Financing Social Impact

Funding social innovation in Europe – mapping the way forward

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About the Social Innovation Europe initiative

The Social Innovation Europe initiative (SIE) represents a major effort to build and streamline the social innovation field in Europe. The project is run by a consortium of partners including Euclid Network, the Danish Technological Institute, and the Young Foundation, and led by the Social Innovation eXchange (SIX). Funded by the European Commission's DG Enterprise and Industry, the SIE initiative will run over two years from January 2011 until December 2012 and will work to connect policy-makers, entrepreneurs, academics and third-sector workers with other innovators from across Europe. It is our goal to become a hub – a meeting place in the network of European networks – where innovative thinkers from all 27 Member States can come together to create a streamlined, vigorous social innovation field in Europe, to raise a shared voice, and to propel Europe to lead the practice of social innovation globally.

In order to achieve this, SIE is taking three overlapping approaches:

- SIE is publishing a series of reports and recommendations for action which will define, analyse and support the best work in the field.
- The initiative is hosting an online hub: www.socialinnovationeurope.eu. This aims to be an indispensable resource providing the latest information on European social innovation.
- SIE is hosting a series of events across Europe to bring social innovators together offline and build partnerships across countries and across sectors.

For more information please visit: www.socialinnovationeurope.eu

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We wish to acknowledge in particular the contribution of Diogo Vasconcelos, the founding Chairman of the Social Innovation eXchange (SIX). Diogo's unexpected death on 8 July 2011 was a devastating loss to the field of social innovation in Europe and around the world. He made a significant contribution to the writing of this report, and was also instrumental in making the SIE initiative possible. For many years, Diogo worked with the European Commission and individual governments in Europe and beyond, encouraging policy-makers to commit to social innovation, and facilitating the development of important initiatives such as the Social Innovation Europe initiative. Diogo was a passionate advocate for better finance to encourage social innovation, and we hope we have captured his vision for an effective and sustainable financial ecosystem in this report.

The report has been based on consultations and conversations with members of the social innovation community across Europe. We would like to acknowledge the contributions of the people who participated in the workshops at the Social Innovation Europe launch event which took place in Brussels in March 2011; those who took part in the TelePresence discussion on funding and finance for social innovation, that took place in June 2011; and respondents to our call for ideas and examples in the social innovation funding space. We would also like to thank colleagues in the European Commission for their insight, in particular DG Enterprise and Industry.

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"Social Innovations are innovations that are social both in their ends and in their means. Specifically, we define social innovations as new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations."[1]

Executive Summary

The field of innovation for social purposes is developing rapidly all over the world, with new institutions and methods, growing confidence and evidence of impact. Social innovators are changing the way governments work, the way civil society achieves impact, and the actions of business.

Social innovations are new ideas, institutions, or ways of working that meet social needs more effectively than existing approaches. Often, social innovation involves the remaking and reuse of existing ideas: the new application of an old idea or the transfer of an idea from one part of the Union to another. The European Commission's goal should be to showcase and support new approaches, with the aim of them being adopted by national, regional and local government. It should also be demonstrating new markets in order to encourage adoption by the private sector. Some of the most important growth sectors are likely to include health (already between 5% and 13% of GDP in EU countries and set to rise by 4% by 2050[2]), education, care of the elderly, childcare and environmental services (estimates for Europe suggest that 1 million jobs could be created by a 20% cut in present energy consumption[3]). And leading businesses are responding to the growing importance of the social economy.

Across the world, millions of people are creating better ways to tackle some of the most challenging social problems of our times: climate change, chronic disease, social exclusion, and material poverty. Often their ideas come to life through collaborations that cut across the public and private sectors, civil society, and households. Frequently, they make use of new technologies, including broadband and mobile communication. Some of their successes are now part of everyday life, from microcredit in rural communities to web platforms linking teachers and learners, as well as banking services using mobile phones, community land trusts, restorative justice programmes, and more.

The field of social innovation is now beginning to gather momentum, with significant investment from governments, foundations and business. Over the next few years, it is possible that the ability to support, manage and grow innovations of this kind will become a core competence within governments, businesses, NGOs and foundations.

The field combines commitment, experience and energy. But it lacks the systematic and sophisticated infrastructures of support available to other fields – in particular, access to appropriate finance and funding. The result is that although there is no shortage of good ideas, far too few actually achieve the impact they could. The report sets out a vision of where we want to be ten years from now. It highlights how these various infrastructural gaps will need to be filled for the field to develop to maturity, and puts forward recommendations for how we can achieve this.

What should Europe do?

The European Union has a crucial role to play in accelerating the field of social innovation. Member State governments as well as governments at regional and city levels are important decision-makers and the European Union (European Commission) should work towards providing the right support for decision-makers at every level.

The European Commission should act as a catalyst to make innovation happen, as well as facilitating the growth and scaling of innovation. It can do this by establishing a comprehensive ecology of finance capable of supporting:

- A wide spectrum of innovations, from those that will be implemented within the public sector to those that will be carried out by new enterprises and ventures;
- Demonstrating new markets with the aim of encouraging their adoption by the private sector;
- Initiatives from a wide range of actors, from governments to banks and foundations.

However, finance is not the only area of support needed. There is also a need for access to skills, to key relationships and to new knowledge.

Strategic purpose of European Union actions

Social innovations are new ideas, institutions, or ways of working that meet social needs more effectively than existing approaches. Often, social innovation involves the remaking and reuse of existing ideas: the new application of an old idea or the transfer of an idea from one part of the Union to another. All social innovation support should align and connect with related initiatives, such as the Social Business Initiative and the European Innovation Partnerships. As well as funding new ideas, the Commission must build and strengthen already existing efforts in this area in order to strengthen capacity for social innovation.

The main purposes that should guide this European Commission action on social innovation include:

Faster economic growth: some of the most important growth sectors are likely to include health (already between 5% and 13% of GDP in EU countries and set to rise by 4% by 2050[4]), education, care of the elderly, childcare and environmental services (estimates for Europe suggest that 1 million jobs could be created from a 20% cut in present energy consumption[5]). Without rapid innovation in these fields, Europe's economy will be held back.

Higher public services productivity: with many Member States facing fiscal challenges, the priority is greater than ever to achieve better value for money within the public sector. In the private sector, the large majority of productivity growth comes from innovation; the same is likely to be true in the public sector.

Success in handling major societal challenges: Europe's future success depends on tackling major societal challenges, such as ageing and reducing carbon emissions. These challenges cut across sectors and organisations and require new approaches to innovation, often combining technologies with new models of social organisation and behaviour.

Strategic use of funding tools

To achieve these goals, Europe needs to develop new funding tools. A starting point should be to target areas of market and government failure and those with the greatest potential for pan-European impact, the greatest added value and the greatest chances of enhancing overall impact and supporting EU policy objectives of smart, sustainable and inclusive growth. These are likely to include very-early-stage innovations, growth finance in new fields, and activities involving significant levels of both risk and reward.

The organising principle for the report is the **innovation life cycle** (described in more detail below), which focuses on four main stages of innovation, from idea generation to scaling. We recommend that different types of finance be made available at different stages, and describe how this can best be done.

Public funding is needed most during the early stages, when risks may be high and rewards uncertain: the more disruptive the innovation, the more uncertain the outcome, and the higher the risk. Other fields of innovation – such as medicine or technology – have sophisticated mechanisms for funding at this early stage. However, the social innovation field lags far behind.

Europe has made great strides in building science parks, incubators and research networks in biotechnology, for example. We believe that there is now a need for a new generation of incubators that focus on social innovation, as well as experimenting with new ways of providing small sums of money to help develop creative ideas, including open challenges to the public.

Some have advocated only supporting the scaling of social innovations. Yet experience around the world shows very clearly that even when there is an abundance of creativity, there is a shortage of both scalable ideas and tools and finance for scaling. Usually, promising ideas require a great deal of intensive development to achieve a form in which they can be grown. A similar logic applies in business, which is why governments, notably the US, invest so heavily not just in basic research but also in innovation.

Private funding can be introduced more at the scaling and sustaining stage, when business plans are in place and the development trajectory is more predictable.

Innovation scaling then depends on more transparent mechanisms for judging and communicating their impact and effectiveness. The second report from the SIE initiative will focus on measuring social innovation and how this fits with the broader move to strengthen the evidence and analysis of impact.

It is important to acknowledge that social innovation often involves new collaborations between actors in different sectors, straddling boundaries. The biggest potential error would be to design finance solely within sectoral boundaries in such a way that prevents new forms of co-operation from happening. Making funds available for just the public sector or creating a separate market exclusively for social enterprises, charities or for commercial businesses would be a mistake.

Europe must develop the infrastructure and capacity to manage social innovation as it develops from idea to implementation, making it accessible to the different stakeholders involved. Important for this will be establishing linked funds, incubators, and networks that can achieve this goal.

The SIE initiative proposes that, in addition to embedding support for social innovation into already existing funding mechanisms, the European Commission should also consider the establishment of a dedicated social innovation fund. The Commission should encourage and actively support initiatives from a wide range of actors, including foundations, banks and the private sector.

What is needed at EU level?

Investment in ideas: support for incubation capacity will give new impetus to the field of social innovation. We propose that the European Commission, working through all relevant Directorates-General (DG), supports the setting up of incubators for social innovation. Linked to this is active experimentation with new models focused on specific social challenges (e.g. ageing, climate change, youth unemployment) as well as public prizes for solutions to specific challenges.

Investment in prototypes and pilots: taking innovation to the next stage beyond ideas involves testing ideas in practice. At this stage, investment in prototypes and pilots is required to get ideas off the ground. EU funding should be provided in ways that encourage co-funding by foundations, cities regions and Member States around specific issues.

Scaling – new investment funds, potentially joint with foundations and banks: the next stage of support should focus on the adoption of successful social innovations by national, regional and local government. This can be achieved by introducing a results-based performance element into the Structural Funds. Whereas the current performance reserve is based entirely on the execution of commitments (i.e. on the basis of inputs into projects measured through payments to final beneficiaries) in the medium term the reward for performance would be based on outcomes. An outcome or results-based funding system would inject much-needed innovation into the commissioning and selection of projects and help to drive up quality. The European Commission is proposing action in this area and in the revision of the Structural Fund regulations.

Systems investment is also important at this stage. Attention should be paid to new partnership models, including different sectors and operating at different levels (e.g. networks such as Ecocities bringing together local governments of over 130 large cities in some 34 European countries).[6]

Encourage business engagement: as well as mobilising public money for social innovation, there is also a need to mobilise private funds to support it. This could mean increased financial support for CSR initiatives, or pension funds allocating a share of investment targeted at proven innovations. The European Investment Fund (EIF) can facilitate new ways of channelling public and private funding for social innovation. A proactive approach could be taken by establishing a European Social Innovation Investment Facility. While the field of social innovation is gaining significant momentum, it lacks the financial instruments to expand. Market access for interested investors is not efficient yet, and as a result capital inflows to finance social innovation remain limited. Fund management arrangements for EU and other public funds will need to develop and new mechanisms will be needed to promote equity or quasi-equity approaches and appropriate forms of risk sharing.

Proposals for concrete actions:

- A single portal, or **one-stop-shop funding website for EU finance for social innovation,** which would signpost applicants to the most relevant source of funding grouped in stages according to the four-stage model and focusing on the EU level of funding.

- The four-stage model starts with small grants for early-stage ideas through using grant finance to support the setting up or expansion of loan, guarantee or equity funds and finally aiming to influence the commissioning and tendering process for innovations so that public markets stimulate social innovation.

- **The reallocation of currently underspent funds for social innovation purposes**. Specifically, we recommend targeting resources towards the creation of a network of social innovation hubs, focused on capacity-building, exchange and innovation projects. These would then be networked together to exchange practice and learning.

- A target that **10% of Horizon2020 is earmarked for social innovation**, and/or a target for social innovation investments, by a successor of the RSFF (Risk Sharing Finance Facility).

- **Public service reform creates** opportunities for social enterprises to undertake work previously done by the state. Social finance is essential to enable these businesses to scale up (and to compete with private-sector outsourcers). In the UK, funds such as 3SC, Big Issue Invest & PWC Fund have helped provide growth capital for social enterprises delivering some public (including social) services ranging from EUR 500 000 to EUR 10 million. In some countries, there is scope to turn certain public-sector services into employee-owned businesses and worker co-operatives, helping deliver efficiencies and front-line empowerment while addressing some of the social justice issues thrown up by outsourcing. These offer scope for large-scale investments, i.e. £10m+ (EUR 11.5 million). The Baxi Partnership is one example.

- The **European Investment Fund** should promote social enterprise as part of its support to the wider enterprise ecology through the creation of a European Social Impact Facility (ESIF). The EIF could also invest in pan-European funds focused on specific societal challenges. The proposal is for the ESIF to have an initial size of around €80m. The actual size will depend on feasibility and viability work over the next few months.

- The establishment of **incubators** which focus on social innovation will bring together expertise and knowledge from across different sectors and from different European and non-European countries.

- The establishment of a **Social Innovation Prize for Europe** as well as a website **challenge.eu**

What is the RSFF?

The RSFF is an innovative scheme to improve access to debt financing for private companies or public institutions promoting activities in the field of research development and innovation.

The Facility is built on the principle of credit-risk sharing between the European Community and the EIB and thus extends the ability of the Bank to provide loans or guarantees for investments with a higher risk and reward profile. The RSFF has a EUR 2 billion capital cushion, EUR 1 billion from the EIB and the same amount from the Commission's Seventh Research Framework Programme (2007-2013), enabling the Bank to lend more than EUR 10 billion for this kind of investment.

Overview of the report

Sections 1, 2 and 3 describe what is meant by social innovation, as well as the actors involved in this emerging field. This part explains why the field of social innovation has reached a critical point, with numerous opportunities and drivers converging to make the time ripe for the development of the field. However, such development is currently being hampered by a lack of financial and institutional support.

Sections 4 and 5 provide an account of what is already happening in this area and sets out a vision for a mature ecology of finance in this field.

Sections 6, 7, 8 and 9 set out specific recommendations for funding and financing that will accelerate the field's progress. We explore how the European Union can unlock financial supports, as well as recommendations for mobilising private investment, and the role that can be played by European foundations.

Foreword

Dear Reader,

In times of great societal changes, what brings banks, charities, CEOs, venture capitalists, business angels, social entrepreneurs, policy-makers, care providers, researchers, youth workers and citizens together? It is our common will-power to adapt, and to create opportunities for our societies and ourselves.

Social innovation is both a business and societal opportunity, because the most important sectors for growth in the next decades are linked to the development of human and social capital. For example, health already represents a large share of GDP in most countries. The social economy in Europe employs 11 million people, that is 6% of the active population of the EU.

But, social innovation is under-exploited. There are barriers in access to funding and to upscaling great ideas. So, the Social Innovation Europe consortium was tasked to make recommendations on funding social innovation in Europe. The consortium prepared this report, based on numerous inputs from discussions with social innovators and financial institutions, and on many academic studies. Their second report will delve into the question of evaluation of social innovation.

I want to repeat that the Social Innovation Europe initiative is not just another think-tank – making nice papers. It is here for you – and co-created by you.

This report provides many inspirational examples of ongoing financial support mechanisms for social innovation in Europe: grants, philanthropy, venture capital funds and government funds. It also shows where the gaps are, and offers a number of practical solutions. If you are planning to set up a social innovation fund, or if you need funding, this report could point you in the right direction.

Clearly, this report is only the start. It should be a living document, constantly updated with your ideas and actions, whether they are funded by the European Union's budget, by banks, your local council or by a charity or co-operative. The Social Innovation Europe's hub will be the forum to share your experiences, and a platform to scale up social innovation from idea to programme and hopefully even to a new business.

I would like to thank the authors for this excellent and inspiring report, and I would like to encourage you to make full use of it.

Antonio Tajani

Antonio Tajani

Vice-President of the European Commission, and European Commissioner for Industry and Entrepreneurship

PART 1: Setting the Scene

1. Introduction

1.1 Aims and overview

The field of innovation for social purposes is developing rapidly, with new institutions, methods and actors. Social innovators are changing the way governments work, the way civil society achieves impact, and the way business is transacted. Across the world, millions of people are creating better ways to tackle some of the most challenging social problems of our times: climate change, chronic disease, social exclusion, and material poverty. Often, their ideas come to life through collaborations that cut across the public and private sectors, civil society, and the household. Frequently they make use of new technologies, including broadband and mobile communication. Some of their successes are now part of everyday life, from microcredit in rural communities to web platforms linking teachers and learners, as well as banking services using mobile phones, community land trusts, restorative justice programmes, and more.

Social innovation can come from:

- the **private market** (for example, ethical finance or corporate social responsibility, or new models of collaborative business);
- the **public sector** (both in terms of policies and service models. Examples include Flexicurity in Denmark and elsewhere which provides flexibility for employers and security for employees against labour market risks and holistic early years' provision in Reggio Emilia, Italy);
- the **grant or social economy** (for example, Emmaus in Europe or Dialogue Social Enterprise which tackles issues of disability and marginalisation in Germany); and
- the **household** (which plays a critical role in the creation of social movements such as the Slow Food movement which started in Italy but has swept across the European continent).

The field of social innovation is now beginning to gather momentum, with significant investment from across the social economy, governments and business. But despite the growing impact of social innovation, the field remains far less developed than innovation in other areas – such as medicine or technology. A typical developed economy invests 2-4% of GDP in scientific research and development, fuelling ecology of technology start-ups, venture capital, technology transfer and collaborative research. Little comparable investment exists in the social sector or around public policy. The result is that although there is no shortage of good ideas, too few achieve the impact they could.

- A key factor affecting the development of the field of social innovation is finance. In order to accelerate progress in the field in Europe there is a clear need for better funding of social innovation. Better finance for innovation covers many aspects from banking and finance regulations to the culture, knowledge and attitudes of financial institutions and entrepreneurs. Financing innovation also requires the development and implementation of innovative finance models, from incumbents to new entrants; from public vs. private to public private partnerships. It also includes funding throughout all stages of the innovation life cycle – from the ideas stage through to scaling up.

Social innovations can spread in the form of values, software, tools and habits. Not all are products and services of organisations. The section below will explore the concept in more depth.

This paper sets how the European Union (including funds directly managed by the European Commission) can embed a social innovation element within existing funds, and makes recommendations for a social innovation family of funds. The establishment of a comprehensive ecology of finance should be capable of supporting social innovation from the idea-generation stage through prototyping to scaling up:

- A wide spectrum of innovations, from ones that will be implemented within public sector to ones that will be carried out by new enterprises and ventures;
- Demonstrating new markets with the aim of encouraging adaption of the private sector;
- Initiatives from a wide range of actors, from governments, to banks, foundations, etc.

1.2 Why now?

Europe is in the midst of a profound transformation; it has suffered the worst financial and economic crisis since the 1930s. This current crisis makes social innovation[7] more important than ever, both as a component of economic strategies to build Europe's relative position in growing fields such as healthcare and environmental services and as a vital contribution to achieving greater for value for money in public services.

Just as the Lisbon Strategy for jobs and growth focused on innovation, entrepreneurship and knowledge based economy, the new strategy for Europe, Europe 2020 and its new budget proposal, must have social innovation at its centre, as means of stimulating a more dynamic, inclusive and sustainable social market economy.

1.3 The need

In January 2010, the Social Innovation Exchange (with the Young Foundation) was commissioned by BEPA (the Bureau of European Policy Advisor at the European Commission) to produce a **study of the state of play in the field of social innovation in Europe**[8], which would feed into a BEPA report on social innovation requested by President Barroso.[9] Both reports highlighted the need for better funding and financing for social innovation.

A subsequent report by a Business Panel on Future EU Innovation Policy notes that "the current finance system is not fit for the new types of innovation required to address grand societal challenges", of which many have a strong social component.[10] Key issues identified in the report include:

- Existing support for smaller or innovative companies (grants, seeds, venture capital, loan guarantees) is fragmented and fails to mobilise private sector investment efficiently or consistently.
- Current risk capital markets lack openness and transparency, leading to limited access and sub-optimal decision-making.
- No pan-European risk capital market, meaning that European funds lack size and expertise, and companies lack financing for growth.
- Addressing the lack of availability of and markets for risk capital has been identified as being of critical importance at a European level. This is particularly important for SMEs: at present, public and private financing is largely directed towards incumbents in mature industries, which serves to block radical innovations.

Box 1.1: Public finance for emerging ideas

Mindlab (DK)

Mindlab is an innovation unit that sits between the Danish Ministry of Economic and Business Affairs, the Ministry of Taxation and the Ministry of Employment. Founded in 2002, Mindlab works to create partnerships between these ministries, businesses and citizens to address entrepreneurship, climate change, digital self-service, citizens' rights, employment, and workplace safety issues. Mindlab works primarily as an ideas incubator, deploying its six core staff, students, and employees on secondment from the private and public sectors. It typically undertakes seven to ten projects each year for its parent ministries.

Generally, a project is operated by a number of public servants seconded to Mindlab from the sponsoring ministry/ministries. Mindlab then augments their knowledge of the public sector issue with expertise in qualitative research and design thinking. Government ministries 'fund' Mindlab by providing personnel and a place to work, while Mindlab 'funds' projects by deploying expertise and fostering partnerships. Mindlab's approach is based on a process model which passes through seven phases: project focus, learning about users, analysis, idea and concept development, concept testing, the communication of results, and impact measurement. This process, and indeed all of Mindlab's work, seeks to break down the silos between government departments and develop programmes from a user's perspective.

InnovateNoW (UK)

InnovateNoW offers funding to National Health Service (NHS) staff members or organisations within the North West of England who would like to implement an idea or spread the use of a new method across the healthcare system in the region. InnovateNoW is itself funded by the NHS (National Health Service) North West's Regional Innovation Fund, and offers funding ranging from £5 000 to £250 000 through three different awards schemes. The Innovation Bursary Award provides up to £25 000 to release staff to implement their ideas. The Enabling Change Award offers up to £250 000 – or up to £50 000 per organisation involved – and is tailored to situations where ideas will be implemented across a large number of service providers. The Innovation Sharing Award provides up to £5 000.

Although this review focused on finance for business growth, many similar needs are identified for social innovation. As in other fields of innovation – such as medicine and technology – finance is needed in different forms at different stages ranging from:

- Funding for fundamental research and development of concepts
- Seed funding for promising ideas
- Funding for pilots and prototypes as well as for evaluations
- Finance for embedding successful models
- Finance for growth

Finance for emerging ideas is sporadic and only available in some Member States, for example Denmark and the UK (see InnovateNow and Mindlab in box below). It is rarely easy to access for anyone outside formal structures or networks, although there are some modest funding sources available for individuals and small groups. There is little equivalent to the angel finance that plays a critical role in technology, despite some programmes under foundations. Nor are there forms of finance provided in ways that make it possible for groups of citizens, or coalitions of service providers and users, to apply for small sums of money to develop concepts. We see this as critical to increasing the flow of good ideas and concepts – alongside better capacity to help teams turn concepts into viable forms. Then, at the level of the organisation, many organisations within the field of social innovation are dependent on grants – this includes charities, community and voluntary organisations, associations, foundations as well as a significant part of the social enterprise sector. One of the big problems facing these organisations is the reliability of funding sources. While grant funding is important at certain stages, a dependence on grants remains a key barrier to the long-term sustainability and growth of the sector.

Surveys of **grant programmes** in many different countries – including Australia, Canada, France and the UK – report a set of common problems experienced by grant recipients.

These include a lack of stable and sustainable funds; the tendency for grants to be short term and directed away from operational costs, making long-term planning difficult; high costs associated with securing funds – as senior management's energies are often focused on obtaining funds rather than managing their organisations; and a scenario where smaller, voluntary and community organisations pay disproportionately high prices for their basic services and overheads.[11]

While grant funding is valuable in the prototyping and start-up phases of social innovation, it is not a reliable source of long-term funding.[12] A common theme of many studies of funding for social enterprises and innovation is the difficulty involved in securing risk-taking growth capital (also known as expansion capital) which is critical to enabling them to move from start-up to the next level of development.[13] A transition away from grant dependence towards commercial finance is crucial for the longer-term sustainability and growth of social innovations. Some developments are under way in this area. In February 2008, for example, the Office of the Third Sector (UK) committed £10 million for the creation of the Risk Capital Fund for Social Enterprise. It is the first fund of its kind and is intended to help social enterprises and early-stage social start-ups to access funding to grow and develop their businesses. More generally, a wider range of different types of funding have become available in recent years. These include public innovation funds, commercial funds, philanthropic funding as well as profit-seeking investment.

However, the opportunities in this sector are not yet fully realised due to its small size and lack of cohesion. Many types of funding seek to design more effective models that give a better mix of grant, loan and equity funding, for the different stages of innovation. While these developments are promising, many are still in emerging stages. In some instances, financial support is available, but more often social innovators are unaware of what is available, and forms of support are not always relevant to their needs.

Such a finance infrastructure will have to be capable of supporting innovation across the 27 Member States and take into account different national innovation cultures and regional specificities. This does not mean that national or local initiatives in this area should be replaced by European action. Indeed, European action should help complement and support measures already taken by Member States.

It is important to note that finance is not the only area of support needed. Individual innovators and ventures tend to need access to skills, access to key relationships (in particular in commissioning organisations), knowledge and attention. They require considerable non-financial support to enable them to become investment ready. There is also a crucial need to educate public sector officials about the relevance and potential of social innovation. Intermediaries are also likely to play a decisive role, and one of the priorities for Europe is to build up stronger networks of intermediaries to play roles analogous to those played in business and around science.

In addition, the field as a whole needs:

- More codified knowledge of methods, including what works best in relation to such issues as finance, design, scaling and partnership;
- More reliable metrics for assessing social returns, with some common architectures for measuring social value;
- Suitable regulatory and policy frameworks.

The Social Innovation Europe initiative (SIE) represents a major effort to build and streamline social innovation activity in Europe. The initiative's aim is to create a vigorous social innovation field and to highlight and develop ideas as well as proposing concrete recommendations.

Proposal: we propose a new family of funds aimed at promoting social innovation, to be operated through existing funding instruments, either at EU or Member State level, which would include, but also move beyond, grant giving. It is likely that the larger funds at the more mature end of the innovation market would also involve EIF participation. These funds would cover the full range of financing needs, from seed funding for ideas through investment and growth. This should include the creation of more outcome-focused funds. We would specifically favour targeted stage gate funds focused on priority challenges, such as demographic change, combating poverty and social exclusion and climate change.

As well as embedding support for social innovation into already existing funding mechanisms, the SIE initiative proposes that the European Commission also considers the establishment of a dedicated social innovation fund.

2. What is social innovation?

"Social innovations are innovations that are social both in their ends and in their means. Specifically, we define social innovations as new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations."[14]

2.1 The new nature of innovation

Social innovations are new ideas, institutions, or ways of working that meet social needs more effectively (than existing approaches). Often, social innovation involves not just new ideas but the remaking and reuse of existing ideas: the new application of an old idea or the transfer of an idea from one part of the European Union to another.

Social innovations can take the form of a new service, initiative or organisation or, alternatively, a radically new approach to the organisation and delivery of services. Social innovations can also spread in the form of ideas, values, software, tools and habits. Innovations in all of these senses can spread throughout a profession or sector, such as education or health care, or geographically from one place to another.

Social innovations can come from many sources and be applied to many fields. Sources can include academic research, political campaigns, social businesses and new technologies.

Social innovation seeks new answers to social problems by identifying and delivering new services that improve the quality of life of individuals and communities. It tends be:

- Experimental (testing out a range of alternatives and assessing which ones work);
- Cross-cutting (for example, responding to ageing requires changes to everything from employment law and pensions to new models of self-managed care);
- Collaborative (making use of the full potential of network technologies both boosts productivity in social fields and speeds up learning);
- Able to engage citizens as co-creators.

A ground-breaking OECD report, 'The New Nature of Innovation', involving policy experts and business experts from across the globe, examined the changing nature of innovation.[15] It identified several characteristics that differentiate "future innovation from the innovation of the industrial era" and four drivers which will change innovation:

- Co-creating value with customers and tapping knowledge about users;
- Global-knowledge sourcing and collaborative networks;
- Global challenges as a driver of innovation; and
- Public-sector challenges as a driver of innovation.

The report finds that global challenges are becoming a key driver of innovation, and that social and environmental challenges – climate change, the supply of clean water, chronic disease – are presenting significant new business opportunities and constitute an expansive new market.

2.2 The process of social innovation

A useful framework to understand the process of social innovation is to view it through the various stages that take an idea from inception to impact. The process of social innovation is not linear, often involving feedback loops and jumps between the stages. This means that, in practice, innovations look more like multiple spirals than straight lines (see Figure 2.1 below). But much of the research tends to converge on a similar view of the key stages, which can be summarised as follows:[16]

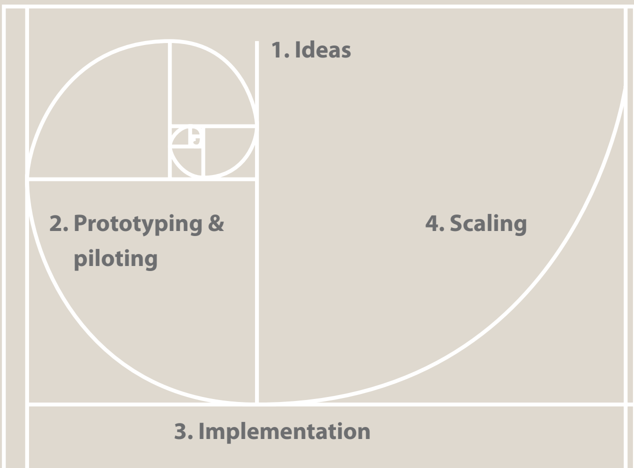
1. **Ideas**: this is the ideas-generation stage. It also includes all the factors which highlight the need for or possibility of an innovation – such as a crisis or poor performance – as well as the inspirations which spark it, from creative imagination to new evidence. The ideas-generation stage can involve formal methods, such as design creativity, to widen the menu of available options. Many of the methods help to draw on insights and experiences from a wide range of sources.

2. **Prototyping and piloting**: the stage where ideas are tested and piloted in practice. This can be done through simply trying things out, or through more formal pilots, prototypes and randomised controlled trials. The process of refining and testing ideas is particularly important in social innovation because it is through iteration, and trial and error, that coalitions gather strength (for example, linking users to professionals) and conflicts are resolved (including battles with entrenched interests). It is also through these processes that agreement is reached on measures of success.

3. **Implementation**: the stage where the idea becomes everyday practice. It involves sharpening ideas and often streamlining them, and identifying income streams to ensure the long-term financial sustainability of the firm, social enterprise or charity that will carry the innovation forward. In the public sector, this means identifying budgets, teams and other resources such as legislation.

4. **Scaling**: the stage when a range of strategies for growing and spreading an innovation – from organisational growth, growth, through licensing and franchising to federations and wider dissemination. Demand matters as much as supply: how market demand, or demand from Commissioners and policy-makers is mobilised to disseminate a new and successful model. This process is often referred to as scaling – in some cases the word is appropriate, as the innovation is generalised within an organisation or the organisation itself expands. But scaling is a concept from the mass-production age, and innovations take hold in the social economy in many other ways, whether through inspiration and emulation, or through the provision of support and know-how from one another in a more organic and adaptive way.

Figure 2.1: The innovation life cycle

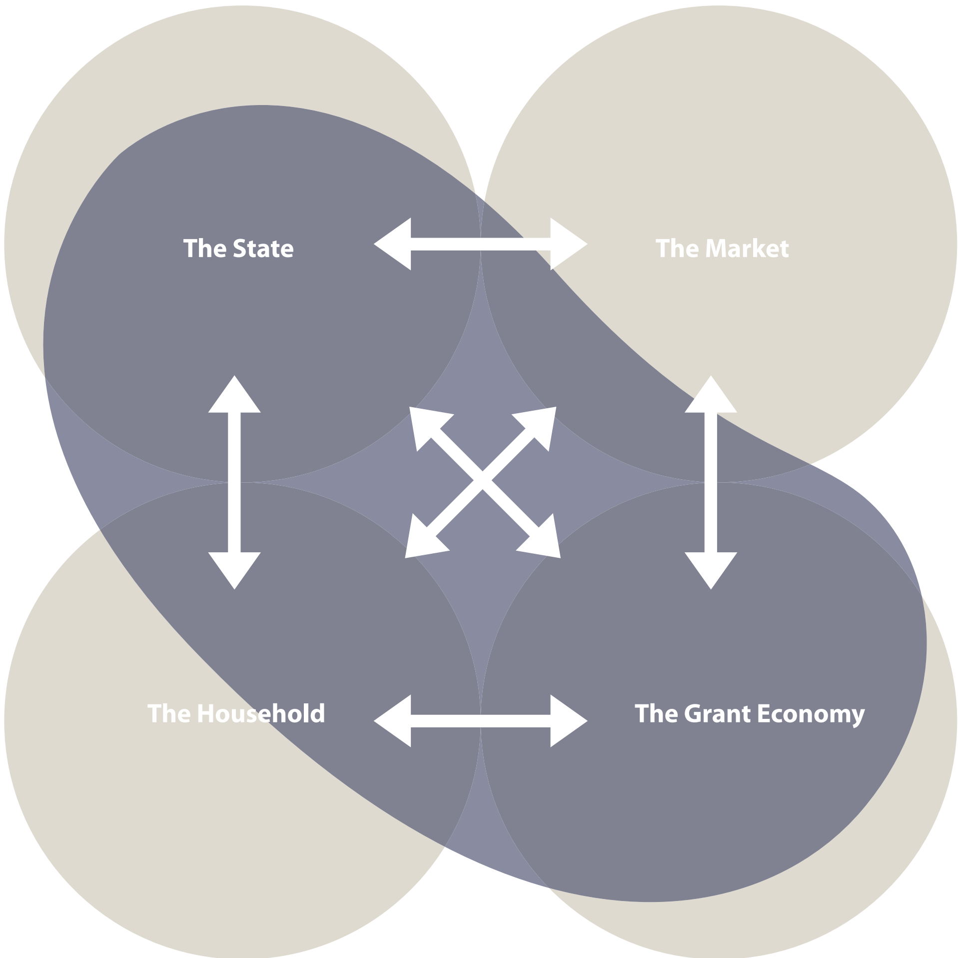


3. Who are the social innovators?

Social innovation used to be considered the sole preserve of the social economy. However, more recent perspectives emphasise that social innovation can and must come from all sectors – the public sector, the private market, the third sector, and individuals/households – and that many innovations move between sectors as they evolve. Moreover, many successful innovations solve problems by involving more than one sector, with the most exciting innovations often occurring at the edges of or interfaces between sectors.

The shaded area in the diagram below represents those parts of the four sectors which are concerned with social innovation. The diagram shows that none of the four sectors is wholly concerned with social innovation.

Figure 3.1: Social innovation across four sectors[17]



3.1 The state

Governments are increasingly recognising the need for systematic innovation in policy and services. Innovation in the public sector can take the form of both: innovation in terms of policies, as well as service models. Within the public sector, there has been a recent shift in emphasis from performance targets and management to innovation. This is the result of a number of factors, including:

- Pressures to raise productivity;
- A growing awareness that failure to adapt and innovate around pressing social challenges can be a key barrier to societal success (and a parallel acknowledgement that these social challenges can also present significant economic opportunities); and
- Recognition of the social dimensions of pressing issues such as climate change.

Many individual countries are putting in place new funds and structures to support social innovation. The UK government, for example, has invested some £220 million in regional health innovation funds to address major challenges in the field of health care, while in the USA, President Obama has established a new White House Office of Social Innovation and a substantial Education Innovation Fund.

Box 3.1: Social innovation in the public sector

White House Innovation Fund (US)

The Social Innovation Fund (SIF) was established by US President Barack Obama in 2009 to scale innovations for addressing social challenges that lead to faster and more lasting progress. The Fund was provided by the Edward M. Kennedy Serve America Act and is housed at the Corporation for National and Community Service (CNCS), a US Federal agency.

In 2010, the US Congress voted $50 million to the fund, which is matched 3:1 by funding from private foundations and philanthropists, creating a total of $200 million. In 2011, funds were awarded to 11 intermediary organisations with a track record of identifying and growing high-performing non-profit organisations. Intermediaries were tasked with identifying innovative, effective, ready-to-scale solutions delivered by non-profit sub-grantees which could meet the needs of other communities. Grants were awarded in the areas of economic opportunity and poverty alleviation, education and youth development, and health. The 11 intermediary organisations were required to match funds 1:1, as were sub-grantees, resulting in the 3:1 match funding.

3.2 The private market

There is a growing interest in several aspects of social innovation amongst corporate players and industry leaders – supported by a growing recognition that the nature of innovation within the private sector is changing. Leading businesses are responding to the increasing importance of social sectors in the economy. Some of the most important will probably include health education, care of the elderly, childcare and environmental services. Along with leisure, these are likely to be some of the key sources of both GDP and employment growth over the next few decades.

3.3 The social or grant economy

Civil society and the grant economy are the most common sites of social innovation. Across the world, this sector is becoming increasingly engaged in the economy, through social enterprises, mutuals, co-operatives and associations. Social-economy enterprises represent 2 million undertakings (i.e. 10% of all European businesses) and employ over 11 million paid employees (the equivalent of 6% of the EU's working population): of these, 70% are employed in non-profit associations, 26% in co-operatives and 3% in mutuals. Social-economy enterprises are present in almost every sector of the economy, such as banking, insurance, agriculture, craft, various commercial services, and health and social services, etc.[18]

Although much smaller than the public sector, the social sector has also focused on innovation, including enhanced interest and activity in the field of social entrepreneurship. However, its efforts tend to be ad hoc and sporadic. Civil society is not always well positioned to develop rigorous methods for innovation, lacks R&D capacity, finds it hard to spread risk, and generally has structures that are ill-suited to scaling. The sector is seeking more effective means of designing, testing and spreading more effective models. In some cases, demand is within large existing NGOs – sometimes umbrella bodies, sometimes smaller, newer organisations.

3.4 Individual social innovators and entrepreneurs

Historically, grass-roots, bottom-up activity has played, and continues to do so, an important role in driving social innovation. Around the world, there are many good examples of programmes aimed at individuals – from schools for social entrepreneurs to design schools. For individuals, the priority is to know how to turn promising ideas into impact; how to develop business plans; how to advocate and 'evangelise'; and how to build the right coalitions.

The field of social innovation is now beginning to gather momentum, with significant investment from governments, foundations and business. Over the next few years, it is possible that the ability to support, manage and grow innovations of this kind will become a core competence within governments, businesses, NGOs and foundations.

But despite an extraordinary ferment of experiment, commitment and creative energy, and the globalisation of social innovation, the field lacks the sophisticated infrastructures of support available to other areas. The table below summarises the drivers for social innovation, the challenges which need to be overcome for the field to develop to maturity, and the levers for accelerating progress. In this report we focus mainly on finance.

Figure 3.2: Social innovation: drivers, challenges and levers for accelerating the field

Drivers

- Government, recognition of need for innovation in service and policy
- Business – recognition of importance of the social sector in the economy, and grow of key sectors such as health, green industries, etc.
- Civil society – engagement in social entreprise
- Citizens – growing appetite to shape services and innovation

Challenges

Lack of enabling infrastructures:

- Financial
- Codified methods
- Reliable metrics
- Networks and intermediaries
- Policy and regulatory frameworks
- Coordinated leadership
- Enabling cultures

Levers for accelerating growth in the field

Matching growing financial flows with investments in skills and capacity for social innovation, and building up capacity of intermediaries able to link finance to knowledge, power, networks, etc.

4. Financing social innovation in Europe: what is already happening

4.1 How social innovation is supported by Europe

Over the years, the Commission has developed a larger number of policies, programmes and initiatives that have contributed to empowering citizens and organisations to address social issues. These include: Open Method of Coordination (OMC); the Cohesion Policy and its Structural Funds (ERDF and ESF); the Lifelong Learning Programme and other education, youth and culture programmes; the European Investment Group (including PROGRESS); the Framework Programmes for Research and Technological Development; and the Competitiveness and Innovation Framework Programme (CIP)[19]. The larger funding streams are highlighted below.

The Structural Funds

The Structural Funds comprise the European Social Fund and the European Regional Development Fund. In addition, there is a Cohesion Fund which supports large projects in the environment and transport sector in 14 countries with gross national income below 90% of the EU average.

The two Structural Funds are available throughout the EU territory. In convergence regions, the EU co-finances up to 85% of the total eligible cost; in competitiveness regions up to 50%.

Both of the Structural Funds have a delivery system based on the principle of 'shared management' through the programming cycle which lasts for seven years. At the start of the cycle, the European Commission agrees the multi-annual investment programmes with the Member States. These programmes focus the resources on agreed objectives. Application for projects, project selection and monitoring are carried out at national or regional level for each programme by a managing authority.

European Social Fund (ESF)

The European Social Fund (ESF) is one of the EU's Structural Funds, set up to reduce differences in prosperity and living standards across EU Member States and regions, and promoting economic and social cohesion. Member States play a key role in the management of the funds. The particular aim of ESF spending is to support the creation of more and better jobs in the EU, which it does by co-funding national, regional and local projects that improve the levels of employment, the quality of jobs, and the inclusiveness of the labour market in the Member States and their regions. Over the period 2007-2013, some

Box 4.1: The EQUAL programme

In the previous programming period (2000-2006), the ESF EQUAL programme invested €3.2 billion in innovative projects across the Union. EQUAL brought together 20 000 partners from all over Europe to design, test and validate innovative solutions to integrate disadvantaged groups into the labour market .

The programme gathered together key players in a geographical area or sector. Representatives from the public administration, non-governmental organisations, social partners and the business sector worked in partnership, pooling their different types of expertise and experience.

EQUAL managed to create the conditions for generating a significant number of innovations, to reach the vulnerable groups in the labour sector, to empower the structures working with these vulnerable groups, and to enhance partnerships at national and sub-national levels and across the EU. It has also turned the ESF into a more effective, efficient and relevant instrument for labour-market expansion and social inclusion. Nevertheless, EQUAL has been criticised for requiring a demanding administration, heavy structure and for the difficulties caused by changes in orientation and organisation over time.

In the current funding period, the Learning Networks have taken the innovation and transnationality aspects of EQUAL into the mainstream ESF. Fourteen networks of managing authorities and project promoters are exchanging and implementing new solutions in fields as diverse as ageing, migrant integration, inclusive entrepreneurship, and sound management.

€75 billion is being distributed to the EU Member States and regions, which equates to approximately 10% of the EU's total budget.

European Regional Development Fund (ERDF)

The ERDF supports programmes addressing regional development, economic change, enhanced competitiveness and territorial co-operation throughout the EU. These funds are managed by the Member States, not by the European Commission. Funding priorities include modernising economic structures, creating sustainable jobs and economic growth, research and innovation, environmental protection and risk prevention. For the period from 1 January 2007 to 31 December 2013, the overall budget is €201 billion.

The Fund has innovated regarding the type of investments, the way that money is invested – particularly by involving the EIF and the private sector – and by developing new approaches to governance, particularly for cities. The ERDF has worked in a joined-up integrated approach to regenerate disadvantaged urban areas of cities and find new uses for redundant buildings and spaces. This has included support for cultural and creative quarters, outreach work to engage specific groups such as migrants and the Roma, and working on triple helix. Most work in cities involves multiple agencies operating at different levels. The challenge for the ERDF has been to seek out more virtuous systems of financing which mobilise and reward city actors for their participation. Financing the four 'J's has succeeded in delivering technical assistance for very large projects (JASPERS), developed new forms of SME investment funds with the EIF (JEREMIE), Urban Development Funds and the EIB (JESSICA), and most recently has built capacity for microfinance and coordinated with the new EU Progress Microfinance facility (JASMINE).

1. JASPERS[20]: Joint Assistance in Supporting Projects in European Regions

2. JEREMIE[21]: Joint European Resources for Micro to Medium Enterprises

3. JESSICA[22]: Joint European Support for Sustainable Investment in City Areas

4. JASMINE[23]: Joint Action to Support Micro-finance Institutions in Europe

These initiatives have also cemented the relationship between the EU Structural Funds and the European Investment Bank (EIB) group.

In addition, the ERDF has sponsored transnational creativity through the INTERREG and URBACT programmes which draw on the diversity of European experience and build learning and exchange platforms between regions and cities. The Regions for Economic Change initiative has enabled managing authorities active in INTERREG and URBACT to work with each other and other actors to find new and better solutions in economic development. The URBACT programme has illustrated how much exchange and transfer can be stimulated with limited funds. By 2011, 400 local support groups in cities had been active in 45 projects and had engaged over 8 000 stakeholders in exchange, learning and action-planning activities.

Box 4.2: Joined up microfinance

The EU has experience of making rapid strides into new policy fields. Microfinance is one example where, over a three-year period, the EU has gone from almost no involvement to taking the lead with a fund – the EU PROGRESS Microfinance facility. This is a technical assistance initiative through JASMINE under the ERDF and coordination with the ESF which can support non-financial measures such as business development services. The fund has a commitment of €100 million from the PROGRESS programme and a further €100 million from the EIB, and plans to disburse €50 million a year until 2015. A unit within DG Employment coordinates the fund and works closely with the EIF, which acts as fund manager, and DG REGIO, which oversees JASMINE.

Framework Programmes for Research and Technological Development

Framework Programmes (FPs) have been the main financial tools through which the EU supports research and development activities covering almost all scientific disciplines. FPs have been implemented since 1984 – FP7 runs from 2007 to 2013. It is designed to build on the achievements of its predecessor towards the creation of the European Research Area, and carry it further towards the development of the knowledge economy and society in Europe. The total budget envelope for FP7 is approximately €51 billion.

From FP5 onwards, the socio-economic sciences and humanities programme has financed research on social innovation. Under FP7, dedicated calls for proposals have been published covering specific topics on social innovation and its role in the society, economy and employment. The FP7 Social Sciences and Humanities work programme 2011, for example, included topics on a 'Social Platform on Innovative Social Services', 'New Innovation Processes including Social Innovation', and 'Combating poverty in Europe'. The Science in Society programme supports new ways of tackling societal challenges through its Mobilisation and Mutual Learning (MML) Action Plans.

The European Agriculture Fund for Rural Development (EAFRD) is one of the two instruments financing the common agricultural policy (CAP). One important aspect of the EAFRD is the Leader approach – a bottom-up approach aiming to build local capacity for employment and diversification of the rural economy.

NET4SOCIETY

NET4SOCIETY is the international network of National Contact Points for Socio-economic Sciences and Humanities (SSH) in FP7. National Contact Points (NCPs) are set up to guide researchers in their quest for securing EU funding.

The European Innovation Partnership

The European Innovation Partnership for Active Healthy Ageing is an excellent case where the needs for technological but also social innovation combine to promote new answers for the new social needs and opportunities related to ageing. A central aim of the partnership is to identify and remove barriers to the use of life-improving and life-saving technologies. It will connect research and innovation, from the lab to the citizen. In order to achieve its objectives, the EIP will mobilise and link up stakeholders, EU institutions, and national and regional authorities to facilitate new ways of working together across the entire innovation value chain.

The European Investment Group

The EIB Group comprises the European Investment Bank and the European Investment Fund (EIF). The EIB is owned by the EU Member States. The EIF has several shareholders, the EIB being the majority shareholder. The principal area of co-operation between the EIB and the EIF concerns support for small and medium-sized enterprises (SMEs). The EIB provides long-term loans to large capital investment projects. In addition, it promotes SMEs through medium- and long-term credit lines to intermediaries in the banking sector and through venture capital activities.

The EIF concentrates on investment in innovative SMEs in the EU and Enlargement area through venture capital funds and SME guarantee operations involving own resources or those from the EU budget.

In the context of EU Cohesion Policy, enhanced co-operation between the European Commission, the European Investment Bank Group and other international financial institutions has been formalised on financial engineering by the four ERDF 'J' initiatives developed during the 2007-2013 programming period.

The Js have opened up the world of non-grant instruments and brought in private-sector expertise in project assessment, fund management and revolving funds.

The EU PROGRESS Microfinance facility follows a similar model. The EU has put in the first €100 million of finance from the PROGRESS programme, which has been matched by the EIB as the second investor.

Competitiveness and Innovation Framework Programme (CIP)

The 2007-13 Competitiveness and Innovation Framework Programme (CIP) supports innovation activities (including eco-innovation), provides better access to finance, and delivers business support services in the regions, through different specific programmes. **Under CIP, €1.1 billion has been allocated to the financial instruments,** designed to facilitate access to loans and equity finance for SMEs where market gaps have been identified, mostly in the case of the early-stage finance of young firms. In total, up to 320 000 SMEs will benefit from CIP over seven years. About 99% of SMEs benefiting from the CIP financial instruments are either micro- or small enterprises. On average, each SME receiving a guaranteed loan in the EU creates 1.2 jobs.

The CIP financial instruments are implemented for the Commission by the EIF on a trust basis. They cover different needs depending on the stage of development of the small business:

(1) High growth and innovative SME facility (GIF):
The EIF operates as an investor on behalf of the EC, investing into the equity of firms in early-stage and expansion phases. The GIF's objective is to improve access to finance for the start-up and growth of SMEs, and investment in clean technology or eco-innovation.

GIF provides:

- Risk capital for innovative SMEs in their early stages (GIF 1): EIF can usually invest 10 to 25% of the total equity of the intermediary venture capital fund, or up to 50% in specific cases;
- Risk capital for SMEs with high growth potential in their expansion phase (GIF 2): EIF can invest 7.5 to 15% of the total equity of the intermediary venture capital fund or, exceptionally, up to 50%.

(2) SME Guarantee facility (SMEG):
About half of the €1 billion will be used to guarantee bank lending to SMEs. This will help those SMEs with limited or no collateral to obtain loans. SMEG offers co-, counter- and direct guarantees to financial intermediaries providing SMEs with loans, mezzanine finance and equity.

The SMEG has four main business lines ('windows'):

- Loan guarantees: for loans to SMEs with growth potential;
- Microcredit guarantees: for loans of up to €25 000 to micro-enterprises with up to nine employees, particularly entrepreneurs starting a business;
- Equity and quasi-equity guarantees: to existing equity guarantee schemes and providers of mezzanine finance to support investments in businesses with up to 249 employees; and
- Securitisation: to support securitisation structures to assist financial intermediaries in mobilising debt finance for SMEs.

Under the **CIP Microcredit Guarantee Window**, the EIF provides loan guarantees to microcredit organisations (financial intermediaries) granting loans of up to €25 000 to micro-enterprises (those with up to nine employees). About 90% of SMEG beneficiary SMEs are micro-enterprises and about 99% are either micro- or small enterprises.

4.2 Funding social innovation – other sources

Apart from support from European institutions, a wider range of different types of funding have become available in recent years. These include:

- **Social banks**: banks specialising in the social sector and mainly offering secured loans, such as Banca Prossima in Italy, Crédit Coopératif[24] in France, Triodos Bank in the Netherlands and Belgium, and Charity Bank in the UK.

- **Commercial investment funds**: these prioritise financial return and also seek to achieve social impact, also known as 'finance first' investors. They include Bridges Ventures in the UK, PhiTrust in France, and BonVenture in Germany.[25]

- **Social investment funds**: they prioritise social impact but also seek a financial return for their investors, or in order to 'recycle' funds into new investments, also known as 'impact first' investors. These include CAF Venturesome, The Big Issue Invest and Social Investment Business in the UK, the Hellenic Social Investment Fund in Greece, and Fondazione CRT in Italy.

- **Venture philanthropy funds**: offering unrestricted grants and capacity-building advice, such as Impetus Trust and Social Business Trust, UnLtd[26] – The Foundation for Social Entrepreneurs, Esmee Fairbairn Foundation in the UK, and d.o.b. foundation in the Netherlands.

- **Innovation funds**: public funds explicitly focused on innovation, these tend to divide into technology-focused funds investing mainly in the private sector, such as the Technology Strategy Board[27] in the UK, SITRA in Finland and Vinnova[28] in Sweden; and funds investing mainly in service innovations delivered by either the public or social sectors, such as the Young Foundation and the NHS Regional Innovation Funds in the UK and the European Union's EQUAL programme. Outside the EU, notable funds include the Investing in Innovation Fund for Education, the Race to the Top Fund and the Social Innovation Fund in the US.

Many of these funding models are the right mix of grant, loan and equity funding for the different stages of innovation. While these developments are promising, many are still in the emerging stages and the opportunities in this sector are not yet fully realised due to its small size and lack of cohesion.

Profit-seeking investment to generate social and environmental good – as exemplified in a recent Monitor Institute[29] report on investing for social and environmental impact – is an emerging source of capital investment for social innovation. Impact investors vary widely in character – from individuals to institutions across sectors. But there remains a lack of visibility, coordination or standardisation. According to JP Morgan[30], private investors interested in social impact share common challenges: deal sourcing, impact measurement, and the lack of a common language to describe their investment activities and performance targets. They also highlighted the need for an organised network to advance their shared interest in using for-profit investments to fund social solutions.

For more information and examples of the different sources of funding for social innovation, please see: www.socialinnovationeurope.eu.

5. Where do we want to be ten years from now?

Europe is evolving to hold a more rounded view of its priorities for growth and productivity. In the past, growth was the job of the private sector; the public sector and NGOs were there to spend the proceeds of growth. Now we know that growth matters for every part of society and the economy, and that our ability to develop and absorb innovation in all fields will be critical to Europe's future prosperity.

Many changes will be needed if these insights are to be acted on. The proposals set out in this paper are only a small part of this picture. But it is now possible to describe how they may fit together.

The challenge for Europe is to grow a more mature ecology of finance for social innovations in all sectors and stages of development. This ecology cannot be simply planned; it will evolve through an iteration of new forms of finance supply and new demands from ventures and innovators.

However, there are practical steps which can be taken to speed up this evolution, and the most important roles for the European Commission lie in it being catalytic. A plausible goal for the next five to ten years would be to achieve:

- A wide range of funding sources for new ideas, ranging from funds for individuals with promising ideas, through more sophisticated incubators, and social innovation spin-outs from universities. Some of the leading roles will need to be played by DG Employment and Social Affairs and DG Research and Innovation, in close co-operation with national policy-makers and funding bodies.

- Foundations playing a part in the high-risk but high-reward domain of new ideas, particularly in areas where Europe faces entrenched social needs, from jobs for young people to care of the elderly, integration of migrants to carbon reduction.

- Active experimentation with new models which could become significant, such as support for networks of angel investors, or accelerators designed to back cohorts of new start-ups in fields such as health.

- A more mature capital market for social enterprises that already have a proven track record, providing loan finance, and sometimes equity, to help them grow. The EIB and EIF will play leading roles here, providing matched funds for nations or regions willing to invest in growth social ventures.

- Regional funding flows that reward cities and regions for adoption of proven innovations from elsewhere, with rewards more closely tied to outcomes achieved rather than solely funding according to need.

- Public funding to support rigorous social experiments around challenges with measurable outcomes, such as re-employment of ex-prisoners or people with disabilities.

- Concerted action to remove barriers to innovation and promote new foundations, including legal forms, and adaptation of state aid rules.

- Overriding all of these will be a stronger commitment to start-ups and newcomers, relative to existing funding which tends to support incumbents.

- The opportunities for public procurement to stimulate the market for social innovation are fully realised across the European Union.

These suggestions for the direction the steps will take can only be indicative. The spirit of policy in this area needs to reflect the spirit of the field itself: a commitment to trials and experiments, combined with measurement and assessment, so that all actions learn as they go.

PART 2: Recommendations

Europe's social innovators and funders (including the European Commission, business, social economy, etc.) have an important role to play in accelerating the field of social innovation. The Commission, in particular, should act as a catalyst to make innovation happen, as well as facilitating its growth and scaling. This section of the report explores in more detail specific recommendations for financing and funding social innovation. It puts forward a vision for a coherent funding infrastructure for social innovation, and highlights the role that can be played by different actors in the field.

6. Guiding principles for financing social innovation

Investing in social innovation is different from other fields. Whatever the financial mechanisms, investment in social innovation should be informed by the following ten guiding principles:

1. To mitigate risk the funding should be organised in stages so that any failures in the early stages are small.
2. Funding should be adapted to these different stages of social innovation (e.g. grants, loans, equity).
3. Disruptive social innovations should be encouraged.
4. Investment in the early stages of social innovation should be up front (rather than in arrears).
5. Investments in social innovations should aim to improve the effectiveness of services and/or make them more efficient.
6. Finance for social innovation should be accompanied by other complementary actions.
7. Investments in social innovation should encourage new partnerships that cut across existing professional, sectoral, departmental or cultural boundaries.
8. The knowledge gained from investing in social innovations should be openly shared among practitioners across Europe.
9. Models for investing in social innovation should be adapted to the specific economic and cultural contexts of the Member States.

Wide access to funds for social innovation should be assured through open competition, clear guidance, simple application processes and transparent selection methods.

7. How can the EU support social innovation?

The budget proposal for Europe 2020 on Employment and Social Affairs includes some highly relevant actions for funding social innovation:

1. The European Social Fund (ESF) will provide funding for structural actions for economic, social and territorial cohesion. Funding will be concentrated on key priorities of the Europe 2020 strategy, focusing on employment promotion; investment in skills, education and lifelong learning; social inclusion and the fight against poverty; and enhancing institutional capacity and efficient public administration. Member States and regions greatly determine the prioritisation of these funds inside their territories;

2. An integrated programme (direct management) for employment, social policy and inclusion;

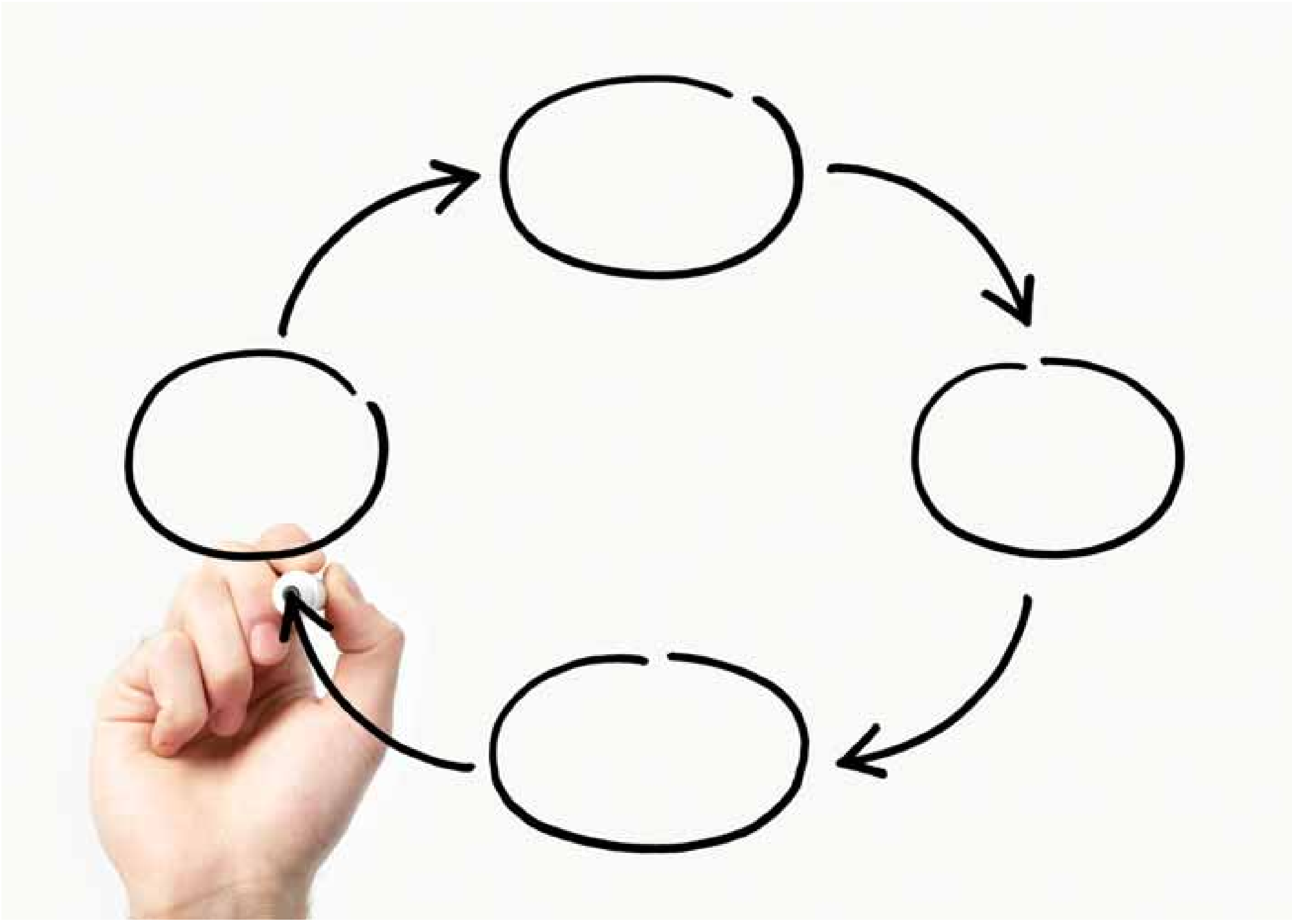
3. Promoting evidence-based social innovation to boost Member State efforts to modernise national social and employment policy systems through the use of proven methods for designing, implementing and evaluating innovation and the more effective dissemination of information;

4. Supporting entrepreneurship and self-employment as a means of creating jobs and combating social exclusion by increasing the availability and accessibility of micro-finance for vulnerable groups, micro-enterprises and the social economy, building on the PROGRESS Microfinance facility.

While the Budget 2020 proposals represent significant support for social innovation at European level, there are many ways in which the European Union can encourage the development of the field. One of the main barriers for those organisations working within the field of social innovation is the reliability of funding sources – public funds should be made available at different stages of the innovation life cycle to support social innovation activities and their growth. This is particularly important in the initial, experimental phase of a project where proof of concept, testing for replication and scalability, demonstrating financial feasibility and risk evaluation are all necessary.

In addition to the family of funds, we suggest a range of other measures which will help encourage and grow the field of social innovation in Europe. These include the funding of innovation labs and incubators, using challenges and prizes to stimulate innovation in particular sectors, supporting social innovation through procurement and large-scale social experimentation, and building the evidence and research base to underpin the investment processes.

Proposal: we suggest a family of funds for social innovation that would be organised around the innovation life cycle, as outlined in Section 2. A single portal, or one-stop-shop website would signpost applicants to the most relevant stage and providers through the application stage, with potentially significantly higher drop-off rates than current EU funds (for example, it might be expected that only 20% of funded projects pass through each successive stage), progressing from small grants for early-stage ideas through loans, guarantees, and equity to finally direct commissioning and tendering for innovations.



7.1 Proposal for a social innovation family of funds

Our proposal is to identify how social innovation funding for each of the four stages can be embedded in existing EU funding programmes. Together the funds should:

- Offer a range of instruments across the whole ecology of finance, ranging from quasi equity, loans and grants.
- Coordinate or align funding from a wide range of sources, including:
  - The European Social Fund, European Regional Development Fund and Framework Programmes;
  - The European Investment Bank – along the lines of joint EIB and European Commission initiatives such as JESSICA, JASMINE, JASPERS and JEREMIE; and
  - The EIF to promote social enterprise alongside enterprise. The EIB group could also invest in pan-European funds focused on specific societal challenges.
- A stage-gate model (see below for more details on an EU ideas fund, EU prototype fund, EU implementation fund and EU scaling-up fund) from the exploration stage, to finalisation, to application. The stage-gate model would have higher drop-off rates than current EU funds (for example, a norm that only 20% pass through to each successive stage), progressing from small grants for early-stage ideas through loans, guarantees, and equity to finally direct commissioning and tendering for innovations.[31] This stage-gate model would be based on the principle of conditionality, which means that future funding would be targeted at organisations which can demonstrate successful outcomes in previous stages.
- All new sources of finance need to be linked to a strategy for raising skills, in all sectors, and focusing on financial tools; methods of ideation and incubation; design; enterprise creation; evaluation and measurement; scaling and growth. At least 2% of all funding needs to be directed towards skills, going beyond technical assistance, to grow a cadre of people familiar with the practicalities of making social innovation work.

The four-stage model will progress from small grants for early-stage ideas through loans, guarantees, equity and direct commissioning by procurement of innovations. Stage 1 would be an ideas fund, Stage 2 a prototype fund, Stage 3 an implementation fund, and Stage 4 a scaling-up fund.

Only successful innovations would qualify to move to the next stage. This approach would have higher drop-off rates than current EU-funded projects. Perhaps only a fifth of projects would be selected to pass through to the next stage. It is important to note that organisations can apply at any stage – they do not have to go through all four stages, i.e. the process is not necessarily linear.

The key to making a rapid impact is to combine the use of 'shared management' funds, such as the ESF and ERDF, in which the Member States play a key role with a small Direct Management Social Innovation Fund (catalyst fund) managed by the Commission Services. The experience with the PROGRESS programme has already demonstrated the added value of this approach.

One of the key decisions in taking forward proposals for financing social innovation is whether there should be a central Commission-operated family of funds or whether the funds should be embedded in existing EU programmes and therefore delivered through managing authorities operating at national and regional level. Our main proposal is for a devolved approach as this works better within the different policy cultures that exist across the EU. However, impetus would need to come from the EU institutions to promote the models as well as to support the exchange, transfer and implementation of new approaches. There is also scope for stimulating the market in social innovations via some key financial interventions along the lines of the PROGRESS programme but operating with a wider remit and social innovation branding. This is likely to have most impact at the first and second stages of the model where financing needs are more modest and where more bursaries and grants can therefore be made for each million euros of expenditure.

The EU needs to build on successes in other related policy fields to encourage social innovation. A good example has been the progress made with local development and particularly with the LEADER approach in rural areas led by DG Agricultural Policy, the Local Employment initiatives and Territorial Employment Pacts by DG Employment and Social Affairs, and the regeneration of disadvantaged neighbourhoods through the integrated URBAN approach by DG REGIO. Over a 20-year period, a methodology of bottom-up, partnership-based local strategies has been supported by the European Commission and promoted across the Union under a number of EU programmes.[32] Although finance has been critical for local development, it has also been the application of a methodology of local partnership development that has proved to be the most valuable and enduring aspect. Capacity-building at the local level was a crucial element for building successful partnerships.

Box 7.1: PROGRESS (EU-wide)

The PROGRESS programme aims to create more opportunities for EU citizens, improve access to quality services, and demonstrate solidarity with those who are affected negatively by change. It is run by DG Employment, Social Affairs and Inclusion. PROGRESS has a global budget of €743.25 million for seven years (2007-2013). The EU will use this budget to act as a catalyst for change and modernisation in five areas: employment, social inclusion and protection, working conditions, non-discrimination, and gender equality. PROGRESS is open to the 27 EU Member States, EU candidate and EFTA/EEA countries. It targets Member States, local and regional authorities, public employment services and national statistics offices. Specialised bodies, universities and research institutes, as well as the social partners and non-governmental organisations can participate. The Commission selects the projects to fund either through calls for tender or through calls for proposals. It provides a maximum of 80% co-financing, with some exceptions. In practice, PROGRESS has funded Europe-wide studies such as research into health and safety at work, the collecting of statistics on the number of workplace accidents and diseases, funding European observatories, such as the European Employment Observatory, to track employment policies and labour market trends, training of legal and policy practitioners, the creation of networks of national experts, as well as public awareness campaigns on EU social and employment policies and laws.

A dedicated European Social Innovation Fund

In addition, we propose a dedicated social innovation fund under the direct management of the Commission (possibly led by DGs Employment and Social Affairs, and Regional Policy). This fund would enable Member States to build capacity to allow them to better engage with social innovation. It would act as a catalyst for social innovation across Europe. This dedicated social innovation fund would be one fund with three parts, all of which could be deployed at any stage of the family of funds.

1. Building capacity for social innovation exchange, good practice, capitalisation;

2. Setting up units (mostly at arm's length but some perhaps inside government); and

3. Pilot actions or demonstrators of the different types of finance (four levels).

The fund would be managed at a European level, and should be between €150-300 million.

Both parts of this fund would be sensitive to local contexts/ cultures and needs.

Like PROGRESS, the EU will use this dedicated social innovation fund as a catalyst for change. It would target Member States, local and regional authorities, public employment services and national statistics offices. Specialised bodies, universities and research institutes, as well as the social partners and non-governmental organisations can participate.

Box 7.2: European social innovation family of funds

EU catalyst fund:

Enable Member States to build capacity. This fund would be managed a European level and should be between €150-300 million.

- Build capacity, develop learning and exchange, enable individual Member States, regions and cities to develop social innovation strategies – ensuring basic infrastructure and capacity to do social innovation. Total: €27 million: €1 million per Member State; (1st phase: 15 Member States @ €1 million; 2nd phase: 12 Member States @ €1 million);
- Setting up units at arm's length (but perhaps inside government too). Total: €81 million; €3 million per Member State;
- Demonstrators of the different types of finance at all four stages (ideas, prototype/pilot, implementation, scaling) highlight best practice at a pan-European level.

Parts 1 and 2 would be sensitive to local context/cultures and needs. Like PROGRESS, the EU would use a dedicated social innovation fund as a catalyst for change. It would target Member States, local and regional authorities, and public employment services.[33] Total: €150 million.

	European social innovation funds			
	1. Ideas fund	**2. Prototype (or pilot) fund**	**3. Implementation fund**	**4. Scaling fund**
Objective	To enable frontline staff and individuals in civil society to pursue a social innovation idea	To enable good ideas to be prototyped and road tested	To enable pilots to be scaled up and to explore how they can be sustained	To enable large-scale expansion
Nature of Support	Micro-grants and loans from €5 000 to €25 000, with less 'red tape' involved in accessing them. Funding would be provided either to individuals or to organisations. Bursaries would allow staff within public and private-sector organisations and social entrepreneurs to buy out their time. It might be possible to theme them around challenges and sectors (e.g. education, health, ageing)	Grants of up to €300K over two years	Grants and DAF (Donor Advised Funds) of up to €30m (in accordance with state aid rules)	Bonds (quasi equity) – up to €100m
Gateway to next stage	The successful ideas would be judged by external panels composed of experts and users, or by peers.	Pilot produces promise of better results than existing models based on sound evaluation techniques (e.g. social experimentation using control groups)	Mainstreamed pilot demonstrates superior results and value for money at significant scale	Scaling suggests systemic transformational potential of new paradigm
Description of terms	Either grant for three- to six-month staff release paid to public authorities or civil society organisations or a bursary to an individual to allow citizens to pursue a social innovation, from €4 000-€8 000	Taking known idea and working up a feasibility study/business plan, then testing for 12 months	Something like EQUAL/urban programmes operating within the Structural Funds	Pay for results/SIB model (tax breaks, multi-level governance structure, virtuous circuits) and public/social, or public/partnerships (private/social)
Management at EU level & in Member States	Administered as EU challenge or at a national level by intermediaries. Possibly managed in portfolios where whole portfolio is fund at agreed level of risk	PROGRESS direct management fund at EU level, and support to national funds where these funds are set up	EU Structural Funds disbursed through national or regional managing authorities down to public, NGO or private organisations	Collaboration of EU with EIB wholesaler doing deals with national innovation agencies and financial institutions
Existing examples	Unltd, Ashoka Fellows, Kennisland digital pioneers fund	PROGRESS Social Experimentation call for proposals. The URBACT action planning approach funded under ERDF	Equal, URBAN	SIBS, Pay for Results (USA)

7.2 European venture capital and social innovation

For those social innovations which are likely to generate returns, the lack of a risk capital market is a considerable barrier. Creating effective risk capital markets is a long-standing goal of European policy. It is also essential if social innovation is to flourish. Targeted investment by the European Investment Fund (EIF) will help stimulate these markets, as long as it learns the lessons of past venture capital (VC) policies from around the world.

Thriving venture capital markets promote social innovation in two ways. First, they provide the wherewithal for disruptive, for-profit firms to grow. These include businesses in sectors ranging from green technology to social care which have active social innovators. Secondly, thriving venture capital markets make it more feasible to raise innovative forms of social finance.

Most policies deployed by different countries to stimulate VC investment have failed.[34] Classic pitfalls include policies that involve too much direct investment activity by governments (which typically end up backing politically privileged projects), overly specific obligations on funds with which governments co-invest (such as very precise sub-regional remits or restrictions on investment size – funds under € 50 million perform badly) or overly complex targets (trying to deliver financial returns and job growth and social goals in a single fund often fails to deliver any of the three).

The model that has had the greatest success is the public-private fund-of-funds model most famously used by Yozma in Israel in the early 1990s, in which government invests alongside private-sector institutions in a fund which then invests in a range of VC partnerships, often at a subordinated return.[35] Yozma kick-started the growth of one of the world's most successful VC industries, and created the inspiration for schemes in Canada, New Zealand and, most recently, the UK. Research also suggests that funds do better when located in major investment hubs (indeed, funds in investment hubs make better investments in non-hub cities than funds based in those cities).[36]

All of this suggests that, as part of the wider social-impact strategy, the EIF should consider further fund-of-funds investments focused on investing alongside the private sector in VC funds in a number of major European investment hubs.[37] The success of Seedcamp, a European technology start-up accelerator, which has raised several million euros from European venture capitalists and accelerated over 300 tech start-ups, shows the importance of complementing VC finance with institutions capable of nurturing entrepreneurship. The EIF should consider making a small number of funds available to co-invest with the private sector in establishing new equivalents of Seedcamp in other technology areas, and in social finance.

7.2.1. European Social Impact Facility

It proposed a major redevelopment of the European Investment Fund in partnership with the European Commission, with a mandate to create new models to fund transnational partnerships, corporate venturing and societal innovation funds.

The EIF is currently developing a European Social Impact Investing Facility (ESIF): this market is emerging but still lacks appropriate financial instruments to expand.[38] The ESIF's innovative structure provides a platform for both institutional and non-institutional investors to support and benefit from the best-in-class European private equity funds and microfinance institutions with high social impact objectives.

Main characteristics:

- The ESIF will have an initial target size of €80 million;
- Investment period of (four) years (with possible extensions);
- EIF/EIB Group as cornerstone investor for up to 50% of total commitments;
- Other eligible investors will include entities that have indicated a strong interest in committing to this type of product:
- Public investors such as the EC and agencies of the EU Member States;
- Wealth managers, private bankers, foundations, family offices, and high net worth individuals (HNWI);
- Private institutional investors;
- Pan-European coverage;
- Tailor-made flexibility for investors as regards the reinvestment of proceeds;
- As manager of ESIF, EIF will act cost-efficiently and apply its know-how as much as possible as regards the selection and monitoring of intermediaries, and ensure the *pari passu* treatment of all investors.

Main objectives:

- Promote innovative and efficient ways for channelling public and private funding to interested investors with a standardised, simple, albeit diversified investment product;
- Stimulate the expansion of an emerging breed of European investors dedicated to delivering a high level of social impact alongside positive financial returns;
- Deploy EIF's expertise in private equity fund investing and microfinance, notably through demanding structuring input, implementation of best market standards and monitoring;
- Support the adoption of thorough impact-measurement standards;
- Implement 'European added value' standards through a diversified structure by applying strictly risk-/profit-sharing principles with all investors.

7.2.2. Social enterprise

There is also an important European role in encouraging investment in social enterprises (that is, enterprises that would typically expect to provide a sub-market return). Three areas in particular are worth looking at: angel networks for social venture, growth capital for social enterprises delivering public services, and investment for public-sector mutuals.

a) Angels provide an effective way of identifying and funding early-stage ventures,[39] and this is equally true when it comes to social ventures. Many for-profit angel networks report being approached regularly by attractive social ventures which they cannot invest in with their for-profit funds. In the UK, Social Business Angel Co-investment Funds offer a way of driving money in the EUR €100 000 - €200 000 range and expertise to earlier-stage social ventures. Funds such as Finance South East Resonance are using existing experienced regional business angel networks to make social investments. The EIF could make a few relatively small investments (€5-10 million in a couple of such funds) and transform the social angel landscape.

b) Public service reform creates opportunities for social enterprises to undertake work previously done by the state. Social finance is essential to enable these businesses to scale up (and to compete with private-sector outsourcers). In the UK, funds such as 3SC, Big Issue Invest and PWC Fund have helped provide growth capital for social enterprises delivering public services in the range of €500 000 - €10 million.

c) In some countries, there is scope to turn certain public-sector services into employee-owned businesses and worker co-operatives, helping deliver efficiencies and front-line empowerment while addressing some of the social justice issues thrown up by outsourcing. These offer the scope for large-scale investments of £10 million plus. The Baxi Partnership is one example that could be scaled.

Box 7.3: Angel investing

The Business Angel Co Investment Fund (CoFund, UK)

The Business Angel Co Investment Fund (CoFund) is a £50-million fund which was scheduled for operation by autumn 2011. It will be available to investments in small and medium-sized enterprises (SMEs) alongside business angel networks or syndicates. Syndicates can apply to the CoFund to provide funding of between £50 000 and £1 million in investment rounds ranging from £200 000 and upwards for eligible SMEs. The size of the investment needs to be significant enough to properly fund the business and to allow for the cost of proper due diligence and legal advice. The investment will also need to be a new investment for the syndicate applying for the investment.

The rationale behind the CoFund is that SMEs contribute strongly to employment growth and innovation. Business angels have taken over from venture capital as the main source of risk finance for early-stage businesses although, at the same time, they have limited capacity. The CoFund offers an opportunity to increase both the amount of business angel investing and the number of good active syndicates. The CoFund will act as a private investor within its partner networks or syndicates and will share the risk with other private investors. This enables it to make rapid decisions in the same way as a business angel could, while only investing where appropriate due diligence has been carried out and the deal is properly structured.

It is hoped that the CoFund will enable a more efficient sharing of best practice via feedback on proposals received, networking or partner events and through publicising successes. It is also hoped that the CoFund will encourage new syndicates to develop and allow existing syndicates to increase their capacity.[40]

Proposal: the European Investment Fund should promote social ventures (for profit) as part of its support to the wider enterprise ecology through the creation of a European Social Impact Facility (ESIF). The EIF could also invest in pan-European funds focused on specific societal challenges.

Proposal: the European Commission should set up a European regime for a joint investment fund to facilitate access to capital markets for social entrepreneurs in the light of impact. The establishment of an appropriate legal regime should meet the growing demand of investors. Such a regime would stimulate the creation of specialised funds in the joint investment by allowing them to be active throughout the territory of the EU on the basis of a single authorisation.

Box 7.4: Social enterprise

3SC[41]

3SC is a social enterprise formed by a partnership of ten civil society organisations that bring expertise in the delivery of a wide range of public services. It was established to bid for large public-sector contracts on behalf of voluntary and not-for-profit civil society organisations. It does this by uniting a range of innovative organisations across the civil society to bid for and deliver large public-service contracts.

The rationale behind 3SC is that whilst smaller voluntary organisations have the knowledge and skills to deliver social services at a local level, they often lack the opportunity to secure bigger contracts. The public-service sector is commissioning large contracts from larger organisations, often from the private sector. Few voluntary-sector organisations are able to compete for these contracts because individually they cannot deliver on the scale that is required by the public sector. The result is that many smaller organisations face exclusion whilst the larger private-sector companies and their shareholders benefit. 3SC's mission is to redress this balance by enabling organisations to work collaboratively as members of a consortium to deliver contracts. 3SC believes that this model provides more positive outcomes for individuals using local services, as well as civil society organisations, as individuals are often best reached by established organisations in local communities which understand their needs.

Big Issue Invest[42]

The Big Issue Invest (BII) is part of the Big Issue group of companies. It provides finance, most often in the form of medium-term growth capital, to social enterprises or trading arms of charities which are finding business solutions that create positive social and environmental change. BII is mainly targeted at social enterprises, but also considers finance for early-stage business. The criteria for receiving support is to have a clear social purpose, a compelling business model, strong management and the ability to demonstrate a sustainable revenue stream and growth potential.

BII provides finance for social enterprises in the form of equity, loans and participation loans where repayment is linked to the future performance of the enterprise. When financing a social enterprise it works closely with the enterprise to tailor the finance to fit its growth needs and repayment capability. Social enterprises can apply for finance of between £50 000 and £500 000. In addition, BII can also arrange financing in partnership with other social finance institutions for amounts over £500 000.

Box 7.5: Front-line empowerment

The Baxi Partnership[43]

This offers funding and specialist support tailored to both private-sector and public-sector organisations, with the aim of supporting the growth of strong, successful mutual- and employee-owned organisations. In addition to financial support, it also transfers expertise to help build effective employee-led enterprises that retain the capacity to be successful over the long term.

The Baxi Partnership specialises in offering support in four areas: getting started (transitioning into employee ownership), getting the most out of employee ownership (improving the employee-owned organisation's current performance), finding funding, and providing opportunities to work with the Baxi Partnership as a full business partner. The Partnership offers practical advice, strategic planning and support services tailored to suit each institution it works with. These services include training, learning and development in the form of Management Development Programmes, Leadership Development Courses and tailored in-house Learning and Development Programmes, including skills mapping, workshops and study tours.

7.3 Innovation labs and incubators

Many of the challenges that social innovation seeks to address are complex in nature and require interdisciplinary solutions. This presents an opportunity which the new Framework Programmes can address, by reconceptualising how we fund research.

A number of incubators across Europe, focusing on important challenges such as ageing and independent living or early-years education, could provide a powerful way of tackling these problems, combining practical and research perspectives to generate new ventures, new products, and new social innovations.

The incubators could learn from the example of the Germany's Fraunhofer Institutes, US' DARPA or the UK's Helen Hamlyn Research Centre, by adopting a porous organisational structure and bringing to bear the best of outside talent on specific challenges. They would primarily be centres of expertise in social innovation that would work through partnerships across sectors to develop a portfolio of social innovations.

These incubators would stimulate and support innovators from SMEs, the public sector, universities, as well as large companies. However, unlike much existing infrastructure, they would focus on innovation in services (including technology-enabled services) rather than science or technology, while the creation of protectable intellectual property rights would not be a major part of their role. These incubators could be funded on the basis of a bidding process in which consortia have to demonstrate involvement both from governments willing to incorporate insights into their public services and businesses willing to invest in the development of potentially useful products. These partners would be expected to at least match FP funding. The outputs would be new concepts or models that have been developed, prototyped and piloted either as projects with public-sector partners or embedded within new enterprises, including joint ventures with businesses or social-sector organisations.

Developing a wave of 'hubs' will bring different groups of people and organisations together with the express purpose of working together to effect change around a group of great ideas. Something similar was done with Business Innovation Centres (BICs) in the 1990s, which were financed from the ERDF. These 'hubs' should enable a mix of social research, design, technology, and ITC, private companies, NGOs and the public sector, to find innovative social solutions to a variety of specific social challenges. By helping a wide variety of people to work together, either physically (or virtually) closely, this would both build up tacit knowledge and speed up the innovation process around a particular issue, in a particular field. However, they would be much more than shared work spaces and in some cases might not involve collocation at all. There are currently many models on which these social innovation hubs could be based, although none fully fulfils this vision today (Fraunhofer Institutes, Living Labs, MIT labs, Social Innovation Generation @ MARS in Toronto, Young Foundation in London, or DenokInn Social Innovation Park in Bilbao).

Box 7.6: Incubators

Social Innovation Park

The Social Innovation Park is a pioneering initiative led by DenokInn, the Basque Centre for Social and Corporate Innovation, aiming to provide an ecosystem for social leaders and institutions to co-operate, learn from each other and to build new initiatives. Located in Bilbao, Spain, it is supported by the local authorities and the Spanish Government with an initial budget of €6 million. At the Social Innovation Park, private companies and banks, local and regional government, and public-sector organisations have begun to collaborate with local communities to identify problems, grow ideas, develop new ways to tackle them, and pilot potential solutions and organisations to improve the way in which people live. The overall goal of the Park is to create a campus where people can "see and touch" social innovation and where new solutions can be conceived, prototyped and scaled; in short, it will be a place where the practice of social innovation can be developed and made visible.

The Park includes a Social Innovation Laboratory for identifying emerging social tendencies (G-Lab). G-Lab will evaluate current social services provided by the public administration to design and develop innovative test beds. Through the Social Innovation Academy, the Park will provide on-site and on-line training to bring fresh ideas to services provided by third-sector institutions, organisations and enterprises. It also includes a purpose-built incubator, the Social Enterprise Generator, which will help medium-sized projects understand and scale their impact.[44]

Helsinki Design Lab

Helsinki Design Lab (HDL) is an initiative by Sitra, the Finnish Innovation Fund. Although based in Helsinki, Finland, it has a global focus aimed at advancing strategic design wherever it may contribute to the resolution of complex issues in our societies and governments. The purpose of HDL is to explore the challenges and opportunities of the new human-centric design approach, to promote strategic design as a relevant approach to systemic changes, to strengthen the image of Finland as a development laboratory for new ideas and innovations, and to build a base for continuous creative and innovative dialogue concerning the dimensions of new design paradigm.

As governments and large organisations are facing the challenge of transforming themselves to maintain viability in the future, HDL is supporting these institutions to redesign ways to deliver their solutions. To do this, HDL is offering an integrated approach to defining problems and developing solutions, to increase governments' capability to meet the challenges of tomorrow.

HDL does this through HelsinkiDesignLab.org, HDL Global and HDL Studios. The HelsinkiDesignLab.org is a website built for sharing what is happening around the world within the field of strategic design, and to help expand knowledge about methods and opportunities. HDL Global is an international event series bringing together government stakeholders and designers to gain insight into tools and methods in strategic design. The HDL Studios bring people together from all over the world to apply their expertise to a specific real-world challenge chosen in co-operation with government at city and national levels.[45]

Innovation intermediaries and incubators come in a variety of forms. Across Europe, infrastructures of this kind already exist, specifically for business innovation, i.e. regional innovation funds, venture capital funds, innovation awards, business innovation centres, and so on. However, there is currently no equivalent provision for social innovation.

Funding would be provided for incubators in three forms:

- Contribution to costs of establishment and start up, including detailed feasibility study and development of partnerships, acquisition or reconfiguration of accommodation, building website and IT fit out, recruitment of staff and marketing associated with launch.
- 50% contribution to core revenue costs to provide incubators with a stable, reliable platform on which to build through specific initiatives and fund-raising efforts. These costs could include core staff and running costs, costs associated with a limited capacity for exploration and idea generation, and communication and dissemination.
- Contribution to piloting and prototyping for defined initiatives, and managed to clear milestones and deliverables, perhaps based on a separate competitive selection process open to all incubators.

7.4 Social innovation challenges

Innovation prizes can be used as an additional policy instrument to stimulate innovation. The power of prizes to stimulate innovation comes from their ability to mobilise resources – intellectual as well as financial – and to attract attention, which can influence the perceptions and actions of potential solvers or society at large.

The awarding of a cash prize is considered by EU financial regulations as "financial support to third parties". According to financial regulations, the following applies: The cost of the financial support, which may not in any event exceed €10 000 per each third party and a total of €100 000 per beneficiary.

Recent research[46] highlights that the most successful prize competitions place an equal emphasis on the broader change strategy, the competition itself, and post-award activities designed to enhance the impact of the prize.

Successful prize sponsors think strategically by investing significant resources in prize development long before announcing the prize. For example, Ashoka's Changemakers competition solicits input from hundreds of Ashoka fellows and past entrants to create a detailed 'discovery framework' that defines the problems to be solved. This investment of time and resources improves the odds that later investments, by sponsors and participants alike, will pay off in social benefits.

Proposal: the European Commission to consider co-financing start-up and annual running costs for five years of a set of social innovation demonstrators. It is estimated that a typical incubator can be set up with about €2 million and might require €5 million per year in running costs. This figure could be adjusted up or down according to the deviation of a country or region's GDP per capita from the Union average. During this piloting period, national and regional management authorities could increase their investment, ready for a long-term investment, subject to state-aid regulation.growing demand of investors. Such a regime would stimulate the creation of specialised funds in the joint investment by allowing them to be active throughout the territory of the EU on the basis of a single authorisation.

Proposal: establishment of a challenge.eu website (emulating the US example http://challenge.gov/) that would incentivise the government and the public to work together to find submissions. Government agencies post challenges on this site and the public and civil-society organisations can post submissions to these challenges. Many lessons are being learned about what works best with crowd-sourcing tools of this kind. A key additional element is more intensive support for each stage of the process: to ensure well-formulated challenges, and to ensure a staged approach to the development of solutions, involving potential commissioners and purchasers.

Proposal: establishment of a dedicated Social Innovation Prize for Europe.

Box 7.7: Innovation competition

www.challenge.gov

This an on-line challenge platform administered by the US General Services Administration (GSA) in partnership with ChallengePost, which empowers the US Government and the public to bring the best ideas and top talent to bear on the USA's most pressing challenges. This platform is the latest milestone in the Obama Administration's commitment to use prizes and challenges to promote innovation.

Naples 2.0 Social Innovation Competition

The Euclid Network is currently running the Naples 2.0 Social Innovation Competition to attract the brightest and most creative minds from around the world who can solve selected challenges in Naples. The winner of each challenge will receive €10 000 in prize money which acts as seed funding to test the idea and turn it into a project. The selected challenges are: turning a confiscated villa into a financially sustainable social business; making an abandoned Roman bath accessible and sustainable; creating a sustainable business plan for a volunteering organisation; creating a sustainable business model for a non-profit organisation that works with school drop-outs; creating an innovative new method for inclusion of the young Roma population; and creating an innovative new method for recycling textiles sustainably. Naples is experiencing ongoing social challenges which provide the perfect test bed for social innovation, and the city aims to demonstrate the potential for social innovation on the ground.[47]

7.5 Support social innovation through procurement

"Innovation Union" commitment no. 17: *"in order to achieve innovative procurement markets equivalent to those in the US, the Commission should provide guidance and set up a (financial) support mechanism to help contracting authorities to implement these innovation procurements in a non-discriminatory and open manner, to pool demand, to draw up common specifications, and to promote SME access"*.

Public procurement accounts for some 17% of GDP in the European Union and offers an enormous potential market for innovative products and services.[48] Procurement provides an opportunity for the public sector to stimulate private-sector companies to innovate for the public good. Social clauses can be included in procurement contracts, and contracts may also seek new solutions to established problems. The EU can support the procurement of innovative solutions through networking and financing procurement:

Proposal: the European Commission should promote a change in culture towards public procurement by encouraging the strategic use of public procurement, providing financial support, legal guidance and flexible instruments to empower public buyers in purchasing innovation while, in the meantime, supporting innovative SMEs to participate in procurement competitions.

Proposal: Member States should pursue greater guidance, training and shared practice in the field. Social clauses can be included in procurement contracts, but few contracting bodies are confident in their use.

7.6 Mutual-learning processes and evidence-based social innovation

Many EU countries have a world-leading tradition of evidence-based policy-making on which to draw (for example, France's experience of using randomisation to test the impact of minimum-wage laws).

Randomised control trials (RCTs) offer a particularly rigorous means of impact evaluation,[49] enabling the impact of a specific programme or intervention to be isolated. A well-conducted, coordinated programme of policy-relevant experiments would provide a consistent level of methodological rigour across countries, enabling results to be clearly communicated and giving funders (private and public) greater confidence in selecting the best solutions.[50]

A €200-300-million fund could back a programme of rigorously assessed evaluations of a range of policies, following methodologies deployed by organisations such as MIT's Jameel Poverty Action Lab or the French Experimentation Fund for Youth (a €230-million fund established in 2008, currently evaluating some 350 projects). Following the French model, the fund would not pay to fund interventions, but only their evaluation, and lessons would be shared widely across Member States. Given the inherent challenges and the opportunities for rigorous evaluation that exist, areas worth considering include:

- Recidivism among offenders
- Tackling disability
- Welfare-to-work schemes, specifically for youth employment
- Adult social care
- Roma rights and integration.

Proposal: the European Commission should support social experiments, in particular methods and tools for sound evaluation, through the European Social Fund. We propose that DG Employment and Social Affairs could demonstrate a new approach to social experimentation by funding various actors and stakeholders who are engaged in designing and putting into practice novel ways to tackle a social challenge.

Box 7.8: Active experiments

The Abdul Latif Jameel Poverty Action Lab (J-PAL)[51]

J-PAL is a network of over 50 professors around the world who are working to reduce poverty by ensuring that policy is based on scientific evidence. It is driven by a shared belief in the power of scientific evidence to understand what really helps the poor, and what does not. The work of J-PAL is based on the method of randomised evaluation, a form of impact evaluation which uses random assignment to allocate resources, run programmes, or apply policies as part of the study design, with the purpose of determining whether a programme has an impact, and to quantify that impact. The impact is measured by comparing those communities, individuals or institutions which received the programme with those which did not.

J-PAL is conducting randomised evaluations to test and improve the impact of poverty-alleviation policies and programmes. It is also working to build capacity by providing expertise to people interested in programme evaluation, and training on how to conduct randomised evaluations. Lastly, it is impacting policy by performing cost-effectiveness analysis to identify the most effective ways to achieve policy goals. It disseminates this knowledge to policy-makers, and works with governments, NGOs, foundations, and international development organisations worldwide to promote the scaling of effective policies and programmes.

J-Pal works across seven programmes organised by theme: agriculture, education, energy and environment, finance, health, labour markets, and political economy and governance. These programmes provide guidance to J-PAL's policy group on turning research results into material that policy-makers can access easily, including cost-effective analyses and policy bulletins. The policy group then works to disseminate results of J-PAL research to policy-makers.

French Experimentation Fund for Youth[52]

The French Experimentation Fund for Youth is a €230-million fund established in 2008 by Martin Hirsch, the High Commissioner for Youth at the French Administration. It coordinates experimentation and evaluation activities of policies related to young people. The Fund was set up to encourage innovative programmes for young people. It aims to see the skills of young people valued and recognised, and also developed outside of formal education. Since the Fund was set up it has funded and evaluated 350 projects.

The Experimentation Fund operates through calls for proposals. The selected projects receive financial support to test their innovations in a safe environment. New policies are tested by initiating the new social policy on a limited scale, implementing it under conditions that allow for evaluation of the effects. The policy is then tested on a randomly selected group where recipients are compared to a group of non-beneficiaries.

7.7 Payment by results

Payment by results (PBR) is not a new concept – some forms of it have been around for years. One example is the trading of carbon credits between countries, another is 'justice reinvestment' which has gained popularity in parts of the US.[53] New variants of payment by results are being attempted in different parts of the world. In the US, Obama recently committed $100 million of federal funding to kick-start a programme of what has been called 'Pay for Success Bonds'. In the UK, the Ministry of Justice is supporting a series of pilots called 'Transforming Justice', whose aim is to incentivise local agencies to work with people at risk of entering the criminal justice system. In the Australian state of New South Wales and in Peterborough prison in England, Social Impact Bonds are being piloted to reduce offending.[54] There are other initiatives in the UK which are being proposed around worklessness, housing and health care.

There are **several possible financial instruments** by which a payment-by-results approach can be funded. These include Commissioning for Outcomes; Social Impact Bonds (where investors put up a sum to fund a new preventative intervention, with savings enabling payment back on a good outcome); and Incentive Top-up Payment models (where central government offers an incentive linked to improved outcomes among local agencies).

The **sources of investment** depend, up to a point, on which funding mechanism is being applied, but can be reduced to several options. In the case of Social Impact Bonds, investment can be made by the business world[55] or from charitable foundations' endowments (not grants), on a contractual basis which promises a commercial rate of return if the intervention achieves a particular outcome. In other cases, the initial investment can come from local agencies commissioning or implementing the intervention themselves – for example, municipalities or housing associations using their status and borrowing power to borrow funds from ordinary banks or, indeed, using their reserves. More innovative sources of funding could include crowd funding or even social investment with negative returns (where a fund sets out to support social causes and to make an annual loss). The key here, however, is that the source of funding is **not central government grants** but rather, in most cases, new money – newly directed at the social problem in question.

Whilst a PBR approach may not always be suitable, its significant advantage is that it can help **realign incentives** between local and national agencies where these are out of sync – away from very big national to tailored and local; away from immediate untested roll-out following small pilots to gradual increment; and away from **process** to **outcomes**. It also acts to transfer risk, away form **central government** agencies to either investors or implementers (who, in some cases, may be the same body), depending on how the contract is structured.

This is a field that DG Employment and Social Affairs, together with national and regional policy-makers, could demonstrate a new approach to social impact in which rewards are linked to results. Social impact bonds[56] take this process a stage further by incentivising private investors through a bond issue in which the returns are linked to social performance.

Finally, there is the challenge of policy for governments and European institutions. For the approach to be plausible, leadership and agenda-setting are needed across a number of dimensions. A standardised and consistent approach will ensure that in settings which may be problematic for a number of European countries (as discussed above, examples include justice, worklessness and health) there is a coherence of solutions, and the transnational 'market' for these types of interventions is stronger.

Some issues policy-makers would need to consider include:

- Impact measurement – ensuring that the right outcomes are being measured, for example, cumulative sentence lengths vs. a binary measure of incidences of convictions in the example of criminal justice;
- Sizes of projects, both at the pilot stage and when being scaled;
- Sensible time frames for scaling;
- Consistent baselines and top caps for results;
- Co-commissioning between different departments and directorates – for example, the Ministry of Welfare and the Ministry of Justice;

- Allowing concepts to mature and projects to become established – in many cases, results for first-year cohorts may be disappointing due to issues of project infrastructure not yet being fully in place, and teething problems being ironed out;
- Tax treatment and questions of financial regulation – whether social investment and returns generated from savings are treated differently to traditional commercial investment, and whether social investors are subject to the same tax rules;
- Managing risk – if European agencies wish to create a market in social investment, underwriting some of the risks via the European Social Fund may, in the first year of implementation when the programmes are being developed, reassure both investors and delivery agencies.

Proposal: despite the pressures of fiscal consolidation, encourage contracting bodies to invest in solutions to intractable social challenges where demonstrable savings can be made. Contracting bodies should not reject innovative and progressive proposals to address seemingly intractable social challenges citing budget cuts and the need to preserve basic services. Instead, guided by the criteria set out above, they should apply feasibility tests to establish whether the proposed interventions could still be commissioned and, rather than diverting funds and simply retrenching, paid for instead via a payment by results (PBR) mechanism.

7.8 Research and innovation

A key step in modernising EU programmes for research and innovation is to bring together within a single Common Strategic Framework for Research and Innovation (CSF, now called 'Horizon2020') the three main existing initiatives and sources of funding:

- The Seventh Framework Programme
- The innovation part of the Competitiveness and Innovation Framework Programme (CIP); and
- The European Institute for Innovation and Technology (EIT).

Horizon2020 should be more streamlined than current funding schemes, and will be implemented through harmonised rules and procedures. In this way, research and innovation activities will be coupled together coherently and the impact of EU funding will be increased. Horizon2020 will increase the added value of EU interventions through generating the critical level of resources, expertise and excellence for research and innovation that cannot be achieved at national level.

By making EU research funding simpler and more coherent, Horizon2020 will also be more SME-friendly and open to new participants. It will improve the dissemination of the know-how needed for innovation and policy-making. It will allow the Joint Research Centre to contribute more effectively to policy-making. It will give a more strategic orientation to international co-operation and will underpin the European Research Area.

The Horizon2020 proposal in 'A Budget for Europe 2020' specifically sets out tackling societal challenges as one its priorities. This block will cover the entire spectrum from research to market. It will integrate innovation actions (pilots, demonstration, test beds, support, support to public procurement, and market uptake of innovation), cross-disciplinary approaches, and socio-economic and humanities research. The focus will be on: health, demographics changes and well-being; food security and bio-based economy; secure, clean and efficient energy; smart green and integrated transport; supply of raw materials; resource efficiency and climate action; and inclusive, innovation and secure societies.

Proposal: the European Commission should ensure the Horizon2020 budget proposal supports the role that SMEs, including social entrepreneurs, can play in the social innovation agenda, specifically pledging support to promote business research and innovation in enabling technologies; services and emerging sectors with a strong focus on leveraging private investment in research and development.

Proposal: currently, the RSFF does not support social innovation. The SIE initiative proposes that the RSSF dedicates 25% of its budget to funding social innovation. As already mentioned, the RSFF is a scheme to improve access to debt financing for private companies or public institutions promoting activities in the field of research development and innovation.

8. Funding social innovation – other sources

8.1 What role can the private sector play in financing and funding social innovation in Europe?

Recommendations for private investment

The European asset-management industry had around €7 billion in assets under management at the end of 2009. This demonstrates why the asset-management industry can be an important financial lever; indeed, some fund managers have already been developing the necessary expertise to effectively channel investments into social innovation.

This raises the question as to what steps might be taken to maximise the contribution of the asset-management industry to support social innovation. This would entail the creation of private-investment vehicles to collect private money; it is not about creating a new European body or organisation providing public money to social business. The envisaged fund framework would not be a conduit for public money. The goal is to ensure a framework is in place which helps to facilitate the creation of investment funds that can use the opportunities of the Single Market to better provide capital to social business.

In its function as an intermediary between social ventures and investors, the financial sector might be an important tool to bridge funding gaps, and to enable social business to get access to bigger and deeper pools of capital across the whole EU.

A relatively small proportion of social innovation projects will be suitable for investment that yields significant financial returns, but there is potentially a great deal of capital available for such opportunities.

Challenges:

- Lack of efficient intermediation, with high search and transaction costs caused by fragmented demand and supply, complex deals, and a lack of understanding of risk. The compensation system for traditional intermediaries also impedes getting small deals done which may have less lucrative fees.
- Lack of enabling infrastructure to help people identify and function as part of an industry since the market is structured around a history of bifurcation between philanthropy (for impact) and investment (for returns). Networks are underdeveloped, and a lack of reliable social metrics makes the suspected trade-off between financial and social returns even harder to assess.
- Lack of sufficient absorptive capacity for capital, with an imminent lack of impact-investing opportunities into which large amounts of capital can be placed at investors' required rates of return.

Proposal: the European Commission should create a 'European brand for social investment funds'. Shaping the underlying nature of such a brand depends on whether barriers to funding have been rooted more in a lack of investor confidence in existing structures, or on features of existing fund models that limit their effectiveness in targeting social businesses. If problems are mostly related to confidence of investors, it might be sufficient to build on existing fund structures, but to create more clarity and standardisation as to what can be marketed as a social investment fund, and possibly to broker common labels across different national markets. If problems also relate to the structure of the existing fund frameworks themselves (such as limits on the assets into which the funds are permitted to invest), a new framework might be also necessary which is specifically tailored for investments into social business.

Proposal: the European Commission should encourage private companies to launch social ventures with public or social partners to exploit innovations that are not viable in the private market. There are a variety of ways in which funding gaps might be addressed, for instance by opening up new conduits for investments – such as the creation of social stock exchanges that facilitate raising capital by issuing equity or bonds, the creation of social investment banks, or the use of micro-credits to provide direct funding.

8.2 What is the role for foundations?

Foundations – Venture Philanthropy

Venture Philanthropy (VP), including grant funding and social investment, is a tool which foundations can be encouraged to use to support social innovation. It is not intended or expected to revolutionise philanthropy, but can serve as a good model for some foundations. VP's strategies need not replace existing approaches, but rather are additional elements to add to a foundation's funding toolbox.

VP is still an emerging player in the social sector, with the fundamental challenge of offering new solutions to the promotion and encouragement of entrepreneurship and innovation. In order to achieve this, the industry must address a number of 'enabling' issues, namely[57]:

- Communicating and marketing what they do within the social sector (to multiple audiences, statutory agencies, other types of social sector funders, social entrepreneurs and non-governmental organisations);
- Developing a range of financial instruments and advisory services that meet the needs of investors;
- Measuring the performance and social impact;
- Collaborating with and learning from complementary capital providers such as foundations or private equity and venture capital firms.

Consideration should be given to the type of funding models that will be applied. The main question to be answered is whether the VP organisation will work with instruments other than grants or focus on grant funding of target social purpose organisations. In many European countries, tax and legal regulations distinguish between grant funding, and instruments that establish ownership titles, and the legal structure of the VP organisation has to take such regulations into account.

According the European Venture Philanthropy (EVPA), a significant proportion of the full members invest in the UK, mostly due to the fact that many VP organisations are registered in this country and invest locally. For the same reason, investments are made throughout Europe. Outside of their home country, full members focus their investment on developing or transitional countries, most of which are situated in Africa or in Asia. Central and Eastern Europe and Latin America attract some VP investors, while a few have no geographical focus.[58]

Foundations have an important role to play in catalysing the market for investment in social innovation and demonstrating to mainstream investors why they should invest in this area.

Proposal: the European Commission should work closely with the EVPA and other umbrella bodies. It should ensure a coordinated approach to VP across the Member States and should work towards promoting mission-related and investments.

Proposal: the European Investment Fund (EIF) should encourage the involvement of foundations in the European Social Investment Facility (ESIF).

Proposal: foundations should aim to offer a spectrum of support, including grants, as well as other types of investment. Offering grants to socially innovative initiatives in their early stages helps them to become 'investment ready' – and thus eligible for funds at later stages of development.

9. Creating a shared intelligence

Developing metrics is an essential way to draw attention to effective methods and models within the field of social innovation. The European Union must demonstrate a commitment to providing an evidence base and knowledge across Europe in this area. Proof of impact is one way to stimulate demand and secure the financial resources and support needed to scale up social innovations. However, indices and metrics for innovation in the social field are underdeveloped – compared to metrics for measuring innovation in other fields. The Social Innovation Europe initiative's next report will develop in more detail ideas about how to measure social innovation.

While in the market context there are simple and generally unambiguous measures – i.e. scale, market share and profit – within the social field "the very measures of success may be contested as well as the tools for achieving results".[59] Existing indices for business innovation cannot be easily transferred and applied in the context of social innovation.

Proposal: the European Commission should commit from the EU concerning the development of indicators to measure social innovation and common approaches to analysing value.

Proposal: the European Commission should regularly map exercise of the social innovation field in Europe, creating a shared intelligence of this area as well as highlighting gaps in the landscape for social innovation in terms of needs and potential.

Proposal: the European Commission should support networks of stakeholders, investors and promoters of social innovation (perhaps thematically) which will help consolidate knowledge and create a shared intelligence within the field.

Proposal: the European Commission could also use its convening power to speed up diffusion of social innovation methods and practices, and for scaling up proven business and business models across the EU. It could conduct a regular research exercise investigating what does and does not work, and why.

Box 10.1: Networks

Social Polis – Social Platform on Cities and Social Cohesion

Social Polis, a project carried out during 2007-2009, was built and coordinated by 11 universities from all over Europe. It aimed to build a social platform for policy-makers, researchers, civil society workers, urban planners and architects, with the task of producing knowledge on social cohesion in cities.[60] With this knowledge, based on scientific expertise and a broad range of experience from activism, planning and policy-making, the platform worked on shaping future European research in the field of social cohesion in cities.[61]

The overall objective of Social Polis was to develop a research agenda focusing specifically on the role of cities in social cohesion and on key related policy questions. This objective was implemented on three fronts: critical analysis of research; construction of a social platform of related networks for information gathering, dialogue and agenda-setting; and the production of thematic strategic texts supporting a coherent research agenda.[62]

"The financial and economic crisis makes creativity and innovation in general, and social innovation in particular even more important to foster sustainable growth, secure jobs and boost competitiveness."[63]

President Barroso

10. Conclusion: a call to action

The failure of many of the traditional tools of government policy and market forces to adequately respond to the most pressing social problems has resulted in the rapid growth of new and innovative approaches to addressing social needs. With new methods, new technologies, new business models and new institutions, social innovation is changing the way governments, civil society and business operate. However, while activity in this field is growing across Europe, social innovation is failing to achieve its full potential.

There is an urgent need for Europe to become more effective at translating the many promising ideas into mainstream practice. Limited access to finance is an important barrier to achieving this. This report argues that improved access to funding is crucial for social innovation to grow and develop, and that the European Union has a critical role to play in mobilising financial resources and coordinating activity.

This report comes at time when Europe is at a critical juncture, and it shows how the European Commission can use social innovation to deliver on Europe's priorities for the future. Europe has yet to fully achieve its goal of being the most competitive global knowledge economy, and is neither investing effectively nor appropriately in the infrastructure, competencies, creative environments and businesses that are socially innovative. Social innovation has the possibility to create real and meaningful social, environmental and community impacts.

In this report, we have recommended a coordinated and pan-European approach for the EU to create a family of funds that will encourage social innovation. We have described how finance is needed in different forms at different stages ranging from:

- Funding for fundamental research and development of concepts;
- Seed funding for promising ideas;
- Funding for pilots and prototypes, as well as for evaluations;
- Finance for embedding successful models; and
- Finance for growth.

We suggest a family of funds for social innovation that would be organised around the innovation life cycle. We have recommended that funding for social innovation is embedded in existing funding programmes. In addition, we have proposed a dedicated social innovation fund under the direct management of the Commission. This fund would enable Member States to build the capacity to enable them to better engage with social innovation.

As well as financial support, there is also a need for the EU to be an agenda setter, to help coordinate activity and knowledge sharing and, importantly, to promote the power of social innovation and its role in achieving the Europe 2020 objectives. Social innovation has the potential to boost competitiveness and growth, and the Commission should use its convening power to exploit these opportunities. It should make a concerted effort to collect good practice: what is working, what is not and why. It should support the setting up of web-based platforms/ portals to share good practice, to facilitate interaction and exchange, and to create networks of stakeholders, investors and promoters of social innovators.

This report has outlined some of the ways the EU can mobilise financial support for social innovation and how it can facilitate all sectors to work together and co-operate. By its very nature, social innovation crosses many boundaries and sectors and parts of EU bureaucracy. It is important that the Commission takes a coordinated approach, especially across different European institutions and directorates, connecting related initiatives such as the Social Business Initiative and the European Innovation Partnerships. In addition, the Commission must also strengthen co-operation with private-sector initiatives, ensuring it does not crowd out the growing private interest in the field.

We believe that the Commission's recent budget proposals (2012-2013 and 2014-2020) are very much in line with the vision that we have set out in this report. This includes some very positive strategies to promote social innovation across the Union, in particular the use of innovative financial instruments and proposals to tackle major societal challenges, such as health, ageing, climate change and social inclusion. As this agenda moves forward, Europe will be well placed to become a world leader in the field of social innovation.

The report represents a major step in creating an effective European approach to funding social innovation. However, while finance is a significant barrier to growth in this field, organisations and individuals require the skills and capacity to make effective use of them. There is a concomitant need to develop and enhance the skills and capacity of thousands of civil society practitioners, social enterprises, municipalities, businesses and governments. Without these skills, money risks not being used or worse, being wasted, while innovative new approaches risk failing unnecessarily.

Metrics are another significant barrier. Practitioners, Commissioners, investors, funders and other stakeholders require more effective approaches to evaluating the outcomes of social innovations. Further investment, scaling and dissemination of an innovation can only happen if it is successful; and success has to be measured. The second report in this series looks at the tools and methods for evaluating innovation and how they can be better applied and developed to meet the needs of the different stakeholders involved.

End notes:

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