INTERREG SIV

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Capacity Report

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Content

1. Introduction

The aim of this document is to describe to third parties the requirements for an effective social impact fund management and required resourced (e.g. staff requirements, task description, software requirements, banking standards). Also used for scaling as basis for webinars.

2. Social Impact Fund

2.1. General considerations

The international project Social Impact Vouchers is based on two main pillars - the Social Impact Fund establishment and the Voucher System launch. The voucher system shall be financed by means of the social impact fund. The main aim of the social impact fund is to serve as a tool for pooling capital required to support activities that would be financed through a targeted voucher system.

During previous project meetings, partners had an extensive discussion about the form and the scope of the social investment fund and have elaborated several possible options. The options to choose are the following:

- Regulated alternative investment fund (AIF)
- Unregulated social impact fund
- Joint multilateral fund for all project partners
- Individual fund for each project partner

In the table below we elaborate on the advantages and disadvantages of different options:

Type	*Pros*	*Cons*
Regulated AIF	Supervised structured fund	Expensive for management
	More attractive to investors	High initial capital threshold (>5M EUR)
	Able to attract institutional investors	Less able to experiment and adjust
	Possible to combine with other financial instruments	
	Professional fund management structure	
	Ability of scaling up	
Unregulated social impact fund	Can be started with very small initial capital	Higher transaction costs
	Very flexible and easy to adapt	Potential taxation issues
	Possible for tailor-made approach	Higher operational risk
	Can be operated individually by each partner or jointly	Limited impact
Joint multilateral fund	Uniform and more effective management	Multi-currency issues
	Clearer outputs from the perspective of SIV project	Issue of public investors' ability to invest to a fund not managed in their country
	Ability to attract more capital	
	Improves collaboration of entities in other countries	
	Increases chance of continuation of activities after the end of the project	
Individual funds per project partners	Operations exactly in line with local needs	Transparency issues
	Bottom-up approach	Issue of sustainability of (very) small funds
	Fund operating in sandbox regime	Problems of attraction of capital

After PP meeting in Vienna it was decided that most project partners would prefer to establish joint social impact fund while several of them (four) would prefer to maintain their own national funds. Therefore the conclusion was that in the design of the fund, the maximum attention will be given that all policies and procedures designed for the joint fund should be made in a way that makes them as applicable as possible also to the partners who are going to manage their own funds.

2.2. Type of the fund

This document has been written to be to the largest possible extent invariant on the chosen structure of the Fund. Protocols and procedures are designed to be in line with the best industry practices and even though fund will not be licensed (i.e. supervised by the financial regulator) in its initial phase, the procedures described in this document will reflect ambition that the fund could evolve to a licensed one in the medium term period.

Furthermore, the assumption of this document is that the fund will be placed in a dedicated legal entity (Special Purpose Vehicle – SPV) for easier governance, risk management and marketing of the fund. However, the same principles could apply for a fund that remains within an organisation with activities that are not solely focused to the fund operations. This option will be most likely chosen by partners not willing to participate in a joint multinational fund. In that case it is still strongly suggested that fund operates to the largest possible extent independently and insulated from the other activities of the organization (i.e. with its own bank account, decision making structure etc..

2.3. Elaboration of steps needed to setup the fund

2.3.1. Design of the fund

In order to successfully raise capital from potential investors, the fund management team must design a fund strategy and implementation plan. A well-designed fund strategy is, perhaps, not itself sufficient to attract potential investors, but no amount of marketing skill can help a poorly designed fund secure investment capital

An effective fund design comprises three key elements:

1. an investment and impact thesis;
2. fund foundation and structure;
3. coherent economics showing how fund objectives will be achieved

Though often initially tackled sequentially, beginning with the crafting of a compelling thesis and ending by ensuring sound fund economics, these elements are highly interdependent and require iteration. As a fund manager develops a more sophisticated understanding of potential investor interest, each element should be revisited and revised to create a coherent overall approach. For example, a fund's initial thesis and size may require revision once the team develops a detailed operating budget.

Particular attention of social impact fund in our case should be given to the decision if the fund is expecting to be delivering financial returns or will only be focused to deliver reports about measurable impact to the investors in the fund.

2.4. Comparative analysis of capacities needed for various types of social impact funds

Depending on the choices on the legal structure of the fund, number of beneficiaries and other fund specifics, we can determine minimum threshold capacities needed for successful fund operations.

Those capacities are presented in the table below:

	Regulated SIF (AIF)	Unregulated SIF (investment-based)	Unregulated (grant-based)
Minimum fund size	10+ M EUR	200k EUR	No limit
Legal entity required	Yes	Yes	No
Management team	Yes (3 members)	Yes (3 members)	No need but strongly suggested
Supervision team	Yes (3 members)	No for funds less then 5M EUR, suggested to have (3 members)	No
Number of people in administration	3-4	1-2	Part-time or not more than 1
CRM system required	Yes	No (good to have for funds with large number of beneficiaries - 100+)	No (good to have for funds with large number of beneficiaries - 100+)
Reporting system required	Yes	Yes	No
KYC and AML procedures	Yes	No	No
Advanced/internal accountancy	Yes	Yes	No
Annual financial audits	Yes	Yes	No