

Erasmus Platform for Sustainable Value Creation

Working paper

Place-based impact investing: The case of Social Impact Fund Rotterdam

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Rotterdam

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Abstract	4
Introduction	5
Theory and practice of impact and place-based impact investing	7
The context of SIFR's creation	12
SIFR's vision, mission, strategy & methods	15
Conclusions and recommendations for further research	23
Literature	27

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1 Abstract

The Social Impact Fund Rotterdam represents an interesting financial innovation: place-based impact investing in close cooperation with public and private partners.

Place-based impact investing refers to impact investing that is focused on one particular city or region, with the advantages of being a local investor, which include better risk assessment, networks, and “boots on the ground”. These advantages should help overcome some of the problems associated with standard impact investing. This article explores how this form of place based impact investing has come about, how it works, and how it deals with the challenges of impact investing, such as effectiveness, measurement, the balance between financial and impact returns, and the allocation of societal costs and benefits. It also highlights the need for social aggregator funds: funds that exclusively invest in a portfolio of small impact investors, to create an aggregated portfolio of social impact investments that has sufficient scale, track record, and risk-return profile to be investable to large institutional investors.

2 Introduction

In spite of vast financial wealth, most societies do not seem to succeed in achieving societal goals that were met in the past, such as providing affordable housing and healthcare to the vast majority of the population. Negative externalities are not addressed since they are not priced. In addition, there is a lack of coordination across actors. However, we have recently seen the rise of impact investing and, even more recently, place based impact investing. Place based impact investing could mitigate some of the challenges of impact investing. It could also be a way to make impact interventions more effective and leverage both public, philanthropic and private impact investing capital. Moreover, it has the potential to help fill a large funding gap: between small projects looking for finance and big financial institutions looking for sizeable investments at decent risk-adjusted returns. The potential is exciting, but very little is known about place based impact, academically even less than practically. This is awkward given that successful mobilization of private capital typically happens at the local level, with advantages for local investors (Halland *et al.*, 2018). Moreover, for the transition to a more sustainable economy and the creation of sustainable business models, one needs a more diverse financial system (Polzin *et al.*, 2017). This requires new financial structures. Place based investing is a different variety of impact investing that has several interesting characteristics (see Table 1 below).

TABLE 1: CONTRASTING IMPACT INVESTING AND PLACE-BASED IMPACT INVESTING

	Impact investing	Place based impact investing vs non-place based impact investing
Effectiveness (societal returns)	Hard to assess	More practical, better coordination, and easier comparison in context
Attention to beneficiaries	Often too little	Easier in context
Measurement & reporting	Tough due to measurement & aggregation issues	Clearer in well-defined context
Financial risk & returns	Ranges from concessionary to above market rate	Less diversification, but processes for helping social entrepreneurs to mitigate risk (Financial instruments are put in place to accommodate entrepreneurs. In many instances, entrepreneurs first receive donations and subsidies in the proof of concept phase. When delivering the proposed social impact and financial results, the investor is ready for further investment. This leads to less transaction costs, less pitch-events for the entrepreneur and less risks for investors, because they have been following the entrepreneur.)
Allocation of societal costs & benefits	Attempt to find stakeholders and align societal costs and benefits amongst them	Sound allocation of societal costs and benefits is crucial in being successful

Scale

Continuous focus on scalability on a national or international level

Make it work locally at first, then scale within the region, then possibly outside the region

Source: Author

The Social Impact Fund Rotterdam (henceforth SIFR) is special, not only in that it is place based, but also in that it was started and run in close cooperation with a diverse set of local actors. Individuals within the municipal government asked the local private sector to come up with ideas to stimulate local impact investing.

This article explores how this form of place based impact investing has come about, how it works and what might determine its chance of success. The article is set up as follows. Section 2 addresses the theory and practice of place based impact investing. It then describes the context of SIFR's creation. Section 4 dives into SIFR's vision, mission, strategy, and methods. Section 5 concludes with recommendations for further research.

3 Theory and practice of impact and place-based impact investing

3.1 Impact investing

Impact investing is generally defined as a type of investing with the explicit intentionality to achieve both positive societal outcomes and positive financial returns (as opposed to charity). The term was apparently coined in 2007 by the Rockefeller foundation, but its practice is older. In an overview paper, Höchstädter and Scheck (2015) observe that conceptual clarity is still an issue in impact investing. Still, some characteristics are widely shared:

- **A dual return objective:** pursue both financial and impact return;
- **No charity:** a financial return objective that ranges from capital preservation to returns at or above the market;
- **Measurement:** one should (at least try to) measure the non-financial (impact) return;
- **Intentionality:** the impact return is a goal of and condition for investment, and continues to be a focus of attention during investment.

The condition of no charity is what separates impact investing from social interventions or venture philanthropy. Those fields do bring relevant experience to the table and have encountered serious challenges in measurement, reporting and effectiveness.

Regarding effectiveness, Rey-Garcia *et al.* (2017) find that typically too little attention is paid to the ultimate beneficiaries who should experience some type of improvement. It is often assumed that an intervention is useful given a priori logic, but in practice it might work out differently and unintended consequences might occur. Admittedly, it is not always easy to verify effectiveness with beneficiaries. That might be easier in place based action.

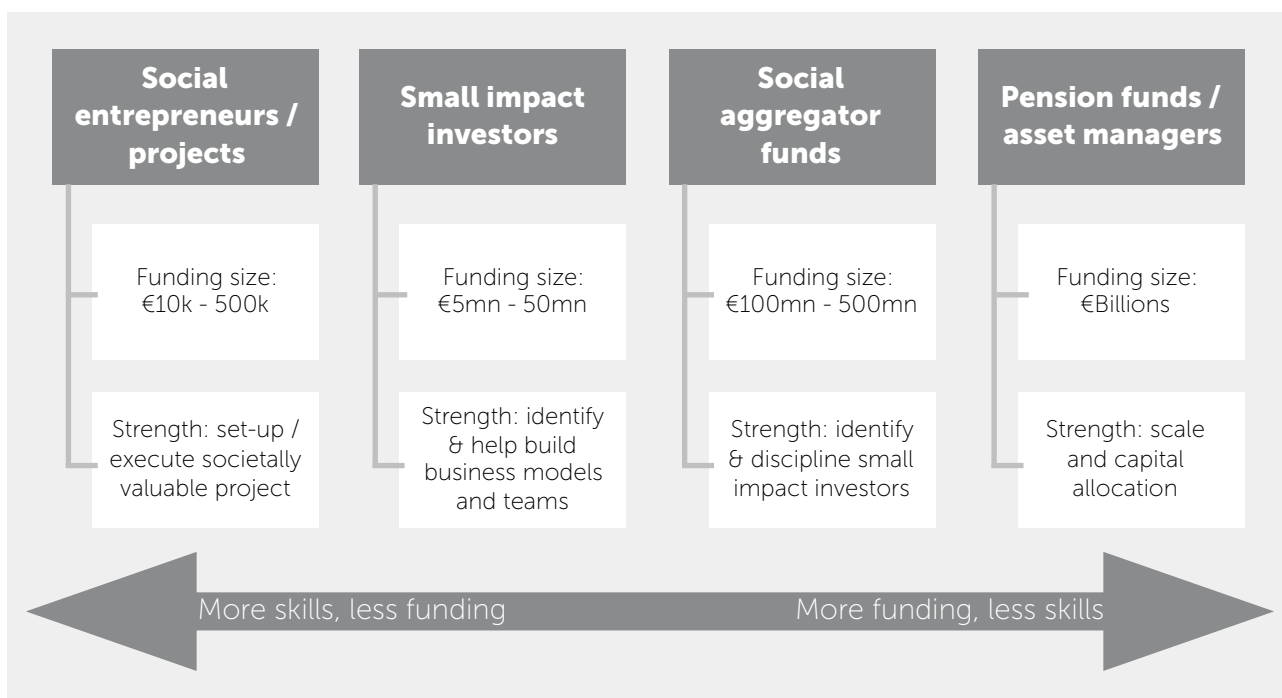
On measurement and reporting, Nicholls (2018) argues that social accounting is even more challenging than traditional financial accounting, since it differs in terms of two key materiality issues: the uncertain nature of its material data; and the empowering process by which materiality is established. In sum, it is very hard to measure or report the impact, let alone an impact return (which not only requires the impact to be known, but also the base 'capital' against which it is measured). And while impact measurement is important, it should not become a quest for perfect measurement. Ebrahim and Rangan (2014) argue that the more

important challenge is in fact alignment, i.e. to design metrics and measurement systems that support the achievement of well-defined goals.

Unlike venture philanthropy, impact investing does require a non-negative financial return. The evidence on financial return is mixed though. For example, Brest and Born (2013) argue that giving up returns is almost inevitable for most impact private equity funds. And Barber *et al.* (2019) find empirical evidence of lower financial returns for impact private equity compared to traditional private equity. However, for a dataset of listed companies, Schramade's (2019) findings suggest the opposite, as impact companies tend to have higher growth, higher profitability and lower risk.

The risk-return question is crucial in another matter: scaling up the impact investing market to become a sizeable part of the total investment market. Wood *et al.* (2013) argue that government policy can play an important role in developing the impact investing market, and should focus on market infrastructure, i.e. the network of actors that allow a market to flourish. Schoenmaker and Schramade (2019) argue that new and existing institutions should step in to build the missing middle (Figure below) of small impact investors (such as SIFR) and social aggregator funds. We define social aggregator funds as those funds that exclusively invest in a portfolio of small impact investors, to create an aggregated portfolio of social impact investments that has sufficient scale, track record, and risk-return profile to be investable to large institutional investors. It solves similar information problems as a fund-of-fund private equity fund, but with an explicit social return target.

FIGURE 1. BRIDGING THE GAP BETWEEN PROJECTS AND BIG FINANCE



Source: Schoenmaker and Schramade (2019)

However, Sardy and Lewin (2016) and Wilton (2019) suggest that for impact investing to really take off and become mainstream, impact needs become a generally accepted additional dimension to the financial risk and return dimensions.

3.2 The importance of place in impact investing & finance

Place-based impact investing refers to impact investing that is focused on one particular city or region. Per September 2019, there are no articles to be found on Google Scholar that have place-based impact investing in the title or as the central subject. At best, articles refer to both impact and place. And all of the abovementioned articles pay little attention to location, which is strange. Halland *et al.* (2018) argue that successful mobilization of private capital typically takes place at the local level, which they attribute to the advantages of being a local investor, which include better risk assessment, networks and “boots on the ground”. And face-to-face contact is especially important where information is imperfect and not easily codified.

Still, little is known about the associated questions on issues like the design of mandates, structures, governance, and staffing. This is not just a gap in the finance literature, but more generally so: Hansen and Coenen (2015) indicate that there is still little generalisable knowledge about how place-specificity matters for transitions.

More is known about the concept of social entrepreneurship, which Santos (2012) defines as the pursuit of sustainable solutions to neglected problems with positive externalities. This is usually place-based, in that social entrepreneurs typically start with local activities targeted at local problems – although they often have global relevance and might be scaled up. These are the kind of people that SIFR aims to support. They face the trade-off between value creation and value capture, i.e. even though they do something valuable for society, they do not get insufficiently paid for it.

From a traditional financial theory perspective, place based impact investing looks unattractive as both the impact target and the location restriction limit the investment universe, resulting in a less efficient portfolio.

The banking literature takes a different and more interesting perspective though. Petersen and Rajan (1994) find that relationships with bankers help SMEs to increase their access to bank loans as it reduces the frictions of informational asymmetries. Trust matters too. Moro and Fink (2013) find that SMEs that enjoy a high level of trust from loan managers obtain more credit more easily. But relationship banking is on the retreat. This is in line with the model by Boot and Thakor (2000) that predicts that relationship lending will decline as banks face more competition from capital markets, i.e. when mutual funds take market share from retail deposits.

While financial theory hardly pays attention to location, regional development studies do. In fact, globalization has drawn attention to the often neglected role of place (Barca *et al.*, 2012). Local conditions matter, and Acemoglu and Robinson (2012) have been influential in stressing the importance of strong local institutions for local development. Such strong institutions ideally feature an investment ecosystem that fosters the growth of social enterprises and caters to all stages of their development. This makes place based impact investing desirable from a societal perspective, and with appropriate structures and incentives, it can also be attractive from an investor's perspective. Place based impact investing offers several advantages over non-place based impact investing, partly analogous to the advantages of relationship banking over transaction based banking:

- A clear focus of attention / less distraction of management in screening;
- A local information advantage that reduces transaction costs;
- The ability to add more societal value by connecting local initiatives and better understand beneficiaries;
- Involving and aligning local stakeholders, government, philanthropic money, impact capital, and commercial capital.

In sum, place based impact investing likely mitigates the aforementioned challenges of impact investing. But there is little evidence yet.

3.3 Place-based impact investing in practice

In the meantime, place-based investing is happening, and examples include the Philadelphia impact ecosystem¹ and the work of JPMorgan in Detroit, Chicago, and Paris. And The Urban Institute has published a few briefs on the subject², based on experience. They highlight the importance of establishing relationships, trust, and alignment around a common purpose. Ideally, the Urban Institute's briefs say, there is a strong impact investing ecosystem, in which stakeholders coordinate for better outcomes and benefit from:

1. Community knowledge and understanding of community needs, capital flows, and capital gaps;
2. Strength and efficiency as additional information and resources help identify stronger investment opportunities;
3. Relationship building, which can boost trust, facilitate cross-sector conversations, and support coordination. Developed ecosystem efforts attract a wider variety of investor types (e.g., individual, corporate, government, and foundation);
4. Investees are more prepared and supported in making an investment;
5. More resources and infrastructure.

¹ <https://chamberphl.com/2019/03/philadelphia-grows-a-regional-and-national-impact-investing-market/>

² <https://www.urban.org/research/publication/place-based-impact-investing-practitioner-briefs>

In the next sections, we analyse SIFR on the basis of interviews we held with its founders. We address issues such as the context in which SIFR was created, and how it functions. E.g., what are its vision, mission, strategy and methods?

4 The context of SIFR's creation

The city of Rotterdam and the surrounding region are the focus area of the SIFR. It is not entirely coincidental that such an initiative was conceived here, since Rotterdam has a tradition of socially committed entrepreneurs. The so-called harbour barons not only built the port in the 19th and 20th centuries, they also played a prominent role in launching major institutions that still exist today. Examples include the art museum Boijmans van Beuningen (1849), the predecessor of Erasmus University (1913), and asset manager Robeco (1929).

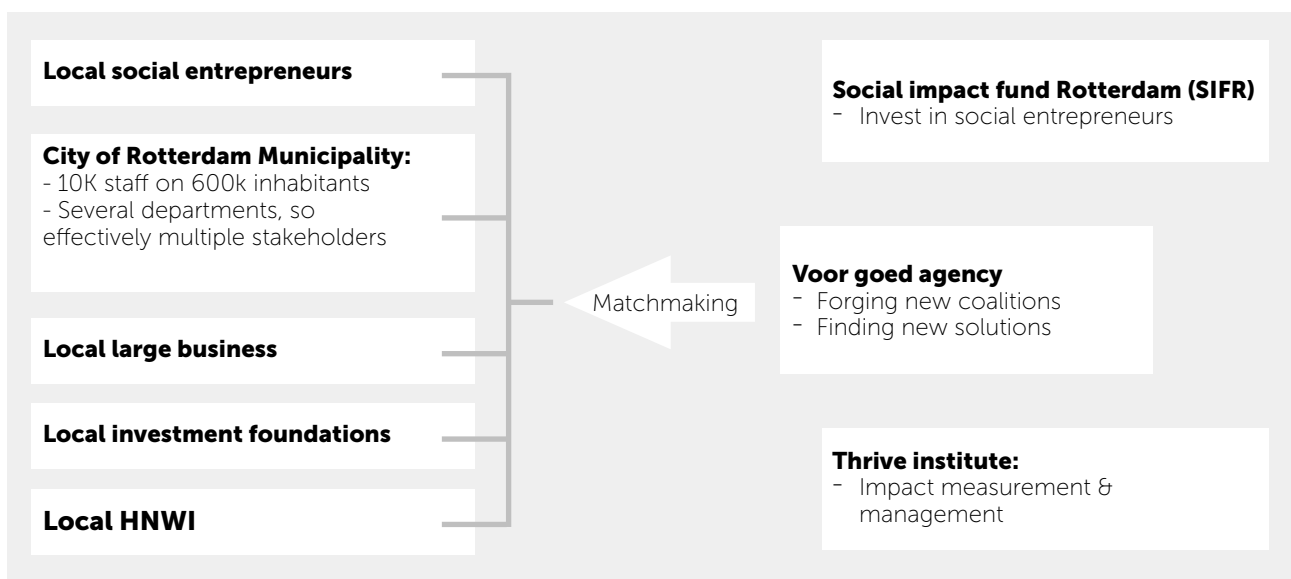
Moreover, Rotterdam faces larger social and environmental problems than the typical Dutch city. There is stubborn poverty in certain areas of the city, with 1 in 4 Rotterdam children growing up in poverty; high unemployment as 1 in 9 Rotterdam adults and 1 in 5 Rotterdam youths are unemployed; and high GHG emissions due to its port function, with Rotterdam in the top 3 of GHG emitters in the Netherlands.

Confronted with these challenges, a diverse group of people felt that the efforts to solve these challenges needed to be stepped up. The main driving force in this group was Wim Hoogendoorn, a director of social affairs at Rotterdam municipality. He saw families lacking basic possessions like a fridge, hoping that their food would stay cool. At the same time he knew many rich people in the city who were looking to invest in making the city better for poor people. This was a personal turning point for him, and he realized that his organization had to change focus from staying within budget to giving people back their lives. He also knew that the government could not do it on its own, and that a platform was needed to connect several parties in the city. So, in 2014, Hoogendoorn launched the first social impact bond in Rotterdam (possibly the first in continental Europe), which aimed to battle youth unemployment. And in 2016, he started a working group on impact investing, which involved some 20 people from funds, big business, Rotterdam partners, and community organisations. Everyone agreed on the issues, but they saw no machine to solve it. Company builders were tired of going from one counter to the other. Funds got too many unusable requests. They also realized there were many high ranking people, who had no idea of execution. Micro work was needed, making it concrete, to learn by doing and build the required social infrastructure. When doing you find out what is missing. "Validate and monetize it", as Kees Klomp of the Thrive Institute puts it. In addition, responsibilities and budgets were needed. Hoogendoorn: "You can have a large number of railway carriages, but without a locomotive, they will go nowhere." That applies both across and within organisations. Therefore, they saw a role for separate agencies to perform an intelligent maker & broker function. After some experimentation in 2017 and 2018, with Hoogendoorn using his budget to take initiatives, it was proposed to create Voor Goed Agency for matchmaking across

stakeholders, and SIFR to invest in social entrepreneurs. Both were launched in 2019. It is striking to see that at first, it were the government itself played a limited role. Rather, it was driven by intrapreneurs within the local government, such as Wim Hoogendoorn and Mirjam van Rijn, who found ways to make new connections and circumvent problems. Only later on, the initiative was taken more formally, and fortunately enthusiastically welcomed by decision-makers by like alderman Barbara Kathmann.

Meanwhile, private initiatives were deployed as well. For example, a mission-driven IT entrepreneur set up the iFund foundation in 2014, with the explicit goals of stimulating the transition to a more sustainable world by helping innovative social enterprises. Five years later, iFund has transformed several Rotterdam landmarks into social enterprise hubs. The people of iFund know the SIFR and Voor Goed people very well, and share experiences. They also meet up in events like the Rotterdam Capital Days, which help widen the scope of the Rotterdam impact investing ecosystem – which is summarized in Figure 2.

FIGURE 2. THE ROTTERDAM IMPACT NETWORK



Source: Author's interpretation

This ecosystem includes two of the four parts of the investment chain visualized in Figure 1: the social entrepreneurs and the small impact investors. It does not include the social aggregator funds that are needed to get the large institutional investors involved. While some of the local charity foundations are large enough, they do not play that role since they are not open to external funding. Hence, a social aggregator fund would be a very welcome addition to the Rotterdam impact ecosystem: they could provide exit opportunities and additional funding opportunities – although the latter is less needed than elsewhere given the presence of large charity foundations. The aggregator itself does not have to be place based. The main point is that it provides a structure for institutional investors

to participate in local impact projects and that it solves the information problems that such investors face.

5 SIFR's vision, mission, strategy & methods

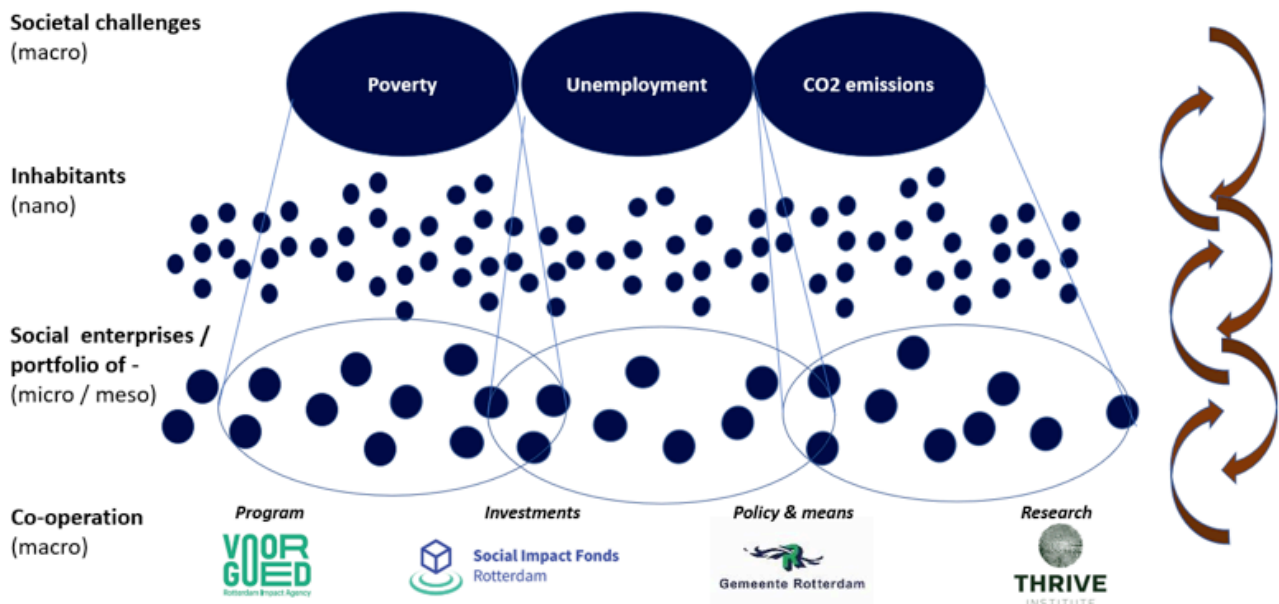
We now zoom in on SIFRs to see how it works, and how that matches with what we have seen in the literature review.

5.1 SIFR's vision & mission

The SIFR's vision is to achieve "an open, inclusive and sustainable Rotterdam region without poverty, unemployment and environmental pollution." Its own mission within that vision is to contribute to making Rotterdam more sustainable and inclusive by: investing in proven interventions that contribute to long term improvement on the big societal issues in Rotterdam; building an ecosystem of social enterprise; helping entrepreneurs develop themselves and their companies; investing in social entrepreneurship; and adaptation of social interventions by regular business.

SIFR's theory of change is that it helps social entrepreneurs in tackling societal challenges by offering them funding and technical assistance. This theory of change is visualized in Figure 3.

FIGURE 3. SIFR'S THEORY OF CHANGE



Source: SIFR

Social entrepreneurship is a key concept for SIFR, which they define as entrepreneurship with the intention of making a positive impact; managing for

positive impact performance; a clear business plan with a well-argued theory of change; use of data and proof in designing the intervention; aiming to be a positive example for others; and excluding harmful activities. This corresponds well with Santos' (2012) aforementioned definition of social entrepreneurship. SIFR aims to fill a number of gaps, namely the lack of scale in local social enterprises; the unmet social potential of regular local business; the missing next phase after philanthropy & foundations; and problems the local government cannot fix alone. For example, SIFR supports companies that help people with a distance to the labour market. One of them gives two week trials to people who have been unemployed for a long time, and afterward they can choose their job and get an extended specialized training.

The ability of local government to fix problems is limited since integral questions are spread over several departments – like at any government or large organisation. Moreover, there is an absence of steering on performance and proven effectiveness. This means that effectiveness is not known for the vast majority of the departmental budgets, and steering is done mainly on effort. In addition, government policies are hampered by short (4 year) terms of the government, meaning that policies tend to be killed by the next government, before they are well under way. This also applies to the relations with tender organisations (in Dutch: aanbestedingsorganisaties), which are short term as well, and which tend to do poor transfers of knowledge when they hand over projects to a new organisation, which then has to start all over again. SIFR can challenge the status quo by showing alternative ways of doing things.

5.2 SIFR's strategy

SIFR has what it calls a "4x3 strategy": a focus on 3 societal problems; 3 partners; 3 types of funding; and 3 types of targeted social companies. To illustrate that strategy, we'll loosely follow the five elements of a strategy as defined by Hambrick and Frederickson (2005): arenas, staging, vehicles, differentiators and economic logic.

Arenas

The arenas that SIFR has chosen are three types of social enterprises groups in the Rotterdam region:

- Funding new and existing social enterprises in Rotterdam;
- Cooperating with mainstream businesses to take a bigger role in solving societal issues;
- Attracting successful (foreign) social enterprises to the Rotterdam region.

Having three different arenas means that risk is spread and chances of success are increased. Moreover, they might offer synergies: mainstream businesses might become the clients of the newly founded social enterprises, or might help them out with volunteer employees who provide technical assistance. Attracting successful social enterprises can help to achieve scale or develop new types of

interventions. For example, although the New York bakery Greyston eventually did not come, its intervention of open hiring (i.e., offering employment to everyone) did come to Rotterdam.

Staging

In terms of staging, there is the staging of the financing it provides and the staging of its own strategy. On the latter, it seems that the funding of social enterprises comes first, as this is the basis and partly requirement for achieving the cooperation with mainstream businesses. After all, they first need to find the projects (run by the social entrepreneurs who get funding) before they can offer participation in them to mainstream business – they can help out with technical assistance, for example by recruiting volunteers from their own workforce to offer specialized skills such as marketing, finance and human resources management; or by hiring the social entrepreneurs for events, catering, or other goods and services. The staging of the finance for innovation and growth follows the maturity of the social enterprise:

- Technical assistance & subsidies – to social entrepreneurs that are looking to get their business investment ready; typical amounts: €10-100k; these are typically funded with donations.
- Seed capital – to social enterprise at an early stage of professionalization; this is typically the first external capital that the social enterprise receives; typical amounts: €50-250k;
- Venture capital – providing capital to the social enterprise at a more advanced stage of professionalization and growth; typical amounts: €150k-2mn.

Especially given the local focus, it was felt that all stages had to be offered, both to be more effective and to reduce risk.

Vehicles

Of course, an investor needs capital, but SIFR's main means of achieving success are its partnerships. This is Ebrahim and Rangan's (2014) point of alignment. SIFR works with social entrepreneurs, philanthropies, foundations, and funds, and with three public-private partners:

- Rotterdam municipality, which produces policy & means;
- Voor Goed Agency, which creates programs and makes connections;
- Thrive Institute, focused on impact research.

Table 2 visualizes the role of SIFR and its three partners along the investment stages.

TABLE 2. SIFR AND PARTNERS ALONG THE INVESTMENT STAGE

Organization	Pre-financing role	Role in the financing stages		
		Stage 1: Technical assistance (TA) & grants	Stage 2: Seed capital	Stage 3 Venture capital
Rotterdam city government	Diverse roles	Grants	Result based societal impact contracts	Result based societal impact contracts
Voor goed agency	Matchmaking & non-financial support			
Thrive institute	Impact measurement, intervention design, matchmaking & database building			
SIFR	Impact creator, building interventions with local residents and entrepreneurs	Loans & assistance for investment readiness	Providing small amounts of capital to get the company started	Providing (more) capital as the company grows

Source: Author. The larger size of stage 3 reflects the longer time period and larger amount of capital invested.

Differentiators

SIFR’s model is distinctive in that it combines two characteristics that are rare for an investor:

1. Place-based impact goals;
2. Close cooperation with the local partners, including the local government.

SIFR’s investment team is well-positioned for this as its members have years of experience in both impact investing and local government. They have a strong network across the city, which should allow them to make new connections and fill the gaps left by other actors, in cooperation with those actors. Proximity is key here: all partners are within 500 meters and all neighbourhoods within 3 kilometres. That means people meet in person, they connect, they share responsibility, and they trust each other. This is a recipe for success and actually the way most business was done in the city before globalization – indeed, with relationship banking.

Economic logic

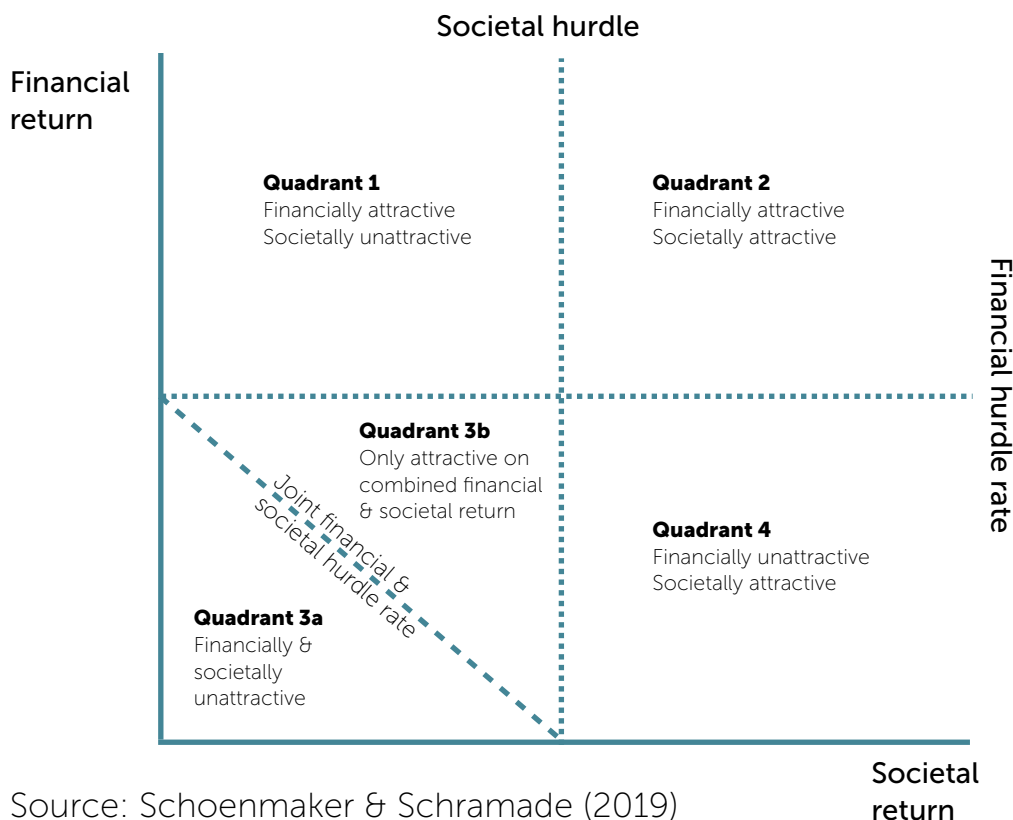
In the spirit of Hambrick and Frederickson (2005) SIFR’s economic logic is simply how it makes a good financial return. That is: what is its profit model? What are its cost base and cost drivers? What scale does it need to recoup fixed costs? How

big can and should it get? Those are all important questions, since SIFR will need to be economically viable, i.e. be able to sustain itself, by having a small team (low cost) and sufficient scale (>€10 million funding) at the same time. The key here is to work with a hybrid fund managers model: adding value and getting paid for impact investing work as well as building and supporting local impact initiatives.

But there is also the wider economic logic of why an organization like SIFR needs to exist in the first place. And then it makes more sense to return to Santos' (2012) perspective of social entrepreneurship as "the pursuit of sustainable solutions to neglected problems with positive externalities": SIFR exists to create value for society, exactly in those instances where societal value creation potential is high but unlikely to be realized since financial returns look too low to be funded. Crucially, thanks to its close cooperation, SIFR is able to let the municipal government pay the social entrepreneurs for impact. As a result, it is better able to match value capture with the societal costs and benefits of the value creation process.

So, while traditional financial institutions would focus on quadrants 1 and 2 of the below Figure (without even being aware of the societal hurdle rate that distinguishes both quadrants), SIFR focuses on quadrants 3b and 4. It does so with a lower financial hurdle rate on the fund level, after portfolio risk and costs, and a serious societal hurdle rate. For both quadrants 3b and 4, SIFR focusses on moving the initiatives to quadrant 2, but will not shy away to investing prior to reaching that phase of financial and societal attractiveness.

FIGURE 4. FINANCIAL AND SOCIETAL RETURNS



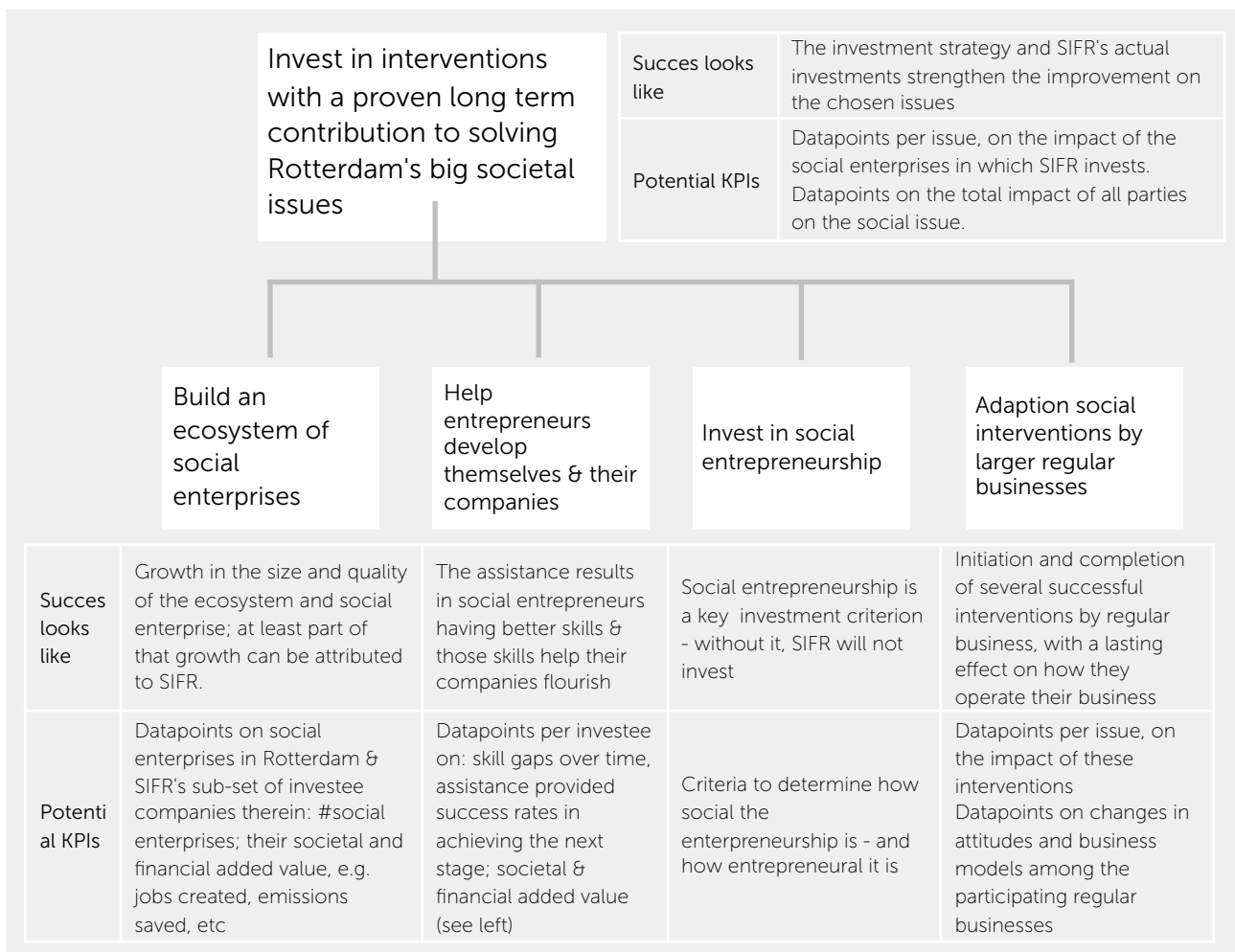
Source: Schoenmaker & Schramade (2019)

5.3 What does success look like at SIFR?

As the previous sections have outlined SIFR’s mission and strategy, it has partly become clear how SIFR works. But what does success look like? We now try to make that more concrete by looking at its performance measurement and investment criteria.

Performance measurement begs the question what needs to be measured. That is, what does SIFR need to know to assess how successful it is? The answer lies in its mission of contributing to making Rotterdam more sustainable and inclusive by: investing in proven interventions that contribute to long term improvement on the big societal issues in Rotterdam; building an ecosystem of social enterprise; helping entrepreneurs develop themselves and their companies; investing in social entrepreneurship; and adaptation of social interventions by regular business. Figure 5 translates these five mission components into indicators for its impact success. The first component is on the top of the hierarchy, since the other four components are means to the bigger end of introducing and expanding the realm of successful social interventions.

FIGURE 5. DEFINING SUCCESS ALONG THE COMPONENTS OF SIFR’S MISSION

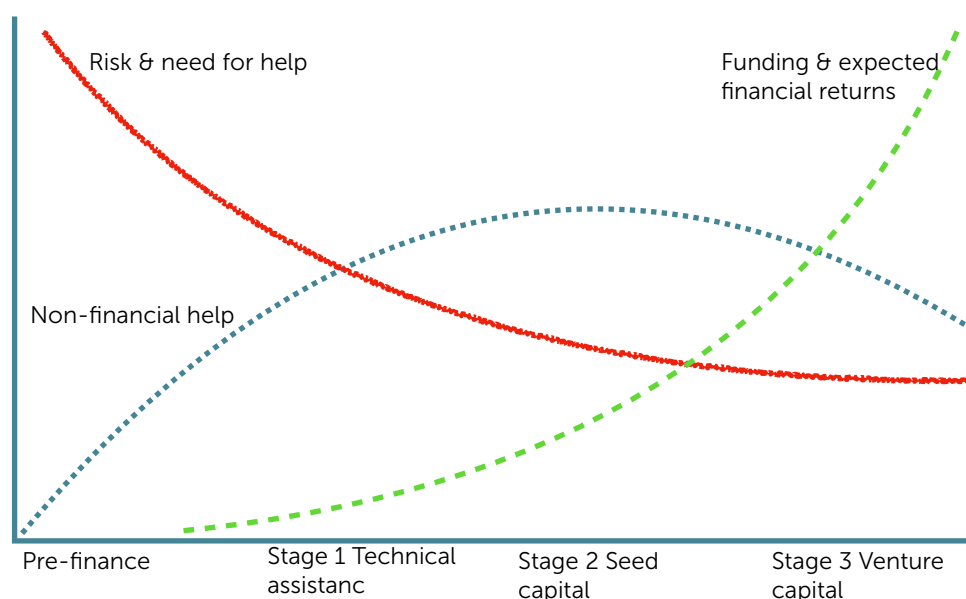


Source: Author's interpretation based on discussions with SIFR

In practice, the above KPIs will need to be complemented by company-specific KPIs and issue-specific KPIs. These will likely differ a lot from each other, since impact is context-specific. Different companies will require different impact plans and issues require different theories of change depending on the situation. In fact, SIFR develops a theory of change per issue (poverty, structural unemployment and environmental pollution) and within the theory of change adequate interventions are identified. At the investee company level, it is determined at an early stage how the social enterprise and its intervention contribute to the solution of one of the three issues. Prior to investment an impact plan is made that outlines the targeted impact, how to measure and report it, and how it is linked to the theory of change of the issue. The Thrive Institute plays a key role here in making the impact measurement and management both robust and practical. During projects, KPIs might shift as new information and insights become available. As of yet, there is no large database of social interventions, and the Thrive Institute has the ambition to fill that void. By building such a database and extracting key success factors in its practically oriented research, it aims to distil a thorough impact method. That should tell what exactly the magic is between government, entrepreneur and citizen And how can that magic best be put to use?

Even after determining what impact success looks like, this still leaves the question of how to balance the impact objective with the other objective, namely to get a decent financial return. To some extent there is a trade-off there, as early stage projects tend to have a higher impact return and lower financial return. In practice, however, that trade-off is limited in two ways: first of all by the fact that the early stage projects require very little capital; secondly, by staying with the company throughout the stages. Figure 6 sketches how financial and impact risk-returns shift through the stages.

FIGURE 6. MANAGING FINANCIAL & IMPACT RISK-RETURNS ACROSS THE STAGES



Source: author's estimation based on discussions with SIFR

To achieve both the financial and impact returns, a sound investment process is required that addresses the issues of effectiveness and alignment that were raised in the literature review. Figure 7 outlines the four main investment criteria that SIFR uses.

FIGURE 7. SIFR'S INVESTMENT CRITERIA

Company & market	Management	Financing	Impact
<ol style="list-style-type: none"> 1. Social enterprise that is able to generate both social impact and profit 2. Good potential to successfully roll out the product / adjust operations 3. Well-argues business plan 	<ol style="list-style-type: none"> 1. Experienced management with relevant and wide experience 2. Open to advice 3. Willingness to share knowledge and experience in the network 4. Looking not just for finance but for long term business partner too 	<ol style="list-style-type: none"> 1. Size: <ul style="list-style-type: none"> - Technical assistance: €10-100k - Seed: €50-250k - Venture capital: €150-2mn 2. Expected return in line with risk 	<ol style="list-style-type: none"> 1. To meaningfully contribute to solving the city's stubborn problems 2. Net positive contribution to a more sustainable and more inclusive city 3. Willing to measure impact in a good and structured way

Source: SIFR

These criteria may look vague from the perspective of a traditional investor, but they are rightly defined in a qualitative way, since the numbers are as of yet missing to set explicit benchmarks. Over time, and with experience, more granularity will be possible, but even then caution is warranted as to the reliance on numbers, and common sense judgment should be applied.

The latter two sets of criteria, financing and impact, relate directly to the fund's objectives, while the former two, management and company & market are much more about the underlying ability of the (potential) investee company to achieve those goals. Therefore, the alignment of the investment criteria with SIFR's mission looks fine. Whether the alignment with partners is also strong, will have to be shown in practice.

The initiators are convinced it will work. As Wim Hoogendoorn puts it:

"You can analyse anything to death, but then nothing gets done. At some stage you just need to start acting."

6 Conclusions and recommendations for further research

The Social Impact Fund Rotterdam represents an interesting financial innovation: place-based impact investing in close cooperation with public and private partners. Place-based impact investing refers to impact investing that is focused on one particular city or region, with the advantages of being a local investor, which include better risk assessment, networks, and “boots on the ground”. These advantages should help overcome some of the problems associated with standard impact investing.

This article explores how this form of place based impact investing has come about, how it works, and how it deals with the challenges of impact investing, such as effectiveness, attention to beneficiaries, measurement, scale, the balance between financial and impact returns, and the allocation of societal costs and benefits. Since SIFR is able to let the municipal government pay the social entrepreneurs for impact, it is better able to match value capture with the societal costs and benefits of the value creation process.

Moreover, place-based impact investing could help bridge the gap between small projects and big financial institutions – though not fully, since that also requires social aggregator funds. And a general theory of impact as proposed by Wilton (2019) is very much welcome in steering the trillions of institutional capital that are now stuck in public bond and equity markets.

SIFR’s approach looks credible and feasible, but it raises a number of questions as well. First of all, as they are just getting started, it remains to be seen how successful they will be. What will work and what won’t work? And why? What will their metrics look like? What kind of choices and trade-offs will they have to face? What will be the balance between the stages, in terms of number of deals, the funding amounts, the time spend, and the impact and financial return generated?

And if SIFR turns out to be highly successful, then the question is how applicable the model will be elsewhere. While SIFR’s founders appreciate the beneficial conditions in Rotterdam, they do believe the model could work elsewhere as well. They see the following conditions for success: a cooperative community where local government and philanthropists are involved; the creation of dedicated funds; and a programme with a broker function.

And perhaps there are already successful similar models out there. We don't know. Even after writing a sustainable finance textbook, it was (again) a humbling experience to investigate a field beyond our core area of expertise. This kind of research just begs for interdisciplinary cooperation, bringing the perspectives from fields such as regional studies, finance, and social entrepreneurship.

7 Literature

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