

ACTION SHEET



Triple Impact Businesses as a new model for sustainable development

Line of action:
**POLICIES RELATING
TO SOCIAL INCLUSION
AND THE FIGHT AGAINST
POVERTY**

Areas:
SOCIAL POLICIES

Scope:
LATIN AMERICA

THE ENTREPRENEURSHIP OF THE FUTURE: A PARADIGM SHIFT TOWARDS DEVELOPMENT

The challenges posed by globalisation in terms of social inclusion and environmental sustainability, coupled with the conditions for behavioural change imposed by the Covid-19 pandemic, are driving us to rethink the economic development model in a shift in a more egalitarian and sustainable direction. Companies, which are the key actors in economic development, no longer seek to pursue profit alone. Instead, they see the need to strive to generate positive effects in the social and environmental spheres, without neglecting earning profits through their business.

Social impact businesses and social impact investing have gained strength in recent years. These are financial activities or ventures that revolve around three strands: economic growth, social equality and environmental sustainability. They are not to be confused with philanthropic activities or corporate social responsibility actions. Impact businesses first emerged in English-speaking world and have been recognised as an example of a new economic and development model capable of facing current global challenges.

Companies that engage in this type of business are known as "B" or "B-type" companies (where "b" is for "benefit"). They seek to create innovative value chains, based on transparency



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and success, a process in which economic return is pursued, but in which the generation of a social and ecological awareness is equally important.

Financial impact activities allow the financing of public interest activities of a certain complexity and a certain cost, which the public sector alone cannot always guarantee.



An example of social impact

The inmates of Peterborough prison in England were the beneficiaries of the first example of a social impact business, in 2007, which involved issuing a debt security with a rate of return, called a Social Impact Bond.

The objective was to respond to the complex needs of inmates with short sentences once they were released, since the rate of recidivism was very high during the first year out of prison and about 60 percent were re-convicted.

In 2010, the organisation Social Finance raised £5 million from trusts and foundations to launch the Social Impact Bond to assist released inmates. The results were successful and recidivism was reduced by 8.39%. The investment made resulted in savings for the public sector: once monetised, it gave investors a return on their capital, plus a percentage profit.

Source: socialfinance.org.uk

In other words, it represents a scheme in which collaboration between the public and private sector turns out to be advantageous for both sectors, at the same time enabling the provision of public goods and a return for private investors. Impact businesses contribute to a paradigm in which human well-being, rather than GDP, is considered the essential indicator in defining a society's degree of development.

Public policies can encourage the possibility of impact businesses, as well as facilitate the conditions for their implementation and development. In some European countries, tax benefits are granted to these companies and the regulatory framework has been adapted to protect them. The United Kingdom even

has regulations for public procurement from social enterprises and impact businesses. Could the post-Covid recovery be the time when impact businesses enter the economic mainstream?

SUPPORT FROM EUROsociAL+

European experiences, with their differences between countries, are the subject of analysis in the support that EUROsociAL+ provides in Latin America to some pioneering public policy initiatives in this area, designed to promote impact businesses. Specifically in Brazil, support has been provided to strengthen the National Strategy for Business and Impact

Investments (ENIMPACTO). This is considered the first national strategy at the Latin American level and a model to follow for other countries in the region.

EUROsociAL+ support has focused on strengthening the capacities of public managers, intermediary actors and those who implement public programmes and policies in that country to support businesses with a social impact at the national and subnational levels. At the same time, action plans were drawn up for the areas of public procurement and impact legislation. The work with Brazil aims to lay the groundwork for the creation of a Latin American community involved in Impact Investment and Business.

Meanwhile, in Argentina, EUROsociAL+ is collaborating in developing rules and practices to generate triple impact ecosystems. The purpose is to stimulate these businesses at the territorial level in order to contribute to the productive development of the country and generate employment and innovation, all from the perspective of equity and inclusion. Through the support from EUROsociAL+, the aim is to promote a regulatory framework that favours public procurement from innovative ventures; install capacities at the local and provincial level that allow the development of triple impact businesses; and develop pilot tests of networks in some municipalities.

To achieve this, EUROsociAL+ is collaborating in facilitating the exchange of good practices from Latin America and the European Union, as well as in providing specialist advice to accompany the various survey activities, pilot tests and the development of instruments to promote triple impact ecosystems.

A LEGAL FRAMEWORK TO PROMOTE IMPACT BUSINESSES AND AVOID RISKS

The countries that are committed to these initiatives are pursuing the objective of building a legal framework that allows the proliferation and development of these activities, on the one hand; and, on the other, provides incentives that stimulate and expand access to capital, as well as increased investment in this type of business.

However, the process also presents some risks. The first is the level of bureaucracy that this framework can create if it is not well executed. On the other hand, if the definition of an impact business is too restrictive and only applies to a small number of organisations, it could narrow interest in impact investing to a niche market. Despite this, the potential benefits are considered to far outweigh the risks.

Impact businesses point to a paradigm in which human well-being, rather than GDP, is considered the essential indicator in defining a society's degree of development.