GECES Working Group 1: “Improving access to funding”

Subject Paper

Background

This Subject Paper was developed by GECES Working Group 1 (WG1) on “*Improving access to funding*” for social enterprises. GECES worked in plenary sessions as well as in working groups that focused on four different areas, led by individual rapporteurs and a rapporteur general. This Subject Paper provides the background work that led to the chapter on Improving Access to Funding in the report entitled “*Social enterprises and the social economy going forward – A call for action from the Commission Expert Group on Social Entrepreneurship (GECES)*”, that was published in October 2016[1]. GECES was convened for six meetings between September 2015 and October 2016, organised with the support of the European Commission.

WG1 worked on the Subject Paper during and in between these meetings. WG1 members identified the following three key policy domains (KPDs): capacity building, private funding and public funding. The work on the KPDs led to WG1’s policy recommendations outlined in this document. This Subject Paper is the result of the combined efforts of the members of GECES Working Group 1, with key input from representatives of the European Commission’s DG FISMA (Secretariat), DG EMPL and DG ECFIN – making the recommendations feasible within the Commission’s policy framework. We also counted on the advice and insights from several GECES observers, including the European Investment Fund (EIF), and the European Economic and Social Committee (EESC), as well as from Member State government representatives who provided us with best practice examples and insights into which policies could be implemented at Member State level.

[1] http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=9024

Members of GECES WG1

Private experts

WG1 role:				
	ALEXOPOULOS	Georgios	Greece	Development Agency of Karditsa S.A. (ANKA)
KPD3 co-leader	CAIMI	Valentina	Italy	Social Platform
KPD2 leader	CLIFFORD	Jim	United Kingdom	Bates Wells Braithwaite
	FREIBURG	Markus	Germany	FASE (Finanzierungsagentur für Social Entrepreneurship GmbH)
	GOERGEN	Renate	Italy	LEMAT Agenzia di Sviluppo
KPD3 co-leader	HAHN	Gordon Erik	Sweden	Coompanion Sverige
	HEEP	Johann Thomas	Germany	Erste Group Bank AG
Rapporteur	HEHENBERGER	Lisa	Sweden	EVPA (European Venture Philanthropy Association)
	HORVATH	Anna	Hungary	NESsT EUROPE
	JERAS	Goran	Slovenia	Cluster for eco-social innovation and development
	NEWMAN	Jane	United Kingdom	Social Finance
	O'SULLIVAN	Paul	Ireland	Clann Credo
	RICHTER	Karl-Heinz	Germany	EngagedX
KPD1 leader	ROSANDIC	Andreja	Hungary	NESsT EUROPE
	RODRIGO MARIAS	José Carlos	Spain	PEFONDES
	SALVIATO	Fabio	Italy	FEBEA
	SIBILLE	Hugues	France	AVISE
	VAN CUTSEM	Loïc	Belgium	Oksigen Lab ASBL
	WARDZINSKA	Joanna	Poland	TISE

Member State representatives

KESER	Jasminka	Croatia	Croatian Ministry of Entrepreneurship and Crafts
MLAKAR	Vlatka	Croatia	Croatian Ministry of Entrepreneurship and Crafts
BOISSON	Thomas	France	Direction Générale du Trésor Ministère de l'Economie, de l'Industrie et du Numérique
SLAPNIK	Tadej	Slovenia	Office of the Prime Minister
DOKUZOV	Nena	Slovenia	Ministry of Economic Development and Technology
LEQUESNE	Tom	United Kingdom	Cabinet Office
MEAGHER	Alexandra	United Kingdom	Social Investment and Finance – Cabinet Office

Observers

BONATTI	Ardita	Albania	Promoting Social Business
RODERT	Ariane		EESC (European Economic and Social Committee)
DEBANDE	Olivier		EIB (European Investment Bank), Institutional Affairs Department
GRABENWARTER	Uli		EIF (European Investment Fund)
MANCA	Silvia		EIF (European Investment Fund)

European Commission Secretariat

GARCEA	Giovanni	DG FISMA	European Commission

Improving access to funding

The main objective of GECES WG1 was to produce concrete policy recommendations to the European Commission, and Member States, aimed to *encourage and enable an eco-system to improve access to funding to social enterprises within Europe.* A secondary objective of WG1 was to produce guidelines on social enterprise funding for private and public funders, for social enterprises seeking funding and commissioners (public sector purchasers of services) wanting to support cost-effective funding and risk transfer. The GECES report outlines the main recommendations from WG1, and the Subject Paper provides more detail on how the recommendations can be implemented along with examples of best practice from across Europe.

Background: context for the funding of social enterprises in Europe

The definition of social enterprise provided by the Social Business Initiative (SBI) covers a variety of enterprises that have different legal forms, different missions and are embedded in different national welfare systems. As a consequence, the financial needs of the different enterprises fulfilling the SBI criteria are varied. This should be the starting point to develop instruments (both public and private funding) to finance social enterprises. Financial institutions and policy makers are not always aware of this diversity and tend to provide one-size-fits-all responses. Furthermore, social enterprises may not know themselves how to access funding and may not have the business skills to present their case adequately.

As stated at the Luxembourg Presidency conference "Boosting social enterprises in Europe" in December 2015, there is an urgent need to develop an adequate financial ecosystem capable of providing effective support for social innovation and social economy organisations, including social enterprises. This chapter provides concrete policy recommendations to the European Commission, Member States, regional and local authorities, the general funding community (including public authorities), as well as the social economy and the social enterprise funding community, aimed at *encouraging and enabling an ecosystem to improve access to funding for social enterprises within Europe*.

In many Member States, **private funding** is not available in sufficient supply due to a lack of visibility and understanding of social enterprise within the mainstream funding community. This is compounded further by persistent regulatory hurdles and a lack of incentives associated with investing in social enterprise. **Public funding**, as payment for a service provided, is of vital importance. This is the main source of funding for social enterprises that provide services of general interest contracted out by public authorities and, in many countries, for work integration social enterprises also. GECES would like to highlight that the provision of services of general interest (such as social, health and education services) is a public authority's responsibility. When public authorities decide to outsource the provision of these essential services, public funding should remain the main source of funding, and public authorities remain accountable for the provision of services, even when they decide not to deliver them directly. They also remain responsible for monitoring and evaluating service delivery, involving users and beneficiaries too. In many Member States, work integration social enterprises receive public funding to pursue their activities. It is important that this kind of public investment continues and is not jeopardised by austerity policies, as has happened in recent years.

Financial needs and circumstances also **differ between Member States** – *for example social enterprises that work for the social and work integration of persons with disabilities or disadvantages (WISE) rely on public funding in some countries, are integrated in the private market in others, and often use a mix of financing*. Financial needs also vary according to their level of development (conceptual support, development of pilot projects or prototypes, large-scale development).

Access to funding that supports **(social) innovation** along the whole chain is important, responding to the need to shift from experimentation with new approaches, including their evaluation and transferability, to the sustainability in the medium and long term of proven meaningful innovations. Funding (both private and EU funds) tends to be available mostly in the experimentation phase.

There is a need to promote a shift from a project-based approach to **long-term strategies** that include social innovation, as well as to ensure the **continuity and financial sustainability of services** in a context where public funding is decreasing in many Member States. Social enterprises have a primary social mission and therefore often give the impression to creditors or potential investors that they are higher-risk and are less profitable than other businesses. Furthermore, social enterprises tend to be small, often lacking the internal capacity necessary to prepare business plans and draft sound financial projections required by financial intermediaries to provide financing.

Finally, due to their size, the financing amounts that most social enterprises need are relatively small, which means that financial intermediaries incur high transaction costs compared to the size of funding provided. In addition, exit scenarios are often missing, as it is difficult for social enterprises to return investments at the level of at least capital repayment.

Categories of needs/deficiencies that prevent social enterprises from accessing funding

Based on the context outlined above, the topic of access to funding for social enterprises necessarily involves both the demand and supply for funding. WG1 has grounded its recommendations in the **main needs/deficiencies that prevent social enterprises from accessing funding** and categorising the concrete actions to be taken to remove the main blockers (demand). This analysis provides the context for the recommendations.

The social enterprise is at the heart of the issue of access to funding and must be the starting point for any policy work. WG1 stresses the importance of grounding any policy recommendations in the needs of the social enterprises in terms of their difficulties of accessing funding. The "blockers" that prevent social enterprises from accessing funding can be categorised according to the needs of the social enterprise in terms of *capacity building*, *financing/funding*, and *infrastructure*:

1. ***Capacity building*** needs are closely linked to funding as management of the social enterprise may not know how to **find**, **attract** and **communicate** with funders, and may lack the skills to run the social enterprise in a way that is suitable for specific types of funding, or so that the social enterprise can become financially self-sustainable.

2. ***Financing/funding*** needs relate to how social enterprises at different stages in their evolution require different types of funding, some of which is less easily accessible due to **deficiencies in the funding community** and a general **lack of availability** of the appropriate funding.

3. Finally, ***infrastructure* needs** pertain to structural issues that currently prevent social enterprises from accessing funding, due to a **misalignment between public and private funding** priorities, and a **lack of appropriate or sufficient mechanisms** and **structures** that encourage more **public** and **private** funding of social enterprise.

Table 1 summarises the main needs categorised along two axes – with the *needs* on one axis, and the *stage of development* of the social enterprise on the other axis, considering that a start-up social enterprise requires different types of support than a mature organisation

Table 1 – Main needs / deficiencies in terms of access to funding of social enterprises

	Stage of development of social enterprise			
Needs	**Pre-start up**	**Start-up/Pilot stage**	**Early-stage growth**	**Later-stage growth**
Capacity building *(management needs)*	Entrepreneurial **mind-set** and **skills**	Relevant **business skills**, and **networks/resources** to access those and the funding community	Assistance to **professionalize processes** and **functions**	**Investment readiness** support, **business** and **people skills**, support in creating exit scenarios
Funding *(deficiencies in funding community)*	**Understanding** of social enterprise. **Patient donors, business angels** and **support networks**	Availability of **risk capital** and **first-loss capital**. Mismatch between legal form and appropriate financing tools.	**Funders dedicated** to this stage, **longer-term funding** (grants, debt, equity) to enable social enterprise to become financially self-sustainable	Appropriate **legal forms** and **incentives**, allowing social donors and impact investors to invest significant capital in social businesses
Infrastructure *(structural needs)*	**Alignment** of public policy and private donors'/investors' priorities	**Public support** of private sector participation - using state/municipality contracts as collateral. Create/ Support SE in market access offering their services/ products	**Role for public sector** in providing guarantees, co-investment, matching SE and donors or investors	**Procurement** and hurdles to **access to public sector contracts.** Lack of dedicated social economy financial institutions.

Further details of the analysis that enabled the development of this table can be found in Annex 1.

These needs guide the development of the policies to satisfy them from the private and public supply perspective. They also provide insights useful for the other working groups within the GECES overall recommendations.

The policy recommendations of WG1 are structured along the main categories of needs:

I. Improving capacity building to help social enterprises find, attract and communicate with funders

II. Unlocking and attracting more funding that is better suited to social enterprises

III. Putting in place mechanisms and infrastructure that encourage more public funding and mobilise private funding

I. Improving capacity building to help social enterprises find, attract and communicate with funders

*GECES recommends concrete actions in the domains of **inspiring** entrepreneurs to get started through educational programmes[2], as well as **building** the internal **managerial skills** to run the social enterprise in a way that is suited for specific types of funding by providing resources to training programmes, incubators and intermediaries that provide social enterprises with capacity building support.*

Capacity building needs are closely linked to funding. At the pre-start up and start-up stage, the management team of a social enterprise may lack certain skills and experience, including those associated with accessing and utilising specific types of funding, or so that the social enterprise can become financially self-sustainable. Furthermore, social enterprises often do not know how, and do not have the networks, to find, attract and communicate with funders. At an early-growth stage, social enterprises need assistance to professionalise processes and functions. Finally, at a later growth stage, social enterprises would benefit from investment readiness support, and support in creating exit scenarios.

In the GECES report, the capacity building area is covered by Recommendation 4.

***Recommendation 4:** The European Commission and Member States should provide increased resources to training programmes, incubators and intermediaries that provide tailored capacity building support to social enterprises, required to build their managerial skills and to encourage their financial sustainability.*
In what follows, we provide the background for each related action.

i. *Strengthening European-wide support for networks/platforms that connect individuals (including consultants and pro-bono experts) with social enterprises needing capacity building, and awards schemes for social enterprises (Commission)*

→ Examples of networks/platforms:

BENISI was a European Commission funded program (May 2013 - April 2016) and stands for "Building a European Network of Incubators for Social Innovation." The consortium partners of this projects sought to build a Europe-wide network of incubators for social innovation which identified over 300 social innovations with high potential for scaling, and ensured the delivery of necessary support services to support the scale-up of those social/environmental innovations. The consortium also initiated the SIAN (Social Innovation Accelerators Network) which unites a variety of organizations active the field of social innovation in order to support social innovators in their scaling trajectory[3].

GSEN is the global network for organisations supporting early stage social entrepreneurs. GSEN stands for Global Social Enterprise Network. GSEN envisions a world where social entrepreneurs everywhere find quality support at the beginning of their journey. GSEN members are building together the foundations for a high-impact social entrepreneurship ecosystem. While the social entrepreneurship ecosystem is growing, it remains fragmented – hindering its development. GSEN aims to harness the full potential of social entrepreneurship. Since 2013 its work has led to successful funding bids, fruitful introductions, shared knowledge, and deeper collective understanding. In 2015, GSEN launched an investigation into global support for early-stage social entrepreneurs – a first initiative of its kind. The findings were shared to provide insights into how the ecosystem can evolve for greater impact[4].

→ An example of an awards scheme:

[2] This point is covered by W2 in the final report.
[3] www.benisi.eu
[4] http://www.gsen.global/

In memory of social innovator Diogo Vasconcelos, the European Social Innovation Competition seeks game changing ideas to advance Europe's growth model. In 2015, solutions around inclusion, education and young people, employment, health and ageing, climate change, food waste and the environment were top priority for many of the participating innovators. Each winner received €50,000 to implement their idea[5].

ii. *Setting up a pan-European investment and capacity building funding programme to help social enterprises reach investment readiness by financing capacity building support from selected service providers (Commission)*

- The European Commission is invited to set up a pan-European investment and capacity building funding programme, following the example of the UK Investment and Contract Readiness Fund[6], by defining a list of pre-approved, specialised service providers that social enterprises can call on to gain access to high-quality and appropriate capacity building support, financed through the fund. In countries lacking this type of service provider, the Commission could establish a list of criteria which would guide the establishment of these providers in every country. The objective is to help social enterprises become investment ready (through the optimisation of business models and the development of business and financial plans, etc.).

→ Examples of investment and capacity building funding programme:

The UK £10m Investment and Contract Readiness Fund, managed by the Social Investment Business on behalf of the Office for Civil Society, enabled social ventures to access new forms of investment and compete for public service contracts. The fund offered grants to help social ventures purchase specialised investment / contract readiness support. Working in partnership with an approved provider was crucial to the success of each application. Grants between £50,000 and £150,000 were available on a rolling basis to ambitious social ventures who went on to raise at least £500,000 investment, or who wanted to bid for contracts over £1 million[7]. The fund was dedicated to helping charities and social enterprises acquire the skills they needed to raise investment and compete for public service contracts. A recent report for the G8 identified it as a vital tool to grow the UK social sector, which already contributes more than £80 billion to the economy each year[8].

The Australian NAB impact investment readiness fund was set up in 2015 following the UK example and upon recommendation from the Australian National Advisory Board to the G8 Taskforce on Social Impact Investment. It is operated by a partnership between Impact Investing Australia and National Australia Bank (NAB). The NAB IIRF aims to support enterprises that are high growth, can deliver positive social outcomes, and have the potential to secure capital investment. The fund will offer grants of up to $100,000 to purchase capacity building services. The grants will be paid 70% upfront, and 30% upon proof that the enterprise has secured the investment sought[9].

iii. *Financing specialised social enterprise incubators/accelerators and intermediaries that offer training and capacity building to social enterprises (Member States)*

---

[5] http://ec.europa.eu/growth/industry/innovation/policy/social/competition/
[6] http://www.beinvestmentready.org.uk/
[7] http://www.beinvestmentready.org.uk/
[8] http://www.sibgroup.org.uk/beinvestmentready/
[9] http://cr.nab.com.au/docs/nab-iirf-about-the-fund.pdf

- Member States are encouraged to engage more directly with local incubators and accelerators, but should finance only the ones (selected through a competitive process) that are run by professionals with sector expertise, and the ones that are connected to networks of service providers and funders.

    - Run by professionals with sector experience and a track record of successfully supporting (social) entrepreneurs;
    - Provide clear incentives (e.g. financial awards that would help SEs to achieve success) for coach and social entrepreneurs to achieve success together;
    - Are connected to networks of professional service providers for mentorship, low or pro bono support
    - Are connected to networks of investors or funds that are suited to social enterprises that 'graduate' from the programme
    - Focus on building a sustainable business model so that it becomes less dependent on external funding.

→ Examples of incubators/accelerators:

Oksigen for Social Impact is a Belgium-based support ecosystem, providing business coaching, consultancy and funding for social enterprises. One of its instruments, Oksigen accelerator, serves as insurance fund for the coaching support, lowering the upfront cost paid by entrepreneurs and working on a success fee principle, whereby both the coach and the entrepreneur are correctly incentivised to achieve concrete results[10]*.*

Impact8 is an investment-readiness program supporting high-impact ventures with blended value propositions: social enterprises or social purpose businesses generating positive social or environmental impact and compelling financial returns. The program brings cohorts of eight ventures together for eight weeks of programming, culminating in an investor and stakeholder pitch event, Demo Day. Developed by the MaRS Centre for Impact Investing, Impact8 leverages the skills and expertise of MaRS and its partners to deliver targeted workshops, one-to-one advisory services, mentorship, peer learning, investor introductions and presentation opportunities. The curriculum is tailored for each cohort and is focused on preparing ventures to raise capital and integrate impact into their performance measurement[11]*.*

→ Examples of an intermediary:

NESsT develops sustainable social enterprises that solve critical social problems in emerging market economies. The mission of NESsT is to provide dignified jobs for people facing the greatest barriers to work in emerging market countries. NESsT provides Intellectual Capital (mentoring, coaching, advices), Social Capital (access to personal and professional networks) and Financial Capital (multi-year support)[12].

iv. Using ESIF to fund capacity building activities at MS level (Member States)

- The Commission should encourage Member States to make use of the social economy and social enterprise investment priorities of the ESIF[13], to create support mechanisms for the development and scaling-up of the social economy and social enterprises, capacity building, and the development of partnerships between public authorities, financial institutions, businesses and

[10] www.oksigen.eu
[11] http://impactinvesting.marsdd.com/strategic-initiatives/impact-8/
[12] www.nesst.org
[13] Please refer to Annex 7 for more details

social enterprises. Member States should also raise awareness among social enterprises about the possibility of direct access to funds also within the framework of investment priorities not tailored to them (e.g. investment priorities for the promotion of employment, social inclusion, equal opportunities, education, energy efficiency and social infrastructures). The following points are highlighted:

- ESIF should be more homogeneously implemented in EU Member States regarding social enterprise development. The EU should encourage Member States to make use of this investment priority for the ESIF. In the case of the European Social Fund, it is the thematic objective "promoting social inclusion, combating poverty and any dis- crimination" (regulation EU 1304/2013, art. 3). In the case of the European Regional and Development Fund, it is investment priority 9.c "promoting social inclusion, combating poverty and any discrimination by… providing support for social enterprises" (regulation EU 1301/2013, art. 5).

- Raise awareness among social enterprises that they can get direct access to funds also within the framework of investment priorities not tailored to them, and provide concrete advice to social enterprises on how to access public funding. For the ESF, relevant investment priorities for social enterprise include thematic objectives 'promoting sustainable and quality employment', 'investing in education, training and vocational training for skills and life-long learning' and 'enhancing institutional capacity of public authorities and stakeholders and efficient public administration'; and for the ERDF investment priorities on supporting the shift towards a low-carbon economy, the promotion of climate change adaptation, preservation and protection of the environment and promotion of energy efficiency…).

- Use ESIF to improve service provision by social enterprises and investment in quality social infrastructure, (e.g. the re-adaptation of the built environment to accessibility criteria for persons with disabilities, and the refurbishment of social housing buildings to make them energy efficient) and services (e.g. to develop quality criteria for specific services; to design training pathways for the workforce on specific users' needs; to design and pilot new services; to adapt existing services to the needs of specific target groups; to develop methodologies to involve users in the design, implementation and monitoring of services; and to spur innovation).

II. Unlocking and attracting more funding that is better suited to social enterprises

GECES recommends concrete actions in the domains of ***increasing the understanding of social enterprise*** *among the broader funding community (private and public),* ***enhancing the suitability of social investment*** *thus increasing the flow of funds to social enterprise****,*** *removing or alleviating* ***regulatory hurdles*** *that private funders of social enterprise, and social enterprises themselves, face, and* ***increasing the incentives*** *associated with investment in social enterprise.*

Financing/funding needs relate to how social enterprises, at different stages in their evolution, require different types of funding, some of which is less easily accessible due to deficiencies in the funding community and a general lack of availability of appropriate funding.

There is still only a small subset of the funding community – the so-called “impact community” (venture philanthropy organisations, social impact investment funds, social enterprise incubators, ethical, mutual and cooperative and savings banks, etc.) – that understands and actively finances social enterprises. The broader funding community – private (mainstream banks, foundations, high net worth individuals, business angel networks, etc.) and public (EU financing and others) – lack awareness and understanding of the opportunities and risks of financing social enterprise, and retail investors are often not even provided with the option of investing in social enterprise by advisors and fund managers.

Furthermore, unnecessary regulatory hurdles exist that decrease potential levels of private funding of social enterprise, and tax incentives for social enterprise funding are scarce and fragmented across European Member States.

In the GECES report, the private funding area is covered by Recommendation 5.

Recommendation 5: *The European Commission, the Member States and organisations from the social enterprise funding community should implement concrete measures to unlock and attract more funding that is better suited to social enterprises.*

In what follows, we provide the background for each related action.

i. *Promotion, training, guidance and awareness building among the broader funding community (private and public) about how to finance social enterprises (organisations from the social enterprise funding community to collect best practices and Commission to disseminate)*

ii. *Building capacity within the “impact community” that understands and actively finances social enterprises, to enable social economy-based financial intermediaries to meet the needs of social enterprises*

Recommendation 5 invites the Commission to actively work to remove siloes between the “impact community” and the broader funding community – private and public (Member States and public authorities, EU programmes and ESIF), by raising awareness and increasing the understanding of social enterprise among the broader funding community. This recommendation would also allow social economy-based financial intermediaries to increase the scale and reach of their operations, including operating across national boundaries. Concretely, this action implies building stronger links between the Commission, Member States and organisations representing the social enterprise funding community. In this way, the latter can collect best practices from the “impact community”, and the Commission and Member States can promote and disseminate these practices through more traditional funding channels.

Concrete actions recommended for the European Commission include the following:

- Organise awards to pioneering funders, networking events and trainings for broader funding community, and help disseminate best practice work from impact community. Example as follows:

The UK Cabinet Office Social Investment Awards, supported by Natwest, recognise the impact social investment is having on communities across the UK. Now entering its second year, the awards highlight the innovation and dedication of world leading social investors and enterprises, celebrating both the achievements of teams and individuals alike[14].

- Showcase examples of traditional, cooperative or community/ethical banks that provide special credit policies for social enterprises (longer repayment times, no collateral asked, etc.), e.g. via a dedicated European database published on a COM website. Examples are as follows:

Part of Social banking in Česká spořitelna provides debt financing to social entrepreneurs. The program itself is unique as it is the only one in the market aiming to bring in special care, attention and financing to enterprises and NGOs with social impact. The goal is to enable them to grow their activities and by doing so to grow the positive social impact on the Czech society. To make this happen, Česká spořitelna offers individual care, mentoring and coaching for social project development: Clients can also participate in Impact First – a free of charge accelerator for companies with social impact. This program is conducted along with Impact Hub Praha. The program offers a hybrid approach including workshops, mentoring and financial grants for the best participants The companies can test their idea as well as the financial sustainability, and energy and focus on areas that bring potential and make a good social and business sense. The goal of this program is to make the organisations "investment ready" and offer debt financing to promising participants[15].

*In Erste Bank Hungary SE, financing is made on a case-by-case decision making basis, covering: (i) Expert rating: Manual rating by credit risk officers based on financial and sustainability aspects and transparency, (ii)Special collateral coverage requirement: The minimum requirements of standard business can be reduced, if other/ alternative risk mitigation measures can be used to justify this (e.g. soft collateral and deep know your customer relationship), and (iii) Special pricing: Custom-made and if needed according to the business model of the applicant below the market average (but covering funding costs)***.** *A concrete example includes a EU cross-border grant/ bridge loan provided to Social Cooperative in fashion business as the result of cooperation of 3 financing partners: (i) bridge-loan contracted with the commercial bank (EBH); (ii) own contribution mandatory upfront to access subsidies and interest fees funded by a social development donor organization; and (iii) the custom-made financial mentoring and monitoring service financed by ERSTE Foundation (local partner contracted which is in this case a consulting company specialised in the Social Sector)*[16].

BNP Paribas has a dedicated approach and offering for social enterprises, comprising a specifically-adapted credit policy (no personal guarantees for-instance). The bank stepped up its backing for social enterprises from €36 million in 2013 to €51 million in 2014 for non-credit transactions and from €224 million to €267 million for direct lending. In order to be able to meet the needs of this type of company in an optimal manner, BNP Paribas has set up a special organisation and developed targeted products in the various countries where the Group does business[17]*. For example, in France, BNP Paribas has the following set-up:*

---

[14] https://socialinvestmentawards.org.uk/

[15] Provided by Johann Heep (interview with Klara Gajduskova, Head of Social Banking at Ceska sporitelna, 30.03.2016)

[16] Provided by Johann Heep
(interview with Janos Czanfrango, Head of Social Banking at Erste Bank Hungary, 29.03.2016)

[17] http://www.bnpparibas.com/en/responsible-bank/our-corporate-social-responsibility/civic-responsibility/microfinance-and-support-s

- *A network of specifically trained advisors deployed at the branches, enabling social enterprises to obtain advice tailored to the specific features of the sector.*
- *The BNP Paribas Foundation has signed an annually-renewable partnership with France Active, a social enterprise lending and advisory organisation, with a view to helping unemployed people under 26 years of age to set up their own business.*
- *BNP Paribas set up two new investment funds in 2014 to finance social enterprises: BNP Paribas Social Business France, a savings and investment vehicle aimed at the Bank's clients in France; and BNP Paribas Social Business Impact France, which is aimed at professional investors.*

- Showcase best practice of public funding of social enterprise to be replicated (Annex 2 provides best practice examples), e.g. via a dedicated European database published on a COM website that is updated by member states or sub-contracted to organisations who are much closer to the sector. Also consider analysing examples of failed support. Moreover, the Commission should provide Member States and local authorities with the opportunity to receive one-on-one support in adapting that model to the local context.

- Gather EU banks and investors in a social impact investment platform for social enterprises in a specific societal challenge (for example directed towards migrants or youth employment). This may be done as a call for tender.

- Provide finance administrators in the MSs with guidance, training and capacity building regarding EU instruments supporting social enterprise, e.g. by investment readiness programmes to build applications on.

- Facilitate and promote (at EU and MS level) the emergence of investing teams specialised in equity or quasi-equity in social enterprise, by mobilising public or private funding and/or positively communicating about these investing supports.

Organisations representing the social enterprise funding community should:

- Support the development of a **social investing culture** by collecting the best practices from social enterprise funders (impact community), and *with the help of the European Commission*, disseminate in wider funding community, removing barriers to action.
  - o Continuously (not just on-off) map domains of action and the funding sources (private and public) in each, and stimulate and make connections among different actors in the ecosystem.
  - o Develop practitioner-led guidelines that can feed into legal frameworks to encourage sector growth

- Use the European Investment Project Portal to increase the visibility and transparency in the investment market for social enterprises and help build a pipeline of investment-ready social enterprises. However, most social investments do not meet the criteria for EIPP as it requires a €10m project size, although aggregated projects could easily meet this minimum threshold. A subset of the portal should be adapted so that it is more suited to social business projects.

iii. Enhancing the suitability criteria of investment in social enterprise, thereby increasing the flow of funds into social enterprise (Commission and Member States)

The recommendation offers a vision where social enterprise is a natural opportunity for any type of investment, including retail investments, with full transparency in terms of risk. The Commission is encouraged to develop suitability requirements under the Markets in Financial Investments Directive (MiFID) to address social and socially-focused investment, and to work with the European Securities and

Markets Authority (ESMA) to develop practical guidelines to support and develop this area. Member States are invited to work with their financial services regulators and professional bodies to introduce new, or develop existing, competency frameworks for advisers and fund managers to cover social and socially-focused investment, and to develop standards and practice in relation to suitability criteria for social investment.

- To enhance the suitability criteria of investment in social enterprise, the Commission should:
  - Develop the requirements for Suitability under the Markets in Financial Instruments Directive ("MiFID") to address social and socially-focused investment. This should be based around three key areas:
    1. defining social investment and socially-focused investment (using the previous work of GECES and the G8 Social Impact Investment Taskforce);
    2. requiring that they indicate the extent to which, if at all, they:
       - are willing to sacrifice financial returns for social benefits;
       - prefer social or socially-focused investments when deciding between investments offering similar financial return;
    3. depending on the outcome (i.e. if social investments are suitable for the investor):
       - requiring that all investors are made aware of social and socially-focused investments as an opportunity – they then decide whether to include such investments in their portfolios, or to exclude them;
       - requiring that they decide whether to exclude investments that are not social or socially-focused.
  - Work with ESMA to develop practice guidelines to support and develop this area.

- And Member States should:
  - Through their Financial Services regulator, and in conjunction with the relevant professional bodies, introduce new, or develop existing, competency frameworks for advisers and fund managers to cover social and socially-focused investment.
  - Through their Financial Services regulator, and in conjunction with the relevant professional bodies, develop standards and practice in relation to:
    1. determining the general suitability of social and socially-focused investments;
    2. approaches to determining what part of a client's invested assets are to be considered eligible for such investment;
    3. the development of appropriate suitability questionnaire templates;
    4. the development of appropriate controls and systems for regulated advisers and managers;
    5. treating such investments as an integral element of advice about the "Whole of Market", so that unless clients are made aware of these, they may be considered not to have been appropriately advised.

GECES is encouraged by the development of solidarity-savings schemes in France that have mobilised EUR 6.8 billion (end of 2014). The recommendation urges the Commission to undertake consultations as to whether other Member States could replicate the French solidarity-savings schemes[18], and calls on eligible Member States to develop guidelines, competency frameworks and legislation to implement such a system.

Solidarity-savings schemes have been developed with great interest in France. Currently over 1 million solidarity savers in France chose to place their savings through in 3 main solidarity saving channels (which

[18] Zoom sur la finance solidaire 2015, Finansol (see: www.finansol.org), Good pensions – Introducing social pension funds to the UK, Big Society Capital, September 2015, The hows and whys of social impact investing - Financial innovation driving social innovation, French National Advisory Board (NAB) on Impact Investing, January 2015.

represents 1.5 million subscriptions), adding up to €6.8 billion of sums outstanding (at the end of 2014). One of these channels, a solidarity saving-scheme obliging (since 2008) companies (with more than 50 staff) to offer their employees a "90/10 Solidary Fund", is attracting particular attention. This scheme, according to which the employee can choose to dedicate min 5% and max 10% of its savings to eligible social enterprises, is currently being considered for an eventual application in other European countries and / or types of funds (insurance, pension, etc.). (More details about the French 90/10 Solidarity Funds model can be found in Annex 3).

The GECES recommends that the European Commission:

- Undertakes consultations as to which other Member States could introduce similar solidarity-savings schemes, and whether additional guidance from the Commission would assist, notably as to whether legislation should be introduced requiring that all employers over a certain size (as in the French experience) offer the option of a solidarity savings fund.
- Develops labelling protocols for identifying funds that follow the social model. This could perhaps draw from the EUSEF experience and guidance around defining investment of a social or socially-focused nature as being that which delivers a "measurable social impact".

The GECES recommends that Member States should:

- Develop guidance, in conjunction with MS regulators and professional bodies, to guide on the establishment of a comprehensive and coherent ecosystem for mobilising solidarity savings.
- Develop a competency framework for fund managers and advisers to enable them to support this.
- Introduce legislation requiring that all employers over a given size offer their employees the option of a solidarity savings fund. They should also consult on the benefits and implications of the introduction of a default provision that, in the absence of instructions to the contrary then the Social Pension Fund option is sought, if available.

iv. Removing or alleviating regulatory hurdles faced by private funders of social enterprise and social enterprises themselves (Commission)

In terms of regulatory hurdles, there is a general perception that the costs of the EuSEF structure outweigh the benefits, which is why GECES welcomes the Commission's initiative to review the regulation (ahead of schedule). The ongoing revision of the EuSEF Regulation should be devised in such a way that it provides clear benefits, while reducing the current costs for the fund manager, with the objective of generating the setting-up of more social investment funds across Europe (rather than creating additional barriers).

- The current revision of the EUSEF regulation[19] should be devised in such a way that it provides clear benefit while reducing the current costs for the fund manager, with the objective of generating the further set-up of social investment funds across Europe (rather than creating an additional barrier). GECES recommends that the European Commission should:
    - Ensure that the social objective enshrined in the EuSEF label is safeguarded.
        - The revision of the EuSEF Regulation should not be strictly paired with the one envisaged for the EuVECA Regulation (or less than it was when both Regulations were proposed and adopted as "*twins*"), as the objectives of both Regulations largely differ (as well as their interactions with the AIFMD)
        - The social objective should be even more so safeguarded to prevent abuse, should the Commission allow "larger" fund managers (such as the AIFMD fully authorised managers) to set-up EuSEF funds. *N.B. This risk is only relevant if the EuSEF is revised so that it provides clear benefits.*

[19] Based on EVPA's response to DG FISMA's consultation on the EuSEF

- Broaden the scope of the definition of social undertakings - GECES recommends using the definition of social enterprise from the SBI communication[20] to define social undertakings.
- Study the possibility of linking proven social impact with tax incentives for the investors/investees of the EuSEFs (to increase the benefits of the EuSEF).
- Adopt the proportionality principle and make sure that the cost of applying for the EuSEF label is kept to a minimum, as most eligible EuSEF-funds remain limited in size (around EUR 15 million).
- Map the implementation status of the EuSEF Regulation among the various National Competent Authorities (NCAs) and provide further guidance / training to national officials, according to their needs, in order to streamline and ease the registration requirements across Europe.
- Consider setting the commitment threshold for non-professional investors below EUR 100,000, given the legitimate appetite of retail investors to support social enterprises, provided it doesn't impose extra constraints to registered EuSEF-funds (investors' protection, marketing, etc.).
- After a successful revision that incorporates the recommendations listed above, which should increase its attractive- ness as a funding vehicle, encourage the various EIF initiatives to support social enterprise finance (Social Impact Accelerator, etc.) to promote the adoption the EuSEF-label, so that it can act as a catalytic investor.

Furthermore, the Commission is invited to explore the need to develop criteria for lighter regulation of donative intent investment, which is currently disproportionately over-regulated, by reviewing innovative examples in Member States, and developing wider recommendations for a lighter touch approach.

- Identify the boundaries between (regulated) philanthropy and regulated investment promotion to provide lighter regulation for donative intent investment: There is scope for developing a three aspect market to reflect fairly investors' preferences and risk sensitivities (Annex 4 provides an overview of the current regulation for funding social enterprise in selected member states):
  i. Philanthropy, with low or nil regulation
  ii. Full market regulated investment (in which the rules applying to promoting investments in retail markets apply)
  iii. Socially-preferred, risk-insensitive investment, or perhaps smaller investments, in which investors taking a donation-risk attitude are protected by a lighter regime that is lower cost. This third area does not exist in the markets at the moment, with the exception of some emergent flexibility for crowdfunding, with the result that this area of investment support for social enterprise is getting curtailed by excessive regulation and consequent cost.

- The disadvantage of the current system, by which the third category becomes over-regulated in a way that is disproportionate is:
  i. **Poor structures being forced upon social enterprises:** where exemptions are available for specific corporate and investment forms, an inappropriate structure may be used solely to avoid problems associated with the regulatory process around issue, resulting in inflexibility and the risk that the structure is not fit for purpose;
  ii. **Restricted financial resources**: The restrictions can limit access to general public markets, so meaning that they do not get the option of investing in these social stocks, so restricting choice, and perhaps restricting the amount raised;

[20] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0682:FIN:EN:PDF (pages 1-2)

iii. **Funds lost in cost of fundraising**: Costs of fundraising are too high, so for smaller issues can leave an inefficiently low proportion available for use by the social enterprise.

- A definition for a form of investment that could be allowed a lighter touch, possibly equivalent to the donation format, might be as follows:
  i. Donative intent – i.e. an acceptance that, notwithstanding the proposed terms of investment, the capital may not be repaid within the foreseeable future, say ten years, and that a return on investment is not considered essential by the investor - which could be self-certified;
  ii. Size restriction – a limit on the sum
     a. that may be raised by an organisation – perhaps €500,000, and
     b. that may be raised from an individual – perhaps €2,000
  iii. Nature of:
     a. The organisation – asset-locked: that is they cannot distribute more than a predefined percentage of their surpluses [35% - from the UK CIC as an example]
     b. The prospect – a clear social mission, drawing from the "measurable social impact" criteria of the EUSEF and EaSI criteria

- A criterion around how the funds are raised is better to be avoided, since it may restrict unfairly the activities of some social enterprises over others. For example a smaller, local social enterprise whose prime potential investors do not use the internet fluently may struggle to raise funds if the exemption is restricted to online approaches.

- GECES recommends that the European Commission should:
  i. Review and map the types of fundraising that are already exempt from full regulation in different member states to assess whether there are approaches that would fit more widely (Annex 4 shows the indications of there being no, or limited exemption amongst a sample of Member States per the ESELA members)
  ii. Introduce legislation to provide an exemption for donative intent investment

v. Mapping existing, diverse tax incentives associated with the funding of social enterprise, to disseminate best practice (Commission and Member States)

Finally, GECES recommends that the Commission undertake to map existing, diverse tax incentives for investment support of social enterprise – including philanthropy, to highlight best practice and disseminate the results of this to Member States, generating greater pan-European consistency and facilitating cross-border investment. The objective is to develop a system that rewards rather than punishes financing of social enterprise, by recognising the tax savings that such entities provide.

- **Develop greater tax incentives for philanthropic and investment support** to social enterprise recognising the tax savings that these social enterprises provide. Certain areas of Tax incentives appear in a number of member states, and would benefit from a pan-European consistency of approach, but also the availability of such reliefs for cross-border investment within the EU.

GECES recommends that the European Commission should:

- Consider the mapping (in Annex 4) of the diverse landscape of tax incentives in member states with the objective of highlighting best practices and disseminating those to member states. Areas warranting further consideration either because they have been adopted with some success by several member states already, or because of their obvious focus on encouraging social investment are as follows:

i. Gift aid or other tax reliefs for individual tax payers giving money or other assets to non-profits or some forms of social enterprise: This would benefit from a further review of the corporate forms to embrace social enterprise in a way that does not create a false market advantage for trading entities. A possible solution is to have "NGO certificates" which allow individual donors to identify "reliable" NGOs (only with these ones you can use tax reliefs e.g. in Austria).
ii. The UK's Social Investment Tax Relief, and the equivalent French Tax reliefs for investments in SMEs and social enterprises
iii. An availability of a tax exempt status for charitable, and other asset and mission-locked entities (social enterprises)

III. Putting in place mechanisms and infrastructure that encourage more public funding and mobilise private funding

GECES recommends concrete actions in the domains of **enabling public financial instruments** to support the participation of private capital, developing **complementarities between public and private funding** through the use of hybrid instruments, ensuring **representation from key stakeholders** in the eco-system in the governance of funding schemes, enhancing and elevating the use of **impact measurement**.

Infrastructure needs pertain to the structural issues that currently prevent social enterprises from accessing funding. The public sector should continue funding social enterprise - public procurement is addressed specifically in Chapter IV. There is often a misalignment between public policy and the priorities of private donors and investors which leads to duplication in some areas and inadequate funding in others. As mentioned in the introduction to Subject Paper, the provision of services of general interest (such as social, health, education services) is a public authority's responsibility. Investing in high-quality services for all pays off: it brings long term societal and sometimes economic gains. It contributes to the promotion of gender equality and work-life balance, employment, social inclusion, better health and education; it reduces crime, poverty and inequalities. After the initial cost, these investments usually translate into savings for public finances in the medium/long term. Not spending on these essential services has a huge cost in the long-run, and it is almost always more costly to try to engage in damage repair than to invest in long-term, holistic solutions. There is a need to better define societal challenges so that they are addressed by all the public authorities concerned in a coordinated manner.

By contrast, the public sector should be encouraged to use existing financial instruments to support the participation of private capital, thus further leveraging available funding, and outsourcing the direct investment to experienced social enter- prise funders. The social enterprise funding market is still nascent and severely under-resourced in most European countries[21]. In their market-building role, public investors should support private investors in taking on more risk or in getting a different return on investment than if only the private sector were involved.

In the GECES report, the public funding area is covered by Recommendation 6.

Recommendation 6: *The European Commission and the Member States should continue to direct public funding to social enterprise and to use public funding to mobilise private capital, through investment in and de-risking of social enterprise funders, as well as by putting proper governance structures in place.*
In what follows, we provide the background for each related action.

i. Enabling public financial instruments (e.g. EaSI, EFSI, InnovFin under Horizon 2020, COSME and other instruments under development) to enhance funding volumes and raise the quality of social enterprise funding (Commission) and to invest in social enterprise and specialised intermediaries (Member States)

Recommendation 6 urges the Commission to perform an examination and optimisation of existing instruments supported by the EU budget and implemented by the EIB and EIF to enhance funding volumes offered by financial institutions/intermediaries and investors, and to better match the funding source and type with the needs of the social enterprise, including the following suggestions (Annex 5 provides a more detailed analysis of the gaps in the current public funding initiatives).:

---

[21] According to EVPA's most recent industry survey, most venture philanthropy/social investment funds have annual budgets below EUR 2.5 million. http://evpa.eu.com/publication/european-venture-philanthropy-and-social-investment-20132014-the-evpa-survey/

- EaSI and/or EFSI - the assessment requests that current programmes be adapted or enhanced to improve their usability for financial institutions/ intermediaries. Specifically, this implies the following:
    - Continue to further enhance EaSI's use of guarantees to financial intermediaries to provide funding to social enterprises. Concrete examples include: long-term funding, application / use of guarantees, interest even in lower portfolio volumes applied for, covering short term funding as overdrafts / bridging loans.
    - The funded investment for part II of EaSI should still focus on support of early-stage social enterprises with financing needs between EUR 100,000 and EUR 500,000. Concretely, this involves long-term loans, co-in- vestment schemes and direct investment, focusing on equity and quasi-equity.
    - Make sure the eligibility criteria of EaSI also includes social impact investment and venture philanthropy funds as eligible intermediaries, especially the ones providing small direct investments of between EUR 100,000 and EUR 500,000.
    - Design a co-investment scheme (tailored to the needs of the social enterprise) at European level with social impact investors getting a 20% non-refundable rebate (out of their 100% investment) for investments in social enterprises (where investments include both equity and mezzanine financing), in compliance with applicable State Aid rules. This would allow for increased individual transactions for social enterprises.

- Consistency of definitions of social enterprise should be ensured between the EIB, EIF and the European Commission, with a focus on ensuring greater market demand for social enterprise;
- EFSI - promote EuSEFs and other social impact investment funds, as well as the Social Impact Accelerator (SIA) and its investees among the EFSI's investment options (e.g. on an equal footing with venture capital or ELTIF funds), ensuring complementarity with existing instruments already available to support social enterprise funding/investment needs;
- ESIF - use ESIF to develop and test joint financing support schemes that combine grants, loans, guarantees and other financial instruments, also by pooling together various types of public and private sources, including savings and crowdfunding, and further exploring synergies between the ESF and ERDF to co-fund joint financial instruments (best practices in the use of the European Structural and Investment Funds are presented in Annex 2). Within the framework of the structural funds, two types of interventions can be distinguished: the first situation is when social enterprises get direct access to ESIF to carry out specific projects; the second is when ESIF are used to build the ecosystem for the development of social enterprises.
- Provide catalytic capital for layered fund structures to leverage more private capital into the financial ecosystem for social enterprises; either a) non-repayable EaSI funds that enable hybrid fund structures to operate with target returns below nominal capital preservation (e.g., -10% annualised returns) or b) repayable ESIF funds that could act as catalytic first-loss capital

GECES urges the Commission to explore ways of providing financial support (long term loans and equity investments) to financial intermediaries (e.g., investment funds) that directly invest between EUR 100,000 and EUR 500,000 in social enterprises, or financial advisors that match supply and demand. While most impact funds invest only in deals with more than EUR 500,000 due to the relatively high transaction costs (see for example funds as SIA of EIF is targeting), the early-stage financing gap needs to be tackled to build a pipeline of investment-ready social enterprises. This should not preclude funding also being made available to already existing social enterprises that also need sustainable funding and support for accompanying actions.

ii. Programming the European Structural and Investment Funds (ESIF) to improve service provision and investment in high-quality social infrastructure. ESIF should have a transformative role and *should be used to complement – not replace – Member States' national budgets (Commission and Member States)*

The Commission should also provide a stronger message to Member States to promote and invest in social enterprise, and to support specialised intermediaries (including public/private collaborations and civil society actors) that help build the social enterprise ecosystem. Member States may explore the use of ESIF to develop and test joint financing support schemes that combine grants, loans, guarantees and other financial instruments, to encourage the set-up of more social enterprise seed funds and social impact investment funds. Member States can also use the EFSI to provide guarantees and act as co-investors to support the action of social welfare funds in Europe and invest in the EFSI itself, linked to social business.

GECES recommends that Member States should:

- Encourage the set-up of more seed funds (grants, recoverable grants, working capital, debt, equity and crowdfunding) that focus on social enterprise growth, and of more social impact investment funds with a patient capital approach, through subsidies, public investment or concrete incentives (tax incentives, lower legal requirements). Existing social impact investment funds are rarely economically viable and self-sustainable due to their limited size and perceived risk.
    - Use ESIF to develop and test integrated financing support schemes that combine grants, loans, guarantees and other financial instruments, by pooling together public and private sources of different types, including savings and crowdfunding.
- Through the EFSI, provide guarantees to act as co-investors to support action of social welfare funds in Europe (a number of member states have joined the EFSI but the majority of them have not), and invest in EFSI itself linked to social business.

iii. *Recommending to Member States to promote social investment namely through public funding in a coordinated, holistic manner in the areas of social, health and education services*

iv. *Developing complementarities between public and private funding of social enterprise through the use of hybrid instruments (Commission and Member States);*

Hybrid capital should open up a new spectrum of finance for social enterprises that would otherwise be unable to access finance. Social enterprises are hybrid by nature, with a double purpose - economic & general/ social interest - which is why hybrid instruments are particularly suitable financing methods. In the mainstream financial sector, hybrid financial instruments are mainly the ones that combine debt and equity features (e.g. convertible debt; convertible equity, etc.). In the social enterprise financing space, hybrid impact instruments take on a broader scope. Within the scope of this paper, hybrid impact instruments can be the kind that:

- combine different types of instrument and/or features from different types of instrument
- are typically – a combination of debt (/debt-like features) with grant/quasi-equity (/features of such instruments)
- or – combine public and private capital – or different forms of private/private capital, including philanthropy

→ Examples of debt and grant/quasi-equity features include the following:

- (Contingently) Repayable grants/ forgivable loans
- Loans with profit participation rights or other variable interest or repayment rights
- Perpetual/extendable loans (actual or de facto)

The role of public capital is to provide subsidies/leverage to other forms of capital and act as a catalyst. GECES invites the Commission to provide catalytic capital for layered fund structures to leverage more private capital into the financial ecosystem for social enterprises; through a) non-repayable EaSI funds that enable hybrid fund structures to operate with target returns below nominal capital preservation and/or b) repayable ESIF funds that could act as catalytic first-loss capital.

→ Examples of the public sector de-risking private investment capital are as follows:

- Tiered instruments/funds/multiparty structures – could combine public and private capital (first loss; guarantees). These may be either hybridised in single instruments (e.g. a blend of philanthropic as grant or first loss investment, and development funding on a later draw-down), or in grouped, multi-party solutions (e.g. States taking first loss, guarantee positions – EaSI and others, or pathfinder positions to stimulate leveraged investment pools, and Big Society Bank (BSC)-type arrangements)
- Risk sharing mechanisms - Social Impact Bonds(SIBs) that:
    - combine public sector contingent outcomes payer with private sector risk accepting investor
    - returns linked and contingent on measurable outcomes
- Risk-sharing mechanisms other than SIBs: This is core to the operation of any financial market, but also a key aspect of the development of the social investment and finance one
- Catalytic funds/leverage funds/market builder funds (BSC for example)

Finally, GECES recommends that the Commission conduct an analysis of the conditions under which innovative hybrid instruments can be used. This analysis should define a framework to guide policy-makers and practitioners on potential risks, opportunities and negative consequences, and provide examples of these.

v. Representing key stakeholders from the social enterprise ecosystem in the governance of schemes supported by public funding, such as EFSI, and mainstreaming the use of impact measurement (Commission).

The Commission should ensure that key stakeholders in the social enterprise ecosystem are represented in the governance of funding schemes, for example the EFSI, by appointing a specialist in social policy as one of the independent experts in the Investment Committee. This expert shall be responsible for quantifying social impact of submitted projects to assess if those receiving support from the fund are supporting the social objectives of the EU and benefit society as a whole.

In all its funding programmes (e.g. EFSI), the Commission should promote the measurement of social impact and give it the same status as financial turnover and economic growth, building on the work of the GECES sub-group on social impact measurement,[22] while also collecting/disseminating best practices from practitioners. The sub-group report further encourages the implementation of impact measurement at both funder and social enterprise level – clearly recommending a standardised process while customising the implementation to the needs of each organisation. The objective is greater transparency on impact in the sector, and the ambition that each organisation works towards achieving greater impact when it is measured.

[22] GECES, Proposed approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI, http://ec.europa.eu/internal_market/social_business/docs/expert-group/social_impact/140605-sub-group-report_en.pdf, (June 2014)

GECES Working Group 1: “Improving access to funding”

ANNEXES

ANNEX 1: Analysis of blockers and enabling policies for social enterprises' access to funding[23]

Main blockers encountered by social enterprises when trying to access funding – (summary of tables below);

	Pre-start up	Start-up/Pilot stage	Early-stage growth	Later-stage growth
Capacity building	Entrepreneurial mindset and skills missing (incl. developing business plan)	Social entrepreneurs lack relevant business skills to build sustainable business model, and don't have the resources or networks to access those skills (pro bono, consultants, employees)	Training for business skills for this stage missing (from start-up to growth) incl. professionalization of processes and functions (marketing, finance, etc.)	Investment readiness support required to prepare for injection of capital necessary for large-scale growth – difficult to find funding for that
Funding	Lack of understanding of social enterprise on behalf of funding community making pre-start up requirements (guarantees, collateral, etc.) unnecessarily strict, or falling outside of investment/donor criteria	Lack of procedures and experience in funding community to deal with hybrid and diverse nature of social enterprise	Lack of longer-term funding (grants, debt, equity) to enable social enterprise to become financially self-sustainable (pilots supported by incubators get stuck here)	Lack of appropriate legal forms, allowing social donors and impact investors to invest significant capital in social businesses, with tax incentives and/or clear exit options while safeguarding the social mission/impact
Eco-system	Lack of alignment of public policy priorities and donors' priorities to ensure avoidance of duplication in some areas and no attention to others	Lack of patient donors, business angels and support networks	Lack of funders in this stage and limited role played by public sector in providing guarantees, co-investment, facilitating the encounter between SE and donors or investors	Lack of harmonized legal frameworks and lack of integrated support ecosystem in Europe for international scale-up

[23] Analysis performed by KPD1 led by Andreja Rosandic, NESsT

Recommended concrete **actions** to be taken to **remove the main blockers** to better enable social enterprises to access funding (at EU, MS and regional levels)

	Pre-start up	Start-up/Pilot stage	Early-stage growth	Later-stage growth
Capacity building	Support the development of an entrepreneurial culture by providing dedicated funding to universities and educational programmes in the area of social entrepreneurship	European-wide actions include dedicating resources to support networks/platforms like Makesense, Benisi, GSEN or EBN - connecting individuals willing to support social entrepreneurs and inspiring people to get started. MS-level actions include supporting incubators/accelerators with clear incentives for coach and social entrepreneurs to achieve success together (e.g. Oksigen Accelerator), and creating business planning support centres/network.	Develop and provide sustainable resources for dedicated training programmes and capacity support for the "professionalisation" of social enterprises, with a focus on processes and functions (marketing, finance, etc.)	Develop and provide sustainable resources for dedicated investment-readiness / scale-up programmes (e.g.ESSEC scale-up programme) and capacity support.
Funding	Raise awareness of social enterprise among broader funding community through awards (also of pioneering funders), networking events and trainings. Increase the availability of funds from financial institutions by building a system of guarantees.	Provide substantial support to seed funds (grants, debt, equity, crowdfunding) that focus exclusively on social enterprise growth. Collect good practices from social enterprise funders to disseminate in wider funding community, removing barriers to action.	Support (tax incentives, lower legal requirements) social impact investment funds with patient capital approach. Showcase examples of traditional banks that provide special credit policies for social enterprises (longer repayment times, no collateral asked, etc.)	Public financial instruments should support the participation of private capital; these include the need to build a system of guarantees; building a network of financial intermediaries, loan funds through equity instruments to participation in risk. Develop greater tax incentives for philanthropic support to

				develop SE recognizing the tax savings that these SEs provide.
Eco-system	Fund support networks that: continuously (not just on-off) map domains of action and the funding sources (private and public) in each, and stimulate and make connections among different actors in the ecosystem.		Provide subsidies (or incentives) - or seed funds of investment funds - to encourage the set up of more social impact investment funds willing to take risk and provide patient funding	Support industry associations to develop practitioner-led guidelines that can feed into legal frameworks to encourage sector growth

ANNEX 2: Best practices in the use of the European Structural and Investment Funds[24]:

In the frame of the structural funds, two types of interventions can be distinguished: the first situation is when social enterprises get direct access to ESIF to carry out specific projects; the second situation is when ESIF are used to build the ecosystem for the development of social enterprises. In the first case, many examples refer to the work integration of disadvantaged people or to measures aimed at promoting social inclusion, fight against poverty and discrimination, which represent the core business of many social enterprises. Another common area is the use of ESIF to enhance and improve the provision of services of general interest by social enterprises (social, health, education, transport services, social housing, waste collection and management, environmental services) and to build and refurbish social infrastructures managed and in some cases owned by social enterprises.

However, social enterprises can benefit from ESIF also in other areas, such as reconciliation between work and family life, business creation and entrepreneurship, active and healthy ageing, investing in education, skills and lifelong learning.

A) Social enterprises as direct beneficiaries of ESIF:

Good practices from previous programming periods that could be used to implement 2014-2020 ESF thematic objectives "promoting sustainable and quality employment and supporting labour mobility", "promoting social inclusion, combating poverty and any discrimination" and "investing in education, training and vocational training for skills and life-long learning":

ESF projects that support social enterprises to employ persons with disabilities and disadvantaged people to access the labour market: there are many examples across Europe, often embedded in local employment initiatives. In some cases, the ESF project supports the setting up of new employee-led social enterprises that employ disadvantaged people. Very often these projects stem from cooperation with local authorities and / or with businesses. See Catalyst Pluss (UK), Levanto and De Ploeg of the city of Mechelen (BE), active-cooperatives in FR, BE, SE that serve as business incubators providing inactive people with support in transition from inactivity to self-employment (BFSE guide, pp. 21-29).

The German Federal Programme XENOS, cofinanced by the ESF, channels funds to public and non profit organisations at local and provincial level, to implement advisory services, guidance, coaching and training to migrants and refugees to foster their integration into the German labour market (European Parliament, Research for REGI Committee – Services of General Interest in the funding period 2014-2020, p. 42).

ESF projects that support social enterprises providing goods, works and services while offering active inclusion, integration of marginalised communities and fighting discrimination: Le Mat is a brand and social franchise system of social entrepreneurs in tourism born in Italy, which expanded to Sweden and soon to the UK and Bosnia. The original Le Mat was a social cooperative set up through an Equal project to include psychiatric patients and drug addicts. AC AERO is a Czech work integration social enterprise established through the ESF to offer gardening services, construction, maintenance and repairmen of small buildings and promote a nature conservation area through the integration of Roma people. In Poland ESF grants covered the start- up costs of a social enterprise set up to support the activities of the guesthouse U Pana Gogito that employs people with past mental illness and people suffering from schizophrenia (BFSE guide, pp. 40-42).

ESF projects that enhance and improve the provision of services of general interest: in Italy the ESF supported the creation of PAN consortium by a national consortium of social cooperative and one major bank. PAN offers planning, start-up assistance and loans to organisations and people interested in establishing new types of

[24] Analysis provided by Valentina Caimi, Social Platform

services for children in the form of social enterprises. It provides a quality trademark and quality check tools to adhering social enterprises, as well as loans to families to make the access to early childhood services less expensive. Urbancoop in France and La Cordata in Italy facilitate access to housing to low-income people. Welfare Italia servizi is a social enterprise that offers medical and dental services at affordable prices at national level in Italy. In Estonia the ESF supported providers of services for persons with disabilities and other disadvantaged persons in the development of the EQUASS Assurance tool, to implement the European Voluntary Quality Framework for social services.

ESF projects that support lifelong learning, upgrading the skills and competences of the workforce of social enterprises: a good practice to be promoted is that of Spain that used the ESF to co-fund the Intersectoral Plans for the social economy that provides specialised training for social enterprises. Similarly, training pathways could be developed to train social entrepreneurs and social enterprises' employees to learn how to use reserved contracts and social considerations in public procurement and how to measure the social impact.

Another example from Spain is the Fundación Santa María la Real that has created an impactful model to get unemployed people back into the workforce. Since 2013, with the support of public administrations and the private sector, the foundation has launched 140 "Lanzaderas de empleo" in 72 cities in 16 autonomous regions in Spain, reaching more than 3.000 unemployed people, with a reinsertion rate of 60-70%. The new growth stage counts on financing of €17.6 million, of which €12.8 million from the European Social Fund. The example shows how smart MS can help scale impactful models and not only invest in trial and error projects[25].

Good practices from previous programming period that could be used to implement 2014-2020 ERDF (EU regional development fund) thematic objective "promoting social inclusion, combating poverty and any form of discrimination", through improved access to social, cultural and recreational services and the transition from institutional to community-based services, support for social enterprises and promoting investment in the context of community-led local development strategies:

ERDF projects that improve affordable housing by promoting energy efficiency of social housing and fighting against social segregation of low income households: In Wales from 2009 to 2015 the Arbed project covered a range of area-based, home energy efficiency and renewable energy retrofit projects. These projects supported low income, fuel poor households in deprived communities. The programme was carried out by social housing providers, working with councils, community groups and businesses. It covered 9.000 low carbon measures, 6.500 homes (plus further 1.500 via leveraged funding), 15 work placements filled, 2 full time jobs created including by a NEET (not in employment, education or training) candidate, 4 apprentices taken and 16 companies contracted to undertake the work (source: Housing Europe, The impact of structural funds on affordable housing, 2011).

In Bulgaria, from 2010 to 2014 the ESF has been funding a project "Childhood for All". This project represents the main pillar of Bulgaria's on-going de-institutionalisation reform as it strives to create a sustainable model of transition from residential to community-based services for children with disabilities.
The project consists of two components: "Planning of measures for deinstitutionalisation" and "Provision of community-based social services". In addition to ESF support for this project, the ERDF and the EAFRD have allocated 54.6 MEUR and 8.5 MEUR respectively, to support municipalities in urban and rural areas to build new social infrastructure replacing the traditional long-stay residential institutions. The project aims to change the philosophy of care for children with disabilities – the most vulnerable group of children in institutions – focusing on the prevention of risks for institutionalisation, support to families and provision ofa family-based or family-like environment for each child placed in a specialised institution for children with disabilities. The project seeks to provide children with an opportunity to access a package of services according to their individual needs. (source: European Expert Group on the Transi_ on from Institutional to Community-based

[25] http://www.lanzaderasdeempleo.es/articulos/fundacion-santa-maria-la-real-impulsara-mas-de-500-lanzaderas-en-cuatro-anos-con-la-ayuda-del-fondo-social-europeo

Care, Toolkit on the Use of European Funds for the Transition from Institutional to Community-based Care, June 2014).

B) Use of ESIF to build the ecosystem for the development of social enterprises:

Good practices from previous programming periods that could be used to implement 2014-2020 ESF thematic objectives "enhancing institutional capacity of public authorities and stakeholders and efficient public administration":

ESF projects that support partnership frameworks, integrated strategic approaches, support mechanisms for development and scaling-up of social enterprises, capacity building for social enterprises, public authorities, financial institutions, and businesses partnering with social enterprises:

In Poland the ESF Human Capital OP 2007-2013 included as specific priority the development of the social economy sector for the promotion of social integration. The Programme funded the creation of social economy support centres in each region. It also provided individuals planning to start up social cooperatives with grants of up to 5.000€ per person.

ESFund TISE is a pilot loan fund combined with advisory services dedicated to social enterprises in Poland. Designed by the special group of experts and three main public institutions - Ministry of Regional Development, Ministry of Labour and Social Policy and a state-owned bank - BGK the initiative amounted to PLN 30M (EUR 7.3M) and was financed in large part from the European Social Fund within the framework of the systemic project under the Measure 1.4. "Support to financial engineering for the development of social economy" of the Operational Program Human Capital 2007-2013.

The project addresses the problem of restricted access to finance for social economy entities that hampers their development and limits the impact they generate by tackling with unemployment and social exclusion. The objective of the initiative was to provide preferential financing to at least 250 social enterprises in the whole country and offering free professional advisory services to at least 200 of them. TISE, an institution specialised in social economy and MSMEs financing was selected to run the pilot fund. Given the positive outcomes of the Project it has been extended until December 2017 with the additional allocation.

Several projects supported the development of tools to measure the social value of social enterprises as a whole and of specific projects/interventions (the tool of the BFSE network, the TESSEA project in the Czech Republic, the SOUL project in Sweden, the DAIN project in the UK).

Several projects of the EQUAL programme and under the 2007-2013 ESF promoted social franchising as a way to scale up and replicate social enterprises and social innovation, both in the same member state and across the EU. Usually EQUAL funded the development phase and the ESF the start-up phase. Examples: Le Mat in Italy and Sweden, Future Clean in the UK and France, Komosie in Belgium that has spread second-hand shops employing disadvantaged people, Care and Share Associates that provides services to older and disabled people in the UK, Vägen Ut and the creation of halfway houses for drug addicts in Sweden, and Barka Foundation in Poland that carries out initiatives to help people who suffer from social exclusion and started the franchisor model to expand in France, the Netherlands, the UK and Ireland.

ESF and ERDF provided initial capital for start-ups, guarantees for loans, loans and micro-credits especially in the start-up phase. The Jeremie ESF Lombardy Operational Programme provides loans to shareholders belonging to social cooperatives that hire at least 30% of disadvantaged workers, enabling them to buy shares in the social cooperative that employs them. The Jeremie fund is managed by a public financial institution, Finlombarda, through selected local financial intermediaries. The Jeremie contribution is 50%, a 5-year interest-free loan with a single repayment. The intermediaries provide the rest, also in the form of 5-year loan with a fixed interest rate and monthly repayments. This system provides additional working capital to the social enterprise.

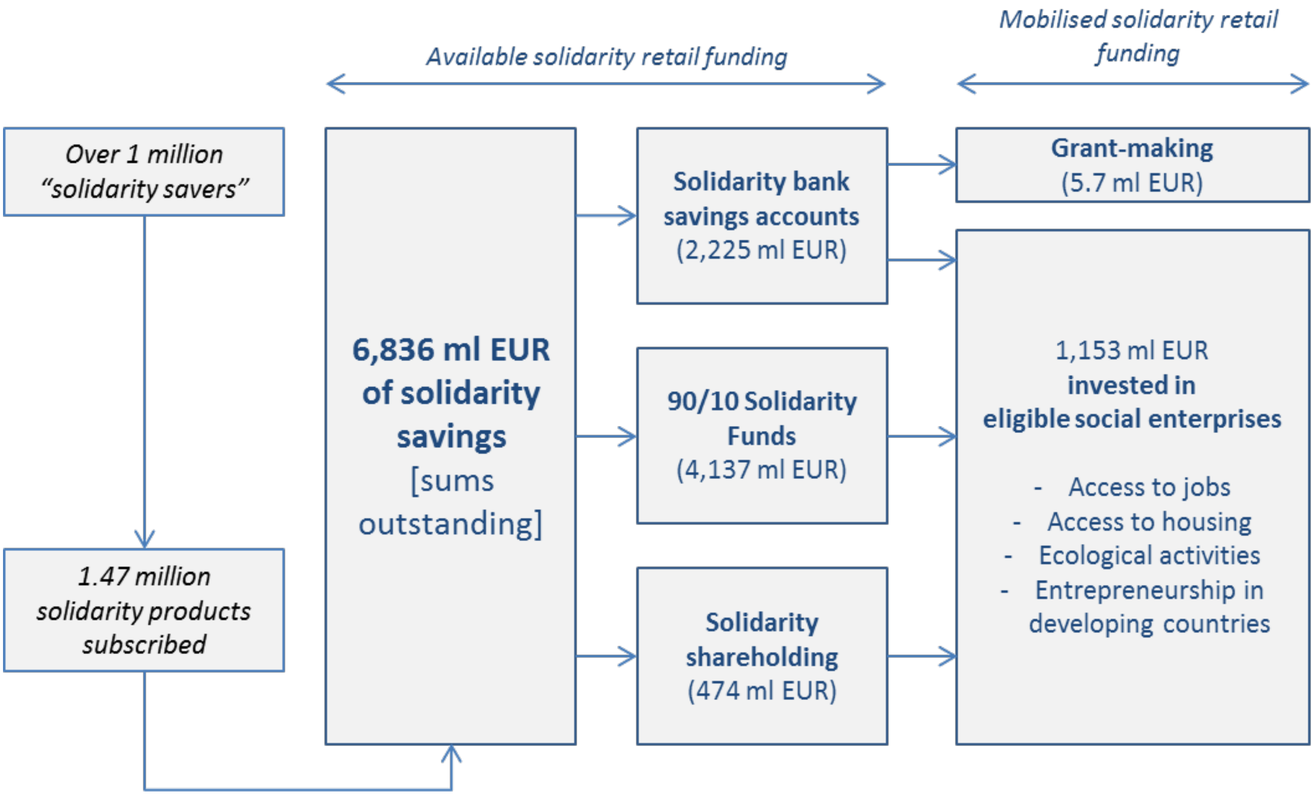
In the Czech Republic a global grant in the frame of the ERDF provides start-up capital for social service providers and social enterprises (grants from 12.000€ to 200.000€). A global grant in the frame of the ESF provided grants (from 4.000€ to 200.000€) to support the development of new social enterprises.

The ERDF might support the ESF with equipment / infrastructure or with capacity building of public bodies related to the implementation of ERDF.

ANNEX 3: Overview of the French 90/10 Solidarity Funds[26]

France has developed a comprehensive and unique ecosystem of complementary solidarity saving products which contribute to supporting the country's "*Social and Solidary Economy*". The main three solidarity retail investment products are the following: solidarity bank savings accounts, solidarity shareholding (direct retail investment in social enterprises) and the so-called *"90/10 Solidarity Funds*". By the end of 2014, over a million French solidarity savers had chosen to place their savings in these various solidarity saving channels (through 1.5 million subscriptions), adding up to 6.8 billion EUR of sums outstanding. In 2008, the available solidarity retail funding only amounted to 1.6 billion EUR.

The French ecosystem of solidarity savings (31/12/2014)



Source: Zoom 2015 Finansol (EVPA adaptation)

In place since the early 2000s and made compulsory since 2008, the 90/10 funds has progressively become the main channel to capture the French solidarity saving finance. While it represented 29% of the available solidarity retail funding in 2008 (= 0.478 billion EUR), it made 60.5% of the sums outstanding at the end of 2014 (= 4.1 billion EUR). According to the 90/10 mechanism, companies with more than 50 of staff are obliged to offer their employees an optional solidarity-savings fund, which allocates 5 to 10%[27] of its assets to eligible[28] (unlisted) social enterprises. The remaining 90 to 95% are invested in classic (listed) companies (mostly following SRI principles).

While some corporates choose to set up their own solidarity savings fund, the vast majority of the collected solidarity savings is managed by three main fund managers, namely the group BCPE, Amundi and BNP Paribas.

[26] Analysis provided by Elinor de Pret, EVPA
[27] The minimum of 5% is set by French law, whereas the 10% maximum threshold is regulated by the European Directive 2014/91/EUR on undertakings for collective investment in transferable securities (UCITS)
[28] "Eligible" social enterprises must now be certified in accordance with the *Social and Solidarity-based Economy Act* adopted in 2014.

In terms of allocation, three main (eligible) intermediary organisations capture around 65% of the solidarity savings: France Active (coaching of entrepreneurs), Habitat & Humanisme (social housing) and Adie (microfinance).

Despite the growing ability of the 90/10 Solidarity Funds to collect the French solidarity savings, the effective success of the mechanism should not be overestimated. Looking at 2014 only, the actual investment made through 90/10 funds in social enterprises only amounted to 70 million EUR.
Nevertheless, the 90/10 mechanism is offering recognised advantages (democratisation of social impact investing, access to 'patient' capital for social enterprises, considerable source of financial wealth held in employee savings, etc.), and its replication (or adaptation) is currently being investigated for other types of retail placements in France (e.g. life insurance or pension funds) as well as in other European countries (e.g. pension funds in the UK).

Sources:

- Retail social investment across the world: International models that encourage the general public to make social investments, Social Investment Insights Series, Big Society Capital, March 2016.
- Zoom sur la finance solidaire 2015, Finansol (see : www.finansol.org)
- Good pensions – Introducing social pension funds to the UK, Big Society Capital, September 2015.
- The hows and whys of social impact investing - Financial innovation driving social innovation, French National Advisory Board (NAB) on Impact Investing, January 2015.
- Impact investing for everyone – A blueprint for retail impact investing, Triodos Bank, September 2014.

*** *** ***

ANNEX 4: Overview of tax incentives and regulatory environment and in selected member states[29]

Country	Tax incentives	Investment regulation
Finland	No specific tax incentives are available for social enterprises or their respective investors. Please note that non-profit organizations (mainly foundations and associations) fulfilling certain criteria benefit from tax exemption. Non-profit organizations carrying out business operations are in general, however, subject to 20 % corporate tax on their net profit. Launching well-designed tax incentive would naturally promote business of social enterprises.	**Retail investment:** At present, there is no coherent regulatory regime specially adapted to retail investments with donative intent in Finland. However, such investments can be assessed from the perspective of crowdfunding. Depending on whether such investments are as investment-based, lending-based, donation-based or reward-based, they may fall into scope of various Finnish acts. For example, the investment-based model is subject to heavy regulation, while lending of funds to a company from the crowd through individual loan agreements has been interpreted to be an unregulated activity. Therefore, the legislative treatment of such platforms and instruments must be assessed on a case-by-case basis. The drafting process of new legislation concerning crowdfunding is currently in progress in Finland and the Ministry of Finance has given a draft proposal for a Crowdfunding Act in autumn 2015. This new legislation should bring coherence to the fragmented regulatory framework currently applicable to crowdfunding in Finland. However, it is not known when the act will enter into force. **Gifts:** No specific regulation restricts giving or receiving gifts. Please, however, note that fundraising campaigns requires permission from the Finnish authorities. The amendment of the Finnish Act on Fundraising has been under public discussion recently but unfortunately no amendments in this field are expected in the near future. **Investment with donative intent:** No specific regulation restricts investment with donative intent.

[29] Collected by Jim Clifford, Bates Wells Braithwaite, from European Social Enterprise Law Association (ESELA) members

Country	Tax incentives	Investment regulation
German y	In Germany, there are no specific tax benefits / tax incentives that encourage investments in social entrepreneurs or charities (irrespective of whether such charities / social entrepreneurs are admitted as non-for-profit organisations or charitable organisations or not). In fact, there is only specific tax legislation providing for tax benefits with respect to donations that are given to charities / social entrepreneurs which are admitted as not-for-profit organisations or charitable organisations (gemeinnützige Köperschaft) within the meaning of the German General Fiscal Code (Abgabenordnung). According to the German Income Tax Act (Einkommensteuergesetz) / the German Corporate Income Tax Act (Körperschaftsteuergesetz), donors can deduct the amount of the donation from their income up to an amount of 20% of their total income.	**Retail investment:** As regards retail investments, in general, there is no specific legislation in Germany (meaning legislation with a specific reference to social investments only). Consequently, for retail investments in social entrepreneurship funds, which are established under the EUSEF-Regulation, the provisions of the EuSEF-Regulation apply. For retail investments directly in social entrepreneurs and retail investments in funds which invest in social entrepreneurs, the respective general legal provisions (including, in particular regulatory legal provisions) dealing with retail investments in investment funds or retail investments directly in companies apply, subject to some specific exemptions (in some legislation). **Gifts:** These activities are not controlled / regulated by German law. However, donations/gifts given by donors to charities or social entrepreneurs which are admitted as non-for-profit organisations or charitable organisation (*gemeinnützige Körperschaften*) under the German General Fiscal Code (*Abgabenordnung*) can be deducted by the donors from their respective income up to an amount of 20% of their respective total income. **Investment with donative intent:** The German law does not contain specific legal provisions controlling or regulating such form of investments. However, as such kind of investment would still be an investment (rather than a gift/donation), the general legal provisions (including, in particular regulatory legal provisions) dealing with retail investments should apply, again subject to some specific exemptions. **Other view or knowledge** All of these forms of funding are actually happening, although to different degrees. In our view, gifts/donations, which may be deductible from the donors' income for taxation purposes (in case the receiving charity/social entrepreneur is admitted as not-for profit organisation or charitable organisation), are still used most often as the legal and economic consequences are mostly clear and remaining uncertainties are rather small.

Country	Tax incentives	Investment regulation
France	Tax reduction of charitable gifts to non-profit organizations is the only tax incentive geared toward social enterprises. Other tax incentives exist to support investment in corporations. Social businesses may benefit from them. a- **Charitable gifts made to non-profit organizations benefit from a tax reduction** (offset against the taxpayer tax liability in the year of the gift). This tax reduction is not available to cooperative forms (SCIC) or commercial company forms of social enterprises. b- **Income tax exemptions and reduction on investment in SME** - Individual exemption on investment income and capital gains made through venture-capital funds - Individual income tax reduction of 18% for investment in SMEs, cooperatives, and legal forms with an ESUS status (social enterprise status). - Wealth tax reduction of 50% of the investment made in SMEs, cooperatives and legal forms with ESUS status c- **Tax incentives for entrepreneurs** - Young Innovative Company status - Certain social enterprise cooperative forms also benefit from tax reductions Social enterprises have seen a drastic decrease of their funding in the past few years and rely heavily on charitable gifts as one of the core sources of funding. The tax incentive is an old mechanism that has proved to be efficient for most social enterprises. However, the exact criteria of a charitable gift eligible for tax relief is still a grey area where divergent opinions arise (between the taxpayer, the beneficiary organization and the French Tax Authorities). It is expected that the Government would provide clarification in a near future. Income tax exemptions and reductions on investment in SMEs however are somewhat limited because of the tax and legal obstacles applicable to most social enterprises (i.e. limitation on distribution of dividends to shareholders limits in turn the attractiveness of the investment).	**Retail investment:** French law does not differ from EU law regarding packaged retail and insurance-based investment products. - Regarding tax relief for retail investment products, French tax law offers individual tax exemption on investment income and capital gains made through venture-capital funds (FCPRs - Fonds Communs de Placement à Risques ; FCPIs - Fonds Communs de Placement dans l'Innovation ; SCRs - Sociétés de Capital Risque – all can take the form of a Fonds d'entrepreneuriat social or Fonds Commun de Placement Solidaire). Conditions apply (holding period of at least 5 years, reinvestment of all proceeds from the funds during the same period, hold no more than 25% of the financial rights of the company funded by the fund). **Gifts:** French law does not distinguish a gift from a donation. Both are called a '*don*'. In the context of social investment, gifts are not regulated directly by public regulation or local laws. The main "control" over gifts is the ability for a person or company to receive an income tax reduction in exchange for the gift (donation). Only non-profit organizations (associations pursuing a 'general interest' (*intérêt général*), foundations, federations, and NGOs) are able to receive charitable gifts eligible for tax relief. The tax incentive is an old mechanism that has proved to be efficient for most social enterprises. However, the exact criteria of a charitable gift eligible for tax relief is still a grey area where divergent opinions arise (between the taxpayer, the beneficiary organization and the French Tax Authorities). It is expected that the Government will provide clarification in a near future. **Investment with donative intent:** French law does not regulate the 'donative intent' of an investment directly. However, if the investment has donative intent, then it will be considered as a donation or a gift. Investment with donative intent is possible with any legal form; however, only non-profit organizations (mentioned above) will be able to provide tax reductions for such investment.

Country	Tax incentives	Investment regulation
France *(cont'd)*	The new ESUS status (entered into force on 1 October 2015 for traditional social enterprises and 1 January 2016 for commercial companies) may be a solution for providing more tax incentives to social enterprises but few social entrepreneurs know about this status. One of the main benefits for an enterprise with an ESUS status is being eligible to receive 5-10% of a company's employment solidarity fund (*fonds d'epargne salariale solidaire*). However, the burden of applying for the status, at this point, far outweighs the incentives offered.	

Country	Tax incentives	Investment regulation
England and Wales (UK)	Social Investment Tax relief provides a retail investor with tax relief of 30% of the amount invested as a credit against their income tax in the year in which they invest in a qualifying investment. A qualifying investment is the highest risk tranche of debt or equity invested into a charity or a social enterprise (defined by certain qualifying corporate forms, notably the CIC). Limits on the funds able to be raised by a single social enterprise are too low at present, and will be raised following clearance by the Commission to £5m per annum up to £15m. Gift aid applies to money or certain assets given to qualifying charities. This provides a tax relief to a retail donor: the recipient charity can effectively top up the donation with a 20% tax credit, and a donor paying higher rates of tax can claim a further 20% deduction. Charities (but not other types of social enterprise) are exempt from corporate taxes on their net surpluses, and enjoy certain local and national tax exemptions, or reduced rates for other minority taxes such as business property rates (local).	**Retail investment:** There are a range of rules and regulations which govern how investments may be communicated or recommended to retail investors or made on behalf of retail investors. <u>The Financial Promotion Rules</u> Where an organisation is raising investment above €5m in any 12 month period, in the absence of an exemption, the EU Prospectus Rules apply. This means that the relevant offer document must be approved as a prospectus by the UK Listing Authority, which is the national regulator for the purposes of the Prospectus Rules. Once a prospectus has been approved, it may be marketed freely across the EU. However, where an organisation is raising less than €5m in any 12 month period or a relevant exemption to the Prospectus Rules applies, the domestic financial promotion rules apply to the communication of the investment opportunity. Any invitation or inducement to engage in investment activity is a financial promotion. The financial promotion rules generally require communications to ordinary retail investors to be approved in advance by a person authorised by the Financial Conduct Authority (the FCA), such as a bank, investment firm, corporate finance firm, law firm or accountancy firm. This requirement can make it difficult for smaller organisations, such as charities and social enterprises raising small sums of money, to raise investment directly from the public. In turn, this makes social investment opportunities less visible to the general retail public. The FCA is currently looking at these rules following a consultation which closed in mid-March to see if there is a need to reform the rules applying to financial promotions to allow more freedom to social investors. This follows calls in the UK Parliament for reform, the independent recommendations of Government supported reviews of 'red tape', research and social enterprise sector support. <u>Suitability Rules</u> Where a financial advisor recommends an investment to a retail client or an investment manager performing a discretionary investment management service makes an investment on behalf of a retail client, the financial advisor or investment manager needs to be satisfied that the investment is 'suitable' for the client and is in the 'best interests' of the client. The suitability requirement is derived from the Markets in Financial Instruments Directive and the requirement to take note of a client's investment objectives. This typically involves undertaking a client discovery process, which includes assessing a client's overall financial situation, such as incomings, outgoings, assets and lifetime cash flow needs.

England and Wales (UK) *(cont'd)*		However, neither the FCA nor the European Securities and Markets Authority have shown appropriate interest in the non-financial investment objectives of clients. As a result, there is a lack of understanding on the part of advisers and managers about the need to extend client discovery to a client's objectives with respect to the impact dimensions of investment activity, such as sustainability and other ESG factors. There is therefore a risk that advice in the marketplace is leading to consumer detriment, as advisers and managers recommend or make investments which are contrary to a client's non-financial investment objectives, such as, for example, by investing in carbon intensive investments for retail clients who are environmentally conscious and who would not want to be invested in investments with a negative environmental impact. **Gifts:** By comparison to raising investment capital, gift fundraising is lightly regulated. Most specific regulation of gift fundraising applies to charities, as charities benefit from tax exemptions related to giving which facilitate individual donations. There are also some areas of regulation which impact on gift fundraising as well as other forms of activity, such as data protection legislation and regulation. The UK currently operates a system of voluntary self-regulation of fundraising. This involves a standard setting body, the Institute of Fundraising, which sets the standards which are policed on a voluntary basis by the Fundraising Standards Board, which only has jurisdiction over those charities which voluntarily submit to its system of supervision. Separate regulation applies to place based fundraising, such as on in public places or door-to-door, which is regulated on a voluntary basis by the Public Fundraising Regulatory Authority. Specific rules apply to the forms of disclosures which must be made by "professional fundraisers", organisations which focus on fundraising, when raising gifts from members of the public. Specific rules also apply where corporates enter into commercial partnerships with charities and make statements to the effect that a charity or charities will benefit in some way from the sale of a good or service. Fundraising communications are also subject to the general law of advertising and consumer contracts. The Government has recently reviewed the system of voluntary self-regulation and has decided to establish a new Fundraising Regulator, which is in the process of being established. However, critically, there is currently no requirement and no proposal to require fundraising communications to be approved by authorised intermediaries, as is the case with raising investment capital. By contrast, if a charity was to seek to raise investment capital, it would need to approach and pay an authorised person, most likely a professional firm, to review and approve its communications, which is costly.

Country	Tax incentives	Investment regulation
England and Wales (UK) ***(cont'd)***		**Investments with donative intent:** There is currently no formal distinction in UK law between investments which are made by retail investors in pursuit of a traditional risk-adjusted financial return and investments which are made with donative intent. The financial promotion rules, suitability rules and appropriateness rules, and the FCA handbook as it applies to FCA authorised firms, all apply to 'investments'. The concept of an investment includes any asset, right or interest and is very broadly defined. The effect is that investments with donative intent are likely to be caught by all the same regulation which applies to investments made in pursuit of a traditional risk-adjusted financial return. That said, there is a recognition in the Financial Services Act 2012 that some investors invest for non-financial reasons and that some businesses operate differently to standard commercial businesses. There is also a recognition in a particular exemption from the financial promotion rules, known as the 'common interest group' exemption, that investors may invest to support an organisation and only secondarily for the purposes of a financial return. This concept is close to the concept of an investment with donative intent. However, the exemption is a relatively narrow exemption and is not widely used, though it is conceivable that it could be used as the basis for a wider reform of the rules. By contrast, the UK Parliament has recently passed the Charities (Protection and Social Investment) Act 2016, which includes a statutory power to enable charities to make social investments. This power expressly extends to investments with donative intent, such as investments where the charity in practice expects to receive less than a market return and possibly only the return of a small part of the original principal invested. Until the recent FCA consultation on the regulation of social investment, there seems to have been little regulatory consideration about the place of investments with donative intent on the part of ordinary retail investors.

Country	Tax incentives	Investment regulation
Spain	**Investments in social enterprises:** There are no specific tax incentives applicable to investment in social enterprises. **Investments in start-ups:** Tax incentives for investments in start-ups may apply to those investments in companies with less than 3 year since formation (*empresas de nueva o reciente creación*). At national level, main tax incentives are: (i) deduction from the Personal Income Tax of 20% of the amount invested by an individual, with a maximum deduction of 10.000 euros per year, provided certain requirements are met, including that this individual does not hold more than 40% of share capital or voting rights and holds such investment for a period of no less than 3 years and no more than 12 years; and (ii) exemption from Personal Income Tax of capital gains obtained by an individual in the sale of its investment in a start-up if the proceeds from the sale are re-invested in other qualifying start-ups. **Foundations and charities:** Contributions to foundations, associations and charities that satisfy certain requirements may also enjoy certain tax incentives. At national level, main tax incentives are: (i) if contributor is a legal person, tax deduction of 35%-40% of amount contributed with a maximum of 10% of taxable base (excess may be applied in successive periods up to 10 years); (ii) if contributor is an individual, tax deduction of 50% (75% from 2016) of the first 150 euros of contribution and 27.5%-32.5% (30%-35% from	**Retail investment:** There is no specific legislation in Spain for retail investments in social enterprises. For retail investments in social entrepreneurship funds, which are established under the EUSEF-Regulation, the provisions of the EuSEF-Regulation apply. Investment-based crowdfunding (i.e. equity-crowdfunding and crowdlending) is a regulated activity in Spain (Law 5/2015 to promote corporate financing) and may only be performed by platforms supervised by the securities regulator (*Comisión Nacional del Mercado de Valores*). General public offering/prospectus requirement rules may apply to soliciting investments. **Gifts:** Other than tax laws and regulations regulating taxation of gifts and donations (including the tax incentives mentioned above regarding contributions to foundations and charities), there is no specific regulation in Spain controlling or regulating donations/gifts. **Investment with donative intent:** There is no specific regulation in Spain controlling or regulating such form of investments.

Latvia	Social entrepreneurship is not a legally recognized form or status in Latvia. Social entrepreneurs can engage in activities by using non-governmental organisations (further - NGO) legal form or Regular business legal form. As a result, we currently do not have any special incentives for investment in Social Enterprises. According to information from our Ministry of Finance, we have several tax incentives for investments in "ordinary business", that can also be used to foster investments in social enterprises, but unfortunately this is not happening. Due to several reasons – lack of legal form for social enterprises, lack of "Incentives to facilitate investments (information from Ministry of Finance): • possibility of accelerated depreciation of fixed assets write-off (depending on the fixed asset category, depreciation is written off by 10 to 70% of the residual value of the assets annually); • incentives to facilitate production, upon purchasing new technological equipment for production; • incentives for investments in fixed assets in especially supported territories, upon purchasing of fixed assets used in especially supported territories; • reduction of taxable income for a conditioned credit interest amount; • discount on investments in free ports and special economic areas; • relief for replacement of fixed assets; • relief for implementation of supported investment projects". If Social Enterprise has an NGO legal form they can obtain the Social Benefit Organization status. The status provides the possibility for the organization to receive donations and the donators (private persons and business organizations) to get tax deductions. Private persons can reduce their taxable amount and business organizations can reduce amount of income tax. At the moment, there is a working at Parliament to draft a Law on Social Enterprises. We are planning to on foster social entrepreneurship by providing several supportive financial instruments: 1. 100% deduction in enterprise income tax; 2. Relief for real estate tax; 3. Opportunity to engage volunteers in activities; 4. The right to use State and Municipality owned property (house, administrative recourses, etc.). Due to situation described above, it is very difficult to evaluate how effective and used the State Aid and incentives on average will be, however, *de*	**Retail investment:** All rules regarding any investment are regulated by nation laws and we don`t have any special regimes for retail investors. Retail investments are not widespread in Latvia. **Gifts:** If the Social Enterprise uses the NGO legal form and they have obtained the Social Benefit Organization status, organization can receive donations and the donators can get a tax deduction. If business company receives gifts, it is taxable income. All rules are stipulated in national laws. **Investment with donative intent:** This kind of investment is not regulated and recognized in Latvia. **Other view or knowledge:** Social investment is not widespread in Latvia due to several reasons – lack of legal status for social enterprises, lack of understanding on how social enterprises can help solve problems, etc. Social enterprises in Latvia are small or middle size organizations, employing not more than 5 permanent staff and only few organizations produce goods, more of them are service providers for state or local municipalities. I hope that clear legal framework and effective support mechanism will foster social enterprise movement and will create need for and possibility of social investment.

Country	Tax incentives	Investment regulation
	minimis support from State Aid in Latvia cannot exceed EUR 200 000 in three fiscal years. The biggest problem with the State Aid and *de minimis* will be the administrative burden for organizations to evaluate and to record all State Aid.	
Croatia	There is no tax incentive for social enterprise investment support at the moment. Tax incentives are planned to be introduced as a part of implementation of the Strategy for the development of social entrepreneurship but this implementation is going slowly than anticipated and at the moment apart of the regular tax exemptions and reductions for employment of people with disabilities and vulnerable population, there are no specific social enterprise tax incentives. Since most of Croatian social enterprise initiatives are small, incentive mechanisms need to be designed to support initial phases of their development and cap of 280k EUR is not seen as a problem for take-up. On the other hand, there is lack of the incentive mechanisms for regular companies (sometimes even larger ones) to transform their business models towards the social entrepreneurship models where specialized financial instruments designed in a way to avoid de minimis rule limitations should be considered.	**Retail investment:** There is no retail and donative intent investments legislation nor practice for social enterprises at the moment. **Gifts/donations:** Regarding gifts/donations, profit taxpayers may in its operating expenses, that they decrease the tax base, include donations in kind or in cash to non-profit organizations, to the extent 2% total revenue in the previous calendar year. Income taxpayers can, on the basis of donations given for non-profit purposes, increase their personal allowance (personal allowance is non-taxable income) on the amount of donations given, but up to 2% total receipts generated in the previous calendar year. Tax relief when giving donations is prescribed not only for legal and natural persons engaged in economic activity, but also for all individuals regardless of which sources generate income If the amount of the donation exceeds 2% total income of the previous year, it is possible to obtain a certificate from the competent ministries depending on the purpose of a grant (but only in rare situations). Law on VAT provides that the VAT is exempt only cash donations. As a legal person, VAT registered, donated services or goods are obliged to account for VAT. Thus, legal entity must keep records of the amount of donated services or goods to be able accurately determine the amount of total donations and calculate and pay VAT. However, recently legislation introducing possibility of VAT exemptions for donated food had been introduced.

ESELA members contributing to this Annex:

Country	Name	Firm	Address
Finland	Anna Kuusniemi-Laine anna.kuusniemi-laine@castren.fi	Castrén & Snellman Attorneys Ltd	Eteläesplanadi 14, 00130 Helsinki, Finland
Germany	Schoeneberg, Andrea (P+P) Andrea.Schoeneberg@pplaw.com	P+P Pöllath + Partners	Potsdamer Platz 5, 10785 Berlin, Germany
France	Alissa Pelatan alissapelatan@gmail.com	AMP Avocat	153 rue Faubourg Saint-Honoré 75008 Paris

England and Wales (UK)	Luke Fletcher L.Fletcher@bwbllp.com	Bates Wells Braithwaite	10 Queen St Pl, London EC4R 1BE
Spain	Ferran Foix Miralles ffoix@gomezacebo-pombo.com José Carlos Rodrigo jrodrigo@innoves.es	Gomez Acebo & Pombo Fundación INNOVES	Castellana, 216 28046 Madrid Parque Tecnológico de Andalucía (PTA), C/ Ivan Pavlov, 8 29590 Campanillas (Málaga)
Latvia	Agnese Lesinska agnese.lesinska@providus.lv	Providus LV	Alberta 13, Rīga, LV-1010, Latvija
Croatia	Teo Petričević teo@actnow.hr	ACT Grupa	40000 Cakovec - HR

ANNEX 5: Analysis of gaps in current public funding initiatives[30][31]

EU funding to social enterprises is nothing new, but has been focused for example in Equal programme as well as in the ESIF programs, although implemented heterogeneous in different EU countries.

Previously, EU public finance for social enterprises has mainly been directed to social inclusion activities, which the social economy has proven to embrace in its activities and structure. Social inclusion is a complex concept that is characterized by non-economic dimensions. The social inclusion domain needs input and resources from public and private funds, as well as from the social economy actors themselves. **When EU public finance tends to shift from a grant perspective towards investment or equity finance, the system of public finance needs to be properly constructed.** A proposal is to promote a partnership formation and capacity building when it comes to form financial instruments. These partners are best off being innovative and complex in terms of management to ensure a sustainable local welfare (BFSE).

As important as adapted financial public instrument the **assessment and evaluation of social value needs to be systematic and comparable**. The Commission has several instruments to implement for this purpose, including the Social Impact Measurement guidelines developed by the GECES. If this assessment gets implemented in full, by showing that social investment is both financial and non-financial (Opinion of the EESC on Building a financial ecosystem for social enterprises), the way we invest in Europe will be seen in a new light and a more democratic approach will be highlighted. Besides the actual social value assessment there is a need for instruments for weighting of the value to ensure that the social value actually is there and also how different values are measured against each other. It is necessary to raise awareness that social value shouldn't be measured only in terms of employment rates, but also in terms of level of empowerment and progress of the beneficiaries involved in the service / project / intervention. Some groups of the population are not meant to work (children and elderly) and others cannot work or have limited capacities for different reasons (disabilities, sickness, other forms of disadvantage). For example, if an organisation is tasked with helping ten young people enter the work force and only succeed with eight, the personal progress made by the two remaining individuals should be measured as well, e.g. they may have learnt important social and professional skills during the process that will help them to find work in the future.
Public authorities and investors should avoid financially supporting only those services whose results can be easily measured, while neglecting meaningful initiatives that address very complex needs and whose impact can be assessed only in the medium- or long-term.

The ideal financial instrument is, except for a multi-stakeholder approach, as well **distributed through social finance institutions with the knowledge of and shared values with the social economy** (Opinion of the EESC on Building a financial ecosystem for social enterprises). Given the need of a hybrid capital solution including private, public and social economy actors' involvement, this paper and recommendations is limited towards EU funding from the demand side. In particular these recommendations will focus on ESIF, Easi and EFSI.

A. ESIF

As identified above, the former funding tools and implementations of EU programs promoting social enterprises show that:

- The most common use of ESF was directed to support social inclusion activities and work integration of disadvantaged people by social enterprises. We underline the importance to continue this kind of support and we ask member states to even increase this focus, but also to consider broadening the scope in the Operational Programs and in the next programming period. For example, the ESF 2014-

[30] Analysis performed by KPD3, led by Gordon Hahn, Coompanion/SERUS and Valentina Caimi, Social Platform. N.B. This analysis represents the state of play as of June 2016.
[31] Key publications contributing to this analysis:
http://www.socialeconomy.pl/sites/default/files/files/Social%20Entrepreneurship%20Network_final_Publication(1).pdf
http://www.eesc.europa.eu/?i=portal.en.int-opinions.35932

2020 investment priority on supporting social entrepreneurship and the social and solidarity economy is aimed at facilitating access to employment, while the scope should be much broader as social enterprises are now present in a wide range of markets.
- The most innovative use of ESIF regard the mainstreaming of social enterprises under investment priorities not specifically addressed to them, the development of policy coordination measures and systemic approaches aimed at the development of social enterprises, and the development of tailored financial tools and schemes for social enterprises in partnership between public authorities, financial institutions, social economy and NGOs.
- The most successful use of ESIF is when funds are used also to strengthen the capacity of social entrepreneurs and their employees in areas such as management, marketing, financial management, business planning and strategic planning, measuring the social value etc. However, ESIF should be used also to build an adequate ecosystem based on cooperation and partnership models between public authorities, financial institutions, social enterprises, social economy, civil society organisations, businesses, social parties, education system. It is important to strengthen the knowledge of these actors about what social enterprises are, the different forms of social enterprises, their ways of functioning, their financing needs and social value measurement.

As identified, one main obstacle for proper public finance of social enterprises is **knowledge and capacity building of the sector**. It is not only the administrators and financing bodies that need capacity building but also the social economy actors themselves. The social change is commonly central to the enterprises and lack of experience and know-how regarding business awareness and practical business related matters is common. It is therefore essential to educate and inform the human resources in the enterprises on how they could be part of the finance programmes. ESIF could be a useful tool in the capacity building in different phases by the use of existing business support services. Providing finance is not enough if the people managing the initiatives do not have the right tools to use the finance in a business like way (BFSE).

Furthermore, **ESIF should be used more to support** social enterprise development. ESIF is a powerful tool to finance impactful operations cross Europe, which is currently not as fully leveraged by social enterprises as it could be. Although the EC enabled a potential focus on the social business initiative for the new operational programs (OPs) for the programming period 2014-2020, there is still room for more member states or regions to choose such a focus.

Concretely, the table shows a summary of the ESF funds allocated to SE (priority 9v). It is based on an analysis of the ESF total allocations for each Member State, as well as a breakdown by Operational Programme (and an indication of the country or region covered).

ESF contributions to investment priority 9v
• In total, 1.5% of all ESF contributions are allocated to IP 9v
• 18 MS out of 28 have allocated ESF contributions to IP 9v (4 only for regional OPs)
• 63% of all contributions are to 14 national, and 37 % to 52 regional Ops
• 6 national OPs have an ESF allocation of more than €5mio/a; representing 82% of all contributions to national OPs: EL; LT; PL; PT; RO; ES
• 7 regional OPs have an ESF allocation of more than €3mio/a; representing more than 45% of all contributions to regional OPs: EL PL; UK

Therefore EU shall encourage member states to make use of this investment priority **for the ESIF**. However, to overcome this lack of attention to social enterprise, it is important to **raise awareness among social enterprises that they can get direct access to funds** also in the frame of investment priorities not tailored to them. For example, social enterprises can have access to all the 19 investment priorities of the ESF. Investment priority 18 (Investment in institutional capacity and in the efficiency of public administrations and public services with a view to reforms, better regulation and good governance) and 19 (Capacity building for stakeholders delivering employment, education and social policies and for sectoral and territorial pacts to mobilise for reform at national, regional and local level) are suitable to promote governance structures, support mechanisms, partnership approaches and learning systems, governance arrangements for the provision of services of general interest, integrated policy approaches and tailored capacity building and training that are crucial for the development of enabling ecosystems for social enterprises.

To embrace the full potential of ESIF in developing adequate ecosystems for social enterprises, it is **crucial that representatives of social economy and social enterprises are** consulted on the implementation and monitoring of Operational Programmes. It is vital to understand the heterogeneous sector and type of enterprise that refers to as social enterprises, all from general interest social service providers on mainly volunteer basis to cooperative banks. Given the often hybrid nature of social enterprise, which try to solve social and/or environmental problems with business models and often operate between grants and market rate returns, the proper use of ESIF could help to kick-off this important market

ESIF should be used to improve service provision including by social enterprises and investment in quality social infrastructures. ESIF should have a transformative role and should be used to complement – not replace – Member States' national budgets. For example, to develop quality criteria for specific services; to design training pathways for the workforce on specific users' needs; to design and pilot new services; to adapt existing services to the needs of specific target groups; to develop methodologies to involve users in the design, implementation and monitoring of services; and to spur innovation. When in some member states public budgets are shrinking increased budgetary flexibility should be allowed to these Member states. **ESIF should be used to develop and test integrated financing support schemes that combine grants, loans, guarantees and other financial instruments, also by pooling together public and private sources of different types, including savings and crowdfunding.** Synergies between ESF and ERDF to co-fund integrated financial instruments should be explored. Financing tools should be available for the different stages of development of social enterprises. Public funds are very important in the planning and start-up phase and when setting-up governance mechanisms, partnerships and capacity building.

Furthermore, ESIF should be able to be used even more as a means for **capacity building** within the social enterprises. Since social change is central to social enterprises there is often a lack of knowledge regarding entrepreneurship, business environment and current legal framework. By using the ESIF, activities can be implemented in different phases: before start-up and also through initiatives targeting knowledge and skills development. Finance should more clearly be available in different stages/phases in a development cycle, regarding start-up, development and up-scaling.

In striving to change the EU public finance landscape from grant to investments with financial return it is important that EU understands the logic behind most social enterprises. Given the often hybrid nature of social enterprise, which try to solve social and/or environmental problems and often operate between grants and market rate returns, grants or other funding, including public, are needed to fully use the social enterprise sector development. We can't build an EU public funding mechanisms for social enterprises only on the only logic of the financial markets.

B. EaSI

On the contrary to ESIF funds, the EaSI program aims further to strengthening the business in the social enterprises. It is an important tool today for guarantees and micro loans for social enterprises. Still the definition of social enterprises differs between member states, and consequently also beneficiaries of the EaSI fund. The EaSI needs also to be used to boost the investment capacity for intermediaries and also when it comes to make social enterprises investment ready (Opinion of the EESC on Building a financial ecosystem for social enterprises). There is often a lack of infrastructure or capacity to take on large investment tools for social enterprise intermediary organisations, and therefore the funds are still used in the mainstreaming business support of the EU countries.

Similar to micro enterprises, financing and investments are quite easily accessible in growth stages of social enterprise. Therefore the funded investment for part II of **EaSI should still focus on support intermediaries providing funding to early-stage social enterprises** with financing needs between 50k and 500k EUR. Concretely, this involves intermediaries able to provide long-term loans, co-investment schemes and direct investment, **focusing equity capital.**

Especially, **long-term loans are needed** for new financial intermediaries in this field to set-up/grow their operations and bring supply and demand for social enterprise finance together. There are increasingly emerging projects/intermediaries that try to provide finance to early-stage social enterprises. The logic of existing financial intermediary organisations is to be market based in order to be adapted to the need of social enterprises. Most impact funds are prepared to invest only in deals with more than €500 000 due to their relatively high transaction costs (see for example funds as SIA of EIF is targeting). Given that the **real financing gap in the market is for early-stage social enterprises**, **small direct investments in funds that** invest € 100k and 500k that invest in social enterprises (start-up). It is equally important that such direct fund investments would need to address this market failure and should not crowd-out private investments in later-growth phases.

On an individual deal-by-deal basis, **co-investment schemes** will allow increased individual transactions for social enterprises. A reference is the German "Investitionszuschuss Wagniskapital" that provides business angels with a non-refundable grant of 20% of their investment if they keep their equity stake in these start-ups for 3 years. Such a program could also be designed on a European level and implemented by the EIF, with impact investors getting a 20% non-refundable grant for investments in social enterprises. It is though important that each member states sets up a system of social enterprise directed know-how, which decides which deals qualify and which not. Additionally, such co-investment programme should be **tailored to the specific financing needs of social enterprises and should not only focus on equity-investments, but also include mezzanine financing** (e.g., quasi-equity) **due to the often hybrid nature of social enterprises.**

It is important that these tools do not get stuck in the logic of the investment market, but also are **applicable for social enterprise intermediary organisations**. Additionally, the legislation and regulation needs to be simple in order to attract also smaller investment organisations so that not only larger financial institutions are able to provide and use the instruments. Therefore, the application length and burden in general in correlation with the impact and market size needs to be adapted as well as that the penalty for not reaching volumes need to change to a positive award for reaching more. Another possibility is to make it possible for group wide applications, since the heavy administrative burden limit participation from smaller banks and intermediary organisations.

EaSI should additionally be used by the Commission to promote the investment capacity for financial intermediaries and capacities and readiness for investments in Social Enterprises.
It is important to also fund business training and mentoring to get social enterprises investment ready on large scale as well as securing guarantees available for bridge loans and potential "limited" offer of SE/NGO "EaSI" guarantee.

The assessment requests an adaption of the current or adding to the follow-up **EaSI program, with the objective of improving the usability of the financial institutions/ intermediaries** (application effort "full"/"light", higher cap rates, lower recovery percentages, monitoring efforts) and moving in a more beneficiaries' needs orientated direction. Currently, financial institutions cannot really offer/ create substantial more financing volumes due to guarantee conditions which view the actual status or historical developments and not future potential which could be tapped with more favorable conditions. New target groups/ higher volumes need better guarantee conditions for the funders to take additional risks. Using the guarantee is time consuming and therefore costly (compared to lending volumes being unlocked). A new direction could **reflect a regional focus** (flexible short - overdrafts and bridge loans (e.g. pre-payment of EU and national subsidies, delayed payments,…) and long term - investment loans up to 10+ years (e.g. building care homes)- financing for NGO/ SE sector.

C. EFSI[32]

If EFSI should be able to achieve its potential societal impact, we need to **prioritise social impact as much as financial return**. EFSI has a potential to create real societal values made by the investments. In order to make the best out of this possibility (and to contribute to the implementation of the Juncker plan) it is of high importance to address the value, assessment and measure of social impact.

When promoting social impact investment actions in the EFSI it is important **that all projects are valued from their social impact or their social activities**. It would be preferable to value all investments in EFSI with a hint of social impact, e.g. regardless if the project focuses on transport or health. For example, this could include e.g. local work-force upskilling, RDI-initiatives, job creation for marginalised groups etc. Initiatives with a main focus on targeting social investments or public goods should be included in the pipelines as objectives themselves and not only as a complement to the "hard" contents in projects (making impact real). There is otherwise a risk that all initiatives are evaluated from a strict traditional enterprise perspective and the social value gets lost (BFSE & Opinion of the EESC on Building a financial ecosystem for social enterprises). This perspective could be implemented by ensuring that social investment options are covered within the EFSI or that public local authorities are involved in funding the investments. In the EFSI, **member states could act as co-investors to support action by guarantees or financial leverage of social welfare funds in Europe**. A number of member states have joined the EFSI but the majority of them have not. (Opinion of the EESC on Building a financial ecosystem for social enterprises).

Furthermore, as highlighted in a study by European Association of Service Providers for persons with disabilities (EASPD)[33] the EFSI does not have instruments aimed specifically at social enterprises and service providers. The financing needs of these organisations are very different to other forms of organisations – SMEs for instance-, which therefore results in very little pick-up of the EFSI by social enterprises. However, the Commission, EIB, and EIF are working to develop specific instruments tailored to social enterprises under the SME window. At the moment EFSI funds will be used to strengthen the existing financial instruments provided by EIB and EIF: most of such instruments are deployed via local financial intermediaries (banks, investment funds, microcredit institutions, etc). In some cases service providers and social enterprises do have access to these instruments, but this remains an exception.

The EASPD study highlights promising developments on which the Commission, EIB and EIF are working. For example in line with the skills agenda, specific action to focus upon increasing skills investment in SMEs (e.g. investing in future talent by opening up new opportunities for apprenticeship places for young people, including social impact investment, and by deploying the existing EaSI programme - Employment and Social Innovation - targeting vulnerable groups) could be developed to fit under the SME window of the EFSI. The EFSI could also potentially play a role in financing migration-related projects, for instance relating to accommodation infrastructures and integration of refugees and migrants in education and training. Higher visibility of projects in the social economy and health sectors could be ensured via the European Investment Project Portal.

Currently, a dedicated effort is carried out between the EC and EIF services to design a set of comprehensive pilot financial instruments targeting social impact investments in support of social enterprises as part of the

[32] http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

[33] http://www.easpd.eu/en/content/study-unlocking-efsi-social-services

EFSI Equity Platform (Social Impact Window). This is a main pillar of Social EFSI-- that is, the broader set of EFSI interventions aiming to support social entrepreneurship, sustainable employment, social innovation, and investments in long-term social infrastructure through innovative mechanisms.
The past months have seen intensive discussion between services (DGs ECFIN-EMPL and EIF) on technical and higher level, on the components and calibration of pilots under the Social Impact Window. The strands currently envisioned under this window place focus on both the pre-seed/ early stage and growth stage funding segments, and include:

1) Social Business Angels pan-European Co-investment facility (private individual or non-institutional investors who invest into social enterprises at seed and early stage that at the core of their business model pursue social impact).
2) Social Impact Financing instrument, for equity investments into
    - Social Incubators/Accelerators, defined as entities whose primary objective is to support and accelerate the growth and success of new and start-up SEs during their early months or years through an array of business support resources and services—and additionally into
    - Social Impact funds, notably those which may adopt the EuSEF label, following the EuSEF regulation (harmonization of efforts).

   The possibility for delivering hybrid financing is being discussed, with contribution of EaSI through a grant mechanism in order to cover for set-up and other costs of the incubators, and to offset some of the transaction cost for social impact funds-- it is still to be defined whether this can be implemented in the short term.
3) Social impact financing may be deployed through innovative PbR financing mechanisms providing upfront capital to SEs and SSOs to support the achievement of pre-defined target objectives (also still pending review of EIF's proposal to determine whether such schemes fit the logic and possibilities of EFSI).
   ECFIN is working with an indicative amount of Eur 150-200m for the deployment of the different strands. (This means an increase from the original allocation of 100m for the Social Impact Instrument). Flexibility in the allocation of resources among the three instruments is key, to ensure a smooth roll out of the window, as well as to ensure a quick adaptation to market demand, still respecting the overall objective of delivering social impact[34].

The EFSI Steering Board should make sure that the strategic orientation, the strategic asset allocation and operating policies and procedures, including the investment policy of projects that EFSI can support, are consistent with the EU’s policy priorities and in particular the creation of quality jobs, the reduction of unemployment as well as poverty and social exclusion, and tackling all forms of discrimination. **A specialist in social policies shall be appointed as one of the independent experts in the Investment Committee**. This expert shall be responsible for assessing the social impact of submitted projects to ensure that those receiving support from the fund are supporting the social objectives of the EU and benefit society as a whole.

If used for increased social impact, EFSI can lead the way by promoting societal changes and values and lead to positive changes in how investors decide on investments and how projects are structured, in the end **promoting a more social and environmentally enlightened investment market. In this process the core of the social businesses could be highlighted to show that the social values are the main positive outcomes from the investments, together with a financial turnover and economic growth** (BFSE).

To assure quality in EU financing when general funds are used it is essential that the EC provides the finance administrators with **guidance, training and capacity building** regarding instruments of the social economy, e.g. by investment readiness programmes to build applications on (Opinion of the EESC on Building a financial

[34] Source: ECFIN

ecosystem for social enterprises).

To further highlight social impact in the EFSI's investment focus, EuSEFs and other **impact investment funds such as the Social Impact Accelerator (SIA) and its investees should be among EFSI's investment options and on an equal footing with ELTIF funds**. Social impact investors and projects dealing with systemic social innovation should be encouraged with higher scores in the "societal value" assessments.

There is a need of **clearer and precise information, necessary at different levels**. For projects below €25 million it is not specified that, for the moment, EFSI is used to provide additional funding to existing mechanisms (such as COSME an InnovFin) and that a crucial role in the selection of those projects is played by local financial intermediaries, that apply the same rules and procedure as before (when they did not have EFSI funds).

EFSI is about financing and not funding. Therefore the question whether it is a suitable instrument to finance social and health services lies in the question if the service is able to provide revenue. **It has to be clear that EFSI supports projects, not running costs of services**. **EFSI is a suitable instrument to finance social infrastructures**. It is possible to finance both infrastructures and accompanying social services, which are essential for the take up of the investment (for instance, renovation of social housing and training of residents on how to save energy). As EFSI can be combined with ESIF, it will have to be assessed on a case-by-case if it is better to use ESIF or EFSI to cover the costs of accompanying services[35].

Investment Platforms are being created. This will give the possibility to put together small projects on the same area to be financed together. A pre-condition for success is the creation of a working partnership between the concerned local authorities, the investors and the service providers.

Support for social entrepreneurship and the development of the broader social economy is a key focus of social investment under EFSI, and they will be supported in a number of ways in the actions envisioned under Social EFSI. Under SMEW, this entails the enhancement of the EaSI guarantee facilities (permanent top-up of the capped guarantee with €50m EFSI resources, and approx. €70m towards the deployment of the envisioned uncapped guarantee- still under discussion), and the set of innovative instruments under the Social Impact Window of the EFSI Equity Product.

We urge the Commission to **support social enterprises and service providers in maximising the opportunities offered under the "human capital" strand of EFSI** to accompany the important transition that is taking place in some social service sectors (e.g. promotion of social investment approaches in services, the shift from institutional care to community-based services, accessibility requirements, new skills to adapt to the use of technology, to the needs of particular target groups of service users, to retrain the social workforce to meet the increased demand of services for asylum seekers and refugees).

It is also important to ensure that the principles underlying the **ex-ante conditionality's of ESIF are applied also in the frame of EFSI finance**. Particular attention should be paid to avoid the building of new institutional care addressed to persons with disabilities, children or older people with EFSI, when the EU is promoting shift from institutions to community-based services. The EU is also bound to the UN Convention on the Rights of Persons with disabilities, which provides among others for independent living and being included in the community for persons with disabilities.

As described above, EFSI seems hard to apply on social impact activities with the priorities and construction as of today. For **smaller investments and different impact focus and assessment, resources under the Investment Plan could for example be used to set-up a pan-European Investment readiness and contract readiness fund** (following the UK example) to finance social enterprises professional support to reach

[35] http://europa.eu/rapid/press-release_IP-16-329_en.htm

investment-readiness (incl. optimization of business model, development of business plan and financial plan). Such a fund could potentially finance both investment-readiness support and also initially seed or early-stage growth investments. As excellent best practice example and role model, the UK contract and investment readiness fund as well as Big Potential could qualify.

Furthermore, the **European Investment Project Portal could be a helpful tool to increase the visibility and transparency in the investment market for social enterprises** and help to build a pipeline of investment-ready social-enterprises. However, the implementation of such a European Investment Project Portal would also need to ensure that it could address the proper investors for social enterprises.

EIAH (European Investment Advisory Hub) may be particularly well suited to support building up the investment-readiness of social enterprises. The provision of TA for an association of NGOs and social enterprises providing social services to disabled and sick people is being considered by the EIAH Coordination Committee. The association in question intends to promote a sizeable investment in one MS (more than EUR 200 million) to develop care centres exploiting synergies between the difference social enterprises (mostly SMEs and microenterprises). The idea is to prepare an investment project that could eventually be financed by EFSI.

This may be a very good precedent. The general direction for the future seems to be to focus on the possible creation of local advisory platforms for specific issues/ sectors.

The 2015 EIAH work programme (WP) already included a reference to the EIAH's support for "Advising counterparts looking to create investment platforms or other aggregation vehicles in the context of EFSI". ECFIN is planning to maintain this reference in the 2016 WP while also including more details on the targeted sectors: "[…] in particular in energy efficiency, broadband, urban mobility and smart cities, social infrastructure and circular economy".

In order to adapt investments of EFSI as they are constructed today, **visibility on how investments could support social enterprises is needed by for example gathering EU banks and investors in a social impact investment platform for social enterprises in a specific societal challenge (for example directed towards migrants).** This may be done as a call for tender.

General recommendations for EU funding

Furthermore, it is important to ensure **easy access to different funding for final beneficiaries.** Social enterprises and social service providers should be able to access the complete 'funding chain'. When the structure of social services market is getting more complex and developed, the different options of financial tools have to be combined and used in a complementary way. Final beneficiaries of funding should have access to clear and transparent information on what is the best option for each project or investment request. EU administrations could provide incentives towards a better harmonization of the processes and applications. Some EU countries have positive results in developing a one stop shop approach, which means a common platform gathering different types of financial actors (public authorities, private banks, public State bank, crowdfunding platform, cross-border fund, CSR donors…) and financial products (equity, loans, grants, and guarantee).

It is essential that the EC provides the finance administrators with **guidance, training and capacity building regarding the special features of social enterprises** and social service providing enterprises. As the risk of default reduces when the enterprise is integrated into a programme of business support (training and advice for management, human resources, financial indicators, communication, …), the use of technical assistance budget within ESIF funds should be pursued and intensified by organizing regular discussion between all the relevant stakeholders. Similar mechanisms could be put in place for other funds in the frame of EFSI. For example, a steering committee composed of funds managing authority, financial intermediaries (where appropriate), social investors (public, private, local, national), social service providers representatives and support organisations is strongly advisable. Finally, given the fact that most of EFSI funds are provided through local financial intermediaries, it is crucial that they should be fully aware of the character and the importance of social enterprises in order to understand the real challenges they are facing and in order to communicate properly on the subject.

All projects should be valued from **their social impact or their social activities**, (regardless if the project focuses on transport or health), this could include e.g. local work-force upskilling, RDI-initiatives, job creation for marginalised groups etc. The measurement of social impact should be done using easy and simple indicators and it should not represent an additional burden for the social enterprise.