Conference 18 November 2011 on Social business

Session 2: HOW TO DESIGN AN APPROPRIATE FINANCIAL FRAMEWORK?

Issue paper

In the Social Business Initiative (SBI) Communication, the 4 key actions to improve the access to funding for social businesses are:

1. A European regulatory framework for social investment funds

As set out in the key action of lever 8 of the Single Market Act, **the Commission** will **propose a European regulatory framework for social investment funds before the end of 2011 to facilitate access to the financial markets for social enterprises**. The framework is not about public money flows to social business – those flows are addressed elsewhere – but on the vital steps of **complementing public with private money**. Funds targeting social enterprises have already been developing at the national level. Such funds have a vital role to play in filling funding gaps and helping diversify sources of finance. They can also compensate for constraints on conventional financing via bank loans. In part this is because funds can often be more flexible in adapting to the specific needs and circumstances of social enterprises. The goal of the key action is to ensure social enterprises can effectively gather investments across the whole EU, so ensuring they benefit from a efficient framework for cross-border activity, and that investors can be confident in identifying the funds that are targeting social enterprises as their investment objectives. Investment funds targeting social enterprises should be easily distinguishable from other funds for investors. The creation of a **European brand for social investment funds** targeted in the first instance at institutional investors might be an effective way of tackling this.

- ***What factors do you think would contribute most to the success of a European brand for social investment funds?***
- ***What are the key financing forms that funds targeting social enterprises might need to use? (E.g. debt instruments, loans, equity, other forms of participation***

2. The development of Microcredit/Microfinance

Microcredit is technically defined at EU level as a loan of up to 25.000 euros to new or existing micro-entreprises. In practice, microfinance is generally understood as referring to the provision of core financial services to those who traditionally lack access to mainstream financial institutions especially banks, often with a view to helping the creation of businesses. In principle, these services can be related inter alia to savings, fund transfers and insurance, as much as to credit; however, as a matter of fact, credit predominates in the European context. In addition to continuing to ease access to micro-credits through the Progress Microfinance Facility[1] and developing this instrument by strengthening institutional capacities of microfinance institutions as part of the proposed EU Programme for Social Change and Innovation for 2014-2020[2], the SBI aims to improve analysis, promotion and development of the legal and institutional environment for micro-credits.

- ***What are good examples at national and regional level where funding and capacity building support to microfinance providers have been combined and which could inspire further EU action?***
- ***Considering the diversity of the microcredit business models and practices as well as of legal and institutional environment across the European Union, is there a need for further action on the regulatory environment at European level? If so, in which form?***
- ***Is it realistic to develop a European regulatory framework for non-bank microcredit providers? Or should action be concentrated on identifying national best practices?***
- ***Are there particular best practices?***

[1] www.ec.europa.eu/epmf

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0609:FIN:EN:PDF

- ***Can we with certainty identify one or more models, legal and regulatory frameworks which we could definitely say that they are better than the others? If this is the case, we should say so. Alternately, are there today legal or institutional bottlenecks to the development of microcredit? If so, how can we help addressing them?***

3. A European financial instrument of 90 millions €

As part of the European Union Programme for Social Change and Innovation[3] the Commission has proposed **a 90 million euro European financial instrument to facilitate access to funding** for start-up, development and expansion of social enterprises.

- *What would be the typical financial products needed during each of the phases of development of social enterprises and are good examples of such products available?*

4. Investment priority for social enterprises in the Structural funds (ESF and ERDF)

The SBI refers to the investment priority on 'social enterprises' in the ERDF and ESF regulations for 2014-2020 which provides a clear legal basis and enables the Member States and regions to include targeted activities in their next ESF and ERDF programmes. The investment can take place through the setting up of funds by the Member States themselves or be channelled through the centrally managed fund set up as part of the EU Programme for Social Change and Innovation.

- ***What are the actions developed under the current programming period 2007-2013 that can be built upon for further investment in social enterprises under the next period?***
- ***Are there particular examples of Member States or Regions which are willing to use the new possibilities offered for the next programming period?***

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In addition to the priority actions listed above, the SBI proposes the following topics for discussion where the details and methods involved need to be looked at more closely, in particular:

1. European Investment Fund

The Commission welcomes the action of the **European Investment Fund**[4] in exploring the possibility of setting up an equity window (ESIEF[5]) dedicated to investment in funds with the objective of generating a social impact. This pilot action could pave the way for the new European financial instrument proposed by the Commission on 6 October 2011.

- ***How to measure "social impact and performance" and ensure a common approach by all investors into the sector?***

2. Best practice sharing

Developing best-practice sharing between Member States concerning:

- the adaptation of national tax regimes for the benefit of social enterprises and ethical investment;
- the use of capital accumulated in social enterprises and, in particular '*asset locks*' in order to enable this capital either to stay in the business or be released for investment in other social enterprises.

- ***Are there particular best practices in some Member States?***

[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0609:FIN:EN:PDF
[4] European Investment Bank Group.
[5] European Social Investment and Entrepreneurship Fund (ESIEF), which would invest in 10 to 15 vehicles across the Member States.