Recommendations on what the EC can do to promote uptake of EFSI by the social services sector

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EFSI – Interesting evolution and encouraging trends for the future

The purpose of the EFSI should be to help resolve the difficulties in financing and implementing strategic, transformative and productive investments with high economic, environmental and societal added value contributing to achieving Union policy objectives. It should aim to provide an immediate boost to the Union economy and to improve access to financing and the competitiveness of enterprises and other entities, with a particular focus on small and medium-sized enterprises (SMEs) and small mid-cap companies, with the aim of reducing unemployment levels and boosting growth in the Union.

The Regulation (Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015) mentions specifically that EFSI should support investments in the following fields (among many others):

(g) human capital, culture and health, in particular through:

(i) education and training;

(ii) cultural and creative industries;

(iii) innovative health solutions;

(iv) new effective medicines;

(v) social infrastructures, social and solidarity economy;

(vi) tourism.

Up to now, EFSI funds are being deployed via EIF and EIB, through already existing instruments. With the exception of projects bigger than € 25 million (managed directly by EIB), most of these instruments are accessible only by financial intermediaries, that will use the funding to increase and further develop their own activities, financing SMEs and other projects that meet the requirements set by the Commission. At this stage therefore, social enterprises and social service providers have to interact with such intermediaries in order to access the funding, provided they meet such requirements, which at the moment are not tailored on the specificities of the social services sector.

But there are some promising developments that are being discussed among the relevant institutions. Namely:

1. In line with the skills agenda, specific action to focus upon increasing skills investment in SMEs could be developed to fit under the SME window of the EFSI. (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)

2. 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. Specific strands could be developed for projects related to the inclusion of refugees with support needs (persons with disabilities, persons with mental health problems, etc) in order to better respond to the needs of each individual refugee.

3. The Commission is in discussion with the European Investment Fund (EIF) about the creation of an innovative Social Impact Instrument. The intervention encompasses two pillars:
    - catalysing the establishment of Social Impact Funds (SIFs) or investing into existing ones, to support social entrepreneurship and the provision of social services by social enterprises targeting vulnerable groups. In this context, a dedicated focus may be put on refugees and migrants. The Social Impact Funds are meant to mobilise investments from National Promotional Banks and the private sector. Mobilised investments at the level of final recipients are expected to be up to EUR 1 billion. The Commission is prepared to support investments in such SIFs under the EFSI framework as part of the SME window equity instrument which is currently being developed in cooperation with the EIF. The possibility to provide complementary financial support from the EaSI programme and the European Social Fund is currently under consideration.
    - Setting up a pilot ‘Payment-by-results’ scheme to scale up the provision of social services by private sector providers (notably social enterprise) that would be paid upon the achievement of specific social objectives through procurement procedures. Technical Assistance under the European Investment Advisory Hub could support the development of impact metrics.

These trends represent a very interesting opportunity for social enterprises and social service providers who could benefit of funds more tailored to their characteristics but, in order to transform general opportunities into concrete funding and projects for social service providers and more in general for social enterprises, we would like to make some recommendations to the European Institutions concerned.

RECOMMENDATIONS TO EU INSTITUTIONS

Correct and clear information

Clearer and more precise information is necessary at different levels.

Often the Juncker Plan is presented by the media as a new tool to finance directly projects aiming at solving urgent EU problems (e.g. unemployment) and at fostering growth. It is not specified that direct access concerns only projects above 25 million euro and that, in most cases, those projects are promoted by national or regional authorities and concern infrastructures, such as railways, roads, etc.

For projects below 25 million euros 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 funds specifically targeted to social sector

In order to increase the impact of EFSI on investments in human capital, culture and health (as foressen in the Regulation), it is crucial to pursue and make it concrete to deploy EFSI to increase funding for existing financial tools such as EaSI that are specifically addressed to social investment and do not have a sufficient budget to cover all the requests.

Coordination and synergies among funds

EFSI regulation aims at full complementarity between EFSI risk financing opportunities and those of the European Structural and Investment Funds. Both sources have different purposes and are implemented with different financial instruments.

Structural funds can be used by Member States to invest alongside EFSI in eligible projects. Member States and regional authorities are also invited to use EU funds at their disposal as effectively as possible in support of investment, by focusing on key areas and maximising the multiplier effect of every euro invested. This implies an increased use of financial instruments in the form of loans, equity and guarantees, instead of traditional grants.

The Commission should provide concrete guidance to managing authorities, social service providers and user organisationson how to better combine these opportunities.

Easy access to different funding for final beneficiaries

Social enterprises and social service providers should be able to access to a 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 incentive 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 enables the supporting organizations to provide all range of financial support and assess which one is advisable and the most appropriate in case of each social enterprise and social service provider. Positive outcomes of this strategy are reported since it obliges to set up common solutions (one template of application form, one reporting model) and would allow creating long-term relations.

Capacity building of funds administrators

In order to assure quality in EU financing when general funds are used (such as EFSI) it is essential that the EC provides the finance administrators with guidance, training and capacity building regarding the special features of social service providers enterprises. Social services are often not considered a sector *per se*, therefore within the EU institutions they are dealt by different departments which may not have people with specialized skills and knowledge of the sector. Capacity building and more coordination among different departments that deal with the sector are crucial to develop a harmonized approach and to facilitate coherent communication. This would also help to ensure that the use of funds in projects is in line with EU values and human rights obligations (UN CRPD).

Capacity building of beneficiaries

Social service providers financial capacity is accentuated if loans or grants are accompanied by business advisory services. The analysis is similar with every kind of enterprise: 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, …). Within ESIF funds the use of technical assistance budget should be pursued and intensified by organizing regular discussion between all the relevant stakeholders. Similar mechanisms could be put in place for other funds. 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.

Financial intermediaries

Given the fact that most of EFSI funds are provided through local financial intermediaires, it is crucial that they should be fully aware of the character and the importance of the sector in order to understand the real challenges social service providers are facing and in order to communicate properly on the subject. A raising awareness campaign coordinated at EU level but organised at local level is strongly advisable to promote investment in social services sector.

If EFSI is going to fund specific tools for social service providers it is of utmost importance that these investment instruments also are applicable for social economy enterprise intermediary organisations and that the legislation and regulation is simple so that not only larger financial institutions are able to provide and use the instruments.

EU institutions should envisage the possibility to make group wide applications, since the heavy administrative burden limit participation from smaller banks and intermediary organisations. For financial tools specifically addressed to the non profit sector, such as

EaSI, a way to encourage participation of local and ethical banks is to allow them to submit a joint application as financial intermediaries.

European Investment Project Portal

The European Investment Project Portal could be a helpful tool to increase the visibility and transparency in the investment market for social service providers and help to build a pipeline of investment-ready enterprises. However, the implementation of such a European Investment Project Portal would also need to ensure that it can address the proper investors for social service providers (e.g, social business angels, foundations, social venture funds, family offices, public investment schemes). While the investment needs for this kind of enterprises areoften rather small (between 100K and 500 K EUR for early-stage growth and 500k - 2mn EUR for later-stage growth), the assumption is that the European Investment project portal in its current design is more focused on larger-scale investors and the access is limited to projects larger than 10 Million €.

European Investment Advisory Hub

The Advisory Hub set up to provide technical assistance for EFSI funded project should extend its action to new tools funded by EFSI for the social services sector. In order to do so, it is crucial that the Hub possess the specialised competence and skills in order to provide appropriate and specialistic advice to the sector.

Awareness raising

European Institutions should promote the identification of best practice of public and private funding of social service providers to encourage more such funding at EU and MS level: This section will include:

- Overview of concrete examples and good practice of public funding: Gathering better examples
- Lessons learnt from previous European programming periods: Summarize findings categorized according to subject / method / instrument (different development stages of social service providers rather than origin)

A stakeholders platform

Financial tools should be able to answer to the needs of beneficiares and to evolve according to new needs and changing contexts. A continuous dialogue among different stakeholders is needed in all different phases, from planning to implementing and monitoring. EU institutions should promote the creation of a platform where all stakeholders (social service providers, financial intermediaries, promoters and the EIB/EIF) can come together to exchange ideas, identify sector's needs and plan appropriate tools. This platform should have different organisational levels, namely regional, national and European.

Social impact

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. 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. This action 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.

EFSI can lead the way by promoting societal changes and values and lead to positive changes in how investors decides 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 service providers should be highlighted to show that the social values are the main positive outcomes from the investments, together with a financial turnover and economic growth.

The measurement of social impact should be done using easy and simple indicators and it should not represent an additional burden for the social service provider.

Complexity and bureaucracy

Recurrent observation is the high level of complexity and bureaucracy resulting from the EU system. European social service providers actors can besmall or very small enterprises with reduced resources (budget, employees), which make hard for them to afford the cost of operating EFSI projects (call for tender, operating, reporting, pre-financing). EU managing authority should be encouraged to provide for more flexible administrative forms and smooth and rapid procedures, in such a way that funds are allocated timely and used to fund activities and not bureaucratic management procedures.

Flexibility and evaluation

During the testing phase of a new financial programme, the administrative and structural processes should be more flexible and adjustable. Going through an experimental phase is definitely more suitable before fixing definitely the processes and criteria of functioning of the new programme.

The European Commission is encouraged to evaluate more in-depth how EFSI funds are used at local/regional level and what impact they really have. Also problems such as access to EU funding and co-financing by local actors should be further analysed. Results of this analysis should feed into a revision of the use of EU funds and of their management.