# FEEDBACK ON THE FIRST WAVE OF SIBS IN FRANCE: *CONTRATS À IMPACT SOCIAL*

## EXECUTIVE SUMMARY

The report is based on a series of interviews with people involved in "contrats à impact social" (social impact contracts, CIS). Impact Invest Lab aims at sharing the learnings from the first wave of CISs, but also at informing the practices in the future. The report contains six sections.

The first part describes the CIS mechanism as an unprecedented collaboration model in France. It has gathered stakeholders with different backgrounds around social projects. In the French model, the social operator is the one at the initiative of the CIS and is at the center of the scheme. The tool is tailored to each project. However, both the evaluation processes and the dialogue engaged through CISs go beyond the scope of the projects. Indeed, the CIS mechanism has managed to articulate different actors' practices to co-construct a model focused on impact. It has not been an easy task but the partners have truly built up trust.

The second part details the reasons to engage in a CIS, in particular for project holders. To begin with, it is a financing tool that has permitted to innovate outside of a sometimes rigid ordinary law and siloed budget. It can provide an adapted amount of money to carry out an experimentation over several years. Secondly, CISs have allowed social operators to develop innovative projects with the public sector, in order to influence public policy. Thirdly, CISs have made more visible operators' social impact and thus have valued it. To finish with, project holders have been attracted by the novelty of CISs and sometimes took it as a challenge.

In the third part, the report shows the difficulties for the public sector to engage in the mechanism and proposes some guidelines to institutionalize public sector engagement. The 2016 call for projects for CIS was launched by the Government before decision-making processes were defined; it was a learning-by-doing opportunity for all. The main difficulties have been about budgetary commitment of final payors, but also the instability of the interest for CISs. Indeed, CISs tend to rely on individuals instead of processes or institutions. As a consequence, interviewees made recommendations to reinforce the CIS as a policy tool. One the one hand, public payors could clarify their post-CIS ambitions from the beginning. On the other hand, the development of the tool would be facilitated by structural changes like an outcome fund. To finish with, it seems important to facilitate the access of CIS for local authorities.

The fourth part highlights the benefits of social impact evaluation, which have been designed by the partners with a great reflexivity. Evaluation cannot be standardized in CIS: it is adapted to each project's DNA. To define the indicators that trigger payments (or not), a challenge has been around data availability. A second challenge has been the necessary compromise between scientific rigor and complexity of the evaluation processes. In fact, on each project, the actors have defined the results metrics and quantitative targets after thorough thinking. Metrics are indeed crucial to calibrate the risk of non-success. They can be based on: track record of operators, cost savings, baseline scenario.

The fifth part turns to the legal work on contracts and financial vehicles, which has been cumbersome and lengthy for the first wave of CISs. CIS contracts align the interests yet diverse of the stakeholders; this is why the legal documentation is tough. This section explains the choice of financial vehicles and the difficulties, in particular for bonds issuance (in France, project holders issue bonds to get the working capital from investors). More generally, the legal work have costed a high amount of time and expertise, which triggered two kinds of reactions from the interviewees: the first one rather enthusiastic about spending a lot of time and capitalizing on it in the future; the second one more critical about the disproportionate ratio between legal requirements and the size of the projects (400k-3M€). The "rapport Lavenir" (report from the working group settled by the Government to simplify and scale CIS) now provides a template of CIS framework contract, which should help streamline the process. However, it is important to keep mindful so that legal expertise do not disadvantage project holders. The latter do not necessarily have enough negotiation power vis-à-vis the partners, investors and final payors.

The sixth part takes the standpoint of the social investors that have been involved in CIS. Investment practices have not been derogatory. Though, they have been adapted because of the originality of the investment vehicle and of the mechanism that conditions financial returns to social returns. The financial risk (tied to the social results) has been hard to capture. So, on the one hand, the risk-return duo have not complied with investment standards and on the other hand, the actual uncertainty level on risks has impeded the financial valuation of this type of investment. Yet, valuation is a legal obligation for fund managers, which has hindered the involvement of solidarity fund managers. The section finishes with a question about which financial actors will be able to ensure a lasting engagement in CISs.