ADIE'S SOCIAL IMPACT CONTRACT

CASE STUDY OF A SOCIAL IMPACT CONTRACT

A study by the Impact Invest Lab
- January 2020 -
SOCIAL IMPACT BOND (SIB) ENTERED INTO
GOVERNMENT,

ADIE (ASSOCIATION FOR THE RIGHT TO ECONOMIC INITIATIVE)

AND

as investors
STRUCTURER
THIRD-PARTY APPRAISER

BNP PARIBAS
FONDA MObILIZ
AG2R LA MONDIALE
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FOREWORD

Social impact bonds as a public policy transformation tool

"Given the scale of the social, environmental, demographic and regional challenges facing us, we must develop new models and public/private alliances mobilising the strength of the economy and finance, enterprises and investors in support of innovative solutions with a proven impact, mainly driven by SSE (social and solidarity economy) enterprises. In particular, these new alliances entail flexible public policies that encourage risk-taking, initiative and experimentation and identify, support and speed up existing responses.

The resources are there and a method already exists: impact investment. A tool also already exists: the social impact bond.

Social impact investing attracts investors that seek a reasonable return and choose to finance initiatives with a strong social and environmental impact. French social impact bonds (contrats à impact social – SIBs) – adapted from the Social Impact Bonds developed since 2010 across the globe – are a social impact investing tool designed to foster the emergence of innovative social projects promoted by social and solidarity economy enterprises geared towards prevention, thereby delivering cost savings for the public authorities. These government or regional authorities undertake to pay back the initial financing to investors, with or without interest, depending on the social impact of the programme and therefore on the savings actually made.

Social impact bonds are thus an instrument serving both to finance social innovation and to shift our public policies – often still too focused on reparation – toward a preventive approach and structural savings for the public coffers. Around 20 countries have now financed nearly 130 projects thanks to SIBs for a total of almost €400 million invested, so impacting the lives of more than a million people in both developed and developing countries (Development Impact Bonds).

Following the launch of the experiment in 2016, ADIE’s social impact bond was the first to emerge. It has been a great success, albeit the result of a long, demanding process.

Given the scale of our societal challenges and the growing appetite for social impact investing of both SSE enterprises and investors, there is now an urgent need for fresh impetus.

That’s why I’ve entrusted ADIE President Frédéric Lavenir with the task of simplifying and accelerating the deployment of SIBs and examining the conditions for the creation of a results-based payment fund.

We aim to reconcile finance with social and environmental impact, and investment with public interest. It is now time for France to commit firmly to this path by supporting innovative systems that other countries in Europe and across the globe have already been successful in setting up."

Christophe Itier

High Commissioner for the Social and Solidarity Economy and for Social Innovation
"In remote rural areas, isolation hinders access to networks supporting business start-ups. To overcome this barrier, we have come up with a new approach for our initiative to facilitate business start-ups in these regions affected by the desertification of town centres.

Social impact bonds have enabled this project to take form by providing hard-to-raise financing via subsidies. Such bonds lend themselves perfectly to experimentation, via multiannual financing that secures this pilot phase and independent appraisal that measures the effectiveness of the programme and, where applicable, validates the need to extend it to other regions.

The need for social impact bonds requires the involvement of all partners, whether in preparing the appraisal system or in terms of the legal structuring. This joint construction arrangement is one of the keys to its success.

The choice of indicators and objectives, for example, is the result of a consultation process during which a whole series of proposals made by the appraiser is reviewed. We chose a limited number of simple, measurable indicators that fulfilled the social purpose of the programme. This last point is critical: the operational programme must not be adjusted to meet the requirements of social impact bonds, it is rather the appraisal system that must serve the programme.

This new tool is a real opportunity to finance innovative projects with high social impact that would otherwise not be financed."

Emmanuel Landais
Directeur Général de l’Adie

"Through our global facility Act For Impact, developed step by step since 2013, we wish to speed up the emergence and change in scale of high-impact entrepreneurs.

Act For Impact has a network of around 100 reference business managers across the country trained in the specific features of social entrepreneurship and driven by a sense of community to share best practices on an ongoing basis. We are also equipped with a tailored grid for reading the balance sheet and an impact measurement methodology. All our resources enable us to play a key role as a facilitator and ‘connector’ between the various economic stakeholders and thus help build strong alliances between public and private financiers, support networks, incubators and impact investing funds.

Against this backdrop, as soon as the government launched its call for projects in 2016 we supported ADIE, our long-standing partner of 30 years, in designing and structuring France’s first home-grown social impact bond. The purpose of this bond was to set up an innovative programme to foster entrepreneurship in a selection of remote rural areas and support 500 men and women in difficult circumstances or out of work. These people are expected to be re-enter the labour market long-term, delivering more than €2 million in savings for the State.

We were keen to develop this financial innovation as it enables us to provide our technical expertise in the areas of structuring and investment in support of social innovation, demonstrating its impact and mobilising investors while at the same time satisfying the needs of our SSE customers in terms of diversification of resources. As a financier for all economic players, we are perfectly placed to play a pivotal role in coordinating the various SIB stakeholders: investors, public authorities, social operators, philanthropists, etc.

We were especially motivated to roll out this maiden SIB as we were very confident in the ability of our partner ADIE to turn this experiment into a success. This prototype has since been followed by a number of projects initiated by other players to which we have also provided R&D support as we are confident that this unprecedented programme is relevant for the future, as it concentrates efforts on tangible projects helping to build an inclusive and sustainable society."

Marie-Claire Capobianco
Membre du Comité Exécutif du Groupe BNP Paribas, Directrice Croissance & Entreprises

"ADIE’s social impact bond was one of the first signed in France. A further seven social impact bonds were signed over the following two years. Because it was the first, it served as a model for the development of the other social impact bonds. It was also a model examined in the working group set up by Frédéric Lavenir on behalf of the High Commission for the Social and Solidarity Economy and for Social Innovation, aimed at simplifying the implementation of these types of bonds in France.

For all these reasons, at Impact Invest Lab we felt that it was important to publish a detailed study of this bond in order to pass on some of the expertise acquired during its development. We tried to focus on the points critical to the implementation of SIBs – justification of the social issue and solution provided by the project, the indicators to be put in place to evaluate the project, and the financial mechanism – so as to produce a concise study of use to all those wishing to develop their SIBs based on this model.

We wish to thank all stakeholders of this bond who disseminated this information and worked with us to bring together the findings in this study, which could not have been produced without their participation."

Cyrille Langendorff
CEO of iLab, Chairman of the French Committee on Social Impact Investing
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PREAMBLE

Social impact bonds are designed to finance, via private investors, social projects geared towards prevention enabling a third-party payer – generally representing the public authorities – to deliver savings if these projects are successful. These savings enable the third-party payer to pay back the cost of these programmes to the investors, with interest, defined in accordance with the achievement of social outcome targets.

Projects eligible for social impact bond financing must meet a number of criteria:

- **Have a preventive approach by way of an innovative project targeting a defined or definable population group.**
- **Be quantifiable and able to set targets for medium-term results via a limited number of indicators.**
- **Deliver sufficient savings for the local authority to cover the total cost of the project, including its operational costs and costs connected to the social impact bond (return generated for investors, appraisal costs and structuring costs).**

The purpose of this case study is to present ADIE’s social impact bond, the maiden SIB signed in France. This SIB is intended to ensure financing by private investors of an experiment giving deprived beneficiaries access to microcredit to help them develop a business activity in remote rural areas via digital tools. These beneficiaries are expected to be sustainably reintegrated into the labour market. The savings delivered to the local authority, particularly in terms of unemployment benefits avoided, can be used to reimburse the investors.

In 2016, ADIE responded to the call for projects to be financed by social impact bonds launched by the Ministry of State with responsibility for the Social and Solidarity Economy, headed up at the time by Martine Pinville.

Having received the seal of approval on 1 July 2016, the subsidy agreement for this bond was signed by French President François Hollande on 24 November 2016 and the programme was launched in January 2017.

**What is this study’s target market?**

This study is aimed at any individual or structure keen to know more about social impact bonds and how they should be structured for a project, or keen to have more information about France’s maiden social impact bond.
I. SUMMARY OF THE ADIE PROGRAMME AND PRESENTATION OF THE ASSOCIATION

1. ISSUE AND CONTEXT

In 2016, France’s average unemployment rate of 10.1% – having grown by 1.06% a year on average between 2004 and 2016 – was higher than the average European Union rate of 8.1%. This unemployment rate varies from region to region, especially between urban and rural areas. For example, the number of job vacancies tends to be lower in rural areas: 26,000 jobs were created in urban areas in 2016 whereas the number of jobs fell by 64,000 in rural areas. The ADIE programme focuses on three such rural areas where the unemployment rate is particularly high. INSEE studies show that the unemployment rate in these three areas is nearly 10% in Hautes Alpes and 13% in Alpes de Haute Provence (area 1); 13.3% in Nièvre (area 2); and 12.4% in Ariège (area 3). On top of the social problems experienced by people affected by unemployment, there is also a cost for the local authority. A study conducted by ATD Quart Monde, published in 2015 as part of the “Territoire Zéro Chômeur” (Zero Unemployment Territory) programme, estimated this cost at €15,470/year/person for job seekers no longer receiving unemployment assistance (39.6% of job seekers in 2014, i.e. nearly 2.3 million people). That is the aggregate cost of the various benefits, social assistance and loss in revenue to the State attributable to each individual. We will see how the costs prevented by the ADIE programme are calculated.

In order to address the issue of job desertification in rural areas and regenerate these regions, ADIE’s SIB promotes access to microcredit for business start-ups, thereby tackling the resulting social and financial issues.

ADIE, an association at the heart of the fight against unemployment

ADIE is an association working in the public interest that champions the notion that anyone, even without capital or qualifications, can become an entrepreneur. Founded in 1989 by Maria Nowak, it adapted the principle of microcredit developed in Bangladesh by Muhammad Yunus to France.

Attached to its values based on trust in the abilities of each and every person and the basic right to initiative, ADIE brought together its three main remits:

- Finance start-up entrepreneurs who do not have access to bank credit, particularly the unemployed and recipients of minimum social benefits.
- Support start-up entrepreneurs before, during and after they have set up their business to ensure their sustainability.
- Help to improve the institutional environment of microcredit, business start-ups and reintegration into the labour market.

This study focuses on three regions: Burgundy, Alpes and Midi-Pyrénées.

In 2015, a feasibility study was conducted in partnership with Fondation Avril. This helped ADIE to tailor its organisation and business offering in rural areas and to confirm the programme’s needs and feasibility, particularly to beneficiaries and elected representatives. Fondation Avril was also the only private partner to finance the first experiment in six departments (Cantal, Aveyron, Haute Loire, Indre, Cher, north Allier) between 2016 and 2018.
2. PROPOSED METHODOLOGY

In concrete terms, ADIE grants two types of microloans to its beneficiaries – professional microloans (MCPRO), provided for business start-up or development projects, and mobility microloans (MC Mobilité), granted for projects enabling people to return to or remain in paid employment.

ADIE’s five major requirements under this programme are to:

- Support, as a matter of priority, people in situations of poverty and exclusion. This will be one of the requirements for implementation of projects under this financing initiative;
- Propose a comprehensive and innovative range of financial and non-financial services tailored to the needs of beneficiaries;
- Meet optimally the needs of the beneficiaries via personalised support;
- Check the quality and relevance of the services offered;
- Contribute to the creation of viable, sustainable micro-enterprises and to a return to long-term employment. This requirement is central to the appraisal of projects financed by social impact bonds.

PROFESSIONAL MICROCREDIT (MCPRO): PAVING THE WAY TO A RETURN TO EMPLOYMENT

Professional microcredit is at the heart of ADIE’s concept of reintegration through economic activity. It is intended to provide a maximum amount of €10,000 to finance the creation or development of a business. This type of microcredit, combined with support to foster business start-ups, aims to help generate additional jobs.

MOBILITY MICROCREDIT (MC MOBILITÉ): HELPING PEOPLE RETURN TO OR REMAIN IN EMPLOYMENT

Until 2008, ADIE offered only professional microloans. Access to mobility is also a factor facilitating social and economic integration. Mobility microcredit (maximum amount of €5,000) is therefore designed to finance mobility to promote employment (driving licence, vehicle purchase or repairs).

UPSTREAM AND DOWNSTREAM SUPPORT FOR THE BENEFICIARY FOR STARTING UP A BUSINESS

During the project launch and throughout the lifetime of the microloan, a mentor supports ADIE’s beneficiaries and puts them in contact with experts according to their needs. Furthermore, following the creation of a business ADIE’s Conseil Info platform is tasked with addressing the tangible concerns of ADIE’s customers in terms of managing their business, with special support for dealing with legal issues.
3. APPRAISAL, A PRACTICE USED BY ADIE FOR A NUMBER OF YEARS

«Measuring its social performance is a permanent duty for ADIE key to ensuring that it remains faithful to its commitment to its public and private partners but especially to the people that it finances and supports.»

Catherine Barbaroux – Chair of ADIE until September 2016

ADIE has developed a system for monitoring the social performance of its activities upstream, during the execution of its operations, and downstream thanks to three complementary tools:

![ADIE’s social performance monitoring system](image)

Three studies on the use of microloans conducted between 2013 and 2016 resulted in an appraisal of the cost savings that, according to an assessment, assumptions and a methodology formulated by KPMG, would be delivered for the local authority thanks to ADIE’s programme.¹

¹SPI4 definition: SPI4 is a social performance audit tool designed by CERISE and the Social Performance TaskForce, assisted by their members, to help financial service providers achieve their social outcomes targets.

²ADIE’s assisted microcredit: a way back to work in times of crisis. 2013 summary of the study of the impact of ADIE’s programme (ADIE, CSA, 2013); Summary of the study of the impact of personal microcredit for paid employment (MCES) (ADIE, CreditCoopératif, 2015); Measuring the economic impact of ADIE’s professional microcredit (MCRPO) programme (KPMG, 2016).
COST SAVINGS GENERATED BY A RETURN TO EMPLOYMENT

The first study, conducted in 2013, examined the impact of ADIE’s assisted microloans chiefly targeting business start-ups. Of the 1304 start-up entrepreneurs surveyed:

- 42% of those assisted and financed by ADIE in 2012 were recipients of minimum social benefits (of whom 37% receiving RSA [low income supplement]) when their business was set up vs 7% of all start-up entrepreneurs in France;¹⁰
- The survival rate two years after businesses were set up by micro-entrepreneurs assisted by ADIE was 72%. It was 58% after three years;
- 84% of micro-entrepreneurs were reintegrated into the labour market, of whom 63% by the continuation of their business and 21% as employees or creators of a new business;
- Entrepreneurs assisted by ADIE also create employment as shown by the graph opposite;
- And the turnover generated by the businesses assisted by ADIE is increasing, with an average turnover of €32 300 for the surviving businesses.

The second study examined the effects of mobility microcredit for its beneficiaries. This study shows, in particular, the change for these beneficiaries in terms of employment as illustrated below.

¹⁰ SINE 2010 survey, excluding self-employed entrepreneurs.
Lastly, the third study examined the economic impact of microcredit on business start-ups. It showed that (i) the cost of this programme was amortised over 14 months, and (ii) for every euro invested in the programme, it generated €2.38 for the local authority at the end of the second year following the grant of the loan.

### Table: Economic Impact of the MCPRO Programme in Years 1 and 2

<table>
<thead>
<tr>
<th></th>
<th>Année 0</th>
<th>Année 1</th>
<th>Année 2</th>
<th>Année 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coût du programme</td>
<td>24.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coût social (inactivité)</td>
<td>3.6</td>
<td>11.1</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>Gains fiscaux et sociaux générés totaux</td>
<td>14.9</td>
<td>30.4</td>
<td>46.8</td>
<td></td>
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<tr>
<td>Gains nets annuels</td>
<td>18.6</td>
<td>43.5</td>
<td>62.5</td>
<td></td>
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<tr>
<td>frais d'entretien</td>
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<td>0.04</td>
<td>0.04</td>
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</tr>
<tr>
<td>Gains nets actualisés</td>
<td>17.6</td>
<td>46.2</td>
<td>55.6</td>
<td></td>
</tr>
<tr>
<td>Gains nets actualisés cumulés</td>
<td>17.9</td>
<td>58.1</td>
<td>113.6</td>
<td></td>
</tr>
<tr>
<td>Ratio</td>
<td>0.73</td>
<td>2.38</td>
<td>4.65</td>
<td></td>
</tr>
</tbody>
</table>

Le coût du programme MCPRO est amorti en 14 mois.

1 euro investi dans le programme MCPRO rapporte à la collectivité 2,38€ au terme de l’Année 2.

*Dans la mesure où les impacts fiscaux surviennent après l’événement de départ, un taux d’actualisation à 5% a été appliqué aux flux monétaires qui surviennent de l’année 1 à l’année 3. Un taux d’actualisation de 4% est représentatif des flux liés aux mesures des acteurs sociaux.*

Figure 5: Economic impact of the MCPRO programme in years 1 and 2

### Social benefits in addition to the cost savings delivered by the programme

The direct impact expected is that the programme will foster the social and economic inclusion of people excluded from the job market because they live in remote rural areas and who, without this approach, could not have been financed or assisted by ADIE.

The resulting indirect impacts are improved living conditions, reduced vulnerability of rural households, maintenance of the local economic fabric by local services, injection of new resources into the rural economy (new turnover generated by newly-created businesses, increased turnover of local suppliers), increased attractiveness of regions appealing to new arrivals and helping to retain the existing population, especially young people.

This experimental project addresses priority issues facing local authorities and local players (elected representatives, retail associations, support networks, etc.). If the project is successful, the scale of ADIE’s activity may change in rural areas; nearly 1,200 municipalities located in rural regeneration areas (ZRR) are potentially concerned by this project.
II. DESCRIPTION OF THE PROPOSED PROGRAMME

1. ADIE’S PRINCIPLES AND OBSERVATIONS

Against a backdrop of desertification of certain rural areas involving the closure of local shops in town centres, support for business start-ups offers real potential for economic development. This is a challenge for the regeneration of rural areas, especially as there is considerable deprivation in these areas.

Isolation and a lack of infrastructure hinder access to economic centres and support networks. This isolation has a prohibitive cost for the most vulnerable residents (e.g. owing to transport time, fuel prices and vehicle maintenance, etc.).

In the light of society’s current difficulties, the effectiveness of assisted microcredit is acknowledged by the public authorities as a factor of social and economic inclusion, job creation, social cohesion and regional development. Business start-ups, made more accessible thanks to the status of self-employed entrepreneur, are now a solution to tackle unemployment.

Apart from facilitating reintegration, the concentration of businesses in rural areas helps to forge social links and enhance the economic role played by the region. Micro-enterprises are particularly effective at creating jobs and are thus able to generate a closely-knit network and revitalise the local economy.

Some rural areas are currently not covered by ADIE’s branches. In these areas, people with a project to create or develop a business to improve their situation and/or come off the unemployment or RSA register do not have access to support and tailored financing. Furthermore, they may encounter substantial difficulties in terms of mobility. Having a vehicle is often key to a person’s ability to advance their professional project, whether in terms of starting up an independent business or looking for a job.

Increasing use of digital tools in rural areas provides a real solution for combating this isolation.

Through this innovative financing, ADIE wishes to test new assistance methods, particularly a fresh digital platform approach to the remote appraisal of applications, which enables it to deploy its presence in rural areas and helped finance and support 500 people between 2017 and 2019 in three areas:

- Alpes (Alpes de Haute Provence, Hautes Alpes)
- Burgundy (Nièvre, western Saône-et-Loire, north and east Allier)
- Occitanie (Ariège)

The ultimate goal of this programme is to extend the deployment of this new approach nationwide in order to cover all rural areas not currently covered by ADIE.

2. TARGET MARKET, ORIENTATION AND ADMISSION

PUBLIC BENEFICIARY

ADIE’s target market comprises potential micro-entrepreneurs excluded from the job market and the banking system, particularly job seekers and recipients of minimum social benefits. ADIE also finances and supports people currently in employment who are seeking to obtain or keep a particular job by improving their access to mobility if they are unable to get a loan from a bank to do so.

Potential beneficiaries of the programme are therefore people wishing to start up their own business or people who could get a job if they had improved mobility. Traditionally, 37% of ADIE’s customer base are recipients of minimum social benefits (34% RSA recipients) who are being financed and assisted because they indicate that they have no access to bank credit.

Other indicators enable ADIE to ensure that the target market corresponds to the final beneficiaries. For example, 14% of French start-up entrepreneurs live below the poverty line compared to 43% of ADIE’s microcredit beneficiaries. Likewise, the proportion of start-up entrepreneurs living in deprived neighbourhoods is 75%, a figure that rises to 22% for ADIE beneficiaries; lastly, 26% of ADIE beneficiaries have no qualifications compared to 12% of French start-up entrepreneurs.

The three areas included in this experiment were selected because they met the following description: rural areas with a large number of municipalities located in rural regeneration areas where the average income level is around €25 000 a year and where ADIE has no permanent physical presence.
Orientation and admission

The programme aims to tailor working methods to rural areas by reducing travel to and from ADIE’s branches (often dozens or even hundreds of kilometres away) and by fostering closer post-financing support solutions proposed by ADIE thanks to two innovative processes:

- Remote appraisal (via telephone and internet) to replace the traditional in-branch appraisal: shorter waiting times to get an appointment, enabling potential start-up entrepreneurs to save time and money on travel and, ultimately, obtain a microloan for their project quicker;

Increasing local assistance (at home, at the business location or in the municipality of residence) to replace
- traditional in-branch assistance. This will enable entrepreneurs to speed up business and will, ultimately, make assistance more accessible with greater value added.

This approach represents a key innovation in the working methods and lending procedures practised by ADIE.

In each region selected, a Volunteering Development Manager is responsible for recruiting volunteers tasked with providing support locally to project promoters, structuring the assistance provided throughout the region, building up a network of local partners to guide microloan applicants, and developing a word-of-mouth strategy.

Furthermore, a trained adviser familiar with ADIE’s appraisal procedures handles microloan applications remotely, seeking a combination of speed, simplicity and transparency.
3. ECONOMIC JUSTIFICATION FOR USING SIBs

1. BUDGET

SIB costs are composed of the project’s operational costs, fixed costs related to financial and legal engineering and assessment.

**Project budget:** Project costs, comprising salaries and indirect costs, are partly funded by the financial margin generated by ADIE on the microloans granted. The remainder of the operational costs amount to €1 197k.

**Fixed costs of social impact bonds:** These expertise-related costs (assessment, structuring and legal support) amount to €99k, i.e. 8% of the SIB’s total budget.

The total cost of the social impact bond is therefore €1 301 500.

<table>
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<th>in €k</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TOTAL</th>
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<td>373</td>
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<tr>
<td>Fixed costs of SIB</td>
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<td>8.5</td>
<td>5.76</td>
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<td>5.76</td>
<td>5.76</td>
<td>12.96</td>
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<tr>
<td>Total budget of SIB</td>
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<td>284.9</td>
<td>361.76</td>
<td>378.76</td>
<td>133.76</td>
<td>5.76</td>
<td>12.96</td>
<td>1 301.5</td>
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</tbody>
</table>

Figure 5: Budget of the ADIE social impact bond

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2. ACCORDING TO THE AUTHORS OF THE STUDY, FOR EACH PERSON REINTEGRATED INTO THE LABOUR MARKET COST SAVINGS OF €7 560 ARE DELIVERED...

As referred to above, in 2015 and 2016 ADIE conducted two impact studies on the MCPRO and MC Mobilité programmes, one of which quantified the economic and social value of these services.

For the MCPRO programme, two leverage factors were taken into account by KPMG. Firstly, the tax revenue generated by business start-ups and, secondly, the cost savings delivered for the local authority thanks to the interruption or permanent discontinuation of the payment of minimum social benefits (RSA, in particular).

Thus, for "sustainable start-up entrepreneurs" (63% of MCPRO loans granted), the value generated in the first two years of the business’s existence plus the cost savings delivered add up to total value created in two years of €7 990.

As for "unsustainable start-up entrepreneurs reintegrated into the labour market" (21% of MCPRO microloans granted), the total value created in two years (value generated plus cost savings) is estimated at €6 612.

For the MC Mobilité programme, ADIE highlighted two types of improvement in the status of beneficiaries:

- An improvement resulting from the **change in status of beneficiaries** (change of job or transition from unemployed to employed status): the employment rate of people assisted grew by 7% and the percentage of employees rose from 28% to 44%.

- An improvement in the **quality of these beneficiaries’ professional status**: the proportion of permanent contracts increased from 13% to 29%.

Thus, following the granting of an MC Mobilité microloan, the proportion of people receiving unemployment assistance, ASS or RSA payments fell from 63% to 48%. Lastly, in terms of social impacts, 80% of MC Mobilité beneficiaries considered that the programme helped them to remain in employment, look for a job or accept one.

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11 This margin comprises financial revenue paid by the project promoters, borrowing charges that ADIE pays to its refinancing partners and the cost of risk borne by ADIE.
12 Sustainable start-up entrepreneurs are recipients of an MCPRO microloan who have created a sustainable start-up, i.e. a business prospering two years after its creation.
13 Unsustainable start-up entrepreneurs reintegrated into the labour market are recipients of an MCPRO microloan who have created a business not prospering two years after its creation but who have subsequently managed to be reintegrated into the labour market.
14 Special solidarity assistance, which can be granted if a person’s unemployment entitlements have expired.
In order to assess the value created by these life trajectories, KPMG applied the assumption that a "beneficiary with an improved professional status" would be comparable to an MCPRO microloan recipient categorised as an "unsustainable start-up entrepreneur reintegrated into the labour market". Thus, as outlined above, the total value created in two years by these beneficiaries (16% of MC Mobilité microloans granted) would be €6 612.

It is therefore possible to establish a weighted average to determine the average value created over two years of all assisted individuals. The assumptions are as follows:

- In the 2016 MCPRO study: 9 219 beneficiaries were examined, of whom 61% were "sustainable start-up entrepreneurs" and 21% "unsustainable start-up entrepreneurs who nonetheless were reintegrated into the labour market".
- The breakdown observed under the programme was 70% MCPRO microloans and 30% MC Mobilité microloans.

According to the authors of the study, the average weighted value created was therefore €7 560 for each person reintegrated into the labour market thanks to the programme.

3. RESULTING IN A BREAK-EVEN SITUATION FOR THE PUBLIC AUTHORITIES IN TERMS OF FINANCING.

In order for the "economic impact" (revenue generated + cost savings, evaluated according to the assumptions and methodologies formulated by ADIE) to be equal to the project costs, KPMG proposed that the break-even point for this programme be established by calculating the requisite number of beneficiaries reintegrated into the labour market. Given that the total project cost is quantified at €1 301 500, the break-even point is the number of beneficiaries multiplied by the cost savings to arrive at the total project cost.

Hence, with average savings of €7 560 and a total cost of €1 301 500, the break-even point is 172 beneficiaries reintegrated into the labour market between two and three years after the end of ADIE's assistance, with the programme's primary goal being to enable the partial repayment of capital.

This target is accompanied by a shorter-term goal: to provide access to financing for 270 people in situations of exclusion. The achievement of these two key objectives would enable the capital contributed by investors to be paid back.

4. A MORE AMBITIOUS FINANCING TARGET: 500 PEOPLE IN SITUATIONS OF EXCLUSION, OF WHOM 320 SUSTAINABLY REINTEGRATED INTO THE LABOUR MARKET.

Reaching a target of 172 people is not, however, considered a success by ADIE, which achieves better results in comparable areas in which it operates. In 2015, ADIE financed nearly 18 000 people nationwide, and each year it finances and assists more than 4 500 businesses in rural areas. ADIE has set itself a more ambitious target: the sustainable reintegration (after two to three years) of at least 320 people. To maintain its historical success rate of around 68% (businesses still in existence two years after receiving ADIE assistance), 500 people must first have had access to financing to meet the target set. There are therefore two target levels: a first level defining the goals to be met to enable the capital to be paid back, and a second level of programme success that triggers a premium enabling payment of a return to the investors.

THE NOTIONS OF FINANCED BENEFICIARY AND BENEFICIARY REINTEGRATED INTO THE LABOUR MARKET ARE DEFINED IN THE BOND UNDER THE FOLLOWING TERMS

- Financed beneficiary: designates an individual to whom the operator has granted a microloan and proposed a support service.
- Beneficiary reintegrated into the labour market: designates a financed beneficiary considered to be employed in the following cases – 1/ his/her business is still operational on the day of the survey; 2/ holding a part-time or full-time job (permanent contract, fixed-term contract of 2+ months, temporary contract of 2+ months) on the day of the survey; 3/ having signed an employment contract, will have a part-time or full-time job (permanent contract, fixed-term contract of 2+ months, temporary contract of 2+ months) within 30 days of the day of the survey. 4/ had a paid job (permanent contract, fixed-term contract of 2+ months, temporary contract of 2+ months) on at least one of the 60 days prior to the day of the survey.

Illustration of the calculation of average weighted value according to KPMG: of 100 microloan recipients, 70 MCPRO and 30 MCES. 44 MCPRO recipients were sustainable start-up entrepreneurs and 15 were unsustainable start-up entrepreneurs reintegrated into the labour market. Five MCES recipients had an improved professional status. The average value is therefore ((44*7990+15*6612+5*6612))/((44+15+5)) ≈ €7 560 on average for each successful microloan recorded.

It should be noted that these figures are based on the impact study conducted by ADIE. Based on ATD Quart Monde's analyses of the costs resulting from long-term unemployment, the programme’s break-even point would appear to be rather different. If the assumption for cost savings per individual were €15 470, the break-even point of this programme would fall from 172 to 87 beneficiaries reintegrated into the labour market.

https://www.adie.org/nos-actions/nos-actions-en-milieu-rural
III. USE OF SOCIAL IMPACT BOND FINANCING

1. TAILORED USE

As we have seen, projects financed using a social impact bond should ideally meet certain criteria. The project promoter put forward by ADIE must meet the following three criteria as a minimum:

- **Have a preventive approach by way of an innovative project targeting a defined or definable population group.**

  The ADIE project aims to facilitate access to credit for people seeking to improve their professional situation or rise above the lowest income levels, thereby combating their exclusion and economic vulnerability.

- **Be quantifiable and able to set targets for medium-term results via a limited number of indicators.**

  As can be seen in the ADIE project, two indicators were given priority: the number of beneficiaries financed and the number of people re-entering the labour market.

- **Deliver savings for the local authority (according to the ADIE assessment) at least equal to the total cost of the project, including its operational costs and costs connected to the social impact bond (yield provided to investors, appraisal costs and structuring costs).**

  In section II, ADIE referred to the cost savings for the local authority connected to enabling an individual to re-enter the labour market of €7,560 a year. On this basis, ADIE deems the project “economically viable” – independently from any other social impact considerations – from the 172nd person to re-enter the labour market.

2. SIB STRUCTURE AND STAKEHOLDERS

The stakeholders of the ADIE social impact bond are organised into six groups:

- Social stakeholder (**ADIE**): responsible for the operational implementation of its project.
- The public authority/ies (Ministry for the Economy and Finance)
- Investors (**BNP Paribas, Caisse des Dépôts, AG2R LA MONDIALE via its innovation fund, Renault Mobiliz Invest, and Fondation Avril**): these pay the financing needed to implement the project to the social stakeholder.
- Structurer (**BNP Paribas RSE**): responsible for modelling, financial engineering and some legal engineering.
- Third-party appraiser (**KPMG**): worked upstream on the project, quantifying cost savings, calculating the break-even point, defining the project’s performance indicators and how they are measured, and measuring these indicators at each key stage of the project.
- Legal expert (**Hogan Lovells**): responsible for the contractual documentation for the social impact bond.
The SIB works as follows:

1. The structurer coordinates the stakeholders, organises negotiations, models cash flows and, with legal support, sets up the social impact bond and related contracts.

2. The investors provide the funds to the operator in four instalments between July 2017 and January 2020.

3. ADIE provides its services in the three rural areas specified in the project.

4. The external appraiser, KPMG, appraises the programme: structuring of results and impact indicators, collection of data related to project performance, checking of data and performance. The appraisal results cover a full calendar year and are calculated to end-December each year.

5. A steering committee comprising ADIE, a representative from each investor, KPMG and the public authority meets twice a year throughout the programme. It reports on project progress, analyses the appraisal performed by KPMG and ensures that funds are being used properly.

6. According to the level of success of the programme, the public authority pays the principal and interest accrued to the investors annually via the operator. Where applicable, a success bonus is added to the interest paid to the investors and to ADIE.

Project governance in its entirety is handled by ADIE and this is prioritised throughout the term of the SIB: a steering committee was put in place to keep all stakeholders informed and to seek approvals where needed, throughout the programme. This steering committee may decide to amend parts of the framework agreement or action plan unanimously (or by qualified majority), provided the public authority and ADIE are present.

In addition, ADIE may, where applicable, highlight issues with the SIB setup or project, may inform the other stakeholders of this and the steering committee may act as a decision-making body in these instances.

The steering committee meets twice a year and is organised by ADIE, which presents an activity report for the project to the committee with information on operational roll-out and presentation of qualitative and quantitative results data as they arrive.
3. APPRAISAL OF THE SOCIAL IMPACT BOND

Construction principles

There are three principles underlying the programme appraisal:

- Simple measure connected to cost savings for payment to investors.
- Additional measure to appraise the social impact of the project.
- Maintaining ADIE’s rigour in selecting beneficiaries.

Measuring results and indicators included as part of the SIB

Two indicators were applied for this project with a view to measuring both results and impact.

The programme outcome is represented by the number of beneficiaries able to access financing and support via MCPRO and MC Mobilité. This indicator enables all stakeholders to see whether the roll-out of the programme meets the targets set. It is linked to the repayment of half of the capital (i.e. the programme budget) of the social impact bond.

Individual impacts of the programme are measured via two sub-indicators: (i) the number of MCPRO beneficiaries reintegrated into the labour market (sustainable business or return to employment) and (ii) the number of MC Mobilité beneficiaries having secured a job. This indicator is composed of a comparison of the beneficiary’s status when they received the microloan and at the end of the monitoring period, i.e. between two and three years later.

Minimum targets were set upstream for each of these two criteria. For the first, the aim is to make supported finance available to at least 270 people within three years, while for the second, the goal is to make it possible for 172 people to join the labour market between two and three years after the end of the support. These targets were set by calculating the cost savings for the local authority delivered by the project. This subject is dealt with in more detail later in this text.

Limitations and avoiding negative incentives

ADIE implemented support conditions for each indicator to ensure that positive results would be seen as such by all stakeholders. An example is targeting only the predefined and targeted clientele, i.e. the clientele that ADIE usually supports.

The granting of a microloan is taken into account by the first indicator on two conditions: that the beneficiary is indeed in ADIE’s target market (assessed using the exclusion score developed by ADIE), and that the process for granting the microloan is fully in line with that outlined in the contract documents.

In addition, under the second indicator, an individual is deemed to have entered the labour market when they meet the above criteria and the criteria outlined in the contract documents concerning this indicator.

THE EXCLUSION SCORE CALCULATED BY ADIE

In 2007, ADIE launched a process to calculate an annual exclusion score aiming to give an overview of where financed individuals stand on an exclusion scale and to monitor how this changes over time. This score can vary from 0 (the least excluded) to 23. With this indicator, the average person living in France would generally have a score of 0 to 3.

Two aspects of exclusion are measured: social (age, gender, level of education, etc.) and financial (lowest incomes, ability to save, banking exclusion, etc.).

The project should therefore succeed operationally while also maintaining its results in terms of targeting excluded individuals.

Together, these indicators will make it possible to gauge the success of the project, namely (i) making it possible to finance excluded individuals who cannot currently be financed due to their isolation and (ii) making remote financing coupled with local support just as effective as ADIE’s usual approach (branch-based financing and support).
Overall impact of the project

The appraisal of the ADIE project is not limited to these criteria regarding the roll-out and professional status improvement made possible by the SIB financing.

The stakeholders wished to conduct a comparative analysis of the results of ADIE programme beneficiaries and that of a fairly similar group (self-employed entrepreneurs) in comparable geographical areas (rural areas). This would enable a more nuanced understanding of what portion of the effects observed are directly attributable to the programme (moving from gross impacts to net impacts). However, the stakeholders have not issued any decision on this subject, or at least nothing on the subject has been clearly set out in the contract.

4. FINANCIAL STRUCTURE

Construction principles used in the financial structure of the project

1. General aim to ensure that the overall cost for public authorities is lower than the savings made
2. Results measuring tailored to the project and devised jointly with ADIE
3. Limited gain/loss range for investors
4. Bonus for the project promoter in the event of an outperformance
5. Goal to perpetuate the project

Savings made and calculating repayment levels

By way of the economic and social impact assessment of its MCPRO programme carried out in January 2016 and on the basis of KPMG studies, ADIE estimates that for every euro invested in this programme, the local authority gains €2.38 after two years. The original euro is also amortised after 14 months.

As outlined above, the break-even point for the ADIE programme calculated by KPMG is the reintegration of 172 people into the labour market.

To arrive at this result, the structurer and the appraiser studied the trajectories of the beneficiaries and compared their economic status before receiving the loan to that two years after disbursement.

As presented in II.3, the economic and social impact assessment for the MCPRO programme showed the average social value created for the three aforementioned types of winning trajectory:

- “Sustainable business” MCPRO beneficiary: €7 990 (value creation for years 1 and 2 + social cost savings)
- 63% of MCPRO beneficiaries
- “Reintegrated” MCPRO beneficiary: €6 612 – 21% of MCPRO beneficiaries
- MC Mobilité beneficiary with improved status: €6 612 – 16% of MC Mobilité beneficiaries

The average social value created (weighted according to the percentages allocated to each trajectory) is therefore €7 560.

Given the programme budget of €1 296k and successful cost savings, the break-even point for the programme will therefore be reached when 320 people have been successfully reintegrated into the labour market.

Cash flows

Two types of cash flow are present in this project: on the one hand, the funds provided by investors to finance the project or related studies, and on the other, the repayments and bonuses in the event the impact targets are exceeded, from the public authority to the investors.
Envisaged financial returns and scenarios

50% of the capital is repaid when 172 people have been sustainably reintegrated into the labour market. This repayment is made in stages, with each sustainable reintegration triggering part of the repayment to investors. It reaches a ceiling when 172 people have been reintegrated.

The remaining 50% of the capital is repaid when 270 excluded people have been given access to financing and support. As before, the repayment occurs in stages, with each beneficiary financed triggering part of the repayment to investors with a ceiling of 270 people financed.

The bonus in the event of an outperformance of this SIB compared to the targets is paid to the investors and to the operator, ADIE. It progresses over time and has a ceiling, and will comprise:

- Success bonus for ADIE linked to an outperformance in the sustainable integration of its beneficiaries into the labour market, i.e. from 320 integrated: 10% of the local authority’s additional economic gain (i.e. 10% of €7 560 per additional individual integrated). The ADIE bonus is capped at €65 000.

- Success bonus for investors in the event of ADIE outperformance, with a ceiling of €130 000 minus paid interest. It is split pro rata between the investors in line with the amount of their investment and is only paid at the end of the SIB if targets have been exceeded, i.e. from 320 people sustainably reintegrated into the labour market.

- It is calculated as follows: 20% of the local authority’s additional economic gain (i.e. 20% of €7 560 per additional individual integrated – €1 512 per additional individual sustainably integrated).

- It is only paid at the end of the SIB if targets have been exceeded, i.e. from 320 people sustainably reintegrated into the labour market. It is calculated as follows: 20% of the local authority’s additional economic gain (i.e. 20% of €7 580 per additional individual integrated – €1 512 per additional individual sustainably reintegrated).

The project consortium justified the economic benefit of the project to the public authorities using the following analyses and illustration:

- Taking the ceiling into account, the bonus will only be paid until the 406th individual has sustainably re-entered the labour market. From the 406th individual onwards, the economic gains will be to the exclusive benefit of the public authorities.

- The economic model was set up to ensure that the public authorities always gain, therefore benefiting from the remaining economic gains generated by the project (70% of the savings made up to the bonus and 100% once the bonus ceiling has been reached).

![Figure 7: Illustration of the economic justification for the ADIE SIB as modelled](image-url)
5. LEGAL STRUCTURING

The law practice and the structurer working with the project promoter proposed a number of legal vehicles. The option of a bond issue by ADIE, subscribed by the investors and conditional on obtaining results, was eventually taken by the stakeholders and it was deemed the simplest to implement among the vehicles that could have met the requirements of all the stakeholders.

In this setup, ADIE has the promise of a future subsidy from the public authority conditional on reaching the social impact targets, and pre-finances its programme by issuing limited recourse bonds fully subscribed by private investors; the terms state that the repayment of these bonds will be conditional on the amount paid by the public authority if the project targets are met.

The bond terms appended to the subscription contract outline the gradual repayment of the capital by the public authority (i.e. each time the public authority makes a saving – each time an individual re-enters the labour market). Interest will also be paid in line with the public authority’s gains.

In the event that the targets are not met, the amount of the repayment will be zero or lower than the nominal value of the bonds subscribed by the investors.

**THE PUBLIC AUTHORITY SAW THE SETTING UP THE FIRST SIBS AS A MAJOR STEP FORWARD, ALTHOUGH THE CREATION OF THE INITIAL BONDS WAS INEVITABLY RATHER ONEROUS AT TIMES**

Setting up an SIB obliges the stakeholders to enter into a contract conclusion process covering a number of very specific points. The implementation of the initial SIBs normally led to constructive, high-quality dialogue between participants that were often not used to coordinating on this particular issue, putting very different areas of expertise into contact, mainly on trade-related points, of course, but also for quantitative appraisal as well as financial and legal engineering. Against this background, the SIB has proven a powerful tool for revealing collective preferences via the contract.

Within this framework, which resembles a subsidy with its own appraisal logic from the beginning, the public authority is naturally faced with structural questions, often moving beyond any existing administrative skill silos. It is also obliged to implement new ways of working, e.g. for the coordinated mobilisation, via a single payment, of the budgetary contribution of several ministries.

The first SIBs seem to have had a particularly mobilising effect on the teams operationally involved in the projects structured in this way: it was possible to encourage such a result by constantly ensuring that trade-related points always took precedence over financial requirements, which did however still play an important role, both as project structuring support and incentives. In practice, this trade-related precedence had the following impacts on the structuring of the SIB: the preservation of the operational autonomy of the project promoters, and very attentive consideration for the appraisal requirements of the administrations.

The launch of the first SIBs did ultimately involve an undeniable level of complexity, likely the result of a desire to explore the full spectrum of possibilities. However, the effects of this complexity should progressively disappear due to ongoing efforts to standardise, simplify and mobilise specialised common (legal, accounting and financial management) support at a national level.
The first option to be rejected was creating a social impact bond via debt by putting in place a loan between the investors and the public authority, while including provision of the funds to the project promoter. Given the regulated nature of granting loans that only lending institutions – and, under certain conditions, the entities included in Article L. 511-6 of the French Monetary and Financial Code – can achieve, such a solution would be limited to investors holding such a status, effectively excluding charity or foundation-type investors. As Fondation Avril could not be an investor under this structure, the option was discounted.

The second option was to create a social impact bond via an assignment of debt: the public authority would undertake to pay a results-conditional subsidy to the project promoter at the end of the operation; this debt would then be assigned by the project promoter to the investors, which would advance the financing in return. However, the acquisition of unmatured debt is deemed a lending operation and encounters the same difficulties as the first option. In addition, given that this instrument is normally applied to a three-party relationship, its use is difficult with co-investors. For these reasons, this option was also rejected.

The third option is based on the same framework as the second option, with the difference being that the financial intermediary would not be a lending institution but rather a fund or securitisation entity, and would consist in securitising or creating a dedicated financing fund for the project. As this solution was more complex and onerous, it was also discounted.

The option chosen for this contract was therefore a bond issue as outlined above; the option covered in structure 1a.
Why was the social impact bond chosen to finance this project?

All too aware of how difficult it could be to access business start-up support networks in remote rural areas, in 2015 we embarked upon a new project to remove obstacles connected to mobility. A study carried out that year helped confirm the need and technical feasibility of this project. However, we were not able to find the financing needed to try this across a number of areas. It was at that point that the French government launched the call for social impact bond projects. This type of financing had three vital characteristics for such a trial: multiannual financing, which makes it possible to give the programme time to demonstrate its effectiveness; an independent appraisal that, if successful, should enable the approach to be continued and expanded; and lastly a financing opportunity without which we would simply not have been able to launch this trial.

What are your goals as an operator in setting up the bond?

Our main goal was for the social impact bond to be in line with the programme. The indicators selected had to meet the project objectives. We also wanted to make sure that the appraisal approach did not have too much of an impact on the teams on the ground so that they could focus on the task at hand.

What was a key success factor for this structure, in your opinion?

I would say that the joint creation of the bond with all the partners, from the response to the call for projects, was a key success factor. All the partners had the common goal of making the programme impactful. We were all aiming for the same thing, ensuring that exchanges and discussions were constructive. We still feel supported via the programme’s steering committee.

What advice would you give to project promoters wishing to use this kind of financing?

Firstly, I think it is important to ensure that this type of financing is appropriate for the project, and that the association is able to handle it, as it requires a potentially substantial time investment. When the feasibility of the project has been confirmed, the future partners and appraiser must be involved to define the indicators and targets together.
What is the SIB structure intended to do?

Beyond the French experience (much more recent than that of other countries), SIBs are generally seen as likely to meet three categories of expectations and requirements, in a more or less pronounced manner, with each category having an innovative way to conduct a social initiative:

1. Organising long-term partnerships and consistently mobilising diverse skills in a trusting environment

The contract conclusion process can make the SIB an effective tool for seeking to balance the expectations of all the stakeholders. It should make it possible to break down barriers between administrations (skill silos), while encouraging long-term monitoring of the initiatives and work of the operator by the public authority and promoting consistent tracking of the targets set.

The SIB mechanism mobilises the skills of investors specialised in seeking social impact for complex projects, under certain conditions, it can help to create and sustain a trusting relationship between the stakeholders, conducive to the emergence of solutions and initiatives tailored to the social problems identified.

2. Mobilising particularly innovative expertise and appraisal skills (capacity building)

At first glance, the SIB might seem like a way to collect the quantitative and qualitative data needed for a sophisticated appraisal from social operators.

In reality, it is more broadly a way to spread an appraisal culture. Such an appraisal helps build the foundations needed to secure the programme’s long-term position along with traditional financing, in the event that the SIB is successful.

This interests all stakeholders:

- for the project promoter, it provides an opportunity to reflect on their actions and working methods;
- for the public authority or philanthropic third-party payer, it can provide an opportunity to identify the relevant dynamics that could help develop the public policies concerned;
- for the specialised investors, it enables them to deepen their understanding of how their social operator partners work.

3. Seeking efficiency gains, made possible by implementing innovations, in handling specific social requirements

SIB projects can be ambitious in terms of social impact, and innovative in their implementation or their approach to handling new social needs, with the premise of ultimately making better use of public or philanthropic resources (including not only financial resources but also time and coordination efficiency).

What is the initial feedback on the choices made in the implementation of SIBs in France since 2016?

The expertise gained from setting up SIBs was a real step forward. The SIB can therefore be seen as a kind of “smart subsidy”, accompanied by constructive, high-quality dialogue between stakeholders that are often not used to working together on the issue in question.
The SIB also proved to be an excellent way to pinpoint collective preferences via the contract: administrations were faced with structural questions, and implemented new ways of working (e.g. continual inter-ministerial cooperation, and appraisal requirements obliging the administration to take on new responsibilities vis-à-vis social operators that are stable over time).

In addition the first SIBs also seem to have had a particularly mobilising effect on the teams operationally involved in the projects structured in this way: it was possible to encourage such a result by constantly ensuring that trade-related points always took precedence over financial requirements, which did however still play an important role, both as project structuring support and incentives. In practice, this trade-related precedence had the following impacts on the structuring of the SIB: the preservation of the operational autonomy of the project promoters, and very attentive consideration for the appraisal requirements of the administrations.

Lastly, on a less positive note, the launch of the first SIBs did ultimately involve an undeniable level of complexity, likely the result of a desire to explore the full spectrum of possibilities. However, the effects of this complexity – seen by the social operators involved in the experimental phase – should progressively disappear due to ongoing efforts to standardise contracts, simplify processes and mobilise specialised common (legal, accounting and financial management) support for operators at a national level.

Using the lessons learned from the initial experiences with SIBs in France, what advice could be given to project promoter candidates for new SIBs?

Four points could be mentioned:

1. **Start dialogue with relevant administrations as soon as possible**

   Before even beginning the search for a partnership, it is useful for the project promoter to seek to understand as comprehensively as possible how the expectations of the public authority might mesh with the project philosophy. The idea for social operators is also to find the right partners and ensure adequate channels of communication so as to involve the relevant ministries in the project: such involvement will facilitate collective ownership and completion of the project.

2. **Take advantage of the vital and dense “maturation” phase of the project to design tailored methods**

   This phase makes it possible to promote more cross-cutting exchange with all the stakeholders, on the topic of several key issues and mechanisms, and particularly on the following points: cost justification; adjustment of procedures for triggering repayments; practical arrangements for collecting the information to feed the indicators; and “post-programme” indicators, in line with programme exit scenarios. It also helps to provide the time to reflect on the governance methods (simple/more sophisticated; precise/looser) meeting common expectations.

3. **Ensure the legal aspects of the SIB are in hand**

   The apparent initial legal complexity should not overshadow the need to select a structure in line with the specific characteristics of the stakeholders: the law should remain a tool in service of the project. To this end, it is vital to have engaged and skilled legal advisors – often willing to work pro bono – from the beginning. Understanding the issues inherent to the legal architecture of the SIB negotiated with the investors, structurer and public authority is not impossible, even for smaller organisations, but is key to retaining control over the project.

4. **Making sure to choose the appropriate indicators: triggering payments (simple and in line with the appraisal); but also “informative” to encourage the monitoring and steering of the project, as well as its potential evolution beyond the SIB**

   Payment triggering indicators must be simple, robust, few in number, and understandable by all the stakeholders and the public. They must be relevant and tailored to the project, and also to the expectations of the relevant administrations, particularly in terms of appraisal. They must also make sense for all the parties (and not only for the investors or the administration).

   However, the indicators used for SIBs are not limited to those triggering payments; “informative” indicators are precious sources of information, and are key for the steering and continuous assessment of the project, during the SIB term and beyond. They make it possible to balance the different approaches of the stakeholders (investors and non-investors).

   Taking into account these four points can be broadly facilitated in the future by the efforts made in the implementation of new generations of SIBs.
**Why did Banque des Territoires/Caisse des Dépôts decide to experiment with SIBs?**

Banque des Territoires’ Investment Directorate promotes public policies and supports local authorities and economic operators in regional areas through its 35 branches nationwide.

We have over 30 years of experience working with the social and solidarity economy and are a major player in social impact investing, especially when it comes to innovative and experimental projects that generate an economic and social impact.

SIBs are a perfect example of this. Since 2016, we have examined over 25 SIB projects from the government call for projects, including several with the help of iiLab. Without selecting themes in advance, we examined all the projects we were approached about and were asked to invest in eight of the 13 projects approved by the government.

Since then, we have invested in six SIBs from ADIE, Wimoov, La Cravate Solidaire, Article 1 and Fondation d’Auteuil (Loire-Atlantique and Gironde). Several projects are actually in the process of being examined, all at different stages.

In June 2016, we established SIB investment principles, namely that the SIBs we invest in must all comply with Impact Invest Lab’s ethics charter.

They must introduce new initiatives in response to unaddressed social needs, complement existing measures without replacing them, and contribute to efficient public spending. They must be socially innovative, quantifiable and generate a moderate return.

We always participate as a minority co-investor on a pari-passu basis. The SIB project must support a specific group of people, and particular attention needs to be paid to the quality of the appraisal and the relevance of the selected indicators.

**Why did you invest in the first SIB from ADIE?**

Banque des Territoires/Caisse des Dépôts and ADIE have been partners since the latter’s creation, with the aim of contributing to the development of microcredit for economically vulnerable individuals.

This long-standing partnership of mutual trust built up over a number of years was an obvious reason to experiment with a new microcredit scheme, especially since ADIE had already taken initial steps to implement the SIB.

Moreover, the SIB’s focus on remote rural areas matched Banque des Territoires/Caisse des Dépôts’ target investment regions, i.e. those that have been most neglected. By investing in these regions, we hope to reach new potential beneficiaries.

The innovative elements of the SIB were also a decisive factor, for example, increased local assistance at home or in the municipality of residence to save time and money, and remote appraisal (via telephone and internet) to replace the traditional in-branch appraisal.

**What makes ADIE a good choice for experimenting with SIBs?**

- The SIB project has been given the seal of approval from the government.
- It has experience in appraising professional microloans and microloans for paid employment.
- Its target market comprises economically vulnerable individuals.
- It has management and internal reporting tools.
- It is a long-standing partner.
- It is a highly reputable and sound social entity.
- It offers a dedicated contact person to oversee the project for over a year and provides extra assistance if required.
- It has a strategic desire to widen its reach in rural areas.
How did this initial experience help you to invest in other SIBs?

Initial feedback has shown that these new instruments respond to a social issue that could not have been addressed without the SIB due to a lack of traditional financing. The assisted target market benefits from the impact of the project supported by the various stakeholders.

We learned to work together in completely innovative areas, which was no easy feat.

We identified areas of difficulty, which are now being reviewed by working groups led by the public authorities to manage future bonds more efficiently.

This initial assessment has prompted us to continue investing in SIB projects that are in line with our investment principles with partners in the social and solidarity economy.
You are the only bank to have invested in ADIE’s SIB – why did BNP Paribas decide to get involved

In 2012 we began providing different types of support to social enterprises to help sustain their growth and accelerate the positive impact they have on society and the environment. To highlight this impact, we first developed a specific method for assessing their impact, in addition to their financial performance. Going one step further, we adjusted our traditional financial expertise to the needs of social enterprises by creating innovative products tailored to their mission or, in other words, the impact they strive for.

We therefore started working on social impact bonds well before the government call for projects in 2016, particularly in the US where the product had already been trialled. This meant we were ready to take up the venture when social impact bonds came to France.

Through R&D, we steadily acquired expertise as a structurer and then as an investor. We wanted to demonstrate the operational efficiency of this disruptive financing tool and develop it further, because we believe that SIBs are an original and smart way of diversifying the range of financing options for social innovation:

1. They provide a concrete solution to a poorly addressed need among our social and solidarity economy clients: access to several years of guaranteed financing for projects that have not yet demonstrated their value.

2. They address our investor clients’ desire to see their financing have a genuine leverage effect on the impact of the proposed projects.

3. They are a way of helping public authorities to trial and adopt new solutions to address unresolved social issues.

4. They demonstrate the positive correlation between social value creation and wealth creation – an important turning point for impact investing. Impact is the only benchmark for measurement and valuation, meaning that the greater the impact, the higher the value and the higher the return.

5. They are a catalyst for innovation and R&D, combining our core business with our commitment to CSR. Based on traditional financing structures that we then tailor to create social value, they are proof that financial techniques and innovation can serve as a tool to help resolve social issues.

6. They are the fruit of an unprecedented partnership between very different entities that, in the end, are all part of our ecosystem and that can easily be connected.

As the structurer, you were one of the driving forces behind this bond – what did you learn during the structuring process?

We started from a blank canvas for all aspects of ADIE’s SIB – the first French prototype – meaning that we had to develop the financial model, set up a system of governance and draw up the contracts. This then served as a model for other SIBs, even though in most cases the structuring of an SIB requires a tailored approach. It is therefore difficult to directly replicate the model in each bond, but we have identified several common factors that are key to success among the SIBs that we have structured:

- A five-player set-up (social operator, results-based payers, investors, appraiser and structurer) in which goodwill and a relationship of trust and mutual understanding built up over time are key. While lengthy negotiations may highlight diverse objectives and motives, what everyone ultimately wants is for the project to work and for it to generate an impact.

- To ensure that the bond stakeholders are on equal footing, it is crucial that they all understand the discussions and the terms and conditions. SIBs are hugely beneficial because they involve completely different types of stakeholders (who use very different jargon) working together to resolve an issue of public interest. Although there may be a lack of mutual understanding at first, in the end they all get to know each other and learn about each other’s challenges, missions and operations.

- The SIB must accommodate the interests of all its stakeholders. The key to doing so is to find some common ground that satisfies all those involved in terms of their expectations for the SIB, while also respecting their constraints. It is important to define the appraisal criteria, the rights and obligations of all stakeholders and the essential provisions.

- Optimism, tenacity and pragmatism are key; SIBs that progress quickly are those where the project promoter and third-party payers demonstrate a strong drive (i.e. there are no internal restrictions) and a desire to innovate, and that appoint dedicated points of contact to oversee the entire set-up.
How did your role as a bank help the other stakeholders and what did it bring to the bonds?

The feedback we have received from stakeholders mainly highlights the **long-term support** and **financial education** provided, and our **high credibility and commitment** as a result of the following:

- **Financial expertise and technical knowledge** and the bank’s ability to structure **most financial products thanks to its multidisciplinary teams** (modeling, legal counsel, project financing, etc.). SIB structuring is consistent with the traditional responsibilities of a bank – complex project financing and tailored products. SIB structuring can be described as conventional project financing with an unconventional goal, as the underlying is a social issue.

- **The bank’s ability to invest** in this completely experimental product, which **served as a stamp of approval for attracting other investors**: discussions on the same questions that we had asked ourselves several months before (How do we explain to the risk committees that repayment prospects are linked to impact rather than to cash flow? How do we sell the idea that there is no recourse on the borrower? How do we assess whether the risk/reward ratio is balanced? How do we value an SIB?)

- **The Group CSR department’s expertise in impact measurement**, making it easier to create a financial model based on impact indicators.

- **A proven track record in designing tailored financial instruments for impact investment**.

- **Expertise and experience in attracting capital and investments**: soliciting and coordinating investors and identifying their interests and constraints; access to all types of potential SIB investors (financial institutions, large companies, NGOs, multilateral institutions, social investors, philanthropists, foundations, etc.) through our specialist teams.

- **Guaranteed standard of professionalism with legal teams** specialised in structuring.

Besides technical expertise, what was most valued was the ongoing, ever-present collaboration in a spirit of partnership, joint construction and R&D, going above and beyond the standard expected from a structuring mandate. And that is also what we appreciated the most, as we learned a lot. **We are now ready to continue experimenting with these products in other regions (e.g. Luxembourg, Belgium and Italy)**, as well as with other products such as development impact bonds.
V. WHAT’S NEXT?

In 2017, 128 individuals received financing, with this figure increasing to 177 in 2018. The trend continued in 2019 and the project is expected to meet its target of financing 500 people. It primarily targets the most excluded individuals, with 38% receiving minimum social benefits versus 8% of start-up entrepreneurs in France. 21% have no qualifications compared to 12% of start-up entrepreneurs in France. Half of these are retailers and 22% are businesses in the services sector. With the help of this financing, these self-employed workers are reviving the least densely populated areas of the country.

Xavier Fabre  
Deputy Director of the ADIE network

What do you think of the financing method for an ADIE project?

It provides visibility over a three-year horizon and enables the teams to fully devote themselves to the success of the project on the ground and thus to the success of the business leaders financed by ADIE. It highlights initiatives at the local level, promotes the institutional integration of the project and helps encourage a positive response to government services in local areas. And of course, we are proud that our SIB is the first to be signed in France, as ADIE’s role is to promote innovation at all levels.

Does impact measurement get in the way of your work on the ground?

The impact culture is already integrated into the work we do on the ground. Our goal is to see start-up entrepreneurs succeed, creating wealth so that they can improve their living conditions and repay the loan from ADIE, which in turn repays the banks. This virtuous circle is driven by specific indicators (survival rate, reimbursement rate, etc.). The impact culture is highly valued by local public partners looking to finance initiatives that will have an impact in the region. The SROI (social return on investment) has also been an important indicator in this regard. In addition, ADIE has managed to reconcile this performance with its commitment to the target market comprising the most excluded individuals for the past 30 years.

What do you think the next steps will be?

At the end of the project, the three pilot agencies will have made it possible to finance at least 500 people in rural and sparsely populated areas. They will have demonstrated that the model promotes the creation of businesses in rural areas and removes obstacles to paid employment connected to mobility, and will also have proven the economic benefit for public authorities. By raising new funds, ADIE will be able to create around 10 new agencies on the basis of this principle and thus give people in the most remote areas of the country the right to economic initiative.
ADIE’s social impact bond project was launched in January 2017. Since then, six other SIBs have been created in France – Wimoov, La Cravate Solidaire, La Foncière le Chênelet, Article 1 and Fondation d’Auteuil (in two departments).

ADIE’s SIB structuring process and its solutions to the pitfalls encountered during structuring served as examples and models for some of these subsequent social impact bonds. They will also serve as a basis for future social impact bonds, with the High Commission for the Social and Solidarity Economy and for Social Innovation having announced a results-based payment fund of €30 million for upcoming social impact bonds covering three themes.

We therefore wanted to highlight the structuring and thought process that was adopted for this SIB so that it may pave the way for other projects. We hope that we have achieved our goal of outlining the steps followed in structuring this SIB in as much detail as possible and that this study will serve as an example to help answer some of the questions that other projects will be faced with when structuring their own social impact bonds.
SUMMARY OF THE ADIE PROGRAMME

OBJECTIVE
Promote the integration of people living in vulnerable rural areas who are excluded from the job market.

DESCRIPTION OF THE INITIATIVE
An assisted microcredit project tailored to rural areas and to the needs of start-up entrepreneurs based in rural areas. It comprises a remote microloan offer (via telephone) combined with increased local assistance at home or at the place of business to effectively overcome the constraints of isolation and directly help those affected save time and money.

BENEFICIARIES
People living in vulnerable rural areas who are excluded from the job market.

LOCATIONS

INDICATORS AND TARGETS
There are three appraisal criteria:

- Two results-based criteria:
  - Make financing and support available to at least 270 beneficiaries who are unable to obtain loans.
  - Ensure the sustainable economic integration (two to three years) of between 172 and 320 beneficiaries.

- Qualitative criterion: the eligibility of beneficiaries is assessed based on a social and financial exclusion score, i.e. their exclusion from existing schemes.

Objective for maximum payments: at least 320 individuals sustainably integrated into the labour market (two to three years after the end of the programme).

DURATION
Programme: 3 years
SIB: 6 years

BUDGET
€13 million, of which €100 000 in engineering costs (appraisal, financial structuring and legal structuring).

STAKEHOLDERS
Third-party payer: Ministry for the Economy and Finance.
Structurer: BNP Paribas
Hogan Lovells provided legal advice to the stakeholders
APPRAISER: KPMG.

INVESTORS AND EXPECTED RETURN
BNP Paribas, Caisse des Dépôts, Renault Mobiliz Invest, AG2R La Mondiale and Fondation Avril – bonus capped at €130 000 for investors (corresponds to a minimum of 406 individuals entering the labour market).
IMPACT INVEST LAB

Impact Invest Lab is a non-profit platform for experimenting in and developing social impact investment. It is led by a group of organisations whose goal is to contribute to work on and experimentation in social impact investment and to help accelerate its development in France, in particular through its international outlook.

Impact Invest Lab was created as a follow-up to the work of the National Advisory Board on Social Impact Investment. It was founded by Caisse des Dépôts, Centre français des Fonds et Fondations, Finansol, Crédit Coopératif, Mouves and Inco.

To successfully complete these projects under a common framework, in particular for social impact bonds, iiLab has adopted an ethics charter that aims to ensure the various stakeholders’ operations comply with ethical standards.

We would like to thank all our partners for their commitment and support.

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