Making Impact Investible

Preface to the Italian Edition

April 2014

Impact Economy
Dr. Maximilian Martin

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Preface

Italy has been a pioneer in finance ever since the invention of double-entry bookkeeping by Florentine merchants at the end of the thirteenth century. In fact, banking as we have come to know it in modern times can be traced to Italy's wealthy trading cities in the Middle Ages and early Renaissance. Far more recently, Italy was a pioneer in using privatization revenue to provide a dedicated capital resource to civil society through the creation of foundations of banking origin after the privatization of the country's saving banks in the 1990s. This moved Italy from being one of Europe's countries with the lowest philanthropic assets per capita to one of the highest.

This report is about the potential of a more recent innovation in finance: the advent of impact investing. The report explains how impact investing can drive both the modernization of the provision of public goods and private sector value creation on an unprecedented scale, provided impact is first made investible so there are enough transaction opportunities to deliver on capital formation, business growth and new jobs as well as social inclusion. Effective operational implementation is key, and the necessary conditions for a functioning impact capital market are:

- A sound impact investment ecosystem composed of quality investors, investees and intermediaries;
- A generally competitive social sector; and
- An enabling policy and regulatory environment.

The cheapest and fastest way to build such a capital market is via collaborative and systemic action.

Decision makers in Italy, much like those in the rest of Europe, are seeking financing solutions to issues, such as the transitions occurring in the demographic profile of their regions, and to ensure economic competitiveness and jobs in the European Union's comparatively high-cost locations. The red thread uniting all of these issues is the need for investment capital. With the Italian economy and public sector currently facing a number of modernization opportunities, seriously exploring how financial innovation can be enlisted to reactivate the real economy and get its people to work as well as creating financial returns on assets invested to cover the cost of capital, makes urgent sense.

As a result, I am especially pleased to now have "Making Impact Investible" translated to Italian, with the support of the Cariplo Foundation, for which I am deeply grateful. Special thanks go to the Foundation's Secretary-General Pier Mario Vello and to its Chief Financial Officer, Francesco Lorenzetti. The many insights they have generously shared over the years have helped me to understand Italy better, both in terms of its idiosyncrasies and its opportunities. The post-war economic miracle succeeded in transforming a fundamentally agricultural economy into one of the world's leading industrialized nations and a powerful export machine, which is especially impressive considering what one might have reasonably expected given the state of destruction after World War II. A period of relative stagnation followed, accentuated by the recent Great Recession that has tested the very foundations of the country's economy and society, and raised questions about how to reactivate the economy and ensure its long-term competitiveness and sustainability.

This report argues that impact investing is such a strategy and that it can help Italy to address the many challenges and opportunities the country faces in the first half of the twenty-first century both at home and in relation to its business interactions with the world. Quite possibly the biggest innovation opportunity in finance for at least a generation, the emergence of impact investing is closely connected to the next wave of transformation that is hitting our global economy and where Italy has to compete. Megatrends such as the USD 5 trillion Base of the Pyramid (BoP) market, the USD 546 billion global virtuous consumer segment, green growth and the rise of the circular economy as well as a modernizing welfare state are all creating new market opportunities that combine profit and impact. Seizing them requires the simultaneous and intentional creation of economic and social or environmental value in and by all sectors of the economy and society. To create value, we need innovative ways to access and allocate capital that are based on incentives to achieve financial and extra-financial performance simultaneously, and that benefit shareholders and stakeholders alike.

This context sets the stage for this report as well as its companion report "Status of the Social Impact Investment Market: A Primer", which I was delighted to prepare for the first-ever social impact investment forum held at the G8 level (an event hosted under the UK's G8 Presidency in 2013 by the country's Prime Minister). A G8 member, and the world's ninth-largest economy by nominal GDP, Italy can build on its inspiring track record in financial innovation and play a strategic role in nurturing the seedlings of impact investing and harvesting its fruits both for its own benefit and that of the international community.

In November 2013, I had the pleasure to deliver the keynote at a high-level meeting in Milan hosted by the Cariplo Foundation on the potential of Social Impact Bonds (i.e., one of the instruments discussed in the report) to finance more efficient public service provision in Italy. The complex discussion looked at the associated opportunities and challenges from a number of perspectives and confirmed to me both the level of opportunity in the country as well as the need to innovate in ways that make sense given the country's cultural, economic and historical context. Considering that there is still a relative scarcity of reports on impact investing in Italian and that there is a growing need for this topic to be discussed as widely as possible among the country's stakeholders in order to unlock its full potential, I hope that the Italian edition of this report can make a timely contribution.

Italy has a large number of unique assets, including its world-class industrial infrastructure, world-leading positions in a number of industries of which the fashion industry is perhaps the most emblematic, with almost half a billion of consumers, and with over 16 trillion dollars (making it the world's largest) GDP, and membership of the European Union. And impact investing can help build a more prosperous and inclusive Italy, Europe and global community in the twenty-first century. I have no doubt that Italians can act on this opportunity if they choose to. Italy's history has proven an old adage right:

"A chi vuole, non mancano modi"

(In English: "Where there is a will, there is a way")

It is now time to ask how progress around the world in investing for social impact and financial returns, and new insights into designing financial instruments that embed incentives to drive micro-level improvements that touch lives and boost competitiveness, can be brought to bear on unleashing Italy's next wave of innovation.

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