Unlocking the EFSI for Social Services

General Conclusions

It is clear that the European Fund for Strategic Investment (EFSI) should **not be seen as an instrument able to fund the continuity and sustainability of high quality social services** in Europe. Nonetheless, **EFSI could be an extremely useful tool for social service providers seeking better conditions for private sector investment into certain specific projects aiming to improve or build community-based social infrastructure and projects in the field of innovation and human capital development.**

As presented in detail in the reports, the purpose of EFSI is to support strategic investments in infrastructure and innovation (including social), as well as risk finance for Small and Medium Sized Enterprises; which also include many social service providers. The EU EFSI regulation also stresses the importance of **increased access to financing for SMEs, including (…) social economy enterprises and non-profit organisations** (Recital 17). The regulation **also targets "human capital, culture and health", in particular "social infrastructure, social and solidarity economy"** (Article 9.2.(g)(V).

On paper then, it is clear that the EFSI can and must support investment into social services projects. For instance, if a large social service provider (or a group of smaller service providers) wished to renovate or develop new community-based social infrastructure, they could potentially apply for EFSI support through the **Infrastructure & Innovation window** (for projects higher than 25 million EUR). If a smaller social service provider (SME) wished to develop an innovative project, it could apply for support through the SME window via financial intermediaries. Possible opportunities could be through the **COSME Loan Guarantee Facility** or the **InnovFin Guarantee Facility**; the latter allowing for eligible funding to the client of the financial intermediary to be covered by the EFSI at a guarantee rate of up to 50%; thus covering much of the risk for private investment into projects.

For social service providers, it is possible to **see the opportunities which lie within the EFSI to support innovation in the sector**, as is presented in the report. However, up to December 2015, the EFSI has yet to be used to finance projects in the field of social services. The study have described the main barriers currently hindering EFSI support for investment into social services, before presenting several recommendations.

Barriers for social service barriers to access EFSI

From the perspective of social service providers, there are clear issues in terms of accessing support (loans, etc) from financial intermediaries; even more so then for other types of entreprises. There are several reasons for this. There is an obvious **gap between the language** used by financial bodies (public or private) and the needs and specificities of the social services sector. This is often made worst by **the lack of technical experience** and competence by service providers (notably the smaller organisations) in the field of financial management, business planning and impact measures. Another key issue is the nature of the financial requests made by small service providers to financial intermediaries which lead to **high costs for financial intermediaries** compared to the possible benefits. Additionally, the **difficulties in analysing and measuring the outcomes of social services** in a systematic way make financial intermediaries less willing to provide financial support to projects in this area.

Many of these issues are linked to a **misunderstanding of the sector's size and financial potential**. Although it is true that there are many smaller providers making up the sector, there are also very large social service providers often employing over 1,000 workers and having multi-million euro budgets. These organisations would often have experienced financial departments and could be involved in projects involving very high financial requests. Smaller service providers may also be able to develop "group contracts" for such projects, which would lead to high financial requests too; and therefore bring higher benefits for financial intermediaries.

Perhaps the biggest problem is the **perception from financial intermediaries that the social services sector remains a risky investment**, due to their often not-for-profit dimension and social objective. However, this is **largely untrue** due the (often) strong relationship between the sector and their overall financer, public authorities. Given this strong relationship with public authorities, the **predictability of returns** should be considered of high value to private financial investors.

Another barrier affecting the pick-up of the EFSI is the difficulties financial intermediaries have themselves in **gaining access to its tools and instruments**. Based on a survey with financial intermediaries, there is a **lack of clear information** about the EFSI tools available at local, regional or even national level. Financial intermediaries also view EFSI as being **too restrictive** in terms of its long and **complex procedures and technical and economic conditions**. Last but not least, financial intermediaries often deem **the definitions and eligibility criteria** with the EFSI as **overly strict**.

If one brings together both the problems encountered by financial intermediaries with EFSI and the problems social service providers have in accessing support by financial intermediaries, it is clear that the **overall environment does not particularly promote or support private investment into social services projects**.

Recommendations for the European Institutions and the European Investment Bank

Although these issues also go beyond EFSI, it is **essential that certain changes are made to its framework to guarantee the EFSI's ability to support investment in the social services sector**, in accordance with the EU regulation.

The main recommendation coming out of these reports demonstrates that there is a need to provide **clearer and sector-specific information about EFSI**, not only to financial intermediaries but also and especially to the sectors targeted. This information should also be **targeted to the specific needs of each sector in order to avoid a one-size-fits-all approach**, which would not be suitable to the social services sector. In order to facilitate communication, **national one-stop-shops** may be able to help harmonise the process and have been deemed successful in several countries.

Another important recommendation would be to create **sector specific capacity-building and networking sessions** between fund administrators, financial intermediaries and beneficiaries at national/regional level in order to forge a better understanding of EFSI, as well as the needs and responsibilities of each stakeholder. These sessions could be linked to a possible Investment Platform for social services.

To ensure that there is sufficient expertise on quality social services within the EFSI framework, it may be useful to **include experts from the sector**, including those with financial expertise on the needs and specificities of social services, in the **European Investment Advisory Hub and the EIB's internal social unit**. Alternatively**, specific workshops** could be developed to bring together EIB staff and experts from the field of social services to exchange views on the issues previously mentioned, as well as **on quality criteria**.

In order to facilitate uptake by smaller service providers, often SMEs, it may be useful to develop **more flexible and adjustable administrative formats** to facilitate access to the EFSI. This could be done through "**grouping projects**", for instance, where X number of service providers, each needing financial support for similar projects, could apply together to either of the EFSI windows (EIB path or EIF path) depending on the project's nature.

Last but not least, the **EaSI programme** has proved to be reasonably successful in terms of providing microfinancing for social entreprises, which often include social service providers. As such, it could be useful to **ensure that EFSI is used to complement financing of the EaSI programme**, in particular for the microfinancing of social entreprises.

Next steps

If the EFSI is to be used to finance investment into social services as is indicated in the EU regulation, the European Commission and European Investment Bank **must take into account these recommendations**. Similarly, despite certain important barriers, it is also **necessary that the social services sector takes practical steps towards assessing if certain projects they wish to develop could be supported by EFSI and how this could be done**. If all stakeholders manage to bridge the current gap, EFSI could be a significant **new tool to finance innovation in the sector**, investment in human capital and build or renovate much needed community-based social infrastructure; all of which have been undermined the last few year through cuts to public expenditure in the field of social services.

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