan is a key strategic document which communicates an organisation's vision and objectives, and how it will achieve those objectives. The business plan should be central to the organisation's strategic decisions and operational decisions should be consistent with the strategic decision set out in the business plan. Reporting and monitoring systems should be designed to allow managers and those charged with governance to judge the extent to which the strategic aims are being achieved and to make any necessary adjustments in a timely manner. It is for each RSL to decide how best to achieve this, based on its own circumstances.

Source: Scottish Housing Regulator, 2015

A business case and plan will need to cover the following aspects in detail.

5.2.1 Delivery record

The business plan will need to show just how the project can be delivered on time and on budget.

[5] See Scottish Housing Regulator, 2015

Co-funded by the Erasmus+ Programme of the European Union

5.2.2 Governance

Does the borrower have appropriate governance in place that will manage the business for the duration of any loan or other time-limited investment; including legal structure that meets the needs of funders, has appropriate constitutional arrangements in place and is capable of developing and monitoring suitable risk management? As outlined in the State-of-the-Art paper[6], this element is increasingly important if and when less traditional or innovative sources of finance may be perceived as the best way forward.

5.2.3 Skills

The borrower will need to show that it has the required staff and skills internally, or will develop them in an appropriate timescale, or will have access to an appropriate and suitably capable delivery partner.

If the project involves the development of physical assets which are not part of the borrower's day to day activities, it has to be able to show it has the right project management capabilities and is appropriately supported by the senior management and the board.

If the funding being secured is to allow an adaption or development of new working practices and the introduction of a new business approach, the business plan needs to show how the current staff can be adequately supported to secure the necessary skills, or there will be an adequate level of new staff recruited in a timely manner to ensure effective service.

5.2.4 Finances

All stakeholders will need to be reassured that the organisation has appropriate financial systems and skills in place to manage and monitor the key cashflows.

The business plan will need to show there is a clear understanding of all operating costs and revenues that will be required to deliver for the duration of the loans, including all staffing and other costs and projected revenues. These will have to be adequate to cope with new or different business operations that will be needed following the completion of the funded project which may be higher that business as usual activities – and very likely with some contingency for unexpected events.

Where a new asset is being developed, the business plan will also need to outline how adequate financial resources and skills will be to manage and maintain the assets over their lifetimes, to ensure the facility remains fit for long-term use.

Where new services are being developed, the business plan will need to show there will be adequate free cashflow to permit effective promotion of the services.

5.2.5 Revenues

To repay the proposed private finance (either debt or any reimbursable investment finance), the business plan will need to outline how the associated forecast revenues will be achieved.

---

[6] See section 4.9 in State-of-the-Art paper

Co-funded by the
Erasmus+ Programme
of the European Union

If the borrower is seeking to develop a new area of business activity, the plan will need to provide detailed evidence on how this new demand will be secured. If the funded projected is essential to retain existing demand, then the business plan will need to show how this will be possible without disrupting revenues whilst the new project is completed (i.e., is there likely to be a period of restricted or no revenues during construction or as new operational processes are implemented?).

In addition, the business plan will also need to outline the risks of any 'competitors' who may seek to take away existing customers, especially if there is a hiatus in delivery.

5.2.6 Regulatory requirements and risks

The need to meet all existing and potentially new regulatory requirements is an essential element of the business plan. This will show how the organisation ensures effective and safe support of its clients, its staff, and the wider community within which it will be operating. This will also reassure the various partners about the borrower's ethos and how it sees its role in the wider community.

There is also a need to confirm how the services provided will continue to conform to all human rights and equalities legislation.

Questions for all stakeholders

- Is the governing body proposed the right one and acceptable to all stakeholders?
- Does the business plan provide the evidence needed for all stakeholders?
- Is the evidence verifiable independently?
- Does the governing body endorse the management's plan?
- [MORE to be added following input from steering group]

5.3 The Funding criteria: how to determine funding needs and allocations

The business plan will provide the essential evidence needed to support access to funding. However, determining exactly how much funding (and finance) is needed or will be possible to access requires the development of appraisals: legal, technical, financial, economic, environmental and social. This array of evaluations arises because the various stakeholders are each likely to be looking to meet different albeit inter-dependent outcomes.

5.3.1 Borrower/investee

The borrower or investee will be using the funds to add to its capacity for service provision, or to adapt its services to allow it to deliver the same level of service at a lower cost of delivery, or an improved services at the same cost, or a combination of these.

The questions the borrower/investee has to ask to help in deciding whether or not to it should seek external funding to deliver its project are:

Co-funded by the Erasmus+ Programme of the European Union

- Is the additional revenue derived from the new project going to be sufficient to cover the contracted cost of borrowing the finance PLUS allow it to repay the borrowing secured, at the pre-defined date; or to reimburse investors under whatever contracted arrangement has been made?

- Are the non-financial benefits that the project is anticipated to deliver adequate to justify the additional risks inherent in any new project?

- Are the non-financial benefits of the preferred project greater than the next best alternative use of the internal resources (including manpower and internally generated funds)?

The initial way of testing the strength of the answers to these questions is to undertake a full financial analysis. This will comprise a forecast cashflow[7] that looks out over the period of the borrowing, and determines that the debt can be fully serviced (interest paid) and the principal repaid in full[8].In the case of "Social Outcome Contracting" (SOC)[9], the provider of investment funds will require that a certain proportion

Such an appraisal will need to be augmented by sensitivity analysis that confirms full repayment even with more onerous (less preferential) values chosen for the key cashflow assumptions.

5.3.2 National government

Although likely to be less involved with the details included in the organisation's financial analysis, the national government will be extremely interested in an understanding of the longer-term community benefits that may arise for the project. If it is giving support (financial or otherwise) the borrower will need to provide a wider economic, social and environmental analysis as a means of providing the evidence the national government bodies may need to provide any requested support to the project.

In some instances there may be the potential for public grants to be reduced should private finance be secured. Any wider economic, social and environmental analysis will therefore need to outline how the public grant is delivering additional benefits which would not otherwise be possible if the project only relies on private finance.

---

[7] Project economics can invariably be regarded through the perspective of cash-in versus cash-out, where the former eventually has to exceed the latter. This is a "cashflow forecast"?

[8] Most financial analyses will also bear in mind the "time value of money"; that is, if money is tied up in the project for some time, it cannot be used for something else, and the owner of the money will require compensation for that. This is typically handled by means of progressively "discounting" the value of cash the further off it occurs in the future. A cash flow occurring next week is almost as good as one that is happening today, but one in a decade or a century's time is much more ephemeral and much less valued. Discounted Cash Flow (DCF) analysis is available in numerous variants to enable one project to be compared with another even if the timescales are very different. See also the next footnote.

[9] For more information, see the accompanying State of the Art Report. Synonyms for SOC for the purposes of this discussion include Payment by Results (PbR) and Pay for Performance (P4P). Some or all of the revenue used to reimburse the initial investment – on the assumption of course that such investment is not entirely a donation or gift without strings attached – will come from cash thrown off by the project. There is therefore limited or no recourse at all to the balance sheet of an entity.

Co-funded by the
Erasmus+ Programme
of the European Union

There is no one economic, social or environmental appraisal methodology that can be readily applied so the borrower will need to take time and care in fully understanding just what the preferred option(s) will most likely be in the region and for the sector involved. Annex 1 illustrates the factors that will be assessed in any such wider economic, social, environmental analysis.

5.3.3 Regional/local government

Local government may well have the statutory authority to secure the delivery of care or social services from 3rd party providers. To aid in determining just how much financial support may be possible, the following areas will need to be assessed:

- Does the service being offered by the project sponsor contribute to the delivery of the local or national governments' objectives? This is essential if the project sponsor is seeking to develop a new service and so relying on the local authority's financial and regulatory support. If the service does not meet the local authority's criteria, then it will be hard for the authority to enter into any contractual arrangement.

- Does the service provider have the appropriate skills and competencies to deliver and will they meet the necessary standards set by the various relevant regulatory bodies?

- Is the funding going to satisfy any state aid and additionality rules?

- Does the service provider have the correct governance and management capabilities to ensure the effective stewardship of any allocated funding?

5.3.4 Lenders

The lender's decision on whether, what type and how much to lend (or for a performance-based equity investor, how much funding to offer) will be based on a clear understanding of the financial strength and the financial viability of the lending or investment opportunity. Depending on their individual institutional objectives, they may well also be interested in the social value and wider community benefits that are projected to be delivered through their involvement.

The borrower/investee and other stakeholders are seeking to deliver both financial as well as wider, non-financial benefits. The lender/investor must be assured that their funds are secure; either they are fully serviced and repaid where this is expected or the wider social benefits will be achieved to justify any donation element. In both cases, on-going financial sustainability of the borrower/investee must be secured.

Lenders/investors will seek assurance on the following key areas:

- Are the projected cashflows derived from the project adequate to pay the operating costs (including all maintenance and taxes due), pay the interest on the borrowing, and repay the loan in full on the pre-determined date(s)?

- Is there adequate demand to generate the cashflows over the term of the loan or is there government support to cover and demand shortfall?

- Are the projected wider outcomes adequate to ensure delivery of any performance-related objectives and so secure the equity returns pre-agreed with investors? That is, for a P4P arrangement, can the funding be reimbursed on time?

As Annex 1 summary shows, the private sector lender/investor will principally determine the level of their financial commitment on the basis of the financial analysis. Even if money payback is not the essential motivation for a P4P investor, a financial analysis provides a common vocabulary to assess the outcomes and risks, compared with other opportunities. This process will assess the strength of the forecast cashflows and test how robust they are in achieving two key tests:

- Will they achieve the necessary, pre-determined rate of return on the capital and/or equity employed? PLUS

- Will they produce a positive net present value (NPV), discounted at the cost of debt or cost of funds employed?

5.3.5 Investors

As intimated above, much of what is required by commercial or social bank lenders will also be required by private investors within an SOC/PbR/P4P framework. However, whilst lenders will seek to minimise their risks and secure a guaranteed return (i.e., interest and principal fully repaid, a private investor may be aiming to maximise their return, reflecting the higher risk they are willing to carry. Or of course, they may have a variety of venture-philanthropic motives (see the State-of-the-Art Report for more discussion on this point).

A willingness of equity investors[10] to forego repayment of principle, as discussed, may be something offered by investors seeking to support wider community and social benefits. Notwithstanding this aim, most investors will still need to be reassured the project will be robustly managed and financed so as not to face reputation risk or the need to enforce security through poor operational performance or default

Questions for all stakeholders

- Are the forecast cashflows sufficient to reassure all stakeholders that the project will meet its financial obligations?
- Do all stakeholders agree on the elements to be assessed in any wider economic, social and environmental appraisal
- Are all stakeholders clear on the inter-relationship and relative importance between financial and non-financial returns?
- Do we all agree on the metrics to be used for monitoring and appraising projects?

[10] Triodos Bank is perhaps the most prominent "social bank". It offers a wide array of products for charities and social enterprises across environmental and social sector from simple loans to access to bond funding through to equity finance – see https://www.triodos.co.uk/raising-capital.

Co-funded by the Erasmus+ Programme of the European Union

6. Limits to the Guidance

The State-of-the-Art paper (D1.1) signals that the use of innovative financing solutions has so far been limited. This is in part due to a lack of understanding by providers (often small and not necessarily sophisticated in financial terms) of how to access whatever funding is currently available in the market. However, it is also due to a lack of understanding on the part of bank lenders and investors of risk-bearing money as to how to arrange finance in the rather special and sensitive care and support sectors. For now, conventional credit is more important, and the skills involved in accessing that need at least as much attention as more exotic and innovative sources of funding.

There are, however, limitations to what this Guidance can do:

- Given the inevitable variations in regulatory arrangements across sectors and jurisdictions, any Guidance would have to be further developed to meet specific sector and country or regional needs, and be updated as regulatory and other arrangements change. As an extension of this point, it is not useful to expect any guidance at EU level – the history, cultural, social and economic settings are too variable.
- This document has not gone into detail about possible lending and investment structures (and the language and terminology that surrounds them). These areas would be too many and too wide ranging to be of assistance on any specific project opportunity.
- The a4i PDPs and MOOC have needed to consider the relevant lending opportunities by both geography and subsector, thus allowing a better understanding of the likely lending and investing institutions that could be involved, and so to help clarify possible lending terms.
- Such an approach also clarifies the extent to which national and local authority financial support might also complement the private lending and investors' funds, which would further influence how much and on what basis private lending may be forthcoming.

Co-funded by the
Erasmus+ Programme
of the European Union

Country-level guidance

In this section, rather than summarising material available in each of the pilot sites, direct links are provided to national material. The links are grouped into 4 categories: national guidance, stakeholder perspectives, types of investment and related issues (if any). Some of the links provided cross-reference to material already provided to the a4i library.

7.1 Belgium

Type of information	Hyperlink/web address	1 sentence description
BE pilot		
National guidance - Guidance for country nationals from respectively interested to understand how to access finance for any of the relevant social services. In other words, what do your compatriots need to develop an investable proposition	https://youtu.be/_kyRWqgJFgc https://youtu.be/qZr69W0GTfc	The first part deals with the rationality of the financing models of social profit enterprises. The second part deals with the financing-mix, a theoretical model that explains precisely this variety of sources of financing for the social economy: who finances it? Who finances it? Why? What can we deduce when we discover the financiers of a social profit enterprise?

Co-funded by the Erasmus+ Programme of the European Union

Stakeholder perspectives - Picking up issues from the perspectives of different stakeholders – central + regional + local government, users, service providers, social banks, commercial banks, venture philanthropy of one kind or another	https://youtu.be/Mt2Wxn66AT4 https://youtu.be/2kQsk48W7IQ	Interviews of private financers, with their vision on social impact
Types of investment - Separating out "conventional bank credit" and "unconventional, performance-related instruments (of any kind)". There may well be edge cases which don't fit nicely - for example, one of the Spanish papers specifically mentioned both "mezzanine" funding and, even more so, "participatory loans"	https://youtu.be/KwB4W5E3mHA https://www.youtube.com/watch?v=Kt8JEdfSAaA	Presentation of the different financing mechanisms that exist, such as impact investing, solidarity finance, philanthropy, etc. In addition to the continuum of different social economy enterprises, there is also the continuum of private funders.
Related issues - Bearing in mind the procedural issues mentioned in the paper, such as the need to respect human rights concerns and how to develop a convincing business case/plan	https://www.youtube.com/watch?v=jcXHk6B8DU4 https://youtu.be/wBQ0IB8lL_4	Social impact assessment: diversity of practices and expectations of funders Presentation of an entrepreneurial canvas adapted to the practices

		of social profit enterprises, which is in fact an adaptation of the famous Business Model Canvas, a well-known management tool.
Other		

7.2 Czech Republic

Type of information	**Hyperlink/web address**	**1 sentence description**
National guidance - Guidance for country nationals from respectively interested to understand how to access finance for any of the relevant social services. In other words, what do your compatriots need to develop an investable proposition	https://www.apsscr.cz/files/files/A4i_INVESTORI%20STUDIE_FINAL.pdf https://www.apsscr.cz/files/files/Analyza%20segmentu%20socialnich%20sluzeb_EY_FINAL(1).pdf https://www.apsscr.cz/files/files/Financov%C3%A1n%C3%AD%20soci%C3%A1ln%C3%ADch%20slu%C5%BEeb%20v%20%C4%8Cesk%C3%A9%20republice_FACT%20SHEETS.pdf	Basic information for current and future investors in social services.
Stakeholder perspectives - Picking up issues from the perspectives of different stakeholders – central + regional + local government, users, service providers, social banks, commercial banks, venture philanthropy of one kind or another	https://www.apsscr.cz/files/files/A4_STUDIE%20LCT%202021_FINAL.pdf	It states the prerequisites for a successful long-term care solution, points out the shortcomings and unsustainability of the current long-term care system in the Czech Republic.

Types of investment - Separating out “conventional bank credit” and “unconventional, performance-related instruments (of any kind)”. There may well be edge cases which don’t fit nicely - for example, one of the Spanish papers specifically mentioned both “mezzanine” funding and, even more so, “participatory loans”	https://jakfinancovatfirmu.cz/mezzaninove-financovani/ https://www.kapitalovypruvodce.cz/dluhove-nastroje/privatni-dluh	Basic description of a lesser-known and rarely used form of financing on the Czech Republic market called mezzanine financing.
Related issues - Bearing in mind the procedural issues mentioned in the paper, such as the need to respect human rights concerns and how to develop a convincing business case/plan	https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_cs https://www.apsscr.cz/files/files/Specifika%20syst%C3%A9mu%20poskytov%C3%A1n%C3%AD%20p%C3%A9%C4%8De_v%20%C4%8CR%20a%20%C5%A0v%C3%BDcarsku_final.pdf	European Pillar of Social Rights - 20 principles. Examples of good practices and comparison - Czech Republic and Switzerland.
Other		

Co-funded by the Erasmus+ Programme of the European Union

7.3 Spain

Type of information	Hyperlink/web address	1 sentence description
National guidance - Guidance for country nationals from respectively interested to understand how to access finance for any of the relevant social services. In other words, what do your compatriots need to develop an investable proposition	https://spainnab.org/images/pdf/AAFF_Informe_SpainNab_ENG_ExecutiveSummary_v3.pdf https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit https://evpa.eu.com/knowledge-centre/publications/venture-philanthropy-and-social-impact-investment-a-practical-guide https://www.fi-compass.eu/sites/default/files/publications/fi-compass%20study%20on%20the%20Social%20Impacts%20Bond%20programme%20under%20the%20Portugal....pdf https://biblioteca.fundaciononce.es/publicaciones/otras-editoriales/guia-practica-para-la-medicion-y-la-gestion-del-impacto	Information about impact investment and venture philanthropy in Spain and Europe.
Stakeholder perspectives - Picking up issues from the perspectives of different stakeholders – central + regional + local government, users, service providers, social banks, commercial banks, venture philanthropy of one kind or another	https://spainnab.org/images/pdfs_conocimiento/Toolkit_Fundaciones_Spainab.pdf https://www.esade.edu/es/profesorado-investigacion/investigacion/unidades-conocimiento/center-social-impact/investigacion/from-measurement https://evpa.eu.com/knowledge-centre/publications/vp-in-a-nutshell https://www.ilunion.com/sites/default/files/ilunion_valor-compartido2019.pdf	Case studies and perspectives from different stakeholders, particularly Foundations but also from the private sector and public administrations. European and national perspective. Some of the case studies are from FONCE.
Types of investment - Separating out "conventional bank credit" and "unconventional, performance-related instruments (of any kind)". There may well be edge cases which don't fit nicely - for example, one of the Spanish papers	https://spainnab.org/images/pdfs_conocimiento/MGI_Toolkit%20Fondos_SpainNAB.pdf https://spainnab.org/images/pdfs_conocimiento/Capital_Catalitico_Toolkit_Fondos_SpainNAB.pdf https://spainnab.org/images/pdfs_conocimiento/Toolkit%20CIS_SpainNAB.pdf https://spainnab.org/images/pdfs_conocimiento/Recomendaciones%20para%20impulsar%20CIS_SpainNAB.pdf	The documents explain different instruments like Social Impact Bonds, combination and blending, catalytic capital…

specifically mentioned both “mezzanine” funding and, even more so, “participatory loans”	https://spainnab.org/images/pdfs_conocimiento/Encaje_juridico_CIS_SpainNAB.pdf https://www.fi-compass.eu/sites/default/files/publications/Combination%20of%20financial%20instruments%20and%20grants_1.pdf	
Related issues - Bearing in mind the procedural issues mentioned in the paper, such as the need to respect human rights concerns and how to develop a convincing business case/plan	https://evpa.eu.com/knowledge-centre/publications/charter-of-investors-for-impact https://www.cepes.es/social/econ_social_que_es	
Other	www.pisce.es	Promoviendo la Inversión de Impacto Social en España (PISCE) website that gathers the materials of the Spanish Pilot (12 videos, 14 podcast, the keys to hight quality social investment and a library with books and publications.

Co-funded by the Erasmus+ Programme of the European Union

Annex 1: Appraisals required & metrics used to determine funding needs

Type of appraisal	Who needs it	Metrics to be used
Financial Analysis	• Funders: who require understanding of ability to pay interest and repay loans; the financial sustainability of the proposal and the borrower will be a key feature in how finders review any financial appraisal • Investors: to understand likely longer-term financial returns and likelihood of these being achieved • Asset owners: to understand short- and long-term operational sustainability • Operators: to understand sustainability of operating model	• Forecast cashflow to allow DCF analysis • Internal rate of return of the cashflows ie, the IRR% • Net Present Value (to determine value for money to public purse) • initial cash requirements (to fund initial capital and project set-up costs) • On-going net revenue (after operating costs) to repay loan obligations
Social cost benefit analysis (SCBA)	• Funders & Investors: who also seek social impact returns (in addition to some(?) financial returns) • Asset owners: to understand what and how wider economic and social impact will be derived • Operators: to understand where and what partnerships will be needed to deliver wider benefits	• Net Present Value (including valuation of wider economic and social benefits) • List of all non-quantifiable costs and benefits (ie, wider externalities) • GDP & GVA (gross and per capita) to capture 'traditional' value metrics
Non-financial factors	• Local and National government authorities alongside some funders and social investors will be seeking wider community benefits, quality impacts, wider linkages across communities etc	• The metrics used here will need to be developed on a case by case basis

Co-funded by the Erasmus+ Programme of the European Union

REFERENCES

EIB, 2019, Project Appraisal, https://www.eib.org/en/projects/cycle/appraisal/index.htm

EIB, 2018, Guide to Procurement for projects financed by the EIB, https://www.eib.org/en/publications/guide-to-procurement

EIB, 2017, The ReM framework methodology, https://www.eib.org/attachments/rem_framework_methodology_en.pdf

EIB, 2013, The economic appraisal of investment projects at the EIB, www.eib.org/attachments/thematic/economic_appraisal_of_investment_projects_en.pdf

EIB, 2009, The EIB statement of environmental and social principles and standards, www.eib.org/en/infocentre/publications/all/environmental-and-social-principles-and-standards.htm

Infrastructure Australia, 2018, Assessment Framework, www.infrastructureaustralia.gov.au/policy-publications/publications/files/Infrastructure_Australia_Assessment_Framework_2018.pdf

InvestEU. 2021, The InvestEU Investment Guidelines, April 14, 2021

KfW, 2019, International financing, Evaluation criteria, www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Evaluations/Evaluation-criteria/

The Scottish Housing Regulator (2015), Business Planning, Recommended Practice, https://www.webarchive.org.uk/wayback/archive/20160105195940mp_/https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Business%20Planning%20RP%20-%20FINAL%20-%20Version%205%20-%2014%20December%202015.pdf

Triodos Bank, 2018, Minimum Standards, www.triodos-banks-minimum-standards.pdf

UK HM Treasury, 2018, The Green Book, www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

UK HM Treasury & Welsh Assembly Government, 2018, Guide to developing the project business case, https://gov.wales/guide-developing-project-business-case

Co-funded by the Erasmus+ Programme of the European Union

Co-funded by the
Erasmus+ Programme
of the European Union