Social Economy Europe

FINANCING SOCIAL ECONOMY IN EUROPE – THE NEED FOR A STRONGER INVESTEU PROGRAM

Financing social economy in Europe – The need for a stronger InvestEU program

THE **SOCIAL ECONOMY EUROPE'S SOCIAL FINANCE WORKING GROUP** gathers members representing both the demand and the supply sides of social economy finance, the so-called social finance providers. Within this context, we employ the term "social finance provider" to encompass the comprehensive range of financial entities supporting social economy organisations, inclusive of ethical finance providers, microfinance institutions, foundations(1), national development banks and philanthropic institutions.

THE **PRIMARY OBJECTIVE** OF THIS PAPER is **to highlight the barriers faced by social finance providers in accessing and using the InvestEU fund,** with a particular focus on the Social Investment and Skills windows specifically designed for social economy organisations and enterprises(2). The underlying rationale stems from the recognition that **InvestEU has the potential to significantly strengthen the social economy ecosystem by providing dedicated funding to social finance providers.** However, various challenges prevent a thorough assessment of its effectiveness in promoting and sustaining the social economy ecosystem. For reference, the social economy gap was estimated at EUR 1 billion in 2022(3). While in the field of microfinance, the gap was estimated at EUR 12.9 billion per year across the EU(4) as reported in the Social Economy Action Plan (SEAP, 2021).

1.To note that the foundation sector has a dual entry as social economy actors on the demand side and as a social finance provider.
2. Even though the social economy is transversal to all sectors of activities and is included in the "Small and medium-sized businesses" section.The window refers to: Microfinance, Social enterprise finance and social economy, Social infrastructure, Social innovation, including social impact, impact investing and social outcome contracting, Inclusion and accessibility
3. European Commission, Social enterprise finance market: analysis and recommendations for delivery options, by Spiess-Knafl W. and Scheck B, Luxembourg, 2019
4. European Commission, Microfinance in the European Union: Market analysis and recommendations for delivery options in 2021-2027, Luxembourg, 2020.

Our recommendations for InvestEU

Increased **transparency** - adding more information on operations approved and beneficiaries to the InvestEU portal.

Harmonised requirements and process between - standardised decision process and reporting mechanism and unify state aid requirements.

Simplify the application and granting process of InvestEU Guarantees and top-up the InvestEU Fund to reach 2027 - **simplify the procedure and increase the funding** available for financial intermediaries.

Facilitate **access to other windows for financial intermediaries** - standardise the framework for product eligibility criteria.

Diversify the financial instruments granted under InvestEU - design different instruments.

Blending instruments and involve **social economy actors in the design of new financial instruments.**

Consider a co-investment facility for foundations under Invest EU as was mentioned in the **SEAP.**

Investment advisory hub - consider more SE actors including the different SE families.

InvestEU

InvestEU (5) is a flagship initiative of the European Union aimed at addressing investment gaps across various sectors within the EU. Launched as a key pillar of the EU's broader Investment Plan for Europe, also known as the Juncker Plan, InvestEU seeks to bolster Europe's economy by facilitating strategic investments and fostering sustainable growth.

The InvestEU Programme consists of 3 building blocks:

InvestEU Fund - mobilising public and private investment through financial instruments and an EU budget guarantee.

InvestEU Advisory Hub - providing advisory support and technical assistance to help with project advisory, capacity building, as well as market development and awareness raising activities.

InvestEU Portal - bringing together investors and project promoters on a single EU-wide database of investment opportunities available within the EU.

The InvestEU Fund is one of the main components of the InvestEU programme, which brings together previous EU financial instruments to address market failures or investment gaps over the period 2021-2027. The total budget is **EUR 26.2 billion** in EU budget guarantees. It supports four policy windows:

- **Social Investment and Skills**
- **Sustainable Infrastructure**
- **Research, Innovation and Digitalisation**
- **Small and Medium-sized Companies, focusing on investments where the EU can bring more value**

5. For more information on Invest EU please visit the Invest EU portal https://investeu.europa.eu/index_en or please visit the Social Economy Gateway https://social-economy-gateway.ec.europa.eu/eu-funding-programmes/invest-eu_en

The **Social Investment and Skills Window** of the InvestEU program, with a budget of **EUR 2.8 billion** in EU guarantees, encompasses a wide range of areas, including microfinance, social enterprise finance, skills development, education, training, and social infrastructure (including health and education infrastructure and social and student housing). This window has emerged as a **crucial source of funding for advancing the social economy** ecosystem.

As outlined in the Social Economy Action Plan (SEAP, 2021), InvestEU aims to also catalyse **increased funding for the social economy ecosystem throughout the 2021-2027** period. The diverse array of financing mechanisms, including **guarantees, equity and quasi-equity investments** in social enterprises, and **grants**, underscores its unwavering commitment to fostering social economy development. At its core, the InvestEU Fund seeks to streamline **access to capital for social finance providers**, encompassing a broad spectrum from commercial and investment banks to guarantee institutions, microfinance institutions, crowdfunding platforms, and beyond. This initiative should embody a comprehensive approach to strengthening and catalysing the growth of the social economy ecosystem.

Despite its well-intentioned goals, the InvestEU Fund currently faces challenges that hinder a comprehensive evaluation of its success in effectively nurturing and supporting the social economy ecosystem.

Social Economy Funding Gap: a focus on social enterprises

It is crucial to emphasise that the funding gap remains a significant impediment for the development of social economy organisations in general and social enterprises in particular. According to the findings of the European Social Enterprise Monitor (ESEM) 2022, a staggering 76.7% of these organisations across Europe identify financial support as their primary constraint. The funding gap itself is estimated at almost **EUR 1 billion per year** across Europe.

Obtaining financial support for social economy organisations is generally more intricate than for other organisations, owing to several factors.

6. The European Social Enterprise Monitor (ESEM) is an online panel research collecting data to compare Social Enterprises and Social Start-ups across European and neighbouring countries. The initiative has been launched by Euclid Network (EN) in collaboration with its members and partners and co-funded by the EU. The project intends to close the current gap on social enterprise data and inform decision-makers in government, civil society and the economy. The aim is to communicate, support and promote the needs and interests of enterprises in the social and solidarity economy across Europe and beyond.
7. For further information, please see the Report here: https://euclidnetwork.eu/wp-content/uploads/2022/07/0527-euclidnetwork-annualconsultation2022_final.pdf (last access 15 Jan 2024)
For further information, please see here: European Commission, Social enterprise finance market: analysis and recommendations for delivery options, by Spiess-Knafl W. and Scheck Barbara S., Luxembourg, 2019.

InvestEU: main problems and solutions

This chapter lists the main challenges encountered by the stakeholders approaching the InvestEU Fund - Social Investments and Skills Windows. Possible solutions are also presented.

RECOMMENDATION 1: INCREASED TRANSPARENCY AND ACCESSIBILITY - ADDING MORE INFORMATION ON OPERATIONS AND BENEFICIARIES TO THE INVESTEU PORTAL

Problem

The current state of transparency within the InvestEU process reveals significant gaps that warrant urgent attention.

A critical area of ambiguity is the **evaluation process** and the **lack of detailed information on the criteria used to allocate guarantees**, which has far-reaching implications for stakeholders. The lack of transparency in this process leaves stakeholders in the dark and without meaningful feedback, leading to a sense of uncertainty, reduced accountability, impaired stakeholder engagement, barriers to learning and improvement, and potential disincentives to participation.

Another concern is the **lack of transparency of the EU budget allocated** to the different parts of the InvestEU Fund. Most of the information published on InvestEU relates to the Framework Operations (FOs) for the relevant windows.

Solution

This can be achieved by incorporating a **dedicated accessible section in the InvestEU portal**. This section would provide detailed insights into the organisations that have received guarantees, specifying the amounts granted, and outlining the available/remaining budget for each implementing partner and window. Moreover, this section should encompass detailed **information about the final beneficiaries**, including their organisational type, sector, country, type of instrument, legal form and size.

To enhance transparency, this section should also include **information on the criteria used to evaluate and allocate** each guarantee and including also e.g. allocation by country/type of instruments/type of organisation. Moreover, providing feedback to the applicants should be an obligatory component of the process.

Accessible communication channels and resources, such as webinars, online forums, and informational materials, should be established to disseminate information about the InvestEU Fund and its opportunities.

Currently, the only information available is the overall budget and the overall percentage allocated by the EIB Group (74%)(8). So far, it is very difficult to get information on the budget allocated and on the organisation that has received guarantees.

The need for enhanced transparency and accessibility in InvestEU to ensure good governance and accountability has been a recurring theme among various actors(9). The Delors Centre (2023) has emphasised the importance of raising the bar on transparency to safeguard public funds and align them with the public interest. Moreover, **confidentiality policy should not apply** to projects related to social finance which involve public funding.

Clear and user-friendly communication can enhance awareness and understanding among potential beneficiaries and stakeholders.

Furthermore, **robust monitoring and evaluation mechanisms** should be implemented to continuously assess the effectiveness and impact of the InvestEU Fund's interventions. This could involve regular progress reports, impact assessments, and stakeholder feedback mechanisms to inform ongoing improvements and refinements to the fund's operations.

As a further step, an **impact assessment framework** for projects funded through the InvestEU Fund - Social Investment and Skills Windows could also be developed over time. This framework could help to measure the social, economic and environmental impact of funded projects, thus ensuring accountability and transparency in achieving the desired results.

Finally, to promote inclusivity, **governance structures within the InvestEU framework** should be established to ensure the meaningful participation of diverse stakeholders, including national and regional social economy representatives, in decision-making processes. This could involve establishing advisory committees or working groups with representatives from various sectors to provide insights and feedback on fund management and allocation.

Such a proactive approach ensures a transparent and accessible overview, significantly enhancing stakeholders' understanding and trust in the InvestEU framework.

8. For further information, see:
https://ec.europa.eu/budget/financial-transparency-system/analysis.html
9. For further information see:
the work of the Delors Centre
https://www.delorscentre.eu/en/publications/european-green-deal-funding
a set of recommendations endorsed by 53 organisations on the Transparency Policy of the EIB Group https://counter-balance.org/uploads/files/Documents/Briefings-and-Policy-Files/2021-EIB-Transparency-Policy-Joint-Submission.pdf

<u>RECOMMENDATION 2</u>: INCREASED TRANSPARENCY FROM IMPLEMENTING PARTNERS (IPs) - INTRODUCTION OF A STRUCTURED REPORTING MECHANISM FOR IMPLEMENTING PARTNERS

Problem

InvestEU extends its guarantees to national development banks, institutions, and international financial institutions within the EU. However, this inclusivity introduces several challenges:

1. **Limited Information on Implementing Partners:** There is a notable lack of information regarding the activities, strategies, and allocations of these diverse IPs.
2. **Budget Fragmentation and Lack of Transparency:** The budget is fragmented among various IPs, creating a challenge in obtaining comprehensive information about its distribution.
3. **Divergent Interest in Supporting Social Economy also at the regional level:** Not all IPs share a common interest in supporting the social economy ecosystem, leading to disparities in focus and priorities.

Currently, Implementing Partners are treated differently with regard to the **state aid requirements**. InvestEU first tried to involve other IPs, apart from EIB Group which adds value of local expertise and diversification. Yet, concerning the State aid rules, national IPs must adhere to State aid regulations while EIB Group and other International Financial Institutions follow the principle of "**State aid consistency**" which gives them the possibility to negotiate directly with the EC product-specific clauses to ensure "State aid consistency".

Solution

Firstly, establishing a structured **reporting mechanism** for IPs would ensure transparency on their activities, strategies, and allocations.

Secondly, a **detailing allocation for each IP** would enhance transparency and facilitate better coordination.

Thirdly, fostering **collaboration and dialogue** among participating institutions to align their goals, especially regarding support for the social economy, is essential. This can be achieved through **regular fora** available also for online participants, workshops, or collaborative initiatives that promote a shared vision and coordinated efforts and dissemination of information about the social economy ecosystem. **Positive case studies** of well-done investments also need to be shared since they might inspire IPs to raise their goals even higher. Additionally, setting up dedicated IPs focusing only on social finance providers could further streamline and strengthen these efforts.

Lastly, it is important to assure a regionally focused approach to address specific challenges faced by social economy organisations in different EU Member States.

It is recommended to **unify the requirements regarding State aid regulations** about all Implementing Partners including EIB Group and International IPs.

RECOMMENDATION 3: SIMPLIFY THE APPLICATION AND GRANTING PROCESS OF INVESTEU GUARANTEES AND TOP UP THE INVESTEU FUND TO REACH 2027

Problem

Social finance providers serving those excluded from traditional banking are facing **higher funding costs** due to the inability to receive deposits. The **administrative burden** of applying for financial instruments should not add to these costs. However, complexities and requirements (e.g. reporting) have sometimes made access difficult for **Microfinance Institutions (MFIs)** and small social finance providers, leading to a **reluctance to apply**.

While the InvestEU Social Investment and Skills Window was foreseen to run out by the end of 2024, we welcome the **decision from the European Commission to top up this window**. However, to reach the end of the programme in 2027, the **social economy ecosystem will need further resources** to pursue its objectives.

Preventing a significant decline in funding for the social economy ecosystem is essential to ensure its development and the successful implementation of the Social Economy Action Plan (SEAP) and the advancement of the European Pillar of Social Rights (EPSR) Action Plan for a fair and inclusive EU. It also urges that an **enabling environment for social finance be created at the EU level**, as the Council Recommendation on developing framework conditions for the social economy also provides for Member States.

Solution

The application and implementation process should be **as simple as possible to allow access by smaller MFIs and other social finance providers**. Reporting requirements and frequency should also be streamlined and simplified. In addition, specific resources such as training and workshops could be organised to help social economy organisations better navigate and access the InvestEU Fund.

Above all, it is crucial to secure a solution for next years' budget in the Social Investment and Skills Window. It is estimated that the social economy ecosystem will **require at least an additional €1.2 billion by 2027**(10). Therefore, beyond the 2021-2027 timeframe, **long-term funding commitments and stability are essential** to enhance predictability and boost confidence among stakeholders in the social economy ecosystem.

10. The figure is likely underestimated because it reflects real terms (not adjusted for inflation) and does not account for sector growth or the gaps in MFI (Microfinance Institutions)/SE (Social Enterprises).

RECOMMENDATION 4: FACILITATE ACCESS TO OTHER WINDOWS FOR FINANCIAL INTERMEDIARIES - STANDARDISE THE FRAMEWORK FOR PRODUCT ELIGIBILITY CRITERIA

Problem

The current setup presents limitations, as **not all products under InvestEU Fund**, even with aligned objectives, targets, and problem-solving approaches, **are universally accessible to all social finance providers.** Especially the smallest social finance providers cannot access the other Windows because they do not meet some specific requirements in terms of portfolio and reporting.

This constraint may arise from the inherent structure of the products (this applies, for example, to the products that are offered under the SMEs Window). Nonetheless, this situation potentially **diminishes opportunities for social finance providers with fewer alternatives,** highlighting the need for a more inclusive framework.

Solution

The development of a **standardised framework for product eligibility criteria.** By establishing clear and consistent guidelines and keywords, aligned with the overarching objectives, target, and problem-solving approaches, the barriers hindering access could be significantly reduced.

RECOMMENDATION 5: DIVERSIFY THE FINANCIAL INSTRUMENTS GRANTED UNDER INVESTEU

Problem

While the guarantee instrument has gained recognition, there is a **clear need for diverse sources of capital**, such as grants, **to attract external investors**. The challenge of securing low-cost funding is particularly important for institutions that are unable to raise funds through deposits. Additionally, exploring the possibility of incorporating other instruments would further **enhance the flexibility and effectiveness** of the Social Investment and Skills Window.

Solution

To accurately reflect the demands for the expansion of social investments, **diversification of the available instruments** should be implemented. The choice should also address the need of MFIs and other social finance providers to have stable access to low-cost loan capital allowing for risk-sharing if they are to serve the role of financial inclusion and instrument of implementation of social policy.

Furthermore, encouraging **greater collaboration between the social economy sector and other sectors**, such as technology, innovation, and sustainability, can unlock significant synergies and maximize the impact of InvestEU-funded projects. Promoting **cross-sector partnerships and initiatives** can facilitate knowledge exchange, innovation, and the scaling of successful social economy models.
One approach to address the need for low-cost capital could be a **guarantee program for banks providing funding to social finance providers**. This guarantee would incentivize banks to offer loans at more favourable rates, ultimately making it easier for MFIs and social finance providers to access the capital they need.

RECOMMENDATION 6: BLENDING OPERATIONS UNDER THE INVESTEU FUND - MIX INSTRUMENTS - INVOLVE SOCIAL ECONOMY ACTORS IN THE DESIGN OF NEW FINANCIAL INSTRUMENTS

Problem

The launch by the European Commission of a **blending facility** in 2024 will increase the impact of the existing InvestEU products to further develop the social investment market and the microfinance ecosystem. Along with the guarantees provided under InvestEU to financial intermediaries, it will provide **additional non-reimbursable support to final beneficiaries** (including transaction cost support, investment grants, interest rate subsidies...) to support investments that would otherwise be considered too risky.

Solution

The sector welcomes this initiative and hopes to see this pilot initiative being confirmed in the future. To further ensure the relevance and efficiency of the initiative we would recommend:

1. to **actively engage relevant stakeholders** to ensure the product's tailor-made effectiveness for the social economy ecosystem. Gathering feedback from social economy stakeholders will play a crucial role in refining the product design to meet the specific needs of the sector.
2. to **improve the clarity of the pilot, disclosing a transparent breakdown of the types of support covered**, will facilitate a more informed understanding of the intended impacts and outcomes.

RECOMMENDATION 7: MOVE AHEAD WITH A CO-INVESTMENT FACILITY FOR FOUNDATIONS UNDER INVESTEU AS WAS MENTIONED IN THE SOCIAL ECONOMY ACTION PLAN

Problem

InvestEU can also stimulate more engagements with the foundation sector via new **co-investment and co-granting opportunities for the philanthropy/foundation sector** on issues of common concern. Although,the SEAP announced the development of a dedicated co-investment facility for foundations/philanthropic organisations under InvestEU, this proposal has not been put into action yet. For instance, asset allocation of philanthropic endowments new tools/funds/vehicles could be developed to potentially attract foundations to invest part of their endowments into financial instruments(11) .

Solution

We would recommend the European Commission and EIB Group to now develop the **co-investment facility** as a pilot to stimulate the co-investment space for **philanthropic resources**. The InvestEU Fund with the EIB, EIF or national banks as implementing partners, has the potential to de-risk, at least partly, foundations' investments through the design of products, or the development of tools within a co-investment facility.

11. The Philanthropic Capital Study

<u>RECOMMENDATION 8:</u> INVESTMENT ADVISORY HUB - CONSIDER MORE SE ACTORS INCLUDING THE DIFFERENT SOCIAL ECONOMY FAMILIES

Problem

It is important to ensure that different **social economy families and social economy investors are made aware of new opportunities** around InvestEU such as the **Masterclass that EIF organised in October 2022** which allowed to raise awareness and conduct training sessions.

Solution

The InvestEU Advisory Hub and the InvestEU Portal should provide specific and tailored support to social economy actors who are aiming to finance their projects or become involved as co-founders.

To ensure that decisions are taken with good knowledge, **different family representatives and international/national umbrella representative organisations should be appointed as members of the InvestEU Advisory Hub**.

Support and further engagement around co-funding/co-granting activities through capacity-building, training, visibility, and awareness-raising activities should also be considered. Moreover, the existing SE networks at international/national and/or regional level could be also mobilised given their expertise.

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